Our leadership

Non-executive directors

Sir Nigel Rudd (70)
Independent Chairman
Qualifications: DL, Chartered Accountant
Nationality: British
Appointed: April 2006
Sappi board committee memberships:
- Nomination and Governance Committee (Chairman)

John David McKenzie (Jock) (70)
Lead independent director
Qualifications: BSc Chemical Engineering (cum laude), MA
Nationality: South African
Appointed: September 2007
Sappi board committee memberships:

Robert John DeKoch (Bob) (65)
Non-independent
Qualifications: BA (Chemistry), MBA
Nationality: American
Appointed: March 2013
Sappi board committee memberships:

Michael Anthony Fallon (Mike) (59)
Independent
Qualifications: BSc (Hons) (First Class)
Nationality: British
Appointed: September 2011
Sappi board committee memberships:
- Human Resources and Compensation Committee (Chairman)

Dr Bonakele Mehlomakulu (Boni) (45)
Independent
Qualifications: PhD (Chemical Engineering), MSc (Organic Chemistry)
Nationality: South African
Appointed: March 2017
Sappi board committee memberships:

Mohammed Valli Moosa (Valli) (60)
Non-independent
Qualifications: BSc (Mathematics)
Nationality: South African
Appointed: August 2010
Sappi board committee memberships:
- Social, Ethics, Transformation and Sustainability Committee (Chairman)

Sappi board committee memberships:
- Audit Committee
- Human Resources and Compensation Committee
- Nomination and Governance Committee
- Social, Ethics, Transformation and Sustainability Committee
Dr Deenadayal Konar (Len) (63)
Independent
Qualifications: BCom, MAS, DCom, CA(SA), CFMA
Nationality: South African
Appointed: March 2002
Sappi board committee memberships:
Audit Committee (Chairman)

Nkateko Peter Mageza (Peter) (63)
Independent
Qualifications: FCCA (UK)
Nationality: South African
Appointed: January 2010
Sappi board committee memberships:

Karen Rohn Osar (68)
Independent
Qualifications: MBA, Finance
Nationality: American
Appointed: May 2007
Sappi board committee memberships:

Robertus Johannes Antonius Maria Renders (Rub Jan) (64)
Independent
Qualifications: MSc (Mechanical Engineering), MDP
Nationality: Dutch
Appointed: October 2015
Sappi board committee memberships:

Bridgette Radebe* (57)
Independent
Qualifications: BA (Pol Sc and Socio)
Nationality: South African
Appointed: May 2004
Sappi board committee memberships:
* Mrs Radebe retired from the Sappi board at the end of February 2017.

Dr Rudolf Thummer* (70)
Independent
Qualifications: Dr Techn, Dipl-Ing
Nationality: Austrian
Appointed: February 2010
Sappi board committee memberships:
* Dr Thummer will retire from the Sappi board in December 2017.

Godefridus Peter Franciscus Beurskens (Frits)* (70)
Independent
Qualifications: BSc Mechanical Engineering, MSc Industrial Engineering and Management Science
Nationality: Dutch
Appointed: October 2011
Sappi board committee memberships:
* Mr Beurskens retired from the Sappi board at the end of February 2017.
Our leadership

Executive directors

Stephen Robert Binnie (Steve) (50)
Chief Executive Officer
Qualifications: BCom, BAcc, CA(SA), MBA
Nationality: British
Appointed: September 2012
Sappi board committee memberships:
Attends meetings of all other board committees by invitation.

Glen Thomas Pearce (54)
Chief Financial Officer
Qualifications: BCom, BCom (Hons), CA(SA)
Nationality: South African
Appointed: July 2014
Sappi board committee memberships:
Expected to attend Audit Committee meetings by invitation.

Executive management

Berend John Wiersum (Berry) (62)
Chief Executive Officer of Sappi Europe
Qualifications: MA (Medieval and Modern History)

Mark Gardner (62)
President and Chief Executive Officer of Sappi North America
Qualifications: BSc (Industrial Technology)

Alexander van Coller Thiel (Alex) (56)
Chief Executive Officer of Sappi Southern Africa
Qualifications: BSc Mechanical Engineering, MBA (Financial Management and IT)
Executive management continued

Andrea Rossi (63)
Group Head Technology
Qualifications: BSc Eng (Hons), C Eng, PMI
* Mr Rossi relinquishes the role of Group Head Technology in December 2017.

Maarten van Hoven (44)
Group Head Strategy and Legal
Qualifications: BProc, LLM (International Business Law)

Gary Bowles (57)
Executive Vice President Specialised Cellulose Group Head Technology from January 2018
Qualifications: BSc Electrical Eng, GCC, PR Eng, PMD, EDP

Fergus Marupen (52)
Group Head Human Resources
Qualifications: BA Hons (Psychology), BEd (Education Management), MBA
Sappi is committed to high standards of corporate governance which form the foundation for the long-term sustainability of our company and creation of value for our stakeholders. Good governance at Sappi contributes to living our values through enhanced accountability, a transparent and ethical culture, strong risk management, a focus on performance, legitimacy and effective control of the business. The group endorses the recommendations contained in the King Code of Governance Principles for South Africa 2016 (King IV) and applies the various principles. An application register of how Sappi applies the King IV principles is provided on pages 72 to 75 of this report.

The group is listed on the JSE Limited and complies in all material respects with the JSE listings requirements, regulations and codes.

The board of directors

The basis for good governance at Sappi is laid out in the board charter, which sets out the division of responsibilities between the board and executive management. The board collectively determines strategies, approves major policies and plans, is responsible for risk management, and provides oversight as well as monitoring, to help to ensure accountability. The board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.

For further information about the board and the board charter please refer to www.sappi.com.

The composition of the board and attendance at board meetings and board committee meetings is set out in the table below for the year ended September 2017:

<table>
<thead>
<tr>
<th>Name</th>
<th>Status</th>
<th>Board</th>
<th>Audit</th>
<th>Nomination and Governance</th>
<th>Human Resources and Compensation</th>
<th>Social, Ethics, Transformation and Sustainability (SETS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR Binnie</td>
<td>Chief Executive Officer</td>
<td>6/6</td>
<td>B 5/5</td>
<td>B 3/3</td>
<td>B 4/4</td>
<td>✓ 3/3</td>
</tr>
<tr>
<td>GT Pearce</td>
<td>Chief Financial Officer</td>
<td>6/6</td>
<td>B 5/5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sir Nigel Rudd</td>
<td>Independent non-executive Chairman</td>
<td>6/6</td>
<td>E 4/5</td>
<td>✓ C 3/3</td>
<td>✓ E 4/4</td>
<td>✓ E 3/3</td>
</tr>
<tr>
<td>PF Beurskens(1)</td>
<td>Independent non-executive</td>
<td>0/3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RJ DeKoch</td>
<td>Non-executive</td>
<td>6/6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MA Falcon</td>
<td>Independent non-executive</td>
<td>6/6</td>
<td>✓ 5/5</td>
<td>✓ C 4/4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D Konar</td>
<td>Independent non-executive</td>
<td>6/6</td>
<td>✓ C 5/5</td>
<td>✓ 3/3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JD McKenzie</td>
<td>Lead independent director</td>
<td>6/6</td>
<td>✓ 3/3</td>
<td>✓ 4/4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NP Mageza</td>
<td>Independent non-executive</td>
<td>6/6</td>
<td>✓ 5/5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B Mehlomakulu(2)</td>
<td>Independent non-executive</td>
<td>3/3</td>
<td></td>
<td>✓ 3/3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MV Moosa</td>
<td>Non-executive</td>
<td>6/6</td>
<td></td>
<td>✓ C 3/3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KR Osar</td>
<td>Independent non-executive</td>
<td>5/6</td>
<td>✓ 4/5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B Radebe(3)</td>
<td>Independent non-executive</td>
<td>2/3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RJAM Renders(4)</td>
<td>Independent non-executive</td>
<td>6/6</td>
<td>✓ 2/2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R Thummer</td>
<td>Independent non-executive</td>
<td>6/6</td>
<td></td>
<td>✓ 3/3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Mr GPF Beurskens retired from the board of Sappi Limited and from the Audit Committee with effect from 28 February 2017.
(2) Dr B Mehlomakulu was appointed to the Sappi Limited board and member of the SETS Committee with effect from 01 March 2017.
(3) Mrs B Radebe retired from the board of Sappi Limited and from the SETS Committee with effect from 28 February 2017.
(4) Mr RJAM Renders was appointed as a member of the Audit Committee with effect from 01 March 2017.
✓ Indicates board committee membership, C indicates board committee chairman, B indicates attendance by invitation and E indicates attendance ex officio. The figures in each column indicate the number of meetings attended out of the maximum possible number of meetings during the period indicated.
Induction and training of directors
Following appointment to the board, directors receive induction and training tailored to their individual needs, when required.

Sappi board and management committees
A number of board and management committees have been established, as follows:

- **Board of directors**
  - Strategic leadership and guidance
  - Ultimate oversight, accountability and responsibility
  - The board delegates certain oversight responsibilities to board committees
  - The board assigns responsibility for management of the group to the CEO

- **Nomination and Governance Committee**
  - Board size, composition and diversity
  - Selection and recruitment of directors
  - Evaluation of board performance

- **Human Resources and Compensation Committee**
  - Directors’ remuneration
  - Succession planning
  - Remuneration policy
  - Incentive schemes

- **Audit and Risk Committee**
  - Financial and sustainability systems and reporting
  - Risk management
  - Compliance and ethics
  - Combined assurance
  - Internal and external audit
  - IT governance

- **Social, Ethics, Transformation and Sustainability Committee**
  - Corporate social responsibility
  - Ethics
  - Environment
  - Safety
  - Broad-based Black Economic Empowerment

- **Disclosure Committee**
  - Internal Controls
  - Steering Committee
  - Accounting Standards Committee
  - Group Risk Management Committee

- **Regional sustainability councils**

- **Executive Committee**
  - Executive directors (CEO and CFO)
  - Other senior executives
  - Execute strategic decisions approved by the board

- **Management committees**
  - Oversight of the external auditors’ qualifications, experience and performance
  - Oversight of the performance of the internal audit function
  - Oversight of the performance of the finance function
  - Oversight of taxation policies, congruent with responsible corporate citizenship, and
  - A formal review of the committee’s operating effectiveness and performance every two years by way of an assessment with feedback being provided to the board.

The Audit Committee confirms that it has received and considered sufficient and relevant information to fulfill its duties, as set out in the Audit Committee Report in the Group Annual Financial Statements.

The external and internal auditors attended Audit Committee meetings and had unrestricted access to the committee and Chairman. The external and internal auditors met privately with the Audit Committee during 2017.

Dr D Konar has been designated as the Audit Committee financial expert and attended the Annual General Meeting in 2017.
Corporate governance continued

Nomination and Governance Committee
The Nomination and Governance Committee consists of three independent directors and considers the leadership requirements of the company including a succession plan for the board. The committee identifies and nominates suitable candidates for appointment to the board in line with Sappi’s policy on the promotion of gender and race diversity at board level, for board and shareholders’ approval. The committee considers the independence of candidates as well as directors. The committee makes recommendations on corporate governance practices and disclosures, and reviews compliance with corporate governance requirements. The committee has oversight of appraising the performance of the board and all the board committees. The results of this process and recommended improvements are communicated to the chairman of each committee and the board. The functioning and performance of Sappi’s board and board committees were assessed internally in 2017 and established that the board and board committees functioned well.

Human Resources and Compensation Committee
The Human Resources and Compensation Committee consists of four independent directors. The responsibilities of the Human Resources and Compensation Committee are, among others, to provide oversight of the group’s human capital, determine the group’s human resource policy and strategy, assist with the hiring, and setting of terms and conditions of employment of executives, the approval of retirement policies, and succession planning for the CEO and management. The committee ensures that the compensation philosophy and practices of the group are aligned to its strategy and performance goals. It reviews and agrees the various compensation programmes and in particular the compensation of executive directors and senior executives as well as employee benefits. It also reviews and agrees executive proposals on the compensation of non-executive directors for approval by the board and ultimately by shareholders.

The Remuneration Report can be found on pages 76 to 88.

Social, Ethics, Transformation and Sustainability Committee
The Social, Ethics, Transformation and Sustainability (SETS) Committee comprises at least three independent non-executive directors and the CEO. Other executive and Group Management Committee members attend SETS Committee meetings by invitation. Its mandate is to oversee the group’s sustainability strategies, ethics management, good corporate citizenship, labour and employment practices, as well as its contribution to social and economic development and, with regard to the group’s Southern African subsidiaries, the strategic business priority of transformation.

Regional sustainability councils provide strategic and operational support to the SETS Committee in dealing with day-to-day sustainability issues and helping to develop and entrench related initiatives in the business.

For more information on sustainability at Sappi refer to pages 32 to 57 and for a summary of the group’s initiatives at www.sappi.com.

Management committees
The board assigns responsibility for the day-to-day management of the group to the CEO. To assist the CEO in discharging his duties, a number of management committees have been formed. Some of these committees also provide support for specific board committees.

Executive Committee
This committee comprises executive directors and senior management from Sappi Limited as well as the CEOs of the three main regional business operations and the specialised cellulose business. The CEO has assigned responsibility to the Executive Committee for a number of functional areas relating to the management of the group, including the development of policies and alignment of initiatives regarding strategic, operational, financial, governance, sustainability, social and risk processes. The Executive Committee meets at least five times per annum.

Disclosure Committee
The Disclosure Committee comprises members of the Executive Committee and senior management from various disciplines. Its objective is to review and discuss financial and other information prepared for public release. It is the ultimate decision-making body, apart from the board, with regard to disclosure.

Treasury Committee
The Treasury Committee meets monthly to assess financial risks on treasury-related matters.

Technical Committees
The Technical Committees focus on global technical alignment, performance and efficiency measurement as well as new product development.

Group Risk Management Team
The board mandates the Group Risk Management Team (GRMT) to establish, coordinate and drive the risk management process throughout Sappi. It has established a risk management system to identify and manage significant risks. The GRMT reports regularly on risks to the Audit Committee and the board. Risk management software is used to support the risk management process.
Internal Control Steering Committee
The Internal Control Steering Committee supported by the internal control function provides regular oversight and guidance to the business on internal controls and combined assurance for financial, strategic and operational risks.

Group IT Steering Committee
The Group IT Steering Committee promotes IT governance throughout the group and is the highest authority responsible for this aspect of Sappi’s business, apart from the board. The committee has a charter approved by the Audit Committee and the board. An IT governance framework has been developed and IT feedback reports are presented to the Audit Committee and the board. Sappi IT has implemented a standardised approach to IT risk management through a groupwide risk framework supported by the use of risk management software.

Financial statements
The directors are responsible for overseeing the preparation and final approval of the Group Annual Financial Statements, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

The group’s results are reviewed prior to submission to the board, as follows:
- All quarterly results – by the Disclosure Committee and Audit Committee, and
- Interim and final results – by external audit as well.

Sappi’s internal controls and combined assurance framework
Risks facing the group are identified, evaluated and managed by implementing risk mitigations, such as insurance, strategic actions or specific internal controls. Sappi maintains a robust framework of risks and controls which assists in the application of the King IV guidelines, including controls addressing our material matters and the main drivers of Sappi. The framework comprises both financial and non-financial controls, which relate to achieving our strategy, within our risk appetite and tolerance levels, across the economic, social and environmental context in which the organisation operates as well as each of the six capitals set out in the IIRC’s model.

More information on these capitals in the context of Sappi’s sustainable business model can be found on pages 2 to 5.

The group’s internal controls and systems are designed in accordance with the COSO control framework, to provide reasonable assurance as to the integrity and reliability of the annual financial statements, the Annual Integrated Report and operational management information used for decision making, that assets are adequately safeguarded against material loss and that transactions are properly authorised and recorded. Internal controls also provide assurance that the group’s resources are utilised efficiently and that the activities of the group comply with applicable laws and regulations.

Sappi operates a combined assurance framework, which aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers, on the risk areas affecting the group.

Feedback as to the effectiveness of internal controls is obtained from various assurance providers in a coordinated manner which avoids duplication of effort. Combined assurance helps to identify gaps or improvement areas in the internal control framework.

The assurance obtained informs executive management and the Audit Committee about the effectiveness of the group’s internal controls in respect of significant risks. The Audit Committee, which is responsible for the oversight of risk management and combined assurance at Sappi, considers the risks and the assurance provided through the combined assurance framework and periodically provides direction as to the type, nature, extent and approach of the assurance required. The Audit Committee advises the board on the state of risks and controls, as well as assurance, in Sappi’s operating environment. This information is used as the basis for the board’s review, sign-off and reporting to stakeholders, via the Annual Integrated Report and Group Annual Financial Statements, on risk management and the effectiveness of internal controls and assurance within Sappi.

Sappi’s combined assurance framework comprises three lines of defence, with oversight provided by the board and board committees. This is in keeping with enterprise risk management best practice and is depicted on the following page:
Corporate governance continued

Oversight by the board, audit (risk) and other committees

First line of defence
Business management and operations supported by appropriate governance, risk management, and internal control structures and processes

Second line of defence
Independent risk monitoring at group and regional level by group and regional risk, internal control, and compliance functions

Third line of defence
Independent assurance provided by external audit, internal audit and other external assurance providers

As part of combined assurance in respect of internal controls, Sappi has obtained assurance on the data in the Annual Integrated Report from the following sources:

- Financial data is independently audited by KPMG Inc
- Limited reviews of sustainability information have been undertaken by central technical management and internal audit
- Specific Planet (environment) related processes are subject to review by third parties during the year
- A preliminary sustainability external readiness review was undertaken by KPMG Inc in 2017 with a focus on Scope 1 and 2 emissions information as well as safety information, and
- No other external assurance was obtained on the consolidated sustainability indicators reported, although certain local data is subject to external audits.

Internal audit
The group has an effective risk-based Internal Audit Department which is suitably resourced. It has a specific charter from the Audit Committee and independently appraises the adequacy and effectiveness of the group’s governance, risk management, systems, internal controls and accounting records. Internal audit coordinates combined assurance and reports the findings to local and divisional management, the external auditors as well as to the Audit Committee.
The Head of Internal Audit reports to the Audit Committee, meets with board members, has direct access to executive management and is invited to attend certain management meetings. The role of internal audit at Sappi is set out in the following diagram:

**Internal audit value proposition**

**Stakeholders**
- Management
- Board and Audit Committee
- Employees
- Other

**Objectives**
- Operating
- Reporting
- Compliance
- Strategic

**Area**
- Governance
- Risk
- Controls

**Support**

**Internal audit activities**

**Advisory and assistance**
- Forensic, hotline and ethics management
- Projects, new business processes
- Ad hoc management requests
- Governance, risk, controls consulting
- King IV, governance disclosures
- Secondments to business
- Internal control support (risk and control framework, Sappi internal controls system, segregation of duties)

**Assurance (risk-based)**
- Financial processes and systems
- Business processes and systems
- Operational and strategic risks
- IT (value, general computer controls, security, operations)
- Ethics, risk, legal compliance
- Sustainability data
- Combined assurance
- Annual opinion

**Core principles**

- **Integrity**
- **Competence and due professional care**
- **Objective and independent**
- **Aligned with strategies, risks and objectives**
- **Appropriately positioned and resourced**

- **Quality and continuous improvement**
- **Effective communication**
- **Risk-based assurance**
- **Insightful, future-focused and proactive**
- **Promotes organisational improvement**
Corporate governance continued

During 2017, apart from the ongoing focus on financial controls, internal audit undertook reviews of non-financial risk areas and provided advisory services for a number of regional and global harmonisation projects such as requisition to pay and sales order to cash as well as shared service centre processes.

Internal audit maintains an internal quality assurance programme. An external quality assurance review is undertaken periodically. In 2015, an external validation was conducted by the Institute of Internal Auditors (IIA). A Generally Conforms rating was received, which is the highest of the three levels of conformance to the IIA's standards.

Board assessment of the company’s risk management, compliance function and effectiveness of internal controls and combined assurance
The board is responsible for the group’s systems of internal financial and operational control. As part of an ongoing comprehensive evaluation process, control self-assessments, independent reviews by internal audit, external audit and other assurance providers, were undertaken across the group to test the effectiveness of various elements of the group’s financial, disclosure and other internal controls as well as procedures and systems. Identified areas of improvement are being addressed to strengthen the group’s controls further. The board has assessed the combined assurance provided in 2017. The results of the reviews did not indicate any material breakdown in the functioning of these controls, procedures and systems during the year. The internal controls in place, including the financial controls and financial control environment, are considered to be effective and provide a sound basis for the preparation of the Group Annual Financial Statements, Annual Integrated Report and other reports used internally for management decision making.

Group Company Secretary
The Group Company Secretary does not fulfil executive management functions outside of the duties of Group Company Secretary and is not a director. During the year, the board has assessed the independence, competence, qualifications and experience of the Group Company Secretary and has concluded that she is sufficiently independent (i.e. maintained an arm’s length relationship with the executive team, the board and individual directors), qualified, competent and experienced to hold this position. The Group Company Secretary is responsible for the duties set out in section 88 of the Companies Act 71 of 2008 (as amended) of South Africa. Specific responsibilities include providing guidance to directors on discharging their duties in the best interests of the group, informing directors of new laws affecting the group, as well as arranging for the induction of new directors.

Code of Ethics
Sappi requires its directors and employees to act with integrity, to be courageous, to make smart decisions and to execute with speed, in all transactions and in their dealings with all business partners and stakeholders. These values underpin the group’s Code of Ethics, and commit the group and its employees to sound business practices and compliance with applicable legislation. Actions are taken against employees who do not abide by the spirit and provisions of our code. Online Code of Ethics and anti-bribery and corruption training was provided to employees across the group in 2017. The SETS Committee provides oversight for social, ethics, transformation and sustainability matters throughout the group. Refer to www.sappi.com for the Code of Ethics.

Legal compliance programme
A legal compliance programme designed to increase awareness of, and enhance compliance with, applicable legislation is in place. The group compliance officer reports twice per annum to the group Audit Committee. The resourcing of the compliance function was boosted by the appointment of a compliance manager in 2016. Sappi is in the process of enhancing the legal compliance programme by the acquisition and implementation of suitable compliance software and an additional external legal compliance update service. In addition, online training has been provided to employees across the group on relevant core legal compliance topics.

Conflict of interests
The group has a policy that obliges all employees to disclose any interest in contracts or business dealings with Sappi to assess any possible conflict of interest. The policy also dictates that directors and senior officers of the group must disclose any interest in contracts as well as other appointments to assess any conflict of interest that may affect their fiduciary duties. During the year under review, apart from those disclosed in the financial statements, none of the directors had a significant interest in any material contract or arrangement entered into by the company or its subsidiaries.

Insider trading
The company has a code of conduct for dealing in company securities and follows the JSE Limited Listings Requirements in this regard. For further information refer to www.sappi.com.
Reporting on compliance and ethics concerns
Sappi employees and stakeholders can report any potential illegal or non-compliant behaviour they observe directly to (senior) management, internal audit or legal counsel, or alternatively, report anonymously, via telephone or an online form. Whistle-blower ‘hotlines’ have been implemented in all the regions in which the group operates. The hotline service, operated by independent service providers, enables all stakeholders to anonymously report environmental, safety, ethics, accounting, auditing, control issues or other concerns. Retaliation against whistle-blowers is not tolerated. The follow up on all reported matters is coordinated either by legal counsel or internal audit and reported to the Audit Committee. The majority of calls and ethics reports received related to the Southern African region. Please refer to the whistle-blower hotline and ethics report graphs for information on the number of hotline calls per 1,000 employees, the categories of hotline calls and ethics reports, and the outcome of the investigations. The hotline report rates, categories of reports and outcomes of cases broadly align with international whistle-blower benchmark data.

Stakeholder communication
The board is responsible for presenting a balanced and understandable assessment of the group’s position in reporting to stakeholders. The group’s reporting addresses material matters of significant interest and is based on principles of openness and substance over form. Various policies have been developed to guide engagement with Sappi’s stakeholders such as the Group Stakeholder Engagement Policy and Group Corporate Social Responsibility Policy. Sappi has a policy addressing Alternate Dispute Resolution (ADR) and relevant ADR clauses are generally included in contracts with customers and suppliers. There have been no requests for information under the Promotion of Access to Information Act (South African legislation).

For more information on our key relationships at Sappi refer to pages 32 to 43.

For a summary of how Sappi applies the King IV principles, please refer to www.sappi.com.
King IV principles

General comments
Sappi is committed to high standards of corporate governance which form the foundation for the long-term sustainability of our company and creation of value for our stakeholders. Good governance at Sappi contributes to living our values through enhanced accountability, a transparent and ethical culture, strong risk management, a focus on performance, legitimacy and effective control of the business.

Sappi endorses the governance outcomes of ethical culture, good performance, effective control and legitimacy, promoted by the King IV Report on Corporate Governance for South Africa (released November 2016).

The purpose of this register is to provide an overview of Sappi’s application of the principles contained in King IV. The register should be read in conjunction with the Sappi Annual Integrated Report.

<table>
<thead>
<tr>
<th>Leadership</th>
<th>The directors hold one another accountable for decision making based on integrity, competence, responsibility, fairness and transparency through their commitment to lead Sappi. The Chairman oversees this process on an ongoing basis.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 1</td>
<td>The governing body should lead ethically and effectively.</td>
</tr>
<tr>
<td>Organisational ethics</td>
<td>The board sets the example and tone for an ethical culture in Sappi based on our core values of doing business with integrity and courage; making smart decisions, which we execute with speed. The board is assisted with ongoing oversight of ethics management through SETS and the Audit Committee.</td>
</tr>
<tr>
<td>Principle 2</td>
<td>The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.</td>
</tr>
<tr>
<td>Principle 3</td>
<td>The board, assisted by the SETS Committee, provides strategic direction for Sappi to be a responsible corporate citizen and to respond appropriately to the economic, social and environmental outcomes of its activities. Sappi is committed to the United Nations Global Compact. Our key corporate citizenship considerations include:</td>
</tr>
<tr>
<td>Responsible corporate citizenship</td>
<td>The board reviewed annually the corporate responsibility strategy, priorities and action plans of the company.</td>
</tr>
<tr>
<td>Principle 3</td>
<td>The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.</td>
</tr>
</tbody>
</table>
**Strategy and performance**

**Principle 4**
The governing body should appreciate that the organisation’s core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

Sappi’s strategic direction, mission and vision together with our value statement are described in our Annual Integrated Report. The report deals with key opportunities and risks in our markets as well as our performance against financial and non-financial objectives, along with our priorities and expectations for the year ahead.

Sappi’s approach to sustainable development – Prosperity, People and Planet is aligned with the IIRC’s six capitals model. Currently, natural capital, financial capital and human capital are the most important in our drive to position Sappi as a profitable and cash-generative, diversified woodfibre group.

**Reporting**

**Principle 5**
The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation’s performance, and its short-, medium- and long-term prospects.

The Audit Committee is responsible for the integrity and transparency of reporting and oversees the issue of the annual financial statements and integrated reports. The Annual Integrated Report aims to present material information in an integrated manner and provide users with holistic, clear, and concise information about Sappi’s performance, measured against its objectives and Sappi’s short-, medium- and long-term prospects.

**Primary role of the board**

**Principle 6**
The governing body should serve as the focal point and custodian of corporate governance in the organisation.

The board is the focal point and custodian of corporate governance. The board’s role and responsibilities and the way it executes its duties and decision making are set out in the board charter and the terms of reference and work plans of its various committees.

**Composition of the board**

**Principle 7**
The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

The Nomination and Governance Committee, considers, on an annual basis, the board and committee compositions in terms of balance of skills, experience, diversity, independence and knowledge. The board is satisfied that there is a balance of skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities.

The King IV requirements for director independence, board composition, chair and lead independent director, induction and training, managing conflicts and nomination and appointment are met.

Refer to Corporate governance section on page 64 of this report for further information about board members.

**Committees of the board**

**Principle 8**
The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.

The board may delegate to individual members, groups of members, standing or ad hoc committees. The standing committees of the board comprise the Audit Committee, the Nomination and Governance Committee, the Human Resources and Compensation Committee, and the Social, Ethics, Transformation and Sustainability Committee.

The composition of the board and its committees are in line with King IV. There is a clear balance of power to ensure that no individual has undue decision making powers. Each committee has formal terms of reference, approved by the board, recording the responsibilities delegated to it. Each committee has sufficient capability and capacity to function effectively.

Refer to our Annual Integrated Report on www.sappi.com/reports for information on the members of each committee and attendance and to our website for the terms of reference for each committee of the board.
King IV principles continued

### Board performance evaluation

**Principle 9**
The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

The Nomination and Governance Committee evaluates the performance of the board and the board committees annually. The performance of individual directors is normally evaluated prior to reappointment. The Chairman’s performance is evaluated by the board annually under the leadership of the lead independent director.

### Appointment and delegation to management

**Principle 10**
The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

The board is satisfied that key functions are appropriately resourced and that the board’s delegation to management contributes to an effective arrangement by which authority and responsibilities are exercised.

The board charter provides direction on the powers reserved for the board: matters that have specifically been reserved for board decision making or consent and the approval authority of board committees in respect of the company and its subsidiaries are contained in the limits of authority document adopted by the board.

The CEO is appointed by and reports to the board and is responsible for leading the implementation of strategy and policy. The King IV requirements for the CEO in terms of appointment, roles and responsibilities, succession planning, and performance evaluation are complied with.

Sappi has a Company Secretary with the necessary experience, expertise and qualifications, as well as at the appropriate level of seniority to discharge the role effectively. The King IV recommendations for Company Secretary in respect of appointment, reporting lines, independence, duties and performance evaluation are met.

### Risk governance

**Principle 11**
The governing body should govern risk in a way that supports the organisation in setting and achieving strategic objectives.

The Audit Committee assists the board with the governance of risk. For more detail on Sappi’s risks and the management thereof, refer to the Risk management section on pages 90 to 93 of this report.

### Technology and information governance

**Principle 12**
The governing body should govern technology and information in a way that supports the organisation in setting and achieving strategic objectives.

Sappi’s 2020Vision (and associated strategy, performance, and sustainability) is highly dependent on technology and information.

The board is accountable for the governance of technology and information management. Management committees have been established to assist the CEO and board by implementing policy on technology and information management:

- Group Technical Committees focus on global technical alignment, performance and efficiency measurement as well as new product development, and
- Group IT Steering Committee promotes IT governance throughout the group.

Sappi has adopted Control Objectives for Information and Related Technologies (COBIT) – the global good practice framework for IT management and IT governance.
### Compliance governance

**Principle 13**
The governing body should govern compliance with applicable laws, and adopted non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

Sappi's commitment to act as a responsible corporate citizen includes compliance with all laws and regulations in the countries and jurisdictions where Sappi operates. A group legal compliance programme is in place to mitigate the risk of non-compliance with the laws and also to ensure appropriate responses to changes and developments in the regulatory environment. Significant legal and regulatory matters and compliance risks are reported to the Audit Committee. During 2017, there were no material penalties, sanctions or fines for contraventions of, or non-compliance with, statutory and regulatory obligations.

### Remuneration governance

**Principle 14**
The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short-, medium- and long-term.

The Human Resources and Compensation Committee ensures that directors, executives and employees are remunerated fairly and responsibly so as to promote the delivery of strategic objectives and the creation of value in a sustainable manner. Refer to the Remuneration Report (included in the Annual Integrated Report on pages 16 to 88 of this report for further information.

### Assurance

**Principle 15**
The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and of the organisation's external reports.

The Audit Committee is responsible for oversight of assurance on the effectiveness of governance, risk management and control at Sappi. Sappi operates a combined assurance framework, which aims to optimise the assurance coverage obtained from management, internal and external assurance providers, on the risk areas affecting the group. Refer to the Corporate governance section of pages 64 to 75 of this report for more information on Sappi's combined assurance framework including external audit, internal audit, and the provision of assurance over external reports.

### Stakeholders

**Principle 16**
In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

The board has adopted a stakeholder-inclusive approach and the One Sappi strategy is built on collaborating and partnering with stakeholders. Sappi strives to understand, be responsive to, and balance stakeholder legitimate and reasonable needs, interests and expectations. Key stakeholders have been identified. A Group Stakeholder Engagement Policy has been established. Information on how we have approached our stakeholder relations can be found in Our key relationships section on pages 32 to 43 of this report.

### Responsibilities of institutional investors

**Principle 17**
The governing body of an institutional investor organisation should ensure that responsible investment is practised by the organisation to promote good governance and the creation of value by the companies in which it invests.

Not applicable – Sappi is not an institutional investor.
Remuneration Report

The Remuneration Report details the company’s compensation policy for executive directors, executive committee members and non-executive directors.

The information provided in the report has been approved by the board as per the recommendation by the Human Resources and Compensation Committee.

This report is split into three sections: section A details our remuneration background statement disclosures, section B gives an overview of our remuneration policy and section C addresses the implementation of the remuneration policy in 2017.

Section A: Remuneration background statement disclosures

I am pleased to present the committee’s report on directors’ remuneration. Our report and disclosures fully comply with regulatory and statutory provisions relating to reward governance in all the countries in which we operate. We have changed the structure of this report to align with the principles and recommended practices of King IV. This demonstrates our continued commitment to good corporate governance.

Sappi Limited Annual General Meeting (AGM) was held on 08 February 2017 and the requisite ordinary resolution endorsing the remuneration policy was passed. The resolution was passed by a 95% majority in comparison to 81% at the previous AGM.

As described in the respective reports by our Chairman, Sir Nigel Rudd, and CEO, Steve Binnie, Sappi’s performance in the year under review was strong, and in terms of shareholder return outperformed its peers. EBITDA was US$785 million. Bonus performance outcome, against the targets that were set, are outlined in this report. Performance outcomes are reflected in the remuneration received by executive directors. This recognises the group’s financial, environmental and safety performance, as well as performance against personal, operational and strategic objectives.

The performance period for the 2013 Performance Share Plan (PSP) ended on 30 September 2017. Half of the award was based on cash flow return on net assets (CFRONA) and the other half on total shareholder return (TSR) performance. Sappi’s performance on CFRONA, when measured against the peer group for the above four-year performance period, ranked second out of 16 companies.

The peer group is detailed on page 86 and represents industry players in graphic papers, dissolving wood pulp and specialties and packaging papers. In terms of the vesting schedule, 100% on the CFRONA portion vested. In terms of the TSR performance condition, Sappi ranked first out of the 16 companies. 100% on the TSR portion vested. The result has been a net vesting of 100% of the 2013 share awards.

Our remuneration policy is continuously benchmarked against the relevant industry peers to ensure that it motivates our senior team to achieve the group’s objectives and deliver sustained returns and value creation for our stakeholders. The committee also believes that the remuneration of executives during 2017 reflects our successes to date in the delivery of our strategy. I trust that you will support the remuneration resolutions at this year’s AGM.

Statement of voting at AGM

The AGM of Sappi Limited was held on 08 February 2017 and the requisite ordinary resolution endorsing the remuneration policy was passed. The resolution was passed by a 95% majority. See the voting results below.

| Ordinary resolution number 6: Non-binding endorsement of remuneration policy |
|---------------------------------|---------------------------------|-----------------|-----------------|
| For                             | Against                         | Abstain         | Shares voted    |
| 435,285,251                     | 24,297,880                      | 609,513         | 459,583,131     |
| 94.71%                          | 5.29%                           | 0.11%           | 82.89%          |

At the February 2015 and 2016 AGMs, the results for the requisite ordinary resolution endorsing the remuneration policy were 83.5% and 81.2% respectively.
Human Resources and Compensation Committee

The purpose of the committee is to oversee remuneration matters for all controlled subsidiaries of Sappi Limited. Its key objectives are to:

- Make recommendations on remuneration policies and practices, including Sappi’s employee share schemes
- Ensure effective executive succession planning, and
- Review compliance with all statutory and best practice requirements on labour and industrial relations management.

At the end of the year, the committee consisted of four independent non-executive directors:

- Mr MA Fallon – Chairman
- Mr JD McKenzie
- Mr NP Mageza, and
- Mr RJ Renders.

The Chairman of the company, Sir Nigel Rudd, attends committee meetings ex officio while the group Chief Executive Officer, Mr SR Binnie together with Group Head Human Resources, Mr F Marupen attend meetings by invitation.

Mrs AJ Tregoning, Company Secretary, attends the meeting as secretary to the committee.

The Human Resources and Compensation Committee met four times during the year and held one telephone conference.

Attendance at meetings by individual members is detailed on page 64.

None of the committee members has any significant personal financial interest, or conflict of interest, or any form of cross directorship, or day-to-day involvement in the running of the business.

Executive directors and managers are not present during committee discussions relating to their own compensation.

The Human Resources and Compensation Committee ensures that the compensation practices and structures within the group support the group’s strategy and performance goals. The policy also enables the attraction, retention and motivation of executives and all employees.

The key activities of the committee during 2017 are summarised as follows:

- Reviewed and approved the vesting, or otherwise, of the Performance Share Plan awards which were awarded on 02 December 2012
- Approved the allocation of 2016 Performance Share Plan awards to executive directors and all other eligible participants
- Reviewed and approved salary increases and bonus payments for executive directors and other key senior managers for 2017
- Recommended fee levels for non-executive directors of the Sappi Limited board for consideration and recommendation to shareholders for approval
- Approved the allocation model and the comparator peer group for the 2017 Performance Share Plan
- Reviewed the Remuneration Report, including the content of the company compensation policy and practices, which was put to shareholders for a non-binding vote at the AGM in February 2017
- Approved the 2018 Management Incentive Scheme rules and reviewed the Share Incentive Plan rules, including changes to the Performance Share Plan, and
- Reviewed the succession and retirement plans for key management positions.

Independent advice

Management engaged the services from the following organisations to assist in compensation work during the course of the year:

- Mercer Kepler, United Kingdom
- KPMG Services, South Africa, and
- PricewaterhouseCoopers Tax Services, South Africa.

Compliance statement

The Human Resources and Compensation Committee is committed to maintaining high standards of corporate governance and supports and applies the principles of good governance advocated by the South African Institute of Directors (IoD) and King IV. Our remuneration approach and disclosures fully comply with regulatory and statutory provisions relating to reward governance in all the countries in which we operate. The committee ensures compliance with legal and regulatory requirements as they pertain to compensation.

Management and the non-executive Chairman, from time to time, meet with some of our largest shareholders to discuss compensation practices in the group.

The Human Resources and Compensation Committee is of the view that the objectives stated in the remuneration policy have been achieved for the period under review. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference and with the status of remuneration and incentives in the group.

Areas of focus for 2018

Key activities for the committee in 2018 will be, inter alia, the approval of the remuneration and bonuses for executive directors and senior management. The committee will also take a view on fees to be paid to non-executive directors.

Focus will be placed on the key principles of King IV and Sappi’s commitment to these principles.

In addition to the annual work plan as approved by the committee, the chairman of the committee and senior executives from Sappi will, if required, also be visiting key shareholders to discuss issues of mutual concern.
Section B: Overview of the remuneration policy

Compensation strategy and policy
Our compensation packages:
• Are designed to attract, retain and motivate executives and all employees to deliver on performance goals and strategy
• Are simple, transparent and aligned with the interests of stakeholders
• Reflect the views of our investors, shareholder bodies and stakeholders
• Are structured in a way that superior rewards are only paid for exceptional performance and that poor performance does not earn an incentive award

Summary of reward components of executive directors and other members of the Group Executive Committee
The compensation of executive directors and other Executive Committee members comprises fixed and variable components.

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Operations</th>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Component – Base salary**
- To reflect market value of the role, individuals’ skills, contribution, experience and performance
- To attract and retain key talent.
- Paid monthly in cash
- Reviewed annually with any increases to be effective from 01 January each year
- Base salary reviews take into account prevailing market practices, economic conditions and the levels of base salary increase mandates provided to the general employee population.
- Increases are applied in line with outcomes of performance discussions with the individuals concerned.

**Component – Benefits**
- To provide protection and market competitive benefits to aid recruitment and retention.
- Private medical insurance
- Income in the event of death or disability
These are:
- Appropriate in terms of level of seniority
- Market-related
- Death benefit is a multiple of base salary, and
- Non-pensionable.
- None
### Fixed

**Component – Pension**
- Make ongoing company contributions during employment
- To provide market-related benefits
- Facilitate the accumulation of savings for post-retirement years.
- Comprises defined benefit and defined contribution plans
- A large number of defined benefit plans are closed to new hires
- Employees in legacy defined benefit plans continue to accrue benefits in such plans for both past and future service
- Retirement plans differ by region.
- Executive members of defined contribution plans receive a company contribution of up to 18.47% of salary
- Executive members of defined benefit plans receive company contributions of up to 31.24% of salary. This applies to only one Executive Committee member. The contribution varies based on the actuarial valuation of the reserves of the relevant schemes.

### Variable

**Component – Annual cash incentive**
- Focus participants on targets relevant to the group’s strategic goals
- Drive performance
- Motivate executives to achieve specific and stretching short-term goals
- Reward individuals for their personal contribution and performance
- Deferred share proportion of the annual bonus aligns interests with shareholders.
- All measures and objectives are reviewed and set at the beginning of the financial year
- Payments are reviewed and approved at year-end by the committee based on performance against the targets
- Threshold is required to be met for any bonus payment to occur
- Target level of bonuses varies from 65% to 85% of base salary
- Weightings for 2017 were: EBITDA – 48%; working capital – 24%; safety – 8%; individual – 20%
- Bonuses are paid in cash. The group CEO and Executive Committee members have volunteered to purchase shares with 40% and 30% of their after-tax cash bonus respectively. The right to sell the shares is deferred for up to three years, subject to individual members not being terminated for cause
- Non-pensionable.
- The maximum bonus for executive directors is 116% of base salary
- Executive Committee members and other senior managers may earn a maximum bonus of up to 95% of base salary
- The number of shares arising from the deferred executive Management Incentive Scheme – will be increased by 20% of the original number of shares purchased provided the employee holds all the shares for a period of three years.
### Remuneration Report continued

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Operations</th>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Variable</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Component – Long-term share incentive plans</strong></td>
<td></td>
<td>None</td>
</tr>
</tbody>
</table>
| • Align the interests of the executive members with those of the shareholder  
  • Reward the execution of the strategy and long-term outperformance of our competitors  
  • Encourage long-term commitment to the company  
  • Is a wealth creation mechanism for executive members if the company outperforms the peer group. | • Conditional grants awarded annually to executive directors, Executive Committee members and other key senior managers of the company  
  • Straight-line vesting after four years  
  • Performance is measured relative to a peer group of 16 other industry-related companies  
  • The number of conditional shares allocated varies from 162,000 conditional share awards to the CEO and between 45,000 and 90,000 conditional share awards to Executive Committee members  
  • Measures for 2015 awards were relative TSR – 50% and relative CBRONA – 50%. | |
| **Component – Broad-based black economic empowerment** | | None |
| • Provide black managers with the opportunity to acquire equity in the company  
  • Attract, motivate and retain black managers. | • Established to meet the requirements of the Forestry Sector Charter BBBEE codes  
  • Eligible employees receive an allocation based on seniority of ‘A’ ordinary shares  
  • Shares vest 40% after three years and 10% each year thereafter  
  • Shares can only be taken up after September 2019  
  • Managers receive the net value in shares or cash at the end of the lock-in period. | |
| **Component – Service contracts** | | |
| • Provide an appropriate level of protection to both the executive and to Sappi. | • Executive Committee members have notice periods of 12 months or less  
  • Separation agreements, when appropriate, are negotiated with the individual concerned with prior approval being obtained in terms of our governance structures. | • In circumstances where there is a significant likelihood of a transaction involving the Sappi group or a business unit, limited change in control protections may be agreed and implemented if deemed necessary for retention purposes. |
Service contracts

Messrs Binnie and Pearce have an ongoing employment contract which requires six months’ notice of termination by the employee and 12 months’ notice of termination by the company.

Depending on their location, Executive Committee members have ongoing employment contracts which require between three to six months’ notice of termination by the employee and six to 12 months’ notice of termination by the company.

Choice of performance measures and approach to target setting

Short-term incentive

The table below shows the metrics for 2017, why they were chosen and how targets are set.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Weighting</th>
<th>Relevance</th>
<th>How do we set the targets?</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>48</td>
<td>A key indicator of the underlying profit performance of the group, reflecting both revenues and costs. Aligns closely with our strategic goals of achieving cost advantages and growth. More efficient water, energy and raw material usage is also encouraged.</td>
<td>Targets and ranges are set each year by the board taking account of required progress towards strategic goals, and the prevailing market conditions.</td>
</tr>
<tr>
<td>Working capital</td>
<td>24</td>
<td>A key indicator of accounts payable, accounts receivable and stock levels. Achieving optimum working capital levels in the business requires efficient use of resources throughout the supply chain and influences cash management, a key pillar of our strategy.</td>
<td>Targets and ranges are set each year by the board taking account of the required progress towards strategic goals, and the prevailing market conditions.</td>
</tr>
<tr>
<td>Safety</td>
<td>8</td>
<td>One of the key indicators of whether the business is meeting its sustainability goal of zero harm.</td>
<td>The committee considers input from the Social, Ethics, Transformation and Sustainability Committee, and sets appropriate standards and goals.</td>
</tr>
<tr>
<td>Individual performance*</td>
<td>20</td>
<td>An indicator of the contribution made by each executive director.</td>
<td>Targets and ranges are set each year by the committee, based on the specific priorities, and areas of responsibility of the role.</td>
</tr>
</tbody>
</table>

* Individual performance for relevant managers includes a number of key non-financial targets in relation to the environment, energy consumption, water usage and waste management.

Other than in the case of termination for cause, the company may terminate the executive directors’ service contracts by making payment in lieu of notice equal to the value of the base salary plus benefits which they would have received during the notice period.

Executive directors are required to retire from the company at the age of 63 years. The retirement age of Executive Committee members is generally between the ages of 63 and 65 years, and differs by region.
Remuneration Report continued

Performance Share Plan (PSP)
The table below shows the metrics for 2017 grants, why they were chosen and how targets are set.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Relevance</th>
<th>How do we set the targets?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total shareholder return (TSR)</td>
<td>TSR measures the total returns to Sappi’s shareholders, so provides close alignment with shareholder interests.</td>
<td>The committee sets the performance requirements for each grant. A peer group of packaging and paper sector companies is used. Nothing vests in positions 10 to 17 of the peer group. Vesting increases from 25% at position 9 to 100% for positions 1 to 5.</td>
</tr>
<tr>
<td>Cash flow return on net assets (CFRONA)</td>
<td>A key indicator of the effective use of capital.</td>
<td>The committee sets the performance requirements for each grant. A peer group of packaging and paper sector companies is used. Nothing vests in positions 10 to 17 of the peer group. Vesting increases from 25% at position 9 to 100% for positions 1 to 5.</td>
</tr>
</tbody>
</table>

Remuneration scenarios at different performance levels
The chart below illustrate the total potential remuneration (base pay and short-term incentives) for executive directors at different performance levels.

Statement of fair and responsible remuneration
The group’s compensation policy for the remuneration of executive directors and other senior executives is set taking appropriate account of remuneration and employment conditions of other employees in the group.

The committee annually receives a report from management on pay practices across the group, including salary levels and trends, collective bargaining outcomes and bonus participation. At the time that salary increases are considered, the committee additionally receives a report on the approach management proposes to adopt for general staff increases. Both these reports are taken into account in the committee’s decisions about the remuneration of executive directors and other senior executives.

In some countries where the group operates, more formal consultation arrangements with employee representatives are in place relating to employment terms and conditions, in accordance with local legislation and practice. The group also conducts employee engagement surveys every two years which gauge employees’ satisfaction with their working conditions. The Sappi board is given feedback on these survey results.

Performance Share Plans (PSPs) are excluded from these scenarios as their vesting depends on performance conditions being met. Vesting is based on a linear vesting schedule.
Approach to remuneration benchmarks

Executive compensation is benchmarked on data provided in national executive compensation surveys, for countries in which executives are domiciled, as well as information disclosed in the annual reports of listed companies on the JSE Limited. Sappi participates in global remuneration surveys and uses data from global remuneration surveys, ie PwC, Mercer, et al to determine appropriate remuneration levels.

Ensuring an appropriate peer group in order to retain the integrity and appropriateness of the benchmark data is a key task of the Human Resources and Compensation Committee. Executive pay is benchmarked every alternate year.

The remuneration package for a newly appointed executive director would be set in accordance with the terms of the group’s approved remuneration policy in force at the time of appointment. The variable remuneration for a new executive director would be determined in the same way as for existing executive directors. For internal and external appointments, the group may meet certain relocation expenses, as appropriate.

Remuneration policy for non-executive directors (fees)

<table>
<thead>
<tr>
<th>Element</th>
<th>Purpose</th>
<th>How it works?</th>
<th>Fees</th>
</tr>
</thead>
</table>
| Non-executive Chairman (fees) | • To attract and retain high-calibre chairmen, with the necessary experience and skills  
• To provide fees which take account of the time commitment and responsibilities of the role. | • The Chairman receives an all-inclusive fee.                                 | • The Chairman’s fees are reviewed periodically by the committee  
• Fees are set by reference to market median data for companies of similar size and complexity to Sappi. |
| Other non-executive directors (fees) | • To attract and retain high-calibre non-executives, with the necessary experience and skills  
• To provide fees which take account of the time commitment and responsibilities of the role. | • The non-executives are paid a basic fee  
• Attendance fees are also paid to reflect the requirement for non-executive directors to attend meetings in various international locations  
• The chairmen of the main board committees and the independent directors are paid additional fees to reflect their extra responsibilities. | • Non-executive directors’ fees are reviewed periodically by the Chairman and Human Resources and Compensation Committee  
• Fees are set by reference to market median data for companies of similar size and complexity to Sappi. |
Sappi may reimburse the reasonable expenses of board directors that relate to their duties on behalf of Sappi (including tax thereon if applicable). Sappi may also provide advice and assistance with board directors’ tax returns where these are impacted by the duties they undertake on behalf of Sappi.

All non-executive directors have letters of appointment with Sappi Limited for an initial period of three years. In accordance with best practice, non-executive directors are subject to re-election at the AGMs after the three-year period. Appointments may be terminated by Sappi with six months’ notice. No compensation is payable on termination, other than accrued fees and expenses.

Voting on remuneration
As required by King IV, Sappi’s remuneration policy and implementation report as detailed in this Remuneration Report, need to be tabled for separate non-binding advisory votes by shareholders at the upcoming AGM. In the event that either the remuneration policy or the implementation report, or both, are voted against by 25% or more of the voting rights entitled to be exercised by shareholders at such AGM, then the committee will ensure that the following measures are taken in good faith and with best reasonable efforts:

- An engagement process to ascertain the reasons for the dissenting votes, and
- Appropriately addressing legitimate and reasonable objections and concerns raised which may include amending the remuneration policy or clarifying or adjusting remuneration governance and/or processes.

You can also view the full remuneration policy on www.sappi.com.

**Section C: Remuneration implementation report**

**Compensation structure**
Total compensation comprises fixed pay (e.g., base salary and benefits) and variable performance-related pay, which is divided further into short-term incentives with a one-year performance period and long-term incentives which have a four-year performance period.

**Compensation mix**
The compensation mix for executive directors and Executive Committee members is shown in the schematics alongside.

The term ‘target’ in terms of short-term incentives refers to the annual bonus award if all performance criteria were met at 100% achievement.

The long-term incentive awards are based on the face value of the performance plan shares issued in December 2016 (share price at date of allocation: ZAR86.25 December 2016).

**Base salary**
The Compensation Committee approved the level of base salary for each executive director, Executive Committee member and other key senior managers.

Increases are effective from 01 January each year. There are no automatic annual base salary adjustments.
The 2017 salary increases were based on individuals’ performances and contributions, internal relativities, inflation rates in the countries of operation, general market salary movement and overall affordability.

The same salary increase percentages were applied in determining the salaries for executive directors’ and Executive Committee members’ increases as was the mandate for general staff, dependent on location.

Mr Binnie received a salary increase of 7% on the South African portion of his salary and 1% on the off-shore portion of his salary. Mr Binnie’s salary with effect from 01 January 2017 was US$440,214 per annum.

As a result of the good performance of Sappi and the resultant upgrade by ratings agencies, Mr Binnie also received a market adjustment in June 2017 which resulted in an increase in both the South African and the off-shore portions of his salary (see remuneration disclosure tables). The Mercer and Remchannel salary benchmarks also supported this adjustment.

Mr Pearce received a salary increase of 6.5% on the South African portion of his salary and 1% on the off-shore portion of his salary. Mr Pearce’s salary with effect from 01 January 2017 was US$306,284 per annum.

Retirement benefits
Retirement benefits are largely in the form of defined contribution schemes. In some instances, legacy defined benefit schemes exist. Almost all the defined benefit schemes are closed to new hires.

Mr Binnie and Mr Pearce are both members of defined contribution funds and the total employee and company contribution is ZAR350,000.

No additional payments were made to any retirement fund on behalf of the executive directors.

Short-term incentive
Performance-related annual bonuses may be paid to executive directors and other executive and senior managers under the Management Incentive Scheme. The scheme is designed to incentivise the achievement of predefined annual financial targets and personal objectives which are critical measures of business success.

For the 2017 financial year, the financial business performance criteria were: EBITDA (48%), working capital (24%) and safety (8%) – which accounted for 80% of the bonus calculation, with the remaining 20% being based on individual performance during the course of the year.

The bonus payment opportunity available to executive directors and Executive Committee members is as follows:

<table>
<thead>
<tr>
<th></th>
<th>On-target bonus</th>
<th>Stretch target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive director</td>
<td>85% of base salary</td>
<td>116% of base salary</td>
</tr>
<tr>
<td>Regional CEO</td>
<td>70% of base salary</td>
<td>95% of base salary</td>
</tr>
<tr>
<td>Other prescribed officers (ie Executive Committee members)</td>
<td>65% of base salary</td>
<td>88.5% of base salary</td>
</tr>
</tbody>
</table>

A performance threshold of 85% of EBITDA for the group is required before any bonus can be paid to participants in the group scheme.

Furthermore, if a region does not achieve the 85% bonus threshold target, no bonus is paid to participants in the region irrespective of overall group performance. The group and all other regions met the performance threshold which entitled them to a bonus payment for fiscal 2016.

The group’s performance for the 2017 financial year:

<table>
<thead>
<tr>
<th>Performance criteria</th>
<th>Target</th>
<th>2017 Actual achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>48</td>
<td>59.4</td>
</tr>
<tr>
<td>Working capital</td>
<td>24</td>
<td>27.8</td>
</tr>
<tr>
<td>Safety</td>
<td>8</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>87.2</td>
</tr>
</tbody>
</table>

Mr Binnie will receive a bonus award of US$440,139 and Mr Pearce will receive a bonus award of US$283,986 to be paid in December 2017.

The terms and conditions of the annual incentive scheme for executive directors and Executive Committee members affords the company the right to seek redress and recoup from an individual where for any reason the board determines, within a 12-month period of such payment, that the performance goals (whether for the participant or for the group) were in fact not achieved following the restatement of financial results or otherwise.

Changes to the short-term incentive scheme
There were no changes to the 2017 Management Incentive Scheme (MIS) rules compared to 2016.
Long-term incentive
The Sappi PSP provides for annual awards of conditional performance shares which are subject to meeting performance targets measured over a four-year period. These awards will only vest if Sappi’s performance, relative to a peer group of 16 other industry-related companies is ranked at median or above the median.

The performance criteria are relative total shareholder return (TSR) and relative cash flow return on net assets (CFRONA).

The peer group for the 2017 PSP award will consist of the following 16 industry-related companies:
• Fortress Paper
• Lenzing
• Rayonier Advance Materials
• Ahlstrom-Munksjo
• Borregaard
• Domtar
• West Rock
• Norske-Skog
• UPM-Kymmene
• Holmen
• Metsä Board
• Verso
• Mondi Plc
• International Paper
• Stora Enso, and
• Resolute Forest Products.

Performance Share Plan (PSP)
The vesting schedule for 2013 allocation for both TSR and CFRONA:

<table>
<thead>
<tr>
<th>Position</th>
<th>Vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 5</td>
<td>100%</td>
</tr>
<tr>
<td>6 – 7</td>
<td>75%</td>
</tr>
<tr>
<td>8 – 9</td>
<td>50%</td>
</tr>
<tr>
<td>10 – 17</td>
<td>0%</td>
</tr>
</tbody>
</table>

For the four-year period ended September 2017, Sappi’s performance relative to the peer group measured on TSR was ranked first out of 16 companies, which meant that 100% TSR component shares vested on the due date in December 2017.

The determination of the vesting of the shares was provided by Mercer Kepler, an independent third party.

Sappi’s performance relative to the peer group measured on CFRONA for the same period resulted in 100% of this portion of the awards vesting, as Sappi’s performance was ranked in second place. The determination of the vesting of this portion of the shares was verified by KPMG auditors.

In aggregate, therefore 100% of the total 2013 awards vested.

Mr Binnie was awarded two sets of conditional awards that mature in 2017, one in December 2013 and one in July 2014. Of the 310,000 conditional performance plan shares, 310,000 will vest in December 2017.

In December 2013, Mr Pearce was granted 33,000 conditional performance plan shares of which 33,000 will vest in December 2017.

The historical vesting of PSP awards:

<table>
<thead>
<tr>
<th>Share awards</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>CFRONA</td>
<td>75</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Aggregate</td>
<td>37.5</td>
<td>50</td>
<td>50</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Mr Binnie was awarded 162,000 conditional performance plan shares in December 2016 in line with the plan rules.

Mr Pearce was awarded 75,000 conditional performance plan shares in December 2016, in line with the plan rules.

Changes to the long-term incentive scheme
The committee also approved the linear vesting schedule for the 2015 allocations which will be applicable from the 2019 and onwards vesting. This will have the impact that at median performance, 25% of vesting will happen. The vesting schedule is as follows:

<table>
<thead>
<tr>
<th>Position</th>
<th>Vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 5</td>
<td>100%</td>
</tr>
<tr>
<td>6</td>
<td>80%</td>
</tr>
<tr>
<td>7</td>
<td>65%</td>
</tr>
<tr>
<td>8</td>
<td>45%</td>
</tr>
<tr>
<td>9</td>
<td>25%</td>
</tr>
<tr>
<td>10 – 17</td>
<td>0%</td>
</tr>
</tbody>
</table>
Employee Share Ownership Plan (Broad-based Black Economic Empowerment)

The Employee Share Ownership Plan (Sefate) was established in 2009 to meet the requirements of Broad-based Black Economic Empowerment established in the Forestry Sector Charter and in line with the codes set out by the South African Department of Trade and Industry.

There are two schemes which make up Sappi’s Employee Share Ownership Plan (ESOP) and Management Share Ownership Plan (MSOP). There were 5,607 participants in the schemes at the end of September 2014. Eligible employees receive an allocation based on seniority, of ‘A’ ordinary shares and ordinary shares. Shares vest 40% after three years and 10% each year thereafter.

Shares may, however, only be taken up after September 2019. Employees receive the net value in shares or cash at the end of the lock-in period.

Remuneration disclosure of executive directors and prescribed officers

Executive directors’ emoluments for 2017 (US Dollar)

<table>
<thead>
<tr>
<th>Executive director</th>
<th>Base salary</th>
<th>Other payments</th>
<th>Retirement funding and medical insurance</th>
<th>Annual cash bonus</th>
<th>Total 2017</th>
<th>Total 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR Binnie</td>
<td>464,563</td>
<td>12,944</td>
<td>76,580</td>
<td>440,139</td>
<td>994,226</td>
<td>928,537</td>
</tr>
<tr>
<td>GT Pearce</td>
<td>302,683</td>
<td>8,295</td>
<td>61,090</td>
<td>283,986</td>
<td>656,054</td>
<td>648,452</td>
</tr>
</tbody>
</table>

- Base salary – the actual salary earned during 2017.
- Retirement benefits – the annual contribution paid by the company into a defined benefit fund on behalf of the members determined as a percentage of their base salary.
- Other payments – expenses allowances.
- Annual cash bonus – the actual bonus earned in 2017 based on the rules of the Management Incentive Scheme.
- Long-term incentive – conditional performance plan shares awarded in 2017 financial year which will vest in 2021.
- Local earnings are translated into the reporting currency (US Dollar) using the average exchange rate over the financial year. The average rate for SA Rand appreciated by 10.5%.

Dilution

If all outstanding options and plans’ shares were to be exercised or vest as at September 2017, the resulting dilution effect would be 2.79% (2016: 3.18%) of issued ordinary share capital excluding treasury shares. To the extent possible, treasury shares will continue to be used to meet future requirements for shares arising from the exercise of options and vesting of awards.

Share ownership guidelines and restrictions

The CEO, Mr Binnie, volunteered to hold a target number of shares equal to 2x his annual base salary by December 2020. He currently holds shares to the value of approximately 130% of his annual base salary. There is no requirement for the Chief Financial Officer and the Executive Committee members to hold a specific number of shares during their employment with the company.
Prescribed officers/Executive Committee members (US Dollar)

Prescribed officers are members of the group Executive Committee. The table below sets out the remuneration for prescribed officers for 2017:

<table>
<thead>
<tr>
<th>Prescribed officer</th>
<th>Base salary</th>
<th>Other payments</th>
<th>Retirement funding and medical insurance</th>
<th>Annual bonus</th>
<th>Total 2017</th>
<th>Total 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officer 1</td>
<td>713,361</td>
<td>2,764</td>
<td>233,429</td>
<td>522,618</td>
<td>1,472,172</td>
<td>1,584,363</td>
</tr>
<tr>
<td>Officer 2</td>
<td>534,626</td>
<td>–</td>
<td>54,754</td>
<td>276,294</td>
<td>865,674</td>
<td>943,971</td>
</tr>
<tr>
<td>Officer 3</td>
<td>315,836</td>
<td>9,237</td>
<td>59,159</td>
<td>224,665</td>
<td>608,897</td>
<td>576,708</td>
</tr>
<tr>
<td>Officer 4</td>
<td>325,362</td>
<td>9,682</td>
<td>–</td>
<td>162,220</td>
<td>497,264</td>
<td>469,449</td>
</tr>
<tr>
<td>Officer 5</td>
<td>161,408</td>
<td>4,888</td>
<td>44,891</td>
<td>115,370</td>
<td>326,557</td>
<td>312,732</td>
</tr>
<tr>
<td>Officer 6</td>
<td>204,802</td>
<td>6,254</td>
<td>87,767</td>
<td>160,033</td>
<td>458,856</td>
<td>444,066</td>
</tr>
<tr>
<td>Officer 7</td>
<td>176,898</td>
<td>5,140</td>
<td>48,381</td>
<td>125,925</td>
<td>356,344</td>
<td>345,312</td>
</tr>
</tbody>
</table>

Statement by the board regarding compliance with the remuneration policy

The board annually receives a report from the Human Resources and Compensation Committee on pay practices across the group, including salary levels and trends, collective bargaining outcomes and bonus participation.

The board endorses the Human Resources and Compensation Committee position that Sappi’s remuneration policy for the remuneration of executive directors and other senior executives is set taking appropriate account of remuneration and employment conditions of other employees in the group and external factors. It is the view of the board that this policy as detailed herein, drives business performance and value creation for all stakeholders.
Social, Ethics, Transformation and Sustainability Committee Report

Introduction
The Social, Ethics, Transformation and Sustainability (SETS) Committee presents its report for the financial year ended September 2017. This committee is a statutory committee with a majority of independent non-executive members, whose duties are delegated to them by the board of directors. The committee conducted its affairs in compliance with a board-approved terms of reference, and discharged all its responsibilities contained therein.

The committee was established during the 2012 financial year in response to the requirements of section 72(4) of the South African Companies Act 71 of 2008, read with regulation 43 of the Companies Regulations, 2011. These regulations required the establishment of a social and ethics committee, to which were added the transformation and sustainability oversight roles previously contained in the Sustainability and Human Resources and Transformation Committees.

During the course of the financial year, the committee formally met three times at which meetings it deliberated on all aspects relating to its terms.

Objectives of the committee
The role of the SETS Committee is to assist the board with the oversight of the company and to provide guidance to management’s work in respect of its duties in the fields of social, ethics, transformation and sustainability. The committee relies on international best practice applicable to the areas within the committee’s mandate that were brought to the committee’s attention. Appropriate policies and programmes are in place to ensure that our business, our environment and our people can prosper on an ongoing basis. The responsibilities include monitoring the company’s activities, having regard to any relevant legislation, other legal requirements and prevailing codes of best practice.

The committee meets a minimum of three times each year.

Membership of the committee
The members of the SETS Committee during the 2017 financial year were:
- Mr MV Moosa (Chairman from 01 March 2016)
- Mr SR Binnie
- Mr RJ DeKoch
- Dr B Mehlomakulu (from 01 March 2017)
- Mrs B Radebe (until 28 February 2017)
- Dr R Thummer

Three members of the committee are independent non-executive directors, one is a non-executive director and one the Chief Executive Officer. In addition, the Chairman of the board attends committee meetings ex officio. The regional Chief Executive Officers, the Group Head Strategy and Legal, the Group Head Technology, the Group Head Human Resources, the Group Head Corporate Affairs and the Group Head Investor Relations and Sustainability attend meetings by invitation.

Committee activities reviewed and actioned during the year
- Reviewed and revised the committee terms of reference and annual work plan
- Approved the public affairs and CSR programmes and policy
- The corporate social development programme
- Sappi's standing in terms of:
  - The principles set out in the United Global Compact Principles
  - The OECD recommendations regarding corruption
  - The Employment Equity Act
  - The Broad-based Black Economic Empowerment (BBBEE) Act
- Reviewed the Code of Ethics, ethics programme and their effectiveness
- Obtained feedback from the ethics reporting hotlines
- Reviewed the South African Skills Audit as well as the training and development plan
- Reviewed the staff training progress
- Reviewed the company performance relative to the Employment Equity Act, Broad-based Black Economic Empowerment (BBBEE) Act and the company’s transformation strategies
- Reviewed the Sappi Southern Africa Transformation Charter
- Reviewed Sappi’s policy and standing in terms of the International Labour Organisation (ILO) protocol on decent work and working conditions
- Reviewed the group safety programmes, safety performance and actions being taken to improve the safety performance of the group
- Reviewed the Group Unfair Discrimination and Equality Policy
- Reviewed the Group Sustainability Charter and Group Environmental Policy
- Reviewed the material indicators of the group’s environmental performance
- Reviewed regional sustainability performance against goals for 2017
- Reviewed regional and global public policy matters affecting the group and its operations as they relate to sustainability
- Reviewed the various production unit operating efficiencies, reliability and unscheduled downtime metrics for 2017
- In-depth review of the ethics mandate of the committee with reference to King IV and the Companies Act
- In-depth review of water risks and management for the group, and

Conclusion
The committee confirms that the group gives its social, ethics, transformation and sustainability responsibilities the necessary attention. Appropriate policies and programmes are in place to contribute to social and economic development, ethical behaviour of staff towards colleagues and other stakeholders, fair labour practices, environmental responsibility and good customer relations.

There were no substantive areas of non-compliance with legislation and regulation, nor non-adherence with codes of best practice applicable to the areas within the committee’s mandate that were brought to the committee’s attention. The committee has no reason to believe that any such non-compliance or non-adherence has occurred.

MV Moosa
Chairman
Social, Ethics, Transformation and Sustainability Committee
Risk management

Philosophy
The Sappi group has an established culture of managing key risks. It has a significant number of embedded processes, resources and structures in place to address risk management requirements. These range from its internal audit systems, insurance, IT security, compliance and governance processes, quality management and a range of other line management interventions.

The Group Risk Management Policy is aimed at enhancing value for all of Sappi’s stakeholders. In the broadest sense, effective risk management ensures continuity of operations, service delivery, achievement of objectives (strategic and otherwise), and the protection of the interests of the group. To achieve objectives, the risk management process is aligned with and compatible with Sappi’s strategy. This policy takes into account the recommendations set out in ISO standard 31000 (a guidance only standard) – ‘Risk management – Principles and guidelines’, as well as King IV.

The Sappi Limited board of directors is responsible for the governance of risk. The Sappi Limited Audit Committee, in its capacity as a board committee, is tasked with assisting the board in carrying out its risk management responsibilities at the group level. Notwithstanding the above, the responsibility for the implementation of risk management processes rests with the line management in each region, division and operation/business unit.

Group internal audit provides independent assurance on the risk management process.

For an analysis of the principal financial risks to which Sappi is exposed, please see note 31 contained in the Group Annual Financial Statements, which is available on the group’s website at www.sappi.com.

For a detailed discussion of the group’s risk factors, please see the separate 2017 Risk Management Report, which is available on the group’s website at www.sappi.com.

Top 10 key risks
1. We operate in a cyclical industry and as such, global economic conditions may cause substantial fluctuations in our results.
   Our products are significantly affected by cyclical changes in industry capacity and output levels as well as by the impact on demand from changes in the world economy. Because of supply and demand imbalances in the industry, these markets historically have been cyclical with volatile prices. In addition, turmoil in the world economy has historically led to sharp reductions in volume and pressure on prices in many of our markets. We are continuously taking action to improve efficiencies and reduce costs in all aspects of our business. We will continue to monitor the supply/demand balance, which might require us to impair operating assets and/or implement further capacity closures.

2. The markets for pulp and paper products are highly competitive, and some of our competitors have advantages that may adversely affect our ability to compete with them.
   There is a trend towards consolidation in the pulp and paper industry creating larger, more focused companies. We continue to drive good customer service, innovation and efficient manufacturing and logistics. We are focused on improving the performance and competitiveness of our businesses. We continue to drive down costs across all our businesses.

3. We require a significant amount of financing to fund our business and service our debt. Our ability to generate sufficient cash depends on many factors, some of which are beyond our control.
   Our ability to fund our working capital, capital expenditure, research and development requirements and to make payments on our debt principally depends on cash available from our operating performance, credit facilities and other debt arrangements.
Our year-end cash balance and our committed revolving credit facilities provide us with adequate headroom to fund our short-term requirements. Our extended debt maturity profile indicates no material short-term refinancing requirements. We are also focusing on profit improvement in our operations by reducing fixed and variable costs, spending capital prudently and managing working capital levels.

During the third quarter we repaid the 2017 US$400 million bonds utilising our existing cash resources. This will lower the ongoing net interest charge by approximately US$21 million per annum.

4. New technologies or changes in consumer preferences may have a material adverse effect on our business.

Trends in advertising, electronic data transmission and storage, the internet and mobile devices continue to have adverse effects on traditional print media and other paper applications, including our products and those of our customers. Digital alternatives to many traditional paper applications, including print publishing and advertising and the storage, duplication, transmission and consumption of written information more generally, are now readily available and have begun to adversely affect demand for certain paper products. For example, advertising expenditure has gradually shifted away from the more traditional forms of advertising, such as newspapers, magazines, radio and television, which tend to be more expensive, toward a greater use of electronic and digital forms of advertising on the internet, mobile phones and other electronic devices, which tend to be less expensive. We have been and are implementing strategic initiatives to improve profitability, including restructuring and other cost-saving projects, measures to enhance productivity, as well as an expansion of our higher-margin speciality businesses. Our entrenched leading market share and low production cost, positions us well to take advantage of the growth in the dissolving wood pulp market and to continue generating good margins.

During the year, we strengthened our biotech division and bolstered our biorefining expertise through the acquisition of the Xylex® and Versalac® technologies owned by Plaxica Limited. This acquisition is another definitive step towards building a meaningful bioproduct business in executing our 2020Vision.

We invested in our specialities and packaging papers business through the acquisition of the barrier film technology of Rockwell Solutions Limited, a well-known producer of heat sealable, peelable lidding films. Gaining access to the technology of Rockwell Solutions enables Sappi to accelerate the development of our own solutions and will allow us to offer our customers an even wider range of barrier coated packaging solutions.

5. The cost of complying with environmental, health and safety laws may be significant to our business.

Our aim is to minimise our impact on the environment. The principles of ISO 14000, Forest Stewardship Council® (FSC®), SFI®, PEFC™ and other recognised programmes are well entrenched across the group. We have also made significant investments in operational and maintenance activities related to reductions in air emissions, wastewater discharges and waste generation. (For further detail, see the Sustainability section on page 32.) However, we are subject to a wide range of environmental, health and safety laws and regulations in the various jurisdictions in which we operate. We closely monitor the potential for changes in pollution control laws, including GHG emissions requirements, and take action with respect to our operations accordingly. We invest to maintain compliance with applicable laws and cooperate across regions to apply best practices in a sustainable manner.

6. Fluctuations in the value of currencies, particularly the Rand and the Euro in relation to the US Dollar, have in the past had, and could in the future have, a significant impact on our earnings in these currencies.

We are exposed to economic, transaction and translation currency risks. The objective of the group in managing transactional currency risks is to ensure that foreign exchange exposures are identified as early as possible and actively managed. In managing transactional currency risks, the group first makes use of internal hedging techniques (hedging to the functional currency of the entity concerned) with external hedging
Risk management continued

being applied thereafter. External hedging techniques consist primarily of foreign exchange contracts and currency options. Foreign currency capital expenditure on projects is covered as soon as practical (subject to regulatory approval). For further detail, see note 31 contained in the Group Annual Financial Statements, which are available online at www.sappi.com.

7. The inability to obtain energy, raw materials or water at reasonable prices, or at all, could adversely affect our operations.
We require substantial amounts of wood, chemicals, energy and water for our production activities. The prices for and availability of these items may be subject to change, curtailment or shortages. To mitigate the risk, we are improving procurement methods, finding alternative lower-cost fuels and raw materials, minimising waste, improving manufacturing and logistics efficiencies and implementing energy reduction initiatives, such as increasing renewable energy, promoting cogeneration, investigating biofuel opportunities, promoting water-efficient production processes and infrastructure upgrades.

8. A limited number of customers account for a significant amount of our sales. Therefore, should adverse changes in economic market conditions have a negative impact on them, it could materially adversely affect our results of operations and financial position.
We sell a significant portion of our products to several significant customers. During FY2017, however, no single customer individually represented more than 10% of our total sales. Any adverse development affecting our significant customers or our relationships with such customers could have an adverse effect on our credit risk profile, our business and results of operations. We are, on a continuous basis, working to expand and diversify our customer base.

9. A large percentage of our employees are unionised, and wage increases or work stoppages by our unionised employees may have a material adverse effect on our business.
A large percentage of our employees are represented by labour unions under collective bargaining agreements, which need to be renewed from time to time. In addition, we have in the past and may in the future seek, or be obligated to seek, agreements with our employees regarding workforce reductions, closures and other restructurings. We may become subject to material cost increases or additional work rules imposed by agreements with labour unions, which could increase expenses in absolute terms and/or as a percentage of net sales. A concerted effort is being made across all our regions to interact and engage with our union representatives and organised labour on a frequent basis and to work on building constructive work relationships.

10. Injuries and fatalities.
We operate a number of manufacturing facilities and forestry operations. The environment at these facilities is inherently dangerous. The health and safety of our own employees and contractors remain a top priority. We minimise on-the-job injuries and fatalities by:

- Performing root cause analyses of all major incidents and fatalities, which are reviewed at all levels of the business including the board
- Group and industry-wide sharing of all incidents and associated mitigating steps, thereby helping to ensure that all our regions remain in the top 10% quartile for our industry
- Enforcing compliance with behaviour-based safety (BBS) principles
- Providing continuing education and having a disciplined approach to all transgressions of our safety policies, inclusive of our contractors, and
- Encouraging a reporting culture of near miss incidents.
Insurance
The group has an active programme of risk management in each of its geographical operating regions to address and reduce exposure to property damage and business interruption incidents. All production units are subject to regular risk assessments by external risk engineering consultants, the results of which receive the attention of senior management.

The risk mitigation programmes are coordinated at group level in order to achieve a standardisation of methods. Work on improved enterprise risk management is ongoing and aims to lower the risk of incurring losses from incidents. Asset insurance is renewed on a calendar year basis. The self-insured retention portion for any one property damage occurrence is US$24 million (€20.5 million) with the annual aggregate set at US$39 million (€33 million). For property damage and business interruption insurance, cost-effective cover to full replacement value is not readily available.

A loss limit cover of US$886 million (€750 million) has been deemed to be adequate for the reasonable foreseeable loss for any single claim.

Risk appetite and tolerance
Sappi has a board-approved framework for risk appetite and tolerance.

Risk appetite is the total exposed amount that Sappi wishes to undertake on the basis of risk return trade-offs for one or more desired and expected outcomes. This is the quantum of risk that the board believes will provide an adequate margin of safety within the company’s risk capacity while still enabling the achievement of the strategic objectives.

Risk tolerance is the amount of uncertainty Sappi is prepared to accept in total or, more narrowly, within a certain business unit, a particular risk category or for a specific initiative/risk. This is the maximum level of loss or reduced earnings that can be absorbed without compromising key objectives, eg return on investment.
A cross-section of branches clearly distinguishes layers: bark, cambium and wood core.
Growth Our actions to grow profitability, target higher-margin growth segments, product innovation and development and require us to be agile to respond to market demand.