Sappi Group
(Sappi Limited)
INTEGRATED REPORT FOR FISCAL YEAR 2017
FINANCIAL RESULTS
01 SEPTEMBER 2017

22 December 2017

This report is being furnished to The Bank of New York Mellon as trustee for (i) the Senior Secured Notes of Sappi Papier Holding GmbH due 2017 issued pursuant to the indentures dated as of July 05, 2012; (ii) the Senior Secured Notes of Sappi Papier Holding GmbH due 2022 issued pursuant to the indentures dated as of March 12, 2015; and the Senior Secured Notes of Sappi Papier Holding GmbH due 2023 issued pursuant to the indentures dated as of March 31, 2016; in each case pursuant to Section 4.03 of the indentures governing such Senior Notes.

On 31 August 2016, Sappi has released all existing security previously granted to secure certain indebtedness, including these Senior Notes.

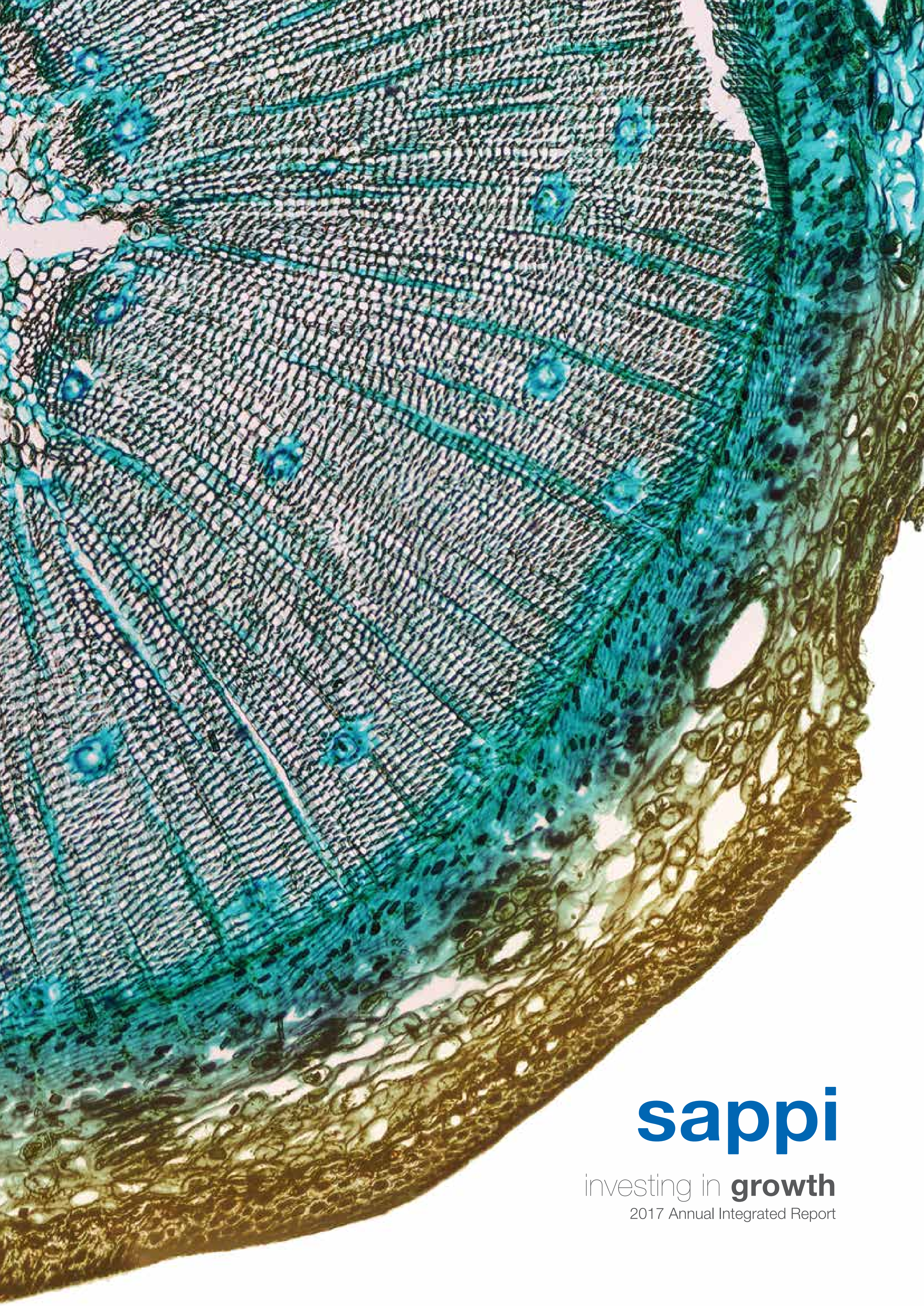
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this release that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “assume”, “positioned”, “will”, “may”, “should”, “risk” and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, may be used to identify forward-looking statements. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

- the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicality, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);
- the impact on our business of adverse changes in global economic conditions;
- unanticipated production disruptions (including as a result of planned or unexpected power outages);
- changes in environmental, tax and other laws and regulations;
- adverse changes in the markets for our products;
- the emergence of new technologies and changes in consumer trends including increased preferences for digital media;
- consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;
- adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;
- the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructuring and other strategic initiatives and achieving expected savings and synergies; and
- currency fluctuations.

For a discussion of the above factors and certain additional factors, refer to the document entitled “Risk Report” attached to this integrated annual report. These factors are not necessarily all of the important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results.

You are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this report or as of the date specified therein and are not intended to give any assurance as to future results. We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.



sappi

investing in **growth**

2017 Annual Integrated Report

About this report

Our Annual Integrated Report for the year ended September 2017 provides both an assessment of our strategy and delivery as well as an introduction of our strategic direction, mission and vision together with our value statement. 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. While the report addresses issues pertinent to a wide group of stakeholders, the primary audience is our shareholders. Our global and regional sustainability reports address the wider audience in more detail on key material issues.

The scope of this report includes all of our operations, as set out on page 20. We aim to present information that is material, comparable, relevant and complete. The issues and indicators we cover reflect our significant economic, environmental and social impacts, and those we believe would substantively influence the assessments and decisions of investors. The materiality of the information presented has been determined on the basis of extensive ongoing engagement with our stakeholders and has been assessed against the backdrop of current business operations, as well as prevailing trends in our industry and the global economy.

In preparing this report, we have tracked environmental findings and research, public opinion, employee views and attitudes, the interests and priorities of environmental and social groups, as well as the activities, profiles and interests of investors, employees, suppliers and customers, communities, governments and regulatory authorities.

This report is aligned with the King IV Code on Corporate Governance (King IV).

Board approval

The Sappi Limited board acknowledges its responsibility for ensuring the integrity of the Annual Integrated Report and, to the best of its knowledge and belief, the Sappi Limited Annual Integrated Report for 2017 addresses all material issues and presents fairly the integrated performance of the organisation and its impacts. The report has been prepared in line with best practice and the board confirms that it has approved this Annual Integrated Report and authorised it for release on 09 December 2017.

External assurance

Currently, assurance of sustainability information is conducted by our internal audit team. Their verification process includes reviewing the procedures applied for collecting and/or measuring, calculating and validating non-financial data, as well as reviewing reported information and supporting documentation. During 2017 we conducted a readiness review for external assurance and intend to have internal verification for our key sustainability metrics in 2018.

In practice, most of our key operations undergo external verification including the Eco-Management Audit System (EMAS) in Europe and globally, ISO 14001 environmental certification, ISO 9001 quality certification and OHSAS 18001 certification.

We are also assessed in terms of the forest certification systems we use, and in South Africa, our Broad-based Black Economic Empowerment (BBBEE) performance is assessed by an external ratings agency.

In addition, our global governance, social and environmental performance is assessed annually in terms of our listing on the Socially Responsible Investment (SRI) Index of the JSE Securities Exchange (JSE).

Collectively, these external assessments and certifications as well as interaction with our stakeholders give us confidence that our performance indicators are reliable, accurate and pertinent. The Social, Ethics, Transformation and Sustainability Committee reviews the efficacy of conducting external assurance annually. The committee considered external verification in the year under review, but is satisfied that the sustainability information presented in this report has been provided with a reasonable degree of accuracy.

Due to our delisting from the New York Stock Exchange in 2013, we no longer publish an annual report on Form 20-F. For information on the combined assurance framework relevant to the disclosure in this report, and for the Independent Auditor's Report, please refer to page 67 of this report and page 6 in the **Group Annual Financial Statements**. This year's report does not include summarised financials. However, the full Annual Integrated Report with financials is available on www.sappi.com in electronic and PDF format.

For important information relating to **forward-looking statements**, refer to the inside back cover. We present this Annual Integrated Report as a basis for engagement and welcome any feedback. Please direct any comments or questions to Sappi Corporate Affairs using the details provided on page 130.

sappi | GalerieArt™ silk

GalerieArt™ coated fine paper manufactured at Sappi's European mills is made from pulp bleached without the use of chlorine. The wood for this pulp is sourced from sustainably managed forests, plantations and controlled sources. These mills are third party certified according to internationally recognised standards including ISO 9001 quality and ISO 14001 and EMAS environmental certification. GalerieArt™ is acid free and fully recyclable. Printed on 135, 250 and 350g/m^2.

Stay informed: For a more comprehensive overview of our social, ethics, transformation and sustainability performance, please refer to:

Annual Integrated Report and Group Annual Financial Statements: **www.sappi.com/annual-reports**

Quarterly results announcements and analyst presentations: **www.sappi.com/quarterly-reports**

Group Sustainability Report: **www.sappi.com/sustainability**

Group and regional sustainability reports

We will once again publish a Group Sustainability Report for 2017 in accordance with the Global Reporting Initiative's G4 guidelines. Additionally, each of our regions will publish separate sustainability reports for FY2017. These reports will be available early in 2018 on www.sappi.com.

One Sappi

Sappi's 3Ps

Prosperity

People

Planet

Navigation aids:

Online information

Further reading

Through the power of One Sappi – committed to collaborating and partnering with stakeholders – we aim to be a trusted and sustainable organisation with an exciting future in woodfibre.

Contents:

Our business model

Inputs

Prosperity

Financial capital

We manage our financial capital, including shareholders' equity, debt and reinvested capital to maintain a solid balance between growth, profitability and liquidity.

- Total assets: US$5,247 billion
- Net debt: down US$86 million to US$1.32 billion
- Cash and cash equivalents: US$550 million

Manufactured capital

Investing in building, maintaining, operating and improving this infrastructure requires significant financial capital, together with human and intellectual capital.

- Nine paper mills, two specialised cellulose and paper mills, one specialised cellulose mill, two speciality paper mills, and one sawmill

Intellectual capital

Our technology centres and research and development (R&D) initiatives promote a culture of innovation to support the development of commercially and environmentally sustainable solutions for the company.

Our intellectual capital is closely aligned with our human capital.

- R&D spend: US$29.5 million (including Exciter projects)
- Technology centres in each region
- Technology investments in 2017

People

Human capital

By creating a safe and healthy workplace for our people in which diversity is encouraged and valued, and providing them with ongoing development opportunities, we enhance productivity and our ability to service global markets.

- 12,158 employees including 851 fixed-term contractors
- US$514 average training spend per employee

Social capital

Building relationships with our key stakeholders in a spirit of trust and mutual respect enhances both our licence to trade and our competitive advantage, thereby enabling shared value creation.

- Ongoing stakeholder engagement
- CSR spend: US$5.3 million

Planet

Natural capital

Recognising that our business depends on natural capital, we focus on managing and mitigating our impacts.

- 2,734MW energy purchased, 1,893MW generated
- Specific energy usage: 22.77GJ/adt
- Specific process water extracted 33.74m^3/adt
- 479,000ha owned or leased plantations with approximately 27.4 million tons of standing timber
- Contracted supply covers a further almost 92,000ha

Our processes

Material issues

- Stakeholder relationships
- Governance
- Cost containment and capital allocation
- Growth in the packaging sector
- Declining for graphics paper
- Growing popularity of cellulosic-based fibres
- Adjacent markets
- Safety
- Labour relations
- Community investment
- Sustainability of our woodfibre base and climate change
- Emissions regulations and carbon tax
- Energy
- Water

We have aligned our long-established approach to sustainable development – **Prosperity**, **People** and **Planet** – with the IIRC's six capitals model.

The papermaking and specialised cellulose (dissolving wood pulp) processes

Governance

- Board of directors with diverse experience and expertise
- Social, Ethics, Transformation and Sustainability Committee ensures sustainability is integrated into business strategy
- Other board committees cover all governance aspects
- New Code of Ethics launched in 2016

Unlocking the chemistry of trees in adjacent markets

Nanocellulose, sugars, lignins, furfural, biocomposites, bio-energy

Papermaking

Outputs

- 6.4 million tons of saleable production
- Reduction in net debt
- Profits up by 6%
- Dividends up by 36%
- Produced first nanocellulose at our pilot plant
- Launched sugar extraction demonstration plant
- Assessing results of anaerobic digestion pilot plant

- Combined own employee and contractor LTIFR: 0.44 (three own employee fatalities, one contractor fatality)
- 62% of training spend allocated to skills development and 38% to compliance
- Positive, measurable impact on communities

- 45.2% renewable energy, of which 73.6% own black liquor – increase in energy self-sufficiency of 8.7% over five years
- 92% of water drawn returned to the environment
- 73.5% of fibre used certified
- 1,515,014 tons of waste, of which almost 465,395 tons sent to landfill

Outcomes

are presented on the following page →

Outcomes of our business

Our activities **add value** to all our stakeholders

Globally, we contributed **US$135 million** to governments as taxation

We paid **US$911 million** to employees as salaries, wages and other benefits

We reinvested **US$552 million** to grow the business

Lenders of capital received **US$95 million** as interest

Our shareholders received **US$59 million** in dividends

Our high **levels of innovation** give our customers a competitive edge in global markets – we were the world's first manufacturer to present an **innovative speciality paper** with a mineral oil barrier and heat sealing properties integrated directly into the paper.

Over a third of customers prefer sustainable brands[1] and our products help meet this need.

As a natural resources-based company, we are an attractive investment for investors looking for an alternative to fossil fuel-based materials.

[1] *https://www.unilever.com/news/Press-releases/2017/report-shows-a-third-of-consumers-prefer-sustainable-brands.html*

Our engaged, motivated workforce enable realisation of our **2020Vision**, with engagement monitored by a global target.

We play an active role in South Africa's transformation agenda and are classified as a **level 3 BBBEE contributor.**

Our specialised, sustainable packaging solutions:

- Preserve and protect
- Convey information
- Offer convenience, and
- Communicate and enhance brand image.

In Southern Africa, our operations provide employment for just over **10,300 contractor employees.**

We **support local communities** and livelihoods by creating employment and business.

Our customers rely on us for technical, operational and market **expertise.**

We promote active **environmental stewardship** of our land.

We recently launched Neoterix™ ST, which creates surfaces that resist bacterial attachment and growth without the use of toxic additives or chemicals.

Our world-leading tree improvement programmes have led to **shorter growth times** and enhanced fibre gain.

Our use of natural capital

We are inspired by the art of nature and we depend on nature, so we aim to tread more lightly.

Using less water (m^3/adt)

Globally, we have **reduced specific process water extracted** by **7.2%** over five years.

Increasing energy self-sufficiency by **8.7%** over five years.

Reducing greenhouse gas emissions

Globally, over five years we have reduced **Specific Scope 1 emissions** by **4.6%**.

Globally, over five years we have reduced **Specific Scope 2 emissions** by **7.4%**.

5.4% reduction of absolute emissions intensity **(Specific Scope 1 and 2)** globally over five years.

Our products come from nature and return to nature

Recyclable

Biodegradeable

Some of our packaging papers are **compostable**.

Improving effluent quality

We discharge **35.5% fewer total suspended solids** in effluent than we did five years ago and our effluent has **12.9% less** chemical oxygen demand.

2013	2014	2015	2016	2017
36.35	35.71	34.32	34.94	33.74

Generating **45.2%** renewable energy generated, of which **73.6%** own black liquor.

Ensuring responsible management of our woodfibre sources

The forests and plantations from which we source woodfibre are actively managed to **enhance biodiversity**.

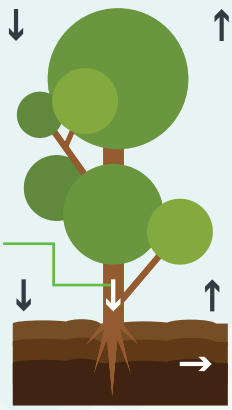
Our plantations in Southern Africa are **100% FSC®-certified**.

73.5% of woodfibre supplied to our mills is certified.

Approximately **a third of our land** is set aside for conservation purposes.

Responsible harvesting in sustainably managed forests and plantations perpetuates the carbon cycle and is not the same as deforestation: Europe's net forest area is currently increasing at a rate of approximately 1.6 million hectares per annum. In the United States of America, over the last six decades, the total net forest area has increased by over 3%. In Southern Africa, we plant 1.2 trees for every tree harvested.

The forests and plantations from which we source woodfibre help **mitigate global warming** by acting as carbon sinks.



Atmospheric carbon is fixed by trees and other vegetation through **photosynthesis**.

Some carbon is **internally transferred** from aboveground to belowground carbon soils.

Fallen leaves and branches add carbon to soils.

Belowground carbon: roots, litter.

Carbon is lost back to the atmosphere through **respiration and decomposition** of organic matter.

Aboveground carbon: stem, branches, foliage.

Carbon is lost to the atmosphere through **soil respiration**.

Some carbon is **transferred** from belowground carbon (for example root mortality) to the soils.

Soil carbon: organic, inorganic.

Our strategy

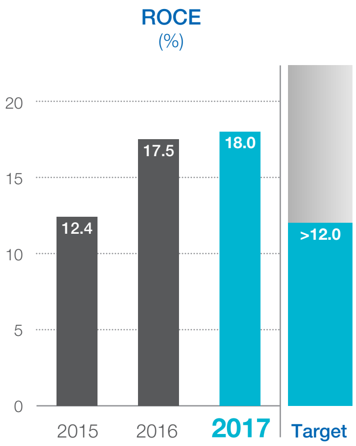
Through intentional evolution we will continue to grow Sappi into a profitable and cash-generative, diversified woodfibre group – focused on dissolving wood pulp, paper and products in adjacent fields.

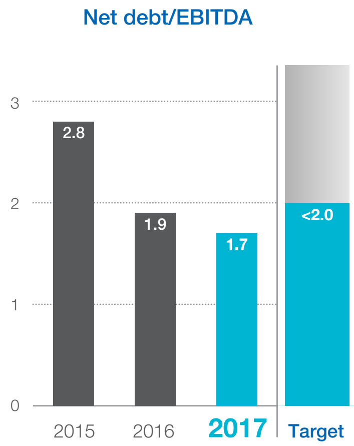
At Sappi we do business with integrity and courage; making smart decisions which we execute with speed. **Our values are underpinned by an unrelenting focus and commitment to safety.**

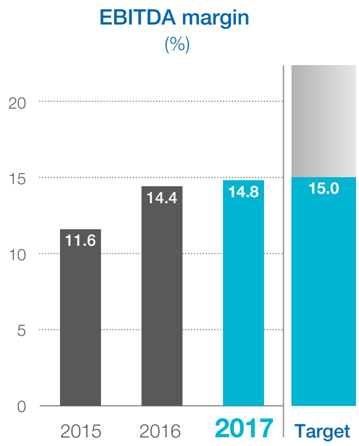
One Sappi

- **Achieve** cost advantages
- **Rationalise** declining businesses
- **Maintain** a healthy balance sheet
- **Accelerate** growth in higher margin growth segments

Performance to targets







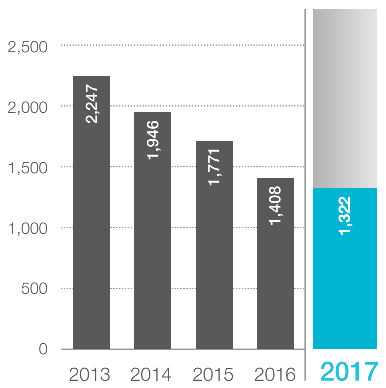
2017 achievements	2018 objectives
• Ongoing fixed cost savings year-on-year • Ongoing variable cost savings year-on-year • Investments in infrastructure and energy projects at core mills	• Continuously improve cost position • Continue to maximise global benefits • Best-in-class production efficiencies
• Continuously balance graphic paper demand and supply in all regions by converting capacity where possible to higher profitable specialities and packaging paper grades	• Maximise production at low-cost mills • Continuously balance paper supply and demand in all regions • Continue to convert low contributing graphic capacity to higher profitable specialities and packaging paper grades
• Maintained target of net debt/EBITDA of <2x • Reduced net debt by US$86 million to US$1,322 million • Paid back US$400 million bond with cash reserves • Strong cash generation	• Maintain net debt/EBITDA below 2x • Continuously improve working capital
• Advancing the expansion of specialities and packaging paper grades in Europe and North America through conversions • Acquired Rockwell solutions • Strong pipeline of biotech business opportunities • Maintain global leadership position in dissolving wood pulp • Identified various growth opportunities in dissolving wood pulp and specialities and packaging papers • Completed the construction of the nanocellulose pilot plant • Commissioned the construction of a sugars extraction plant and acquired complementary clean-up technology (Xylex)	• Grow dissolving wood pulp capacity matching customer demand • Continue to expand and grow specialities and packaging paper grades in all regions targeting 25% of group EBITDA • Commence commercialisation of biotech opportunities

Focus and commitment to safety

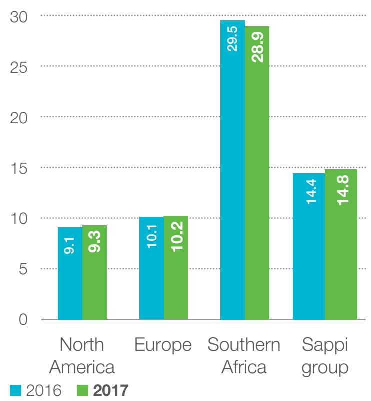
Our performance in 2017

The **successful execution** of our strategy delivered a further **increase in earnings** in 2017.

Net debt (US$ million)



EBITDA margin by region (%)



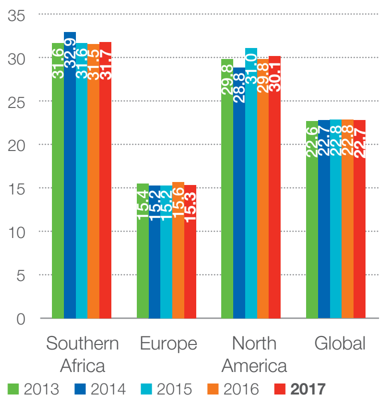
Dividend of

15 US cents

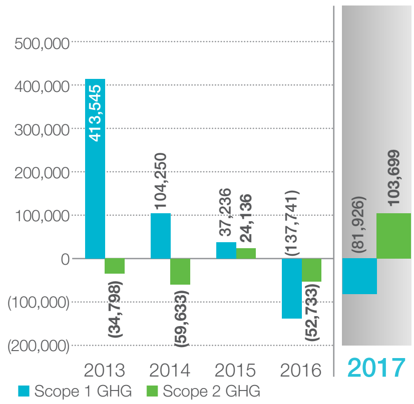
declared

We invested capital in lowering our cost base at a number of mills during the year and repaid debt in order to lower our future debt service costs. We have also started investing for growth in our specialities and packaging papers business, with investments in both Europe and North America to convert graphic paper machines to specialities and packaging papers grades. The previous investments in dissolving wood pulp and specialities and packaging papers again delivered strong performances in the year.

Energy intensity (GJ/adt)



Reduction of GHG emissions (tCO_2)

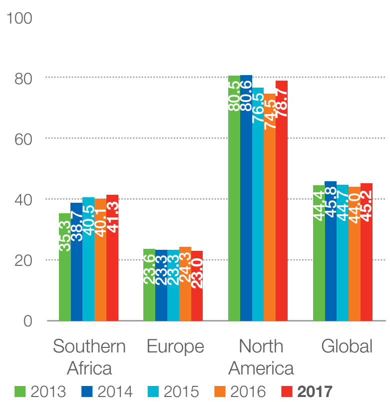


Our **European business** was able to offset lower average paper prices and significant cost pressure from higher paper pulp and latex prices through increased specialities and packaging papers sales volumes and excellent cost control.

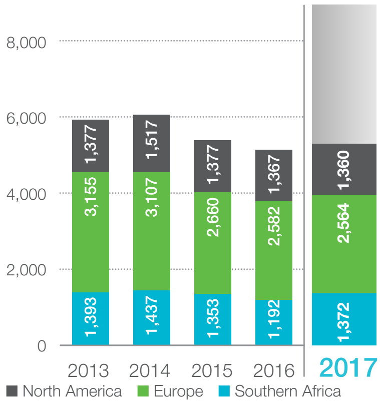
Our **North American business** delivered a steady performance in difficult paper markets characterised by declining paper prices for much of the year and declines in overall paper demand in the United States of America. Gains in coated paper market share, higher dissolving wood pulp pricing, increased specialities and packaging papers sales and the realisation of cost savings enabled the business to improve slightly on last year's performance.

The **Southern African business** benefited from increased dissolving wood pulp sales volumes and prices, as well as good local demand for packaging papers. These negated the impact of a stronger Rand on the business.

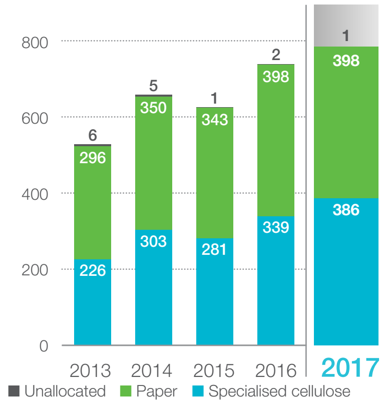
Percentage renewable energy (%)



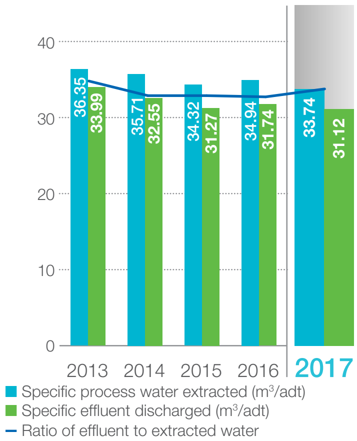
Sales (US$ million)



EBITDA excluding special items (US$ million)

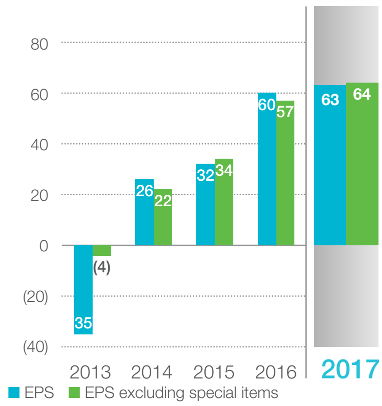


Specific water returned to extracted (m^3/adt)

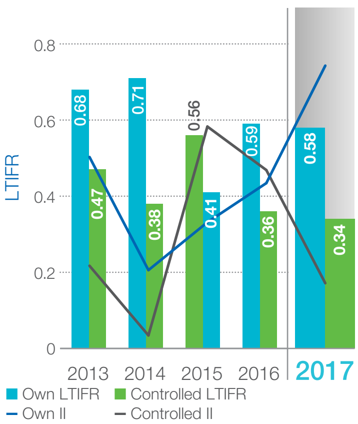


Operating profit excluding special items by product (%)

EPS and EPS excluding special items (US cents)



Lost-time injury frequency rate 2012 to 2017 (Year-to-date)



In a world increasingly exposed to the effects of climate change, both **energy efficiency** and **water use** are key metrics for us as we seek to maintain a sustainable business.

We continue to investigate and invest in processes that can make us more efficient in this regard.

We regret to have to report one contractor and four own employee (one of which was post year-end) fatalities in our forestry and mill operations respectively. After four years with no fatalities in our pulp and paper mills we have had four in the space of four months in three separate incidents. As a company we do not accept that injuries and accidents are inevitable. We have been, and continue to be, committed to our Project Zero goal of zero injuries.

Letter to stakeholders

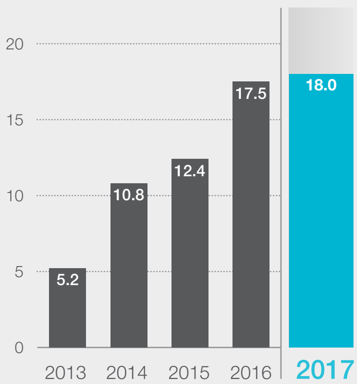
from the Chairman and CEO

Sir Nigel Rudd
Independent Chairman

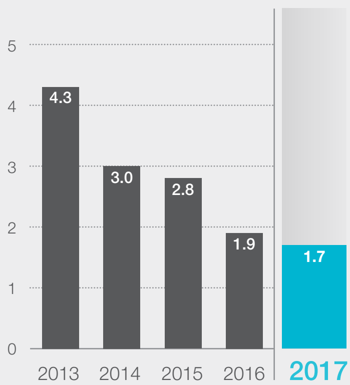
Steve Binnie
Chief Executive Officer

In 2017, we achieved all of our short-term targets and made significant strides towards our 2020Vision. We now have **greater flexibility to increase investments in strategic growth.**

Operating profit excluding special items to capital employed (ROCE) (%)



Net debt to EBITDA excluding special items (Times)



Net operating assets (%)

Operating review

The group delivered a further increase in EBITDA as the growth of the dissolving wood pulp (DWP) and specialities and packaging papers businesses gained momentum. Higher paper pulp prices, a key input cost, and the negative impact of a stronger Rand/Dollar exchange rate created significant challenges but ongoing initiatives to reduce variable costs and lower interest charges contributed to the success.

Following the achievement of our targeted leverage of less than two times net debt to EBITDA in the prior year, we increased investments into growth projects. Principally these related to conversions of paper machines in Europe and the United States into specialities and packaging papers grades and DWP debottlenecking projects in South Africa.

Both net profit for the year and EBITDA excluding special items increased by 6% to US$338 million and US$785 million respectively. The results benefited by approximately US$20 million from an additional accounting week in the first quarter, when compared to the prior year.

We have worked very hard to create a culture which prioritises safety for our own employees and contractors at all times. While there was an improvement in the lost-time injury frequency rate for the group, we deeply regret having to report four own employee fatalities, one of which was post our year-end, and one contractor fatality in our operations. We have brought in some external experts to advise us on where we may further improve in our practices and procedures in order to entrench the safety culture with the ultimate target of zero harm.

We have built on our commitment to being an ethical corporate citizen with a continued communication and training campaign following our roll-out of the revised Code of Ethics in 2016. The Code of Ethics recognises that we are a global company, operating in many different countries and jurisdictions. Presenting a coherent and consistent culture of the highest integrity is a pillar of our strategy. We have to ensure we interact ethically and honestly with our staff, customers and other stakeholders. How we do business is never a short-term consideration, but should rather contribute to our long-term sustainability. For our Code to be effective, we have to live our core values of doing business with integrity and courage; making smart decisions which we execute with speed.

Good corporate governance is of prime importance to Sappi. As such, we moved to implement the external auditor rotation recommendation of King IV prior to its formal implementation. A process in this regard commenced in 2015. KPMG was selected after a thorough search for a globally capable firm reflecting Sappi's global footprint. They have just completed their first audit for Sappi. The Sappi board is concerned about the recent allegations and investigations into KPMG and continues to engage with them on this matter. The board had a very serious debate as to whether we should appoint KPMG as our auditors at the AGM on 07 February 2018. We have expressed our concern to the senior management of KPMG around their lack of basic risk controls and potential loss of key staff. We have been assured by KPMG International that they will support the local firm as necessary to alleviate any such risks. As a result we decided to continue with KPMG in the short-term. After the publication of the various enquiries and reports into KPMG we will revisit our decision.

Our European business delivered good profitability once again, with increased sales volumes and excellent cost control offsetting the impact of lower average paper prices and significant increases in paper pulp prices, a key raw material input. The specialities and packaging papers business continued to make good progress, with sales volumes for the year up 15% over 2016. Our focus on the growing higher-margin coated specialities and packaging papers such as release liner, solid bleached board and functional papers categories allows us to leverage our coating expertise and we are working closely with customers to develop new and innovative solutions to their packaging needs. Variable costs declined marginally during the year. This despite a 26% increase in the Euro list price of hardwood paper pulp and a 25% increase in latex costs, both major inputs to our paper business. The ongoing initiatives to reduce usage and boost efficiency were key to managing overall variable costs. Industry demand for coated woodfree and coated mechanical paper was slightly better than expected in 2017, particularly in the export markets where coated woodfree shipments increased year-on-year.

Coated paper pricing in the North American business declined 4% compared to 2016 due to an oversupplied market. However, gains in market share, increased packaging paper sales and reductions in variable costs helped offset the weaker market conditions. The Cloquet pulp mill produced both DWP and paper pulp for internal consumption in 2017 in order to maximise the profitability of the business. As our customers' demand for DWP increases we expect to slowly move towards full DWP production over the next two years. The casting release paper business remained affected by weaker demand from China.

The South African paper operations delivered enhanced profitability in 2017 notwithstanding the materially stronger Rand/Dollar exchange rate during the year. Increased sales volumes, and higher overall pricing more than offset the below inflation variable cost increases. Local containerboard sales were particularly strong and the growth in the domestic agricultural sector, particularly for fruit exports, is positive for this business.

Global demand for DWP continues to grow, and along with a generally constrained cotton supply this resulted in slightly higher average US Dollar market prices for DWP in 2017, and along with improved sales volumes led to improved profitability for our specialised cellulose business in 2017. Our specialised cellulose business was once again the main contributor to our success, delivering 49% of the group's EBITDA excluding special items, with strong margins. The stronger Rand/US Dollar lowered margins somewhat in our South African mills, though good cost control helped maintain their low-cost competitive position.

Letter to stakeholders continued

Strategic review

Our strategic 2020Vision was developed during the course of 2015, and while the core focus remains on improving profitability, cash generation and growth, we have turned our attention to more specific growth targets and aspirations. In 2017, we achieved all of our short-term targets and made significant strides towards the 2020Vision. As we have achieved our target of reducing leverage to below two times we have revised the description of our objectives somewhat to reflect the progress we have made.

Our strategy now encompasses the following four main objectives:

- **Achieve cost advantages** – We will work to improve operational and machine efficiencies, maximise procurement benefits and optimise business processes in order to lower costs.
- **Rationalise declining businesses** – Recognising the decreasing demand for graphic papers, we continuously balance paper supply and demand in all regions to strengthen our leadership position in these markets, realising their strategic importance to the group and maximising their significant cash flow generation. Where possible we will convert paper machines to higher margin businesses.
- **Maintain a healthy balance sheet** – This will reduce risk and improve our strategic flexibility.
- **Accelerate growth in higher margin growth segments** – We will invest in expanding our paper packaging grades, enhancing our specialised cellulose portfolio and in the extraction of value from our biorefinery stream.

Initiatives and actions undertaken to support our strategic objectives are outlined below.

Achieve cost advantages

Reducing both variable and fixed costs throughout the business is integral to improving margins and to the sustainability of our operations, particularly in commodity type businesses such as graphic papers, where declining demand places additional pressure on margins and revenues. In 2016 we implemented a groupwide cost reduction project to lower costs through greater emphasis on global procurement, as well as local projects focused on efficiency and raw material usage. Our initial target was to achieve US$100 million in annual savings by 2020. We are pleased to report that in 2017 we achieved more than US$100 million in savings compared to our 2015 base year. These savings have allowed us to offset the impact of rising paper pulp and latex prices and the impact of lower graphic paper prices. In 2018 we are targeting a further US$60 million in savings. During the year we commenced the Somerset Mill woodyard upgrade to improve reliability and enhance efficiency. In 2018 we will invest in the Saiccor woodyard, upgrade PM9 at Gratkorn Mill and will be focusing on a global logistics initiative, all of which will lower costs.

Rationalise declining businesses

Graphic paper demand in Europe and North America continues to be in long-term structural decline. Maintaining operating rates and lowering costs, in order to maximise cash generation, has been our strategy in these markets.

In a difficult North American market, our cost-competitive manufacturing facilities, excellent service to customers and superior paper quality, allowed us to increase market share in 2017.

In Europe we have focused both on cost containment and our go-to-market strategy – Sappi&You – which has enabled us to be a preferred supplier in the coated woodfree grades in particular and has seen us increase market share in a declining market.

In South Africa, we have become the sole local producer of newsprint after the closure of the last competing machine. The transfer of office paper production from Enstra Mill to Stanger Mill post the disposal of Enstra Mill in December 2015 has resulted in a more cost competitive product.

During the year we announced that in North America we will be investing approximately US$165 million to convert PM1 at the Somerset Mill. The capacity of the machine will be expanded and it will have the flexibility to produce both coated graphics paper and paper packaging products. The project is expected to be completed in April 2018 and will replace approximately 150,000tpa of graphic paper with 350,000tpa of speciality grades.

In Europe we will undertake a number of projects that will result in a significant increase in our speciality packaging paper capacity and capability. The Maastricht Mill will be converted to focus predominantly on packaging grades and we will invest at Ehingen and Alfeld to enhance the specialities offerings. Lanaken Mill PM8 will progressively transition to coated woodfree production over the next three years in line with the expected decline in the coated mechanical market. In total these European projects will cost approximately US$140 million over a three-year period and will result in the replacement of 200,000tpa of graphic paper with a similar volume of speciality packaging paper.

Maintain a healthy balance sheet

A healthy balance sheet is an important prerequisite in order for Sappi to make investments in higher-margin businesses. The continued improvement in our operational performance enabled us to reduce debt further and our net debt/EBITDA leverage sooner than the targets we had set ourselves. As a result we repaid US$400 million of debt from cash reserves during the year, and our future net finance costs are expected to be in the range of US$60 million to US$70 million/annum. This is a significant reduction from the US$182 million spent in 2015.

At a group level we are focused on optimising our working capital management, containing capital expenditure to US$450 million and generating sufficient free cash to pay the annual dividend, while keeping the net debt/EBITDA ratio below two times leverage.

Accelerate growth in higher margin growth segments

With debt and leverage at levels that provide us with the necessary comfort and flexibility we started to accelerate investments in higher margin products and businesses. As mentioned above, we are investing more than US$300 million to convert graphic paper capacity to specialities and packaging papers and we have also completed the acquisition of Rockwell Solutions, a firm specialising in innovative barrier packaging solutions. Concerns about climate change, recycling and the environment are driving encouraging growth in paper-based packaging and we continue to look for more opportunities to expand our product offering in complementary segments of the market.

In 2017 we have initiated debottlenecking projects at both Saiccor and Ngodwana Mills with the aim to boost production by 50,000tpa at Ngodwana Mill and 10,000tpa at Saiccor Mill. Further significant expansion opportunities are also apparent in our specialised cellulose business, with robust demand growth expected from our major customers and from the DWP market in general. We intend to announce details of our plans in this regard during the first half of 2018.

Our new business development team, now named Sappi Biotech, has had a busy and successful year. During the year we commissioned a sugar extraction pilot plant at Ngodwana Mill, and produced the first batch of cellulose nanofibrils (CNF) and cellulose microfibrils (CMF) at our pilot plant at Maastricht Mill. We also acquired technology from Plaxica, a firm based in the United Kingdom which specialises in sugar extraction from waste streams. Within the next four years we believe that Sappi Biotech could contribute as much as 10% of the group's EBITDA.

Looking forward

Demand for DWP remains favourable and spot prices have increased significantly in recent weeks. After the quarter-end a severe storm caused significant damage to the harbour and logistics infrastructure in Durban, South Africa. The estimated impact on first-quarter profitability is approximately US$4 million due to damaged inventory and lost production at Saiccor.

A significant proportion of our DWP sales prices are based on the prior quarter average market hardwood DWP price. For the first quarter of 2018 average pricing is therefore likely to be slightly lower than in the past quarter. The recent upward momentum in market prices will only be realised in our second quarter. Longer-term market dynamics remain favourable with additional demand expected to exceed supply over the next few years.

In Europe, local demand for graphic paper has stabilised somewhat and sales to export markets continue to grow. Paper pulp costs have continued to rise after year-end and margins will be under pressure.

In the United States, closures of competing mills have tightened the supply in a market that otherwise remains difficult. Further price increases have been announced and implemented after a long period of declining prices, and we are more optimistic about the prospects in the forthcoming year.

Demand for specialities and packaging papers continues to grow, and we require the additional capacity from the conversions of the paper machines at Maastricht and Somerset Mills in order to continue to serve this growth. These conversions have commenced and are set to be completed in the second and third fiscal quarters of 2018 respectively.

Capital expenditure in 2018 is expected to increase to US$450 million as we continue the conversions in both Europe and North America, complete the Saiccor and Ngodwana debottlenecking and start the upgrade of the Saiccor woodyard. The increase in expansionary capital spending during 2018 is focused on higher-margin growth segments including DWP and specialities and packaging papers. This will position us for stronger profitability from 2019 onwards.

The 2017 financial year included an extra trading week which contributed approximately US$20 million to EBITDA in the first quarter of 2017. In addition, the higher external pulp costs and the aforementioned storm damage will have a negative impact on current profitability. As a result we expect the group's first quarter operating performance to be below that of the prior year.

Appreciation

Every business depends on a wide and varied group of stakeholders that contribute in many ways to our development and performance. Our interactions with these stakeholders, their ideas, suggestions and support guides us and we thank them for their contribution.

We are grateful for the support of our customers in all of our different markets, with whom we continue to work together, providing relevant products and services which provide sustainable value.

Our employees have supported the strategic initiatives of the group, and we thank them for this support and enacting our One Sappi vision. We also thank them for embracing the values and ethics that are vital to good corporate citizenship.

Our gratitude goes to the board for their continued commitment to the group, their valuable insights and encouragement and for holding us to the highest ethical standards.

We welcomed Dr Boni Mehlomakulu to the board as an independent non-executive director and as a member of the Social, Ethics, Transformation and Sustainability Committee, with effect from 01 March 2017.

In November we announced the retirement of Dr Rudolf Thummer, independent non-executive director, with effect from 31 December 2017, having reached mandatory retirement age. Dr Thummer has been a valued colleague for more than seven years having been appointed to the board in February 2010, and was appointed to the Social, Ethics, Transformation and Sustainability Committee in February 2012. We would like to thank him for the significant contribution which he has made to the board since his appointment.

In conclusion, we value the support which our shareholders have provided as we work to enhance sustainable long-term shareholder returns. We look forward to their participation at the AGM on 07 February 2018.

Q & A with the CEO

Steve Binnie

Each of our regions improved its operating performance and cash generation exceeded our own goals, as a result, we now have **greater flexibility to increase investments in strategic growth.**

Net profit for the year increased by 6% to

US$338 million

EBITDA increased by 6% to

US$785 million

Dividend declared

15 US cents

Net debt declined to

US$1,322 million

Q Does the growth in Sappi's specialities and packaging papers sales volumes this year indicate that your investment in this market segment is justified?

A Sales growth in this segment, both in Europe and North America, has been above the overall market growth rates, and we have reached the limit of our current specialities and packaging papers capacity. The investments announced in February 2017 to convert graphic paper machines at our Maastricht and Somerset Mills are well underway and are expected to be complete in the second and third fiscal quarters respectively. These conversions will boost our specialities and packaging papers capacity by approximately 550,000tpa.

Our expertise in paper-based coatings, investment in R&D and our commitment to develop product solutions alongside some of the world's leading fast moving consumer goods (FMCG) companies have all contributed to our success in the past few years. In the past year we also announced the acquisition of Rockwell Solutions, a firm specialising in film coatings for the packaging industry and which has recently developed a non-solvent-based barrier for paper applications. Sappi has a growing reputation for offering premium speciality papers and boards for the packaging industry, but market requirements are changing continuously and brand owners are aiming for more sustainable solutions without compromising functionality. Paper-based barrier solutions have gained more focus as a sustainable alternative to film/foil laminate-based flexible packaging materials. This acquisition will give Sappi valuable insight into film products we will compete with, product performance experience and a much deeper market insight. Our focus is to introduce paper-based packaging solutions to brand owners who are used to working with plastic packaging solutions. Rockwell has been working on recyclable and compostable barrier films, making them a complementary solution to Sappi's paper-based barrier solutions.

Post the reporting period Sappi announced an important investment due to be finalised in calendar Q1 2018. More details can be found at www.sappi.com. Sappi agreed to acquire the specialities and packaging papers business of Cham Paper Group Holding AG for CHF146.5 million. The acquisition will add 160,000tpa of speciality paper to our capacity. The transaction will increase profitability and unlock the significant growth and innovation potential in this market.

Q Demand for dissolving wood pulp (DWP) continues to grow above your stated market expectations – what expansion plans do you have in your specialised cellulose business?

A Demand for DWP has indeed exceeded our longer-term 4% to 5% growth per annum expectation, having been closer to 10% per annum on average. Both cotton, which competes with viscose, and cotton linter pulp, an alternative feedstock to the viscose staple fibre (VSF) industry, experienced either diminishing or, at most, stable supply over the past few years facilitating increased demand for VSF and consequently DWP. Our VSF customers have increased demand during this time, and have additional expansion plans over the next five years or more. Currently we produce 1.2 million tons per annum of DWP, with production capacity of 1.4 million tons per annum. We currently operate our Cloquet Mill as a swing mill producing both paper pulp for internal use and DWP. Based on expectations of overall market growth, we believe that we need to be producing at least 1.7 million tons per annum by 2020. Fully utilising our current capacity, and debottlenecking our existing plants will enable us to produce an additional 200,000tpa within the 2020 timeframe. In order to meet the further 300,000tpa of demand we have been looking for further investment opportunities, both internal and external to our current operations. We hope to be able to detail these plans during the first half of 2018.

Q & A with the CEO continued

Q Did the rapid and sustained rise in paper pulp prices surprise you in 2017? What can you do to offset this cost pressure?

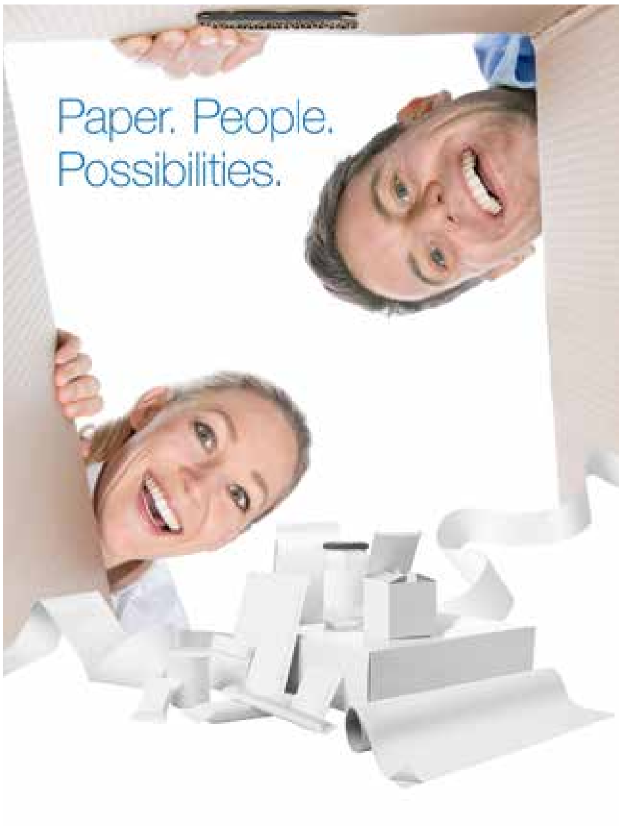
A Both the magnitude and duration of the rise in paper pulp prices, particularly hardwood paper pulp, surprised us. Like many in the industry we believed that new supply would outpace demand growth in 2017. This proved to be wrong due to a number of factors. Firstly, demand was stronger than expected, partly as a result of a decision by Chinese authorities to curtail the import of low-quality waste paper. This paper is used in many sectors of the paper market that traditionally rely on recycled paper. Secondly, supply did not grow as fast as predicted due to the late start-up of some new pulp plants and operating problems at some other facilities. For the moment the hardwood pulp market remains tightly supplied and prices are expected to continue to rise into the new year. Over the past year we have been successful in offsetting much of the increased prices through various cost containment initiatives, usage efficiency and by becoming more flexible in our product makeup. More recently, we have also been successful in raising paper prices in both Europe and North America, which clearly helps minimise the impact. Lastly, higher paper pulp prices support higher DWP prices as swing producers who can switch between paper pulp and DWP would be incentivised to produce paper pulp if the price premium of DWP over paper pulp narrowed.

Q Sappi's capital expenditure has increased over the past two years, and you indicated that 2018 will see a further increase. Should investors be concerned about leverage and dividends, and what returns do you expect on major expansionary projects?

A We remain committed to maintaining our leverage to below two times net debt to EBITDA. Our capital expenditure plans take into account this leverage cap, as well as our intention to pay a reliable dividend at a long-term average cover ratio of three times. We focus on capital projects that achieve our strategic objectives and, as a minimum, beat our cost of capital. Typically, however, expansionary projects should earn a return on capital employed of at least 12%.

Q What are the major environmental and sustainability trends that are shaping your strategy and approach to risk?

A There are two major trends shaping our strategic thinking as well as our understanding of risks that may impact our business. Firstly, consumers, brand owners and governments are becoming more aware of the impact packaging has on the environment. The advantage paper-based packaging has over other competing materials such as plastics and foils is the renewable nature of the raw material and, in a well-designed product, the relative ease with which the packaging can be recycled or even composted in some circumstances. These factors are driving the development of paper-based alternatives to many common packaging solutions. As mentioned above, the Rockwell acquisition was aimed squarely at addressing this opportunity. Secondly, the textile industry, from raw material supplier through to final retailer or brand owner are becoming increasingly sensitive to the environmental and social impact of the various textile choices available to them. These include impact of water sources and quality, emissions, energy intensity, impact on biodiversity and working conditions. To address this effectively, NGOs, investors and responsible growers and manufacturers are conducting lifecycle assessments and insisting on greater supply chain transparency. While we believe that the viscose textile value chain has a lot of positive benefits compared to many other textiles, there are still areas that can be improved on, and aligning ourselves with more responsible value chains and constantly improving our own environmental performance enable us to grow and reduce risk.



Where we operate

Sappi is a global diversified woodfibre company focused on providing dissolving wood pulp, specialities and packaging papers, graphic/printing papers, as well as biomaterials and biochemicals to our direct and indirect customer base across more than 150 countries.

Paper per year **5.4 million tons**	Paper pulp per year **2.2 million tons**	Dissolving wood pulp per year **1.4 million tons**	Globally we have **12,158 employees**

Our dissolving wood pulp (specialised cellulose) products are used worldwide by converters to create viscose fibre for fashionable clothing and textiles, pharmaceutical products, as well as a wide range of consumer and household products. Quality specialities and packaging papers are used in the manufacture of such products as soup sachets, luxury carry bags, cosmetic and confectionery packaging, boxes for agricultural products for export, tissue wadding for household tissue products and casting and release papers used by suppliers to the fashion, textiles, automobile and household industries. Our market-leading range of coated and uncoated graphic paper products are used by printers in the production of books, brochures, magazines, catalogues, direct mail, newspapers and many other print applications.

The wood and pulp needed for our products is either produced within Sappi or brought from accredited suppliers. Across the group, Sappi is close to 'pulp neutral', meaning that we sell almost as much pulp as we buy.

Sappi Trading

Sappi Trading operates a network for the sale and distribution of our products outside our core operating regions of North America, Europe and Southern Africa. Sappi Trading also coordinates our shipping and logistical functions for exports from these regions.

Sales offices

Bogotá, Hong Kong, Johannesburg, México City, Nairobi, São Paulo, Singapore, Shanghai, Sydney, Vienna

Logistics offices

Durban, New York

6 paper mills
1 speciality paper mill
18 sales offices
5,201 employees

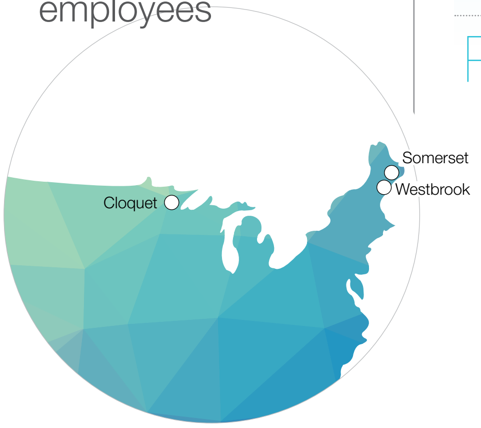
Europe

Capacity[1] ('000 tons)

Mills	Products produced	Paper	Pulp
Alfeld Mill	Bleached chemical pulp for own consumption		120
	Coated and uncoated specialities paper	275	
Ehingen Mill	Bleached chemical pulp for own consumption and market pulp		140
	Coated woodfree paper	280	
Gratkorn Mill	Bleached chemical pulp for own consumption		250
	Coated woodfree paper	980	
Kirkniemi Mill	Bleached mechanical pulp for own consumption		300
	Coated mechanical paper	750	
Lanaken Mill	Bleached chemi-thermo mechanical pulp for own consumption		165
	Coated mechanical paper, coated woodfree paper	530	
Maastricht Mill	Coated woodfree paper	280	
Stockstadt Mill	Bleached chemical pulp for own consumption and market pulp		145
	Coated woodfree paper, uncoated woodfree paper	445	
	Total Sappi Europe	**3,540**	**1,120**

Produces **48%** of group sales

1 paper mill
1 speciality paper mill
1 paper and specialised cellulose mill
6 sales offices
2,079 employees



North America

Capacity(1) ('000 tons)

Mills	Products produced	Paper	Pulp
Cloquet Mill	Dissolving wood pulp		340
	Coated woodfree paper	340	
Somerset Mill	Bleached chemical pulp for own consumption and market pulp		525
	Coated woodfree paper	790	
Westbrook Mill	Coated specialities paper	40	
	Total Sappi North America	**1,170**	**865**

Produces **26%** of group sales

(1) *Capacity at maximum continuous run rate.*
* *Approximately 140,000ha of our land is set aside and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there.*
** *Plantations include owned and leased areas as well as projects.*
*** *Sappi ReFibre collects waste paper in the South African market which is used to produce packaging papers.*

Southern Africa

Capacity(1) ('000)

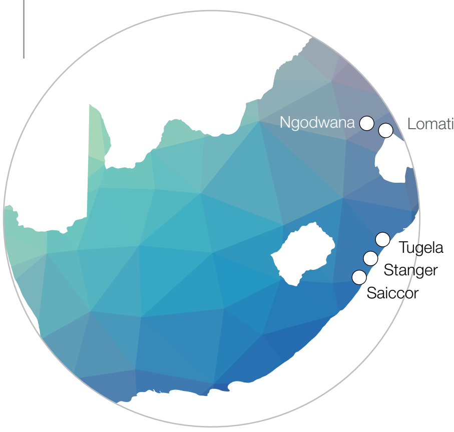
Plantations*	Products produced	Ha	Standing tons	m^3
KwaZulu-Natal	Plantations (pulpwood and sawlogs)**	221	11,017	
Mpumalanga	Plantations (pulpwood and sawlogs)**	258	16,380	
Sawmills	Sawn timber (m^3)			102
	Total Sappi Forests	479	27,397	102

Capacity(1) ('000 tons)

Mills	Products produced	Paper	Pulp
Ngodwana Mill	Unbleached chemical pulp for own consumption		220
	Mechanical pulp for own consumption		110
	Kraft linerboard	240	
	Newsprint	140	
Stanger Mill	Bleached bagasse pulp for own consumption		60
	Office paper and tissue paper	110	
Tugela Mill	Neutral sulfite semi-chemical pulp for own consumption		135
	Corrugating medium	195	
Sappi ReFibre***	Waste paper collection and recycling for own consumption		140
	Total Sappi Paper and Paper Packaging	685	665
Ngodwana Mill	Dissolving wood pulp		210
Saiccor Mill	Dissolving wood pulp		800
	Total Sappi Specialised Cellulose		1,010
	Total Sappi Southern Africa	685	1,675

Produces **26%** of group sales

2 paper mills
1 specialised cellulose mill
1 paper and specialised cellulose mill
1 sawmill
6 sales offices
479,000ha forests
4,701 employees



Product review

Dissolving wood pulp

A total global DWP capacity of
1.4 million tons

We currently supply 17% of global demand from our three mills located in Southern Africa and North America.

A truly sustainable raw material, DWP is noted for its versatility. We're innovators in this market – capitalising on years of experience to create personalised solutions for customers across multiple sectors.

Coated mechanical paper

Coated woodfree paper

Newsprint paper

Graphic papers

Coated and uncoated papers designed to get the best results for you and your customers.

Our range of coated and uncoated graphic printing papers cover varying visual and tactile qualities to ensure that whether you're looking for a high-end product with extra wow factor, a comprehensive solution that caters to all of your campaign's requirements, or a paper that helps you make a distribution savings then we have the solutions.

To reshape Sappi's future, our 2020Vision draws on the power of One Sappi as we expand beyond pulp and paper to unlock and commercialise the potential of woodfibre-derived bioproducts.

As a longstanding leader and innovator in our industry, we deliver customised solutions for your specific needs.

We don't just supply materials, we deliver sustainable and innovative solutions. Whether you are a brand owner, converter, printer or designer, our specialities and packaging papers give you the advantage you need.

Flexible packaging and label papers Containerboard Functional papers

Release liner Technical papers Casting and release papers

Product review continued

Dissolving wood pulp

Specialities and packaging papers

Graphic papers

Dissolving wood pulp

Dissolving wood pulp (DWP) is a highly purified form of cellulose extracted from wood through specialised cellulose chemistry. DWP is the primary input into the manufacture of viscose staple fibre (VSF) which is a natural substitute for cotton and polyester in the textile industry.

Sappi produces DWP in Southern Africa and North America. Sappi is the world's largest manufacturer of DWP and exports almost all of the production from our Saiccor and Ngodwana Mills in Southern Africa and Cloquet Mill in the United States. DWP can also be processed into products used in food and beverages, health and hygiene products, wrapping and packaging, pharmaceuticals and many more applications that touch our daily lives. With a total global DWP capacity of over 1.3 million tons, we currently supply 17% of global demand from our three mills. A truly sustainable raw material, DWP is noted for its versatility. We are innovators in this market – capitalising on years of experience to create personalised solutions for customers across multiple sectors.

Demand for DWP used in textiles, particularly for viscose, is both the largest market and fastest growing, while end markets and demand growth for other, more highly purified forms of cellulose can be characterised as smaller, and with slower growth rates. Based on the growth rate in the overall textile market (driven by factors such as population growth and wealth effects) and the move towards more comfortable, environmentally friendly natural fibres, we expect long-term growth of 4% to 5% per annum for DWP.

In 2013, Sappi converted facilities in both North America and Southern Africa from paper grade pulp to DWP to capture the growth in this market and we have plans to invest further in the forthcoming years. We are currently debottlenecking our Saiccor, Ngodwana and Cloquet Mills, adding 90,000 tons by the end of 2019, and we maintain the flexibility to increase our production in North America by utilising swing capacity at our Cloquet Mill, which will add 100,000 tons of DWP production. Over and above these internal actions, we require 300,000tpa of additional capacity to meet our growing customer needs. We are making good progress in identifying how best to serve our customers.

Market prices for DWP are derived from several supply and demand factors. Swing capacity – mills that can shift production between paper grade pulps, fluff pulps, and DWP – can and do optimise their facilities largely depending on the price differential of the markets they choose to serve. DWP is typically priced at a premium to paper grade pulps due to the lower yield per ton of wood and typically lower production volumes. When the price differential becomes sufficiently wide, swing producers may elect to produce DWP, the reverse also applies. The availability of cotton linter pulp, a competing source of cellulose for VSF production, also plays a role in determining the DWP price. In the last six years almost 50% of Chinese cotton linter pulp capacity closed due to the enforcement of more stringent environmental standards. Lastly, our customers – VSF producers – and the prices they realise on their products are governed by their own supply/demand dynamics and will influence the DWP market price.

In FY2017, 20% of Sappi's sales were **dissolving wood pulp.**

Our markets in 2017 and outlook for 2018

Viscose production grew 11% in China in the first nine months of 2017 relative to the same period last year as producers added capacity. Consequently, demand for DWP grew at a similar rate. Despite this rapid growth in demand and production, prices for DWP declined from their highs in November 2016 of US$990/ton to approximately US$830/ton in June 2017 as a result of a slowdown in VSF production and a rise in DWP inventories. Subsequently, viscose inventories declined to historic lows, and prices for DWP increased for the balance of the fiscal year and are currently at US$935/ton in November 2017.

Sales volumes in fiscal 2016 were hampered by drought conditions in Southern Africa and an extended shut at our Ngodwana Mill. Production and sales volumes grew 6% in 2017. During the year, we began debottlenecking projects at our Ngodwana and Saiccor Mills in Southern Africa. These projects are expected to add approximately 60,000tpa to our current capacity. We anticipate these projects to begin making incremental tonnage in the latter half of fiscal 2018. At Cloquet Mill, we aim to optimise profitability by utilising our swing capability depending on the price differential between DWP versus the price of buying market pulp for our two paper machines. We will also be adding 30,000 tons at the Cloquet Mill through debottlecking in a project that will be completed in 2019.

We believe spot prices for DWP will continue to rise in the near term, mostly due to swing capacity moving away from DWP and toward hardwood paper pulp. Hardwood paper pulp prices have been on a clear upward trend through 2017 due to the closure of non-competitive and environmentally unfriendly paper pulp capacity in China. Chinese paper producers are also facing an import shortage on recovered paper forcing them more toward virgin fibre for paper production. Rising hardwood paper pulp prices should cause market prices for DWP to follow. We anticipate cotton linter pulp availability to continue to decline and, as such, demand for DWP will continue to grow.

More recently, we have seen a push for viscose manufacturers to source their DWP from sustainable forests – forests that are PEFC, FSC and/or SFI certified. Sappi adheres to strict sustainability guidelines put forth by these organisations to ensure our products not only meet, but exceed current environmental certification standards.

We expect demand to continue to grow, and we strive to serve our customers with unmatched quality, consistency and scale. The long-term market fundamentals for dissolving wood pulp are very attractive. Our competitive and geographic positioning provides us with the platform to grow the business further.

Product review continued

Dissolving wood pulp

Specialities and packaging papers

Graphic papers

Specialities and packaging papers

Specialities and packaging paper products are an exciting growth area in Sappi. They offer customers an opportunity to add value to their products in niche markets where requirements are more specific and tailor-made.

Converters and end-use customers choose Sappi's coated and uncoated speciality paper, such as paper used in flexible packaging, for food and luxury packaging for consumer goods and aspirational products, as well as packaging paper to protect products. Demand for these papers is growing as a result of the superior print quality and versatility the paper offers compared to non-paper options. Converters and customers also appreciate paper's haptic potential, further extending the marketing message of a product's campaign and creating an all-round sensory experience. Specialities and packaging papers can be customised and personalised with printing (both digital and litho), varnishing, foiling, embossing and folding. Environmental concerns, governmental regulations and customer demands are all contributing to make this segment an exciting growth part of Sappi's business.

In FY2017, 18% of Sappi's sales were **specialities and packaging papers.**

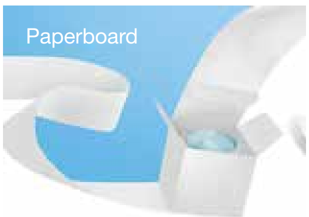
Sappi offers products and solutions in many different segments including:

Flexible packaging with coated and uncoated paper for food and non-food applications, such as sachets, pouches and wrappers.

Label papers for pressure sensitive and wet adhesive applications.

Functional papers that offer highly efficient paper-based solutions with integrated functionality, like paper with barriers against mineral oil residuals, oxygen, water vapour and grease as well as sealing properties.

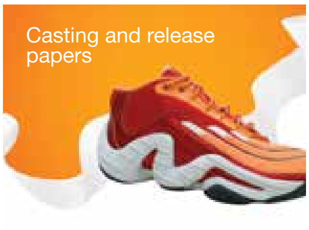
Containerboard, including liner and fluting, for corrugated boxes. Sappi's products are found in applications like consumer packaging, shelf ready packaging and transport packaging for agricultural and industrial uses.



Paperboard, such as solid bleached board and folding box board for luxury packaging with more graphic applications. Packaging for cosmetic, perfume, confectionery and premium beverages use our products.

Release liner with silicon base papers for self-adhesive applications, such as graphic art applications with outdoor advertisement and adhesive tapes and office material.

Technical papers for interleaving and thermal coating, for example, tickets for boarding pass and concert/stadium tickets.



Casting and release papers used by suppliers to the fashion, textiles, automobile and household industries. It is used in the manufacture of synthetic leather and decorative laminate products, creating textures that make designs come to life.

Tissue paper used for toilet tissue, kitchen towels, serviettes and medical and industrial wipes.

Global market size

One of our strategic pillars is to invest in adjacent areas with strong potential for growth.

Four years ago, we invested €60 million to rebuild paper machine number two at our Alfeld Mill, converting the coated woodfree paper machine to coated specialities in order to support growth in this market. Four years later, we find ourselves capacity constrained at Alfeld Mill, with investments underway at our Ehingen and Masstricht Mills to convert printing paper capacity to specialities and packaging paper in order to match our capacity with demand in both markets. Specialities and packaging papers are also made in North America at our Somerset, Westbrook and Cloquet Mills and at Tugela and Ngodwana Mills in Southern Africa.

Sappi enjoys clear competitive advantages in this sector. We are experts at coating surfaces. We have a deep understanding of what happens to a substrate when a coating is applied, and we have experience in specialised chemistry to modify coatings to match a wide variety of customer preferences. We manufacture from a suite of machines from Europe, North America and Southern Africa, ensuring scale-based efficiencies and security of production, lower production costs, and passing savings on to our customers.

Sappi is geared to serve diverse customer markets with smart sustainable solutions for light and heavyweight packaging that can be recycled and is biodegradable.

Our markets in 2017 and outlook for 2018

Demand for Sappi's wide range of products continues to grow in the specialities and packaging papers market, reflecting the increasing needs from customers for more sustainable and environmentally-friendly packaging solutions. We estimate global growth across the spectrum of our product focus is growing at approximately 3% per year. However, in fiscal 2017, demand for our products grew 15% relative to last year as we grew market share and developed new products to meet changing market demands. Average realised prices were flat relative to last year for the European portion of this business due to the translation impact of a stronger Euro on export sales. EBITDA margins were better than those achieved last year due to higher volumes and lower costs.

Our specialities and packaging business in North America also experienced good growth this year. Demand for our coated one-side label paper grew from a small base and we gained market share during the year. Margins grew relative to last year from better volumes and lower costs, whereas realised prices were flat. In 2017, we began work at our Somerset Mill to transition PM1 to make specialities and packaging papers. During the next three years, we expect to reduce coated woodfree sales by approximately 150,000tpa and to increase specialities and packaging paper sales by 350,000tpa.

In the containerboard market in Southern Africa, Sappi largely serves the agricultural sector with cartonboard to protect fresh produce as it is exported around the world. Volumes were 1% better than last year and average pricing was 9% higher than last year. As this market is expected to grow by 4% to 5% per annum going forward, we have plans to grow our capacity in order to meet that demand.

We have witnessed a growing need for more sustainable and environmentally-friendly packaging solutions from a wide variety of industries and sectors forced to review the effects that their packaging materials have on the environment. When a producer reviews the packaging component of its entire product, it generally regards the packaging aspect as a high-risk/low-cost part of its operation. With this newfound spotlight on packaging of products, and the role packaging paper can play, not only in regard to environmental standards, but in the other functions packaging papers can play – from moisture controls, barrier papers, heat-sealing, or even grease resistant barriers – we will be an innovative and trusted supplier, working with customers to find the solutions they require.

Product review continued

Dissolving wood pulp

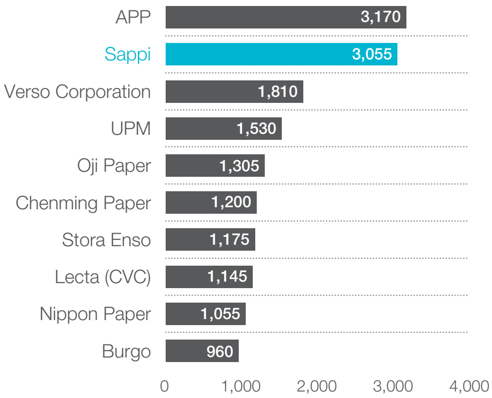
Specialities and packaging papers

Graphic papers

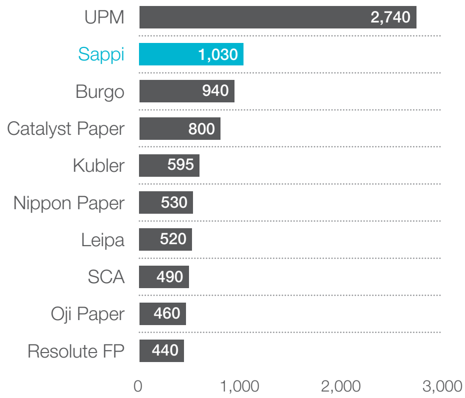
Graphic papers

Publishers, advertising agencies, designers and corporate end-users who want to make an impact with their brands know paper is an integral part of the marketing and now science tells us why.

Sappi's global position – coated woodfree paper ('000 tons)



Sappi's global position – coated mechanical paper ('000 tons)



Neuroscientists find that people absorb content through touch as well as sight, and touch influences our decisions powerfully at a subconscious level. The physicality of ink on paper elicits human emotions in ways that computer screens do not, because paper's tactile quality engages the brain differently. Online, our eyes skim and scan information in a distinctive pattern. On paper, the pattern is much different. As we read, our fingers infuse the experience with touch-information that subtly shapes our perception of the content. On paper, we read more deeply, more responsively, and transfer more of what we read to long-term memory. Studies of direct mail, for example, show print ads generate more emotional response than digital ads and are remembered longer, and specific tactile qualities like warmth, weight, and texture influence cognitive response in ways that lie just beneath our conscious recognition. This use of paper and print is important to marketers who want their brands noticed, and remembered.

Our markets in 2017 and outlook for 2018

Average EBITDA margins were flat relative to last year. Lower average selling prices and rising paper pulp and latex costs offset gains from 2% growth in volume. During the FY2017, we announced that we would begin investing in our specialities and packaging papers businesses in Europe and North America. In Europe, we will collectively spend approximately US$140m over three years at our Maastricht, Ehingen, Alfeld and Lanaken mills to enable us to make approximately 200,000tpa of solid bleached board, folding boxboard and white top liner, as well as increase the flexibility of our assets to serve the market for our customary printing papers. In North America, we plan to spend approximately US$165m at our Somerset Mill to allow for the production of SBS board on PM1. Both these projects are aligned to our strategy of rationalising declining businesses and accelerating growth in high margin products.

Our outlook for 2018 is for average realised prices to be higher than that of FY2017. We announced and implemented price increases in both Europe and North America in the latter half of fiscal 2017 and more have been announced for January 2018. Mill closures from two of our North American competitors and our own conversion of PM1 at Somerset Mill, which will take place in mid-2018, will keep utilisation rates high. Increased paper pulp prices, a key input cost and good export demand are driving coated woodfree prices higher in Europe. In both Europe and North America, cost control remains a primary focus.

In FY2017, 62% of Sappi's sales were in four different grades of **graphic papers** discussed below:

Coated woodfree paper

Share of sales
46%

Printers and publishers use coated woodfree paper for a variety of marketing promotions including brochures, catalogues, calendars, annual reports, direct mail, textbooks and magazines. Coated paper is brighter, smoother and tends to have greater opacity than uncoated grades. In FY2017, 46% of Sappi's sales were in this segment, typically through large paper merchants.

Demand trends: Advertising spend follows consumer behaviour and as consumers are spending more time using digital and electronic platforms, advertisers are shifting their budgets away from printed materials. Although global demand for coated woodfree paper is expected to decline 1% to 2% year-on-year, we do, however, believe that there will always be a place for quality coated woodfree paper in the advertising mix.

Sales volumes: Sappi's sales of coated woodfree paper were 1% less than last year. Sales volumes rose approximately 3% in 2017, while global demand fell by approximately 1.6%.

Coated mechanical paper

Share of sales
10%

Coated mechanical paper is primarily used in magazines, catalogues and other advertising materials. In FY2017, 10% of Sappi's sales constituted coated mechanical paper. Customers for this paper are typically large merchants, large printers and publishers of weekly or monthly magazine titles.

Demand trends: Demand for coated mechanical paper is more closely linked to that of demand for magazines. As readership, subscriptions, circulation, pagination and advertising revenue per page continue to decrease, demand for this paper is forecast to decline more rapidly than for coated woodfree paper.

Sales volumes: Sappi's sales of coated mechanical paper were 8% lower than last year. Sales volumes were approximately 4% lower than fiscal 2016, while the global market contracted by approximately 4.5%.

Uncoated woodfree paper

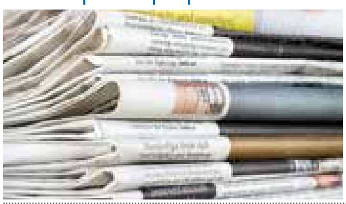
Share of sales
5%

Uncoated woodfree paper is used in letterhead, envelopes, business stationery, photocopy paper, cut-size, preprint, and office paper, with certain brands used for books, brochures and magazines. Uncoated paper absorbs ink faster, which means the text or images are not as crisp. In FY2017, 5% of Sappi's sales were made up of uncoated woodfree paper. Typically large paper merchants are our main customers in this sector.

Demand trends: Demand for uncoated woodfree paper is expected to remain flat over the next several years. Demand is expected to fall in mature markets, where adoptions of paperless solutions are expected to continue. Much of that decline is expected to be offset by growth in emerging economies.

Sales volumes: The uncoated woodfree market was relatively stable this financial year, with a modest decline of 0.5%.

Newsprint paper

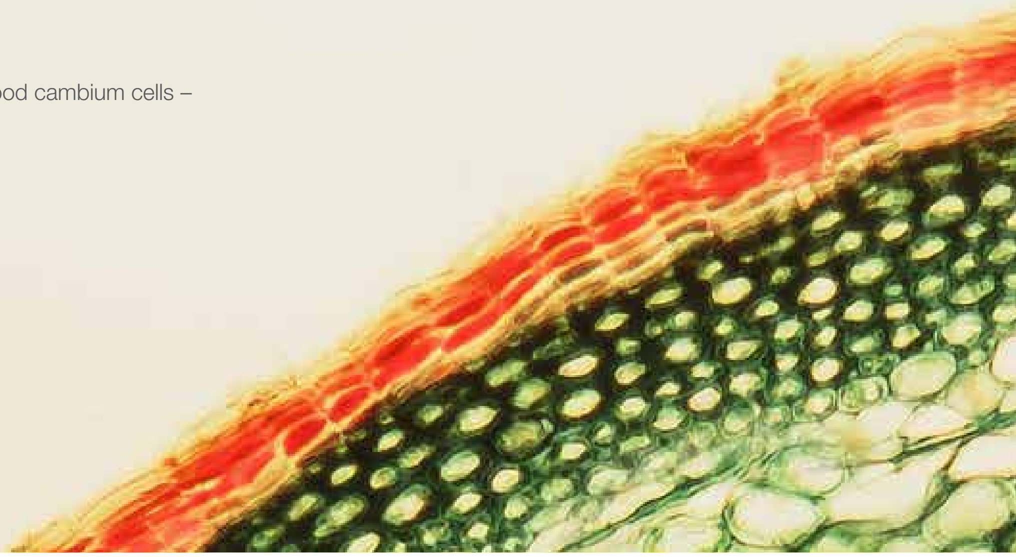


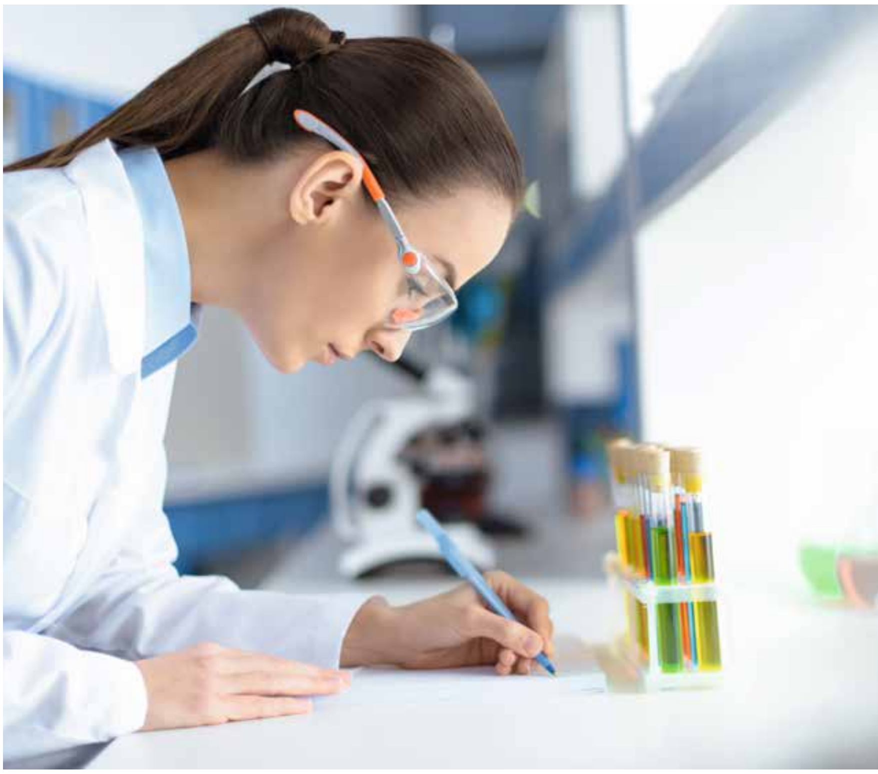
Share of sales
1%

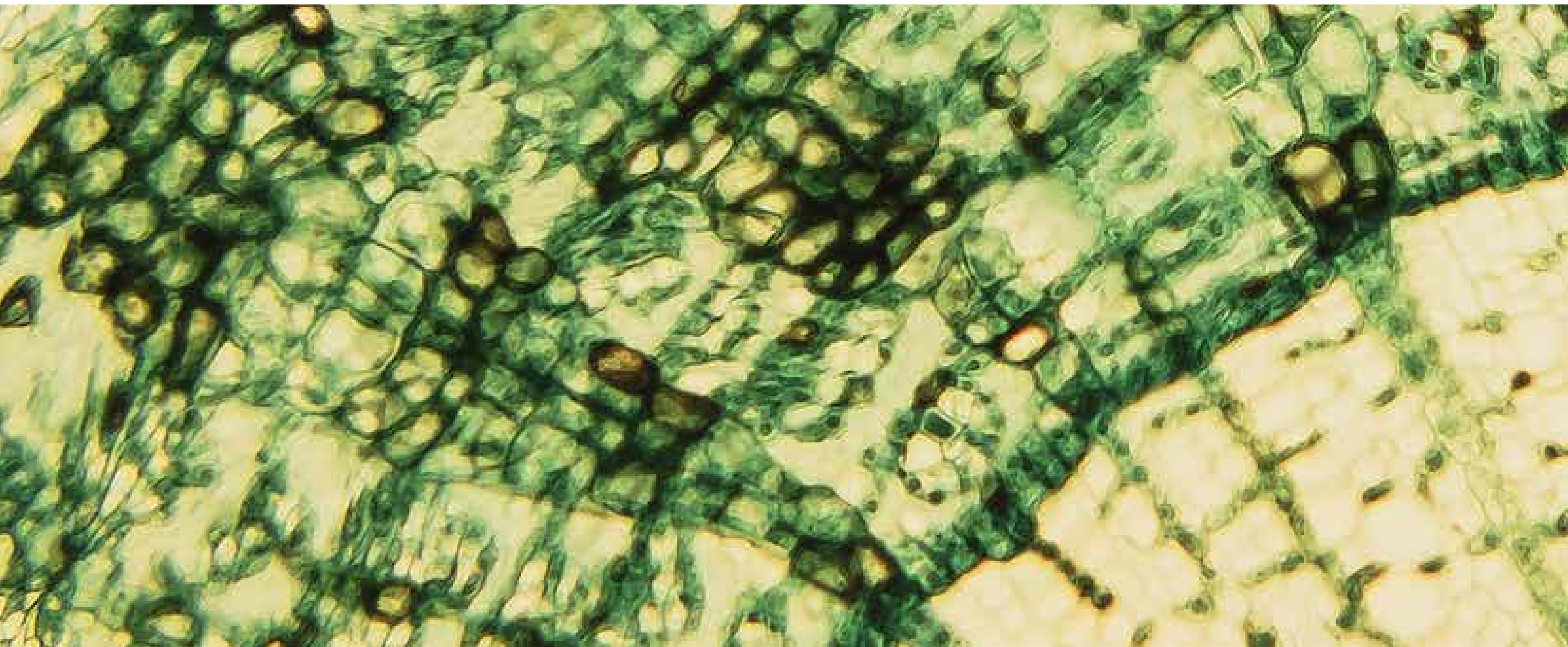
Newsprint, 1% of Sappi's sales, is manufactured from mechanical and bleached chemical pulp, with uses including advertising inserts and newspapers.

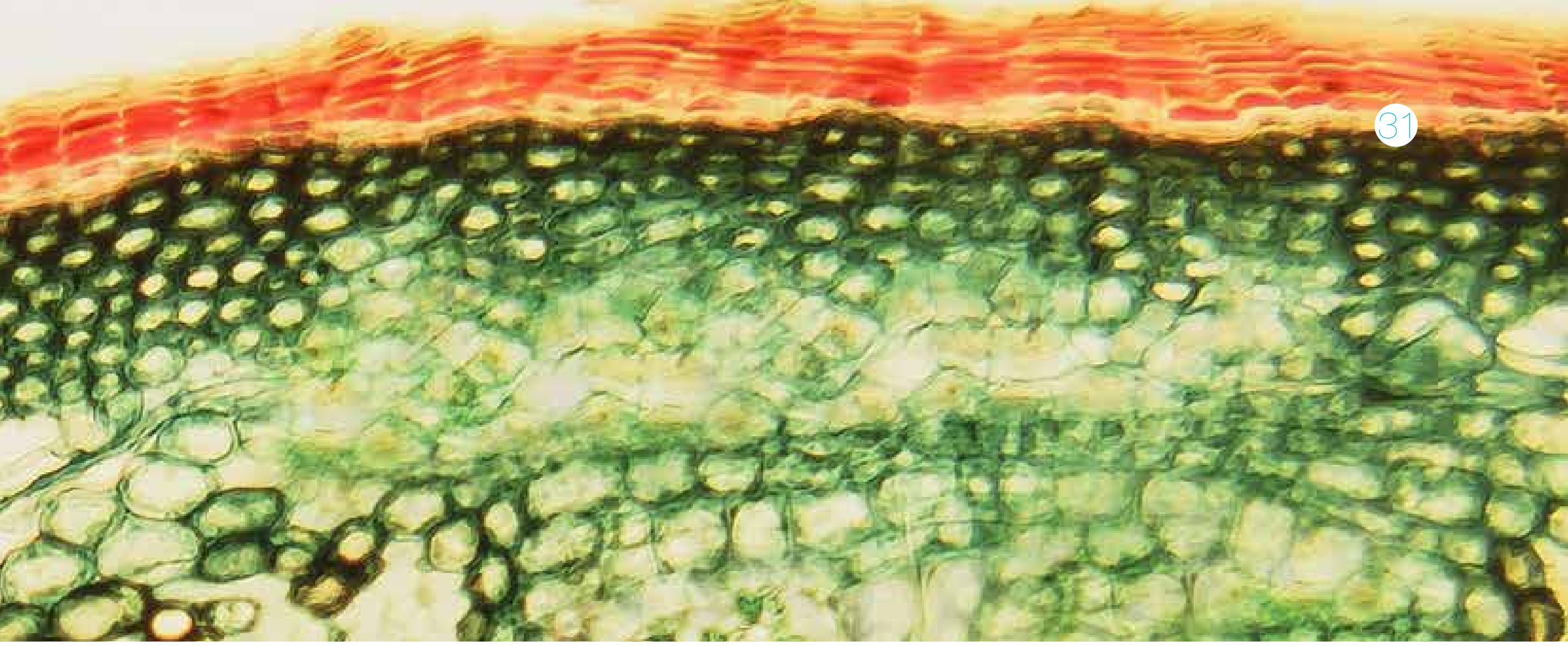
Demand trends: Demand for newsprint is highly dependent on newspaper circulation and retail advertising. Though demand for newsprint continues to decline at a global level, our newsprint volumes were 10% higher in fiscal 2017 relative to last year, due to a capacity closure by a competitor in the local South African market.

Cross section of cellular components of wood cambium cells – heartwood and sapwood.



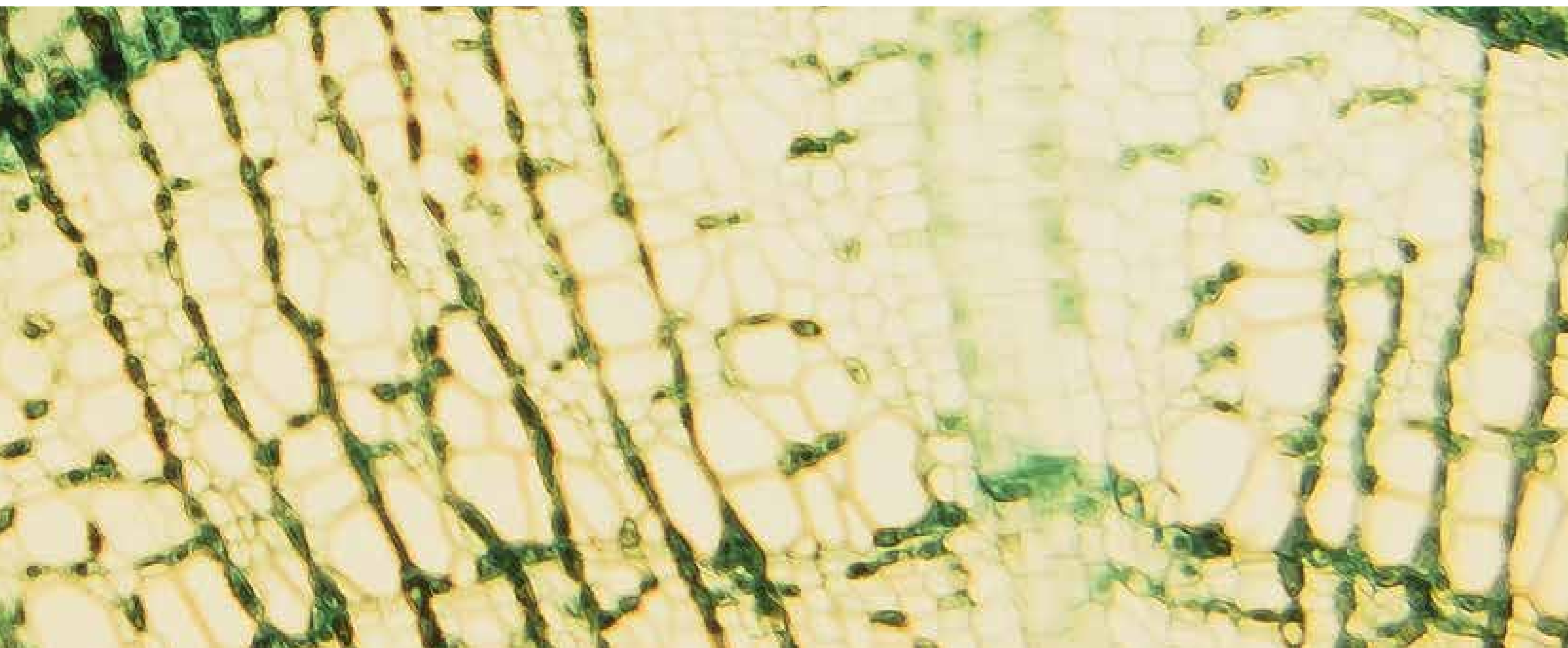






Technology

We control our own future by investing in innovation, in research and development and in new fields of enterprise. We collaborate to build our expertise and acquire technical **know-how that will support our high margin growth strategy.**



Our key relationships

We believe that building relationships with our stakeholders in a spirit of trust and mutual respect enables more tangible business value creation: Firstly, by communicating our performance as well as the business decisions and activities that have a material impact on our activities, we enhance our licence to trade. Secondly, by understanding the rights, needs and expectations of our stakeholders; integrating their inputs; as well as measuring and monitoring our activities; we ensure alignment with our strategic goals, including shared value.

Recognising the strong link between stakeholder inclusiveness and materiality, we use stakeholder engagement as a tool to assist in the identification and prioritisation of material issues. Materiality takes into account substantial economic, environmental and social factors in addition to financial factors. By determining our most material issues through stakeholder engagement, we clarify and confirm the strategic themes that ascertain our most significant risks and opportunities and manage expectations and priorities, thereby facilitating our licence to operate, enhancing our organisational effectiveness and ultimately, driving the long-term success of our business.

Accordingly, we engage with a broad range of stakeholders through a variety of formal and informal channels – from ongoing engagement across all our stakeholder groupings, including investors, government, industry bodies, customers, communities and NGOs, to collective public meetings with stakeholders by our mills, as well as surveys of selected groups such as employees, customers and investors and audits with suppliers. We view stakeholder engagement not as a once-off annual intervention but as an ongoing dynamic process able to respond to the changing nature of issues of interested and affected parties.

Our approach to engagement with all stakeholder groupings is based on the principles of:

- **Materiality** – identifying the material concerns of stakeholder groupings
- **Relevance** – focusing on those issues of material concern to our stakeholders and to Sappi and identifying how best to address them for our mutual benefit
- **Completeness** – understanding the views, needs, performance expectations and perceptions associated with these material issues and assessing them against prevailing local and global trends, and
- **Responsiveness** – engaging with stakeholders on these issues and giving regular, comprehensive, coherent feedback.

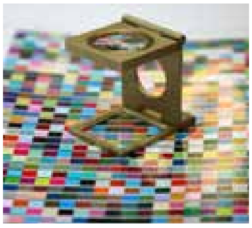
Our main stakeholder groupings, as set out in our Group Stakeholder Engagement Policy (available on www.sappi.com), are set out in this section, together with selected examples of engagement undertaken during the reporting period. As a global business, with our products sold into more than 150 countries, our ability to connect with stakeholders as One Sappi, motivated by our revised mission, strategy and shared values, gives us a clear advantage and for our stakeholders a connection they can trust to add value.

A key development in FY2017 aimed at enhancing stakeholder engagement was the relaunch of our website www.sappi.com with significant updates and now being optimised for mobile access. Regional information is now all consolidated in one hub, in line with our One Sappi strategy.

The website features full descriptions of products and services offered; comprehensive award-winning educational materials for customers; in-depth sustainability reporting; easy access to corporate social responsibility efforts like Ideas that Matter; dynamic portals for customers and investors and a prominent social media presence. The site is being updated on an ongoing basis in line with our engagement principles of completeness, relevance, materiality and responsiveness.









→ Employees

Management approach

We invest in future talent while challenging our people so that they are able to seize the opportunities presented by global megatrends. We make resources available to enable our people to grow intellectually, fulfil their potential and drive innovation within Sappi.

Areas of mutual interest

- Strategy, priorities and performance of the company
- Internal and external activities of the company, our staff and our communities
- Organisational developments, particularly in respect of restructuring
- Ongoing training and skills development
- Creation of a dynamic and encouraging environment through a focus on safety, health, wellness and recognition programmes
- Commitment to sustainability
- Group values and Code of Ethics.

Ongoing avenues of engagement

- Our group and regional CEOs engage with staff through regular site visits, presentations and discussions; suggestion lines exist at some facilities, and unions have formal channels through which they engage with management.
  We encourage full engagement between managers and their staff. Other avenues of engagement include:
  - Global, regional and local newsletters
  - Our global intranet
  - Letters, roadshows and presentations by the group CEO as well as regional CEOs
  - Operating unit meetings, briefings and workshops, and
  - Various forums (SA):
    - National Employment Equity and Learning Forum
    - Shop Steward Forum
    - National Partnership Forum
    - Transformation Steering Committee
- Global Employee Engagement Survey (every second year)
- Wellbeing committees at mills and business units
- Health and safety committees at mills
- Global Technical Innovation Awards and Global Sappi Limited CEO Award for Excellence
- Regional recognition awards:
  - **SEU:** the annual Coryphaena Award
  - **SNA:** the quarterly Risk Taking and Ingenuity Awards
  - **SSA:** the Excellence in Achievement Awards (EAA), and
  - **Sappi Trading:** the SMART Awards
- Ongoing training and development initiatives, training targets in each region
- Targeted training and engagement programmes in each region regarding sustainability
- In **Europe**, we train and develop young apprentices
- In **Southern Africa (SA)**, we operate bursary and training programmes and support Further Education and Training (FET) colleges
- In **SA**, our employees also have access to the Earthkind Agent eLearning game by which they are exposed to Sappi's sustainability information in a new and innovative platform. A tablet version of the game enables children and family and friends of employees to access the game.

Engagement in 2017

- We completed an engagement survey in all regions to assess levels of connection to our business
- In all regions, we encouraged employees to participate in outreach and community projects. For example, in Southern Africa, employees are encouraged to participate in Mandela Day
- In **Europe**, we:
  - Linked the eco-effectiveness campaign to the annual Sappi safety week so that corporate responsibility is seen within its broadest context, and
  - Continued to attract top internal talent to the SEU Leadership Academy. The group of 16 employees who started in September 2016 and will complete in October 2017, while a new intake of 25 employees began in June 2017
- In **North America**, we:
  - Continued with our Sustainability Ambassador, Enhancing Development and Growth through Engagement (EDGE) and Leadership Excellence and Development (LEADS) programmes. The latter focused on resourcefulness while our sustainability ambassadors developed training modules to broaden understanding of the business units within SNA (pulp, coated, packaging and casting and release papers)
  - Established a peer recognition programme called TOUTS which enables employees to offer feedback and recognition to one another
  - Launched the Employee Ideas that Matter (EITM) initiative which builds on the successful Ideas that Matter (ITM) programme by supporting worthy causes identified by Sappi employees, and
  - Introduced the Udemy online learning tool which was rolled out in Southern Africa in 2016
- In **Southern Africa**, we:
  - Embedded the utilisation of online video-based training though the deployment of five core programmes to all employees in skills technical and higher-level roles
  - Renewed focus on the Young Talent programmes as a mechanism to address our technical skills shortages. These programmes include engineers in training, apprenticeships, mill and forestry technical trainees, corporate functions learners, learnerships for people with disabilities and bursaries
  - Initiated a 21 module, 10-month Sappi Manager in Training programme, and
  - Successfully deployed Anti-Bribery, Competition Law and Code of Ethics courses, all in online format.

Value add

- Engaged employees are pivotal to the success of our business – alignment with our strategic direction enables our people to contribute more positively to the business as well as their personal and career development
- By building our human capital, we enable delivery of our 2020Vision and establish a base of the technical skills needed by the industry.

Our key relationships continued

→ Unions

Management approach

Given today's challenging global economic conditions and the current socio-economic dynamics in the South African labour market, we prioritise our relationship with our employees and their representatives. Protecting the right to freedom of association and collective bargaining are fundamental to the manner in which Sappi does business. Globally, approximately 60% of our workforce is represented by unions.

Areas of mutual interest

In addition to meeting with local union leadership for the purposes of remuneration, working hours, and other conditions of service as well as resolving grievances, Sappi relies on local unions to demonstrate their commitment to the safety and wellbeing of their members through active support, participation in and contributions to company safety and wellness initiatives, as well as various forms of community outreach.

Ongoing avenues of engagement

- **SEU:** Negotiations occur at the various country and industry-specific collective labour associations, and the contract terms range from one to two years. The labour framework in Europe consists of works councils and collective labour agreements and differs from country to country
- **SNA:** The majority of our hourly employees – generally production unit employees – are represented by the United Steelworkers (USW) union, but employees are also represented by various craft, guard and railroad unions. In this region, labour agreements are usually for three years
- **SSA:** Our wage negotiations with recognised trade unions take place at the Pulp and Paper and Sawmilling Chambers under the auspices of the Bargaining Council for the Wood and Paper Sector in South Africa, and our agreements are generally annual. In this region, we also engage on broader issues with the recognised trade unions at the National Employment Equity and Skills Development Forum, the Shop Steward Forum and the National Partnership Forum.

Engagement in 2017

Overall, FY2017 was characterised by amicable, but tough negotiations and relatively good relationships with organised labour across the geographies. More comprehensive details are provided on page 52 of this report.

Value add

Meaningful engagement on a number of issues affecting both business and employees results in:

- Improved relationships
- More stable labour force
- Safer work conditions and safer behaviour from employees, and
- Enhanced productivity.

→ Communities

Management approach

Having a mutually respectful relationship with the communities in which our business is situated is critical to our success. We work to incorporate the communities close to our operations into our journey of intentional evolution, which recognises the importance of conserving natural resources, uplifting people so that they are able to develop and create opportunities in their immediate environment as well as thrive in our increasingly inter-connected world and also through sharing value.

Social projects are reviewed on a case-by-case basis and we encourage projects which facilitate partnerships and collaboration between communities, government and the private sector.

Areas of mutual interest

Key issues discussed on a regular basis include employment, job creation and business opportunities, economic and social impacts/contributions and community support. Environmental issues relate to biodiversity conservation as well as water usage and quality, effluent quality and air emissions.

Ongoing avenues of engagement

There are various formats of community engagement meetings held by our mills in the regions where they operate. These range from broad liaison forums for business, local government and communities to legally mandated environmental forums which form part of the licensing conditions of mills. In Southern Africa, there are local farmer and community forums related to our forestry communities. We also support direct community engagement initiatives.

Globally, we engage with local communities through support of and sponsorship for local events and initiatives and we encourage employees to participate in outreach and community projects.

- **SEU:** Each Sappi mill and sales offices support various local education, cultural and environmental projects based on annual requests and identified needs. We also have established extensive internship programmes at all of our mills.
- **SNA:**
  - Each business location has a team of sustainability ambassadors who are responsible for supporting sustainability communication, conducting training and fostering community engagement through local projects
  - Education programmes are supported at targeted colleges and universities as are programmes to encourage study in fields relevant to our operations
  - Corporate sponsorships support organisations like Living Lands & Waters focused on environmental stewardship and education.
- **SSA:** We support:
  - SANBI (South African National Biodiversity Institute)
  - Birdlife SA
  - WWF-SA
  - The Honorary Rangers of the Kruger National Park
  - The UCT Animal Demography Unit (ADU) indigenous tree mapping project
  - Mountain biking which promotes access to our plantations and enables us to communicate with an influential and growing group of stakeholders regarding the positive messages around our forestry operations
  - The development of early childhood education capacity within our communities
  - The promotion of an asset-based community development approach within our forestry communities to enable new businesses to develop and existing businesses to improve.

Engagement in 2017

- In **Europe** all mills continued to offer paper and financial sponsorship to local schools, sport and hobby clubs, forest products industry students, local safety/environmental organisations, and also support local charities
- In **North America**, we:
  - Supported the Hurricane Harvey relief effort by matching employee donations to the American Red Cross
  - Continued with the Ideas that Matter programme which recognises and rewards designers who support good causes. Since 1999 the programme has funded over 500 non-profit projects and has contributed more than US$13 million to a wide range of causes around the world that use design as a positive force for good in society
- In **Southern Africa**, we continued to work with local government and communities to accelerate afforestation in the northern region of the Eastern Cape through our Sappi Khulisa enterprise and supplier development scheme. We also continued to be active in land reform
- We created two technical training facilities using our existing infrastructure at Ngodwana and Saiccor Mills in May 2017. The centres will cater for basic handyman training for local unemployed youth with a view of enabling them to create micro-enterprises. In addition, Sappi's intake of apprentices will be doubled and the centres will provide high-quality specialised technical training to mill employees. The first handyman trainees joined in October as a pilot and the centres will be fully operational by January 2018
- We expanded our Abashintshi forestry community engagement programme to cover all our operations (44 communities).

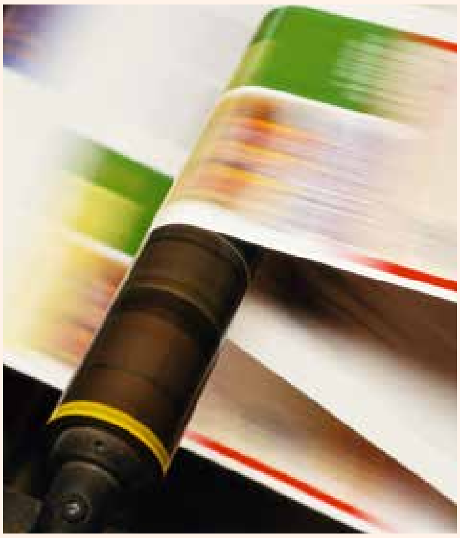
More detailed information about our initiatives can be found on pages 52 to 53 of this report.

Value add

Engagement with communities:

- Enhances our licence to operate
- Promotes socio-economic development which could in the long term lead to increased demand for our products
- Helps to develop the rural economy, and
- Initiates real social mobilisation and change for the better.

Our key relationships continued



→ Customers

Management approach

We adopt a partnership approach, whereby we develop long-term relationships with global, regional and local customers. We also accommodate more transactional customers. We offer customers innovative products and high levels of service that enable them to meet the needs of the rapidly changing world of tomorrow. We also review our go-to-market strategy where relevant to ensure that we align our interests and the interests of our end-users. Where relevant, we will also conduct R&D and develop products to suit customers' specific needs.

Areas of mutual interest

- High service levels
- Provision of technical information and support to our paper and specialised cellulose (SC) customers
- Information about organisational developments, and the fibre sourcing and production processes behind our brands
- Information and campaigns to promote paper and paper packaging
- Information and campaigns to promote print as a communication medium
- New products that meet rapidly changing market demand.

Ongoing avenues of engagement

- The group follows an approach of regular engagement with customers by senior and executive management in support of the ongoing engagement by the relevant sales and marketing teams. In North America, we also meet annually with the Sappi Merchant Association
- Trade shows and exhibitions
- Online, print education and technical platforms include:
  - **SEU:** The Sappi Houston online knowledge platform
  - **SNA:** Environmental Quotient (eQ) and Education, Training and Consulting (ETC). Free and fully searchable, the Sappi ETC site covers everything from basic paper and sustainability resources to advanced print and design techniques, including colour management, printer technical tips, special effects, varnishes, folding, designing for direct mail, and
  - **SSA:** Our paper and paper pulp product offerings are supported by strong technical teams at each mill and the technology centre in Pretoria.

Engagement in 2017

- We introduced several new products
- We showcased our packaging papers from Europe and North America at FachPack 2017 and Labelexpo Europe 2017. At the former, we featured solutions and information for brand owners, packaging companies, converters, printers and print finishers, designers and advertising agencies. Our primary focus at the latter, under the theme 'People, Paper, Possibilities' was our innovations in the Release Liner and Label Paper product groups
- In **Europe**, we:
  - Held the eighth annual Sappi Football Cup, which challenges our customers, printers and publishers to show their skills in table football. Qualifying matches follow the rules issued by the International Table Soccer Federation. Sappi Europe welcomed this year's 13 qualifying teams to Brussels, Belgium to compete for the Sappi Cup Table Football Tournament title on 20 April 2017. In total, 26 players from an original pool of close to 180 teams made the trip, representing Austria, CEE – Hungary and Serbia, France, Germany, Italy, Poland, Spain, and Switzerland
  - Provided our customers with information and solutions through the Sappi&You online portal which continued to gain traction
  - Are supporting printers' needs for digital transformation through OctoPrint by becoming a software solution provider and selling software licences and services, and
  - Continued to enable customer engagement through our eco-effectiveness campaign which promotes individual action and recognition to make efforts to be sustainable and effective. It is about highlighting those who make the efforts to help improve our eco-effectiveness. Investments and innovations are also made to meet customer expectations of increased efficiencies, reduced impacts and products which will enhance their own social responsibility journey. The personal stories from Sappi's eco-effectiveness campaign can be found at: http://www.sappi.com/eco-effective-stories

Ongoing avenues of engagement

- We provide extensive technical support:
  - Globally, a series of technical brochures is available on our website www.sappi.com
  - We host customer and investor visits to the various mills
  - In **Europe** and **Southern Africa**, we publish paper profiles and information sheets for our papers. These give details regarding the composition of our papers, as well as key environmental parameters related to our pulp and paper production processes and information on environmental management systems and woodfibre sourcing policies, and
  - In **North America**, we use GreenBlue's Environmental Paper Assessment Tool (EPAT) which enables buyers to evaluate our performance on a mill-by-mill basis
- Our customers can also make use of the following:
  - In terms of specialised cellulose, technical centres of excellence are located at Saiccor and Cloquet Mills
  - A competence centre for speciality papers and paper laboratory at Alfeld Mill, and
  - In North America, the Sustainability Customer Council provides candid feedback and helps to identify emerging issues.

Engagement in 2017

- In **North America**:
  - Our Sustainability Customer Council continued to provide candid feedback and valuable input on emerging issues. The council comprises Sappi customers, representing multiple customer segments of the coated papers and casting and release papers business, including merchants, printers, publishers, corporate paper buyers and graphic designers. Online and print education platforms in this region include the Environmental Quotient (eQ) and Education, Training and Consulting (ETC)
  - We continued to support the Paper and Packaging Board (P+PB), of which we are a member, in rolling out a public, consumer-facing integrated marketing campaign on behalf of the paper and packaging industry
- We announced the winners of the 2017 Sappi North America Printer of the Year competition, chosen as the most outstanding print submissions from nearly 1,500 entries, and
- We also continued to support the 'Paper Checkoff', a consumer campaign aimed at helping reverse the decline in printing and writing papers as well as boost demand for paper-based packaging using TV, print, billboards and the internet.
- In **Southern Africa**, we:
  - Sponsored the graphic design category in the Student Gold Pack Awards held under the auspices of the Institute of Packaging SA and we also sponsored paper for the Citrus Research Institute annual report in addition to sponsoring their annual symposium, and
  - Sponsored the 'Help Colour My Dreams' initiative, in partnership with the Nashua Children's Charity Foundation (NCCF) which supports 75 charities. For every ream of Nashua-wrapped A4 paper produced by Sappi and sold through Nashua franchises, a certain amount of money was donated to the initiative.

Value add

Ongoing engagement with our customers enables us to:

- Meet their needs for products with an enhanced environmental profile
- Innovate to align with evolving market trends
- Heightened awareness of the importance of sustainability
- Promote our customers' own sustainability journeys
- Keep abreast of market developments, and
- Showcase our products and promote the Sappi brand.

At Labelexpo 2017, Sappi presented two new Face Stock label papers in the form of Parade Face Stock C1S and Parade Face Stock Vellum, both of which are approved for direct contact with food and conform to DIN EN 71 for toy safety. The range of applications for these self-adhesive label papers include decorative labels for tins, glass containers, single-use and multi-use bottles and stickers or price labels (such as those found in the fruit and vegetable aisle) and more. Thanks to their excellent surface properties, these label papers ensure a brilliant appearance and excellent print results. Single-side-coated semi-gloss-paper Parade Face Stock C1S can be processed with all standard printing processes, while Parade Face Stock Vellum meets the requirements for a high-quality result in thermal transfer printing. Parade Face Stock C1S is available in a weight of 80g/m², and Parade Face Stock Vellum in grammages of 70 and 80g/m². Both papers are also available in FSC®-certified versions.

Our key relationships continued

→ Industry bodies

Management approach

We partner with industry and business bodies to showcase the role of business in building society, to provide input into issues and regulations that affect and are relevant to our businesses and industries. We also support and partner with industry initiatives aimed at addressing broad-ranging social issues and promoting the use of our products.

Areas of mutual interest

- Issues that affect the sustainability of our industry – woodfibre base, carbon taxes, energy and emissions, etc
- Energy issues in general and in particular government proposals on carbon taxation
- The impact of increased regulations on business
- The benefits of our industry and our economic contribution to society
- Social and environmental credentials of our products.

Ongoing avenues of engagement

- Sappi has been a signatory to the UN Global Compact since 2008
- In **Europe** and **North America**, close engagement is maintained directly and through the respective industry bodies CEPI and AF&PA. In **Europe** we also engage with FSC®, WWF International and with the Programme for the Endorsement of Forest Certification (PEFC™). In **North America**, Sappi is a member of the economic chamber of both FSC® US and SFI® and actively engages with these organisations through a variety of working groups and committee activities. In **Southern Africa**, Sappi is a member of the local WWF organisation as well as FSC®.

SEU

- Confederation of European Paper Industries (CEPI)
- Eurograph
- European Joint Undertaking on Bio-based Industries
- Print Power
- The Alliance of Energy-Intensive industries
- The Two Team Project (focusing on breakthrough technology concepts in the industry which could enable a more competitive future)
- TwoSides.

SNA

- American Forests and Paper Association (AF&PA)
- Paper and Paper Packaging Board
- Agenda 2020 Technology Alliance
- Sustainable Packaging Coalition (SPC)
- Forest Products Working Group
- The Recycling Partnership
- TwoSides.

Engagement in 2017

- We continued to support targeted communication campaigns help to promote the value of paper-based communication and support the efforts of marketers and communicators in their search for responsible choices. Examples include support for the TwoSides organisations in Europe, North America, South America, South Africa and Australia and the Print Power campaign in Europe
- Sappi Forests continues to be involved in the development of an FSC® National Forest Steward Standard for South Africa, as well as a PEFC™ standard for the country
- Under the umbrella of the European Pulp and Paper Chemicals Group AISBL (EPCG), SEU is working on an industry solution for an online information exchange between chemical suppliers and pulp and paper manufacturers
- SEU contributed to the report *European industry in the 21st century: New models for resource productivity* published by the University of Cambridge's Institute for Sustainability Leadership (CISL)
- SEU has been intensively working with CEPI to ensure that the revised criteria of the EU Ecolabel remain achievable

Ongoing avenues of engagement

SSA

- Business Unity South Africa
- Business Leadership South Africa
- Energy Intensive Users' Group
- Fibre Processing and Manufacturing Skills Education and Training Authority (SETA)
- Forestry South Africa
- Forest Stewardship Council® (FSC®)
- Packaging SA
- Paper Manufacturers' Association of South Africa (PAMSA)
- Paper Recycling Association of South Africa (PRASA)
- Printing SA (PIFSA) Manufacturing Circle
- South African Chamber of Commerce and Industry (SACCI) and local chambers of commerce and industry
- The CEO initiative
- TwoSides.

Sappi Forests is a member of the Institute for Commercial Forestry Research (ICFR) and is a founding member of the Tree Protection Co-operative Programme (TPCP) based in the Forestry and Bio-technical Institute (FABI) (http://www.fabinet.up.ac.za/) at the University of Pretoria. Through the TPCP we also belong to the internationally collaborative programme Biological Control of Eucalyptus Pests (BiCEP) (http://bicep.net.au/) at the Australian Centre for Industrial and Agricultural Research (ACIAR).

In addition, we belong to the Eucalyptus Genome Network (EUCAGEN) based at the University of Pretoria and to CAMCORE, an international non-profit organisation dedicated to the conservation and utilisation of subtropical and tropical tree species.

Sappi Speciality Papers is a member of the Save Food initiative which aims to eliminate food waste and loss globally.

Sappi Limited supports the Technical Association of the Pulp and Paper Industry (TAPPI).

Engagement in 2017

- In 2016, in response to a sovereign ratings downgrade in South Africa, the CEO initiative, of which Sappi is a member, was established. The initiative launched three major workstreams in 2016: one focusing on youth employment, which endeavours to create one million internships for unemployed youth across the private sector; the second, the investment workstream, seeks to bring private money into sectors such as agriculture and tourism, while also developing black industrialists and the third, the small and medium-sized enterprises (SMEs) fund aims to provide capital to existing fund managers already investing in SMEs. The latter workstream progressed further in 2017.

Value add

- Work with industry and business associations through collective initiatives to support societal change and deal with societal challenges
- Collaborate on legislative trends such as carbon tax and carbon budgets
- Maintain and expand markets for our products
- Demonstrate the value-add of the forest products industry
- Dispel myths and promote understanding of our industry.

Our key relationships continued

→ Investors

Management approach
Our aim is to provide investors (shareholders and bondholders) and analysts with transparent, timely, relevant communication that facilitates informed decisions.

Areas of mutual interest
- Information on Sappi's strategy
- Return on investment
- Transparent information about risks, opportunities and ESG performance.

Ongoing avenues of engagement

- Our investor relations (IR) team engages with shareholders and analysts on an ongoing basis. This team has direct access to the executive directors and any issues shareholders raise that would be relevant for the board are channelled through the IR team. Our Chairman also engages with shareholders on relevant issues
- We conduct ad hoc mill visits and road shows, and issue announcements through Stock Exchange News Service (SENS), in the press and on our website www.sappi.com
- We publish our Annual Integrated Report and sustainability report on the company website
- Shareholders can attend and participate in the AGM as well as the four quarterly financial results briefings
- Our CFO and Head of Treasury engage with bondholders, banks and rating agencies on an ongoing basis regarding the performance of the company
- We participate in the Carbon Disclosure and Forest Footprint Disclosure projects every year, making our submissions publicly available.

Engagement in 2017

In 2017, we continued to engage with our investors through the avenues set out on the left.

Value add
- Understanding of and support for our strategic direction
- Enhanced reputation
- Greater investment confidence
- Broader licence to invest.

→ Suppliers and contractors

Management approach

We are committed to establishing mutually respectful relationships with our suppliers and encouraging them to join our commitment to economic, social and environmental responsibility and to creating an environment that shares our commitment to doing business with integrity and courage, making smart decisions which we execute with speed. We aim to build long-term value partnerships.

Given our focus on zero harm in the workplace, we work with our contractors to ensure that they follow Sappi's safety systems.

Areas of mutual interest

- Transparent information
- Forest certification
- Increased value and decreased costs
- Corporate responsibility
- Security of fibre supply, income generation and job creation.

Ongoing avenues of engagement

- **SEU:** A joint sourcing partnership assists in negotiating better terms with timber and other suppliers. In addition, the Confederation of European Paper Industries (CEPI), of which Sappi Europe is a member, participates in actions supporting and promoting the development of sustainable forestry management tools – including forest certification – all over the world, particularly in less developed countries
- **SNA:** The Sappi Forestry Programme assists forest landowners to meet their objectives for managing their woodland. Sappi's trained foresters are able to develop a forest management plan geared to the interests of the landowner including wildlife management and aesthetics, marketing of timber to generate maximum return
- **SSA:** Qualified extension officers provide growers in our Sappi Khulisa enterprise and supplier development scheme with ongoing growing advice and practical assistance.

Engagement in 2017

- In SA, the intake at our Khulisa Ulwazi (Growing Knowledge) training centre aimed at developing small growers and other forestry value chain participants more than doubled to over 1,000 people
- In SSA, contractors participated in creating and living our Stop and Think before you Act safety initiative, described on page 51.

Value add

- Security of woodfibre supply
- Improved supplier relations
- Better understanding of the requirements of the Sappi group
- Expanded basket of certified fibre.

Our key relationships continued

→ Civil society (Media)

Management approach
We maintain an open relationship with the media, believing that an informed media is better able to serve public reporting and debate on any issue.

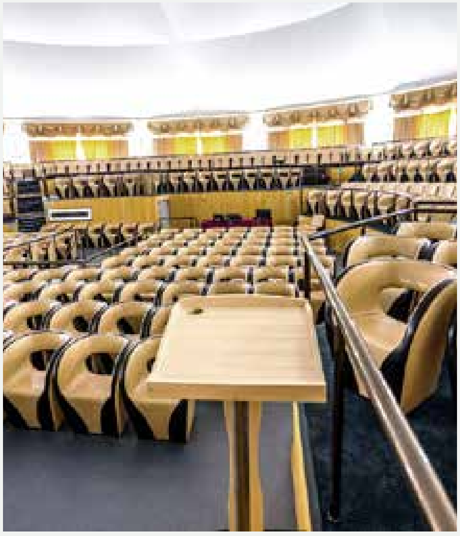
We continue to update the media regarding our strategic shifts to extract value from woodfibre in line with future trends as well as Sappi's positive impact in the communities where we operate. We engage with civil society organisations on issues of mutual interest and belong to key organisations relevant to our operations.

Areas of mutual interest
- Business developments
- The future of our industry
- Our impacts on our communities
- Protecting biodiversity/the environment.

Ongoing avenues of engagement
- We join key credible organisations as members
- We develop personal relationships and engage on an ongoing basis
- We provide support to and sponsorship for key organisations on issues of mutual interest
- In SSA, our forestry operations belong to a number of fire associations, given that fire is a key risk on our plantations. Our innovative Abashintshi project continued to gain traction, helping to prevent the spread of fires. This has also been helped by the African Honey Bee project on our plantations. For further details, go to page 53 of this report.

Engagement in 2017
Engagement in 2017 took place through the avenues outlined on the left.

Value add
- Opportunity to inform and educate media
- Transparent, two-way communication and opportunity for dialogue.



Government and regulatory bodies

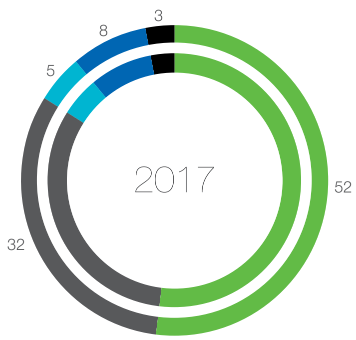
Management approach
We engage with government departments and regulatory bodies to provide input into issues and regulations that affect our industry. We also engage with regional and local governments and local authorities to obtain support for our operations and show how our activities contribute to local economic and social development.

Areas of mutual interest
- Energy issues in general and in particular government moves on carbon taxation
- The impact of increased regulations on business
- The social and economic benefits of our industry nationally as well as at a local level.

Ongoing avenues of engagement	Engagement in 2017
Consultations take place on an ongoing basis with government departments and regulatory bodies in each region.	Across all regions we continue to engage with region-wide, national, state and local authorities to ensure that our interests are raised and protected. In South Africa, we continued to engage with government organisations regarding the transformation agenda and in particular the new Broad-based Black Economic Empowerment (BBBEE) Forestry Charter following the gazetting of the Amended Forestry Sector Code in April. We trust that the delayed biomass energy project at Ngodwana Mill will move ahead by the end of November 2017.

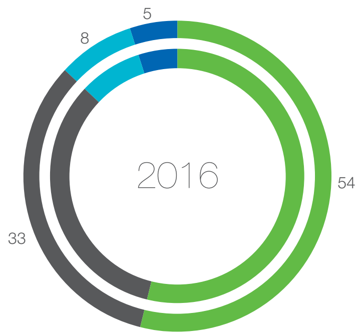
Value add
Engagement helps to promote understanding of the issues and challenges we face and resolve certain challenges.

Value added statement
(%)



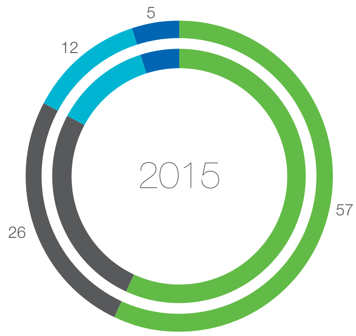
- To employees as salaries, wages and other benefits
- Reinvested to grow the business
- To lenders of capital as interest
- To government as taxation
- To shareholders as dividends

Value added statement
(%)



- To employees as salaries, wages and other benefits
- Reinvested to grow the business
- To lenders of capital as interest
- To government as taxation

Value added statement
(%)



- To employees as salaries, wages and other benefits
- Reinvested to grow the business
- To lenders of capital as interest
- To government as taxation

Our global sustainability goals

In line with our 2020Vision and One Sappi strategic approach, in 2015 we established ambitious global sustainability targets. Regional targets are aligned to these goals. The base year is 2014, with five-year targets from 2016 to 2020.

Our performance in 2017, together with commentary, is set out below:

PROSPERITY

Global target	2014 base	2017 performance	2017 compared to 2014	2020 goal
ROCE	10.8%	18%	67% improvement	12% ROCE minimum

PEOPLE

Global target	2014 base	2017 performance	2017 compared to 2014	2020 goal
LTIFR (Combined own and contractor employees)	0.53	0.44	17% improvement	Target zero LTIFR with minimum 10% improvement year-on-year
Sustainable engagement – increase level of survey participation	Not measured (2015: 74%)	85%	Not applicable	76%

PLANET

Global target	2014 base	2017 performance	2017 compared to 2014	2020 goal
Energy efficiency (Specific total energy)	22.77GJ/adt	22.77GJ/adt	Constant*	5% improvement over the period
Certified fibre	79%	73.5%	5.5% decline	Maintain or improve percentage

** The base figure for specific total energy has changed as we are now using net, rather than gross, calorific values. (It was previously 22.92GJ/adt.)*

Prosperity

ROCE: The 67% improvement compared to 2014 base reflects the ongoing successful implementation of our One Sappi strategy and 2020Vision. The ongoing viability of our business and generation of value for all our stakeholders depends on our ability to generate profits and earn a return in excess of our cost of capital.

People

Safety: While our LTIFR improved marginally (2016: 0.46), safety performance was highly disappointing, with one fatality in Europe and three in Southern Africa.

Sustainable engagement: The high rate of participation (85%) in our engagement survey means we have already achieved our 2020 goal. In addition to measuring engagement, the survey also identifies perceived gaps in our human capital strategy and we are currently assessing these.

Planet

Specific total energy: Energy self-sufficiency remained stable and there was a slight increase in renewable energy.

Certified fibre: In Europe we exceeded our certified fibre procurement goal by just over 4%. In North America, certified fibre content was down from earlier years due to changes in wood procurement strategies to acquire woodfibre from sources closer to the mills. As reported last year, it was also due to a change in production strategy at Cloquet Mill which involved a change from buying 100%-certified market pulp to making our own pulp (doing so means we are limited to the amount of certified fibre available in the local wood basket). In Southern Africa, we increased the percentage of certified fibre supplied to our mills by 1.1%.

Our key material issues

Governance

→ Material issue: Corruption affecting the national interest

Background

In South Africa, a widespread patronage network which is chipping away at state institutions is undermining the country's credibility and is causing global investor concern. Transparency International's 2016 International Corruption Perceptions Index, published at the beginning of 2017 evaluates corruption in 176 countries. The index ranks countries based on how corrupt their public sector is perceived to be. A country's score indicates the perceived level of corruption on a scale of 0 to 100, where 0 means that a country is perceived as highly corrupt and 100 means it is perceived as very clean. While no country has a perfect score – the global average score is 43 – over two-thirds of countries score below 50, including South Africa, indicating a serious corruption problem.

In 2016, South Africa was ranked as the 64th most corrupt country in the world out of 176 countries with a score of only 45 out of 100. In terms of the other countries in which we have significant operations, the scores were as follows: Finland scored 89 (ranked 3rd); the Netherlands scored 83 (ranked 8th); Germany scored 81 (ranked 10th); Belgium scored 77 (ranked 15th); Austria scored 75 (ranked 17th) and the United States of America scored 74 (ranked 18th)[1].

↘ Our response

As indicated by the Corruptions Perceptions Index scores, apart from South Africa, the countries in which we operate are relatively corruption-free. However, we share investor concerns about the situation in South Africa and we remain hypervigilant in this regard. Our auditors, KPMG, have been implicated in allegations related to patronage and corruption which have caused us to reassess their provision of services to Sappi. We have engaged with KPMG International in this regard. We currently await the findings of the various inquiries and reports into KPMG. We will then revisit our decision to retain KPMG as auditors.

Sappi Limited is a member of Business Leadership South Africa (BLSA), a voluntary organisation of the approximately 70 largest listed companies on the JSE Limited. It serves as the voice of big business in South Africa facilitating engagement with the government, ratings agencies and other local and global stakeholders and also promoting the positive role of business in society. BLSA is actively working to end corruption and Sappi will be signing BLSA's pledge after year-end. This echoes and reinforces our own Code of Ethics by committing us to:

- Actively combating corrupt practices wherever we encounter them
- Not acting anti-competitively
- Having zero tolerance for corruption in our midst, and
- Protecting whistle-blowers and providing information.

→ Material issue: A sound ethical culture

Background

Employees make better decisions in less time with business ethics as a guiding principle which increases productivity and overall employee morale. Ethics – or lack thereof – can significantly impact reputation and affect stakeholders' views of a business which in turn can impact profitability and licence to trade.

↘ Our response

Given that Sappi operates in a number of different geographies and given our One Sappi approach, a Code of Ethics that provides simple-to-follow guidance to all our employees is a priority. Following the roll out of our revised Code of Ethics in six different languages in September 2016, we continued with a communication campaign to raise awareness of the Code. Videos, including a video on the Foreign Corrupt Practices Act, were used by the different regions to promote ethical awareness during the year.

The Code makes reference to group policies, where major risks and heightened levels of compliance are required. In familiarising themselves with the Code, employees have been encouraged to read the different policies. Story pictures have been created and distributed to the mills to assist those unable to read the policies. Ethics messages are displayed on media screens, in lift lobbies and on Sappi desk calendars to keep ethical conduct top of mind.

In addition, globally, employees have been exposed to online training relating to competition law, anti-bribery and corruption online training.

[1] *https://www.transparency.org/country*

Our key material issues continued

Prosperity

→ Material issue: Costs and capital allocation

Background

In the highly capital-intensive pulp and paper industry, cost containment and strategic capital allocation are key pillars of competitive advantage.

↘ Our response

Cost containment

Reducing variable and fixed costs throughout the business is integral to improving margins, particularly in commodity-type businesses such as printing paper, where declining demand places additional pressure on margins and revenues. In 2016, we launched a global procurement and efficiency savings initiative which has put Sappi on track to achieve targeted groupwide cost reductions of US$100 million per annum by 2020.

In addition to our usual cost management and continuous improvement initiatives during FY2017, we realised US$157 million in savings – US$57 million more than anticipated, and three years early.

Capital allocation

Our 2020Vision strategy is focused on opportunities to substantially increase our group EBITDA. By making smart investment decisions – in line with our values of making smart decisions which we execute with speed – and investing in our business to pursue growing areas of demand, we can remain profitable and competitive in the global marketplace.

Given robust demand for specialities and packaging paper grades, we are leveraging our existing manufacturing base by converting existing paper machines to higher margin products, including specialities and packaging paper grades.

In Europe, we are investing US$140 million over the next three years in projects that will increase our specialities and packaging papers capacity and capability, as well as support our drive to be the lowest-cost producer of graphic papers.

Maastricht Mill in the Netherlands is being converted to focus predominantly on specialities grades and the specialities paper offering at Ehingen and Alfeld Mills in Germany will be expanded.

Lanaken Mill in Belgium will progressively transition to coated woodfree production over the next three years in line with the expected decline in the coated mechanical market.

The displaced graphic paper volumes will be assigned to other mills.

These projects will enable us to make better use of our assets to drive growth in our specialities and packaging papers business, as well as to reduce our coated graphic papers capacity by about 200,000 tons by 2020.

In **North America**, we are investing US$165 million in upgrading and enhancing the flexibility of Paper Machine 1 at Somerset Mill in Maine, to enable growth in paper-based packaging. The overall capacity of the mill, currently the largest coated mill in North America, will increase by 180,000tpa and the upgrade is expected to be completed in 2018.

In **Southern Africa**, we are investing US$55 million in an upgrade to the woodyard at Saiccor Mill which will:

- Improve mill logistics by enhancing the mill's capability of segregating woodchip species – important because there is a distinct difference in cooking times between various species of wood based on their lignin, cellulose and hemicellulose contents
- Improve the mill's wood screening systems for reduced silica levels and overall enhanced chip quality, and
- Enable future expansion.

Improving logistics and screening systems will ultimately lead to enhanced pulp quality, increased pulp yield and a reduction in consumption of bleaching chemicals. The modifications will be made with minimal impact on production.

→ Material issue: Growth in the packaging sector

Background

The demand for all types of products being shipped in eCommerce is expanding in line with the rapidly accelerating digital economy. At the same time, the global population and demand for natural resources are increasing and this is placing pressure on society to repurpose materials like paper and packaging. In addition, there are growing concerns about the impact of fossil-based packaging on the world's oceans.

These factors are positive for the global sustainable packaging market which is poised to grow at a compound annual growth rate (CAGR) of around 7.7% over the next decade to reach approximately US$440.3 billion by 2025 according to a recent report[2].

In recent years, we have evolved from being a pure substrate supplier to a provider of complete paper and carton packaging solutions. Our focus is on innovative products designed to find intelligent answers to issues and trends in the packaging market, thereby growing the contribution of this sector of our business to 25% of EBITDA by 2020.

[2] *http://www.prnewswire.com/news-releases/global-4403-billion-sustainable-packaging-market-analysis--trends-2013-2016--industry-forecast-to-2025---research-and-markets-300421046.html*

One such topical issue that our packaging papers are addressing is the issue of food waste. Four years ago, Sappi was the world's first manufacturer to present a new speciality paper with a mineral oil barrier integrated directly in the paper, as well as including heat sealing properties. In FY2017, we built on this successful foundation by:

- Establishing a collaboration agreement with the global manufacturing Felix Schoeller Group (Felix Schoeller) based in Germany. Felix Schoeller produces high-quality papers for analogue and digital photographic print, non-wovens for the wallpaper industry, as well as release liners and décor papers. In addition, the company has been developing flexible food packaging for some years and has built particularly strong process technology expertise in the production of photographic and digital printing papers. The agreement covers the joint development of sustainable barrier paper solutions for flexible packaging applications. The collaboration has already resulted in the development of a paper-based, sealable packaging solution with high barriers against water vapour, oxygen and grease. This was presented to trade customers at Interpack 2017, the world's largest trade fair
- Acquiring the barrier film technology of Rockwell Solutions. This will enable us to offer our customers an even wider range of barrier coated solutions and could enable us to support market needs for more sustainable and recyclable packaging solutions by offering a replacement to fossil-based packaging material. In addition, the acquisition has enhanced our insight into the packaging market in terms of product performance, cost benchmark and market dynamics
- Extending the manufacture of Algro Design and Algro Design Duo bleached board grades to Maastricht Mill. By producing this high-quality carton at two locations, we can now respond even more quickly to customer requirements
- Introducing new face stock label papers Parade Face Stock C1S and Parade Face Stock Vellum, both of which are approved for direct contact with food and conform to DIN EN 71 for toy safety. The range of applications for these self-adhesive label papers includes decorative labels for tins, glass containers, single-use and multi-use bottles and stickers or price labels, such as those found in the fruit and vegetable aisle and more. Parade Face Stock C1S is available in a weight of $80g/m^2$, and Parade Face Stock Vellum in grammages of 70 and $80g/m^2$
- Launching a new Clay Coated Kraft (CCK) carrier paper, Sappi Sol DNC. The satin finish of this paper significantly improves surface quality and results in lower overall silicone consumption, a condition that is important to label converters, and
- Developing Ultraflex, a hybrid flute and liner which offers converters strength with the ability to print, while making ordering more efficient. Research is currently under way to impart the paper with antimicrobial properties.

At Interpack 2017, Sappi was presented with the international WorldStar Packaging Award for foodstuffs. This follows our receipt of the 2016 German Packaging Award in the 'New Materials' category.

→ Material issue: Declining demand for graphics paper

Background

News, entertainment and information are increasingly consumed via computers, tablets and mobile phones instead of paper with an obvious impact on demand for graphics paper.

↘ Our response

Part of our longer-term strategy is to reduce our exposure to graphic paper. We manage our capacity to strengthen our leadership position in this market, realising its strategic importance to the group and maximising its significant cash flow generation. Accordingly, we continue to develop and enhance our portfolio of products to meet the needs of customers who recognise the value of print.

In FY2017, we added Somerset 9-point (9pt) Gloss to our Somerset Mill product line. The new line offers an 8% yield advantage over competitive 9pt grades and increased cost savings for customers.

In this market, we continue to provide innovations, including Spraytec technology which produces a unique gloss surface with an enhanced bulky feel to the paper. The result is an uncompromised, high bulk paper with a glossy and even print surface.

In Europe, Sappi&You, our updated customer portal and the shift towards a direct-to-market strategy is paying dividends by positioning Sappi as the preferred go-to partner in print.

Research from Millward Brown Digital, an industry-leading research company, analysed more than 100 market mix client studies. The print campaign analysis shows magazines increase both upper-and-lower funnel metrics, from awareness through to purchase intent, for all four studied advertiser categories – consumer packaged goods, auto, entertainment and financial services. In addition, research from Nielsen Catalina Solutions (NCS), which compiled data from more than 1,400 product studies, showed that magazines had the highest return on advertising spend by a wide margin. For each US$1 invested in magazine media, the advertisers averaged a US$3.94 return, according to NCS[3].

[3] *http://www.magazines.org.au/news/the-state-of-the-magazine-market-usa/*

Our key material issues continued

→ Material issue: Growing demand for cellulosic-based fibres

Background

As viscose technology improves and gains market acceptance, so the economic and environmental case versus cotton and petroleum-based fibres grows. The popularity of cellulosic-based fibres is based on their high levels of absorbency, breathability and softness, as well as wash and wear characteristics.

A potential shortage of cotton supply is expected to accelerate demand for dissolving wood pulp (DWP). The initial US Department of Agriculture cotton projections for 2017/18 indicate that world cotton consumption will rise slightly and exceed production for the third consecutive season[4].

This supply/demand deficit is expected to be exacerbated by Chinese cotton policies. India, China and the United States of America are the world's largest suppliers of cotton by a long way. In 2016/2017, China was the world's second largest producer of cotton[5] accounting for 34% of global supply. The country has historically supported spinners with a rebate on domestically purchased cotton. The policy was amended in 2014, to subsidise cotton farming. However, only Xinjiang province was offered subsidies, as China looked to unwind its stored inventories. In March 2017, it was announced that China would set target prices for cotton in Xinjiang province every three years instead of annually, even as domestic and global prices have soared.

The Chinese National Development and Reform Commission has now set a limit for how much cotton grown in Xinjiang can benefit from future subsidies, which could mean supply constraints going forward. In addition, the focus on growers in Xinjiang has led farmers in other provinces to switch to other crops, with negative implications for supply[6].

↘ Our response

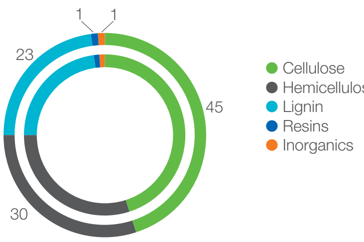
Textiles are the primary market for our DWP, which is sold globally for use in viscose staple fibre (rayon) and solvent spun fibres (lyocell), and we continue to supply smaller quantities into the other DWP market segments. Sappi is the world's biggest producer of DWP, and we expect global demand for textiles continuing to grow, particularly in markets in Asia, as the region continues to be the leader of global growth in the short and longer term – the IMF predicts that growth in this region will remain strong at 5.4% in 2018[7]. This is well above the IMF's predicted global growth rate of 3.7% for the same period[8].

Against this backdrop, we are expanding our DWP capacity at Ngodwana and Saiccor Mills by up to 100,000tpa and are debottlenecking capacity at both mills.

→ Material issue: Our strategic move into adjacent markets: nanocellulose, sugars, lignins and bio-energy

Background

Key components of woodfibre (%)



The key components of woodfibre include cellulose, hemicellulose, lignin and extractives. Both cellulose and hemicellulose are polysaccharides containing many different sugar monomers which can be extracted from pulping streams. New revenue opportunities include possibilities to extract biobased materials from the pre-hydrolysate kraft stream, such as hemicellulose sugars and lignin, for beneficiation to higher-value biochemicals.

↘ Our response

Our aim is to leverage the key components of woodfibre to extract more value from each tree and in doing so, strengthen our overall core business model. Accordingly, in July 2016, we established a new business unit, Sappi Biotech, to accelerate our response to consumer trends for renewable products with a low carbon footprint, continue to innovate in new growth segments and take global responsibility for the commercialisation of new products.

Nanocellulose

Nanocellulose from woodfibres provides a new material platform for sustainable production of a wide range of high-performance products. The global nanocellulose market is expected to exceed more than US$700 million by 2023; growing at a CAGR of more than 33% in the given forecast period[9].

[4] *agfax.com/2017/05/15/cotton-outlook-world-consumption-to-exceed-production-in-201718/*
[5] *https://www.statista.com/statistics/263055/cotton-production-worldwide-by-top-countries/*
[6] *http://www.reuters.com/article/us-china-cotton-prices/china-rejigs-cotton-policy-for-top-grower-xinjiang-idUSKBN16O0G0*
[7] *https://www.imf.org/en/News/Articles/2017/05/08/NA050917-Asia-Dynamic-Economies-Continue-to-Lead-Global-Growth*
[8] *https://www.imf.org/en/Publications/WEO/Issues/2017/09/19/world-economic-outlook-october-2017*
[9] *https://www.marketresearchengine.com/reportdetails/nanocellulose-market-report*

Demand and value are forecast on the basis of various key applications of nanocellulose, such as composites and packaging, paper and paper board, biomedicine, and other applications, including as a viable alternative to expensive high-tech materials such as carbon fibres and carbon nanotubes.

In March 2016, we successfully commissioned our nanocellulose pilot plant at Brightlands Chemelot Campus in Sittard-Geleen, the Netherlands. The plant has successfully produced a high quality wet micro-fibrillated and nano-fibrillated cellulose. Further commissioning will take place in Q4 2018 in order to produce dry re-dispersible nanocellulose.

To accelerate our work in this fast-developing field, we are growing our nanocellulose competency at three of our global research and development facilities and have commenced with numerous industry collaboration projects in order to promote the benefits of nanocellulose in a wide range of applications including construction chemicals, personal and homecare products, plastic composites, paint, coatings, specialities and packaging papers.

Our nanocellulose process uses unique chemistry whereby wood pulp fibres can be easily broken down into nanocellulose without producing the large volumes of effluent associated with existing techniques using high amounts of energy. In addition, the chemicals used in the process can easily be recycled and reused without generating large amounts of effluent.

Sugars

In April 2017, we launched a trial sugar extraction demonstration plant at Ngodwana Mill in Mpumalanga province (South Africa). The demonstration plant is a joint development project with Valmet. It has been designed in accordance with all applicable industrial codes and regulations and will extract and make available industrial-scale samples of sugar rich pre-hydrolysate liquors. The plant can be operated independently from the day-to-day pulp mill and does not pose a productivity risk to Ngodwana Mill. The project team is resourced with skilled scientists and engineers from Sappi and Valmet and our development partners.

Following the successful commissioning of the demonstration unit, we strengthened our biotech division and bolstered our biorefining expertise through the acquisition of the Xylex® and Versalac® technologies (including the patents, know-how and equipment) owned by Plaxica Limited. Plaxica Limited is a United Kingdom technology licensing company founded in 2008 as a spin-out from Imperial College, London, and is situated in the Wilton Technology Centre in the United Kingdom. A number of key technical staff of Plaxica have joined the biotech division.

We have a high degree of confidence that the demonstration plant's hydrolysate extraction capabilities together with the proprietary low-cost Xylex® technology acquired by Plaxica – rated as one of the most advanced to offer optimum efficiency and economics for separation and clean-up of C5 sugars from pulp mill hydrolysates – will enable us to realise our stated objective to participate in the downstream value chains which include furfural, glycols and xylitol.

The plant will also help us to:
- Evaluate the potential of the process to offer access to higher value pulp markets
- Demonstrate and optimise the extraction of co-product streams from the PHK process for sale or conversion to higher value biochemicals, and
- Establish an operating model that could be replicated at any future pulp line.

The sugars we are targeting are known as 'second generation sugars' – in other words, they are not derived from a crop like sugar cane. Second generation sugars are attractive because they do not compete with first generation sugars which are sourced from agricultural crops. This is extremely important because of a rapidly growing global population and worldwide pressure on agricultural resources.

Furfural

Furfural is used as a solvent for refining lubricating oils, as a fungicide and weed killer and in the production of tetrahydrofuran, an important industrial solvent. It was one of the first biorenewable chemicals produced from biomass and has an established and growing market, where it competes with oil-based chemicals. It can be produced from the hemicellulose fraction of a number of biomass sources or agricultural residues such as bagasse and corncobs.

The xylose fraction in the pulping liquors from various mills has been identified as a possible source of furfural. The conversion and extraction of furfural from pulping liquors would be an additional source of income and could also improve the energy efficiency and environmental footprint of our pulp mills.

Sappi has partnered with Dalin Yebo to develop a business case for conversion and extraction of furfural from PHK liquor at Ngodwana Mill and acid sulphite liquor at Saiccor Mill. The project will include the design and construction of a pilot plant to remove and convert xylose into furfural.

The first phase of the project, which launched in July 2017, will include the collection of historical data, plant information and sampling campaigns to determine the best location in the process at Saiccor Mill to produce furfural. From here, a portable pilot plant will be constructed to determine the feasibility of producing furfural on a small scale and a full-scale demonstration plant could be built, depending on the results.

Our key material issues continued

Lignin
We are the world's largest producer of lignosulphonate from our operations in Southern Africa and Europe. The material is both used internally for bio-energy generation or beneficiated and processed to technical lignins for sale to global lignin markets. Here they are commonly used as surfactants, binders, dispersers and emulsifying agents.

Development work to use lignin from Stanger and Tugela Mills in Southern Africa in phenolic resins, polyurethane foams and polyester resins is underway at our Technology Centre in Pretoria. The work is being done in collaboration with an industrial chemist consultant and relevant industry leaders in South Africa.

In 2017, our biotech division appointed CellMark, a global sales, marketing, financing and logistics business, as the non-exclusive sales agent for Sappi Biotech's Hansa lignin products, produced in liquid and powder formats at Tugela Mill. The mill produces a total of 90,000tpa of liquid sodium lignosulphonate per year and we currently have the capacity to dry 25,000tpa of powder (±50,000 tons liquid input).

We are currently assessing the use of lignin in energy storage applications.

Biocomposites
In 2016, in conjunction with Intertek, we developed a composite called Symbio which is based on cellulose fibres found in trees and polypropylene. Cellulose fibres can significantly increase the rigidity of plastic despite keeping weight low, simultaneously giving the material renewable properties. Higher rigidity also means a potentially lower carbon footprint, as less materials are used.

Symbio has now reached a stage where we are conducting trials with customers for special grades which have been developed for the automotive, audio, furniture and toy industries.

Bio-energy
As the world looks to move away from fossil-based fuels in view of the need to reduce carbon footprint and mitigate global warming, so bio-energy is becoming increasingly important.

The South African government's Renewable Energy Independent Power Producer Programme (REIPPPP) is the result of the national need to increase energy capacity and reduce carbon emissions. Sappi submitted the Energy Biomass Project at Ngodwana Mill to REIPPP and was selected as preferred bidder. The project involves the supply of biomass from local plantations to Ngodwana Mill. This is then used as boiler fuel to produce steam which in turn would generate 25MW of electrical energy which would be fed into the national grid. To date, regulatory approval has stalled on the issue of price, but we now expect negotiations to be concluded before the end of calendar 2017.

→ Material issue: Innovation

Background
The world is increasingly recognising the value of products based on woodfibre, so that opportunities are opening up to supply products, processes and services based on this renewable, biodegradable natural resource.

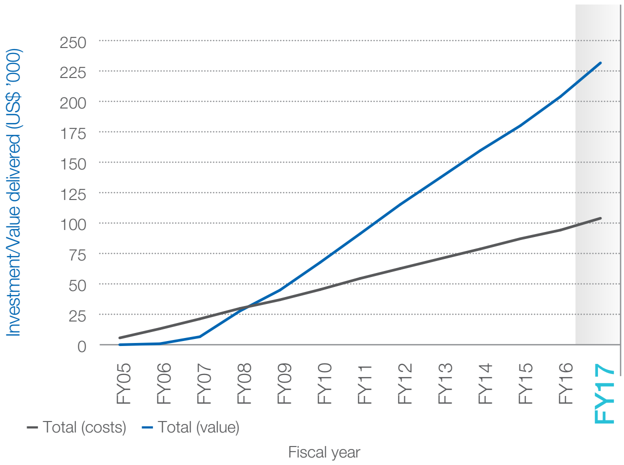
↘ Our response

Our R&D initiatives focus on consolidating and growing our position in our targeted markets segments; driving cost competitiveness and cost reduction; as well as optimising our equipment and forestry assets.

Our total R&D spend in 2017 was US$29.5 million, including spend of approximately US$9.8 million on our Exciter programme which focuses on core business (Exciter I) and new and adjacent business (Exciter II).

Cost vs value of Exciter projects

Cumulative global value generated vs total expenditure
(Percentages – total value vs total expenditure)



In FY2017, the focus for Exciter I projects (core business) was focused on market growth, cost reduction, continuous improvement and efficiency optimisation.

In terms of Exciter II projects, the emphasis was mainly on nanocellulose and biorefinery developments. A major highlight was the opening and commissioning of the sugar demonstration plant at Ngodwana Mill in April 2017 (described on page 49).

People

→ Material issue: Safety

Background

Safety is first and foremost a human issue. Unsafe practices and conditions can have devastating consequences on people's lives and families. Globally, the pulp and paper industry and forestry in particular, is viewed as potentially hazardous.

↘ Our response

At Sappi we believe that every life matters. Accordingly, we strive to ensure that all workplaces are safe and that all employees act in a safe manner. However, we recognise that about 85% of accidents are due to the behaviour of people and that safe conditions do not necessarily create a safe workplace. Only when we change the hearts and minds of every employee and contractor will we have a safe workplace.

We have a goal of zero harm in the workplace, which is supported by a culture that seeks to minimise risk. In addition to our overall safety goal, all regions have established specific safety targets to be achieved by 2020 and each region has compiled specific action plans to achieve these targets.

With shock and regret we report that tragically, there were three own employees (two in Southern Africa and one in Europe) and one contractor (Southern Africa) fatalities during the year. Unfortunately, in November there was an additional incident where one of our mill colleagues in Europe was fatally injured. We are doing everything possible to support the families and to provide support to colleagues who were affected by these tragic losses. The severity of these accidents was reflected in the increased Injury Index (II) for own employees and contractors.

At Ngodwana Mill, where two of the fatalities in FY2017 took place, a shift change programme based on sound fatigue management principles on identification of accident trends associated with the current shift system has been investigated. Once accepted by the workers unions and implemented, learnings from this programme will be rolled out to other mills.

Our further action plan for Southern Africa going forward is to critically assess the current programme and to modify it where necessary with the assistance of DuPont Sustainable Solutions. Their review will involve a 'deep dive' to understand operational risk profile and practices. It will cover operational data, management systems, a culture survey and onsite visits.

The fatality in Europe in FY2017 took place during an activity previously assessed as low risk. To rectify the situation, while there continued to be an average of 18 safety-based audits per calendar day, the identified actions from these audits increased to almost 27 actions to improve safety per day. We anticipate that this will improve safety performance in the region going forward.

Globally, safety performance was highly unsatisfactory. Only Sappi North America (SNA) ended the year with a lower lost-time injury frequency rate (LTIFR) than that achieved in FY2016. A month after year-end, SNA received the American Forests and Paper Association (AF&PA) 2017 Leadership in Sustainability Award for Safety.

A programme at Sappi Forests initiated to re-energise safety, yielded highly positive results. In February 2017, Sappi Forests announced a new safety target for the business: to be Twice as Safe by 2020 which meant reducing fatalities to zero and putting an end to the culture of unacceptable risk tolerance. The solution was to implement a fit for purpose, audience-appropriate communications strategy to roll out a 'Stop and Think before you Act' (STA) initiative in Sappi Forests, including contractor operations while improving communication and relationships. This was important, because Sappi Forests' operations are almost 100% outsourced to 76 private contractors who employ 10,334 people (including subcontractors).

Low literacy rates required a new approach to communication. Research showed that the audience loved stories and Sappi Forests adopted a storytelling approach to safety communication using graphics and symbols. The audience connected exceptionally well with the material, and they understood and accepted that behaviour is your own choice. Many asked for posters and also implemented STA at home. The use of a standard set of symbols throughout all safety communication created a universal language that was consistent. Colour-blind stakeholders were catered for by using symbols in the graphics. Sappi Forests' key audiences and contractor staff responsible for training were trained at 'Train the Trainer' sessions.

*The 12th Global Safety Awareness week was held during the week of 12 June 2017. The theme for this year was **'1ife Matters'** and it illustrated that to Sappi every life is important including that of our contractors and stakeholders. The initiative was well supported with senior managers visiting all the Sappi sites. The safety theme for FY2018 is **'Own Safety, Share Safety'** – in other words, every individual should be responsible not only for his/her own safety but also of his/her colleague's and family's safety.*

Our key material issues continued

→ Material issue: Labour relations

Background

Sound labour relations are important in creating a harmonious working environment, enhancing productivity and maintaining a healthy turnover rate.

↘ Our response

The Sappi employment landscape includes interaction with trade unions at all our manufacturing sites across the group. This interaction is based on transparent communication and mutual respect.

Sappi promotes freedom of association and engages extensively with representative trade unions. Globally, approximately 60% of Sappi's workforce is unionised, with 72.6% belonging to a bargaining unit.

Overall, FY2016 was characterised by amicable, but tough negotiations, and relatively good relationships with organised labour across the geographies.

In **Europe**, approximately 68% of our employees belong to a union and are represented through Work Councils. European Works Council meetings take place twice a year at which Sappi is represented by the Chief Executive Officer and Human Resource Director. The main purpose of the meetings is to inform and consult on business results/market developments and pan-European organisational topics.

The overall labour relations climate in this region continued to be constructive and we concluded collective labour agreements (CLA) at Lanaken and Maastricht Mills.

In **North America**, approximately 65% of our employees are members of a union and there are 11 collective bargaining agreements with hourly employees in place.

There were no major disputes in this region and labour agreements were successfully concluded during FY2017.

In **Southern Africa**, approximately 48.5% of the total workforce is unionised.

We are currently reviewing our relationship/recognition agreement with the majority union, CEPPWAWU. The agreement will become a joint agreement and will include two other recognised trade unions in the region (Solidarity and UASA). We expect the agreement to be finalised by the end of November 2017.

The mills continued to enjoy labour stability owing to ongoing positive engagement with union leadership facilitated by structures such as the National Partnership Forum which includes senior members of management and senior union leaders. They hold regular meetings where business, safety and union challenges are discussed. In addition, in each business unit where there is a representative trade union and the majority of employees are unionised, shop steward committees have been established and meet with local management on a regular basis to discuss matters of mutual interest.

While collective bargaining during FY2017 was extremely tough, we once again successfully concluded wage negotiations without industrial action in all sectors – forestry, pulp and paper, as well as sawmilling.

→ Material issue: Sharing value

Background

Globally, companies are expanding the definition of corporate citizenship to include both corporate social investment or responsibility and the concept of corporate shared value (CSV). This involves developing profitable business strategies that deliver tangible social benefits. In other words, identifying societal challenges within a company's sphere of operation and finding ways of addressing these for the mutual benefit of communities and the company.

↘ Our response

We have expanded our focus to embrace the concept of CSV more fully. We take a very active approach to CSV both regionally and globally, driving key initiatives in support of our three primary stakeholder groups – employees, customers and the local communities in which we operate.

Projects are aligned with and support business priorities and needs, taking into account feedback from our stakeholders. While each region has its own programmes, these conform to common themes which are aligned with our business needs and priorities and which include education, local community support, the environment and health and welfare. We encourage employees to participate in outreach and community projects.

In addition, support for activities associated with access to Sappi land and conservation efforts, such as biodiversity and species mapping, mountain biking and recreational birding continues to grow.

The fact that Sappi is headquartered and listed in South Africa, coupled to the significant development needs of the country, dictates a higher focus on CSV activities by Sappi in Southern Africa.

Our CSV initiatives in 2017 are described in more detail in our Group Sustainability Report, available at www.sappi.com, but initiatives in **North America** and **Southern Africa** give some idea of this approach.

Building on our long-standing, respected Ideas that Matter programme for print designers in **North America**, we launched a new programme, Employee Ideas that Matter (EITM). Through the EITM programme, we highlight the concept of CSV by providing funding to the non-profit organisations our employees are most passionate about, thereby helping to improve lives and to promote employee morale. We have pledged US$25,000 annually to proposals submitted by Sappi employees in SNA.

In 2015, **SSA's** forestry division in KwaZulu-Natal set out to establish what it could do to simultaneously provide communities with opportunities and reduce the numbers of fires in its plantations.

Research showed high unemployment within communities in Sappi regions and expectations that the company would provide more jobs than were possible, thus highlighting a critical need for enterprise development. This resulted in the implementation of a 12-month pilot community engagement and social mobilisation project, which involved the appointment of 18 unemployed youngsters called the Abashintshi (isiZulu for 'change agents').

Based on the asset-based community development (ABCD) methodology and with the objective of establishing and helping activate entrepreneurial enterprises among their communities, the Abashintshi were taught how to facilitate life skills and entrepreneurship training, activate the Ifa Lethu Legacy programme with elders, and offer holiday programmes for school children. They also provided Sappi with a new channel of communication, which has helped to improve the company's reputation significantly.

The Abashintshi Social Mobilisation Project won a gold award in the 'Shared Value' category of the 2017 Loeries Awards, South Africa's premier advertising and brand awards. The project also won a merit award in the 2017 International Association of Business Communicators (IABC).

Approximately 230 small businesses have either been started up or rejuvenated with the assistance of the Abashintshi while fires declined in the target areas by 89% in just two years. The programme has subsequently been extended to 43 communities in KwaZulu-Natal and Mpumalanga and today involves 88 Abashintshi.

Social investment spend in 2017

Total	Spend 2017
Europe	€100,000
North America (ITM US$250,000)	US$537,000
Southern Africa	ZAR56 million
Additional once-off spend by Sappi Forests on capex items for villages including solar geysers, etc.	ZAR7 million

Planet

→ Material issue: Woodfibre

Background

The global demand for woodfibre is expected to increase for the foreseeable future, driven partly by the demand for wood pellets rather than finite fossil fuels as a green energy source. This is expected to accelerate as more and more countries commit to mitigation actions on climate change.

In addition, climate change has the potential to seriously impact our fibre base. In all three regions where Sappi operates, climate change could alter the frequency and intensity of forest disturbances such as insect outbreaks, invasive species, wildfires, and storms. These disturbances could reduce forest productivity and change the distribution of tree species. Given that woodfibre is a key input to our manufacturing operations, maintaining continuity of supply and containing costs is integral to our sustainability as a business.

Our position

In **Europe**, we mitigate fibre supply risk through shareholdings in wood sourcing cooperatives and in this region and **North America**, through a combination of approaches which include both short- and long-term wood supply agreements.

In **North America**, our US$25 million capital project to update Somerset Mill woodyard has reduced white wood losses and costs while enhancing efficiency gains through the increased production of woodchips. The commissioning of the new woodyard will be complete by the end of November 2017.

Our new woodyard at Saiccor Mill in **Southern Africa**, (described on page 15) will also result in efficiency gains.

Given **Sappi Europe's** general risk mitigation strategy of sourcing pulp and woodfibre from a variety of sources and regions, we do not anticipate any material impact to raw material supply from climate change in the short to medium term. In **North America**, our operations do not currently face material risks associated with climate change. With the exception of fibre from Brazil for Westbrook Mill, we source from northern hardwood and softwood wood baskets that have not suffered under any drought conditions or from fire.

In **Southern Africa**, the fact that we own and lease 387,291 hectares (ha) of plantations with approximately 27.4 million tons of standing timber gives us a competitive advantage. We also have access to wood from a further 92,000ha via contracted timber suppliers. Our aim is to produce low-cost wood with the required pulping

Our key material issues continued

characteristics and increase yield per hectare. We actively pursue this aim, particularly through genetic improvement of planting stock.

Work to enhance the genetic improvement and sustainability of our fibre base in **SSA** in FY2017 included:

- Progress in our *Eucalyptus (E.) grandis* x *E. urophylla (GU)* backcrossed genomic mapping project, which is aimed at developing DNA marker tools to enhance our tree breeding efforts, by speeding up the tree selection process. The project culminated in the testing of specific markers that are linked to or contain the genes controlling traits of interest such as growth, wood density, various sugars or metabolite levels. Based on the presence of these molecular markers in the DNA, just over 100 trees were selected for two wood property traits. These trees have now been sampled and are currently being pulped to confirm the marker predictions.
- Genomic selection, another marker-assisted breeding tool that we are in the process of developing, aims at increasing selection intensity and shortening the breeding cycle to improve our genetic gains. Working with *E. dunnii*, our most important eucalypt species, we have focused on developing genomic selection models for approximately 15 growth and wood property traits. The next step will involve validating these models in related and unrelated *E. dunnii* populations in order to confirm our predictions.
- Furthering our understanding of the molecular basis for resistance to *Fusarium circinatum*, a fungal disease that impacts pine species. In this regard we have been looking at the expressed genes of a resistant *(Pinus [P.] tecunumanii)* and a susceptible *(P. patula)* pine species after infection with the pathogen in order to develop models for resistance versus susceptibility.
- Developing a pine hybrid in response to a severe threat from our softwood supply from the Pitch Canker Fungus (PCF). By crossing the highly PCF susceptible *P. patula*, until recently Sappi's most important pine species, with the closely related but PCF tolerant *P. tecunumanii*, a disease tolerant hybrid known as PPT was created. The hybrid holds numerous benefits:
  - 45% more productive than pure *P. patula*
  - Better field survival
  - Easier to propagate in the nursery
  - More broadly adapted to a greater range of sites
  - Higher density and more uniform wood qualities
  - Rapid establishment on site, and
  - Good drought tolerance.

  The value of the hybrid to Sappi has been estimated at ZAR73 million over a 20-year rotation, for the 3,500 hectares of PPT already commercially planted. More will be added every year over the next 20 years as the majority of the area currently planted to *P. patula* in the Mpumalanga province is gradually replaced with PPT. An additional benefit of the increased yield from PPT is the opportunity to reduce the area needed for softwoods in Mpumalanga, allowing more of Sappi's land to be converted to hardwoods, thereby increasing hardwood fibre output for the production of dissolving wood pulp.
- Upgrading the existing nursery at Ngodwana and adding cutting facilities. This has helped to enhance the sustainability of our fibre base in two ways:
  - Firstly, by mitigating against crop losses in the nursery during the cold winter period, and
  - Secondly, by helping to meet our need for increased deployment of hybrid cuttings, rather than pure species seedlings, as the former are generally more disease resistant and faster growing and can only be economically deployed using cuttings.

  The deployment of hybrids has become a priority in order to meet the requirement for more hardwoods, necessitated by the conversion of Ngodwana Mill to dissolving wood pulp, and also to mitigate the risks associated with climate change and increased pests and disease introductions.

  Together with Clan Nursery, which was upgraded in 2015, this means that our nurseries now have capacity for 54 million plants per annum, with an equal split between seedlings and cuttings. In FY2017, our nurseries supplied approximately 38,000 plants to our own operations, 14,000 to projects such as Sappi Khulisa and 2,000 to outside operations.

  The full rebuild of Ngodwana Nursery will be completed by the end of December 2017.

In terms of climate change, we mitigate risk to our plantations by:

- *Deploying a diverse range of commercial species and hybrids across a wide range of climatic conditions*
- *Continually monitoring and reviewing forest best practices in light of changing environmental factors, thus helping to mitigate any increased threat from water shortages or drought*
- *Maintaining wide genetic variability in planting material, including drought resistant breeds*
- *Measuring permanent sample plots annually (eucalypts) or bi-annually (pines) to determine the effect of drought for use in long-term planning*
- *Proactively implementing innovative pest and disease programmes*
- *Maintaining a broad genetic base, thereby facilitating response to new challenges such as pests, disease and climate change while providing continuous genetic improvement over the long term, and*
- *Implementing an extensive fire protection strategy, as climate change exacerbates the potential for fires.*

In **Southern Africa**, we work to mitigate fibre supply risk and drive shared value by expanding access to the forestry sector in a number of ways, including:

- Sappi Khulisa ('Khulisa' means 'to grow' in isiZulu), our enterprise development initiative, previously known as Project Grow. This initiative, which began in 1983, is aimed at community tree farming and has successfully uplifted impoverished communities in KwaZulu-Natal and the Eastern Cape. The total area currently managed under this programme amounts to 22,362ha. In FY2017, under the programme, 448,221 tons (2016: 395,232 tons) worth approximately ZAR362 million was delivered to our operations. Since 1995, a total volume of 3,313,581 tons, to the value of ZAR1.6 billion, has been purchased from small growers in terms of this programme.

As rotation times, and the associated cash flows, in forestry are long, growers receive advances. In addition, qualified extension officers advise on all aspects of tree farming.

In recent years, we have expanded Sappi Khulisa beyond the borders of KwaZulu-Natal to the Eastern Cape. We have signed a Memorandum of Understanding with the Eastern Cape Rural Development Agency (ECRDA) to facilitate forestry development in this region. To date, the total area planted covers 4,782ha and a further 4,812ha is in the environmental impact assessment phase, with records of decision awaited on a further 1,250ha. For further details, please see our Sappi FAQs Khulisa Umnotho, available on www.sappi.com.

- We are also active in land reform. As at the end of September 2017, Sappi was involved in 60 land reform projects. Many of these properties previously belonged to commercial farmers who had supply agreements with Sappi. To ensure sustainable production from these properties, we have entered into supply agreements with the new beneficiaries and have also provided assistance. This depends on the requirements of the project, but ranges from a pure supply agreement to a comprehensive Forestry Enterprise Development Agreement (FEDA). The latter is a supply agreement but also incorporates development objectives whereby Sappi provides technical and business training as well as administrative support.
- To further assist with the development of small growers and other forestry value chain participants, we have established a training centre at Richmond in KwaZulu-Natal (KZN). The training centre has Khulisa Ulwazi ('Growing Knowledge') as its slogan and is providing training to small growers, land reform beneficiaries and small-scale contractors in the technical and business aspects of forestry and small business management. In FY2017, the centre more than doubled its intake of trainees. To date, over 1,000 people have been trained.

→ Material issue: Emissions regulations and carbon tax

Background

In light of evidence that anthropogenic greenhouse gas (GHG) emissions are driving global warming, governments around the world are assessing national carbon taxes in an attempt to promote low-carbon economies.

↘ Our response

We acknowledge that our industry is energy intensive, but believe that this is mitigated by our high use of renewable energy (black liquor in particular) and by the important role that sustainably managed natural forests and plantations play in mitigating global warming.

Globally, our renewable energy stands at 45.2%, of which just over 73% is own black liquor, a by-product of the pulping process in our integrated mills. Black liquor contains more than half of the energy content of the digested wood. As a renewable biomass-derived fuel, black liquor supplants fossil fuels, with a corresponding reduction in greenhouse gas emissions.

Biomass-derived energy like black liquor is fundamentally different from fossil fuel-derived energy because biomass recycles carbon whereas fossil fuels introduce carbon, that had previously been 'locked away', to the atmosphere. Biomass is deemed 'carbon neutral' – the carbon dioxide (CO_2) generated during combustion is equivalent to that which was originally bound from the atmosphere through photosynthesis.

In terms of carbon taxes, we continue to monitor the situation in each region where we operate. In **North America** and **Europe**, carbon taxes do not appear to be an imminent risk. In **Southern Africa**, the Department of Environmental Affairs has accepted our proposed carbon budget which is valid until 2020.

In terms of global warming, the challenge is to not only reduce future carbon emissions, but to actively remove existing carbon from our atmosphere. Sustainably managed forests and plantations like Sappi's play a vital role in this regard by:

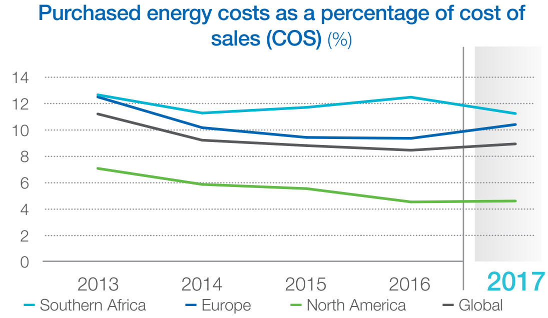
- *Balancing the earth's water-cycle essential for cooling the climate*
- *Stabilising the climate by removing CO_2 from the atmosphere and fixing it into soils and biomass, and*
- *Storing carbon – 50% of a tree's biomass is carbon which remains stored, acting as a 'carbon sink', unless the tree decays or is burned.*

Global forests are estimated to hold more CO_2 than the atmosphere[10].

[10] http://www.weforest.org/page/why-it-matters

Our key material issues continued

→ Material issue: Energy



Background

Energy is a key input for our industry. Aggressively managing energy usage leads to a reduction in carbon emissions and enhanced cost efficiencies. In South Africa, where national energy demand outstrips supply at times, energy security is also an issue.

↘ Our response

Energy in relation to cost of sales increased slightly in Europe. Although energy intensity remained stable, energy costs increased by 11.13% year-on-year, leading to purchased energy as a percentage of cost of sales rising from 9.37% in 2016 to 10.47% in 2017. Even though globally, our energy costs as a percentage of cost of sales have declined over five years due to actions taken, it makes business sense for Sappi to aggressively manage energy usage and promote the generation of renewable energy. Environmental impact is reduced not only by the amount of energy, but also by the type of energy consumed. We have made significant efforts to reduce reliance on fossil fuels, thereby reducing fossil-related greenhouse gas (GHG) emissions and separating our operations from the volatility of energy prices.

We are succeeding in this regard, as indicated by our high use of renewable energy (see page 44) and by the following.

Over five years, we have increased global levels of energy self-sufficiency by 8.7%, while over the same period, globally, specific direct (Scope 1) GHG emissions have reduced by 4.6% and specific indirect (Scope 2) GHG emissions have decreased by 7.42%. Overall, there has been a reduction of 5.4% in GHG emissions intensity over five years.

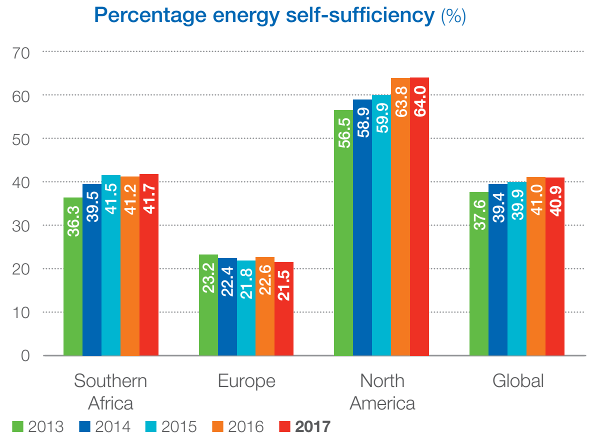
In addition, both Sappi Europe and Sappi Southern Africa are ISO 50001 certified. To achieve accreditation, an organisation has to prove that it is continuously reducing the amount of energy consumed.

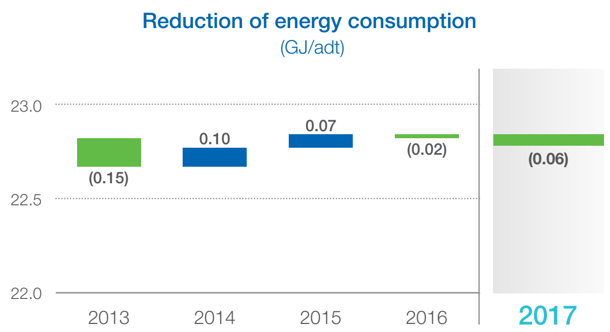
Our energy efficiency is enhanced through our extensive use of cogeneration and through our ongoing drive to install more efficient equipment and make process improvements, for example:

- Globally, we have combusted 20.43% more waste for on-site heat use over the last five years, and
- In FY2016, we announced the establishment of a pilot scale plant at Saiccor Mill to assess the use of anaerobic technology to treat evaporator condensate which we progressed in FY2017. The technology uses organic matter in the condensate to generate methane gas. Methane gas, in turn, can be used to generate electricity or generate steam.

  The pilot study showed that the technology can be successfully used to biologically convert the organic material present in the condensate into biogas (methane). The energy potential associated with the use of the generated biogas is 1.7MW electrical and 1.8MW thermal. The generated biogas has the potential to replace 17 tons of coal per day.

  The assessment has now been completed and we are currently evaluating the implementation of the technology.





→ **Material issue: Water**

Background

The United Nations estimates that global demand for water will grow by 50% by 2030.[11] At the same time, globally, over 80% of the wastewater generated by society flows back into the ecosystem without being treated or reused[12]. In addition, partly to help maximise yields to meet demand, usage of chemical fertilisers and pesticides has increased in recent years, both in industrial and small farming, making agriculture a potential source of environmental pollution.

↘ **Our response**

In terms of the concerns outlined in the paragraph above:

- Our production processes depend on water, as does woodfibre, our primary input. Globally, we return 93% of the water we extract back into the environment after it has been treated and cleaned. Of the 7% balance, approximately 4% exits the mill in the form of production, while the remaining 3% is lost to the environment
- Globally, over five years, we have achieved a positive result in effluent concentration by reducing chemical oxygen demand (COD) by 12.9% and total suspended solids (TSS) by 35.5%
- Our plantations are not irrigated and fertiliser is generally only used once in each rotation
- Our Technology Centre in Pretoria (South Africa) is currently assessing the wastewater biorefinery (WWBR) concept, which involves the recovery of valuable products (eg sugars, lignin or biogas) from waste streams. An additional benefit is also the improvement of effluent quality, prior to discharge into the environment. The WWBR aims to process complex input streams to multiple products, while reducing the costs associated with conventional water treatment. While chemical and physical processes are traditionally used to reduce the toxicity of effluent streams, enzymes could potentially also be employed to reduce toxicity and increase substrate availability (in the case of bioreactors). This could, in turn, reduce the COD loading or aid in the production of biogas.

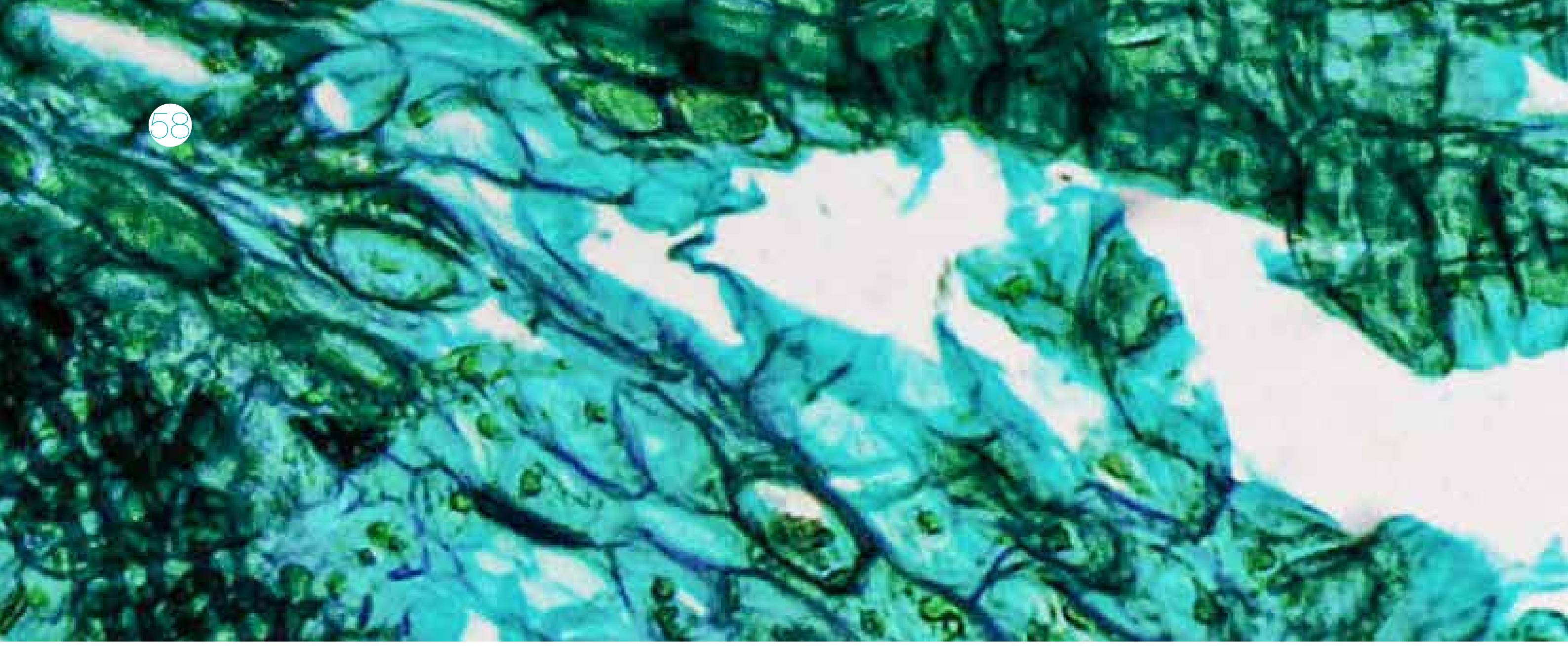
Of all the regions where Sappi has operations, **South Africa**, which is a water-stressed country and which has been experiencing its worst drought in many years, has been most severely affected.

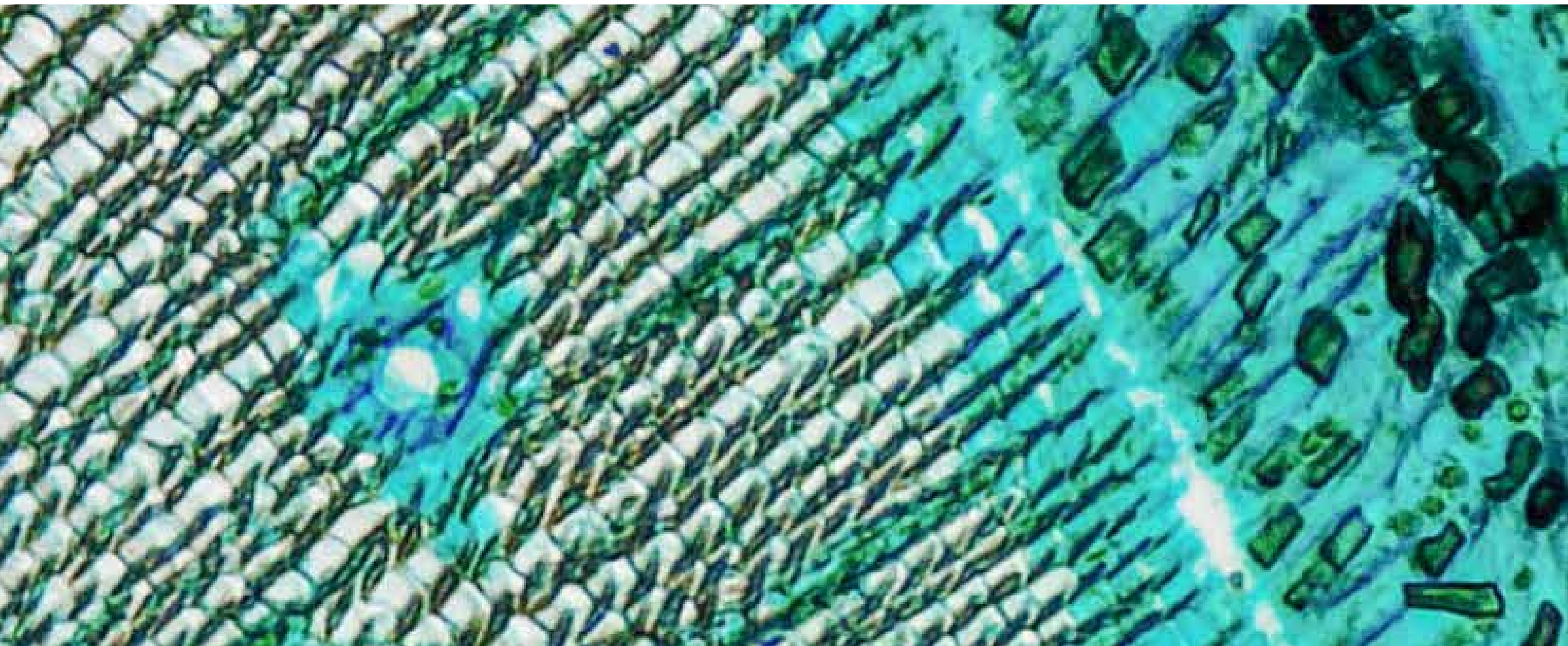
To mitigate the impact of low flows on the Umkomazi River, the prime source of water to Saiccor Mill, in FY2016 we completed a project to raise the Comrie Dam wall, upstream of Saiccor Mill, tripling the amount of water in the dam. We have now been awarded a water use licence from the regulatory authorities.

At Ngodwana, Tugela and Stanger Mills, we are focusing on internal modifications which involve the more efficient use of water.

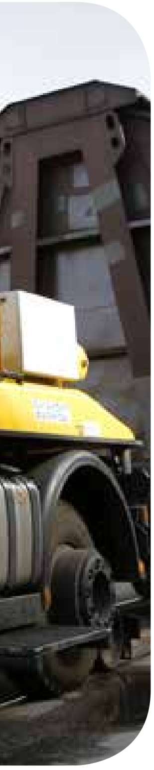
Following the conversion of the PM8, Lanaken Mill (Belgium) will be switching from the use of softwood to hardwood pulp, making wastewater treatment more challenging. Accordingly, in January 2018, the mill will be building a new anaerobic wastewater treatment plant. This will produce 280% more biogas, which will generate electricity and heat. Once the plant is completed in June 2018, the old anaerobic tanks will be converted into aerobic tanks to increase the capacity and quality of wastewater treatment. As a comparison, we will go from a wastewater treatment capacity comparable with municipal wastewater of 300,000 residents to a capacity for 900,000 residents. Finally, in a third step, from September to October 2018, coating waste water will move to an existing separator and biological treatment, in order to free up capacity for effluent of the paper machine. A final step involving advanced oxidation will remove non-biodegradable COD.

[11] *UNHABITAT (2016), World Cities Report 2016: Urbanization and development: http://wcr.unhabitat.org/wp-content/uploads/sites/16/2016/05/WCR-%20 Full-Report-2016.pdf*
[12] *http://www.un.org/en/events/waterday/*

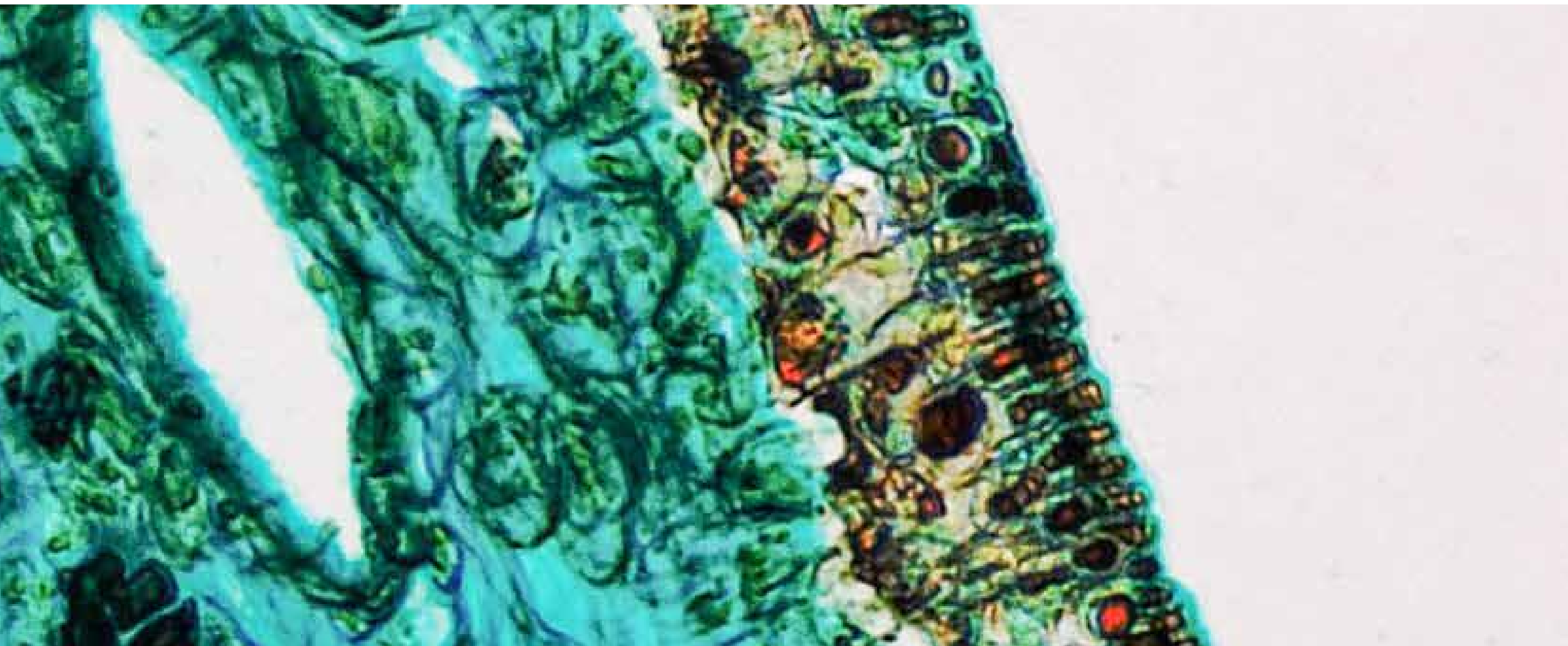




Light photomicrograph of pine tree wood cross section seen through a microscope.



Safety at Sappi comes before everything else. We do not accept that injuries and accidents are inevitable. We remain **fully committed to our project zero goal of zero injuries** and have increased our focus on improved personal behaviour and making safe choices.



Our leadership

Sappi board committee memberships:

- Audit Committee
- Human Resources and Compensation Committee
- Nomination and Governance Committee
- Social, Ethics, Transformation and Sustainability Committee

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)

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)

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:

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)

Dr Deenadayalen Konar (Len) (63)

Independent

Qualifications: BCom, MAS, DCom, CA(SA), CRMA
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:

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.*

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.*

Karen Rohn Osar (68)

Independent

Qualifications: MBA, Finance
Nationality: American
Appointed: May 2007

Sappi board committee memberships:

Robertus Johannes Antonius Maria Renders (Rob Jan) (64)

Independent

Qualifications: MSc (Mechanical Engineering), MDP
Nationality: Dutch
Appointed: October 2015

Sappi board committee memberships

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.*

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, FCMI

** 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

Corporate governance

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:

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

[(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

Executive Committee

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

Disclosure Committee
Internal Controls Steering Committee
Accounting Standards Committee
Group Risk Management Committee
Regional sustainability councils
Treasury Committee
IT Steering Committee
Technical Committees

Management committees

Board committees

The board has established committees to assist it to discharge its duties. The committees operate within written terms of reference set by the board.

Audit Committee

The Audit Committee consists of five independent non-executive directors and assists the board in discharging its duties relating to:

- Safeguarding and efficient use of assets
- Oversight of the risk management function
- Oversight of information and technology risks, related controls and governance
- Oversight of non-financial risks and controls, through a combined assurance model
- Operation of adequate systems and control processes
- Reviewing financial information and the preparing of accurate financial reports in compliance with applicable regulations and accounting standards
- Reviewing sustainability information included in the Annual Integrated Report
- Reviewing compliance with the group's Code of Ethics and external regulatory requirements
- 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 fulfil 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.

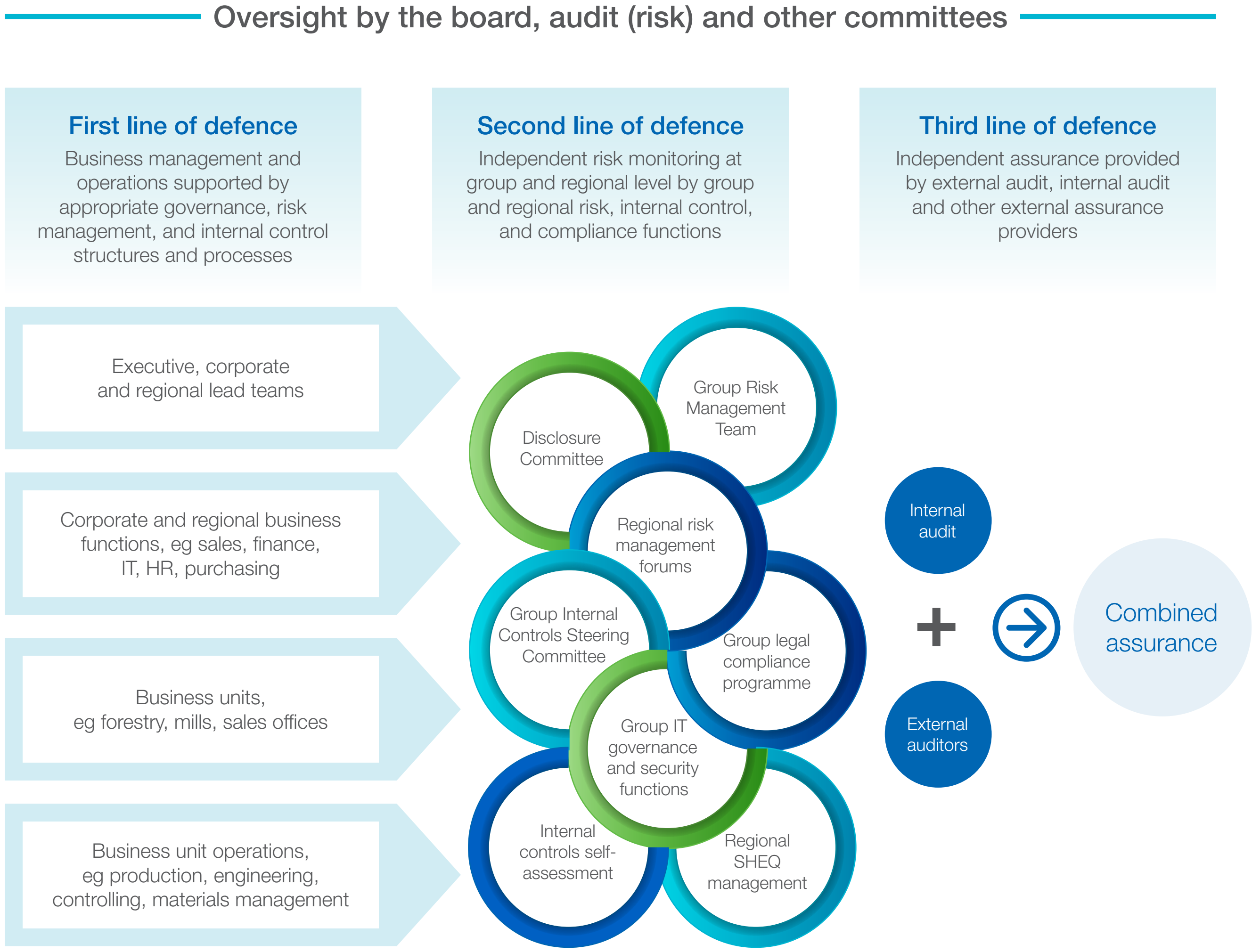
Sappi operates a combined assurance framework, which aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers, on the risk areas affecting the group.

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



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 — Support

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 (ie 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.

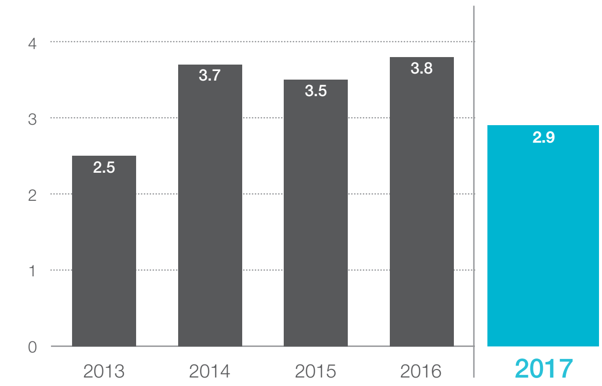
Stakeholder communication

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 for the period under review in terms of the Promotion of Access to Information Act (South African legislation).

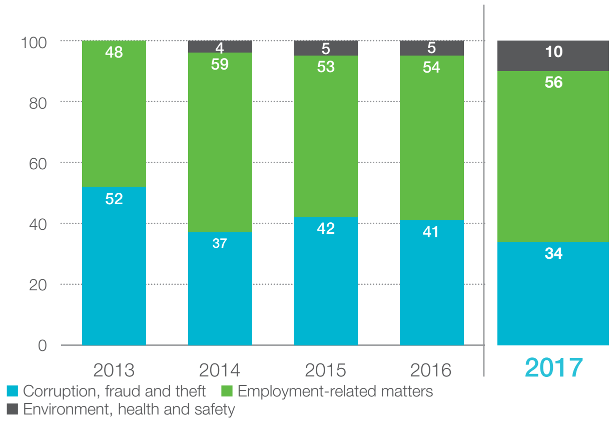
For more information on our key relationships at Sappi refer to pages 32 to 43.

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

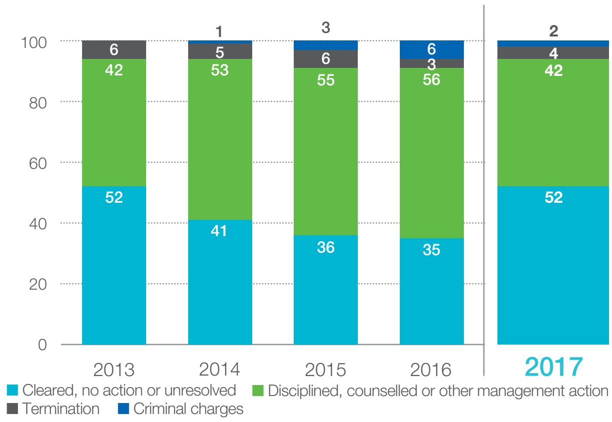
Hotline report rate per 1,000 employees



Analysis of hotline and ethics reports by category (%)



Analysis of hotline and ethics report case outcomes (%)



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.

Leadership

Principle 1
The governing body should lead ethically and effectively.

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.

Organisational ethics

Principle 2
The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

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.

Sappi's ethics values and norms are clearly articulated in the Code of Ethics and supporting policies. There are processes in place to ensure that employees, business associates, contractors and suppliers are familiar with Sappi's ethics norms as set out in the Codes of Ethics. These include:

- Reference to the Code of Ethics in employment and supply contracts
- Publication of the Code of Ethics online on external (https://www.sappi.com/sappi-code-of-ethics) and internal website, and
- Ongoing training and induction of employees.

Other arrangements to manage ethics include:

- Annual fraud and ethics and fraud risk assessments (with due consideration for stakeholders)
- Safe reporting (hotline) mechanisms are in place, and
- Periodic employee control environment surveys.

Responsible corporate citizenship

Principle 3
The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.

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:

- Protecting people and the environment underpins our approach to sustainability. Sappi places the highest priority on the health and safety of our workforce and on the protection of the environment, and
- Human rights: Sappi is committed to the principles of the United Nations Global Compact, the Universal Declaration of Human Rights, and the International Labour Organisation.

The board reviews annually the corporate responsibility strategy, priorities and action plans of the company.

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 specialities 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.

Mike Fallon,
Chairman of Human Resources and Governance Committee

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.

Remuneration Report continued

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 shareholders
- 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
- Encourage behaviour consistent with the group's risk and reward philosophy
- Have an appropriate and balanced reward mix for executive directors and other executive managers based on base pay, benefits and short- and long-term incentives within the context of the industry sector
- Are applied consistently across the group to promote alignment and fairness, and
- Through the executive Management Incentive Scheme, provide for a voluntary deferral of 40% of the CEO's annual bonus, and 30% of the executive managers' annual bonuses (to purchase Sappi shares), as this is to ensure a long-term focus on the company's performance by the individual concerned and establish a personal stake in the company.

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.

Purpose	Operations	Opportunity
	Fixed	
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

Purpose	Operations	Opportunity
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% and 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

Purpose	Operations	Opportunity
Variable		
Component – Long-term share incentive plans		
• 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 CFRONA – 50%.	None
Component – Broad-based black economic empowerment		
• 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.	None
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.

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.

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.

Metric	Weighting	Relevance	How do we set the targets?
EBITDA	48	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.	Targets and ranges are set each year by the board taking account of required progress towards strategic goals, and the prevailing market conditions.
Working capital	24	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.	Targets and ranges are set each year by the board taking account of the required progress towards strategic goals, and the prevailing market conditions.
Safety	8	One of the key indicators of whether the business is meeting its sustainability goal of zero harm.	The committee considers input from the Social, Ethics, Transformation and Sustainability Committee, and sets appropriate standards and goals.
Individual performance*	20	An indicator of the contribution made by each executive director.	Targets and ranges are set each year by the committee, based on the specific priorities, and areas of responsibility of the role.

** 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.*

Remuneration Report continued

Performance Share Plan (PSP)

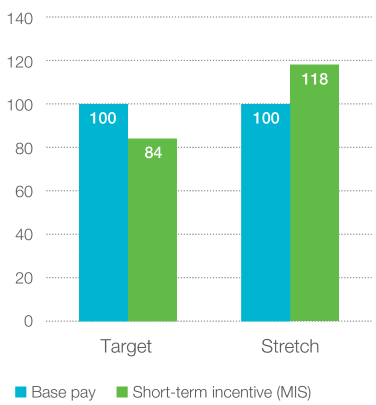
The table below shows the metrics for 2017 grants, why they were chosen and how targets are set.

Metric	Relevance	How do we set the targets?
Total shareholder return (TSR)	TSR measures the total returns to Sappi's shareholders, so provides close alignment with shareholder interests.	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.
Cash flow return on net assets (CFRONA)	A key indicator of the effective use of capital.	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.

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.

Remuneration levels (CEO and CFO) (% of base pay)



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.

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.

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)

Element	Purpose	How it works?	Fees
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.

Remuneration Report continued

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 (ie 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.

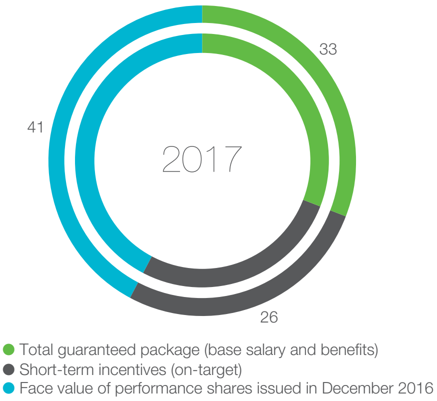
Compensation mix

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

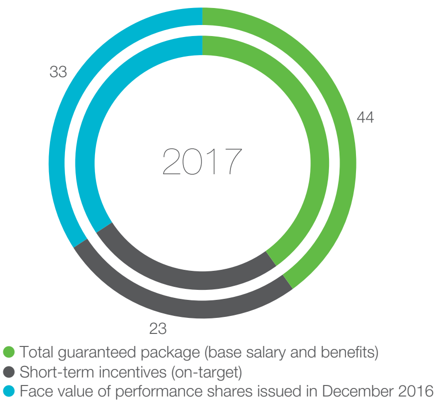
The term 'target' in terms of short-term incentives refers to the annual bonus award if all performance criteria were met at 100% achievement.

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).

Executive directors (average)
(Number of employees at 30 September 2017 = 2) (%)



Executive committee (average)
(Number of employees at 30 September 2017 = 7) (%)



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:

	On-target bonus	Stretch target
Executive director	85% of base salary	116% of base salary
Regional CEO	70% of base salary	95% of base salary
Other prescribed officers (ie Executive Committee members)	65% of base salary	88.5% of base salary

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:

Performance criteria	Target	2017 Actual achievement
EBITDA	48	**59.4**
Working capital	24	**27.8**
Safety	8	**–**
Total	80	**87.2**

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.

Remuneration Report continued

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
- Borrogaard
- Domtar
- West Rock
- Norske-Skog
- UPM-Kymmene
- Holmen
- Metsá 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:

Position	Vesting
1 – 5	100%
6 – 7	75%
8 – 9	50%
10 – 17	0%

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:

Share awards	2013 %	2014 %	2015 %	2016 %	**2017 %**
TSR	0	0	0	100	**100**
CFRONA	75	100	100	100	**100**
Aggregate	37.5	50	50	100	**100**

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:

Position	Vesting
1 – 5	100%
6	80%
7	65%
8	45%
9	25%
10 – 17	0%

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.

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.

Remuneration disclosure of executive directors and prescribed officers

Executive directors' emoluments for 2017 (US Dollar)

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

- 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%.

Remuneration Report continued

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:

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

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 as well as the laws and regulations under which Sappi's businesses operate to ensure that the group not only complies with, but also fully implements all requirements. The committee addresses issues relating to corporate social investment, ethical conduct, diversity, transformation and empowerment initiatives and targets and ongoing sustainability practices 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
- Reviewed the SETS Committee Report for the Annual Integrated Report as well as sustainability information presented in the Annual Integrated Report.

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.

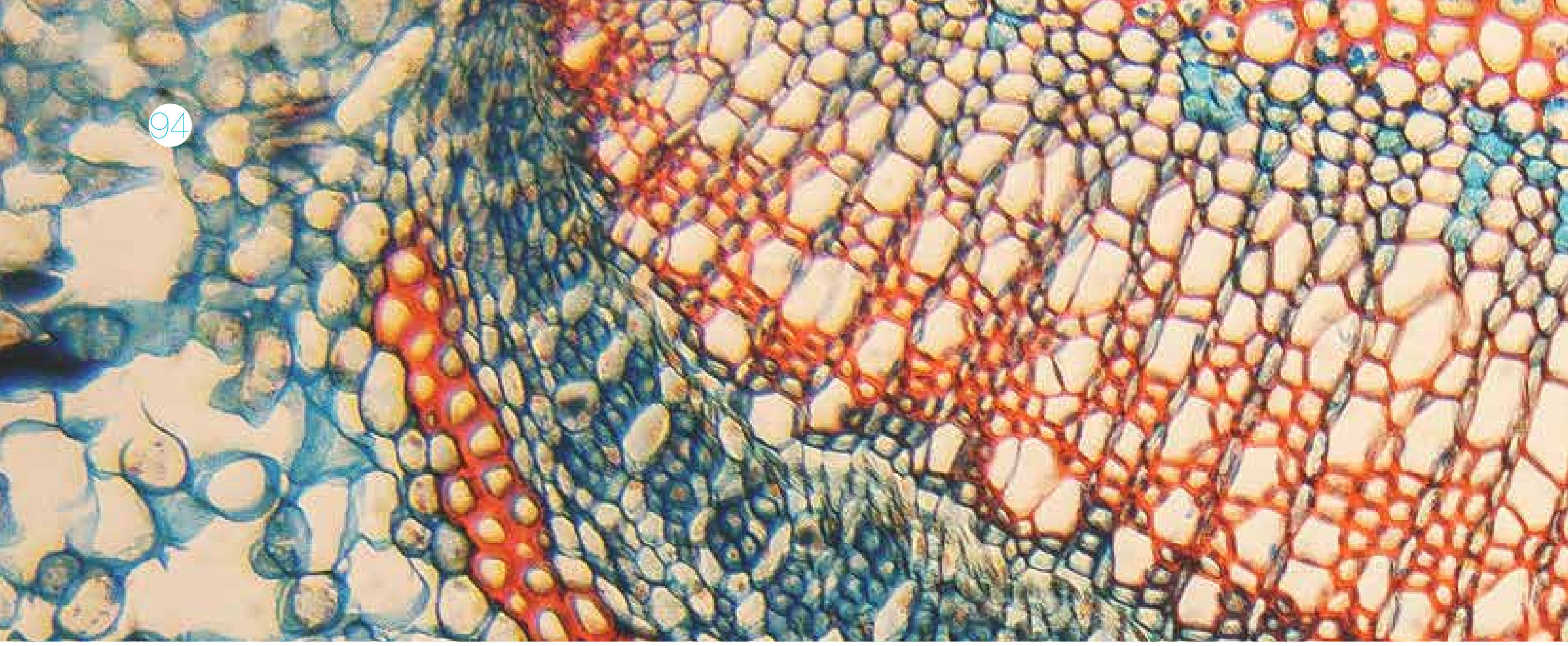
A loss limit cover of US$886 million (€750 million) has been deemed to be adequate for the reasonable foreseeable loss for any single claim.

Risk appetite and tolerance

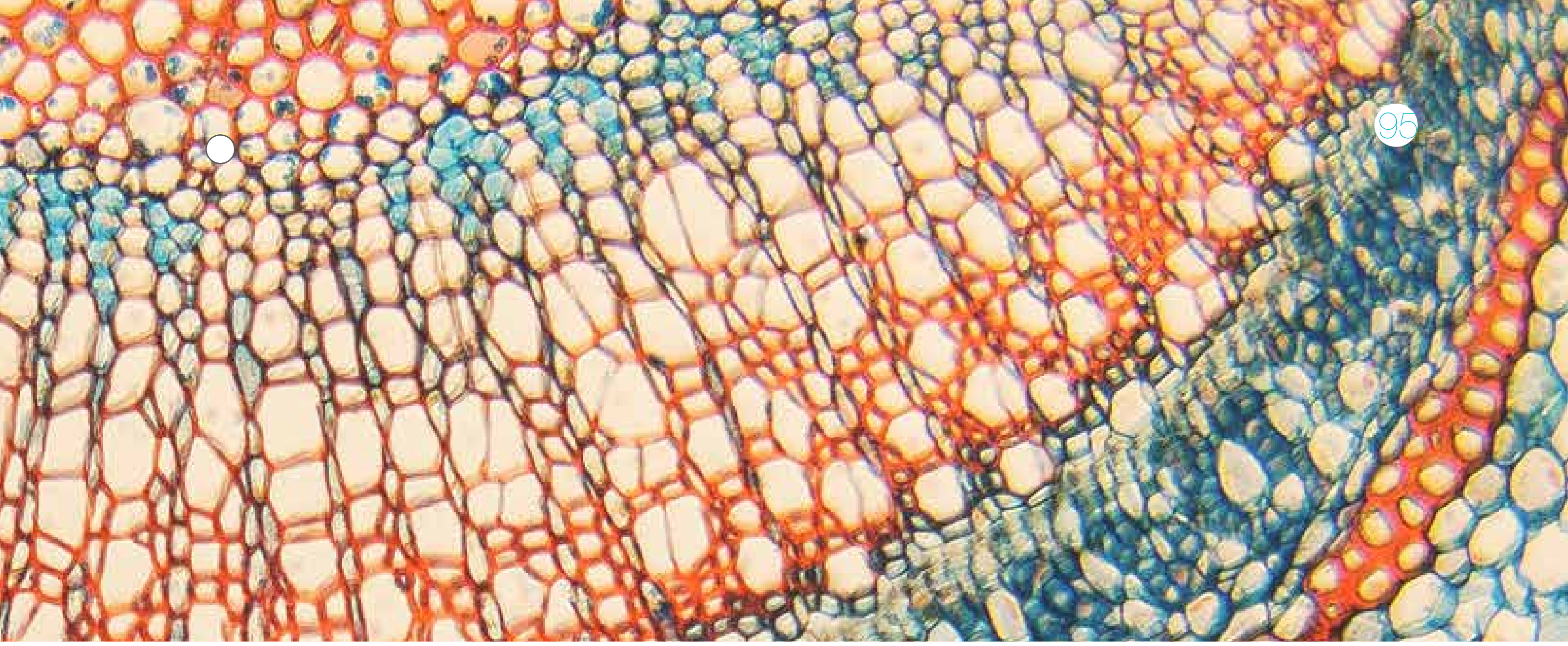
Sappi has a board-approved framework for risk appetite and tolerance.

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.

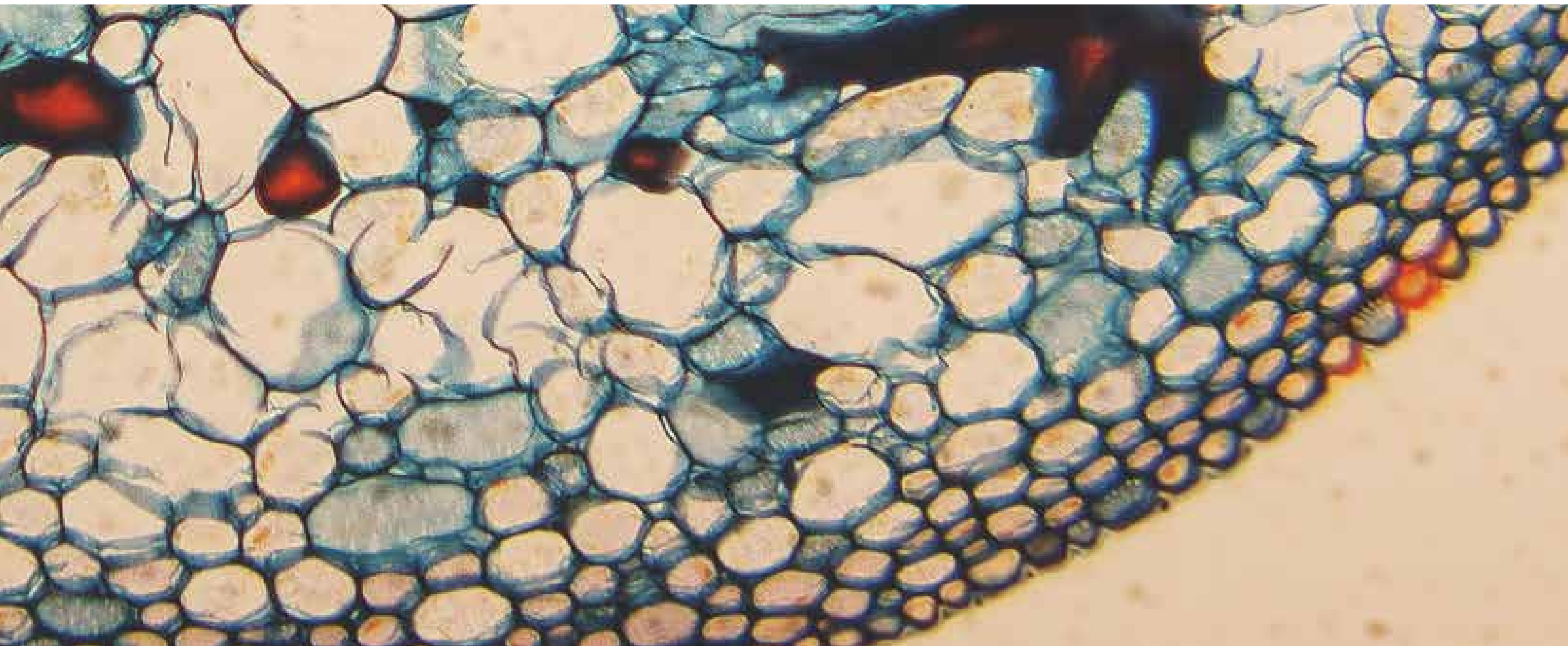


A cross-section of branches clearly distinguishes layers: bark, cambium and wood core.



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.



Chief Financial Officer's Report

Glen Pearce

As we continue on our 2020Vision journey, we have moved into an exciting new phase. **We are satisfied with the level of our gearing on the balance sheet and it enables us to focus on investing for growth.**

Net profit for the year increased by 94% to

US$338 million

EBITDA increased by 94% to

US$785 million

Dividend declared

15 US cents

Net debt declined to

US$1,322 million

Section 1
Financial highlights

(US$ million)	2017	2016	% change
Sales	**5,296**	5,141	3
EBITDA excluding special items	**785**	739	6
Operating profit excluding special items	**526**	487	8
Profit (loss) for the year	**338**	319	6
EBITDA excluding special items to sales (%)	**14.8**	14.4	n/a
Operating profit excluding special items to sales (%)	**9.9**	9.5	n/a
Operating profit excluding special items to capital employed (ROCE) (%)	**18.0**	17.5	n/a
Net cash generated	**108**	359	(70)
Net debt	**1,322**	1,408	(6)
Basic earnings (loss) per share (US cents)	**63**	60	5

We provided the foundation for future measured expansion, in targeted growth product segments, during fiscal 2017. The announcement of the conversion of coated graphic capacity to speciality products, and the debottlenecking of dissolving wood pulp production supported our 2020Vision. The global cost control initiative exceeded expectations and good cash generation enabled us to repay the US$400 million 2017 bonds with available cash reserves. External economic factors which have a significant influence on the business were unfavourable and include a stronger Rand and higher paper pulp costs. Increased consolidated sales volumes and effective cost control measures reversed the unfavourable external factors contributing to margin improvement and an increase in EBITDA.

Consolidated net selling prices per ton improved by 1% on the back of increased dissolving wood pulp prices and a favourable mix. The improvement was tempered by reduced net selling prices of coated graphic product in Europe and North America. Sales volumes increased by 2% as we increased market share in our traditional coated graphic markets and grew the specialities segment. Variable cost per ton increased due to higher purchased pulp costs, particularly during the latter half of the year and a stronger Rand. Cost cutting initiatives across all regions reduced the full impact of fixed-cost increases. EBITDA margins excluding special items increased from 14.4% to 14.8%, and along with increased volumes resulted in EBITDA excluding special items improving to US$785 million.

Finance costs were 66% of the prior period as the benefits of repaying debt takes effect. The additional profitability has increased the tax charge to US$108 million at a rate of 24% of profit before taxation. Profit for the year increased to US$338 million (LY = US$319 million) with earnings per share excluding special items improving from 57 US cents to 64 US cents. A dividend of 15 US cents per share has been declared at a four times earnings cover.

Cash generation for the year of US$108 million (LY = US$359 million) includes a dividend payment of US$59 million, tax payments of US$100 million and increased capital expenditure of US$357 million.

Segment reporting
Our reporting is based on the geographical location of our businesses, ie Europe, North America and Southern Africa.

The dissolving wood pulp business has become increasingly important to the group. As such, selected product line information in the form of dissolving wood pulp and paper is reviewed by our Executive Committee in addition to the geographical basis upon which the group is managed. This additional information is presented to assist our stakeholders in obtaining a complete understanding of our business.

Exchange rates and their impact on the group's results
The group reports its results in US Dollar and, as such, the main foreign exchange rates used in the preparation of the financial statements were:

	Income statement average rates		Balance sheet closing rates	
	2017	2016	**2017**	2016
€1 = US$	**1.1055**	1.1111	**1.1814**	1.1226
US$1 = ZAR	**13.3813**	14.7879	**13.5561**	13.7139

Two of our three geographic business units (Europe and Southern Africa) have home or 'functional' currencies of Euro and Rand respectively. The results and cash flows of these two non-US Dollar units are translated into US Dollar at the average exchange rate for the reporting period in order to arrive at the consolidated US Dollar results and cash flows. When exchange rates differ from one period to the next, the impact of translation from the functional currency to reporting currency can be significant.

Chief Financial Officer's Report continued

Section 2
Financial performance – Group

The discussion in this section focuses on the group financial performance in 2017 compared with 2016. A detailed discussion, in local currencies, of each of our three operating regions follows in section 3.

Income statement

Our group financial results can be summarised as follows:

(Metric tons '000)	2017	2016	% change
Sales volume	7,410	7,253	2
	US$ million	US$ million	% change
Sales revenue	**5,296**	5,141	3
Variable manufacturing and delivery costs	**(3,147)**	(3,061)	3
Fixed costs	**(1,601)**	(1,571)	2
Sundry items[(1)]	**(22)**	(22)	–
Operating profit excluding special items	**526**	487	8
Special items	**–**	57	(100)
Operating profit	**526**	544	(3)
Net finance costs	**(80)**	(121)	(34)
Taxation	**(108)**	(104)	4
Net profit	**338**	319	7
EPS excluding special items (US cents)	**64**	57	12

[(1)] Sundry items include all income and costs not directly related to manufacturing operations such as debtor securitisation costs, commissions paid and received and results of equity-accounted investments.

Sales volume

In 2017, sales volume increased by 157,000 tons, or 2%, compared with 2016. The regional contributions to sales volume are shown below:

Sales volume (Metric tons '000)	2017	2016	% change
North America	**1,359**	1,329	2
Europe	**3,343**	3,252	3
Southern Africa	**2,708**	2,672	1
Group	**7,410**	7,253	2
Paper and pulp (excluding dissolving wood pulp)	**5,124**	5,096	1
Dissolving wood pulp	**1,184**	1,111	7
Forestry	**1,102**	1,046	5

In North America, the increased coated paper market share, growth in the specialities and packaging papers products and the additional dissolving wood pulp volumes, improved total sales volumes by 2% to 1,359,000 tons.

European volumes increased by 3% with good growth in the coated woodfree and specialities and packaging papers product segments. The mechanical coated business has been under sustained pressure as sales volumes reduced.

Volumes in Southern Africa increased by 1%. During the prior fiscal period, dissolving wood pulp volumes were negatively impacted by production problems and the effects of a drought, which were not repeated in the current fiscal. This was offset by a reduction in paper sales volumes following the discontinuation of waste paper sales to the Enstra Mill (sold in the previous period).

Optimising our capacity utilisation is a key focus area of the business and was successfully achieved across all regions.

Sales volume to capacity (%)	2017	2016
North America	97	96
Europe	94	92
Southern Africa	95	96
Group	**95**	94

Sales revenue

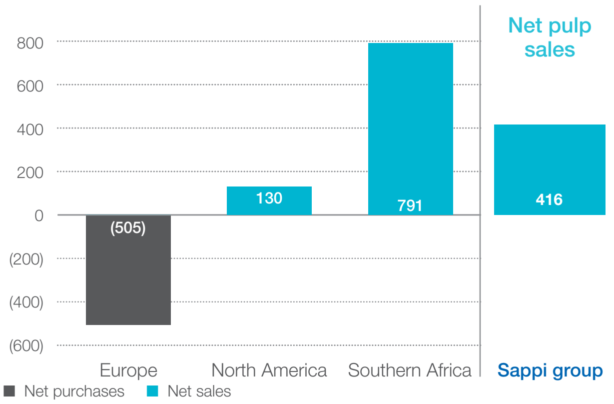
Sales revenue increased by 3% from US$5.1 billion in 2016 to US$5.3 billion in 2017. The increase was due to the higher sales volumes discussed above, higher sales prices and improved sales mix.

Variable and delivery costs

Variable and delivery costs increased by US$86 million, or 3%, from 2016. Higher sales volumes and an increase in purchased pulp and chemical prices contributed to the increase in costs.

The net paper and dissolving wood pulp purchases and sales of the Sappi group are detailed in the graph below.

Sappi Group pulp balance
(US$ million)



The table below reflects the breakdown of variable and delivery costs by type.

Variable manufacturing and delivery costs (US$ million)	2017	2016	% change
Wood	603	624	(3)
Energy	372	355	5
Chemicals	787	726	8
Pulp and other	944	925	2
Delivery	441	431	2
Group	**3,147**	3,061	3

Fixed costs

Fixed costs increased by US$30 million, or 2%, from fiscal 2016. This increase was mainly due to the stronger Rand resulting in an increase in US Dollar costs. Excluding the currency impact fixed cost decreased by US$3 million. This achievement is further evidence of the efforts to lower costs and improve efficiencies across the group.

Details of the make-up of fixed costs are provided in the table below.

Fixed costs (US$ million)	2017	2016	% change
Personnel	930	894	4
Maintenance	212	201	5
Depreciation	255	250	2
Other	204	226	(10)
Group	**1,601**	1,571	2

Chief Financial Officer's Report continued

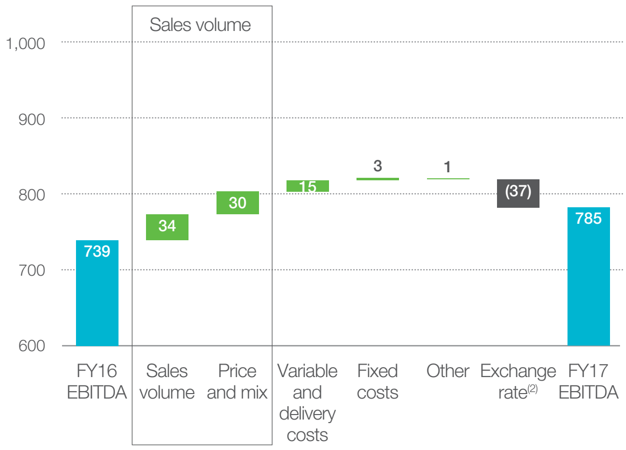
Financial performance – Group continued

EBITDA and operating profit excluding special items

The group benefited from improved results of the North American, European and Southern African businesses. The results were, however, negatively impacted by the stronger Rand. EBITDA excluding special items increased to US$785 million, 6% higher than the US$739 million achieved in 2016. Similarly, operating profit excluding special items improved from US$487 million last year to US$526 million in 2017.

The EBITDA bridge reflected in the graph below shows the impact on profitability from higher sales volumes, higher sales prices, improved sales mix, a reduction in variable costs and a reduction in fixed costs which were partially offset by unfavourable exchange rate movements.

Reconciliation of EBITDA excluding special items: 2017 compared to 2016[(1)] (US$ million)

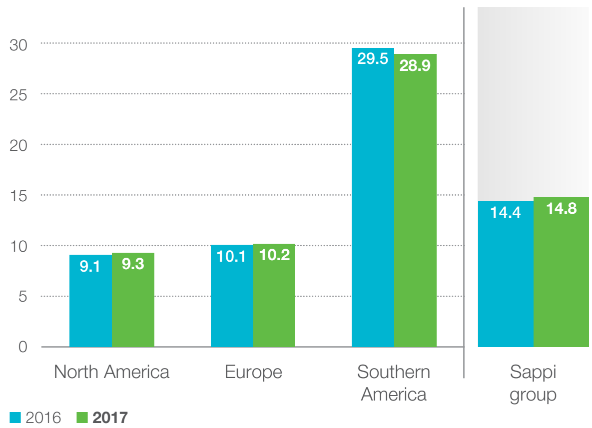


[(1)] *All variances were calculated excluding Forestry.*
[(2)] *'Exchange rate' reflects the impact of changes in the average rates of translation of foreign currency results.*

The tables below show the EBITDA and operating profit excluding special items of the business for both 2017 and 2016 and the margins of each.

EBITDA excluding special items by region (US$ million)	2017	2016
North America	**126**	124
Europe	**262**	261
Southern Africa	**396**	352
Corporate and other	**1**	2
Group	**785**	739

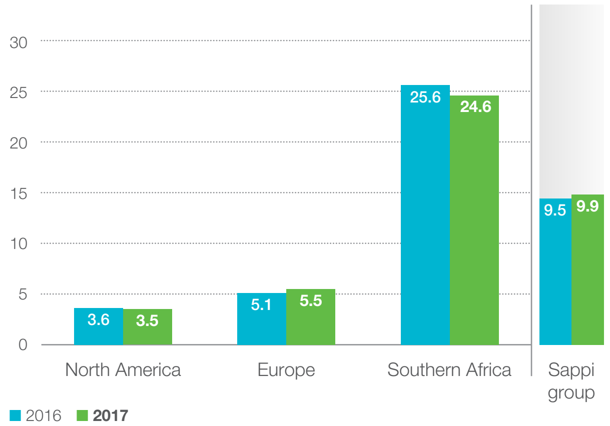
EBITDA margin by region
(%)



EBITDA excluding special items by product category (US$ million)	2017	2016
Specialised cellulose (dissolving wood pulp)	**386**	339
Paper	**398**	398
Other	**1**	2
Group	**785**	739

Operating profit excluding special items by region (US$ million)	**2017**	2016
North America	**47**	49
Europe	**140**	131
Southern Africa	**337**	305
Corporate and other	**2**	2
Group	**526**	487

Operating profit margin by region
(%)

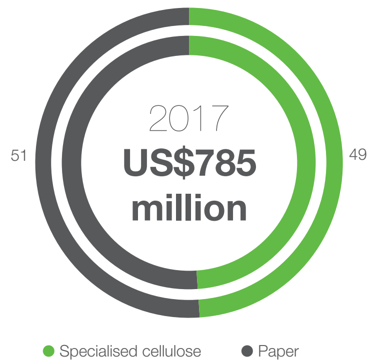


Operating profit excluding special items by product category (US$ million)	**2017**	2016
Specialised cellulose (dissolving wood pulp)	**334**	294
Paper	**190**	191
Other	**2**	2
Group	**526**	487

The charts below illustrate that although the paper business only provides 36% of the operating profit, it contributes 51% of the group's EBITDA excluding special items. Consequently, it still generates the majority of cash for Sappi and remains an important strategic component of our business.

Operating profit excluding special items by product (%)

EBITDA excluding special items by product (%)



For information regarding the financial performance of the regions, please refer to section 3 of this report.

Chief Financial Officer's Report continued

Financial performance – Group continued

Key operating targets

Our financial targets and performance against them are dealt with in *Our strategy section* on pages 8 and 9.

Special items

Special items consist of those items which management believes are material, by nature or amount, to the results for the year and require separate disclosure. A breakdown of special items for 2017 and 2016 is reflected in the table below:

Special items – gain (US$ million)	**2017**	2016
Plantation price fair value adjustment	**21**	64
Net restructuring provisions	**(1)**	(4)
Profit on disposal and written off assets	**(2)**	15
Asset impairments	**(6)**	(2)
Employee benefit liability settlement	**–**	8
Black economic empowerment charge	**(1)**	(1)
Fire, flood, storm and other events	**(11)**	(23)
Total	**–**	57

The net impact of special items in 2017 was US$nil. The major components are described below:

- A positive non-cash US$21 million plantation price fair value adjustment was recognised following increases to the market price of timber
- Asset impairments of US$6 million were recorded in Europe and Southern Africa related to certain intangible assets and capitalised project costs, and
- Fire, flood, storm and other events includes fire and cossid moth damaged timber in Southern Africa of US$5 million and the cost of turbine failures at our Alfeld and Stockstadt Mills of US$4 million each.

Finance costs

(US$ million)	**2017**	2016
Net interest expense	**92**	124
Net foreign exchange gains	**(12)**	(2)
Net fair value (gain) loss on financial instruments	**–**	(1)
Total	**80**	121

Finance costs are significantly lower than the prior period. The repayment of the US$400 million public bonds during the call window period in April 2017 from available cash resources and the refinancing of debt last year contributed to the reduced charge.

Taxation

A regional breakdown of the tax charge is provided below.

(US$ million)	Profit before tax	**Tax (charge) relief**	Effective tax rate %
Europe	56	**2**	3
North America	33	**(10)**	(31)
Southern Africa	357	**(100)**	(28)
Total	446	**(108)**	(24)

In Europe, the total tax relief of US$2 million consists of a deferred tax relief and a current tax charge. The deferred tax relief is caused mainly by the recognition of a US$16 million tax asset in The Netherlands.

The North American effective tax rate approximates 31% and is lower than the statutory rate of 38% due to the impact of non-taxable items.

The Southern African tax rate of 28% is equivalent to the statutory tax rate of 28%.

Net profit, earnings per share and dividends

After taking into account finance costs and taxation, our net profit and earnings per share for 2017, with comparatives for 2016, were as follows:

(US$ million)	**2017**	2016
Operating profit	**526**	544
Finance costs	**80**	121
Profit before taxation	**446**	423
Taxation	**108**	104
Profit for the period	**338**	319
Weighted average number of shares in issue (millions)	**533.9**	529.4
Basic earnings per share (US cents)	**63**	60

The directors have decided to declare a dividend of 15 US cents representing a four times earnings cover adjusted for non-cash items and a 36% improvement on the 11 US cents declared last year. The group aims to declare ongoing annual dividends, and over time achieve a long-term average to dividends ratio of three to one.

Section 3

Financial performance – Regional

Below we discuss the performance of the regional businesses. The discussion is based on performance in local currencies as we believe this facilitates a better understanding of the revenue and costs in the European and Southern African operations.

North America

(Metric tons '000)	2017	2016	% change
Sales volume	**1,359**	1,329	2

	US$ million 2017	US$ million 2016	% change	US$ per ton 2017	US$ per ton 2016	% change
Sales	**1,360**	1,367	(1)	**1,001**	1,029	(3)
Variable manufacturing and delivery costs	**(814)**	(822)	(1)	**(599)**	(619)	(3)
Contribution	**546**	545	0	**402**	410	(2)
Fixed costs	**(485)**	(486)	(0)	**(357)**	(366)	(2)
Sundry costs and consolidation entries	**(14)**	(10)	40	**(10)**	(7)	43
Operating profit excluding special items	**47**	49	(4)	**35**	37	(5)
EBITDA excluding special items	**126**	124	2	**93**	93	0

The North American operations showed resilience in the face of reducing coated paper market demand by increasing market share. Net selling prices of coated paper were under pressure due to market overcapacity, and although there was some recovery in the final quarter, selling prices were still some 4% lower than the previous year. Dissolving wood pulp selling prices increased by 6% and reduced the impact of the lower coated prices.

Improved usage variances and lower wood and energy costs resulted in variable costs per ton reducing by 3%. The reduction in variable costs per ton was lower than the selling price reduction, but good fixed cost control and higher volumes improved fixed cost absorption rates resulting in EBITDA margins remaining in line with the previous year.

Europe

(Metric tons '000)	2017	2016	% change
Sales volume	**3,343**	3,252	3

	€ million 2017	€ million 2016	% change	€ per ton 2017	€ per ton 2016	% change
Sales	**2,320**	2,324	(0)	**694**	715	(3)
Variable manufacturing and delivery costs	**(1,509)**	(1,490)	1	**(451)**	(458)	(2)
Contribution	**811**	834	(3)	**243**	257	(5)
Fixed costs	**(673)**	(692)	(3)	**(201)**	(213)	(6)
Sundry costs and consolidation entries	**(11)**	(24)	(54)	**(4)**	(8)	(50)
Operating profit excluding special items	**127**	118	8	**38**	36	6
EBITDA excluding special items	**239**	235	2	**71**	72	(1)

The growth in specialities and packaging papers volumes and increased woodfree coated volumes to export markets, more than compensated for the reduced mechanical coated volumes. Pricing pressure across all segments reduced net selling prices by 3%.

Variable costs were well controlled with energy and wood costs reducing favourably. There were substantial improvements in production efficiencies which contributed to the lower variable costs. Fixed costs were well controlled and reduced by 3% relative to the previous period. Consequently the EBITDA margin of the region remained in line with the previous year at 10%.

Chief Financial Officer's Report continued

Financial performance – Regional continued

Southern Africa

(Metric tons '000)	2017	2016	% change
Sales volume	1,606	1,626	(1)

	ZAR million 2017	ZAR million 2016	% change	ZAR per ton 2017	ZAR per ton 2016	% change
Sales*	17,489	16,799	4	10,890	10,331	5
Variable manufacturing and delivery costs	(9,769)	(9,449)	3	(6,083)	(5,811)	5
Contribution	7,720	7,350	5	4,807	4,520	6
Fixed costs	(4,991)	(4,688)	6	(3,108)	(2,883)	8
Sundry costs and consolidation entries	1,781	1,848	(4)	1,109	1,137	(2)
Operating profit excluding special items	4,510	4,510	0	2,808	2,774	1
EBITDA excluding special items	5,299	5,205	2	3,300	3,201	3

** Excludes forestry.*

The average rate of the Rand strengthened by 10% for the year and had a negative impact on the results of the Southern African operations. Growth in dissolving wood pulp sales volumes of 8% were offset by the discontinuation of waste paper sales volumes resulting in total volumes reducing by 1%. Net selling prices of dissolving wood pulp increased in US Dollar terms, but reduced in local currency. Increased paper prices and an improved mix caused total net selling prices to increase. Wood, energy and chemical cost increases caused variable costs per ton to increase by 5%. Inflationary pressure on personnel and maintenance costs increased fixed costs by 6%. The net result of the above is an increase in EBITDA to ZAR5,299 million with annual operating profit of ZAR4,510 million remaining in line with last year.

The region's capital expenditure focused on debottlenecking processes and increasing our energy self-sufficiency during the year.

Major sensitivities

Some of the more important factors which impact the group's EBITDA excluding special items, based on current anticipated revenue and cost levels, are summarised in the table below.

Sensitivities	Change	Europe € million	North America US$ million	Southern Africa ZAR million	Translation impact US$ million*	Group US$ million
Net selling prices	1%	24	14	187	–	55
Dissolving wood pulp prices	US$10	–	2	133	–	12
Variable costs	1%	13	7	91	–	29
Sales volume	1%	8	5	84	–	21
Fixed costs	1%	6	4	47	–	14
Paper pulp price	US$10	6	2	11	–	9
ZAR/US$ (weakening)	10 cents	–	–	82	(2)	3
EUR/US$ (weakening)	10 cents	–	(4)	–	(24)	(28)

** Based on currency impact on translation of EBITDA.*

The table demonstrates that EBITDA excluding special items is most sensitive to changes in the selling prices of our products.

The calculation of the impact of these sensitivities assumes all other factors remain constant and does not take into account potential management interventions to mitigate negative impacts or enhance benefits.

Section 4
Cash flow

In the table below, we present the group's cash flow statement for 2017 and 2016 in a summarised format.

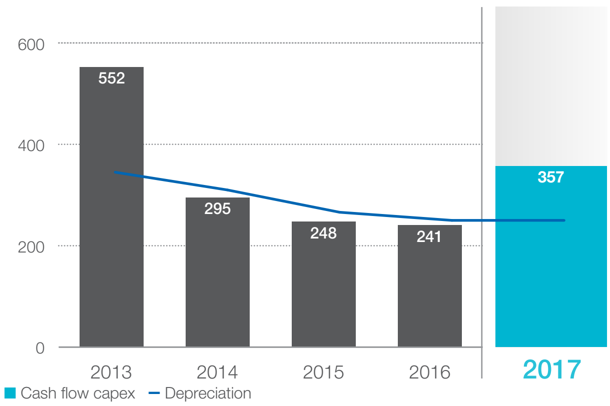
(US$ million)	2017	2016
Operating profit excluding special items	**526**	487
Depreciation and amortisation	**259**	252
EBITDA excluding special items	**785**	739
Contributions to post-employment benefits	**(43)**	(51)
Other non-cash items	**6**	5
Cash generated from operations	**748**	693
Movement in working capital	**(27)**	4
Finance costs	**(81)**	(91)
Taxation	**(100)**	(56)
Dividend paid	**(59)**	–
Capital expenditure	**(357)**	(241)
Net proceeds on disposal of assets	**4**	44
Acquisition of subsidiary	**(11)**	–
Other	**(9)**	6
Net cash generated	**108**	359

Net cash generated of US$108 million was lower than the previous year of US$359 million despite cash generated from operations of US$748 million being higher than the prior year of US$693 million. Higher working capital movements, increased cash taxes, the resumption of the dividends and increases in capital expenditure account for the reduced cash generated.

The increased capital expenditure was due to various upgrade and conversion projects throughout the group. The debottlenecking of dissolving wood pulp production at Ngodwana and Saiccor Mills, and the initial costs for the conversion of coated graphic capacity to speciality paper production in Europe and North America, are included in the total expenditure of US$357 million for the year.

The group acquired a flexible packaging company, Rockwell Solutions, in the United Kingdom resulting in an outflow of US$11 million.

Investment in fixed assets versus depreciation (US$ million)



Chief Financial Officer's Report continued

Section 5
Balance sheet

Summarised balance sheet

(US$ million)	2017	2016
Property, plant and equipment	**2,681**	2,501
Plantations	**458**	441
Net working capital	**436**	394
Other assets	**254**	284
Net post-employment liabilities	**(309)**	(411)
Other liabilities	**(451)**	(423)
Employment of capital	**3,069**	2,786
Equity	**1,747**	1,378
Net debt	**1,322**	1,408
Capital employed	**3,069**	2,786

Sappi has 16 production facilities in eight countries, capable of producing approximately 3.5 million tons of pulp and 5.4 million tons of paper.

For more information on our mills, their production capacities and products, please refer to pages 20 and 21.

During 2017, capital expenditure for property, plant and equipment was US$357 million. The capacity replacement value of property, plant and equipment for insurance purposes has been assessed at approximately US$21 billion.

Property, plant and equipment

The cost and depreciation related to our property are set out in the table below.

Book value of property, plant and equipment

(US$ million)	2017	2016
Cost	**8,681**	8,130
Accumulated depreciation and impairment	**6,000**	5,629
Net book value	**2,681**	2,501

Plantations

We regard ownership of our plantations in Southern Africa as a key strategic resource as it gives us access to low-cost fibre for pulp production and ensures continuity of supply on an important raw material input source.

We currently have access to approximately 479,000 hectares of land of which approximately 340,000 hectares are planted with pine and eucalyptus. These plantations provide approximately 64% of the wood requirements for our mills in Southern Africa.

During the year, there were increases to input costs which were offset by higher average fair value rates. These were partially offset by the damages recorded during the year. As we manage our plantations on a sustainable basis, the growth for the year was offset by timber felled during the year.

Our plantations are valued on the balance sheet at fair value less the estimated costs of delivery, including harvesting and transport costs. In notes 2.3.5 and 11 to the financial statements, we provide more detail on our accounting policies for plantations, how we manage our plantations as well as the major assumptions used in the calculation of fair value.

Working capital

The component parts of our working capital at the 2017 and 2016 fiscal year-ends are shown in the table below.

Net working capital

(US$ million)	2017	2016
Inventories	**636**	606
Trade and other receivables	**668**	642
Trade and other payables	**(868)**	(854)
Net working capital	**436**	394

Optimising working capital remains a key focus area for us and appropriate targets are incorporated into the management incentive schemes for all businesses. The working capital investment is seasonal and typically peaks during the third quarter of each financial year.

Net working capital increased to US$436 million in 2017 from US$394 million in 2016. The material movements in working capital are discussed below:
- Inventories increased by US$30 million, mainly due to a currency translation impact of US$16 million and an increase in finished goods
- Receivables increased by US$26 million, mainly due to a currency translation impact of US$18 million and an increase in trade receivables due to the higher sales in the last quarter, and
- Payables increased by US$14 million. After taking into consideration the currency translation impact of US$26 million, payables decreased by US$12 million. The decrease in payables is largely due to a reduction in interest accruals, and the reduction of restructuring provisions.

Post-employment liabilities

We operate various defined benefit pension/lump sum plans, post-employment healthcare subsidies and other employee benefits in the various countries in which we operate.
A summary of defined benefit assets and liabilities (pension and post-employment healthcare subsidies) is as follows:

Defined benefit liabilities

(US$ million)	2017	2016
Defined benefit obligation	**(1,448)**	(1,525)
Fair value of plan assets	**1,139**	1,114
Net balance sheet liability	**(309)**	(411)
Cash contributions to defined benefit plans/subsidies	**39**	46
Income statement charge (credit) to profit or loss*	**30**	17
Cash contributions deemed 'catch-up'**	**18**	27

* *The income statement charge in 2016 was lower than in 2017 due to ad hoc credits from settlements and curtailments.*
** *'Catch-up' is cash contributions paid to defined benefit plans in excess of current service cost.*

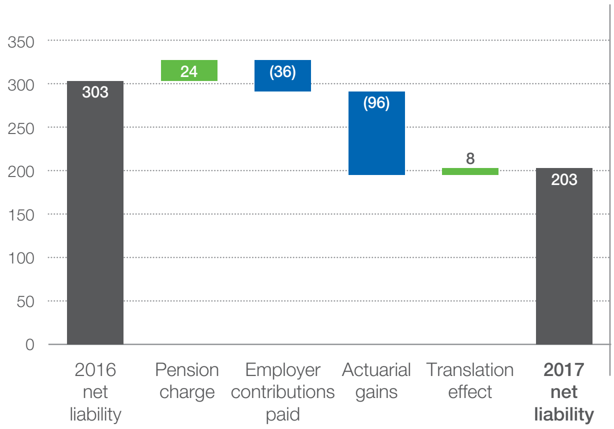
The liabilities from all our plans (funded plans and unfunded) reduced by US$77 million compared with last year. The main cause of the overall decrease in gross liabilities was the result of higher discount rates used due to rising yields in respective bond markets, and in some regions, reductions in post-retirement longevity projections.

Fair value of plan assets rose by US$25 million over the year due to favourable investment returns of assets in our funded plans from outperforming equity markets.

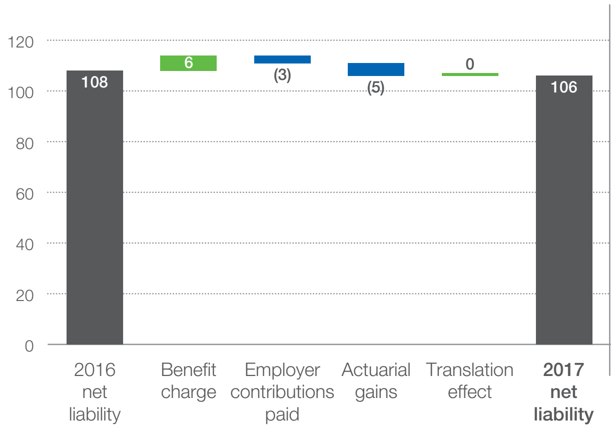
Included in the liability and asset movements above is a US$9 million loss resulting from currency movements.

The reduction in liabilities and increase in assets both contributed to a reduction in the net overall net liability by US$102 million as at September 2017. A reconciliation of the movement in the balance sheet over the year is shown alongside and disclosed in more detail in note 28 of the Group Annual Financial Statements.

Sappi Limited defined benefit pensions balance sheet movement (US$ million)



Sappi Limited post-retirement medical aid subsidy balance sheet movement (US$ million)



Equity

Year-on-year, equity increased by US$369 million to US$1,747 million as summarised below:

Equity reconciliation

(US$ million)	2017
Equity as at September 2016	**1,378**
Profit for the year	**338**
Dividend paid	**(59)**
Share-based payments	**9**
Actuarial gains on post-employment benefit funds	**68**
Movement in hedging reserves	**11**
Other movements	**1**
Equity as at September 2017	**1,747**

Chief Financial Officer's Report continued

Balance sheet continued

Equity increased by US$369 million driven largely by the profit for the year of US$338 million and actuarial gains on post-employment benefit funds of US$68 million, offset by the dividend of US$59 million.

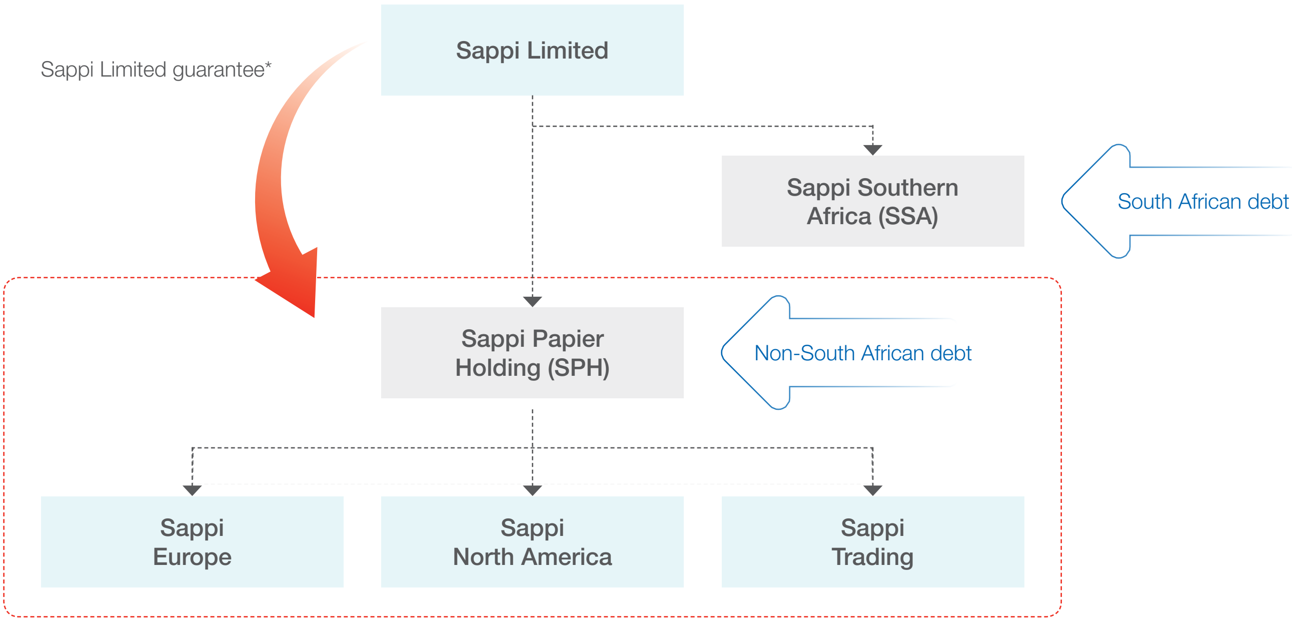
Debt

Debt is a major source of funding for the group. In the management of debt, we focus on net debt, which is the sum of current and non-current interest-bearing borrowings and bank overdrafts, net of cash and cash equivalents.

Debt funding structure

The Sappi group principally takes up debt in two legal entities. Sappi Southern Africa Limited issues debt in the local Southern African market for its own funding requirements and Sappi Papier Holding GmbH (SPH), which is the international holding company, issues debt in the international money and capital markets to fund our non-Southern African businesses. SPH's long-term debt is supported by a Sappi Limited guarantee and the financial covenants on certain of its debt are based on the ratios of the consolidated Sappi Limited group. The covenants applicable to the debt of these two entities and their respective credit ratings are discussed below.

The diagram below depicts our debt funding structure.



** Sappi Limited provides guarantees for long-term non-South African debt.*

Below we highlight the main financing activities that occurred during the year:

- The SPH US$400 million 2017 bond matured on 15 July 2017, but a call window opened at par in April 2017 and the bond was fully repaid from cash resources on 18 April 2017
- The SPH €330 million securitisation programme matures in August 2018 and in order to retain the long-term treatment of this debt the facility had to be extended before August 2017. The facility was therefore renewed in June 2017 and has a new maturity date of August 2020, and
- The announced conversion project at the Somerset Mill is being financed with a new €150 million term loan. As with other previous capital projects the facility was arranged with the Oesterreichische Kontrollbank, the Austrian development bank (OeKB). This long-term facility is structured as a seven-year term facility with drawings taking place until June 2018, in line with the progress of the project.

Structure of net debt and liquidity

We consider the liquidity position to be very good, with cash holdings exceeding short-term obligations by US$417 million at fiscal year-end. In addition, Sappi has US$623 million of unutilised committed credit facilities, including the revolving credit facility at SPH of €465 million (US$549 million).

The structure of our net debt at September 2017 and 2016 is summarised below:

(US$ million)	2017	2016
Long-term debt	**1,739**	1,535
Senior unsecured debt	**1,436**	1,732
Securitised funding	**364**	314
Less: Short-term portion	**(61)**	(511)
Net short-term debt (cash)	**(417)**	(127)
Overdrafts and short-term loans	**72**	65
Short-term portion of long-term debt	**61**	511
Less: Cash	**(550)**	(703)
Net debt	**1,322**	1,408

Movement in net debt

The movement of our net debt from fiscal 2016 to fiscal 2017 is explained in the table below:

(US$ million)	2017
Net debt as at September 2016	**1,408**
Net cash generated	**(108)**
Currency and other movements	**22**
Net debt as at September 2017	**1,322**

Group debt profile

We show the major components and maturities of our net debt at September 2017 below. These are split between our debt in South Africa and our debt outside South Africa.

				Maturity (Sappi fiscal years)				
(US$ million)	Amount	Interest rates (local currencies)	Fixed/ variable	2018	2019	2020	2021	Thereafter
South African								
Bank debt	30	7.85%	Fixed*			30		
Bonds	92	7.86%	Fixed*	37		55		
Gross debt	121							
Less: Cash	(216)			(216)				
Net South African debt (cash)	(95)			(179)	–	84	–	–
Non-South African								
Securitisation (US$)	127	1.38%	Variable			127		
Securitisation (EUR)	237	2.62%	Variable			237		
OeKB term loan 1	96	1.25%	Fixed	24	24	24	24	
OeKB term loan 2	70	2.20%	Fixed			8	8	53
Other bank debt	75	0.54%	Variable	72	0.4	0.3	0.3	1
2022 Bonds (EUR)	532	3.38%	Fixed					532
2023 Bonds (EUR)	413	4.00%	Fixed					413
2032 Bonds (US$)	221	7.50%	Fixed					221
IFRS adjustments	(20)			(0.3)				(20)
Gross debt	1,750							
Less: Cash	(334)			(334)				
Net non-South African debt	1,416			(238)	25	396	33	1,201
Net group debt	1,322			(417)	25	481	33	1,201

** Floating rate bonds/bank loans swapped to fixed.*

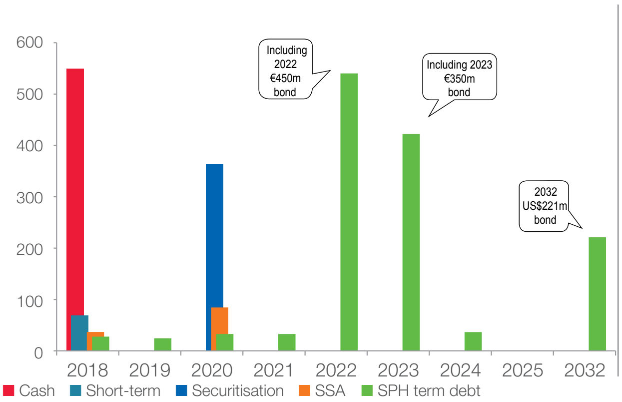
Chief Financial Officer's Report continued

Balance sheet continued

The majority of our non-South African long-term debt is guaranteed by Sappi Limited, the group holding company.

A diagram of the debt maturity profile for Sappi fiscal years is shown below.

Debt maturity profile (US$ million)



Covenants

Non-South African covenants

Financial covenants apply to US$166 million of our non-South African bank debt, the €465 million revolving credit facility and our securitisation borrowings.

The covenants are described below and are calculated on a last four quarter basis and require that at the end of each quarter:

- The ratio of group net debt to EBITDA be not greater than 4.00-to-1 at the end of September 2016, reducing over the term of the facility to 3.75-to-1 by June 2019, and
- The ratio of group EBITDA to net interest expense be not less than 2.50-to-1 at the end of September 2016, and remain at this level over the term of the facility.

The table below shows that at September 2017 we were well in compliance with these covenants.

Non-South African covenants	2017	Covenant
Net debt to EBITDA	1.58	<4.00
EBITDA to net interest	9.24	>2.50

In addition to the financial covenants referred to above, our bonds and certain of our bank facilities contain customary affirmative and negative covenants restricting, among other things, the granting of security, incurrence of debt, the provision of loans and guarantees, mergers and disposals and certain restricted payments. As regards dividend payments, in terms of the international bond indentures, any cash dividends paid may not exceed 50% of net profit excluding special items after tax and certain other adjustments, calculated on a cumulative basis.

South African covenants

Separate covenants also apply to the revolving credit facility of our Southern African business.

These covenants are calculated on a last four quarter basis and require that at the end of March and September, with regard to Sappi Southern Africa Limited and its subsidiaries:

- The ratio of net debt to equity is not at the end of March and September greater than 65%, and
- At the financial year-end, the ratio of EBITDA to net interest paid for the year is not less than 2-to-1.

Below we show that for the year ended September 2017 the South African financial covenants were comfortably met.

South African covenants	2017	Covenant
Net debt to equity	Net cash	<65%
EBITDA to net interest	Net interest received	>2.00

Credit ratings

Global Credit Ratings: South African national rating

Sappi Southern Africa Limited: A+(za)/A1+(za)/Stable Outlook (June 2017)

Moody's

Sappi corporate family rating: Ba2/NP/Positive Outlook (May 2017)

SPH debt rating:

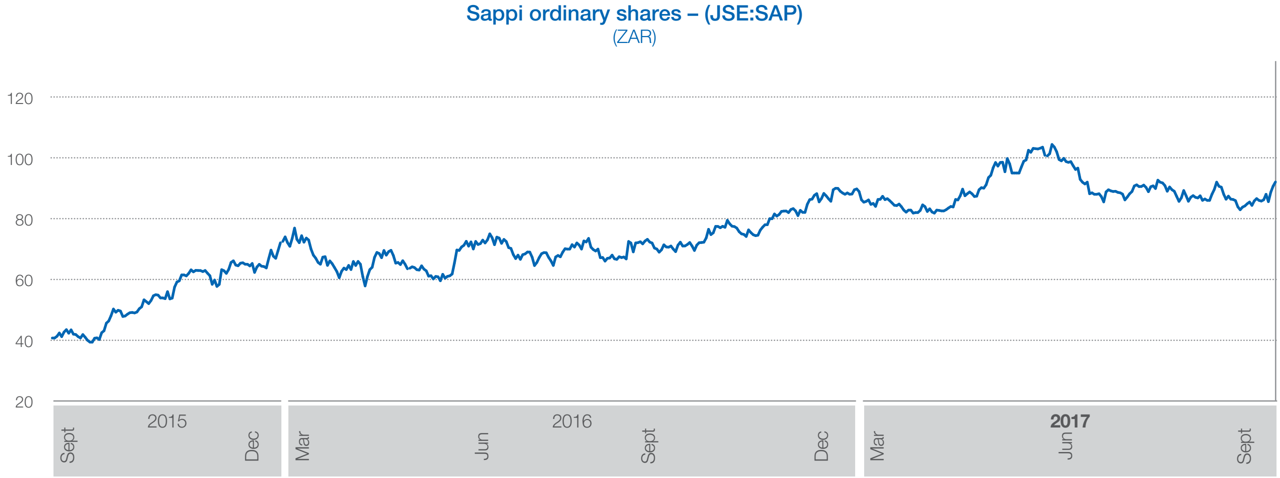
- 2022/2023 Bonds and RCF: Ba2/Positive Outlook (May 2017)
- 2032 Bonds: B1

S&P Global Ratings

Corporate credit rating: BB/B/Stable Outlook (January 2017)
SPH Debt rating:

- 2022/2023/2032 Bonds and RCF: BB Stable Outlook (January 2017)

Section 6
Share price performance



Conclusion

Good cost management, including increased market share in our graphics segments and growth in our specialities and packaging papers and dissolving wood pulp segments, provided the necessary platform to remain on target to deliver our 2020Vision. The four main objectives of our strategy were evident during the year. We exceeded our global cost initiative targets which contributed to increasing our EBITDA margins to 14.8%. We rationalised the business by announcing the conversion of coated graphic capacity in Europe and North America to packaging paper capacity. The balance sheet was strengthened by utilising cash reserves to repay the US$400 million 2017 bonds, and we accelerated growth in high-margin products by initiating debottlenecking projects at Saiccor and Ngodwana Mills to increase production of dissolving wood pulp.

Strong cash generation reduced our leverage to 1.7 times net debt/EBITDA. We start fiscal 2018 on a sound platform.

GT Pearce
Chief Financial Officer

07 December 2017

Five-year review

for the year ended September 2017

(US$ million)	**2017**	2016	2015	2014	2013
Income statement					
Sales	**5,296**	5,141	5,390	6,061	5,925
Variable manufacturing and delivery costs	**3,147**	3,061	3,414	3,887	3,768
Fixed costs	**1,601**	1,571	1,613	1,837	1,943
Sundry expenses (income)[1]	**22**	22	6	(9)	34
Operating profit excluding special items	**526**	487	357	346	180
Special items – (gains) losses	**–**	(57)	(54)	32	161
Operating profit	**526**	544	411	314	19
Net finance costs	**80**	121	182	177	186
Profit (loss) before taxation	**446**	423	229	137	(167)
Taxation charge	**108**	104	62	2	15
Profit (loss) for the year	**338**	319	167	135	(182)
EBITDA excluding special items	**783**	739	625	658	528
Balance sheet					
Total assets	**5,247**	5,177	4,913	5,465	5,727
Non-current assets	**3,378**	3,171	3,174	3,505	3,787
Current assets	**1,869**	2,006	1,739	1,960	1,940
Current liabilities	**1,043**	1,474	1,092	1,223	1,212
Shareholders' equity	**1,747**	1,378	1,015	1,044	1,144
Net debt	**1,322**	1,408	1,771	1,946	2,247
Gross interest-bearing debt	**1,872**	2,111	2,227	2,474	2,599
Cash	**(550)**	(703)	(456)	(528)	(352)
Capital employed	**3,069**	2,786	2,786	2,990	3,391
Cash flow					
Cash generated from operations	**748**	693	544	566	447
Decrease (increase) in working capital	**(27)**	4	(11)	34	(20)
Finance costs paid	**(96)**	(107)	(148)	(170)	(171)
Finance revenue received	**15**	16	13	8	7
Taxation paid	**(100)**	(56)	(16)		(17)
Cash generated from operating activities	**481**	550	382	437	246
Net cash generated (utilised)	**108**	359	145	243	(247)
Cash effects of financing activities	**(279)**	(130)	(127)	(36)	(8)
Capital expenditure (gross)	**357**	241	248	295	552
To maintain operations	**140**	155	175	148	116
To expand operations	**217**	86	73	147	436
Exchange rates					
US$ per one EUR exchange rate – closing	**1.181**	1.123	1.120	1.269	1.352
US$ per one EUR exchange rate – average (financial year)	**1.106**	1.111	1.150	1.358	1.312
ZAR to one US$ exchange rate – closing	**13.556**	13.714	13.914	11.229	10.093
ZAR to one US$ exchange rate – average (financial year)	**13.381**	14.788	11.964	10.566	9.278

[1] *Sundry items include all income and costs not directly related to manufacturing operations such as debtor securitisation costs, commissions paid and received and results of equity-accounted investments.*

(US$ million)	**2017**	2016	2015	2014	2013
Statistics					
Number of ordinary shares (millions)[(1)]					
In issue at year-end	**535.0**	530.6	526.4	524.2	521.5
Basic weighted average number of shares in issue during the year	**533.9**	529.4	525.7	522.5	521.3
Per share information (US cents)					
Basic earnings (loss)	**63**	60	32	26	(35)
Diluted earnings (loss)	**62**	59	31	26	(35)
Headline earnings (loss)	**64**	58	32	31	(10)
Diluted headline earnings (loss)	**63**	57	31	31	(10)
EPS excluding special items (US cents)	**64**	57	34	22	(4)
Net asset value	**327**	260	193	199	219
Profitability ratios (%)					
Operating profit to sales	**9.9**	10.6	7.6	5.2	0.3
Operating profit excluding special items to sales	**9.9**	9.5	6.6	5.7	3.0
EBITDA excluding special items to sales	**14.8**	14.4	11.6	10.9	8.9
Operating profit excluding special items to capital employed (ROCE)	**18.0**	17.5	12.4	10.8	5.2
Net debt to EBITDA excluding special items	**1.7**	1.9	2.8	3.0	4.3
Interest cover	**9.1**	7.3	4.4	3.6	3.1
Return on average equity (ROE)	**21.6**	26.7	16.2	12.3	(13.6)
Debt ratios (%)					
Net debt to total capitalisation	**43.1**	50.5	63.6	65.1	66.3
Efficiency ratios					
Asset turnover (times)	**1.0**	1.0	1.1	1.1	1.0
Inventory turnover ratio	**7.0**	7.0	7.9	7.8	7.3
Liquidity ratios					
Current asset ratio	**1.8**	1.4	1.6	1.6	1.6
Trade accounts receivable days outstanding (including receivables securitised)	**45**	44	45	45	47
Cash interest cover (times)	**8.1**	5.6	3.0	3.1	2.7
Other non-financial information[(2)]					
Sales volumes	**7,410**	7,253	7,306	7,524	7,466
Number of full-time equivalent employees	**12,158**	12,051	12,548	13,064	13,665
Lost-time injury frequency rate (including contract employees)	**0.44**	0.46	0.48	0.53	0.56
Energy					
Specific net purchased energy (GJ/adt)	**13.45**	13.47	13.73	13.80	14.14
Renewable energy to total energy (%)	**45.23**	43.99	44.72	45.82	44.37
Water					
Specific process water drawn (m^3/adt)	**33.74**	34.94	34.32	35.71	36.35
Specific process water returned (m^3/adt)	**31.12**	31.74	31.27	32.55	33.99
Waste					
Specific total landfill (ton/adt)	**0.073**	0.069	0.076	0.067	0.070
Emissions					
Specific Scope 1 emissions (ton CO_2eq/adt)	**0.62**	0.63	0.62	0.62	0.65
Specific Scope 2 emissions (ton CO_2eq/adt)	**0.24**	0.27	0.26	0.27	0.26

Refer to *Share statistics* on page 114 for other market and share-related information.

(1) *Net of treasury shares (refer to note 18 to the Group Annual Financial Statements).*
(2) *Certain energy, water, waste and emissions data for the comparative years have been restated using the latest reporting standards and measurement methodology.*

Note: Definitions for various terms and ratios used above are included in the *Glossary* on page 116.

Share statistics

for the year ended September 2017

Shareholding

Ordinary shares in issue	Number of shareholders	%	Number of shares[1]	% of shares in issue
1 – 5,000	5,566	81.5	3,093,227	0.6
5,001 – 10,000	223	3.3	1,678,002	0.3
10,001 – 50,000	446	6.5	11,258,624	2.1
50,001 – 100,000	190	2.8	13,865,237	2.6
100,001 – 1,000,000	324	4.7	103,771,633	19.4
Over 1,000,000	83	1.2	401,353,472	75.0
	6,832	100.0	535,020,195	100.0

[1] *The number of shares excludes 22,182,378 treasury shares held by the group.*

Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.3
Sappi Limited directors and prescribed officers	0.3
Associates of group directors	–
Trustees of the company's share and retirement funding schemes	–
Share owners who, by virtue of any agreement, have the right to nominate board members	–
Share owners interested in 10% or more of the issued shares	–
Public (the number of public shareholders as at September 2017 was 6,821)	99.7
	100.0

Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter market in the United States of America.

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to section 56(7) of the Companies Act 71 of 2008, the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 2017, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	82,034,389	15.3

Further, as a result of these investigations, the directors have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of September 2017, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

Fund manager	Shares	%
Public Investment Corporation	74,737,258	14.0
Prudential Investment Managers	51,813,987	9.7
BlackRock Inc	32,311,957	6.0
Old Mutual Plc	28,814,593	5.4
STANLIB Asset Management	27,225,483	5.1

Share statistics

		2017	2016	2015	2014	2013
Ordinary shares in issue (millions)[1]		**535.0**	530.6	526.4	524.2	521.5
Net asset value per share (US cents)		**327**	260	193	199	219
Number of shares traded (millions)						
	JSE	**630.7**	544.7	351.0	296.9	323.3
	New York	**3.1**	0.9	1.1	2.0	3.1
Value of shares traded						
JSE (ZAR million)		**54,760.0**	35,428.6	15,642.5	10,500.0	8,634.7
New York (US$ million)		**20.3**	4.2	4.4	6.1	8.8
Percentage of issued shares traded		**118.5**	102.8	66.9	57.0	62.6
Market price per share						
– year-end	JSE (South African cents)	**9,206.0**	7,226	4,069	4,337	2,549
	New York (US cents)	**681.0**	522	286	385	249
– highest	JSE (South African cents)	**10,438.0**	7,942	5,279	4,755	3,300
	New York (US cents)	**797.0**	522	448	425	389
– lowest	JSE (South African cents)	**6,953.0**	3,982	3,610	2,525	2,204
	New York (US cents)	**509.0**	282	267	247	228
Earnings yield (%)[2]		**9.28**	11.39	10.94	6.73	negative
Price/earnings ratio (times)[2]		**10.78**	8.78	9.14	14.86	negative
Total market capitalisation (US$ million)[2]		**3,633**	2,796	1,539	2,025	1,317

(1) *The number of shares excludes 22,182,378 treasury shares held by the group.*
(2) *Based on financial year-end closing prices on the JSE Limited. Income statement amounts have been converted at average year-to-date exchange rates.*

Note: Definitions for various terms and ratios used above are included in the *Glossary* on page 116.

Glossary

General definitions

AF&PA – American Forest and Paper Association.

air dry tons (ADT) – Meaning dry solids content of 90% and moisture content of 10%.

biochemicals – Enzymes, hormones, pheromones etc, which either occur naturally or are manufactured to be identical to naturally occurring substances. Biochemicals have many environment-friendly applications, such as natural pesticides that work in non-lethal ways as repellents or by disrupting the mating patterns of the pests.

biofuels – Organic material such as wood, waste and alcohol fuels, as well as gaseous and liquid fuels produced from these feedstocks when they are burned to produce energy.

biomaterials – New developments in wood processing supports the move to a biobased economy that utilises materials that are renewable and biodegradable and that do not compete with food sources.

black liquor – The spent cooking liquor from the pulping process which arises when pulpwood is cooked in a digester thereby removing lignin, hemicellulose and other extractives from the wood to free the cellulose fibres. The resulting black liquor is an aqueous solution of lignin residues, hemicellulose, and the inorganic chemicals used in the pulping process. Black liquor contains slightly more than half of the energy content of the wood fed into the digester.

bleached pulp – Pulp that has been bleached by means of chemical additives to make it suitable for fine paper production.

casting and release paper – Embossed paper used to impart design in polyurethane or polyvinyl chloride plastic films for the production of synthetic leather and other textured surfaces.

CEPI – Confederation of European Paper Industries.

chemical oxygen demand (COD) – The amount of oxygen required to break down the organic compounds in effluent.

chemical pulp – A generic term for pulp made from woodfibre that has been produced in a chemical process.

CHP – Combined heat and power.

coated mechanical – Coated paper made from groundwood pulp which has been produced in a mechanical process, primarily used for magazines, catalogues and advertising material.

coated papers – Papers that contain a layer of coating material on one or both sides. The coating materials, consisting of pigments and binders, act as a filler to improve the printing surface of the paper.

coated woodfree – Coated paper made from chemical pulp which is made from woodfibre that has been produced in a chemical process, primarily used for high-end publications and advertising material.

corrugating medium – Paperboard made from chemical and semi-chemical pulp, or waste paper, that is to be converted to a corrugated board by passing it through corrugating cylinders. Corrugating medium between layers of linerboard form the board from which corrugated boxes are produced.

CSI and CSR – Corporate social investment and corporate social responsibility.

CSV – Corporate shared value involves developing profitable business strategies that deliver tangible social benefits.

dissolving pulp – Highly purified chemical pulp derived primarily from wood, but also from cotton linters intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament.

dissolving wood pulp – Highly purified chemical pulp derived from wood intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament.

energy – Is present in many forms such as solar, mechanical, thermal, electrical and chemical. Any source of energy can be tapped to perform work. In power plants, coal is burned and its chemical energy is converted into electrical energy. To generate steam, coal and other fossil fuels are burned, thus converting stored chemical energy into thermal energy.

fibre – Fibre is generally referred to as pulp in the paper industry. Wood is treated chemically or mechanically to separate the fibres during the pulping process.

fine paper – Paper usually produced from chemical pulp for printing and writing purposes and consisting of coated and uncoated paper.

fmcg – Fast-moving consumer goods. Examples include non-durable goods such as packaged foods, beverages, toiletries, over-the-counter medicines and many other consumables.

Forestry SA – Largest forestry organisation representing growers of timber in South Africa.

FSC® (Forest Stewardship Council®) – Is an independent, non-governmental, not for profit organisation established to promote the responsible management of the world's forests. Over 190 million hectares of forest are FSC®-certified, in over 80 countries worldwide. https://ic.fsc.org/en

full-time equivalent employee – The number of total hours worked divided by the maximum number of compensable hours in a full-time schedule as defined by law.

greenhouse gases (GHG) – The GHGs included in the Kyoto Protocol are carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

ISO – Developed by the International Standardisation Organisation (ISO), ISO 9000 is a series of standards focused on quality management systems, while the ISO 14001 series is focused on environmental performance and management.

JSE Limited – The main securities exchange in South Africa.

kraft paper – Packaging paper (bleached or unbleached) made from kraft pulp.

kraft pulp – Chemical wood pulp produced by digesting wood by means of the sulphate pulping process.

Kyoto Protocol – A document signed by over 160 countries at Kyoto, Japan in December 1997 which commits signatories to reducing their emission of greenhouse gases relative to levels emitted in 1990.

lignosulphonate – Lignosulphonate is a highly soluble lignin derivative and a product of the sulphite pulping process.

linerboard – The grade of paperboard used for the exterior facings of corrugated board. Linerboard is combined with corrugating medium by converters to produce corrugated board used in boxes.

liquor – White liquor is the aqueous solution of sodium hydroxide and sodium sulphide used to extract lignin during kraft pulping. Black liquor is the resultant combination of lignin, water and chemicals.

Lost-Time Injury Frequency Rate (LTIFR) – Number of lost time injuries x 200,000 divided by man hours.

managed forest – Naturally occurring forests that are harvested commercially.

market pulp – Pulp produced for sale on the open market, as opposed to that produced for own consumption in an integrated mill.

mechanical pulp – Pulp produced by means of the mechanical grinding or refining of wood or woodchips.

nanocellulose – Cellulose is the main component of plant stems, leaves and roots. Traditionally, its main commercial use was in producing paper and textiles. Nanocellulose opens up opportunities for advanced, planet-friendly solutions in place of environmentally harmful products.

natural/indigenous forest – A forest of naturally regenerating native trees.

NBHK – Northern Bleached Hardwood Kraft pulp. One of the varieties of market pulp, produced from hardwood trees (ie birch or aspen) in Scandinavia, Canada and northern USA.

Glossary continued

NBSK – Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, produced from coniferous trees (ie spruce, pine) in Scandinavia, Canada and northern USA. The price of NBSK is a benchmark widely used in the pulp and paper industry for comparative purposes.

newsprint – Paper produced for the printing of newspapers mainly from mechanical pulp and/or recycled waste paper.

NGO – Non-government organisation.

NPO – Non-profit organisation.

OHSAS – Is an international health and safety standard aimed at minimising occupational health and safety risks firstly, by conducting a variety of analyses and secondly, by setting standards.

OTC – Over-the-counter trading of shares.

packaging paper – Paper used for packaging purposes.

PAMSA – Paper Manufacturers' Association of South Africa.

PEFC™ – The Programme for the Endorsement of Forest Certification (PEFC) is an international non-profit, non-governmental organisation dedicated to promoting Sustainable Forest Management (SFM) through independent third-party certification. PEFC™ is the world's largest forest certification system with over 300 million hectares of forest area under PEFC™ standards. PEFC™ is represented in 49 countries through national organisations such as SFI in North America. https://www.pefc.org/

plantation – Large scale planted forests, intensively managed, highly productive and grown primarily for wood and fibre production.

PM – Paper machine.

power – The rate at which energy is used or produced.

pulpwood – Wood suitable for producing pulp – usually not of sufficient standard for saw milling.

release paper – Based paper used in the production of making release liners, the backing paper for self-adhesive labels.

sackkraft – Kraft paper used to produce multi-wall paper sacks.

Scope 1 and 2 GHG emissions – The Greenhouse Gas Protocol defines Scope 1 (direct) and Scope 2 (indirect) emissions as follows:

- Direct GHG emissions are emissions from sources that are owned or controlled by the reporting entity, and
- Indirect GHG emissions are emissions from purchased electricity, steam, heat or cooling.

SFI® (Sustainable Forestry Initiative) – Is a solutions-oriented sustainability organisation that collaborates on forest-based conservation and community initiatives. The SFI® forest management standard is the largest forestry certification standard within the PEFC programme with over a hundred million hectares under management. http://www.sfiprogram.org/

silviculture costs – Growing and tending costs of trees in forestry operations.

solid waste – Dry organic and inorganic waste materials.

specialised cellulose – The business within Sappi which oversees the production and marketing of dissolving wood pulp (DWP).

specialities – A generic term for a group of papers intended for commercial and industrial use such as flexible packaging, metallised base paper, coated bag paper, etc.

specific – When data is expressed in specific form, this means that the actual quantity consumed during the year indicated, whether energy, water, emissions or solid waste, is expressed in terms of a production parameter. For Sappi, as with other pulp and paper companies, this parameter is air dry tons of saleable product.

specific purchased energy – The term 'specific' indicates that the actual quantity during the year indicated, is expressed in terms of a production parameter. For Sappi, as with other pulp and paper companies, the parameter is air dry tons of product.

Sustainable Forestry Initiative (SFI®) – The SFI® programme is a comprehensive system of objectives and performance measures which integrate the sustained growing and harvesting of trees and the protection of plants and animals.

thermo-mechanical pulp – Pulp produced by processing woodfibres using heat and mechanical grinding or refining wood or woodchips.

ton – Term used in this report to denote a metric ton of 1,000kg.

total suspended solids (TSS) – Refers to matter suspended or dissolved in effluent.

uncoated woodfree paper – Printing and writing paper made from bleached chemical pulp used for general printing, photocopying and stationery, etc. Referred to as uncoated as it does not contain a layer of pigment to give it a coated surface.

viscose staple fibre (VSF) – A natural fibre made from purified cellulose, primarily from dissolving wood pulp (DWP) that can be twisted to form yarn.

woodfree paper – Paper made from chemical pulp.

World Wildlife Fund (WWF) – The world's largest conservation organisation, focused on supporting biological diversity.

General financial definitions

acquisition date – The date on which control in respect of subsidiaries, joint control in respect of joint arrangements and significant influence in associates commences.

associate – An entity over which the investor has significant influence.

basic earnings per share – Net profit for the year divided by the weighted average number of shares in issue during the year.

commissioning date – The date that an item of property, plant and equipment, whether acquired or constructed, is brought into use.

compound annual growth rate – Is the mean annual growth rate of an investment over a specified period of time longer than one year.

control – An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

diluted earnings per share – Is calculated by assuming conversion or exercise of all potentially dilutive shares, share options and share awards unless these are anti-dilutive.

discount rate – This is the pre-tax interest rate that reflects the current market assessment of the time value of money for the purposes of determining discounted cash flows. In determining the cash flows the risks specific to the asset or liability are taken into account in determining those cash flows and are not included in determining the discount rate.

disposal date – The date on which control in respect of subsidiaries, joint arrangements and significant influence in associates ceases.

fair value – The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

financial results – Comprise the financial position (assets, liabilities and equity), results of operations (revenue and expenses) and cash flows of an entity and of the group.

foreign operation – An entity whose activities are based or conducted in a country or currency other than that of the reporting entity.

functional currency – The currency of the primary economic environment in which the entity operates.

group – The group comprises Sappi Limited, its subsidiaries and its interest in joint ventures and associates.

Glossary continued

joint arrangement – Is an arrangement of which two or more parties have joint control.

joint venture – Is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

operation – A component of the group:
- That represents a separate major line of business or geographical area of operation, or
- Is distinguished separately for financial and operating purposes.

operating profit – A profit from business operations before deduction of net finance costs and taxes.

presentation currency – The currency in which the financial results of an entity are presented.

qualifying asset – An asset that necessarily takes a substantial period (normally in excess of six months) to get ready for its intended use.

recoverable amount – The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs of disposal and its value in use. In determining the value in use, expected future cash flows are discounted to their net present values using the discount rate.

related party – Parties are considered to be related if one party directly or indirectly has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or is a member of the key management of Sappi Limited.

segment assets – Total assets (excluding deferred taxation and cash) less current liabilities (excluding interest-bearing borrowings and overdraft).

share-based payment – A transaction in which Sappi Limited issues shares or share options to group employees as compensation for services rendered.

significant influence – Is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control of those policies.

Non-GAAP financial definitions

The group believes that it is useful to report certain non-GAAP measures for the following reasons:
- These measures are used by the group for internal performance analysis
- The presentation by the group's reported business segments of these measures facilitates comparability with other companies in our industry, although the group's measures may not be comparable with similarly titled profit measurements reported by other companies, and
- It is useful in connection with discussion with the investment analyst community and debt rating agencies. These non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS.

asset turnover (times) – Sales divided by total assets.

average – Averages are calculated as the sum of the opening and closing balances for the relevant period divided by two.

Black Economic Empowerment (BEE) charge – Represents the IFRS 2 non-cash charge associated with the BEE transaction implemented in 2010 in terms of BEE legislation in South Africa.

capital employed – Shareholders' equity plus net debt.

cash interest cover – Cash generated by operations divided by finance costs less finance revenue.

current asset ratio – Current assets divided by current liabilities.

dividend yield – Dividends per share, which were declared after year-end, in US cents divided by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate.

earnings yield – Earnings per share divided by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate.

EBITDA excluding special items – Earnings before interest (net finance costs), taxation, depreciation, amortisation and special items.

EPS excluding special items – Earnings per share excluding special items and certain once-off finance and tax items.

fellings – The amount charged against the income statement representing the standing value of the plantations harvested.

headline earnings – As defined in Circular 2/2015, reissued by the South African Institute of Chartered Accountants in October 2015, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share.

inventory turnover (times) – Cost of sales divided by inventory on hand at balance sheet date.

net assets – Total assets less total liabilities.

net asset value per share – Net assets divided by the number of shares in issue at balance sheet date.

net debt – Current and non-current interest-bearing borrowings, and bank overdraft (net of cash, cash equivalents and short-term deposits).

net debt to total capitalisation – Net debt divided by capital employed.

net operating assets – Total assets (excluding deferred taxation and cash and cash equivalents) less current liabilities (excluding interest-bearing borrowings and overdraft).

ordinary dividend cover – Profit for the period divided by the ordinary dividend declared, multiplied by the actual number of shares in issue at year-end.

ordinary shareholders' interest per share – Shareholders' equity divided by the actual number of shares in issue at year-end.

price/earnings ratio – The financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate divided by earnings per share.

ROCE – Return on average capital employed. Operating profit excluding special items divided by average capital employed.

ROE – Return on average equity. Profit for the period divided by average shareholders' equity.

RONOA – Return on average net operating assets. Operating profit excluding special items divided by average net operating assets.

SG&A – Selling, general and administrative expenses.

special items – Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash.

total market capitalisation – Ordinary number of shares in issue (excluding treasury shares held by the group) multiplied by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate.

trade receivables days outstanding (including securitised balances) – Gross trade receivables, including receivables securitised, divided by sales multiplied by the number of days in the year.

Notice to shareholders

Notice of Annual General Meeting

This document is important and requires your immediate attention

If you are in any doubt as to what action you should take, please consult your stockbroker, banker, attorney, accountant or other professional advisor immediately.

Sappi Limited
(Registration number: 1936/008963/06)
(Sappi or the Company)

The eighty-first Annual General Meeting (AGM) of Sappi will be held at Sappi's registered office, in the Oxford Room, Ground Floor, 108 Oxford Road, Rosebank, Johannesburg (entrance in 9th Street) on Wednesday, 07 February 2018 at 14:00. The following business will be transacted and, if deemed fit, the following resolutions will be passed with or without modification.

The record date on which shareholders must be recorded as such in the register maintained by the transfer secretaries of the Company for the purposes of determining which shareholders are entitled to attend and vote at the AGM is Friday, 02 February 2018.

1. Ordinary resolution number 1: Presentation of annual financial statements

Ordinary resolution number 1 is proposed to present the annual financial statements of the Company for the year ended September 2017, including the directors' report, the report of the auditors and the report of the Audit Committee.

The complete Group Annual Financial Statements for the year ended September 2017 are available on the Sappi website: www.sappi.com.

"Resolved that the Group Annual Financial Statements for the year ended September 2017 of the Company, including the directors' report, the report of the auditors and the report of the Audit Committee, be and are hereby received and accepted."

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

2. Ordinary resolution number 2: Approval and confirmation of appointment of directors appointed subsequent to the last AGM and subsequent to the financial year-end

"Resolved that the appointment of Dr B Mehlomakulu with effect from 01 March 2017 is approved and confirmed as required in terms of Sappi's Memorandum of Incorporation."

The board recommends and supports the approval and confirmation of her appointment. For Dr Mehlomakulu's brief biographical details, refer to note 1 under 'notes' on page 128.

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution, is required.

3. Ordinary resolutions numbers 3.1 to 3.3: Re-election of the directors retiring by rotation in terms of Sappi's Memorandum of Incorporation

The board has evaluated the performances of each of the directors who are retiring by rotation, and recommends and supports the re-election of each of them.

For brief biographical details of those directors, refer to note 2 under 'notes' on pages 128 and 129.

It is intended that all the directors who retire by rotation will, if possible, attend the AGM, either in person or by means of video-conferencing.

In order for these resolutions to be adopted, in each case the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required:

Ordinary resolution number 3.1

"Resolved that Sir Nigel Rudd is re-elected as a director of Sappi."

Ordinary resolution number 3.2

"Resolved that Mr NP Mageza is re-elected as a director of Sappi."

Ordinary resolution number 3.3

"Resolved that Mr MV Moosa is re-elected as a director of Sappi."

4. Ordinary resolution number 4: Election of Audit Committee members

Ordinary resolution number 4 is proposed to elect the members of the Audit Committee in terms of section 94(2) of the South African Companies Act 71 of 2008 (as amended) (the Companies Act) and the King IV Report on Corporate Governance for South Africa 2016 (King IV).

Section 94 of the Companies Act requires that, at each AGM, shareholders of the Company must elect an Audit Committee comprising at least three members.

The Nomination and Governance Committee conducted an assessment of the performance and independence of each of the directors proposed to be members of the Audit Committee and the board considered and accepted the findings of the Nomination and Governance Committee. The board is satisfied that the proposed members meet the requirements of section 94(4) of the Companies Act, that they are independent according to King IV and that they possess the required qualifications and experience as prescribed in regulation 42 of the Companies Regulations, 2011, which requires that at least one-third of the members of a company's Audit Committee at any particular time must have academic qualifications or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

Brief biographical details of each member of the Audit Committee are included in the biographies of all directors on our website www.sappi.com.

"Resolved that an Audit Committee be and is hereby elected, by separate election to the committee of the following independent directors:

4.1 Dr D Konar	Chairman
4.2 Mr MA Fallon	Member
4.3 Mr NP Mageza	Member*
4.4 Mrs KR Osar	Member
4.5 Mr RJAM Renders	Member

in terms of the Companies Act, to hold office until the conclusion of the next AGM and to perform the duties and responsibilities stipulated in section 94(7) of the Companies Act and in King IV and to perform such other duties and responsibilities as may from time to time be delegated to it by the board."

In order for these resolutions to be adopted, the support in each case of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

** Subject to his re-election as a director pursuant to ordinary resolution number 3.2*

5. Ordinary resolution number 5: Appointment of auditors

The board has evaluated the performance of KPMG Inc. and recommends their re-appointment as auditors of Sappi.

"Resolved that KPMG Inc. (with the designated registered auditor to be Mr Coenie Basson) be re-appointed as the auditors of Sappi for the financial year ending September 2018 and to remain in office until the conclusion of the next AGM."

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

6. Ordinary resolutions numbers 6.1 and 6.2: The provision of Sappi Limited shares as required by the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust

The passing of resolutions 6.1 and 6.2 will enable the directors to continue to meet the share requirements of the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust (collectively the Schemes), both of which Schemes were approved by shareholders, are already in place and are subject to the Listings Requirements of the JSE Limited (JSE). The passing of resolution 6.2 will provide directors with the ability to utilise shares repurchased from time to time by a wholly owned subsidiary of Sappi and held in treasury by such subsidiary company, for the purposes of satisfying the share requirements of the Schemes, at times when the directors consider that to be more efficient than issuing new shares in the capital of Sappi.

The combined maximum number of shares which can be issued pursuant to the Schemes is 42,700,870 shares. As at year-end, 16,775,868 shares pursuant to offers made under the Schemes after 07 March 2005, have already been issued to, or transferred to the Schemes since the approval by shareholders of the Sappi Limited Performance Share Plan on 07 March 2005, leaving a balance of up to 31,686,412 shares which can still be issued or transferred to the Schemes. Of that number, there are currently 13,484,755 Performance Share Plan awards which are still subject to vesting and 1,425,789 options which have not yet been exercised.

Ordinary resolution number 6.1

"Resolved as an ordinary resolution that all the ordinary shares required for the purpose of carrying out the terms of the Sappi Limited Performance Share Incentive Trust ("the Plan"), other than those which have specifically been appropriated for the Plan in terms of ordinary resolutions duly passed at previous general meetings of Sappi, be and are hereby specifically placed under the control of the directors who be and are hereby authorised to issue those shares in terms of the Plan."

Ordinary resolution number 6.2

"Resolved as an ordinary resolution that any subsidiary of Sappi Limited be and is hereby authorised in terms of the Listings Requirements of the JSE to sell at the price at which the participant is allowed to acquire the Company's shares and to transfer to the Sappi Limited Share Incentive Trust and/or the Sappi Limited Performance Share Incentive Trust (collectively "the Schemes") those numbers of Sappi's shares to be acquired by that subsidiary from time to time (but not

Notice to shareholders continued

exceeding the maximum number of Sappi's shares available to the Schemes) as may be required by the Schemes when a participant to whom Sappi's shares will be allocated has been identified."

In order for these resolutions to be adopted, in each case the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

7. Ordinary resolution number 7: Remuneration policy

"Resolved as an ordinary resolution, that the Company's Remuneration policy as contained in Section B of the Remuneration Report on pages 78 to 84 of the Annual Integrated Report, be and is hereby endorsed by way of a non binding advisory vote."

This non-binding advisory vote is being proposed in accordance with the recommendations of King IV.

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

8. Ordinary resolution number 8: Implementation report

"Resolved as an ordinary resolution, that the Company's Implementation report as contained in Section C of the Remuneration Report on pages 84 to 88 of the Annual Integrated Report, be and is hereby endorsed by way of a non-binding advisory vote."

This further non-binding advisory vote is being proposed in accordance with the recommendations of King IV.

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

9. Special resolution number 1: Non-executive directors' fees

"Resolved that, with effect from 01 October 2017 and until otherwise determined by Sappi in general meeting, the remuneration of the non-executive directors for their services shall be increased as follows:

		From	To
1.	**Sappi board fees[(1)]**		
	Chairperson		
	If South African resident	ZAR2,689,110*	ZAR2,823,570*
	If United Kingdom resident	£302,980*	£307,520*
	If United States resident	US$453,330*	US$461,940*
	If European resident	€407,440*	€413,550*
	Lead independent director		
	If South African resident	ZAR587,080	ZAR616,430
	If United Kingdom resident	£66,360	£67,350
	If United States resident	US$99,240	US$101,120
	If European resident	€89,240	€90,580
	Other directors		
	If South African resident	ZAR392,360	ZAR411,980
	If United Kingdom resident	£44,200	£44,860
	If United States resident	US$66,140	US$67,400
	If European resident	€59,450	€60,340

** Inclusive of all board committee fees.*
(1) Fees per annum unless indicated otherwise.

		From	To
2.	**Audit Committee fees**[1]		
	Board committee		
	Chairperson		
	If South African resident	ZAR407,420	ZAR427,790
	If United Kingdom resident	£44,880	£45,550
	If United States resident	US$68,520	US$69,820
	If European resident	€60,360	€61,270
	Other members		
	If South African resident	ZAR203,710	ZAR213,900
	If United Kingdom resident	£22,570	£22,910
	If United States resident	US$33,420	US$34,100
	If European resident	€30,350	€30,800

[1] *Fees per annum unless indicated otherwise.*

		From	To
3.	**Human Resources and Compensation Committee, Nomination and Governance Committee, Social, Ethics, Sustainability and Transformation Committee and any other committees**[1]		
	Chairperson		
	If South African resident	ZAR244,950	ZAR257,200
	If United Kingdom resident	£26,660	£27,060
	If United States resident	US$39,150	US$39,890
	If European resident	€35,850	€36,390
	Other members		
	If South African resident	ZAR127,480	ZAR133,850
	If United Kingdom resident	£18,690	£18,970
	If United States resident	US$23,920	US$24,370
	If European resident	€25,130	€25,510

[1] *Fees per annum unless indicated otherwise.*

		From	To
4.	**Additional meeting fees for board meetings in excess of five meetings per annum whether attended in person or by teleconference/video-conference**		
	If South African resident	ZAR39,330 per meeting	ZAR41,300 per meeting
	If United Kingdom resident	£4,380 per meeting	£4,450 per meeting
	If United States resident	US$6,610 per meeting	US$6,740 per meeting
	If European resident	€5,890 per meeting	€5,980 per meeting

Notice to shareholders continued

		From	To
5.	**Travel compensation**		
	For more than 10 flight hours return		
	If South African resident	US$3,500 per meeting	US$3,600 per meeting
	If United Kingdom resident	US$3,500 per meeting	US$3,600 per meeting
	If United States resident	US$3,500 per meeting	US$3,600 per meeting
	If European resident	US$3,500 per meeting	US$3,600 per meeting

Sappi's practice, as recorded previously, is to review directors' fees annually. Special resolution number 1 increases the remuneration currently paid to non-executive directors and board committee members by between approximately 1.5% and 5% per annum depending generally on the domicile of the directors and the currency in which they are paid, with effect from 01 October 2017. The fees were last increased with effect from 01 October 2016 and have been reviewed to ensure that Sappi's fees remain generally comparable with those of its peer companies in the various countries in which its directors are domiciled.

The review also takes into account that the responsibility of non-executive directors continues to increase substantially flowing from legislative, regulatory and corporate governance developments and requirements in South Africa and elsewhere.

Non-executive directors' fees are paid quarterly (in March, June, September and December each year) and the proposed increase, if approved, will be applicable to payments to be made in December 2017 onwards. Initially the December 2017 payment will be made on the basis of the existing fee structure, and following shareholder approval of the proposed increases, the shortfall in the December 2017 payment will be made up in the March 2018 payment.

The practice has been and will continue to be that directors' fees and board committee fees are paid to non-executive directors only.

In order for this resolution to be adopted, the support of at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

10. Special resolution number 2: Loans or other financial assistance to related or inter-related companies

The Companies Act provides, among other things, that, except to the extent that the Memorandum of Incorporation of a company provides otherwise, the board may authorise the Company to provide direct or indirect financial assistance (which includes lending money, guaranteeing a loan or other obligation and securing any debt or obligation) to a related or inter-related company or corporation, provided that such authorisation shall be made pursuant to a special resolution of the shareholders adopted within the previous two years, which approved such assistance either for the specific recipient or generally for a category of potential recipients and the specific recipient falls within that category.

"Resolved that the directors of the Company be and are hereby authorised, in accordance with the Companies Act, to authorise the Company to provide direct or indirect financial assistance to any company or corporation which is related or inter-related to the Company."

In order for this resolution to be adopted, the support of at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

11. Ordinary resolution number 9: Signature of documents

"Resolved that any director of Sappi is authorised to sign all such documents and do all such things as may be necessary for or incidental to the implementation of the resolutions passed at the AGM held on 07 February 2018 or any adjournment thereof."

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

12. To receive a report from the Social, Ethics, Transformation and Sustainability Committee

Shareholders are referred to the Social, Ethics, Transformation and Sustainability Committee Report on page 89.

Proxies

Shareholders are entitled to appoint one or more proxies to attend, speak and on a poll to vote in their stead. A proxy need not be a shareholder. For the convenience of shareholders, a form of proxy is enclosed.

The attached form of proxy is only to be completed by shareholders who hold Sappi shares in certificated form or have dematerialised their shares (i.e. have replaced the paper share certificates with electronic records of ownership under JSE's electronic settlement system ("Strate Limited") and are recorded in the sub-register in "own name" dematerialised form (i.e. shareholders who have specifically instructed their Central Securities Depositary Participant ("CSDP") or broker to hold their shares in their "own name" on Sappi's sub-register). Shareholders who have dematerialised their shares and who are not registered as 'own name' dematerialised shareholders and who wish to:

- attend the AGM must instruct their CSDP or brokers to provide them with a letter of representation to enable them to attend such meeting; or
- vote, but not to attend the AGM, must provide their CSDPs or brokers with their voting instructions in terms of the relevant custody agreement between them and their CSDPs or brokers.

Such a shareholder must not complete the attached form of proxy.

When authorised to do so, CSDPs or brokers recorded in Sappi's sub-register or their nominees should vote either by appointing a duly authorised representative to attend and vote at the AGM to be held on 07 February 2018 or any adjournment thereof or by completing the attached form of proxy and returning it to one of the addresses indicated on the form of proxy in accordance with the instructions thereon.

Electronic participation by shareholders

Should any shareholder (or any proxy for a shareholder) wish to participate in the AGM by way of electronic participation, that shareholder should make application in writing (including details as to how the shareholder or the shareholder's representative or proxy, can be contacted) to so participate to the transfer secretaries, at their address as reflected on page 130, to be received by the transfer secretaries at least five business days prior to the AGM in order for the transfer secretaries to arrange for the shareholder (or the shareholder's representative or proxy) to provide reasonably satisfactory identification to the transfer secretaries for the purposes of section 63(1) of the Companies Act and for the transfer secretaries to provide the shareholder (or the shareholder's representative or proxy) with details as to how to access any electronic participation to be provided. The Company reserves the right to elect not to provide for electronic participation at the AGM in the event that it determines that it is not practical to do so. The costs of accessing any means of electronic participation provided by the Company will be borne by the Company.

It should be noted, however, that voting will not be possible via the electronic facilities and for shareholders wishing to vote, their shares will need to be represented at the meeting either in person, by proxy or by letter of representation, as provided for in the notice of meeting.

Questions

The board encourages shareholders to attend and to ask questions at the AGM. In order to facilitate the answering of questions at the meeting, shareholders who wish to ask questions in advance are encouraged to submit their questions in writing to the Group Company Secretary by 17:00 on Friday, 02 February 2018 at:
108 Oxford Road
(Entrance in 9th Street)
Rosebank
Johannesburg
2198

or

PO Box 31560
Braamfontein
2017

or

By email to Amanda.Tregoning@sappi.com

Sappi Southern Africa Limited

Secretaries: per AJ Tregoning
108 Oxford Road
Rosebank, Johannesburg 2198

07 December 2017

Notice to shareholders continued

Notes

1. Approval and confirmation of appointment of directors appointed since the last AGM and subsequent to the year-end

Dr Bonakele Mehlomakulu (Boni) (45)
(Independent)

Qualifications: PhD (Chemical Engineering), MSc (Organic Chemistry)

Nationality: South African

Appointed: March 2017

Sappi board committee memberships:
- Social, Ethics, Transformation and Sustainability Committee

Other board and organisation memberships:
- Hulamin Limited
- Unisa Council
- Yokogawa South Africa

Skills, expertise and experience:
Dr Boni Mehlomakulu is the Chief Executive Officer of the South African Bureau of Standards (SABS). Under her leadership the institution has undergone a significant transformation, gearing itself towards service relevance within the 21st century. As a pioneer for continuous learning, she holds a BSc (Hons) (Chemistry and Applied Chemistry), MSc (Organic Chemistry) and a PhD (Chemical Engineering) from the University of Cape Town.

Dr Mehlomakulu's career started at Sasol before joining the Department of Science and Technology in various management roles. In addition to her non-executive directorship at Sappi Limited, her external industry portfolios include being the deputy chair of Unisa Council, non-executive director of Hulamin Limited and Yokogawa South Africa, as well as a council member of the International Standards Organisation (ISO, Geneva). Past boards and directorships include PBMR Proprietary Limited, Nuclear Energy Corporation of South Africa (NECSA), Eskom Holdings SOC Limited and the Technology Innovation Agency (TIA).

2. Directors retiring by rotation who are seeking re-election

Sir Nigel Rudd (70)
(Independent Chairman)

Qualifications: DL, Chartered Accountant

Nationality: British

Appointed: April 2006

Sappi board committee memberships:
- Nomination and Governance Committee (Chairman)
- Attends Audit Committee, Human Resources and Compensation Committee and Social, Ethics, Transformation and Sustainability Committee meetings ex officio

Other board and organisation memberships:
BBA Aviation plc (Chairman)
Business Growth Fund (Chairman)
Meggitt plc (Chairman)

Skills, expertise and experience:
Sir Nigel Rudd has held various senior management and board positions in a career spanning more than 35 years. He founded Williams plc in 1982 and the company went on to become one of the largest industrial holding companies in the United Kingdom. He was knighted by the queen for services to the manufacturing industry in the UK in 1996 and holds honorary doctorates from Loughborough and Derby Universities. In 1995 he was awarded the Founding Societies Centenary Award by the Institute of Chartered Accountants. He is a Deputy Lieutenant of Derbyshire and a Freeman of the City of London.

Nkateko Peter Mageza (Peter) (63)
(Independent)

Qualifications: FCCA (UK)

Nationality: South African

Appointed: January 2010

Sappi board committee memberships:
- Audit Committee
- Human Resources and Compensation Committee

Other board and organisation memberships:
- Anglo American Platinum Limited
- Ethos Private Equity Proprietary Limited
- RCL Foods Limited (formerly Rainbow Chickens Limited)
- Remgro Limited
- MTN Group Limited

Skills, expertise and experience:
Mr Mageza joined the Sappi board after having held senior executive positions across a wide range of industries. He is a former group Chief Operating Officer and Executive Director of Absa Group Limited, Assistant General Manager at Nedcor Limited and Chief Executive Officer of Autonet, the Road Passenger and Freight Logistics division of Transnet Limited.

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)

Other board and organisation memberships:
- Anglo Platinum Limited (Chairman)
- Imperial Holdings Limited
- Sanlam Limited
- Sun International Limited (Chairman)
- WWF–SA (Chairman)

Skills, expertise and experience:
Mr Moosa has held numerous leadership positions across business, government, politics and civil society in South Africa. He was South African Minister of Constitutional Development, the President of the International Union for the Conservation of Nature, and Chairman of the UN Commission for Sustainable Development, and he served as a member of the National Executive Committee of the African National Congress until 2009.

Shareholders' diary

Annual General Meeting	07 February 2018
First quarter results released	February 2018
Second quarter and half-year results released	May 2018
Third quarter results released	August 2018
Financial year-end	September 2018
Preliminary fourth quarter and year results	November 2018
Annual Integrated Report posted to shareholders and posted on website	December 2018

Administration

Sappi Limited

Registration number 1936/008963/06
JSE code: SAP
ISIN code: ZAE 000006284

Group Company Secretary and Corporate Counsel

Amanda Tregoning

Secretaries

Sappi Southern Africa Limited
108 Oxford Road
Rosebank
Johannesburg 2198
South Africa

PO Box 31560
Braamfontein 2018
South Africa
Tel +27 (0)11 407 8174
Email Amanda.Tregoning@sappi.com
www.sappi.com

Transfer secretaries

South Africa
Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank 2196

PO Box 61051
Marshalltown 2107
Fax +27 (0)11 688 5238
Email proxy@computershare.co.za
Tel +27 (0)11 370 5000
www.computershare.com

Corporate affairs

André Oberholzer – Group Head Corporate Affairs
Tel +27 (0)11 407 8044
Email Andre.Oberholzer@sappi.com

Investor relations

Graeme Wild – Group Head Investor Relations and Sustainability
Tel +27 (0)11 407 8391
Email Graeme.Wild@sappi.com

JSE Sponsor

UBS South Africa Proprietary Limited
64 Wierda Road East
Sandton, 2196
South Africa
Tel +27 (0)11 322 7617
Email Jacques.Botha@ubs.com

United States ADR Depositary

BNY Mellon Share Owner Services
PO Box 30170
College Station, TX 77842-3170
USA
Email shrrelations@cpushareownerservices.com
Tel (US only) 1 888 BNY ADRS
Tel (Outside the US) +1 201 680 6825
www.mybnymdr.com

Proxy form for the Annual General Meeting

Sappi Limited
(Registration number: 1936/008963/06)
(Incorporated in the Republic of South Africa)
("Sappi" or "the Company")
Issuer code: SAP
JSE code: SAP
ISIN code: ZAE000006284

For use by shareholders who:
- hold shares in certificated form; or
- hold dematerialised shares (ie where the paper share certificates representing the shares have been replaced with electronic records of ownership under the electronic settlement and depositary system (Strate Limited of the JSE Limited) and are recorded in Sappi's sub-register with 'own name' registration) (ie shareholders who have specifically instructed their Central Securities Depository Participant (CSDP) to record the holding of their shares in their own name in Sappi's sub-register).

If you are unable to attend the eighty-first Annual General Meeting of the members to be held at 14:00 on Wednesday, 07 February 2018 at Sappi in the Oxford Room, Ground Floor, 108 Oxford Road, Rosebank, Johannesburg, 2198, Republic of South Africa, you should complete and return the form of proxy as soon as possible, but in any event to be received by not later than 14:00 South African time on Monday, 05 February 2018, to Sappi's transfer secretaries, Computershare Investor Services Proprietary Limited, by way of hand delivery to Rosebank Towers, 15 Biermann Avenue, Rosebank 2196, Republic of South Africa or by way of postal delivery to PO Box 61051, Marshalltown, 2107, Republic of South Africa or handed to the Chairman of the Annual General Meeting before the appointed proxy exercises any of the relevant shareholder's rights.

Shareholders who have dematerialised their shares and who do not have 'own name' registration and wish to attend the Annual General Meeting, must instruct their CSDP or broker to provide them with the relevant letter of representation to enable them to attend such meeting, or, alternatively, should they wish to vote but not to attend the Annual General Meeting, they must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. **Such shareholders must not complete this form of proxy.**

I/We

of

being a shareholder(s) of Sappi holding Sappi shares and entitled to vote at the abovementioned Annual General Meeting, appoint

or failing him/her

or failing him/her

or failing him/her, the Chairman of the meeting as my/our proxy to attend and speak and, on a poll, to vote for me/us on the resolutions to be proposed (with or without modification) at the Annual General Meeting of Sappi to be held at 14:00 on Wednesday, 07 February 2018 or any adjournment thereof, as follows.

	Number of shares		
	For	**Against**	**Abstain**
Ordinary resolution number 1 – Receipt and acceptance of 2017 annual financial statements, including directors' report, auditors' report and Audit Committee report			
Ordinary resolution number 2 – Approval and confirmation of appointment of Dr B Mehlomakulu as a director of Sappi			
Ordinary resolution number 3 – Re-election of directors retiring by rotation in terms of Sappi's Memorandum of Incorporation*			
Ordinary resolution number 3.1 – Re-election of Sir Nigel Rudd as a director of Sappi			
Ordinary resolution number 3.2 – Re-election of Mr NP Mageza as a director of Sappi			
Ordinary resolution number 3.3 – Re-election of Mr MV Moosa as a director of Sappi			
Ordinary resolution number 4 – Election of Audit Committee			
Ordinary resolution number 4.1 – Election of Dr D Konar as chairman of the Audit Committee			
Ordinary resolution number 4.2 – Election of Mr MA Fallon as a member of the Audit Committee			
Ordinary resolution number 4.3 – Election of Mr NP Mageza as a member of the Audit Committee			
Ordinary resolution number 4.4 – Election of Mrs KR Osar as a member of the Audit Committee			
Ordinary resolution number 4.5 – Election of Mr RJAM Renders as a member of the Audit Committee			
Ordinary resolution number 5 – Re-appointment of KPMG Inc. as auditors of Sappi for the year ending September 2018 and until the next Annual General Meeting of Sappi			
Ordinary resolution number 6.1 – The placing of all ordinary shares required for the purpose of carrying out the terms of the Sappi Limited Performance Share Incentive Plan ("the Plan") under the control of the directors to allot and issue in terms of the Plan			
Ordinary resolution number 6.2 – The authority for any subsidiary of Sappi to sell and to transfer to the Sappi Limited Share Incentive Scheme and the Sappi Limited Performance Share Incentive Plan (collectively "the Schemes") such shares as may be required for the purposes of the Schemes			
Ordinary resolution number 7 – Non-binding endorsement of Remuneration policy			
Ordinary resolution number 8 – Non-binding endorsement of Implementation report			
Special resolution number 1 – Increase in non-executive directors' fees			
Special resolution number 2 – Authority for loans or other financial assistance to related or inter-related companies or corporations			
Ordinary resolution number 9 – Authority for directors to sign all documents and do all such things necessary to implement the above resolutions			

Insert X in the appropriate block if you wish to vote all your shares in the same manner. If not, insert the number of votes in the appropriate block. If no indication is given, the proxy will vote as he/she thinks fit.

Signed at on

Assisted by me (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be shareholders of Sappi) to attend, speak, and on a poll, vote in place of that shareholder at the Annual General Meeting or any adjournment thereof.

* *Refer notes to notice of meeting on page 122.*

Notes to proxy

The form of proxy must only be used by certificated shareholders or shareholders who hold dematerialised shares with 'own name' registration. Other shareholders are reminded that the onus is on them to communicate with their CSDP or broker.

Instructions on signing and lodging the Annual General Meeting proxy form

1. A deletion of any printed matter (only where a shareholder is allowed to choose between more than one alternative option) and the completion of any blank spaces need not be signed or initialled. Any alteration must be signed, not initialled.

2. The Chairman shall be entitled to decline to accept the authority of the signatory:
   2.1 Under a power of attorney, or
   2.2 On behalf of a company,

   if the power of attorney or authority has not been lodged at the offices of the company's transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank 2196, Republic of South Africa or posted to PO Box 61051, Marshalltown, 2107, Republic of South Africa.

3. The signatory may insert the name(s) of any person(s) whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose.

4. When there are joint holders of shares and if more than one of such joint holders is present or represented, the person whose name stands first in the register in respect of such shares or his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof.

5. The completion and lodging of the form of proxy will not preclude the signatory from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.

6. Forms of proxy must be lodged with, or posted to, the offices of Sappi's transfer secretaries, Computershare Investor Services Proprietary Limited, at Rosebank Towers, 15 Biermann Avenue, Rosebank 2196, Republic of South Africa (for hand delivery) or PO Box 61051, Marshalltown, 2107, Republic of South Africa (for postal delivery), to be received by not later than 14:00 on Monday, 05 February 2018 or handed to the Chairman of the Annual General Meeting before the appointed proxy exercises any of the relevant shareholder's rights.

7. If the signatory does not indicate in the appropriate place on the face hereof how he/she wishes to vote in respect of a particular resolution, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution.

8. The Chairman of the Annual General Meeting may reject any proxy form which is completed other than in accordance with these instructions and may accept any proxy form when he is satisfied as to the manner in which a member wishes to vote.

Summary in terms of section 58(8)(b)(i) of the SA Companies Act, 2008, as amended

Section 58(8)(b)(i) provides that if a company supplies a form of instrument for appointing a proxy, the form of proxy supplied by the company for the purpose of appointing a proxy must bear a reasonably prominent summary of the rights established by section 58 of the Companies Act, 2008, as amended, which summary is set out below:

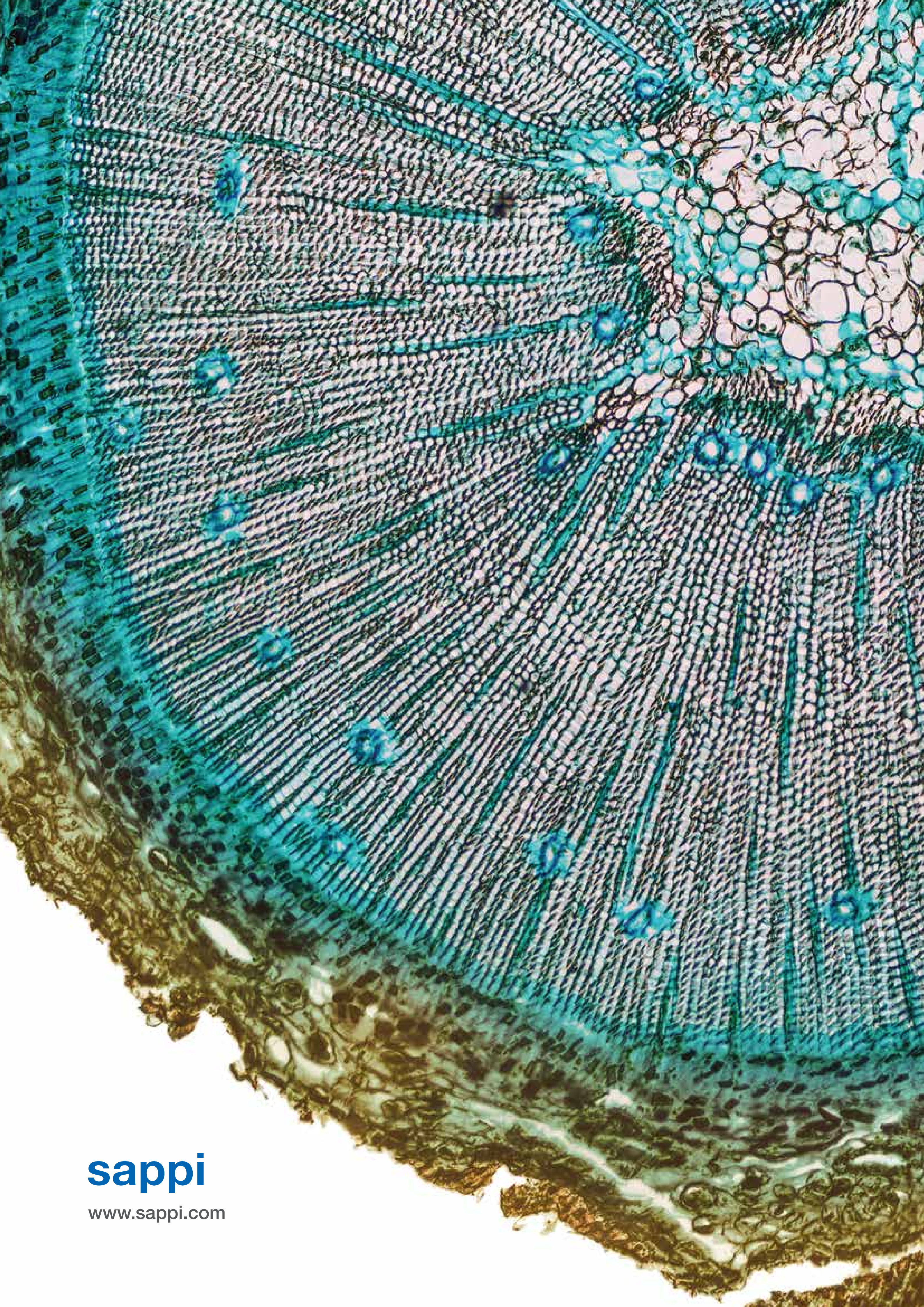
- A shareholder of a company may, at any time, appoint any individual, including an individual who is not a shareholder of that company, as a proxy, among other things, to participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder
- A shareholder may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder
- A proxy may delegate the proxy's authority to act on behalf of the shareholder to another person
- A proxy appointment must be in writing, dated and signed by the shareholder; and remains valid only until the end of the meeting at which it was intended to be used, unless the proxy appointment is revoked, in which case the proxy appointment will be cancelled with effect from such revocation
- A shareholder may revoke a proxy appointment in writing
- A proxy appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder, and
- A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction.

Forward-looking statements

Certain statements in this release that are neither reported financial results nor other historical information are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words 'believe', 'anticipate', 'expect', 'intend', 'estimate', 'plan', 'assume', 'positioned', 'will', 'may', 'should', 'risk' and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, may be used to identify forward-looking statements. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

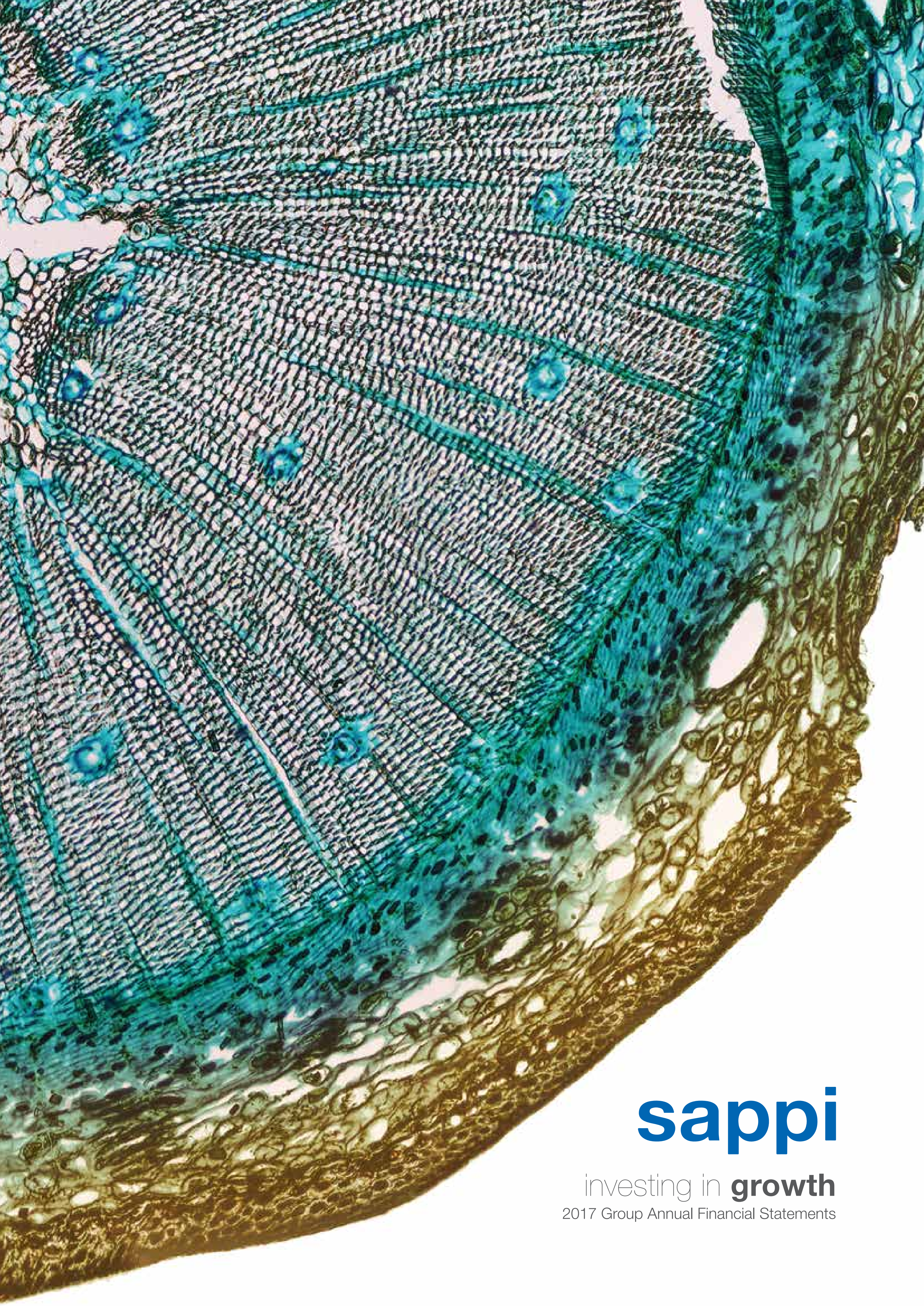
- The highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicality, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing)
- The impact on our business of adverse changes in global economic conditions
- Unanticipated production disruptions (including as a result of planned or unexpected power outages)
- Changes in environmental, tax and other laws and regulations
- Adverse changes in the markets for our products
- The emergence of new technologies and changes in consumer trends including increased preferences for digital media
- Consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed
- Adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems
- The impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructuring and other strategic initiatives and achieving expected savings and synergies, and
- Currency fluctuations.

We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.



sappi

www.sappi.com



sappi

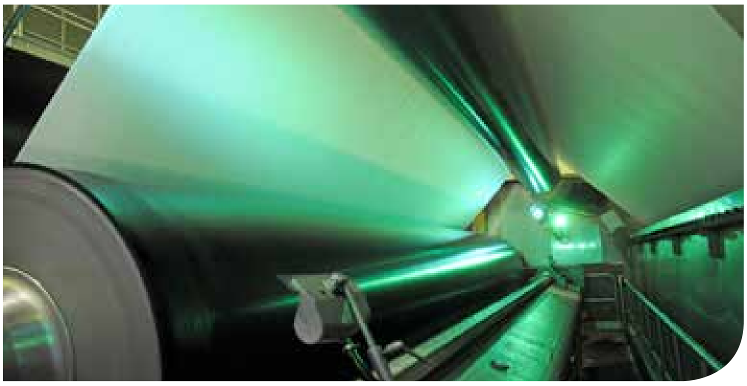
investing in **growth**

2017 Group Annual Financial Statements

One Sappi

Contents:

Through the power of One Sappi – committed to collaborating and partnering with stakeholders – we aim to be a trusted and sustainable organisation with an exciting future in woodfibre.



Navigation aids:

Online information   Further reading

Directors' approval

The directors are responsible for the maintenance of adequate accounting records and the content, integrity and fair presentation of the Group Annual Financial Statements and the related financial information included in this report. These have been prepared in accordance with International Financial Reporting Standards and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and, the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. In preparing the group financial statements, the group applied appropriate accounting policies supported by reasonable judgements and estimates. The auditors are responsible for auditing the group financial statements in the course of executing their statutory duties.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and are committed to maintaining a strong control environment. Details relating to the group's internal control environment are set out in the *Corporate governance* section of the Annual Integrated Report.

The directors are of the opinion, based on the information and explanations given by the company's officers and the internal auditors, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the group financial statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or loss.

The directors have reviewed the group's budget and cash flow forecasts. This review, together with the group's financial position, existing borrowing facilities and cash on hand, has satisfied the directors that the group will continue as a going concern for the foreseeable future. The group, therefore, continues to adopt the going concern basis in preparing its group financial statements.

The Directors' Report and the Group Annual Financial Statements appear on pages 4 to 88 and were approved by the board of directors on 07 December 2017 and signed on its behalf by:

SR Binnie
Chief Executive Officer

GT Pearce
Chief Financial Officer

Sappi Limited

07 December 2017

Group Company Secretary's certificate

In terms of section 88(2)(e) of the Companies Act 71 of 2008 of South Africa, I hereby certify that, to the best of my knowledge and belief, the company has lodged with the Companies and Intellectual Property Commission of South Africa, for the financial year ended September 2017, all such returns as are required of a public company in terms of this Act and that such returns appear to be true, correct and up to date.

Sappi Southern Africa Limited
Secretaries

per AJ Tregoning
Group Company Secretary

07 December 2017

Audit Committee Report

for the year ended September 2017

Introduction

The Audit Committee presents its report for the financial year ended September 2017. The Audit Committee is an independent statutory committee, whose duties are delegated to it by the board of directors. The committee has conducted its affairs in compliance with board-approved terms of reference, and has discharged its responsibilities contained therein.

Objectives and scope

The overall objectives of the committee are:
- To assist the board in discharging its duties relating to the safeguarding of assets and the operation of adequate systems and control processes
- To control reporting processes and the preparation of financial statements in compliance with the applicable legal and regulatory requirements and accounting standards
- To provide a forum for the governance of risk, including control issues and developing recommendations for consideration by the board
- To oversee the internal and external audit appointments and functions, and
- To perform duties that are attributed to it by the South African Companies Act of 2008 (the Companies Act), the JSE Limited Listings Requirements and King IV.

Committee performance:
- Received and reviewed reports from both internal and external auditors concerning the effectiveness of the internal control environment, systems and processes
- Reviewed the reports of both internal and external audit findings and their concerns arising out of their audits and requested appropriate responses from management
- Made recommendations to the board of directors regarding the corrective actions to be taken as a consequence of audit findings
- Ensured that appropriate financial reporting procedures are being maintained and are operating effectively
- Considered the independence and objectivity of the external auditors and ensured that the scope of their additional services provided did not impair their independence
- Received and dealt with concerns and complaints through 'whistle-blowing' mechanisms that were reported to the committee by the group internal audit function
- Reviewed a documented assessment, including key assumptions, prepared by management on the going concern status of the group, and accordingly made recommendations to the board
- Reviewed and recommended for adoption by the board the financial information that is publicly disclosed, which included:
  - The Annual Integrated Report
  - The Group Annual Financial Statements, and
  - The quarterly financial results
- Considered the effectiveness of internal audit, approved the annual operational strategic internal audit plan and monitored adherence of internal audit to its plan
- Reviewed the performance and expertise of the Chief Financial Officer and confirmed his suitability for the position, and
- Satisfied itself that the internal audit function is efficient and effective and carried out its duties in an independent manner in accordance with a board approved Internal Audit Charter.

The committee is satisfied that it has fulfilled its obligations in respect of its scope of responsibilities.

Membership

The membership of the committee comprises independent non-executive directors, all of whom are financially literate, with three members forming a quorum:

Dr D Konar (Chairman)	(Appointed in January 2004, Chairman from January 2007)
Mr RJAM Renders	(Appointed in March 2017)
Mr MA Fallon	(Appointed in January 2012)
Mr NP Mageza	(Appointed in February 2010)
Mrs KR Osar	(Appointed in November 2007)
Mr GPF Beurskens	(Retired in February 2017)

Biographical details of the current members of the committee are set out on our website, www.sappi.com.

In addition, the Chief Executive Officer, the Chief Financial Officer, Head of Group Internal Audit, the risk executive and the external auditors are also permanent invitees to the meeting. The Chairman of the board attends meetings ex officio. The effectiveness of the committee is assessed every year. In terms of the Companies Act, the committee is required to be elected annually at the Annual General Meeting.

External audit

The committee, having considered all relevant matters, satisfied itself through enquiry that auditor independence, objectivity and effectiveness were maintained in 2017. Meetings were held with the auditors where management was not present.

No material non-audit services were provided by the external auditors during the year under review.

The committee has consequently nominated, for approval at the Annual General Meeting, KPMG as the external auditor for the 2018 financial year of whom Mr Coenie Basson is the designated auditor. The committee confirms that the auditor and designated auditor are accredited by the JSE Limited.

Annual Integrated Report and the Group Annual Financial Statements

The Audit Committee has evaluated the Annual Integrated Report, incorporating the Group Annual Financial Statements, for the year ended September 2017. The Audit Committee has also considered the sustainability information as disclosed in the Annual Integrated Report and has assessed its consistency with operational and other information known to Audit Committee members. The committee has also considered the report and is satisfied that the information is reliable and consistent with the financial results. The Group Annual Financial Statements have been prepared using appropriate accounting policies, which conform to International Financial Reporting Standards.

The committee has therefore recommended the Annual Integrated Report and the Group Annual Financial Statements for approval to the board. The board has subsequently approved the Annual Integrated Report and the Group Annual Financial Statements, which will be open for discussion at the Annual General Meeting.

Based on the results of the formal documented review of the group's system of internal financial controls for the year which was performed by the internal audit function and external auditors, nothing has come to the attention of the Audit Committee to indicate that the internal financial controls were not operating effectively.

D Konar
Chairman of the Audit Committee

07 December 2017

Directors' Report

for the year ended September 2017

The directors have pleasure in presenting their report for the year ended September 2017.

Nature of business

Sappi is a global diversified woodfibre company focused on providing dissolving wood pulp, specialities and packaging papers, graphic/printing papers, as well as biomaterials and biochemicals to our direct and indirect customer base across more than 150 countries.

Our dissolving wood pulp (specialised cellulose) products are used worldwide by converters to create viscose fibre for fashionable clothing and textiles, pharmaceutical products, as well as a wide range of consumer and household products. Quality specialities and packaging papers are used in the manufacture of such products as soup sachets, luxury carry bags, cosmetic and confectionery packaging, boxes for agricultural products for export, tissue wadding for household tissue products and casting and release papers used by suppliers to the fashion, textiles, automobile and household industries. Our market-leading range of coated and uncoated graphic paper products are used by printers in the production of books, brochures, magazines, catalogues, direct mail, newspapers and many other print applications.

The wood and pulp needed for our products is either produced within Sappi or brought from accredited suppliers. Across the group, Sappi is close to 'pulp neutral', meaning that we sell almost as much pulp as we buy.

Financial results

The group generated a profit of US$338 million for the year ended September 2017 (63 US cents) compared to US$319 million profit (60 US cents) for the prior year.

Detailed commentary on the 2017 financial results is contained in various reviews throughout the Annual Integrated Report.

Dividends

The directors have declared a dividend of 15 US cents per share, payable in Rand using the exchange rate at the date of declaration, representing a four times earnings cover adjusted for non-cash items.

Going concern

The directors believe that the group has sufficient resources and expected cash flows to continue as a going concern for the next financial year.

Corporate governance

Sappi is committed to high standards of corporate governance and endorses the recommendations contained in the King Code of Corporate Governance principles. Please refer to our *Corporate governance* section contained in our Annual Integrated Report for full details and to our website for Sappi's application of the principles of King IV.

Health, safety, environment and community

Information on our health, safety and environmental performance is provided in the *Sustainability* section in our Annual Integrated Report.

Significant announcements during the year under review and subsequent to year-end

There were two significant announcements:

- In March 2017 the group announced the redemption of its US$400 million public bond due July 2017 at par during the call window period from available cash resources. This was repaid in April 2017.
- On 05 December 2017, Sappi agreed to acquire the speciality paper business of Cham Paper Group Holding AG (CPG) for CHF146.5 million (approximately US$149 million). The transaction includes all brands and know-how, the Carmignano and Condino Mills in Italy, as well as their digital imaging business and facility situated in Cham, Switzerland. The acquisition will be financed from internal resources. We are working to obtain approval from the relevant competition authorities and trust that we can announce completion during the first calendar quarter 2018.

Liquidity and financing

At September 2017, we had liquidity comprising US$550 million of cash on hand, which exceeds the amount of short-term interest-bearing debt (including bank overdrafts) of US$133 million by US$417 million, and US$623 million available from undrawn committed facilities in Europe and Southern Africa.

Net debt decreased further to US$1,322 million (2016: US$1,408 million) due to the net cash generation of US$108 million during the year (2016: US$359 million). The decrease in net cash generated was largely due to higher working capital movements, greater cash taxes, the dividend paid and increases in capital expenditure which was offset by lower finance costs.

Details of our non-current borrowings are set out in note 21.

Risks and insurance
Details of the group's risks and insurance are set out in the *Risk management* section of our Annual Integrated Report.

Property, plant and equipment
There were no major changes in the nature of the group's property, plant and equipment during the period under review.

Capital expenditure for the year ended September 2017 of US$357 million (2016: US$241 million) was greater than the prior year due to various upgrade and expansion projects throughout the group. Maintenance expenditure of US$140 million (2016: US$155 million) was in line with prior year and largely incurred on efficiency projects.

Subsequent events
The dividend of 15 US cents per share was declared on 16 November 2017 being after the reporting date.

Directorate
The composition of the board of directors is set out in *Our leadership* section in our Annual Integrated Report. During the year, the following changes were announced:
- The appointment of Dr Boni Mehlomakulu as an independent non-executive director and as a member of the Social, Ethics, Transformation and Sustainability Committee with effect from 01 March 2017.

At the end of September 2017, there were 13 directors, two of whom are executive directors. Nine of the 11 non-executive directors are considered to be independent. The independence of those directors who are designated as independent was reviewed and confirmed during the year by the Nomination and Governance Committee.

In terms of the company's Memorandum of Incorporation, Sir Nigel Rudd and Messrs P Mageza and MV Moosa will retire by rotation from the board at the forthcoming Annual General Meeting and all being eligible, have offered themselves for re-election. Having assessed the individual performances of the directors concerned, the board recommends each of them for re-appointment.

Details of the secretaries and their business and postal addresses are set out in the *Administration* section of the Annual Integrated Report.

Details of the directors' and prescribed officers' shareholding and remuneration are set out in notes 34 to 36.

Directors' and officers' disclosure of interests in contracts
During the period under review, the group awarded a contract, via a tender process, for engineering services worth US$55 million for a capital project to The Boldt Company of whom Mr DeKoch, one of the group's non-executive directors, is the President and Chief Operating Officer. The interest was disclosed by Mr DeKoch and he recused himself from the meeting.

The other directors and officers have certified that they do not have any material interest in any significant transaction with either the company or any of its subsidiaries.

Directors' liabilities
Directors and officers of the group are covered by directors' and officers' liability insurance.

Subsidiary companies
Details of the company's significant subsidiaries are set out in note 37.

Independent Auditor's Report

To the shareholders of Sappi Limited

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sappi Limited (the group) set out on pages 9 to 88, which comprise the group balance sheet as at September 2017, and the group income statement and the group statement of comprehensive income, the group statement of changes in equity and the group statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sappi Limited as at September 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed in our audit
Valuation of post-employment benefit obligations	
Refer to note 2.3.6 for the accounting policies applied and note 28 in the consolidated financial statements. The group operates several principal defined pension and/or retirement lump sum plans in all regions which have been established in accordance with applicable legal requirements, customs and existing circumstances in each country. Accounting for post-employment benefit obligations, particularly defined benefit plans, is inherently complex and requires significant actuarial assumptions to be applied and involves estimation uncertainty. Benefits are formula-driven comprising a variety of earnings definitions, as indicated in note 28. The valuation of the defined benefit obligations requires the application of the following key assumptions: • Discount rates • Salary increases • Cost of living adjustments • Healthcare cost trends, and • Average life expectancy of employees. In the case of net assets, recognised assets are limited to the present value of any future refunds from the plan or reductions in future contributions to the plan, considered in the context of the relevant scheme rules and local regulations. Due to the complexity, significant actuarial assumptions and estimation uncertainty involved in the recognition, measurement and disclosure of the defined benefit pension and/or retirement lump sum plans, this was considered a key audit matter.	Our audit procedures related to the defined pension and/or retirement lump sum plans included, among others: • Obtaining actuarial reports and using our actuarial specialists in the respective regions, that formed part of the audit team, to determine the reasonableness of the key assumptions applied within the valuations based on their industry knowledge and experience • Assessing the competence, independence and integrity of the group's actuarial specialists • Critically assessing the appropriateness of the accounting treatment adopted in respect of net assets recognised by understanding the relevant scheme rules and local regulations and applying the relevant accounting standards and interpretations, and • Assessing the appropriateness of the disclosures in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Valuation of plantations	
Refer to note 2.3.5 for the accounting policies applied and note 11 in the consolidated financial statements. Plantations are stated at fair value less estimated cost to sell at the harvesting stage, using the income approach, and is a level 3 measure in terms of IFRS 13 *Fair Value Measurements*. The valuation of plantations requires complex measurements and involves estimation uncertainty. The key measurements and assumptions having the most significant impact on the fair value of the plantations include: • Market prices • Discount rates • Volumes, and • Growth. Given the complexity and estimation involved in the determination of fair value of the plantations, this matter was considered a key audit matter.	Our audit procedures related to the valuation of plantations included, among others: • Critically evaluating the fair value methodology, measurements and key assumptions applied by management in determining the fair value of the plantations. This was performed by our valuation specialists, that formed part of the audit team, by applying their knowledge of the industry to assess the appropriateness of the valuations • Challenging the consistency and appropriateness of the underlying measurements and assumptions used by comparing to external observable data, where possible, and considering management's historical accuracy in determining these measurements and estimations, and • Assessing the reasonableness of the group's fair value calculation, and the related sensitivity disclosures, by performing our own sensitivity analysis of the plantation valuations.
Valuation of deferred tax assets	
Refer to note 2.3.3(ii) for the accounting policies applied and note 12 in the consolidated financial statements. As detailed in note 12, the existence of historical unused tax losses, particularly in the European tax jurisdictions, requires judgement to be applied in determining how much of these tax losses should be recognised as deferred tax assets. The recognition is based on forecasts of future taxable profits which involves estimating if and when the losses will be utilised. Given the quantum of both the recognised and unrecognised deferred tax assets and the inherent uncertainty involved in forecasting future taxable profits, this has been identified as a key audit matter.	Our audit procedures related to the valuation of deferred tax assets included, among others: • Challenging the reasonableness of the key assumptions applied by management in the recognition of deferred tax assets relating to tax losses by: – critically assessing the utilisation of the losses – reviewing the forecast future taxable profits considering approved budgets, and – considering management's historical accuracy in forecasting taxable profits • Considering the application of the relevant accounting standards in respect of recognising deferred tax assets for entities with a history of tax losses • Challenging the judgements applied by management in not recognising deferred tax assets in relation to unused tax losses by considering the nature of the underlying operations of the entities, the taxable profits or losses achieved in recent years along with the forecast future taxable profits, and • Assessing the adequacy and appropriateness of the group's disclosures in respect of recognised and unrecognised deferred tax assets in the consolidated financial statements.

Other matter
The financial statements for Sappi Limited for the year ended September 2016 were audited by another auditor who expressed an unmodified opinion on those statements dated 09 December 2016.

Other information
The directors are responsible for the other information. The other information comprises the Group Company Secretary's certificate, the Audit Committee Report and the Directors' Report as required by the Companies Act of South Africa and the directors' approval and the Annual Integrated Report, which we obtained prior to the date of this report. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report continued

Responsibilities of the directors for the consolidated financial statements
The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the group to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation, and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and, therefore, are the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements
In terms of the IRBA Rule published in *Government Gazette* Number 39475 dated 04 December 2015, we report that KPMG Inc. was appointed as the auditor of Sappi Limited in the current year.

KPMG Inc
Registered Auditor

Per Peter MacDonald
Chartered Accountant (SA)
Registered Auditor
Director

85 Empire Road, Parktown
Johannesburg, 2193

07 December 2017

Group income statement

for the year ended September 2017

(US$ million)	Note	2017	2016
Revenue		**5,296**	5,141
Cost of sales	4	**4,429**	4,270
Gross profit		**867**	871
Selling, general and administrative expenses	4	**334**	336
Other operating (income) expenses		**14**	–
Share of profit from equity-accounted investees		**(7)**	(9)
Operating profit	4	**526**	544
Net finance costs	5	**80**	121
Finance costs		**107**	140
Finance income		**(15)**	(16)
Net foreign exchange gains		**(12)**	(2)
Net fair value (gain) loss on financial instruments		**–**	(1)
Profit before taxation		**446**	423
Taxation charge	6	**108**	104
Profit for the year		**338**	319
Basic earnings per share (US cents)	7	**63**	60
Weighted average number of ordinary shares in issue (millions)		**533.9**	529.4
Diluted earnings per share (US cents)	7	**62**	59
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)		**547.4**	540.3

Group statement of comprehensive income

for the year ended September 2017

(US$ million)	Note	2017	2016
Profit for the year		**338**	319
Other comprehensive income (loss), net of tax	19	**78**	30
Item that will not be reclassified subsequently to profit or loss		**68**	(12)
Actuarial gains (losses) on post-employment benefit funds		**101**	(20)
Deferred tax on above item		**(33)**	8
Items that may be reclassified subsequently to profit or loss		**10**	42
Exchange differences on translation to presentation currency		**(1)**	38
Movement in hedging reserves		**10**	4
Deferred tax on above items		**1**	–
Total comprehensive income (loss) for the year		**416**	349

Group balance sheet

as at September 2017

(US$ million)	Note	2017	2016
Assets			
Non-current assets		**3,378**	3,171
Property, plant and equipment	10	**2,681**	2,501
Plantations	11	**458**	441
Deferred tax assets	12	**123**	152
Goodwill and intangible assets	13	**39**	17
Equity accounted investees	14	**26**	20
Other non-current assets	15	**51**	39
Derivative financial instruments	30	**–**	1
Current assets		**1,869**	2,006
Inventories	16	**636**	606
Trade and other receivables	17	**668**	642
Derivative financial instruments	30	**3**	44
Taxation receivable		**12**	11
Cash and cash equivalents		**550**	703
Total assets		**5,247**	5,177
Equity and liabilities			
Shareholders' equity		**1,747**	1,378
Ordinary share capital and share premium	18	**894**	879
Non-distributable reserves	20	**123**	114
Foreign currency translation reserve		**(158)**	(147)
Hedging reserves		**(34)**	(43)
Retained earnings		**922**	575
Non-current liabilities		**2,457**	2,325
Interest-bearing borrowings	21	**1,739**	1,535
Deferred tax liabilities	12	**295**	272
Other non-current liabilities	22	**423**	518
Current liabilities		**1,043**	1,474
Interest-bearing borrowings	21	**133**	576
Trade and other payables		**858**	839
Provisions	23	**10**	15
Derivative financial instruments	30	**5**	2
Taxation payable		**37**	42
Total equity and liabilities		**5,247**	5,177

Group statement of cash flows

for the year ended September 2017

(US$ million)	Note	2017	2016
Cash retained from operating activities		**481**	550
Cash generated from operations	24.1	**748**	693
– Increase (decrease) in working capital	24.2	**(27)**	4
Cash generated from operating activities		**721**	697
– Finance costs paid	24.3	**(96)**	(107)
– Finance income received		**15**	16
– Taxation paid	24.4	**(100)**	(56)
– Dividends paid		**(59)**	–
Cash utilised in investing activities		**(373)**	(191)
Investment to maintain operations		**(140)**	(155)
Investment to expand operations		**(217)**	(86)
Proceeds on disposal of assets held for sale		**–**	39
Proceeds on disposal of other non-current assets	24.5	**4**	5
Other (increase) decrease in non-current assets		**(9)**	6
Acquisitions	9	**(11)**	–
Cash effects of financing activities		**(279)**	(130)
Proceeds from interest-bearing borrowings		**186**	389
Repayment of interest-bearing borrowings		**(465)**	(499)
Cash costs attributable to refinancing transactions		**–**	(20)
Net movement in cash and cash equivalents		**(171)**	229
Cash and cash equivalents at beginning of year		**703**	456
Translation effects		**18**	18
Cash and cash equivalents at end of year		**550**	703

Group statement of changes in equity

for the year ended September 2017

(US$ million)	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distri-butable reserves	Foreign currency trans-lation reserve	Hedging reserves	Retained earnings	**Total equity**
Balance – September 2015	526.4	38	813	851	113	(170)	(47)	268	**1,015**
Share-based payments	–	–	–	–	7	–	–	–	**7**
Transfers of vested share options	4.2	–	14	14	(7)	–	–	–	**7**
Translation of parent company's ordinary share capital and share premium	–	1	13	14	–	(14)	–	–	**–**
Total comprehensive (loss) income	–	–	–	–	1	37	4	307	**349**
Balance – September 2016	530.6	39	840	879	114	(147)	(43)	575	**1,378**
Share-based payments	–	–	–	–	9	–	–	–	**9**
Transfers of vested share options	4.4	1	4	5	(2)	–	–	–	**3**
Translation of parent company's ordinary share capital and share premium	–	–	10	10	–	(10)	–	–	**–**
Dividend paid – 11 US cents per share	–	–	–	–	–	–	–	(59)	**(59)**
Total comprehensive income	–	–	–	–	2	(1)	9	406	**416**
Balance – September 2017	535.0	40	854	894	123	(158)	(34)	922	**1,747**
Note				*18*	*20*				

Notes to the Group Annual Financial Statements

for the year ended September 2017

1. Basis of preparation

The consolidated financial statements (the Group Annual Financial Statements) have been prepared in accordance with:
- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
- The SAICA Financial Reporting Guides as issued by the Accounting Practices Committee
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council
- The Listings Requirements of the JSE Limited, and
- The requirements of the Companies Act of South Africa.

The Group Annual Financial Statements are prepared on the historical cost basis, except as set out in the accounting policies which follow. Certain items, including derivatives, are stated at their fair value while plantations are stated at fair value less costs to sell.

Fair value is determined in accordance with IFRS 13 *Fair Value Measurement* and is categorised as follows:
- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices that are observable, either directly or indirectly, and
- Level 3: Inputs for the asset or liability that are unobservable.

Transfers between fair value hierarchies are recorded when that change occurs.

2. Accounting policies

The following principal accounting policies have been consistently applied in dealing with items that are considered material in relation to the Group Annual Financial Statements. Adoption of new accounting standards and changes to accounting standards are dealt with in sections 2.4 and 2.5.

2.1 Significant accounting policy elections

The group has made the following significant accounting policy elections in terms of IFRS:
- Regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting
- Cumulative gains or losses recognised in other comprehensive income (OCI) for cash flow hedge relationships are transferred from equity and included in the initial measurement of the non-financial asset or liability when the hedged item is recognised
- The net interest on post-employment benefits is included in finance costs
- Property, plant and equipment is accounted for using the cost model, and
- The step-by-step method of reclassification of foreign currency translation reserves from equity to profit or loss on disposal.

The elections are explained further in each specific policy in sections 2.2 and 2.3.

The Group Annual Financial Statements are presented in United States Dollar (US$) as it is the major trading currency of the pulp and paper industry and are rounded to the nearest million except as otherwise indicated.

The preparation of the Group Annual Financial Statements was supervised by the Chief Financial Officer, GT Pearce CA(SA).

(i) Financial year

The group's financial year-end is on the Sunday closest to the last day of September. Accordingly, the last three financial years were as follows:
- 26 September 2016 to 01 October 2017 (53 weeks)
- 28 September 2015 to 25 September 2016 (52 weeks)
- 29 September 2014 to 27 September 2015 (52 weeks).

(ii) Underlying concepts

The Group Annual Financial Statements are prepared on the going concern basis.

Assets, liabilities, income and expenses are not offset in the income statement or balance sheet unless specifically permitted by IFRS.

Changes in accounting estimates are recognised prospectively in profit or loss, except to the extent that they give rise to changes in the carrying amount of recognised assets and liabilities where the change in estimate is recognised immediately.

Notes to the Group Annual Financial Statements
continued

for the year ended September 2017

2. Accounting policies continued

2.2 Summary of accounting policies

2.2.1 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Group Annual Financial Statements are presented in US Dollar, which is the group's presentation currency.

The functional currency of the parent company is Rand (ZAR). The share capital and share premium of the parent company are translated into US Dollar at the period-end rate. The exchange differences arising on this translation are included in the foreign currency translation reserve and cannot be recycled through profit or loss.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Subsequent to initial recognition, monetary assets and liabilities denominated in foreign currencies are translated at the earlier of reporting or settlement date and the resulting foreign currency exchange gains or losses are recognised in profit or loss for the period. Translation differences on available-for-sale financial instruments are included in OCI.

(iii) Foreign operations

The results and financial position of each group entity that has a functional currency that is different to the presentation currency of the group is translated into the presentation currency of the group as follows:

- Assets and liabilities are translated at the period-end rate, and
- Income statement items are translated at the average exchange rate for the year.

Exchange differences on translation are accounted for in OCI. These differences will be recognised in earnings on realisation of the underlying operation.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations (ie the reporting entity's interest in the net assets of that operation), and of borrowings designated as hedging instruments of such investments, are taken to OCI.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the period-end rate on each reporting date.

The group used the following exchange rates for financial reporting purposes:

	2017	2016
Period-end rate		
US$1 = ZAR	**13.556**	13.714
€1 = US$	**1.181**	1.123
Annual average rate		
US$1 = ZAR	**13.381**	14.788
€1 = US$	**1.106**	1.111

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.2 Group accounting

(i) Subsidiaries

An entity is consolidated when the group can demonstrate power over the investee, is exposed or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are consolidated into the group's results from acquisition date until disposal date.

Intra-group balances and transactions and, profits or losses arising from intra-group transactions are eliminated in the preparation of the Group Annual Financial Statements.

(ii) Associates and joint ventures (equity accounted investees)

The financial results of associates and joint ventures are incorporated in the group's results using the equity method of accounting from acquisition date until disposal date. Under the equity method, associates and joint ventures are carried at cost and adjusted for the post-acquisition changes in the group's share of the associates' and joint ventures' net assets. The share of the associates' or joint ventures' profit after tax is determined from their latest financial statements or, if their year-ends are different to those of the group, from their unaudited management accounts that correspond to the group's financial year-end.

Where there are indicators of impairment, the entire carrying amount of the investment, including goodwill, is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised, which the group records in other operating expenses in profit or loss, is deducted from the carrying amount of the investment. Any reversal of an impairment loss increases the carrying amount of the investment to the extent recoverable, but not higher than the historical amount.

2.2.3 Financial instruments

(i) Initial recognition

Financial instruments are recognised on the balance sheet when the group becomes a party to the contractual provisions of a financial instrument. All purchases of financial assets that require delivery within the time frame established by regulation or market convention ('regular way' purchases) are recognised at trade date.

(ii) Initial measurement

All financial instruments are initially recognised at fair value, including transaction costs that are incremental to the group and directly attributable to the acquisition or issue of the financial asset or financial liability, except for those classified as fair value through profit or loss where the transaction costs are recognised immediately in profit or loss.

(iii) Subsequent measurement

- *Financial assets and financial liabilities at fair value through profit or loss*
  Financial instruments at fair value through profit or loss consist of items classified as held for trading or where they have been designated as fair value through profit or loss. All derivative instruments are classified as held for trading other than those which are designated and effective hedging instruments.

- *Financial liabilities at amortised cost*
  All financial liabilities, other than those at fair value through profit or loss, are classified as financial liabilities at amortised cost.

- *Loans and receivables*
  Loans and receivables are carried at amortised cost.

- *Available-for-sale financial assets*
  Available-for-sale financial assets are measured at fair value with any gains or losses recognised directly in equity along with the associated deferred taxation. Any foreign currency translation gains or losses or interest revenue, measured on an effective-yield basis, are recognised in profit or loss.

Notes to the Group Annual Financial Statements
continued

for the year ended September 2017

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.3 Financial instruments continued

(iv) Embedded derivatives

Certain derivatives embedded in financial and host contracts are treated as separate derivatives and recognised on a standalone basis when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. Gains or losses on these embedded derivatives are reported in profit or loss.

(v) Derecognition

The group derecognises a financial asset when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when and only when the liability is extinguished, ie when the obligation specified in the contract is discharged, cancelled or has expired. The difference in the respective carrying amounts is recognised in profit or loss for the period.

(vi) Impairment of financial assets

- *Loans and receivables*

  An impairment loss is recognised in profit or loss when there is evidence that the group will not be able to collect an amount in accordance with the original terms of each receivable.

- *Available-for-sale financial assets*

  When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains or losses recognised in equity (to the extent of any remeasurements) are reclassified to profit or loss even though the financial asset has not been derecognised.

  Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised. Impairment reversals other than available-for-sale debt securities are not reversed through profit or loss but through OCI.

(vii) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to that asset's or liability's net carrying amount on initial recognition.

2.2.4 Government grants

Government grants related to income are recognised in sundry income under selling, general and administrative expenses. Government grants related to assets are recognised by deducting the grant from the carrying amount of the related asset.

2.2.5 Intangible assets

(i) Research activities

Expenditures on research activities and internally generated goodwill are recognised in profit or loss as an expense as incurred.

(ii) Development activities

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation of engineering projects, computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, not exceeding five years.

(iii) Brands

Brands acquired are capitalised and amortised on a straight-line basis over their estimated useful lives which, on average, is 10 years.

(iv) Other intangible assets

Other intangible assets comprise customer relationships, know-how and licence fees which are amortised on a straight-line basis over their useful lives between 10 and 20 years.

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.6 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost is determined on the following basis:

Classification	Cost formula
Finished goods	First in first out (FIFO)
Raw materials, work in progress and consumable stores	Weighted average
Cost of items that are not interchangeable	Specific identification inventory valuation basis

Net realisable value is the estimated selling price in the ordinary course of business less necessary costs to make the sale.

2.2.7 Leases

(i) The group as lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments with the related lease obligation recognised at the same value. Lease payments are allocated between capital repayments and finance charges using the effective interest rate method.

Capitalised leased assets are depreciated on a basis consistent with those of owned assets except, where the transfer of ownership at the end of the lease period is uncertain, they are depreciated on a straight-line basis over the shorter of the lease period and the expected useful life of the asset.

Lease payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the group's benefit.

(ii) Recognition of lease of land

The land and buildings elements of a lease are considered separately for the purpose of lease classification. Where the building is a finance lease, and the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease.

2.2.8 Segment reporting

The group's reportable segments, which have been determined in accordance with how the group allocates resources and evaluates performance, is predominantly on a geographical basis and comprise North America, Europe and Southern Africa.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for intra-segment revenues and transfers as if the transactions were with third parties at current market prices.

Notes to the Group Annual Financial Statements
continued

for the year ended September 2017

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.9 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of those assets.

Borrowing costs capitalised are calculated at the group's average funding cost other than to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2.2.10 Revenue

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, delivery has been made and title has passed, the amount of the revenue and the related costs can be reliably measured and it is probable that the debtor will pay for the goods. For the majority of local and regional sales, transfer occurs at the point of offloading the shipment into the customer warehouse whereas for the majority of export sales, transfer occurs when the goods have been loaded into the relevant carrier unless the contract of sale specifies different terms.

Revenue is measured at the fair value of the amount received or receivable and after the deduction of trade and settlement discounts, rebates and customer returns.

Shipping and handling costs, such as freight to the group's customers' destinations, are included in cost of sales. These costs, when included in the sales price charged for the group's products, are recognised in sales.

2.2.11 Emission trading

The group recognises government grants for emission rights as intangible assets at the cost of the rights as well as a liability which equals the cost of the rights at the time of the grant.

The group does not recognise a liability for emissions to the extent that it has sufficient allowances to satisfy emission liabilities. Where there is a shortfall of allowances that the group would have to deliver for emissions, a liability is recognised at the current market value of the shortfall.

Where the group sells allowances to parties outside the group at amounts greater than the carrying amount, a gain is recognised in selling, general and administrative expenses in profit or loss for the period.

2.2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits and money market instruments with a maturity of three months or less and other short-term highly liquid investments that are readily convertible into cash.

2.2.13 Goodwill

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date.

Goodwill arising at acquisition is subsequently held at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently where there is an indication of impairment within one or more cash-generating units (CGUs) to which goodwill has been allocated.

Goodwill is tested for impairment using a cash flow valuation model based on an allocation of the goodwill to one or more CGUs. The group takes into account its ability to carousel products across different operating units in determining CGUs and in allocating goodwill to those CGUs.

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.14 Share-based payments

(i) Equity-settled share-based payment transactions

The services or goods received in an equity-settled share-based payment transaction with counterparties are measured at the fair value of the equity instruments at grant date.

If the equity instruments granted vest immediately and the beneficiary is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the benefit received is recognised in profit or loss for the period in full on grant date with a corresponding increase in equity.

Where the equity instruments do not vest until the beneficiary has completed a specified period of service, it is assumed that the benefit received by the group as consideration for those equity instruments will be received over the vesting period. These benefits are accounted for in profit or loss as they are received with a corresponding increase in equity. Share-based payment expenses are adjusted for non-market-related performance conditions.

(ii) Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at the measurement date using either the modified binomial option pricing or the Monte-Carlo simulation model. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

(iii) Broad-based Black Economic Empowerment transaction

The group accounts for the transaction in accordance with IFRS 2 *Share-based Payment* and the South African Institute of Chartered Accountants Financial Reporting Guide 2 as issued by the Accounting Practices Committee and the fair value of the services rendered by employees are recorded in profit or loss as they are rendered during the service period.

In accounting for the group's share-based payment transactions, management uses estimates and assumptions to determine share-based payment expenses. Key inputs, which are necessary in determining the grant date fair value, include the volatility of the group's share price, employee turnover rate, and dividend payout rates.

Note 29 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of the year.

2.3 Critical accounting policies

2.3.1 Impairment of assets other than goodwill and financial instruments

The group assesses all assets (other than goodwill and intangible assets not yet available for use) at each balance sheet date for indications of impairment or, for intangible assets other than goodwill, whether an impairment reversal is required.

Intangible assets not yet available for use are tested at least annually for impairment.

In assessing assets for impairment, the group estimates the asset's useful life, discounted future cash flows, including appropriate bases for future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, the planned use of machinery or equipment or closing of facilities. The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the CGU to which the asset belongs. Additionally, assets are also assessed against their fair value less costs to sell.

Where impairment exists, the losses are recognised in other operating expenses in profit or loss for the period.

A previously recognised impairment loss will be reversed through profit or loss if the recoverable amount increases as a result of a change in the estimates that were previously used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods.

Notes to the Group Annual Financial Statements
continued

for the year ended September 2017

2. Accounting policies continued

2.3 Critical accounting policies continued

2.3.2 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes, where specifically required in terms of legislative requirements or where a constructive obligation exists, the estimated cost of dismantling and removing the assets, professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's Accounting Policy.

In addition, spare parts whose expected useful lives are anticipated to be more than 12 months are treated as property, plant and equipment.

Expenditure incurred to replace a component of property, plant and equipment is capitalised to the cost of related property, plant and equipment and the part replaced is derecognised.

Depreciation, which commences when the assets are ready for their intended use, is recognised in profit or loss over their estimated useful lives to estimated residual values using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Land is not depreciated.

Management judgement and assumptions are necessary in estimating the methods of depreciation, useful lives and residual values. The residual value for the majority of items of property, plant and equipment has been deemed to be zero by management due to the underlying nature of the property, plant and equipment.

The following methods and rates are used to depreciate property, plant and equipment to estimated residual values:

Buildings	Straight-line	10 to 40 years
Plant and equipment	Straight-line	3 to 30 years

The group reassesses the estimated useful lives and residual values of components of property, plant and equipment on an ongoing basis. As a result, depending on economic and other circumstances, a component of property, plant and equipment could exceed the estimated useful life as indicated in the categories above.

2.3.3 Taxation

Taxation on the profit or loss for the year comprises current and deferred taxation. Taxation is recognised in profit or loss except to the extent that it relates to items recognised directly in OCI, in which case it is also recognised in OCI.

(i) Current taxation

Current taxation is the expected taxation payable on the taxable income, which is based on the results for the period after taking into account necessary adjustments, using taxation rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxation payable in respect of previous years.

The group estimates its income taxes in each of the jurisdictions in which it operates. This process involves estimating its current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes.

The various group entities are subject to examination by tax authorities. The outcome of tax audits cannot be predicted with certainty. If any matters addressed in these tax audits are resolved in a manner not consistent with management's expectations or tax positions taken in previously filed tax returns, then the provision for income tax could be required to be adjusted in the period that such resolution occurs.

2. Accounting policies continued

2.3 Critical accounting policies continued

2.3.3 Taxation continued

(ii) Deferred taxation

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the balance sheet date. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

Before recognising a deferred tax asset, the group assesses the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent recovery is not probable, a deferred tax asset is not recognised. In recognising deferred tax assets, the group considers profit forecasts, including the effect of exchange rate fluctuations on sales, external market conditions and restructuring plans.

Refer to note 12 for the movement in unrecognised deferred tax assets.

(iii) Dividend withholding tax

Dividend withholding tax is payable on dividends distributed to certain shareholders. This tax is not attributable to the company paying the dividend but is collected by the company and paid to the tax authorities on behalf of the shareholder. On receipt of a dividend, the dividend withholding tax is recognised as part of the current tax charge in the income statement in the period in which the dividend is received.

2.3.4 Derivatives and hedge accounting

For the purpose of hedge accounting, hedges are classified as follows:

(i) Fair value hedges

Fair value hedges are designated when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment. Changes in the fair value of derivatives that are designated as hedging instruments are recognised in profit or loss immediately together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument is recognised in the same line of profit or loss as the change in the hedged item.

(ii) Cash flow hedges

Cash flow hedges are designated when hedging the exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction, or the foreign currency risk in an unrecognised firm commitment. In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in OCI and the ineffective portion is recognised in profit or loss.

The gains or losses recognised in OCI are transferred to profit or loss in the same period in which the hedged transaction affects profit or loss.

If the forecast transaction results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is transferred from OCI to the underlying asset or liability on the transaction date.

Notes to the Group Annual Financial Statements
continued

for the year ended September 2017

2. Accounting policies continued

2.3 Critical accounting policies continued

2.3.4 Derivatives and hedge accounting continued

(iii) Hedge of a net investment in a foreign operation

The effective portion of the gain or loss on the hedging instrument is recognised in OCI and is only reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

(iv) Discontinuance of hedge accounting

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised and when, for cash flow hedges, the designation is revoked and the forecast transaction is no longer expected to occur. Where a forecast transaction is no longer expected to occur, the cumulative gain or loss deferred in OCI is transferred to profit or loss.

The financial instruments that are used in hedging transactions are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in either the fair value or cash flows of the related underlying exposures. Hedge ineffectiveness is recognised immediately in profit or loss.

Refer to notes 30 and 31 for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

2.3.5 Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage and is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement*. The group uses the income approach in determining fair value as it believes that this method yields the most appropriate valuation.

In arriving at plantation fair values, the key assumptions are estimated prices less cost of delivery, discount rates, and volume and growth estimations. All changes in fair value are recognised in the period in which they arise.

The impact of changes in estimated prices, discount rates, and volume and growth assumptions may have on the calculated fair value and other key financial information on plantations is disclosed in note 11.

- *Estimated prices less cost of delivery*

  The group uses a 12-quarter rolling historical average price to estimate the fair value of all immature timber and mature timber that is to be felled more than 12 months from the reporting date. Twelve quarters is considered a reasonable period of time after taking the length of the growth cycle of the plantations into account. Expected future price trends and recent market transactions involving comparable plantations are also considered in estimating fair value.

  Mature timber that is expected to be felled within 12 months from the end of the reporting period is valued using unadjusted current market prices. Such timber is expected to be used in the short term and consequently, current market prices are considered an appropriate reflection of fair value.

  The fair value is derived by using the prices as explained above and reduced by the estimated cost of delivery. Cost of delivery includes all costs associated with getting the harvested agricultural produce to the market, including harvesting, loading, transport and allocated fixed overheads.

2. Accounting policies continued

2.3 Critical accounting policies continued

2.3.5 Plantations continued

- *Discount rate*

  The discount rate used is the applicable pre-tax weighted average cost of capital of the business unit.

- *Volume and growth estimations and cost assumptions*

  The group focuses on good husbandry techniques which include ensuring that the rotation of plantations is met with adequate planting activities for future harvesting. The age threshold used for quantifying immature timber is dependent on the rotation period of the specific timber genus which varies between five and 18 years. In the Southern African region, softwood less than eight years and hardwood less than five years are classified as immature timber.

  Trees are generally felled at the optimum age when ready for intended use. At the time the tree is felled, it is taken out of plantations and accounted for under inventory and reported as a depletion cost (fellings).

  Depletion costs include the fair value of timber felled which is determined on the average method, plus amounts written off against standing timber to cover loss or damage caused by fire, disease and stunted growth. These costs are accounted for on a cost per metric ton allocation method multiplied by unadjusted current market prices. Tons are calculated using the projected growth to rotation age and are extrapolated to current age on a straight-line basis.

  The group has projected growth estimation over a period of eight to 18 years per rotation. In deriving this estimate, the group established a long-term sample plot network which is representative of the species and sites on which trees are grown and the measured data from these permanent sample plots were used as input into the group's growth estimation. Periodic adjustments are made to existing models for new genetic material.

  The group directly manages plantations established on land that is either owned or leased from third parties. Indirectly managed plantations represent plantations established on land held by independent commercial farmers where Sappi provides technical advice on the growing and tending of trees.

  The associated costs for managing plantations are recognised as silviculture costs in cost of sales (see note 4).

Notes to the Group Annual Financial Statements
continued

for the year ended September 2017

2. Accounting policies continued

2.3 Critical accounting policies continued

2.3.6 Post-employment benefits

Defined benefit and defined contribution plans have been established for eligible employees of the group, with the assets held in separate trustee-administered funds.

The present value of the defined benefit obligations and related current service costs are calculated annually by independent actuaries using the projected unit credit method.

These actuarial models use an attribution approach that generally spread individual events over the service lives of the employees in the plan.

Estimates and assumptions used in the actuarial models include the discount rate, return on assets, salary increases, healthcare cost trends, longevity and service lives of employees.

The group recognises actuarial gains or losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in OCI. Any increase in the present value of plan liabilities expected to arise due to current service costs is charged to profit or loss.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in profit or loss when the group is demonstrably committed to the curtailment or settlement. Past service costs or credits are recognised immediately.

Net interest for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, adjusted for any changes as a result of contributions and benefit payments, to the net defined benefit liability and recorded in finance costs in profit or loss.

The net liability recognised in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of the plan assets. Where the calculation results in a benefit to the group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Refer to note 28 for the key estimates, assumptions and other information on post-employment benefits.

2.3.7 Provisions

A provision is recognised when the group has a legal or constructive obligation arising from a past event which can be reliably measured and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the effect of discounting (time value) is material, provisions are discounted and the discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The establishment and review of the provisions requires significant judgement by management as to whether or not there is a probable obligation and as to whether or not a reliable estimate of the amount of the obligation can be made.

Environmental accruals are recorded based on current interpretation of environmental laws and regulations (refer to note 2.3.8).

Restructuring provisions are recognised when the group has developed a detailed formal plan for restructuring and has raised a valid expectation that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and is recorded in other operating expenses in profit or loss.

Refer to note 23 for the nature of provisions recorded.

2. Accounting policies continued

2.3 Critical accounting policies continued

2.3.8 Environmental restoration and decommissioning obligations

The group initially recognises a liability for management's best present value estimate of costs expected to be incurred in the dismantling and removal of non-current assets where a legal or constructive obligation exists. The liability changes over time and actual costs incurred in future periods could differ materially from estimates. Additionally, future changes to environmental laws and regulations, life-of-operation estimates and discount rates could affect the carrying amount of this liability.

Due to the uncertainty in the timing of the closure of the group's facilities, some of these obligations have an indeterminate settlement date, and the group believes that adequate information does not exist to apply an expected present value technique to estimate any such potential obligations. Accordingly, the group does not record a liability for such remediation until a decision is made that allows reasonable estimation of the timing of such remediation.

2.4 Adoption of accounting standards in the current year

The group has not adopted any new or revised standards, interpretations, amendments and improvements to standards in the current fiscal year.

2.5 Accounting standards, interpretations and amendments to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective and which have not yet been adopted by the group. The impact of these standards is still being evaluated by the group.

- IFRS 9 *Financial Instruments* – IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities – September 2019. Management has implemented a project to assess the revised classification and measurement impact of this standard and the effect of the expected credit loss method.
- IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Effective date deferred indefinitely.
- IFRS 15 *Revenue from Contracts with Customers* – provides a single, principles-based five-step model to be applied to all contracts with customers – September 2019. Management is currently reviewing the significant customer contracts to determine the impact of this standard.
- IFRS 16 *Leases* – Provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance substantially unchanged from its replacement standard IAS 17 *Leases* – September 2020. Management is currently reviewing the operating lease contracts in place to determine the impact of this standard.
- IAS 7 *Statement of Cash Flows* – Disclosure Initiative – clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities – September 2018.
- IAS 12 – *Income Taxes* – Recognition of Deferred Tax Assets for Unrealised Losses – September 2018.
- IFRIC 22 – *Foreign Currency Transactions and Advance Consideration* – September 2019.
- IFRIC 23 – *Uncertainty over Income Tax Treatments* – September 2020.
- IFRS 17 – *Insurance Contracts* – Supersedes IFRS 4 – September 2022.
- IAS 40 – *Investment Property* – Transfers of Investment Property – September 2019.
- Annual Improvements 2014 – 2016 Cycle – September 2018.

Notes to the Group Annual Financial Statements

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for the year ended September 2017

3. Segment information

Reportable segments are components of an entity for which separate financial information, that is evaluated regularly by the chief operating decision maker in deciding on how to allocate resources and assess performance, is available. The group's reportable segments comprise the geographic regions of North America, Europe and Southern Africa as this is the basis on which financial information is reported to the chief operating decision maker for the purposes of deciding on how to allocate resources and assess performance.

The group's revenue is comprised mostly of the sale of dissolving wood pulp, coated paper and speciality paper in North America; coated, uncoated and speciality paper in Europe as well as dissolving wood pulp, paper pulp and uncoated and commodity paper in Southern Africa.

The group operates a trading network called Sappi Trading for the international marketing and distribution of dissolving wood pulp and paper pulp throughout the world and of the group's other products in areas outside its core operating regions of North America, Europe and Southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

The group accounts for intra-group sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

The group regards its primary measures of segment performance as EBITDA excluding special items and operating profit excluding special items.

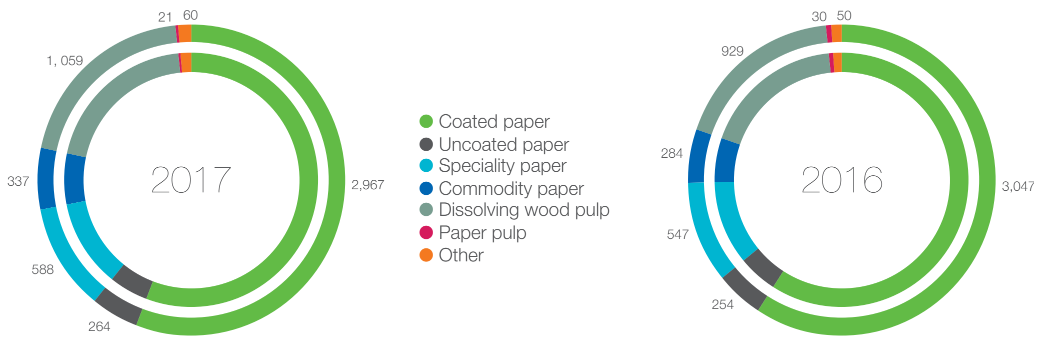
	North America		Europe	
(US$ million)	**2017**	2016	**2017**	2016
Income statement				
External sales[1]	**1,360**	1,367	**2,564**	2,582
Operating profit excluding special items	**47**	49	**140**	131
Special items – gains (losses)[2]	**–**	6	**(4)**	(6)
Segment operating profit (loss)	**47**	55	**136**	125
EBITDA excluding special items[2]	**126**	124	**262**	261
Share of profit of equity investments	**–**	–	**–**	1
Depreciation and amortisation	**(79)**	(75)	**(122)**	(130)
Net asset impairments	**–**	–	**(1)**	(2)
Profit (loss) on disposal and written off assets	**–**	–	**(1)**	1
Fellings	**–**	–	**–**	–
Plantation fair value adjustment	**–**	–	**–**	–
Restructuring provisions (raised) released and closure costs	**–**	–	**–**	(3)
Employee benefit liability settlement	**–**	8	**–**	–
Other non-cash items	**(16)**	(14)	**(15)**	(10)
Balance sheet				
Capital expenditures	**132**	44	**131**	90
Segment assets[2]	**1,026**	967	**1,373**	1,256
Property, plant and equipment	**841**	788	**1,042**	968

Reconciliation of operating profit excluding special items to segment operating profit (loss):

	North America		Europe	
(US$ million)	**2017**	2016	**2017**	2016
Operating profit excluding special items	**47**	49	**140**	131
Special items – gains (losses)[2]	**–**	6	**(4)**	(6)
Segment operating profit (loss)	**47**	55	**136**	125

[1] Sales of products are allocated to where the product is manufactured.
[2] Refer to the Glossary in the Annual Integrated Report for the definition of the term.
[3] Primarily includes the group's treasury operations and its self-insurance captive.

Sales by products



Southern Africa		Unallocated and eliminations(3)		Group	
2017	2016	**2017**	2016	**2017**	2016
1,372	1,192	**–**	–	**5,296**	5,141
337	305	**2**	2	**526**	487
10	62	**(6)**	(5)	**–**	57
347	367	**(4)**	(3)	**526**	544
396	352	**1**	2	**785**	739
6	8	**1**	–	**7**	9
(59)	(47)	**1**	–	**(259)**	(252)
(3)	–	**–**	–	**(4)**	(2)
(1)	14	**–**	–	**(2)**	15
(63)	(56)	**–**	–	**(63)**	(56)
79	120	**–**	–	**79**	120
–	(1)	**(1)**	–	**(1)**	(4)
–	–	**–**	–	**–**	8
6	(22)	**–**	6	**(25)**	(40)
105	90	**2**	5	**370**	229
1,263	1,182	**2**	19	**3,664**	3,424
789	738	**9**	7	**2,681**	2,501

Southern Africa		Unallocated and eliminations(3)		Group	
2017	2016	**2017**	2016	**2017**	2016
337	305	**2**	2	**526**	487
10	62	**(6)**	(5)	**–**	57
347	367	**(4)**	(3)	**526**	544

Notes to the Group Annual Financial Statements
continued

for the year ended September 2017

3. Segment information continued

Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to profit (loss) before taxation:

	North America		Europe	
(US$ million)	**2017**	2016	**2017**	2016
EBITDA excluding special items[2]	**126**	124	**262**	261
Depreciation and amortisation	**(79)**	(75)	**(122)**	(130)
Operating profit excluding special items	**47**	49	**140**	131
Special items – gains (losses)[2]	**–**	6	**(4)**	(6)
Segment operating profit (loss)	**47**	55	**136**	125
Net finance costs				
Profit before taxation				

Reconciliation of segment assets to total assets:

(US$ million)
Segment assets[2]
Deferred tax assets
Cash and cash equivalents
Trade and other payables
Provisions
Derivative financial instruments (included in current liabilities)
Taxation payable
Total assets

In addition to regularly reviewing separate financial information by reportable segment, the chief operating decision maker also reviews certain financial information by major product category which comprises:

(US$ million)
Sales
Specialised cellulose
Paper
Forestry
Total
Operating profit excluding special items
Specialised cellulose
Paper
Unallocated and eliminations[3]
Total
EBITDA excluding special items
Specialised cellulose
Paper
Unallocated and eliminations[3]
Total

[2] Refer to the Glossary in the Annual Integrated Report for the definition of the term.
[3] Primarily includes the group's treasury operations and its self-insurance captive.

	Southern Africa		Unallocated and eliminations[3]		Group	
	2017	2016	**2017**	2016	**2017**	2016
	396	352	**1**	2	**785**	739
	(59)	(47)	**1**	–	**(259)**	(252)
	337	305	**2**	2	**526**	487
	10	62	**(6)**	(5)	**–**	57
	347	367	**(4)**	(3)	**526**	544
					(80)	(121)
					446	423

	Group	
	2017	2016
	3,664	3,424
	123	152
	550	703
	858	839
	10	15
	5	2
	37	42
	5,247	5,177

	Group	
	2017	2016
	1,059	929
	4,172	4,156
	65	56
	5,296	5,141
	334	294
	190	191
	2	2
	526	487
	386	339
	398	398
	1	2
	785	739

Notes to the Group Annual Financial Statements
continued

for the year ended September 2017

4. Operating profit

Operating profit has been arrived at after charging (crediting):

(US$ million)	2017 Cost of sales	2017 Selling, general and administrative expenses	2016 Cost of sales	2016 Selling, general and administrative expenses
Raw materials, energy and other direct input costs	**2,705**	**–**	2,630	–
Wood (includes growth and felling adjustments)[1]	**603**	**–**	624	–
Energy	**372**	**–**	355	–
Chemicals	**787**	**–**	726	–
Pulp	**753**	**–**	740	–
Other variable costs	**190**	**–**	185	–
Plantation price fair value adjustment	**(21)**	**–**	(64)	–
Employment costs	**769**	**160**	739	155
Depreciation	**247**	**8**	241	9
Delivery charges	**441**	**–**	431	–
Maintenance	**213**	**–**	201	–
Other overheads	**75**	**–**	92	–
Marketing and selling expenses	**–**	**81**	–	74
Administrative and general expenses	**–**	**85**	–	98
	4,429	**334**	4,270	336

(US$ million)	2017	2016
Silviculture costs (included within cost of sales)	**58**	46
Leasing charges for premises	**13**	14
Leasing charges for plant and equipment	**14**	14
Remuneration paid other than to employees of the company in respect of	**27**	25
Technical services	**11**	12
Administration services	**16**	13
Auditor's remuneration	**4**	5
Tax planning and advice	**1**	–
Research and development costs	**29**	26
Amortisation	**4**	2
Cost on derecognition of loans and receivables[2]	**11**	8
Net asset impairment of assets and investments	**4**	2
Restructuring provisions and closure costs raised (reversed)	**1**	4
(Profit) loss on assets held for sale and written off assets	**2**	(15)
Post-retirement plan settlements and amendments	**–**	(8)
Broad-based Black Economic Empowerment (BBBEE) charge	**1**	1
Employment costs consist of	**929**	894
Wages and salaries	**838**	814
Defined contribution plan expense	**36**	34
Defined benefit pension plan expense	**21**	12
Other defined benefit plan expense	**2**	3
Share-based payment expense	**9**	6
Other	**23**	25
[1] *Changes in plantation volumes*		
Fellings	**63**	56
Growth	**(58)**	(56)

[2] *The cost on derecognition of trade receivables relates to the derecognition of trade receivables related to the securitisation programme in South Africa and to the sale of letters of credit in Hong Kong.*

(US$ million)	2017	2016
5. Net finance costs		
Interest and other finance costs on liabilities carried at amortised cost	**100**	129
Interest on overdrafts	**–**	1
Interest on redeemable bonds and other loans	**100**	111
Premium and costs on early redemption of redeemable bonds and other loans	**–**	12
Accelerated amortisation on early settlement of redeemable bonds and other loans	**–**	5
Net interest on employee benefit liabilities	**7**	11
Finance income received on assets carried at amortised cost	**(15)**	(16)
Interest income on bank accounts	**(12)**	(15)
Interest income on other loans and investments	**(3)**	(1)
Net foreign exchange gains	**(12)**	(2)
Net fair value loss (gain) on financial instruments	**–**	(1)
Hedge ineffectiveness	**–**	(1)
	80	121

(US$ million)	2017	2016
6. Taxation charge		
Current taxation		
Current year	**99**	63
Prior year overprovision	**(5)**	(2)
Other company taxes	**1**	3
Deferred taxation		
Current year	**12**	44
Prior year underprovision	**1**	(4)
Attributable to tax rate changes	**–**	–
	108	104
Reconciliation of the tax rate		
Profit before taxation	**446**	423
Profit-making regions	**447**	423
Loss-making regions	**(1)**	–
Taxation at the average statutory tax rate	**125**	119
Profit-making regions at 28% (2016: 28%)	**125**	119
Exempt income	**(26)**	(17)
Non-deductible expenditure	**29**	17
No tax relief on losses	**3**	–
No tax charge on profits	**(4)**	(12)
Recognition of deferred tax assets	**(16)**	–
Prior year adjustments	**(4)**	(6)
Other taxes	**1**	3
Taxation charge	**108**	104
Effective tax rate for the year	**24%**	25%

In addition to income taxation charges to profit or loss, a taxation charge of US$33 million (2016: US$8 million relief) has been recognised directly in other comprehensive income (refer to note 12).

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7. Earnings per share

Basic earnings per share (EPS)

EPS is based on the group's profit for the year divided by the weighted average number of shares in issue during the year under review.

	2017 Profit US$ million	2017 Shares million	2017 Earnings per share US cents	2016 Profit US$ million	2016 Shares million	2016 Earnings per share US cents
Basic EPS calculation	**338**	**533.9**	**63**	319	529.4	60
Share options and performance shares under Sappi Limited Share Trust	**–**	**13.5**		–	10.9	
Diluted EPS calculation	**338**	**547.4**	**62**	319	540.3	59

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR85.47 (2016: ZAR64.88). In the current and prior financial year, all share options that could potentially dilute EPS in the future are included in the calculation above.

Headline earnings per share[1]

Headline earnings per share are based on the group's headline earnings divided by the weighted average number of shares in issue during the year.

Reconciliation between attributable earnings to ordinary shareholders and headline earnings:

(US$ million)	2017 Gross	2017 Tax	2017 Net	2016 Gross	2016 Tax	2016 Net
Attributable earnings to ordinary shareholders	**446**	**108**	**338**	423	104	319
Impairments of assets and investments	**6**	**–**	**6**	2	–	2
Profit on disposal of assets held for sale, businesses and other assets	**2**	**(1)**	**1**	(15)	(3)	(12)
Asset impairment reversals	**(2)**	**–**	**(2)**	–	–	–
Headline earnings	**454**	**107**	**343**	410	101	309
Weighted average number of ordinary shares in issue (millions)			**533.9**			529.4
Headline earnings per share (US cents)			**64**			58
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**547.4**			540.3
Diluted headline earnings per share (US cents)			**63**			57

[1] *Headline earnings – as defined in Circular 2/2015, issued by the South African Institute of Chartered Accountants in October 2015, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share.*

7. Earnings per share continued

EPS excluding special items

EPS excluding special items is based on the group's earnings adjusted for special items (as disclosed in note 3) and certain once-off finance and tax items, divided by the weighted average number of shares in issue during the year.

	2017			2016		
(US$ million)	**Gross**	**Tax**	**Net**	Gross	Tax	Net
Attributable earnings to ordinary shareholders	**446**	**108**	**338**	423	104	319
Special items	**–**	**(2)**	**2**	(57)	(18)	(39)
Refinancing costs	**–**	**–**	**–**	23	–	23
Earnings excluding special items	**446**	**106**	**340**	389	86	303
Weighted average number of ordinary shares in issue (millions)			**533.9**			529.4
EPS excluding special items (US cents)			**64**			57
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**547.4**			540.3
Diluted EPS excluding special items (US cents)			**62**			56

8. Dividends

The directors have resolved to declare a gross dividend (number 87) of 15 US cents per share, payable in Rand at an exchange rate (US$1 = ZAR) of 14.37037, being ZAR215.55555 cents per share, for the year ended September 2017 out of income, in respect of Sappi ordinary shares in issue on the record date as detailed below. Holders of Sappi 'A' ordinary unlisted shares in issue on the record date shall be entitled to receive 7.5 US cents per share being 50% of the ordinary dividend declared.

9. Cash paid on acquisition

On 03 July 2017 Sappi acquired a 100% interest in Rockwell Solutions Limited for a purchase consideration of US$23 million (GBP18 million) of which US$12 million (GBP10 million) is a contingent consideration and US$11 million was paid in cash. The net assets acquired include tangible net assets of US$7 million, goodwill of US$3 million and identified intangible assets of US$13 million.

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(US$ million)	2017	2016
10. Property, plant and equipment		
Land and buildings[1]		
At cost	**1,385**	1,317
Accumulated depreciation and impairments	**(860)**	(800)
	525	517
Plant and equipment[2]		
At cost	**6,864**	6,401
Accumulated depreciation and impairments	**(4,709)**	(4,419)
	2,155	1,982
Capitalised leased assets		
At cost	**432**	412
Accumulated depreciation and impairments	**(431)**	(410)
	1	2
Aggregate cost	**8,681**	8,130
Aggregate accumulated depreciation and impairments	**(6,000)**	(5,629)
Aggregate book value[3]	**2,681**	2,501

The movement of property, plant and equipment is reconciled as follows:

(US$ million)	Land and buildings	Plant and equipment	Capitalised leased assets	Total
Net book value at September 2015	510	1,996	2	**2,508**
Additions	10	218	1	**229**
Disposals	–	(2)	–	**(2)**
Depreciation	(28)	(221)	(1)	**(250)**
Transfers to assets held for sale	22	(22)	–	**–**
Translation differences	3	13	–	**16**
Net book value at September 2016	517	1,982	2	**2,501**
Additions	20	350	–	**370**
Acquisition	5	5	–	**10**
Disposals	(1)	(5)	–	**(6)**
Depreciation	(29)	(225)	(1)	**(255)**
Translation differences	13	48	–	**61**
Net book value at September 2017	525	2,155	1	**2,681**

[1] *Details of land and buildings are available at the registered offices of the respective companies that own the assets.*
[2] *Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.*
[3] *An amount of US$298 million (2016: US$124 million) relates to assets under construction.*

Refer to note 25 for details of encumbrances.

(US$ million)	2017	2016
11. Plantations		
Fair value of plantations at beginning of year	**441**	383
Gains arising from growth	**58**	56
Fire, flood, storms and related events	**(5)**	(13)
In-field inventory	**1**	(1)
Gain arising from fair value price changes	**21**	64
Harvesting – agriculture produce (fellings)	**(63)**	(56)
Disposals	**–**	(1)
Translation differences	**5**	9
Fair value of plantations at end of year	**458**	441

Sappi manages the establishment, maintenance and harvesting of its plantations on a compartmentalised basis. These plantations comprise pulpwood and sawlogs and are managed to ensure that the optimum fibre balance is supplied to its paper and pulping operations in Southern Africa.

The group manages its plantations on a rotational basis. As such, increases by means of growth are negated by fellings, for the group's own use or for external sales, over the rotation period.

The group manages plantations on land that the group owns, as well as on land that the group leases. The group discloses both of these as directly managed plantations. With regard to indirectly managed plantations, the group has several different types of agreements with many independent farmers. The terms of the agreements depend on the type and specific needs of the farmer as well as the areas planted and range in duration from one to more than 20 years. In certain circumstances, the group provides loans to farmers that are disclosed as other non-current assets on the group balance sheet (these loans are considered, individually and in aggregate, immaterial to the group). If the group provides seedlings, silviculture and/or technical assistance, the costs are expensed when incurred by the group.

The group is exposed to financial risks arising from climatic changes, disease and other natural risks such as fire, flooding and storms as well as human-induced losses arising from strikes, civil commotion and malicious damage. These risks are covered by an appropriate level of insurance as determined by management. The plantations have an integrated management system that complies with Forest Stewardship Council® standards.

Plantations are stated at fair value less estimated cost to sell at the harvesting stage and is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement* which is consistent with the prior year.

The fair value of plantations has been calculated using a real pre-tax discount rate of 9.77%. The group currently values approximately 28 million tons of timber using selling prices and delivery costs that are benchmarked against industry norms. The average annual growth is measured at approximately 17 tons of timber per hectare while immature timber comprise approximately 101,000 hectares of plantations. As changes to estimated prices, the discount rate, costs to sell, and volume and growth assumptions applied in the valuation of immature timber may impact the calculated fair value, the group has calculated the sensitivity of a change in each of these assumptions as tabled below:

(US$ million)	2017	2016
Market price changes		
1% increase in market prices	**2**	2
1% decrease in market prices	**(2)**	(2)
Discount rate (for immature timber)		
1% increase in rate	**(3)**	(2)
1% decrease in rate	**3**	2
Volume assumption		
1% increase in estimate of volume	**4**	4
1% decrease in estimate of volume	**(4)**	(4)
Costs to sell		
1% increase in costs to sell	**(2)**	(2)
1% decrease in costs to sell	**2**	2
Growth assumptions		
1% increase in rate of growth	**1**	1
1% decrease in rate of growth	**(1)**	(1)

Notes to the Group Annual Financial Statements
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for the year ended September 2017

(US$ million)	2017 Assets	2017 Liabilities	2016 Assets	2016 Liabilities
12. Deferred tax				
Other liabilities, accruals and prepayments	**(69)**	**(90)**	(63)	(63)
Inventory	**10**	**2**	10	2
United States of America (USA) tax credits carry forward	**16**	**–**	20	–
Tax loss carry forward	**127**	**29**	119	30
Property, plant and equipment	**(64)**	**(209)**	(5)	(207)
Plantations	**–**	**(32)**	–	(48)
Other non-current assets	**18**	**2**	40	2
Other non-current liabilities	**85**	**3**	31	12
	123	**(295)**	152	(272)

Negative asset and liability positions

These balances reflect the impact of tax assets and liabilities arising in different tax jurisdictions, which cannot be netted against tax assets and liabilities arising in other tax jurisdictions.

Deferred tax assets recognised on the balance sheet

The recognised deferred tax assets relate mostly to available unused tax losses. It is expected that there will be sufficient future taxable profits against which these losses can be recovered. In the estimation of future taxable profits, future product pricing and production capacity utilisation are taken into account.

Unrecognised deferred tax assets

Deferred tax assets arising from unused tax losses and unused tax credits are not recognised for carry forward when it cannot be demonstrated that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

(US$ million)	2017	2016
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	**29**	36
Tax losses	**682**	712
	711	748
Attributable to the following tax jurisdictions:		
Austria	**529**	552
Belgium	**115**	115
Finland	**40**	38
The Netherlands	**27**	43
	711	748
Expiry between one and five years	**70**	86
Expiry after five years	**24**	24
Indefinite life	**617**	638
	711	748

(US$ million)	2017	2016
12. Deferred tax continued		
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	**748**	836
No tax relief on losses	**1**	–
No tax charge on profits	**(60)**	(31)
Recognition of deferred tax assets	**(16)**	–
Expired	**–**	(59)
Prior year adjustments	**4**	–
Movement in foreign exchange rates	**34**	2
Balance at end of year	**711**	748
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**152**	162
Deferred tax liabilities	**(272)**	(245)
	(120)	(83)
Deferred tax charge for the year	**(13)**	(40)
Other liabilities, accruals and prepayments	**(28)**	(38)
Inventory	**1**	–
USA tax credits	**(3)**	–
Tax loss carry forward	**–**	(53)
Property, plant and equipment	**(58)**	11
Plantations	**17**	18
Other non-current assets	**(30)**	(27)
Other non-current liabilities	**88**	49
Amounts recorded directly in other comprehensive income	**(33)**	8
Acquisition of subsidiary	**(3)**	–
Translation differences	**(3)**	(5)
Deferred tax balances at end of year	**(172)**	(120)
Deferred tax assets	**123**	152
Deferred tax liabilities	**(295)**	(272)

Notes to the Group Annual Financial Statements
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13. Goodwill and intangible assets

(US$ million)	2017 Goodwill	2017 Brands	2017 Other	2017 Total	2016 Goodwill	2016 Brands	2016 Other	2016 Total
Net carrying amount at beginning of year	**3**	**5**	**9**	**17**	4	7	8	19
Additions	**–**	**–**	**2**	**2**	–	–	4	4
Acquisitions	**3**	**9**	**13**	**25**	–	–	–	–
Amortisation	**–**	**(2)**	**(4)**	**(6)**	–	(2)	–	(2)
Impairment	**–**	**–**	**(1)**	**(1)**	–	–	(2)	(2)
Disposals	**–**	**–**	**(1)**	**(1)**	–	–	–	–
Translation difference	**1**	**1**	**1**	**3**	(1)	–	(1)	(2)
Net carrying amount	**7**	**13**	**19**	**39**	3	5	9	17
Cost (gross carrying amount)	**7**	**32**	**20**	**59**	3	20	12	35
Accumulated amortisation and impairments	**–**	**(19)**	**(1)**	**(20)**	–	(15)	(3)	(18)
Net carrying amount	**7**	**13**	**19**	**39**	3	5	9	17

Goodwill was increased by US$3 million during the year related to the acquisition of Rockwell Solutions Limited. Goodwill is attributable to the cash-generating units of specialities (US$3 million) and coated woodfree (US$4 million) in Sappi Europe. The goodwill has been assessed for impairment by comparing the carrying amount against the recoverable amount.

(US$ million)	2017	2016
14. Equity accounted investees		
Group's share of carrying amount of equity accounted investees		
Umkomaas Lignin Pty Limited	**14**	14
Other equity accounted investees	**12**	6
	26	20

Dividends received from joint ventures for the 2017 financial year were US$7 million (2016: US$7 million).

Umkomaas Lignin Proprietary Limited

A 50% joint venture agreement with Borregaard AS for the construction and operation of a lignin plant at Umkomaas, South Africa and the development, production and sale of products based on lignosulphonate in order to build a sustainable lignin business. The financial statements of Umkomaas Lignin Proprietary Limited are to 31 December of each year which is the year-end of Borregaard AS. The unaudited management accounts which are prepared in accordance with IFRS are used to account for the joint venture's income to Sappi's year-end.

Summarised financial information of Umkomaas Lignin Proprietary Limited:

(US$ million)	2017	2016
Current assets	**25**	21
Non-current assets	**19**	14
Current liabilities	**(7)**	(6)
Non-current liabilities	**(9)**	(1)
The above assets and liabilities include the following:		
Cash and cash equivalents	**10**	6
Current financial liabilities (excluding trade and other payables, and provisions)	**(7)**	(6)
Non-current financial liabilities (excluding trade and other payables, and provisions)	**(9)**	(1)

(US$ million)	2017	2016
14. Equity accounted investees continued		
Umkomaas Lignin Proprietary Limited *continued*		
Sales	**49**	56
Depreciation and amortisation	**2**	1
Taxation charge	**4**	7
Profit from continuing operations	**13**	16
Total comprehensive income	**13**	16

Reconciliation of the financial information to the carrying amount of the joint venture:

(US$ million)	2017	2016
Net assets of the joint venture	**28**	28
Proportion of the group's ownership interest	**50%**	50%
Carrying amount of the joint venture	**14**	14

Details of other equity accounted investees

The group has entered into various joint venture agreements primarily for the purchase of wood and wood chips for the common benefit of the venturers. The financial year-end of each of these joint ventures is 31 December which is a common date for entities operating in the joint ventures' countries of incorporation and which is also the year-end of the other venturers.

Aggregate financial information for joint ventures that are not individually material:

(US$ million)	2017	2016
Profit from continuing operations	**3**	1
Total comprehensive income	**3**	1

(US$ million)	2017	2016
Carrying amount of these other equity accounted investees	**12**	6

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	(US$ million)	2017	2016
15.	**Other non-current assets**		
	Investment funds	**7**	7
	Defined benefit pension plan assets (refer to note 28)	**35**	23
	Advances to tree growers	**3**	3
	Other financial assets	**4**	4
	Other	**2**	2
		51	39

	(US$ million)	2017	2016
16.	**Inventories**		
	Raw materials	**134**	134
	Work in progress	**56**	56
	Finished goods	**311**	281
	Consumable stores and spares	**135**	135
		636	606

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US$6 million (2016: US$8 million). There were no reversals of any inventory write-downs for the periods presented.

The cost of inventories recognised as an expense and included in cost of sales amounted to US$3,995 million (2016: US$3,896 million)

(US$ million)	2017	2016
17. Trade and other receivables		
Trade accounts receivable, gross	**581**	531
Allowance for credit losses	**(10)**	(14)
Trade accounts receivable, net	**571**	517
Prepayments and other receivables	**97**	125
	668	642

Management rates the quality of trade and other receivables periodically against its internal credit rating parameters. The quality of these trade receivables is such that management believes no additional allowance for credit losses, other than as provided, is necessary. No significant risk has been identified within the trade accounts receivables not past due but not impaired. Due to the short maturities of trade and other receivables, the carrying amount of these trade and other receivables approximate their fair values.

Prepayments and other receivables primarily represent prepaid insurance, prepaid taxes and other sundry receivables.

Trade receivables (including securitised trade receivables) represent 12.3% (2016: 12.1%) of turnover.

(US$ million)	2017	2016
17.1 Reconciliation of the allowance for credit losses		
Balance at beginning of year	**14**	11
Raised during the year	**8**	8
Released during the year	**(8)**	(1)
Utilised during the year	**(5)**	(4)
Translation differences	**1**	–
Balance at end of year	**10**	14

The allowance for credit losses has been determined by reference to specific customer delinquencies.

17.2 Analysis of amounts past due

September 2017

The following provides an analysis of the amounts that are past the contractual maturity dates:

(US$ million)	Not impaired	Impaired	Total
Less than 7 days overdue	**21**	**1**	**22**
Between 7 and 30 days overdue	**11**	**–**	**11**
Between 30 and 60 days overdue	**3**	**–**	**3**
More than 60 days overdue	**1**	**9**	**10**
	36	**10**	**46**

September 2016

The following provides an analysis of the amounts that are past the contractual maturity dates:

(US$ million)	Not impaired	Impaired	Total
Less than 7 days overdue	7	–	7
Between 7 and 30 days overdue	7	–	7
Between 30 and 60 days overdue	2	1	3
More than 60 days overdue	2	12	14
	18	13	31

All amounts which are due but beyond their contractual repayment terms are reported to divisional management on a regular basis. Any allowance for credit losses is required to be approved in line with the group's limits of authority framework.

The group holds collateral of US$1 million (2016: US$1 million) against trade receivables past contractual repayment terms.

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17. Trade and other receivables continued

17.3 Trade receivables securitisation

The group operates on and off-balance sheet trade receivables securitisation programmes in order to improve working capital and to utilise the cost effectiveness of such structures.

On-balance sheet structure

The group operates an on-balance sheet securitisation programme with UniCredit Bank AG which ends in August 2020. This programme has a limit of US$390 million (€330 million). The trade receivables sold in terms of this programme are disclosed on the group balance sheet together with a corresponding liability.

At financial year-end, trade receivables with a value of US$432 million (2016: US$392 million) have been pledged as collateral for amounts received as funding under the programme of US$364 million (2016: US$314 million). The group is restricted from selling or repledging the trade receivables that have been pledged as collateral for this liability. For more detail on this programme, refer to note 21.

Off-balance sheet structures

Southern African securitisation facility

Sappi sells the majority of its Rand receivables to Rand Merchant Bank Limited, a division of FirstRand Bank Limited. In terms of the agreement, Sappi is required to maintain a credit insurance policy with a reputable insurance provider and, while the company does not guarantee the recoverability of any amounts, it carries 15% of the credit risk (and Rand Merchant Bank Limited the remainder) of each underlying receivable, after all recoveries, including insurance recoveries. As a result, no additional liability has been recognised as this would be insignificant to the financial statements.

Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is the Johannesburg Inter-bank Agreed Rate (JIBAR) plus a spread. This structure is treated as an off-balance sheet arrangement.

If this securitisation facility were to be terminated, we would discontinue further sales of trade receivables and would not incur any losses in respect of receivables previously sold in excess of the 15% mentioned above. There are a number of events which may trigger termination of the facility, among others, an amount of defaults above a specified level, terms and conditions of the agreement not being met, or breaches of various credit insurance ratios. The impact on liquidity varies according to the terms of the agreement; generally, however, future trade receivables would be recorded on-balance sheet until a replacement agreement is entered into.

The total amount of trade receivables sold at the end of September 2017 amounted to US$72 million (2016: US$91 million).

Details of the securitisation programme at the end of the 2017 and 2016 financial years are disclosed in the table below:

Bank	Currency	Value	Facility[1]	Discount charges
2017				
Rand Merchant Bank Limited	**ZAR**	**ZAR980 million**	**Unlimited**	**Linked to 3-month JIBAR**
2016				
Rand Merchant Bank Limited	ZAR	ZAR1,249 million	Unlimited	Linked to 3-month JIBAR

[1] *The securitisation facility is unlimited, but subject to the sale of qualifying receivables to the bank.*

17. Trade and other receivables continued

17.3 Trade receivables securitisation continued

***Off-balance sheet structures** continued*

Letters of credit discounting

At the end of each financial month and on a non-recourse basis, the group sells certain letters of credit to Citibank (Hong Kong) and KBC Bank (Hong Kong) and, similarly, discounts certain trade receivables with Union Bancaire Privee (Switzerland), Erste Bank Austria (Erste), HSBC (Mexico), Citibank (São Paulo) and Citibank (New York) by utilising the customers' credit facilities with the discounting bank.

17.4 Concentration of credit risk

A significant portion of the group's sales and accounts receivable are from a small number of customers. None of the group's significant customers represented more than 10% of our sales and trade receivables during the years ended September 2017 and September 2016. Where appropriate, credit insurance has been taken out over the group's trade receivables.

None of the group's other receivables represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers worldwide.

At balance sheet date, the carrying amount of US$668 million (2016: US$642 million) represents the group's maximum credit risk exposure from trade and other receivables.

The group has the following net trade receivable amounts from single customers:

	2017			2016		
Threshold	**Number of customers**	**US$ million**	**Percentage**	Number of customers	US$ million	Percentage
Greater than US$10 million	**6**	**109**	**19**	5	96	19
Between US$5 million and US$10 million	**8**	**50**	**9**	8	49	9
Less than US$5 million	**2,450**	**412**	**72**	2,315	372	72
	2,464	**571**	**100**	2,328	517	100

At balance sheet date, none of the group's customers with balances equal to or greater than US$5 million had breached their contractual maturity terms and thus no impairment charges have been recognised in respect of such customers.

Refer to note 31 for further details on credit risk.

Notes to the Group Annual Financial Statements
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for the year ended September 2017

		2017		2016	
		Number of shares	**US$ million**	Number of shares	US$ million
18.	**Ordinary share capital and share premium**				
	Authorised share capital:				
	Ordinary shares of ZAR1 each	**725,000,000**		725,000,000	
	'A' ordinary shares of ZAR1 each(1)	**19,961,476**		19,961,476	
	Issued share capital:				
	Fully paid ordinary shares of ZAR1 each	**557,202,573**	**41**	541,446,223	40
	Fully paid 'A' ordinary shares of ZAR1 each(1)	**19,961,476**	**2**	19,961,476	1
	Treasury shares(2)	**(42,143,854)**	**(3)**	(30,844,098)	(2)
	Share premium		**854**		840
		535,020,195	**894**	530,563,601	879
	The movement in ordinary share capital and share premium is reconciled as follows:				
	Opening balance		**879**		851
	Transfers from Sappi Limited Share Incentive Trust		**4**		14
	Translation movements		**11**		14
	Closing balance		**894**		879

(1) The 'A' ordinary shares are unlisted but rank pari passu with the ordinary shares in all respects except for dividend entitlements where the 'A' ordinary shares are entitled to 50% of the dividends payable on the ordinary shares. The 'A' ordinary shares have the same voting rights as ordinary shares but are not listed on the JSE Limited. Sappi will have the option to repurchase a number of 'A' ordinary shares in August 2019. The number of any 'A' ordinary shares that Sappi elects to buy back on the repurchase date will depend on the price performance of the ordinary shares over the period of the transaction with the remaining 'A' ordinary shares being distributed to the beneficiaries and converted into ordinary shares. The 'A' ordinary shares' rights, terms, conditions of conversion and privileges are contained in Article 38 of Sappi's Memorandum of Incorporation, details of which are available for inspection at the company's registered offices.

(2) Includes 22,182,378 (2016: 10,882,622) ordinary shares as well as 19,961,476 (2016: 19,961,476) 'A' ordinary shares that are held by group entities, including the Sappi Limited Share Incentive Trust and the trusts set up to house the Broad-based Black Economic Empowerment transaction. These shares may be utilised to meet the requirements of the trusts.

18. Ordinary share capital and share premium continued

The movement in the number of treasury shares is set out in the table below:

Number of shares	2017	2016
Ordinary treasury shares:		
Opening balance	**10,882,622**	15,041,212
Issue of treasury shares	**15,756,350**	–
Treasury shares issued to participants	**(4,456,594)**	(4,158,590)
Scheme shares (Refer to note 29)	**(1,218,849)**	(3,396,445)
Plan shares (Refer to note 29)	**(3,237,745)**	(762,145)
Closing balance	**22,182,378**	10,882,622
'A' ordinary treasury shares:		
'A' ordinary shares issued to the BBBEE trusts	**19,961,476**	19,961,476
	42,143,854	30,844,098

Included in the issued and unissued share capital of 725,000,000 shares is a total of 42,700,870 shares which may be used to meet the requirements of the Sappi Limited Share Incentive Trust (the Scheme) and/or the Sappi Limited Performance Share Incentive Trust (the Plan). In terms of the rules of the Scheme and the Plan, the maximum number of shares which may be acquired in aggregate by the Scheme and/or the Plan, and allocated to participants of the Scheme and/or the Plan, is 42,700,870 shares subject to adjustment of Sappi's issued share capital arising from any conversion, redemption, consolidation, sub-division and/or any rights or capitalisation issue of shares. Sappi is, at all times, obliged to reserve and keep available such number of shares (together with any treasury shares held by Sappi subsidiaries which may be used for the purposes of the Scheme and/or the Plan) as shall then be required in terms of the Scheme and/or the Plan out of its authorised but unissued share capital. Authority to use treasury shares for the purposes of the Scheme and/or the Plan was granted by shareholders at the Annual General Meeting held on 07 March 2005.

Capital risk management

The capital structure of the group consists of:
- Issued share capital and share premium and accumulated profits disclosed above and in the statement of changes in equity respectively
- Debt, which includes interest-bearing borrowings as disclosed in note 21, and
- Cash and cash equivalents.

The objectives of the group in managing capital are:
- To safeguard the group's ability to continue as a going concern, to be flexible and to take advantage of opportunities that are expected to provide an adequate return to shareholders
- To ensure sufficient resilience against economic turmoil
- To maximise returns to stakeholders by optimising the weighted average cost of capital, given inherent constraints, and
- To ensure appropriate access to equity and debt.

The group monitors its gearing through a ratio of net debt (interest-bearing borrowings and overdrafts less cash and cash equivalents) to total capitalisation (shareholders' equity plus net debt).

The group has entered into a number of debt facilities which contain certain terms and conditions in respect of capital management.

During the 2017 and 2016 financial years, the group was in compliance with the financial covenants relating to the loans payable.

The group manages its capital and makes adjustments to it in light of changes in economic conditions. No changes were made to the objectives, policies or processes during the current period.

Notes to the Group Annual Financial Statements
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for the year ended September 2017

	(US$ million)	2017	2016
19.	**Other comprehensive income (loss)**		
	Item that will not be reclassified subsequently to profit or loss		
	Actuarial gains (losses) on post-employment benefit funds	**68**	(12)
	Gross amount	**101**	(20)
	Tax	**(33)**	8
	Items that may be or are reclassified subsequently to profit or loss		
	Exchange differences on translation to presentation currency	**(1)**	38
	Translation of foreign operations	**(1)**	37
	Exchange differences arising on non-distributable reserves	**2**	1
	Exchange differences arising on hedging reserves	**(2)**	–
	Tax	**–**	–
	Hedging reserves	**11**	4
	Movements during the year	**30**	4
	Reclassified to profit or loss	**(19)**	–
	Reclassified to property, plant and equipment	**(1)**	–
	Tax	**1**	–
	Other comprehensive income (loss) recorded directly in equity	**78**	30
	Profit for the year	**338**	319
	Total comprehensive income (loss) for the year	**416**	349

(US$ million)	2017 Legal reserves[1]	2017 Share-based payment reserve	2017 Other	2017 Total	2016 Legal reserves[1]	2016 Share-based payment reserve	2016 Other	2016 Total
20. Non-distributable reserves								
Opening balance	**58**	**53**	**3**	**114**	58	52	3	113
Transfers of vested share options	**–**	**(2)**	**–**	**(2)**	–	(7)	–	(7)
Share-based payment expense	**–**	**9**	**–**	**9**	–	7	–	7
Translation differences	**2**	**1**	**(1)**	**2**	–	1	–	1
	60	**61**	**2**	**123**	58	53	3	114

[1] Represents equity of the group that is not available for distribution to shareholders other than on liquidation. This is a legal requirement in certain countries which require a percentage of profit (loss) for the year to be transferred to a legal reserve until a certain threshold is reached. This threshold varies from country to country.

(US$ million)	2017	2016
21. Interest-bearing borrowings		
Securitisation debt[1]	**364**	314
Unsecured borrowings	**1,508**	1,797
Total borrowings (Refer to note 31)	**1,872**	2,111
Less: Current portion included in current liabilities	**(133)**	(576)
Total non-current interest-bearing borrowings	**1,739**	1,535
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2017		576
2018	**133**	350
2019	**24**	–
2020	**481**	83
2021	**32**	–
2022 (September 2016: Thereafter)	**533**	1,102
Thereafter	**669**	
	1,872	2,111

[1] Pledged over trade receivables (Refer to note 25 for details of encumbered assets).

Capitalised lease liabilities

As at financial year-end, the group had no material capitalised finance lease liabilities.

Notes to the Group Annual Financial Statements
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for the year ended September 2017

21. **Interest-bearing borrowings** continued

Set out below are details of the more significant interest-bearing borrowings in the group at September 2017:

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	EUR	Fixed	€450 million	€444 million[3][4][5]	Unsecured	April 2022	No financial covenants
Public bond	EUR	Fixed	€350 million	€344 million[3][4][5]	Unsecured	April 2023	No financial covenants
Public bond	USD	Fixed	US$221 million	US$218 million[4][5][6]	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed[7]	ZAR500 million	ZAR500 million	Unsecured	April 2018	No financial covenants
Public bond	ZAR	Fixed	ZAR745 million	ZAR744 million[4]	Unsecured	April 2020	No financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€200 million	€200 million	Trade receivables (securitisation programme)	August 2020	EBITDA to net interest and net debt to EBITDA[8]
UniCredit Bank	USD	Variable	US$127 million	US$127 million	Trade receivables (securitisation programme)	August 2020	EBITDA to net interest and net debt to EBITDA[8]
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million		December 2017	No financial covenants
Österreichische Kontrollbank	EUR	Fixed	€82 million	€81 million[2][4]		June 2021	EBITDA to net interest and net debt to EBITDA[8]
Österreichische Kontrollbank	EUR	Fixed	€59 million	€58 million[2][4]		March 2024	EBITDA to net interest and net debt to EBITDA[8]
GroCapital Financial Services	ZAR	Fixed[7]	ZAR400 million	ZAR400 million		May 2020	No financial covenants

[1] *The nature of the rates for the group bonds are explained in note 31. The nature of the interest rates is determined with reference to the underlying economic hedging instrument.*
[2] *The OeKB provides the funding for this facility but the majority of the credit risk is guaranteed by some of Sappi's relationship banks.*
[3] *Under the relevant indenture, certain limitations exist including dividend distributions and other payments, indebtedness, asset sales, liens, guarantees, and mergers and consolidations. In case of a change of control, holders have a right to require the relevant issuer to repurchase all or any part of their bonds at a purchase price of 101% of the principal amount of bonds.*
[4] *The principal value of the loans/bonds corresponds to the amount of the facility; however, the balance sheet value has been adjusted by the discounts paid upfront.*
[5] *Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time redeem any public bonds (the securities), in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the securities to be redeemed and (ii) a make-whole amount based on the present values of remaining payments at a rate based on yields of specified US treasury securities plus a premium, as defined in the bond indentures, together with interest calculated on the principal amount of the securities to be redeemed up to the date of redemption.*
[6] *Under the relevant indenture, limitations exist on liens, sale and leaseback transactions, and mergers and consolidations. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH group.*
[7] *Rand variable interest rates have been swapped into fixed Rand interest rates. These swaps are subject to hedge accounting.*
[8] *Financial covenants relate to the Sappi Limited group.*

	Local currency million	US$ million
21. Interest-bearing borrowings continued		
The analysis of the currency per debt is:		
USD	345	**345**
EUR	1,190	**1,406**
ZAR	1,644	**121**
		1,872

A detailed analysis of total interest-bearing borrowings has been disclosed in note 31.

Other restrictions

As is the norm for bank loan debt, a portion of the group's financial indebtedness is subject to cross default provisions above certain de minimis amounts. Breaches in bank covenants in certain subsidiaries, if not corrected in time, might result in a default in group debt, and in this case, a portion of the group's consolidated liabilities might eventually become payable on demand.

During the 2017 and 2016 financial years, the group was in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institutions before such breach occurs.

Borrowing facilities secured by trade receivables

The on-balance sheet securitisation programme with UniCredit Bank AG has a limit of US$390 million (€330 million) and, to the extent utilised, is disclosed on the balance sheet together with a corresponding trade receivable. The interest arising on this programme is recorded within finance costs.

In terms of the programme, the securitisation sellers being Sappi Lanaken NV on behalf of Europe, Sappi NA Finance LLC (a special purpose entity) on behalf of North America, and Sappi Papier Holding GmbH on behalf of Sappi Trading sell certain eligible trade receivables to Elektra Purchase N° 29 Limited (Elektra), a securitisation special purpose entity, that is consolidated by the Sappi group. Elektra has a commissioning agreement with Arabella Finance Limited (Arabella), an entity belonging to UniCredit Bank AG that issues commercial paper to fund the purchase of the trade receivables (alternative funding resources are available should the market for commercial paper be disrupted). The funding is settled in US Dollar and Euro.

As at September 2017, a funding reserve, that is reset on a monthly basis, amounted to 14.80% (2016: 19.75%).

The cost of the programme includes a variable component based on EURIBOR/LIBOR (floor 0%), a fixed margin and a commitment fee computed on the difference between US$354 million (€300 million) and the used portion of the programme limit.

The trade receivables are legally transferred; however, these receivables do not qualify for derecognition under IAS 39 as most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi.

Further detail of the value of trade receivables pledged as security for this programme is included in notes 17 and 25.

Notes to the Group Annual Financial Statements
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21. Interest-bearing borrowings continued

Unutilised facilities

The group monitors its availability of funds on a daily basis. The group Treasury Committee monitors the amount of unutilised facilities to assess the headroom available. The net cash balances included in current assets is included in the determination of the headroom available.

(US$ million)	Currency	Interest rate	2017	2016
Unutilised committed facilities				
Syndicated loan/revolving credit facility[1]	EUR/ZAR	Variable (EURIBOR/ JIBAR)	**623**	595
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**26**	56
			649	651
Unutilised uncommitted facilities				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (ZAR bank prime rate)	**20**	20
Cash management overdraft facility	USD	Variable (LIBOR)	**20**	20
			40	40
Total unutilised facilities (committed and uncommitted) excluding cash			**689**	691

[1] *Two syndicated loans with a consortium of banks with revolving facilities available of €465 million (2016: €465 million) and ZAR1,000 million (2016: ZAR1,000 million). Both facilities were unutilised as at financial year-end. The €465 million facility matures in April 2020, is subject to financial covenants relating to the Sappi Limited group and is unsecured. The ZAR1,000 million facility is an evergreen facility with a 15-month notice period and is subject to financial covenants relating to the financial position of Sappi Southern Africa Limited. The group has paid a total combined commitment fee of US$4.7 million (2016: US$4.7 million) in respect of the two facilities.*

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 31.

22. Other non-current liabilities

(US$ million)	2017	2016
Defined benefit pension plan liabilities (Refer to note 28)	**238**	326
Other defined benefit plan liabilities (Refer to note 28)	**106**	108
Long-term employee benefits	**1**	1
Workmen's compensation	**16**	20
Long-service awards	**20**	21
Land restoration obligation	**15**	13
Restructuring provisions	**4**	9
Deferred income	**1**	1
Other	**22**	19
	423	518

(US$ million)	2017	2016
23. Provisions		
Restructuring provisions	**13**	23
Long-term (refer to note 22)	**4**	9
Short-term	**9**	14
Other provisions	**1**	1
	14	24

Details of restructuring provisions are provided below:

(US$ million)	Severance, retrenchment and related costs
Balance at September 2015	26
Increase in provisions	6
Utilised	(8)
Released during the year	(2)
Other movements	1
Balance at September 2016	23
Increase in provisions	1
Utilised	(7)
Released during the year	(5)
Translation effect	1
Balance at September 2017	**13**

Sappi Europe

Due to the decline in demand for coated paper, Sappi Europe has embarked on various cost-saving measures during the current and prior financial years. These measures include the centralisation of certain services such as sales and procurement, improving production efficiencies, disposals and closures of non-core assets as well as plant conversions to produce speciality products which are growing market segments. As a result, provisions for severance, retrenchment and related costs have been raised with the majority of the costs expected to be incurred by September 2017 with the long-term provisions expected to be fully utilised by September 2025.

Notes to the Group Annual Financial Statements
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	(US$ million)	2017	2016
24.	**Notes to the group statement of cash flows**		
24.1	**Cash generated from operations**		
	Profit for the year	**338**	319
	Adjustment for:		
	Depreciation	**255**	250
	Fellings	**63**	56
	Amortisation	**4**	2
	Taxation charge	**108**	104
	Net finance costs	**80**	121
	Restructuring provisions and closure costs raised (reversed)	**1**	4
	Fair value adjustment gains and growth on plantations	**(79)**	(120)
	Post-employment benefits funding	**(43)**	(51)
	Non-cash post-retirement plan settlements and amendments	**–**	(8)
	Profit (loss) on disposal of assets and businesses	**2**	(15)
	Other non-cash items	**19**	31
		748	693
24.2	**Decrease (increase) in working capital**		
	(Increase) decrease in inventories	**(19)**	(2)
	Decrease (increase) in receivables	**(4)**	9
	(Decrease) increase in payables	**(4)**	(3)
		(27)	4
24.3	**Finance costs paid**		
	Interest and other finance costs on liabilities carried at amortised cost	**(107)**	(123)
	Premium and costs on early redemption of redeemable bonds and other loans	**–**	(17)
	Net foreign exchange gains	**12**	2
	Net fair value gain (loss) on financial instruments	**–**	1
	Transfers to financing activities and non-cash items	**(1)**	30
		(96)	(107)
24.4	**Taxation paid**		
	Net amounts payable at beginning of year	**(31)**	(20)
	Taxation charge to profit or loss	**(95)**	(64)
	Translation and other	**1**	(3)
	Less: Net amounts payable at end of year	**25**	31
		(100)	(56)
24.5	**Proceeds on disposal of other non-current assets**		
	Book value of non-current assets disposed of	**6**	3
	Gain (loss) on disposal	**(2)**	2
		4	5

(US$ million)	2017	2016
25. Encumbered assets		
The book value of trade receivables which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third-party ownership in terms of capitalised leases or suspensive sale agreements, are as follows:		
Trade receivables	**432**	392

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of US$390 million (€330 million), of which, US$364 million (€308 million) was utilised at financial year-end (refer to notes 17 and 21).

(US$ million)	2017	2016
26. Commitments		
Capital commitments		
Contracted but not provided	**253**	42
Approved but not contracted	**219**	71
	472	113
Future forecast cash flows of capital commitments at September:		
2017		90
2018	**435**	15
2019	**26**	4
2020	**3**	4
Thereafter	**8**	–
	472	113
These projects are expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group.		
Lease commitments		
Future undiscounted minimum operating lease obligations payable in the year ended September:		
2017		20
2018	**22**	13
2019	**14**	7
2020	**11**	4
2021	**8**	2
2022 (2016: Thereafter)	**5**	4
Thereafter	**17**	
	77	50

Notes to the Group Annual Financial Statements
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(US$ million)	2017	2016
27. Contingent liabilities		
Guarantees and suretyships	–	10
Other contingent liabilities	19	11
	19	21

Other contingent liabilities mainly relate to environmental and other taxation queries in respect of certain group companies.

As at September 2017, there are no outstanding guarantees issued by Sappi. For September 2016, the bills of exchange where Sappi guaranteed third-party funding of payments to Sappi for certain German accounts receivable were included under guarantees and suretyships.

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these lawsuits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that the possibility of a material outflow of resources in connection with these lawsuits and administrative proceedings is considered to be remote.

In September 2012, the Competition Commission of South Africa notified the group that it has initiated an investigation into alleged anti-competitive behaviour between Sappi and a competitor in the South African pulp and paper market. At that time, we reported that the investigation was still in the early stages. As at the end of the 2017 financial year, the investigation remains in its early stages as the dispute is one of a procedural nature.

28. Post-employment benefits

Summary of results

	Defined contribution plans		Defined benefit pension plans		Post-employment healthcare subsidy	
(US$ million)	2017	2016	2017	2016	2017	2016
Post-employment plan costs (credits) recognised in profit or loss	36	34	24	10	6	7
Employer contributions paid during the financial year			36	38	3	8
Amounts presented in the group balance sheet are as follows:						
Net pension/healthcare subsidy liabilities (refer to note 22)			238	326	106	108
Net pension assets (refer to note 15)[1]			(35)	(23)	–	–
Net balance sheet liabilities			203	303	106	108
Development in the balance sheet for the pension/healthcare subsidy						
Net pension/healthcare subsidy liabilities at beginning of year			(303)	(315)	(108)	(107)
Net pension/healthcare subsidy costs for the year			(24)	(18)	(6)	(7)
Settlement gains for the year			–	8	–	–
Employer contributions			36	38	3	8
Net actuarial gains for the year			96	(17)	5	(3)
Translation differences			(8)	1	–	1
Net pension/healthcare liabilities at end of year			(203)	(303)	(106)	(108)

[1] *Defined benefit plans in South Africa and United Kingdom.*

Actuarial valuations of all plans are performed annually with the exception of our South African and United Kingdom defined benefit pension plans where actuarial reviews are performed annually and formal actuarial funding valuations are performed tri-annually.

28. Post-employment benefits continued

Defined contribution plans

The group operates defined contribution plans of various sizes for all qualifying employees in most regions throughout the group. The assets of the plans are held separately from those of the group in funds under the control of trustees or administered by insurance companies. The group also participates in various local industry (multi-employer) plans, open to eligible employees often as a voluntary alternative to company sponsored plans. There are no obligations on the group other than to pay contributions according to the rules of each plan.

The total cost charged to the income statement of US$36 million (2016: US$34 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans. Expected contributions to be paid in the next financial year is US$35 million.

In addition to company-sponsored plans across the group, employees commonly participate in local state plans wherever they exist. State plans exist in most regions to provide such benefits as disability, unemployment income protection, basic state pension, top-ups thereon, and spousal benefits. Eligibility and participation is generally mandatory to local tax payers, usually on residence-based criteria in accordance with domestic laws.

State benefits vary widely in value and accrual formulae from country to country. Contributions are normally paid with domestic taxation or as supplemental national insurance contributions (or the like), at rates set by domestic governments. Participation in state plans involves no obligations on group companies other than to pay contributions according to the rates specified by domestic governments. Costs, where incurred, are included with other employee costs reported elsewhere in the group accounts, and excluded from figures reported in this note.

Defined benefit pension or retirement lump sum plans

The group operates several principal defined benefit pension and/or lump sum plans in all regions plus a number of smaller plans. The extent of employee access to these plans vary. Plans open to new entrants or future accrual cover all qualifying employees. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country.

With the exception of our German and Austrian plans, which are unfunded, the assets of our funded plans are held in separate trustee-administered funds which are subject to varying statutory requirements in the particular countries concerned. Generally, the trusts are required by local legislation as well as their respective articles of associations to act in the interests of the fund and its stakeholders (ie members and the various local sponsoring companies across the group). The pension funds comprise management and member-appointed trustees, including (in some instances) an independent trustee, who collectively are responsible for the administration and governance of the trusts.

Benefits are formula-driven, comprising a variety of earnings definitions (such as final average salary or career average revalued earnings) and years of service. Exceptions are certain plans in Germany and Austria that provide fixed value Euro benefits and certain plans in North America that provide benefits based on years of service and a 'US$ multiplier' (a nominal US Dollar value which increases from time to time only by collective bargaining agreement). The table below briefly illustrates the nature of defined benefits and their link with earnings.

Type of benefit revaluation rate/pensionable salary definition	Location of scheme
Final average salary	South Africa, Austria, Germany
Career average revalued earnings	Belgium, The Netherlands
Frozen benefit	United Kingdom, North America (Salaried plan)
Fixed EUR value	Germany
Nominal USD value (Periodically revalued)	North America (Works plans)

Plans remain open to new hires except for plans in North America, South Africa, Austria and some in Germany. Plans in the United Kingdom and one in North America are closed to future accrual.

Investment management and strategic asset allocation

Plan fiduciaries are responsible for investment policies and strategies for local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment in each region. Plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Plan fiduciaries also make use of fiduciary managers, multi-asset manager mandates and 'flight path' assessment tools to assist with strategic asset allocation. Such reviews include asset-liability modelling studies with varying degrees of complexity according to the needs of each plan, analysing risk-and-return profiles in order to help set investment and contribution policies for our plans.

The main strategic asset allocation choices that are formulated in the actuarial and technical policies of our plans across the group are shown below. Local regulations impose minimum funding targets which significantly influence the strategic asset allocation of individual plans.

- **South Africa:** Asset mix based on 20% equity instruments, 55% debt instruments, 20% multi-asset and other instruments, 5% cash.
- **Europe including United Kingdom (UK)[(1)]:** Asset mix based on 35% equity and real estate instruments, 47% debt instruments, 18% multi-asset and other instruments.
- **North America:** Asset mix based on 34% equity instruments, 47% debt instruments, 19% multi-asset and other instruments.

(1) Weighted average of plans in this region.

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28. Post-employment benefits continued

Exposure to risks

The major risks faced by the group as a result of the defined benefit obligation can be summarised as follows:

- **Inflation:** The risk that future inflation indices (including medical aid inflation) is higher than expected and uncontrolled
- **Future changes in legislation:** The risk that changes to legislation with respect to the post-employment liability may increase the liability for the group
- **Future changes in the tax environment:** The risk that changes in the tax legislation governing employee benefits may increase the liability for the group
- **Longevity:** The risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected, and
- **Administration:** Administration of this liability poses a burden to the group.

Since the pension liabilities are adjusted to respective local consumer price indices, the plans are exposed to local inflation, interest rate risks and changes in life expectancies of members. As the plan assets include significant investments in quoted equity shares, property and high yield bonds in various markets around the globe, the group is exposed to equity, property, high yield bond market risk and for non-domestic holdings, currency risk. Debt instruments typically comprise investment grade corporate and government debt (nominal coupon and index-linked coupon) in markets around the globe, primarily held to match counter-movements in plan liabilities of the same value. The group is also exposed to losses from the effects of credit grade re-ratings on debt instruments in bond markets across the globe.

Funding policy

The group's subsidiaries fund the entire cost of the entitlements expected to be earned on an annual basis, with the exception of one plan in South Africa, where employees contribute a fixed percentage of pensionable salary. The funding requirements are based on local actuarial measurement frameworks. For prefunded plans, contributions are determined on a current salary base or fixed nominal amounts and, for unfunded plans, contributions are paid to meet ongoing pension payroll. Additional liabilities stemming from past service due to salary increases are paid immediately to the plans as part of the overall agreed contribution rate to restore individual plan deficits where these occur.

Apart from paying the costs of the entitlements, the group's subsidiaries are, to various extents, liable to pay additional contributions in cases where the plans do not hold sufficient assets. These range from enforcement by local regulators, reducing accrued entitlements, or a charge over assets.

Expected company contributions for our defined benefit pension/lump sum plans across group subsidiaries over the next financial year are US$33 million.

Post-employment healthcare subsidy

The group sponsors two defined benefit post-employment plans that provide certain healthcare and life insurance benefits to eligible retired employees of the North American and Southern African operations. Employees are generally eligible for benefits upon retirement and on completion of a specified number of years of service, or joining the company prior to a certain date.

Our healthcare subsidy plan in Southern Africa is partially funded with assets held in a local cell captive. Our subsidy plan in North America is wholly unfunded.

Expected company contributions to fund these subsidies over the next financial year are US$6 million.

Other employee benefits

Group companies have no significant post-employment defined benefit obligations other than the following:

(US$ million)	2017	2016
Jubilee (long-service award) in continental Europe in other long-term liabilities	**20**	21
Early retirement (temporary pension) benefit in Belgium	**1**	1
ATZ (early retirement – temporary salary supplement) obligations in Germany and Austria	**11**	13
Workmen's compensation benefit obligations in North America	**16**	20

28. **Post-employment benefits** continued

(US$ million)	Defined benefit pension plans 2017	2016	Post-employment healthcare subsidy 2017	2016
Components of defined benefit cost recognised in profit or loss				
Current service cost	**19**	16	**2**	3
Past service credit	**–**	(6)	**–**	–
Interest on net defined benefit	**3**	6	**4**	4
Fund administration costs	**2**	2	**–**	–
Non-routine settlement gain	**–**	(8)	**–**	–
Net amount recognised in profit or loss	**24**	10	**6**	7
Charge attributed to operating cost	**21**	12	**2**	3
Credit attributed to special items**	**–**	(8)	**–**	–
Charge attributed to finance cost	**3**	6	**4**	4
Components of defined benefit cost recognised in other comprehensive income				
Actuarial gains arising from membership experience	**7**	6	**2**	5
Actuarial gains (losses) arising from changes in demographic assumptions	**27**	(2)	**(1)**	(2)
Actuarial gains (losses) arising from changes in financial assumptions	**63**	(145)	**4**	(6)
Return on plan assets (excluding amounts included in interest income)	**(1)**	124	**–**	–
Gain (loss) recognised in other comprehensive income	**96**	(17)	**5**	(3)

*** US$55 million to special items in fiscal 2015: This is the sum of the non-routine settlement plus a portion of past service credit.*

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28. Post-employment benefits continued

(US$ million)	Defined benefit pension plans 2017	Defined benefit pension plans 2016	Post-employment healthcare subsidy 2017	Post-employment healthcare subsidy 2016
Movement in the present value of the defined benefit obligation in the current year				
Defined benefit obligation at beginning of year	**1,409**	1,365	**116**	118
Current service cost	**19**	16	**2**	3
Past service credit	**–**	(6)	**–**	–
Interest expense	**45**	53	**5**	5
Plan participants' contributions	**2**	1	**–**	–
Remeasurements	**(97)**	141	**(5)**	3
Membership experience changes	**(7)**	(6)	**(2)**	(5)
Demographic assumption changes	**(27)**	2	**1**	2
Financial assumption changes	**(63)**	145	**(4)**	6
Acquisition of liabilities[1]	**13**	–	**–**	–
Non-routine plan settlements	**–**	(46)	**–**	(7)
Benefits paid	**(77)**	(80)	**(4)**	(5)
Translation difference	**20**	(35)	**–**	(1)
Defined benefit obligation at end of year	**1,334**	1,409	**114**	116
– Present value of wholly unfunded obligation	**177**	157	**88**	92
– Present value of wholly or partially funded obligation	**1,157**	1,252	**26**	24
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	**1,106**	1,050	**8**	11
Interest income	**42**	47	**1**	1
Employer contributions	**36**	38	**3**	8
Plan participants' contributions	**2**	1	**–**	–
Remeasurements				
Return (loss) on plan assets net of interest income	**(1)**	124	**–**	–
Acquisition of liabilities[1]	**13**	–	**–**	–
Non-routine plan settlements	**–**	(38)	**–**	(7)
Benefits paid	**(77)**	(80)	**(4)**	(5)
Fund administration costs	**(2)**	(2)	**–**	–
Translation difference	**12**	(34)	**–**	–
Fair value of plan assets at end of year	**1,131**	1,106	**8**	8
Net balance sheet defined benefit liability	**203**	303	**106**	108

[1] *Acquisition of liabilities: Refers to minimum investment return obligations for contribution plans in Belgium. Insignificant effect on balance sheet.*

28. **Post-employment benefits** continued

The major categories of plan assets at fair value are presented as follows:

(US$ million)	Funded pension plans 2017	Funded pension plans 2016	Funded subsidy plans 2017	Funded subsidy plans 2016
Investments quoted in active markets				
– Equity and high yield investments	**399**	409	**–**	–
– Investment grade debt instruments	**201**	207	**–**	–
– Property investment funds	**14**	15	**–**	–
Unquoted investments				
– Equity and high yield investments[1]	**501**	445	**7**	7
Cash	**16**	30	**1**	1
	1,131	1,106	**8**	8
Total investment return on plan assets	**41**	171	**1**	1

[1] *Funded plans consist of commingled funds that are not quoted in active markets. However, the underlying securities held by these funds are quoted in active markets or the prices of these underlying securities are determined by other observable market data. Funded subsidy plans consist of with-profit annuities where distributable income is subject to the discretion of the insurer's investment returns.*

As at financial year-end, there were no investments in the group's own quoted equity instruments.

The fair values of the various equity and debt instruments are determined based on quoted market prices in active markets, whereas the fair values of certain property and derivatives are not based on quoted market prices in active markets. Plans generally buy and hold bonds as a hedge against interest rate and inflation rate risk.

The principal assumptions used in determining pension and post-employment medical aid subsidies for the group's plans (weighted average per region) are shown below:

	2017			2016		
	North America	**Europe (incl UK)**	**Southern Africa**	North America	Europe (incl UK)	Southern Africa
Discount rate – pension (%)	**3.53**	**1.90**	**9.28**	3.24	1.60	9.40
Discount rate – post-employment healthcare subsidy (%)	**3.35**	**n/a**	**9.75**	3.01	n/a	9.50
Future salary increase rate – pension (%)	**–**	**1.00**	**7.28**	–	0.90	8.50
Cost of living adjustment for pensions in payment (%)[1]	**–**	**2.00**	**5.03**	–	2.00	6.00
Healthcare cost trend rate (%)[2]	**8.20 – >4.50**	**n/a**	**8.25**	7.80 – >5.00	n/a	8.50
Sample rate average life expectancy from retirement (years)[3]						
– For current beneficiaries	**25.60**	**23.90**	**19.20**	26.00	23.80	19.20
– For future retiring beneficiaries	**27.30**	**25.70**	**20.20**	28.00	25.70	20.20

[1] *Weighted average for plans granting cost of living adjustment whether fixed or variable.*
[2] *North America: Initial rate – > long-term rate trend over 10 years (2016: Nine years).*
[3] *Based on local mortality tables in use (with modifications to reflect expected changes in mortality over time) for males at age 60.*

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28. Post-employment benefits continued

A quantitative sensitivity analysis for significant assumptions as at financial year-end is disclosed below:

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, expected salary increase, cost of living adjustments to pensions in payment, healthcare cost trends and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by US$168 million (increase by US$207 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$19 million (decrease by US$16 million)
- If the expected cost of living adjustment rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$49 million (decrease by US$49 million)
- If the expected healthcare cost trend rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$6 million (decrease by US$5 million)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by US$37 million (decrease by US$35 million)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the sensitivity analysis above, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognised in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The average duration of the defined benefit plan obligations at the end of the reporting period (per region) is as follows:

	Pension plans	Healthcare subsidy
North America	12 years	9 years
Europe (Including UK)	12 years	n/a
Southern Africa	18 years	16 years

Regional split of results

(US$ million)	2017 North America	2017 Europe (incl UK)	2017 Southern Africa	2016 North America	2016 Europe (incl UK)	2016 Southern Africa
Defined benefit obligation (pension)	**(710)**	**(496)**	**(128)**	(763)	(510)	(136)
Defined benefit obligation (healthcare)	**(88)**	**n/a**	**(26)**	(92)	n/a	(24)
Fair value of plan assets (pension)	**696**	**290**	**145**	667	280	159
Fair value of plan assets (healthcare)	**–**	**n/a**	**8**	–	n/a	8
Net defined benefit liability	**(102)**	**(206)**	**(1)**	(188)	(230)	7
Development of the regional balance sheets						
Net defined benefit liability at beginning of year	**(188)**	**(230)**	**7**	(196)	(234)	8
Defined benefit cost recognised in profit or loss (pension)	**(12)**	**(8)**	**(4)**	(4)	(3)	(3)
Defined benefit cost recognised in profit or loss (healthcare)	**(5)**	**n/a**	**(1)**	(5)	n/a	(2)
Net gain (loss) recognised in other comprehensive income (pension)	**80**	**23**	**(7)**	(4)	(8)	(5)
Net gain (loss) recognised in other comprehensive income (healthcare)	**6**	**n/a**	**(1)**	(3)	n/a	–
Company contributions paid during the year	**17**	**17**	**5**	24	14	8
Translation differences	**–**	**(8)**	**–**	–	1	1
Net defined benefit liability at end of year	**(102)**	**(206)**	**(1)**	(188)	(230)	7

29. Share-based payments

The Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust

Shareholders, at prior Annual General Meetings, fixed the aggregate number of shares which may be acquired by all participants under the Sappi Limited Share Incentive Trust (the Scheme) and the Sappi Limited Performance Share Incentive Trust (the Plan) at 42,700,870 shares (equivalent to 7.89% of the ordinary shares in issue).

The Sappi Limited Share Incentive Trust (the Scheme)

Under the rules of the Scheme, participants (a) may be offered options to acquire ordinary shares (share options) and (b) may be offered the opportunity to acquire ordinary shares (scheme shares).

Under the rules of the Scheme:
- Share options entitle the participant to purchase one ordinary share per share option, and
- Scheme shares entitle the participant to enter into a loan with the Scheme to acquire Sappi Limited shares at a specific issue price.

The scheme shares are registered in the participant's name and pledged to the Scheme as security for the loan. Upon payment of the loan, the scheme shares become unsecured Sappi Limited shares owned by the participant.

The amount payable by a participant is the closing price at which shares are traded on the JSE Limited on the trading date immediately preceding the date upon which the board authorised the grant of the opportunity to acquire relevant share options or scheme shares, as the case may be.

The share options and scheme shares vest in blocks of 25% per annum on the anniversary date of the offer and expire eight years after the offer date. Only once the options vest, may share options be exercised by the participants and may scheme shares be released from the Scheme to participants.

The Scheme rules provide that appropriate adjustments are to be made to the rights of participants in the event that the company, inter alia, undertakes a rights offer, a capitalisation issue, or consolidation of ordinary shares or any reduction in its ordinary share capital.

The Sappi Limited Performance Share Incentive Trust (the Plan)

Under the rules of the Plan, participants may be awarded conditional contracts to acquire ordinary shares for no cash consideration. The conditional contracts are subject to performance criteria being met or exceeded after the fourth anniversary date. Should the performance criteria not be met, the number of shares allotted are adjusted downwards from 100% to 75%, or 50%, or none depending on the degree of not meeting the criteria. The performance criteria, which entails a benchmarking of the company's performance against an appropriate peer group of companies, is set by the board at the offer date for each conditional share award.

The Plan rules provide that appropriate adjustments are made to the rights of participants in the event that the company, *inter alia*, undertakes:
- A rights offer, or
- Is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital.

The Plan rules also provide that if:
- The company undergoes a change in control after an allocation date other than a change in control initiated by the board itself, or
- The persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action, the effect of which is to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action;

then the company is obliged to notify every participant thereof that such participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the performance criteria been achieved.

Notes to the Group Annual Financial Statements
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29. Share-based payments continued

Movements in share options and performance shares for the financial years ended September 2017 and September 2016 are as follows:

	Performance shares[1]	Share options	Weighted average share option exercise price (ZAR)	Total shares
Outstanding at September 2015	12,014,143	6,433,248	34.77	**18,447,391**
– Offered	3,765,350	–	–	**3,765,350**
– Paid for/vested	(762,145)	(3,396,445)	37.93	**(4,158,590)**
– Returned, lapsed and forfeited	(985,574)	(211,124)	48.90	**(1,196,698)**
Outstanding at September 2016	14,031,774	2,825,679	30.23	**16,857,453**
– Offered	3,021,770	–	–	**3,021,770**
– Paid for/vested	(3,237,745)	(1,218,849)	31.48	**(4,456,594)**
– Returned, lapsed and forfeited	(331,044)	(181,041)	34.88	**(512,085)**
Outstanding at September 2017	13,484,755	1,425,789	28.99	**14,910,544**
Exercisable at September 2015	–	5,785,544	36.10	
Exercisable at September 2016	–	2,825,679	30.23	
Exercisable at September 2017	–	1,425,789	28.99	

[1] *Performance shares are issued in terms of the Plan and are for no cash consideration. The value is determined on the day the shares vest.*

The following table sets out the number of share options and performance shares outstanding:

	2017	2016	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
22 December 2008	**–**	347,140	Time	Vested	22 December 2016	35.50
09 December 2009	**272,550**	629,540	Time	Vested	09 December 2017	33.85
03 December 2010	**462,825**	768,450	Time	Vested	03 December 2018	35.20
02 December 2011	**690,414**	1,080,549	Time	Vested	02 December 2019	22.90
Performance shares:						
07 December 2012	**–**	3,226,303	Performance	07 December 2016	n/a	n/a
13 December 2013	**3,658,024**	3,750,723	Performance	13 December 2017	n/a	n/a
04 December 2014	**3,190,630**	3,307,105	Performance	04 December 2018	n/a	n/a
07 December 2015	**3,644,447**	3,747,643	Performance	07 December 2019	n/a	n/a
09 December 2016	**2,991,654**	–	Performance	09 December 2020	n/a	n/a
	14,910,544	16,857,453				

29. Share-based payments continued

The following assumptions have been utilised to determine the fair value of the shares granted in the financial period in terms of the Plan:

	Issue 42	Issue 42
Date of grant	09 December 2016	09 December 2016
Type of award	Performance	Performance
Share price at grant date	ZAR86.23	ZAR86.23
Vesting period	4 years	4 years
Vesting conditions	Market-related – Relative to peers	Cash flow return on net assets relative to peers
Life of options	n/a	n/a
Market-related vesting conditions	Yes	No
Percentage expected to vest	80%	80%
Number of shares offered	1,505,950	1,505,950
Volatility	33%	n/a
Risk-free discount rate	1.7% (US yield)	n/a
Expected dividend yield	2.1%	2.1%
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR65.09	ZAR68.98

Volatility has been determined with reference to the historic volatility of the Sappi share price over the expected period.

Refer to note 37 for more information on directors' and prescribed officers' participation in the Scheme and the Plan.

No new loans have been granted to the executive directors since 28 March 2002.

Broad-based Black Economic Empowerment

In June 2010, Sappi completed a Broad-based Black Economic Empowerment (BBBEE) transaction (the BBBEE transaction) that enabled Sappi to meet its BBBEE targets in respect of BBBEE equity ownership. The South African government has through the years promulgated various pieces of legislation to increase the participation of Historically Disadvantaged South Africans (HDSAs) in the South African economy and, through BBBEE legislation, formalised the country's approach in this regard. Sappi views BBBEE as a key requirement for sustainable growth and social development in South Africa.

In April 2006, Sappi announced a BBBEE transaction (the Plantation BBBEE transaction) that included a consortium of investors and certain categories of Sappi's Southern African employees. However, the Plantation BBBEE transaction did not meet Sappi's undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for BBBEE in the forestry industry and includes the BBBEE scorecard and targets to be applied, as well as certain undertakings by government and South African forestry companies to assist the forestry industry to achieve its BBBEE targets). Accordingly, Sappi decided to unwind the Plantation BBBEE transaction and to implement the BBBEE transaction, a new sustainable transaction of equivalent value using its listed securities.

The BBBEE transaction has resulted in potentially 4.5% of the issued share capital of Sappi being held as follows:
- Sappi's Southern African employees (62.5%)
- Southern African black managers (15%)
- Strategic partners (12.5%) (refer below for more detail), and
- Communities surrounding the Southern African mill operations and plantations (10%).

The BBBEE transaction

The BBBEE transaction comprised two distinct parts:
- The value created through the Plantation BBBEE transaction was settled by the issue of 4.3 million fully paid-up ordinary shares at a price based on the 30-day volume weighted average share price (VWAP) of Sappi as at Friday, 05 February 2010 of ZAR33.50.
- The creation and issuance of a new class of unlisted equity shares referred to as 'A' ordinary shares. The 'A' ordinary shares were issued at their par value of ZAR1 to a trust formed for the benefit of certain Sappi employees including HDSAs (the ESOP Trust), a trust formed for the benefit of certain Sappi managers that are HDSAs (the MSOP Trust) and a trust formed for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in Southern Africa (the Sappi Foundation Trust, and together with the ESOP Trust and the MSOP Trust, the BBBEE trusts). The issuance of the 'A' ordinary shares was financed through notional non-interest-bearing loans extended by Sappi to the BBBEE trusts. The BBBEE transaction resulted in the BBBEE trusts and the strategic partners holding, collectively, ordinary and 'A' ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's Southern African business under the Forestry Charter and BBBEE legislation in general.

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29. Share-based payments continued

The BBBEE transaction continued

The number of ordinary shares allocated to the strategic partners and Sappi employees who were participants of the Plantation BBBEE transaction are as follows:

Entity	Ordinary share allocation
Strategic partners	
Lereko Investments Proprietary Limited	1,971,693
Malibongwe Women Development Trust	432,842
AMB Capital Limited	643,227
	3,047,762
Employees (Through the ESOP Trust)	1,280,597
Total	4,328,359

The number of 'A' ordinary shares allocated to the BBBEE trusts are as follows:

Entity	'A' ordinary share allocation
ESOP Trust	13,889,195
MSOP Trust	3,642,969
Sappi Foundation Trust	2,429,312
Total	19,961,476

The group incurred a share-based payment expense of US$1 million (2016: US$1 million) during the 2017 financial year that related to the 'A' ordinary shares that were awarded.

The following assumptions were utilised to determine the fair value of the 'A' ordinary shares granted:

Base price for hurdle rate price	ZAR32.50
Share price hurdle rate	9.1%
Hurdle rate price	ZAR75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	7.1%
Management turnover (annual)	3.6%
Model used to value	Black Scholes model

Both the ESOP Trust and MSOP Trust have been set up with rules that detail the way in which the shares are allocated and how they are forfeited.

The vesting schedule for the ESOP Trust and MSOP Trust is illustrated below:

Completed months of service after effective date	Incremental vesting of entitlements (%)	Cumulative vesting of entitlements (%)
0 – 35	–	–
36 – 48	40	40
49 – 60	10	50
61 – 72	10	60
73 – 84	10	70
85 – 96	10	80
97 – 108	10	90
109 – termination date	10	100

Refer to note 18 for further details regarding the 'A' ordinary shares.

(US$ million)		2017	2016
30. Derivative financial instruments			
Hedging instrument	**Hedged item**		
Non-current assets			
Interest rate swap	Unsecured ZAR500 million bond due April 2018	**–**	1
		–	1
Current assets			
Pulp swaps	Raw materials	**1**	–
Interest rate currency swap	Public bond due July 2017[1]	**–**	38
Forward exchange contracts	Various	**2**	6
		3	44
Current liabilities			
Pulp swaps	Raw materials	**–**	1
Forward exchange contracts	Various	**3**	1
FX zero cost collar	Highly probable forecast sales	**2**	–
		5	2

[1] This cash flow hedging instrument was settled upon the redemption of the 2017 public bond.

Refer to note 31 for more detail on financial instruments.

31. Financial instruments

The group's financial instruments consist mainly of cash and cash equivalents, accounts receivable, certain investments, accounts payable, borrowings and derivative instruments.

Introduction

The group's main financial risk management objectives are to identify, measure and manage, through financial instruments, the following principal risks to which the group is exposed to:

(a) Market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:
- Interest rate risk
- Currency risk
- Commodity price risk

(b) Liquidity risk
(c) Credit risk.

Sappi's group treasury is primarily responsible for managing the group's interest rate, foreign currency, liquidity and credit risk (in so far as it relates to deposits of cash, cash equivalents and financial investments).

Credit risk, in so far as it relates to trade receivables, is primarily managed regionally but is coordinated on a group basis, while commodity price risk is managed regionally.

The group's limits of authority framework delegates responsibility and approval authority to various officers, committees and boards based on the nature, duration and size of the various transactions entered into by, and exposures of, the group including the exposures and transactions relating to those financial instruments and risks referred to in this note.

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31. Financial instruments continued

(a) Market risk

Interest rate risk

Interest rate risk is the risk that the value of a borrowing or an investment will change due to a change in the absolute level of interest rates, the spread between two rates, the shape of the yield curve or any other interest rate relationship.

The group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The group monitors market conditions and may utilise approved interest rate derivatives to alter the existing balance between fixed and variable interest rate loans in response to changes in the interest rate environment. Hedging of interest rate risk for periods greater than one year is only allowed if income statement volatility can be minimised by means of hedge accounting, fair value accounting or other means. The group's exposure to interest rate risk is set out below.

Interest-bearing borrowings

The following table provides information about Sappi's principle amounts of current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows of the carrying value by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2017 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 1 October 2017. The information is presented in US Dollar, which is the group's reporting currency.

	Expected maturity date									
(US$ equivalent in millions)	2018	2019	2020	2021	2022	2023+	**2017 Carrying value**	**2017 Fair value**	2016 Carrying value	2016 Fair value
US Dollar										
Fixed rate debt	–	–	–	–	–	218	**218**	**237**	617	643
Average interest rate (%)	–	–	–	–	–	7.61	**7.61**		7.72	
Variable rate debt[1]	–	–	127	–	–	–	**127**	**127**	109	109
Average interest rate (%)	–	–	3.49	–	–	–	**3.49**		2.71	
Euro										
Fixed rate debt	27	24	33	32	533	451	**1,100**	**1,214**	884	971
Average interest rate (%)	0.02	1.26	1.49	1.51	3.90	3.64	**3.36**		3.71	
Variable rate debt[2]	69	–	237	–	–	–	**306**	**306**	382	383
Average interest rate (%)	0.50	–	1.81	–	–	–	**1.51**		1.76	
Rand										
Fixed rate debt[3]	37	–	84	–	–	–	**121**	**127**	119	125
Average interest rate (%)	7.46	–	7.99	–	–	–	**7.83**		7.83	
Total										
Fixed rate debt	64	24	117	32	533	669	**1,439**	**1,578**	1,620	1,739
Average interest rate (%)	4.27	1.26	6.18	1.51	3.40	5.11	**4.38**		5.54	
Variable rate debt	69	–	364	–	–	–	**433**	**433**	491	492
Average interest rate (%)	0.50	–	2.40	–	–	–	**2.09**		1.97	
Fixed and variable	133	24	481	32	533	669	**1,872**	**2,011**	2,111	2,231
Current portion							**133**	**135**	576	600
Long-term portion							**1,739**	**1,876**	1,535	1,631
Total interest-bearing borrowings (refer to note 21)							**1,872**	**2,011**	2,111	2,231

(1) *The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).*
(2) *The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).*
(3) *Rand floating rates of ZAR900 million debt have been swapped into Rand fixed rates. These swaps are subject to hedge accounting.*

31. Financial instruments continued

(a) Market risk continued

Interest rate risk continued

Interest-bearing borrowings continued

For disclosure purposes, the fair value of non-current borrowings is estimated by Sappi based on rates from market quotations for non-current borrowings with fixed interest rates and on quotations provided by internationally recognised pricing services for notes, exchange debentures and revenue bonds.

The abovementioned fair values include Sappi's own credit risk. Please refer to the sensitivity analysis on interest rate risk in this note for additional information regarding Sappi's rating.

The range of interest rates in respect of all non-current borrowings, comprising both fixed and floating rate obligations, is between 1.26% and 7.99% (depending on currency). At September 2017, after giving effect to interest rate swaps, 76.86% of Sappi's borrowings were at fixed rates of interest and 23.14% were at floating rates. Fixed rates of interest are based on contract rates.

A detailed analysis of the group's borrowings is presented in note 21.

Hedging of interest rate risk

Sappi uses interest rate swaps (IRS) and interest rate and currency swaps (IRCS) as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. Sappi does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period or in other comprehensive income (OCI), depending on the hedge designation as described in a documented hedging strategy.

Cash flow hedges

The effective gains or losses from changes in fair value of the derivatives designated in a cash flow hedge are recorded in OCI. These accumulated gains or losses will be recycled to profit or loss in the same account as the hedged item when the hedged item affects profit or loss.

At inception and at the beginning of each quarterly reporting period, the future effectiveness of the hedge relationship is assessed by using the linear regression analysis.

In order to measure retrospective hedge effectiveness, a hypothetical derivative with identical critical terms as the hedged item has been built as a perfect hedge. The periodic Dollar-offset retrospective hedge effectiveness test is based on the comparison of the actual past periodical changes in fair value between the hedging derivative and the hypothetical derivative. For effectiveness, the ratio of the periodic change in fair value of the hedging instrument since inception or since the last quarterly measurement divided by the periodic change in fair value of the hypothetical derivative since inception or since the last quarterly measurement for the hedge must fall within the range of 80% to 125%. If, however, both changes in fair value are less than 1% of the notional amount of the IRCS, these changes in fair value are considered to be both immaterial and the hedge effectiveness test is met.

The valuation of the hedging instruments includes an adjustment for credit risk, ie an asset includes a counterparty credit risk spread, whereas the fair value measurement of a liability includes Sappi's own credit risk spread.

Interest rate and currency swaps (IRCS)

In July 2012, Sappi entered into fixed for fixed IRCS which were designated as cash flow hedges of future cash flows linked to fixed rate debt denominated in foreign currency. The US$400 million senior notes due 2017 and the corresponding IRCS were repaid in April 2017 (the US$300 million senior secured notes due 2019 with corresponding swaps had already been redeemed in 2015). There are no remaining IRCS as at September 2017.

Interest rate swaps floating to fixed

In April and May 2013, Sappi issued floating rate debt to the total amount of ZAR1,155 million maturing in 2016, 2018 and 2020 and swapped the floating rates into fixed rates. These liabilities and the corresponding interest rate swaps are designated in cash flow hedging relationships, allowing all mark-to-market valuations of the swaps to be booked to equity. As all critical terms of the hedged items and the hedging instruments match perfectly, the hedges are expected to continue being highly effective. In April 2016, ZAR255 million floating rate debt and the corresponding swaps came to maturity and the debt was repaid.

At September 2017, the remaining hedges were highly effective and the swaps had in total a net positive fair value of US$0.4 million which was deferred to equity.

Notes to the Group Annual Financial Statements
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for the year ended September 2017

31. Financial instruments continued

(a) Market risk continued

Summary of outstanding cash flow and fair value hedges

(US$ million)	Interest rate	Maturity date	Nominal value	Total fair value[1]	Recorded in OCI	Recorded in Profit or loss
September 2017						
Cash flow hedges						
IRS	**Rand variable (JIBAR) to Rand 7.46% fixed**	**April 2018**	**ZAR500 million**	**–**	**–**	**–**
IRS	**Rand variable (JIBAR) to Rand 7.85% fixed**	**May 2018**	**ZAR400 million**	**–**	**–**	**–**
				–	**–**	**–**
September 2016						
Cash flow hedges						
IRCS	US Dollar 7.75% into Euro 7.56%	July 2017	US$400 million	38	(3)	41
IRS	Rand variable (JIBAR) to Rand 7.46% fixed	April 2018	ZAR500 million	1	1	–
IRS	Rand variable (JIBAR) to Rand 7.85% fixed	May 2018	ZAR400 million	–	1	–
				39	(1)	41

[1] *This refers to the carrying value.*

The total fair values of the IRCS and IRS are the estimated amounts that Sappi would pay or receive to terminate the agreements at balance sheet date after taking into account current interest rates and the current creditworthiness of the counterparties as well as the specific relationships of the group with those counterparties. However, this amount excludes the possible breakage and other fees that would be incurred in case of a sale before the maturity date.

Sensitivity analyses

The following are sensitivity analyses, in US Dollar, of the impact on profit or loss arising from:

Sensitivity analysis: interest rate risk – in case of a credit rating downgrade of Sappi

The table below shows the sensitivity of certain debt to changes in the group's own credit rating. The agreements of these specific external loans (including the on-balance sheet securitisation programme) stipulate that if the company were downgraded below its current rating, an additional margin would be added to the contractual funding rate.

(US$ million)	Notional	Impact on profit or loss of downgrade below current credit rating
Securitisation – Elektra N° 29 Limited	364	1.35
Commitment fee on unused revolving credit facility	549	0.66
Interest on utilised bank syndicated loans	70	0.17
Commitment fee on unused bank syndicated loans	108	0.09
	1,091	2.27
Impact calculated on total portfolio amounts to	0.21%	

Sensitivity analysis: interest rate risk of floating rate debt

The table below shows the sensitivity of the floating rate debt to a move by 50bps to the interest rates.

(US$ million)	Total	Fixed rate debt	Floating rate debt	Impact on profit or loss of 50bps interest
Total debt	1,872	1,439	433	2
Ratio fixed/floating to total debt		76.86%	23.14%	

The floating rate debt represents 23.14% of total debt. If interest rates were to increase (decrease) by 50bps, the finance cost on floating rate debt would increase (decrease) by US$2.17 million.

31. Financial instruments continued

(a) Market risk continued

Currency risk

The objective of the group in managing currency risk is to ensure that foreign exchange exposures are identified as early as possible and actively managed. Sappi is exposed to the following currency risks:

- Economic exposures which consist of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders
- Transaction exposures arise from transactions entered into which result in a flow of cash in foreign currency such as payments under foreign currency long- and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts, and
- Translation exposures arise from translating the group's assets, liabilities, income and expenditure into the group's presentation currency.

Borrowings are taken out in a range of currencies which are based on the group's preferred ratios of gearing and interest cover based on a judgement of the best financial structure for the group. This gives rise to translation exposure on consolidation.

In managing currency risk, the group first makes use of internal hedging techniques with external hedging being applied thereafter. External hedging techniques consist primarily of foreign currency forward exchange contracts. Foreign currency capital expenditure on projects must be covered as soon as practical (subject to regulatory approval).

Currency risk analysis

In the preparation of the currency risk analysis, derivative instruments are allocated to the currency of the hedged item.

The following tables for the 2017 and 2016 financial years disclose financial instruments as determined by IAS 39 *Financial Instruments: Recognition and Measurement*, classified by underlying currency, and does not indicate the group's foreign currency exchange exposure.

(US$ million)	Total	Total in scope	USD	EUR	ZAR	GBP	Other
September 2017							
Classes of financial instruments							
Non-current assets							
Other non-current assets	**51**	**9**	–	9	–	–	–
Current assets							
Trade receivables	**571**	**571**	262	240	8	29	32
Prepayments and other receivables	**97**	**32**	11	12	8	–	1
Derivative financial instruments	**3**	**3**	(100)	18	81	–	4
Cash and cash equivalents	**550**	**550**	268	47	215	–	20
		1,165	441	326	312	29	57
Non-current liabilities							
Interest-bearing borrowings	**1,739**	**1,739**	345	1,309	85	–	–
Other non-current liabilities	**423**	**1**	1	–	–	–	–
Current liabilities							
Interest-bearing borrowings	**133**	**133**	–	96	37	–	–
Derivative financial instruments	**5**	**5**	1	–	2	2	–
Trade payables	**502**	**502**	168	217	115	1	1
Other payables and accruals	**356**	**157**	33	81	42	–	1
		2,357	548	1,703	281	3	2
Foreign exchange gap		**(1,372)**	(107)	(1,377)	31	26	55

Notes to the Group Annual Financial Statements
continued

for the year ended September 2017

31. **Financial instruments** continued

(a) Market risk continued

Currency risk continued

Currency risk analysis continued

(US$ million)	Total	Total in scope	USD	EUR	ZAR	GBP	Other
September 2016							
Classes of financial instruments							
Non-current assets							
Other non-current assets	39	10	–	10	–	–	–
Derivative financial instruments	1	1	–	–	1	–	–
Current assets							
Trade receivables	517	517	224	226	11	29	27
Prepayments and other receivables	125	39	9	17	13	–	–
Derivative financial instruments	44	44	(420)	421	42	1	–
Cash and cash equivalents	703	703	309	94	279	1	20
		1,314	122	768	346	31	47
Non-current liabilities							
Interest-bearing borrowings	1,535	1,535	327	1,088	120	–	–
Other non-current liabilities	518	1	1	–	–	–	–
Current liabilities							
Interest-bearing borrowings	576	576	398	178	–	–	–
Derivative financial instruments	2	2	(15)	1	16	–	–
Trade payables	455	455	161	162	130	–	2
Other payables and accruals	384	164	25	99	39	–	1
		2,733	897	1,528	305	–	3
Foreign exchange gap		(1,419)	(775)	(760)	41	31	44

Hedging of foreign currency risk

Foreign currency forward exchange contracts

The group's foreign currency forward exchange contracts at September are detailed below:

(US$ million)		**2017** Contract amount (notional amount)	**2017** Fair value (unfavour-able) favourable	2016 Contract amount (notional amount)	2016 Fair value (unfavour-able) favourable
Foreign currency					
Bought:	USD	**3**	**3**	5	–
	EUR	**93**	**92**	72	1
	ZAR	**118**	**118**	49	2
Sold:	USD	**(97)**	**(99)**	(95)	3
	EUR	**(11)**	**(11)**	–	–
	ZAR	**(39)**	**(38)**	(23)	(1)
		67	**65**	8	5

31. **Financial instruments** continued

(a) Market risk continued

Currency risk continued

Foreign currency forward exchange contracts continued

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2017 financial year.

All forward exchange contracts are valued at fair value with the resultant profit or loss included in net finance costs for the year.

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being April 2020.

As at September 2017, there was an open exposure of US$23 million that has since been hedged.

Sensitivity analysis – (loss) gain

Base currency	Exposure (US$ million)	+10%	–10%
AUD	4.7	0.4	(0.5)
CHF	5.1	0.5	(0.6)
EUR	(6.8)	(0.6)	0.8
GBP	2.6	0.2	(0.3)
USD	(2.0)	(0.2)	0.2
ZAR	(26.8)	(2.4)	3.0
Other currencies	0.5	0.0	(0.1)
Total	(22.7)	(2.1)	2.5

Based on the exposure at the end of September 2017, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a loss of US$2.1 million or a gain of US$2.5 million respectively.

During 2017, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$421 million which were used as an overlay hedge of export sales from Southern Africa. The total impact on profit or loss amounted to a gain of US$26 million (including positive forward points of US$7 million). We also contracted zero cost foreign exchange collars for a total notional value of US$150 million. This collar complements the other strip cover hedges (using non-deliverable FX forwards) by covering a different portion of the economic FX exposure.

As at September 2017 the impact of the marking to market relating to the time value of the collar amounted to an unrealised loss of US$1.5 million.

Cash flow hedges

Export sales

In Southern Africa, Sappi is exposed to an economic risk arising from its export sales of its dissolving wood pulp product. As sales prices are linked to a US Dollar price but sales are invoiced in Rand, any change in the foreign currency exchange rate between the US Dollar and the Rand would result in a different Rand selling price. This results in an economic foreign currency exchange rate exposure between the order date and invoicing date.

Sappi therefore enters into cash flow hedges with the objective to eliminate this economic foreign exchange rate exposure by entering into non-deliverable forward exchange contracts and zero cost foreign exchange collars which were designated as hedging instruments. Only the intrinsic value of the zero cost foreign exchange collar is designated as the hedging instrument.

The hedging instruments are recorded at fair value on the balance sheet with changes in fair value recorded through OCI. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

During the 2017 financial year, the hedges were highly effective. A net realised gain of US$18.8 million relating to the realised non-deliverable forward exchange contracts was transferred from OCI to revenue in profit or loss and at the financial year-end, a negative amount of US$0.1 million was deferred in equity.

As per September 2017 the zero cost FX collars did not have any intrinsic value as the year-end FX rate was inside the range of the strike levels.

Notes to the Group Annual Financial Statements
continued

for the year ended September 2017

31. Financial instruments continued

(a) Market risk continued

Cash flow hedges continued

Foreign currency forward exchange contracts continued

Net investment hedges

The hedge of the net investment designated in February 2010, has been de-designated in March 2016. At the moment of the de-designation the life-to-date negative foreign exchange differences amounting to €36.9 million (US$41.5 million), will remain in equity until the disposal or liquidation of the foreign operation.

In March 2016, Sappi designated a new net investment hedge for an indeterminate period of Sappi Papier Holding GmbH (SPH) in SD Warren Holdings Corporation (North America) including all its subsidiaries and incorporating all net assets.

During 2017 several de-designations and re-designations took place in line with the evolving net US Dollar exposure linked to the net investment. As at September 2017 the hedged notional amount at amortised cost amounted to US$102 million.

The hedged risk is the currency risk associated with the spot retranslation of the net assets of the foreign operation into the functional currency of the consolidating parent entities at the level of which the hedge is designated, ie SPH for US Dollar/Euro spot exchange rate risk and Sappi Limited for US Dollar/Rand spot exchange rate risk. The hedging instrument is a non-derivative foreign currency external debt instrument. At the inception of the hedge (or on hedge designation date), both the designated portion of the net investment in the foreign operation (as hedged item) and the foreign currency denominated debt (as hedging instrument) were recorded at the spot rate.

To the extent that the hedge is effective, foreign exchange rate differences linked to the subsequent revaluation of the foreign currency debt in the books of the entity holding the debt are deferred in OCI until the foreign operation is disposed of or liquidated. These foreign exchange currency differences are recognised in profit or loss on disposal or liquidation of the foreign operation as part of the gain or loss on disposal.

Ineffectiveness can only occur if the net investment carrying value of the foreign operation would fall below the designated amount of the hedging instruments. The net investment value of the foreign operation is validated each quarter. Ineffective gains or losses are booked directly to the group income statement. As at the end of the 2017 financial year, the hedge was 100% effective.

(US$ million)	**2017** Hedged notional	**2017** Foreign exchange result deferred in OCI	2016 Hedged notional	2016 Foreign exchange result deferred in OCI
Bond 2032	**102**	**0.2**	49	(1)
Previous designations	**–**	**(34)**	–	(41)
	102	**(34)**	49	(42)
Net investment value of North America	**798**		733	

31. Financial instruments continued

(a) Market risk continued

Commodity price risk

Commodity price risk arises mainly from price volatility and threats to supply of raw material and other inputs to the production process.

A combination of contract and spot deals are used to manage price volatility and contain costs. Contracts are limited to the group's own use requirements.

During 2017, pulp swaps in Europe were contracted for a limited volume of pulp (30,000 tons). Sappi Europe buys pulp from external suppliers at a variable price consisting of a reference price linked to the Pix Pulp index which is adjusted with a premium depending on the pulp market conditions.

As Sappi Europe expected pulp prices to increase, it was decided to fix the pulp price for one year by entering into a pulp swap whereby the variable price was swapped for an annual fixed price. A realised gain of US$1.6 million resulting from the settled pulp contracts was booked into the income statement.

The group's pulp swap contracts outstanding at September 2017 are detailed below:

		2017		2016	
(US$ million)	Base currency	**Contract amount (notional amount)**	**Fair value (unfavourable) favourable**	Contract amount (notional amount)	Fair value (unfavourable) favourable
Bleached Hardwood Kraft Pulp (BHKP) Bought:	EUR	**–**	**–**	6	(1)
Bleached Hardwood Kraft Pulp (BHKP) Bought:	USD	**4**	**1**		
		4	**1**	6	(1)

(b) Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its current and future financial obligations as they fall due.

The group's objective is to manage its liquidity risk by:

- Managing its bank balances, cash concentration methods and cash flows
- Managing its working capital and capital expenditure
- Ensuring the availability of a minimum amount of short-term borrowing facilities at all times, to meet any unexpected funding requirements, and
- Ensuring appropriate long-term funding is in place to support the group's long-term strategy.

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 21.

The group is in compliance with all material financial covenants applicable to its borrowing facilities.

Notes to the Group Annual Financial Statements
continued

for the year ended September 2017

31. Financial instruments continued

(b) Liquidity risk continued

Liquidity risk management

The following tables for the 2017 and 2016 financial years disclose financial instruments, as determined by IAS 39 *Financial Instruments: Recognition and Measurement*, are classified by liquidity and does not necessarily indicate the group's actual cash flows.

			Undiscounted cash flows					
(US$ million)	**Total financial assets and liabilities**	**Fair value of financial instru-ments**	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years	Total
September 2017								
Non-current assets								
Other non-current assets	**9**	**9**	–	1	3	5	1	10
Current assets								
Trade receivables	**571**	**571**	571	–	–	–	–	571
Prepayments and other receivables	**32**	**32**	31	1	–	–	–	32
Derivative financial instruments	**3**	**3**	1	2	–	–	–	3
Cash and cash equivalents	**550**	**550**	550	–	–	–	–	550
			1,153	4	3	5	1	1,166
Non-current liabilities								
Interest-bearing borrowings	**1,739**	**1,871**	27	28	62	1,248	922	2,287
Other non-current liabilities	**1**	**1**	–	–	1	–	–	1
Current liabilities								
Interest-bearing borrowings	**133**	**133**	72	61	–	–	–	133
Derivative financial instruments	**5**	**5**	5	–	–	–	–	5
Trade payables	**502**	**502**	502	–	–	–	–	502
Other payables and accruals	**157**	**157**	157	–	–	–	–	157
			763	89	63	1,248	922	3,085
Liquidity surplus (gap)			390	(85)	(60)	(1,243)	(921)	(1,919)

31. **Financial instruments** continued

(b) Liquidity risk continued

Liquidity risk management continued

(US$ million)	Total financial assets and liabilities	Fair value of financial instru-ments	Undiscounted cash flows 0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years	Total
September 2016								
Non-current assets								
Other non-current assets	10	10	2	2	–	5	1	10
Derivative financial instruments	1	1	–	–	1	–	–	1
Current assets								
Trade receivables	517	517	517	–	–	–	–	517
Prepayments and other receivables	39	39	38	1	–	–	–	39
Derivative financial instruments	44	44	8	42	–	–	–	50
Cash and cash equivalents	703	703	703	–	–	–	–	703
			1,268	45	1	5	1	1,320
Non-current liabilities								
Interest-bearing borrowings	1,535	1,632	16	30	393	247	1,351	2,037
Other non-current liabilities	1	1	–	–	1	–	–	1
Current liabilities								
Interest-bearing borrowings	576	576	105	508	–	–	–	613
Derivative financial instruments	2	2	2	–	–	–	–	2
Trade payables	455	455	455	–	–	–	–	455
Other payables and accruals	164	164	165	–	–	–	–	165
			743	538	394	247	1,351	3,273
Liquidity surplus (gap)			525	(493)	(393)	(242)	(1,350)	(1,953)

Notes to the Group Annual Financial Statements
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for the year ended September 2017

31. Financial instruments continued

(b) Liquidity risk continued

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for the 2017 and 2016 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

(US$ million)	Total	Fair value hedge	Cash flow hedge	No hedge accounting	Maturity analysis Undiscounted cash flows 0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years
September 2017									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	–	–	–	–	–	–	–	–	–
receiving leg	5	–	5	–	3	2	–	–	–
paying leg	(5)	–	(5)	–	(3)	(2)	–	–	–
Foreign exchange risk									
IRCS and FX forward contracts	2	–	–	2	1	1	–	–	–
receiving leg	150	–	–	150	161	(11)	–	–	–
paying leg	(148)	–	–	(148)	(160)	12	–	–	–
Commodity price risk	1	–	–	1	1	–	–	–	–
Liabilities									
Fair value of derivatives by risk factor									
Foreign exchange risk									
IRCS and FX forward contracts	5	–	–	5	5	–	–	–	–
receiving leg	134	–	–	134	134	–	–	–	–
paying leg	(129)	–	–	(129)	(129)	–	–	–	–

31. **Financial instruments** continued

(b) Liquidity risk continued

Derivative financial instruments with maturity profile continued

(US$ million)	Total	Fair value hedge	Cash flow hedge	No hedge accounting	Maturity analysis Undiscounted cash flows 0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years
September 2016									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	1	–	1	–	–	1	1	1	–
receiving leg	10	–	10	–	3	3	6	5	–
paying leg	(9)	–	(9)	–	(3)	(2)	(5)	(4)	–
Foreign exchange risk									
IRCS and FX forward contracts	44	–	38	6	7	47	–	–	–
receiving leg	344	–	421	(77)	(62)	297	–	–	–
paying leg	(300)	–	(383)	83	69	(250)	–	–	–
Liabilities									
Fair value of derivatives by risk factor									
Foreign exchange risk									
IRCS and FX forward contracts	1	–	–	1	1	–	–	–	–
receiving leg	39	–	–	39	41	52	–	–	–
paying leg	(38)	–	–	(38)	(40)	(52)	–	–	–
Commodity price risk	1	–	–	1	1	–	–	–	–

Fair values

The group's financial instruments are initially recognised at fair value. The carrying amounts of other financial instruments which include cash and cash equivalents, accounts receivable, certain investments, accounts payable and the current portion of interest-bearing borrowings approximate their fair values due to their short-term nature.

As a result of the implementation of IFRS 13 *Fair Value Measurement*, the fair value of all financial instruments measured at fair value, are measured based on a market exit price incorporating credit risk, by using standard valuation techniques based on observable market data inputs.

The fair value of all external over-the-counter derivatives and material non-current borrowings (for disclosure purposes only) is calculated based on the discount rate adjustment technique. The discount rate used is derived from observable rates of return for comparable assets or liabilities traded in the market. The credit risk of the external counterparty is incorporated into the calculation of fair values of financial assets and own credit risk is incorporated in the measurement of financial liabilities. The change in fair value is therefore impacted by the move of the interest rate curves, by the volatility of the applied credit spreads, and by any changes of the credit profile of the involved parties.

The contingent consideration is based on a multiple of targeted future earnings of which a 92% weighted average outcome has been projected.

There are no financial assets and liabilities that have been remeasured to fair value on a non-recurring basis. The carrying value of assets and liabilities (excluding plantations) which are held for sale, are considered to be below their net recoverable amount.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

Notes to the Group Annual Financial Statements

continued

for the year ended September 2017

31. **Financial instruments** continued

(b) Liquidity risk continued

Fair values continued

(US$ million)	As determined by IAS 39			Categories in accordance with IAS 39				
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Fair value
September 2017								
Non-current assets								
Other non-current assets	**51**	42	9	–	2	–	7	9
	51	42	9	–	2	–	7	9
Current assets								
Trade receivables	**571**	–	571	–	571	–	–	571
Prepayments and other receivables	**97**	65	32	–	32	–	–	32
Derivative financial instruments	**3**	–	3	3	–	–	–	3
Cash and cash equivalents	**550**	–	550	–	550	–	–	550
	1,221	65	1,156	3	1,153	–	–	1,156

(US$ million)	As determined by IAS 39			Categories in accordance with IAS 39		
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Other financial liabilities	Fair value
September 2017						
Non-current liabilities						
Interest-bearing borrowings	**1,739**	–	1,739	–	1,739	1,871
Other non-current liabilities	**423**	422	1	–	1	1
	2,162	422	1,740	–	1,740	1,872
Current liabilities						
Interest-bearing borrowings	**133**	–	133	–	133	133
Derivative financial instruments	**5**	–	5	5	–	5
Trade payables	**502**	–	502	–	502	502
Other payables and accruals	**356**	199	157	–	157	157
	996	199	797	5	792	797

31. **Financial instruments** continued

(b) Liquidity risk continued

Fair values continued

(US$ million)	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Loans and receiv-ables	Held to maturity	Available for sale	Fair value
	As determined by IAS 39			Categories in accordance with IAS 39				
September 2016								
Non-current assets								
Other non-current assets	39	29	10	–	3	–	7	10
Derivative financial instruments	1	–	1	1	–	–	–	1
	40	29	11	1	3	–	7	11
Current assets								
Trade receivables	517	–	517	–	517	–	–	517
Prepayments and other receivables	125	86	39	–	39	–	–	39
Derivative financial instruments	44	–	44	44	–	–	–	44
Cash and cash equivalents	703	–	703	–	703	–	–	703
	1,389	86	1,303	44	1,259	–	–	1,303

(US$ million)	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Other financial liabilities	Fair value
	As determined by IAS 39			Categories in accordance with IAS 39		
September 2016						
Non-current liabilities						
Interest-bearing borrowings	1,535	–	1,535	–	1,535	1,632
Other non-current liabilities	518	517	1	–	–	1
	2,053	517	1,536	–	1,535	1,633
Current liabilities						
Interest-bearing borrowings	576	–	576	–	576	576
Derivative financial instruments	2	–	2	2	–	2
Trade payables	455	–	455	–	455	455
Other payables and accruals	384	220	164	–	164	164
	1,417	220	1,197	2	1,195	1,197

Notes to the Group Annual Financial Statements
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31. Financial instruments continued

(b) Liquidity risk continued

Fair values continued

The level in the fair value hierarchy into which financial instruments that are measured at fair value are categorised is disclosed below. There have been no transfers between the categories of the fair value hierarchy.

(US$ million)	2017 Total fair value	2017 Fair value hierarchy Level 1	2017 Level 2	2017 Level 3	2016 Total fair value	2016 Fair value hierarchy Level 1	2016 Level 2	2016 Level 3
Non-current assets								
Other non-current assets	7	7	–	–	7	7	–	–
Derivative financial instruments	–	–	–	–	1	–	1	–
	7	7	–	–	8	7	1	–
Current assets								
Derivative financial instruments	3	–	3	–	44	–	44	–
	3	–	3	–	44	–	44	–
Non-current liabilities								
Interest-bearing borrowings								
Derivative financial instruments	–	–	–	–	–	–	–	–
Contingent consideration liability	11	–	–	11	–	–	–	–
	11	–	–	11	–	–	–	–
Current liabilities								
Contingent consideration liability	2	–	–	2	–	–	–	–
Derivative financial instruments	5	–	5	–	2	–	2	–
	7	–	5	2	2	–	2	–

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group faces credit risk in relation to trade receivables, cash deposits and financial investments.

Credit risk relating to trade receivable management is the responsibility of regional management and is coordinated on a group basis.

The group's objective in relation to credit risk is to limit the exposure to credit risk through specific groupwide policies and procedures. Credit control procedures are designed to ensure the effective implementation of best trade receivable practices, the comprehensive maintenance of all related records, and effective management of credit risk for the group.

The group assesses the creditworthiness of potential and existing customers in line with its credit policies and procedures. Collateral is obtained to minimise risk. Exposures are monitored on an ongoing basis utilising various reporting tools which highlight potential risks when considered appropriate.

In the event of deterioration of credit risk, the appropriate measures are taken by the regional credit management team. All known risks are required to be fully disclosed, accounted for, and provided for as bad debts in accordance with the applicable accounting standards.

Overall, 70% of the group's total trade receivables, both on and off-balance sheet, are insured or covered by letters of credit and bank guarantees.

Quantitative disclosures on credit risk are included in note 17.

32. Related-party transactions

Transactions between group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the group and other related parties are disclosed below:

	Sales of goods		Purchases of goods		Amounts owed by related parties		Amounts owed to related parties	
(US$ million)	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
– proNARO GmbH	**–**	–	**117.3**	125.8	**–**	–	**–**	1.2
– Umkomaas Lignin Proprietary Limited	**5.2**	4.8	**–**	0.1	**0.7**	0.5	**–**	–
– Papierholz Austria GmbH	**–**	–	**82.9**	82.5	**–**	–	**5.0**	4.8
– The Boldt Company	**–**	–	**8.0**	–	**–**	–	**–**	–
	5.2	4.8	**208.2**	208.4	**0.7**	0.5	**5.0**	6.0

The amounts outstanding at balance sheet date are unsecured and will be settled in cash. Guarantees given by the group are disclosed in note 27. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Broad-based Black Economic Empowerment (BBBEE) transaction

Refer to notes 18 and 29 for details of the BBBEE transaction.

Key management personnel

Key management personnel include our executive directors and prescribed officers. The total key management personnel emoluments amounted to US$8.5 million (2016: US$7.7 million). The details of key management personnel, including emoluments, interests in contracts and participation in the Sappi Limited share schemes are disclosed in notes 34 to 36.

Shareholders

Ordinary shares in issue	Number of shareholders	%	Number of shares[(1)]	% of shares in issue
1 – 5,000	5,566	81.5	3,093,227	0.6
5,001 – 10,000	223	3.3	1,678,002	0.3
10,001 – 50,000	446	6.5	11,258,624	2.1
50,001 – 100,000	190	2.8	13,865,237	2.6
100,001 – 1,000,000	324	4.7	103,771,633	19.4
Over 1,000,000	83	1.2	401,353,472	75.0
	6,832	100.0	535,020,195	100.0

[(1)] The number of shares excludes 22,182,378 treasury shares held by the group.

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32. Related-party transactions continued

Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.3
Sappi Limited directors and prescribed officers	0.3
Associates of group directors	–
Trustees of the company's share and retirement funding schemes	–
Share owners who, by virtue of any agreement, have the right to nominate board members	–
Share owners interested in 10% or more of the issued shares	–
Public (the number of public shareholders as at September 2017 was 6,821)	99.7
	100.0

Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter market in the United States.

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to section 56(7) of the Companies Act 71 of 2008 of South Africa, the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 2017, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	82,034,389	15.3

Further, as a result of these investigations, the directors have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of September 2017, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

Fund manager	Shares	%
Public Investment Corporation	74,737,258	14.0
Prudential Investment Managers	51,813,987	9.7
BlackRock Inc	32,311,957	6.0
Old Mutual Plc	28,814,593	5.4
STANLIB Asset Management	27,225,483	5.1

33. Events after balance sheet date

The directors declared a gross dividend of 15 US cents per share, payable in ZAR at an exchange rate of US$1 = ZAR14.37037 being ZAR215.55555 cents per share on 16 November 2017. See note 8 for further details.

On 05 December 2017, Sappi agreed to acquire the speciality paper business of Cham Paper Group Holding AG (CPG) for CHF146.5 million (approximately US$149 million). The transaction includes all brands and know-how, the Carmignano and Condino Mills in Italy, as well as their digital imaging business and facility situated in Cham, Switzerland. The acquisition will be financed from internal resources. We are working to obtain approval from the relevant competition authorities and trust that we can announce completion during the first calendar quarter 2018.

Other than the non-adjusting events as described above, there have been no reportable events that occurred between financial year-end and the date of authorisation for issue of these financial statements.

34. Directors' and prescribed officers' remuneration

Non-executive directors

Directors are normally remunerated in the currency of the country in which they live or work from. Their remuneration is translated into US Dollar, the group's reporting currency, at the average exchange rate prevailing during the financial year. Directors' fees are established in local currencies to reflect market conditions in those countries.

Non-executive directors' fees reflect their services as directors and services on various sub-committees on which they serve. The quantum of committee fees depends on whether the director is an ordinary member or a chairman of the committee. Non-executive directors do not earn attendance fees; however, additional fees are paid for attendance at board meetings in excess of the five scheduled meetings per annum.

The Chairman of the Sappi Limited board receives a flat director's fee and does not earn committee fees.

Non-executive directors do not participate in any incentive schemes or plans of any kind.

In determining the fees for non-executive directors, due consideration is given to the fee practice of companies of similar size and complexity in the countries in which the directors are based.

The extreme volatility of currencies, in particular the Rand/US Dollar exchange rate in the past few years, caused distortions of the relative fees in US Dollar paid to individual directors.

Non-executive directors' fees are proposed by the Executive Committee, agreed by the Compensation Committee, recommended by the board and approved at the Annual General Meeting by the shareholders.

	2017			
(US$)	Board fees	Committee fees	Travel allowance	Total
D Konar	35,200	43,811	7,000	86,011
B Radebe[1]	15,156	3,969	–	19,125
KR Osar	79,360	41,800	10,500	131,660
JD McKenzie	49,751	19,053	7,000	75,804
ANR Rudd	395,427	–	14,000	409,427
NP Mageza	35,200	24,750	7,000	66,950
R Thummer[2]	78,745	27,781	14,000	120,526
MV Moosa	35,200	18,305	7,000	60,505
MA Fallon	67,177	62,446	14,000	143,623
GPF Beurskens[1]	27,384	22,570	–	49,954
RJ DeKoch	79,360	23,920	7,000	110,280
RJAM Renders	78,745	53,070	14,000	145,815
B Mehlomakulu[3]	20,043	5,557	7,000	32,600
	996,748	347,032	108,500	1,452,280

[1] *Retired from the board at the end of February 2017.*
[2] *Will retire from the board at the end of December 2017.*
[3] *Appointed to the board on 01 March 2017.*

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continued

for the year ended September 2017

34. Directors' and prescribed officers' remuneration continued

Non-executive directors continued

(US$)	2016 Board fees	Committee fees	Travel allowance	Total
D Konar	25,031	47,228	10,200	82,459
B Radebe	25,031	8,132	3,400	36,563
KR Osar	64,840	65,640	17,000	147,480
JD McKenzie	32,277	19,387	10,200	61,864
DC Cronje[(4)]	71,480	–	–	71,480
ANR Rudd	286,549	26,495	6,800	319,844
NP Mageza	25,031	21,128	10,200	56,359
R Thummer	65,603	27,722	6,800	100,125
MV Moosa	25,031	12,504	10,200	47,735
MA Fallon	61,973	64,373	6,800	133,146
GPF Beurskens	65,603	67,761	3,400	136,764
RJ DeKoch	64,840	23,455	13,600	101,895
RJAM Renders	65,603	16,047	6,800	88,450
	878,892	399,872	105,400	1,384,164

[(4)] *Retired as independent Chairman of the board at the end of February 2016.*

Executive directors

Our pay policy is to pay our executive directors a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

(US$)	2017 Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
SR Binnie[(1)]	**464,563**	**440,139**	**12,944**	**76,580**	**994,226**
GT Pearce[(2)]	**302,683**	**283,986**	**8,295**	**61,090**	**656,054**
	767,246	**724,125**	**21,239**	**137,670**	**1,650,280**

[(1)] *SR Binnie received a 7.0% increase on the South African portion, followed during the year with a further 20.3% (70% of total salary), and a 1% increase on the off-shore portion of his salary, followed during the year with a further 20.3% (30% of total salary).*

[(2)] *GT Pearce received a 6.5% increase on the South African portion (70% of total salary), and a 1% increase on the off-shore portion of his salary (30% of total salary).*

(US$)	2016 Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
SR Binnie	386,767	438,082	12,050	91,638	928,537
GT Pearce	269,960	300,613	8,249	69,630	648,452
	656,727	738,695	20,299	161,268	1,576,989

The remuneration figures shown above are affected by the translation into US Dollar.

Please see the compensation report in the Annual Integrated Report for further information.

34. Directors' and prescribed officers' remuneration continued

Executive directors continued

Details of directors' service contracts

The executive directors have service contracts with notice periods of 12 months or less. These notice periods are in line with international norms for executive directors.

None of the non-executive directors have service contracts with the company.

None of the directors have provisions for predetermined compensation on termination of their contracts exceeding 12 months' gross remuneration and benefits-in-kind.

Prescribed officers

As with our executive directors, our pay policy is to pay our prescribed officers a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

(US$)	Salary	Bonuses and performance-related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Prescribed officers remuneration – 2017	**2,432,293**	**1,587,125**	**37,965**	**528,381**	**4,585,764**
Prescribed officers remuneration – 2016	2,280,020	1,846,458	37,734	517,276	4,681,488

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35. Directors' and prescribed officers' interests

The following table sets out each director's and prescribed officer's interests in shares and other securities in Sappi Limited. For the purposes of this table, each director's and prescribed officer's interests include shares that are owned either directly or indirectly as well as those shares in which directors and prescribed officers have vested obligations to purchase or to repay loans in terms of the Sappi Limited Share Incentive Trust.

	2017		2016	
	Direct interests	Indirect interests	Direct interests	Indirect interests
Director	Beneficial	Beneficial	Beneficial	Beneficial
Non-executive directors				
R Thummer	–	–	7,542	–
MV Moosa	–	576,542	–	576,542
MA Fallon	5,000	–	5,000	–
Executive directors				
SR Binnie	97,522	–	40,022	–
GT Pearce	49,412	–	30,162	–
Prescribed officers	842,295	–	562,823	–
	994,229	576,542	645,549	576,542

Subsequent to year-end and as per our SENS announcements to the date of this report, the directors and prescribed officers have acquired a net 2,745 Sappi shares.

36. Directors' and prescribed officers' participation in the Sappi Limited share schemes

Changes in executive directors' and prescribed officers' share options and performance shares before financial year-end

Executive directors

	SR Binnie		GT Pearce		Executive directors		Prescribed officers	
	Allocated price	Number of shares	Allocated price	Number of shares	**Total 2017 Number of shares**	Total 2016 Number of shares	**Total 2017 Number of shares**	Total 2016 Number of shares
Outstanding at beginning of year								
Number of shares held		775,000		243,000	**1,018,000**	800,100	**2,261,713**	2,166,464
'A' Ordinary shares		–		–	**–**	–	**18,213**	18,213
Share Option 32 – R52,57		–		–	**–**	6,600	**–**	7,700
Performance shares 337		–		–	**–**	55,500	**–**	457,051
Performance shares 38		100,000		35,000	**135,000**	135,000	**498,500**	498,500
Performance shares 39		310,000		33,000	**343,000**	343,000	**720,000**	720,000
Performance shares 40		175,000		85,000	**260,000**	260,000	**465,000**	465,000
Performance shares 41		190,000		90,000	**280,000**	–	**560,000**	–
Offered and accepted during the year								
Performance shares 41						280,000		560,000
Performance shares 42		162,000		75,000	**237,000**		**475,000**	
Vested during the year								
Number of shares		(100,000)		(35,000)	**(135,000)**	(34,350)	**(498,500)**	(236,226)
Returned, lapsed and forfeited during the year								
Number of shares		–		–	**–**	(27,750)	**–**	(228,525)
Outstanding at end of year								
Number of shares		837,000		283,000	**1,120,000**	1,018,000	**2,238,213**	2,261,713
'A' Ordinary shares		–		–	**–**	–	**18,213**	18,213
Performance shares 38		–		–	**–**	135,000	**–**	498,500
Performance shares 39		310,000		33,000	**343,000**	343,000	**720,000**	720,000
Performance shares 40		175,000		85,000	**260,000**	260,000	**465,000**	465,000
Performance shares 41		190,000		90,000	**280,000**	280,000	**560,000**	560,000
Performance shares 42		162,000		75,000	**237,000**	–	**475,000**	–

Performance shares are issued for ZARnil and vest after four years subject to performance criteria being achieved. Plan share issue 38 vested at ZAR82.06. The 'A' ordinary shares are issued for Nil and vesting conditions are described in note 28.

The total IFRS 2 charge in respect of key management personnel amounted to US$2.3 million (2016: US$1.5 million).

Vesting dates

Performance shares 39	13 December 2017
Performance shares 40	04 December 2018
Performance shares 41	07 December 2019
Performance shares 42	09 December 2020
'A' ordinary shares	28 August 2019

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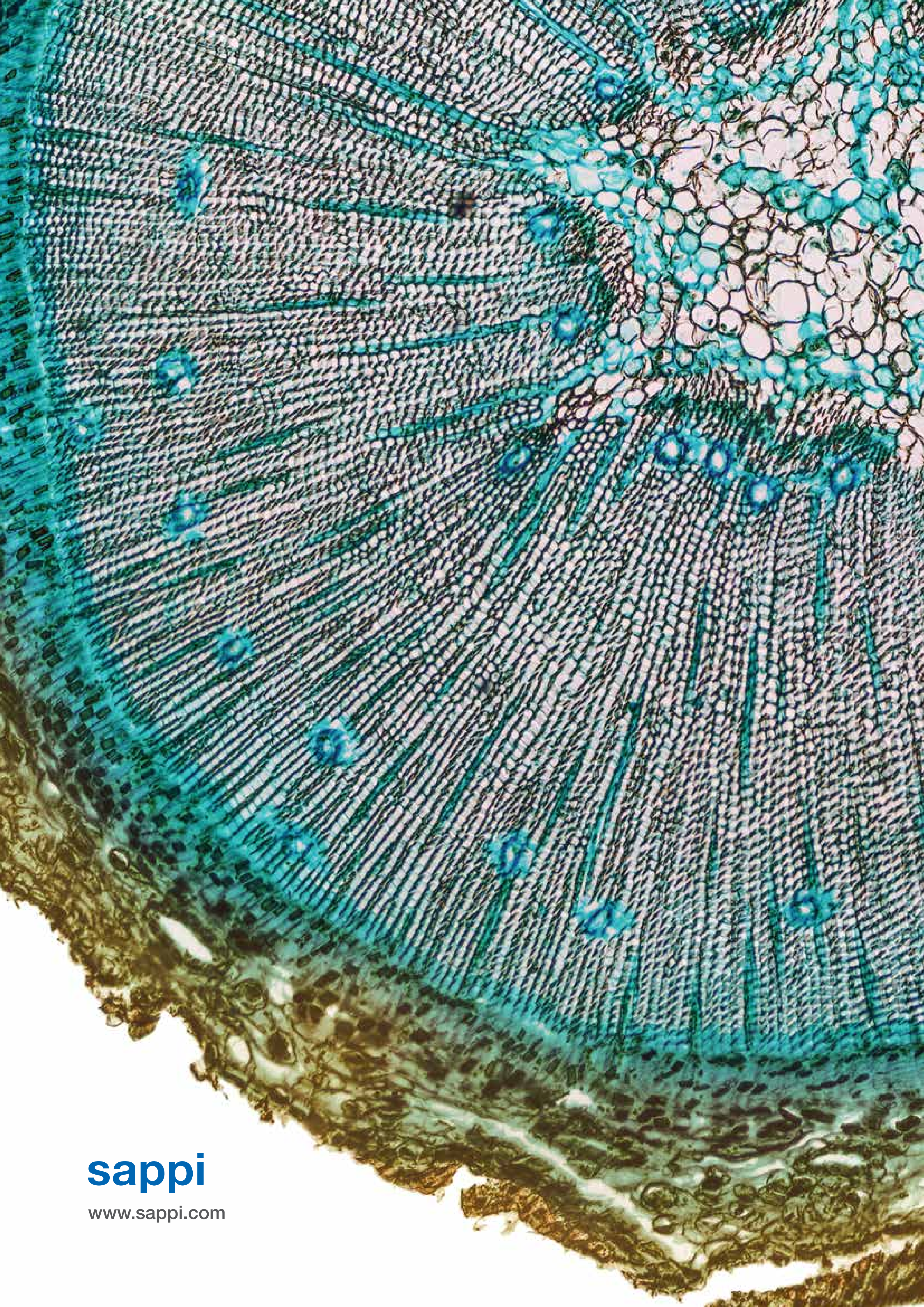
37. Investments

Set out below are the more significant subsidiaries of the group as at financial year-end:

Name of subsidiary	Country of incorporation	Principal activity	Effective holding (%) 2017	Effective holding (%) 2016
Elektra Purchase Nº 29 Limited	Ireland	Securitisation of receivables	**–**	–
Sappi Alfeld GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappi Austria Produktions GmbH and CoKG	Austria	Manufacture of paper and paper pulp	**100**	100
Sappi Cloquet LLC	United States of America	Manufacture of paper, paper pulp and dissolving wood pulp/ paper pulp	**100**	100
Sappi Deutschland GmbH	Germany	Sales	**100**	100
Sappi Ehingen GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappi Europe SA	Belgium	Sales	**100**	100
Sappi Finland Operations Oy and Sappi Finland I Oy	Finland	Manufacture of paper and paper pulp	**100**	100
Sappi International Holdings Proprietary Limited	South Africa	Treasury	**100**	100
Sappi International SA	Belgium	Treasury	**100**	100
Sappi Lanaken NV	Belgium	Manufacture of paper	**100**	100
Sappi Lanaken Press Paper NV	Belgium	Manufacture of paper and paper pulp	**100**	100
Sappi Maastricht BV	The Netherlands	Manufacture of paper	**100**	100
Sappi Papier Holding GmbH	Austria	Holding company/sales	**100**	100
Sappi Southern Africa Limited	South Africa	Production of paper and paper pulp, dissolving wood pulp and forestry	**100**	100
Sappi Stockstadt GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappisure Försäkrings AB	Sweden	Insurance	**100**	100
SD Warren Company	United States of America	Manufacture of paper and paper pulp	**100**	100



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