Sappi Group
(Sappi Limited)
INTEGRATED REPORT FOR FISCAL YEAR 2018
FINANCIAL RESULTS
30 SEPTEMBER 2018

10 January 2019

This report is being furnished to The Bank of New York Mellon as trustee for 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.

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sappi

2018 Annual Integrated Report

a thriving world

PROVIDING SOLUTIONS FOR FUTURE GENERATIONS

Today, ‘connection’ is not only about digital networks, but about the way wealth is created, benefit is shared and people and the planet we live on are cared for. There is a growing realisation that we need to find new, innovative ways to achieve sustainable value creation, growth, greater social equity all while protecting and sustaining biodiversity and natural ecosystems.

Meeting these challenges requires focus and energy. At Sappi, we are doing so based on our vision of a thriving world—a better tomorrow than today. That’s why we apply our expertise and collective imagination to equipping our people to prosper in the world of tomorrow; establishing shared value initiatives to uplift communities; using natural resources in a responsible manner, valorising waste streams and promoting transparent supply chains. Our overall objective is to expand and enhance our value streams to create sustainable products based on a renewable natural resource—woodfibre.

The image on our front cover was chosen because it represents the collaborative manner in which we work together to realise our 2020Vision, just as honeybees work together for the betterment of the entire colony and the biodiversity they pollinate.

The hexagon structures of the honeycomb represent nature's supreme form of packaging: the hexagon is the most efficient, least wasteful shape found in nature, as no shape can create more space with less material. It is also one of the strongest. Scientific studies on the geometry of the beehive have indicated that this shape uses the least amount of material to hold the most weight. Once again, this resonates with Sappi—our packaging solutions not only protect and sustain, but lighter packaging weights can also help to meet the challenges of a carbon-constrained world.

It's one of the ways in which we are promoting a sustainable, thriving world to provide solutions for future generations.

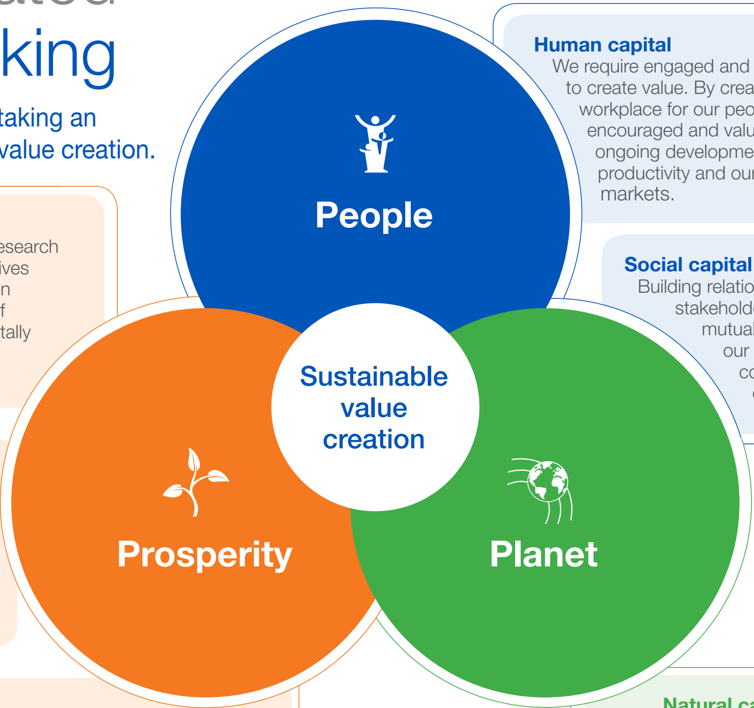
Our support of the African Honey Bee (AHB) project, which is positively impacting on communities in KwaZulu-Natal province (South Africa), aligns with our approach of helping communities to help themselves. The AHB project is a social enterprise enabling families from disadvantaged rural communities to build sustainable micro-beekeeping businesses by leveraging the natural resources available to them. Over the past two years, AHB has trained 1,482 people in KZN. Of this number, 962—and counting—are actively keeping bees and producing and selling honey.

AFRICAN HONEY BEE

www.africanhoneybee.co.za

Integrated thinking

At Sappi, we believe in taking an integrated approach to value creation.



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.

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

Manufactured capital
Our operations require significant investments in manufactured capital. Investing in building, maintaining, operating and improving this infrastructure requires financial capital, human and intellectual capital.

Human capital
We require engaged and productive employees to create value. 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.

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.

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

Contents

How to navigate our report

Throughout our integrated report, the following icons are used to show the connectivity between sections:

Sappi's 3Ps
Prosperity
People
Planet

Referencing
Page
Online

Risk

Mission, vision, values

Targets

Strategy
Achieve cost advantages
Rationalise declining businesses
Maintain a healthy balance sheet
Accelerate growth in higher margin products

Sappi and the Sustainable Development Goals

See **Our key material issues** on page 42 and **Group Sustainability Report** (www.sappi.com/sustainability) for more information on how we integrate these into our business.

About this report

Our **Annual Integrated Report** for the year ended September 2018 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.

Integrated thinking and the 3Ps

At Sappi, we believe in taking an integrated approach to value creation. We understand that the long-term sustainability of our business will only be ensured by delivering sustained value for our stakeholders. In understanding our value creation process, we take an integrated approach, considering Prosperity, People and Planet – an approach that is aligned with the International Integrated Reporting Council (IIRC's) six capitals model.

Scope and boundary

The scope of this report includes all our operations (see **Where we operate** 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).

External assurance

We obtained external limited assurance on selected sustainability key performance indicators included in our **2018 Sappi Group Sustainability Report**. The independent practitioner's limited assurance report is included in the 2018 Sappi Group Sustainabilty Report.

Our sustainability information also continues to be verified 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.

In addition, most of our key operations undergo external verification including the Eco-Management Audit System (EMAS) in Europe, ISO 50001 energy certification in Europe and Southern Africa 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 2018 Sappi Limited was a constituent of the FTSE/JSE Responsible Investment Index and the FTSE/JSE Responsible Investment Top 30 Index. Being included in these indices means that our sustainability performance has been externally assessed.

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 SETS Committee 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 Auditors' Report, see **Group Annual Financial Statements** on www.sappi.com/annual-reports. This year's report does not include summarised financials. However, the full Annual Integrated Report with financials is available on www.sappi.com/annual-reports in interactive and PDF-format.

Forward-looking statements

For important information relating to forward-looking statements, refer to the inside back cover.

Report suite

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)

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 **2018 Sappi Annual Integrated Report** 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 06 December 2017.

Sir Nigel Rudd
Chairman

Steve Binnie
Chief Executive Officer

This report is printed on GalerieArt Silk 135 and 250 g/m²

Our mission, vision, values and strategy

Our values

How we do business is as important as what we do, highlighted by our value statement:

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 on and commitment to safety.

Our mission

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.

Our 2020Vision

Sappi will be a diversified woodfibre group targeting a substantial increase in EBITDA through an expanded product portfolio with increased margins, providing enhanced rewards to all its stakeholders.

Reward

We will ensure that the economies, regions and environments in which we operate benefit from our presence. We will provide enhanced rewards for our shareholders, our employees and our other stakeholders.

People

We will create opportunities and make resources available to enable our people to grow intellectually and bring new ideas to fruition. We will also continue to invest in and support our communities.

Leadership

We will support our existing leadership teams and individuals who show promise to be tomorrow's leaders in developing agile and adaptive mindsets that enable us to meet and embrace change to be responsive to the future demands in all our roles. We will work to obtain enhanced margins across all businesses.

Manufacturing

We will continue to improve operational and machine efficiencies, and to increase the knowledge-based value of our products to use raw materials more efficiently and reduce our energy needs.

Research and development

We will focus our R&D on developing for commercialisation: speciality paper products, enhancing our dissolving wood pulp business, exploring the micro and nanoscale potential of woodfibre and biorefining—extracting biochemicals locked up in wood.

Environment

Shrinking our environmental footprint by reducing energy and raw material consumption will continue to be key to how we produce our products.

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.

Our strategy and performance

Guided by our strategy, we measure our progress holistically against our mission, collaborating and partnering with stakeholders as we strive to be a trusted and sustainable organisation with an exciting future in woodfibre.

	2016	2017	2018	2019 Objectives notes
Sales (US$ million)	5,141	5,296	5,806	Maximise sales on the back of acquisitions and expansion during 2018
ROCE[2] (%)	17.5	18.0	14.6	Continuously improving with a minimum of 12%
Net debt (US$ million)	1,408	1,322	1,568	Decrease year-on-year; manage with growth ambitions
EBITDA[1] (US$ million)	739	785	762	Grow on the back of higher sales volumes
Net debt/EBITDA	1.9	1.7	2.1	Maintain ~2x
EBITDA margin (%)	14.4	14.8	13.1	Improve to target of 15%
LTIFR[1,2]	0.46	0.44	0.43	Target zero, with a minimum 10% improvement year-on-year
Sustainable engagement (%)[2]	74 (2015)[3]	85	Not measured[3]	Maintain or improve
Energy intensity (GJ/adt)[2]	22.62	22.57	22.38	5% improvement over the period
Certified fibre (%)[2]	73.0	73.5	75.2	Maintain or improve percentage

[1] *Linked to executive remuneration.*
[2] *Identified sustainability goal, with targets set for 2020 in line with our vision.*
*See **Our global 2020 sustainability goals** on page 40 for more information.*
[3] *Not measured; survey takes place every second year.*

Self assessment of 2018 performance

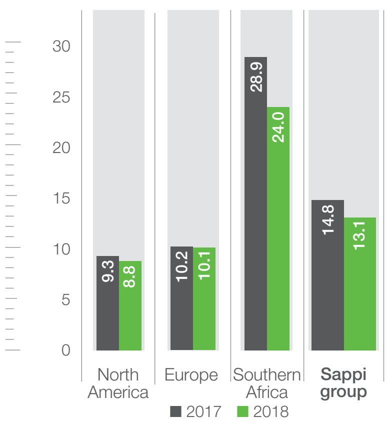
Legend:
- Satisfactory performance
- Progress to be made/Ongoing
- Unsatisfactory performance

Performance against our strategic focus areas

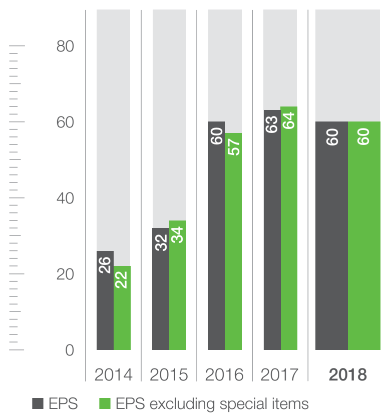
Strategic focus areas	2018 Performance	2019 Objectives
Achieve cost advantages	• Ongoing variable cost savings year-on-year • Investments in infrastructure and energy projects at core mills • Ongoing research to deliver cost improvements	• Continuously improve cost position • Continue to maximise global benefits • Best-in-class production efficiencies
Rationalise declining businesses	• Balanced printing and writing papers supply and demand by converting capacity to specialities and packaging papers	• Maximise production at low-cost mills • Continuously balance paper supply and demand in all regions • Continue to transition printing and writing papers capacity to higher margin and growing specialities and packaging papers
Maintain a healthy balance sheet	• Maintained target of net debt/EBITDA of ~2x • Strong cash generation • Continued to monitor bond markets for opportunities to refinance at lower cost • Renewal of revolving credit facility (RCF) • Achieved multiple price increases to offset rising costs	• Maintain net debt/EBITDA ~2x • Continuously improve working capital • Continue to monitor bond market for opportunities
Accelerate growth in higher margin growth segments	• Continue to make investments in existing and adjacent areas with strong potential growth • Advanced the expansion of higher margin and growing specialities and packaging papers in Europe and North America through conversions • Investments made in speciality packaging, including Rockwell Solutions and Cham Paper Group • Strong Mountained pipeline of biotech business opportunities • Maintained 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	• Grow dissolving wood pulp capacity matching market demand • Continue to expand and grow specialities and packaging papers in all regions targeting 25% of group EBITDA by 2020 • Commence commercialisation of biotech opportunities

Our financial performance at a glance

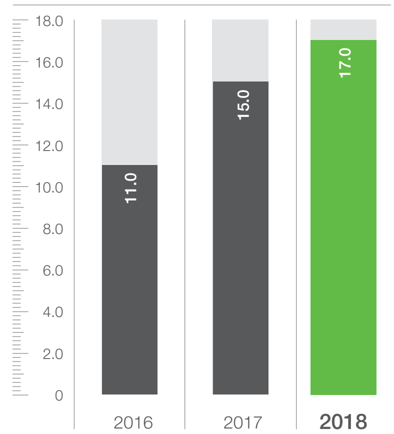
EBITDA margin by region (%)



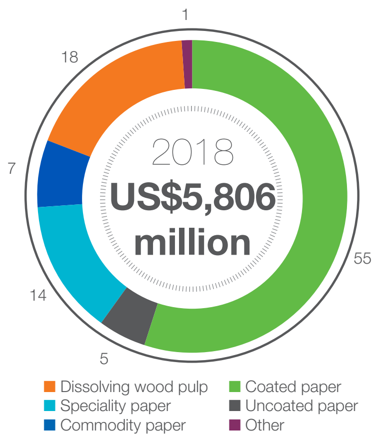
EPS and EPS excluding special items (US cents)



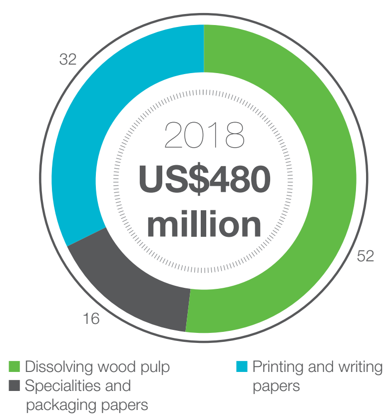
Dividends declared (US cents)



Sales by product (%)



Operating profit excluding special items by segment (%)



Employees by region

Regional performance overview

Europe

Our European business maintained a good level of profitability, with increased sales volumes and prices, along with an expanded proportion of specialities and packaging products offsetting significant cost pressure from purchased paper pulp costs. The latter part of the year however was particularly weak across both coated grades and all indications are that the European economy is slowing, and that the accumulative impact of selling price increases has affected downstream demand.

North America

Multiple coated paper selling price rises, supported by supply tightness in the market, offset the negative sales volume and cost impact of the major project to convert PM1 at Somerset Mill, resulting in an improved performance for the year. Although the project overran both time and cost, the subsequent customer qualification trials to date have been successful. Dissolving wood pulp (DWP) production at Cloquet Mill was increased in order to meet growing customer demand.

Southern Africa

Margins in the Southern African business were under pressure due to the stronger Rand/US Dollar exchange rate during the first three quarters of the year. Delayed start-ups post upgrade projects at Saiccor and Ngodwana Mills resulted in lower production and reduced DWP sales volumes for the year and exacerbated the situation. Containerboard sales did well, with both sales volumes and prices improving as strong growth in the agricultural sector led to increased exports of fruit, the primary driver of demand for this product.

See **Five-year review** on page 120 for detailed performance metrics.

Who we are

Global leader in pulp and paper solutions

Founded in South Africa in **1936**
JSE top 40

5.7 million tons per annum of paper production capacity

2.3 million tons per annum of paper pulp production capacity

Direct and indirect customer base in over **150 countries**

1.4 million tons per annum of dissolving wood pulp production capacity

Strong commitment to corporate citizenship and **sustainability**

12,645 employees

FTSE/JSE Responsible Investment Top 30
UNGC

OHSAS 18001, ISO 9001 and 14001 **certification in all mills**

Product development for new woodfibre based biomaterials and biochemicals markets

379,000ha owned and leased sustainably managed forests in South Africa

sappi

Sappi has **18 production facilities** and **37 sales offices** globally

See overleaf.

Strategic trends shaping our business

Globally, emerging trends continue to shape the world at an unprecedented pace. How we respond is an opportunity to create significant value for our stakeholders and ensure our sustainability.

	Trend	Response
Prosperity	Transparent supply chains	• New Supplier Code of Conduct and Group Woodfibre Procurement Policy • High levels of forest certification
	Forest products industry renewal	• Intentional evolution to grow Sappi into a diversified woodfibre group
	Technological innovation	• Increased R&D spend
	Artificial intelligence	• Investment in AI, Industry 4.0 and block chain technology research
	Globalisation	• One Sappi approach to doing business
	Circular economy	• Leverage the chemistry of trees to extract maximum value from woodfibre and promote the recyclability of our products
People	Urbanisation, growing populations, geographic shifts in economic power	• Build DWP capacity to meet the needs of a more affluent, populous market targeted to areas of geographic opportunity
	Demographic shifts	• Product development, sales and marketing aligned to demographic purchasing patterns and shifts in economic power
	Ethical fashion	• Engage with customers and NGOs to drive understanding of consumer issues • Continue to promote sustainable supply chains based on fairness in terms of labour and the responsible management of natural resources
	Social inequality	• Invest in shared value initiatives, creating local economic opportunities and socio-economic development • Remunerate fairly, promote diversity and inclusion
Planet	Resource scarcity	• Promote responsible management of natural resources throughout the supply chain and focus on woodfibre as a renewable resource
	Climate change	• Increase energy efficiency • Reduce greenhouse gas emissions and waste to landfill • Ensure harvesting of woodfibre is balanced with regrowth, thereby promoting carbon sequestration • Mitigate the impacts of climate change through world-class tree improvement programmes • Offer lightweight packaging
	Anti-plastic sentiment	• Provide alternative packaging solutions that are recyclable and biodegradeable

Our key material issues

- Safety
- Woodfibre certification
- Prosperity
- Investing in innovation
- Investing in innovation
- Ethical behaviour and corruption
- Extracting maximum value from woodfibre in adjacent markets
- Growing demand for cellulosic based fibres
- Growth in the specialities and packaging papers sector
- Shared value
- Woodfibre certification
- Shared value
- Employee engagement
- Planet
- Energy
- Climate change
- Growth in the specialities and packaging papers sector

How we create value

We take an integrated approach to value creation. Guided by our values, our **six value streams** enable the delivery of our mission.

Forests

Our 100% Forest Stewardship Council® (FSC®)[1]-certified plantations in South Africa give us a low-cost woodfibre base on which our business depends and are thus a key pillar of competitive advantage. Our leading-edge tree improvement programmes aim to grow better trees faster, thereby ensuring this advantage is maintained and enhanced.

[1] *Sappi licence number: FSC-C015022.*

100% FSC-certified

Manufacturing excellence

We focus on enhancing machine efficiencies, digitising our processes to make the smart factory a reality, reducing variable costs through new practices in logistics and procurement, as well as implementing go-to-market strategies which lower the cost of serving our customers and increase customer satisfaction.

Operational excellence

Bioproducts

We are unlocking the chemistry of trees and meeting the challenges of a carbon-constrained world by establishing a strong position in adjacent businesses including: nanocellulose, sugars and furfural, lignosulphonates, biocomposites and bio-energy. Extracting more value from each tree is strengthening our core business model.

Xylitol and furfural demonstration plant

Manufacturing excellence, research and development

1 Our values

Act with integrity
We strive to consistently deliver goods and services of the highest standards; doing the right thing the right way.

Be courageous
We take full responsibility for all our decisions and actions; operating with conviction and without hesitation.

Make smart decisions
We strive to be easy to do business with and have a 'can-do' attitude, always looking for the better, faster route to create value for all.

Execute with speed
If something is worth doing it is worth doing quickly, right the first time and never cutting corners.

See page 2.

2 Our inputs

Our integrated approach to sustainable development acknowledges that we are dependent on Prosperity, People and the Planet in order to thrive. We rely on certain inputs to create value.

See page 10.

3 Our value streams

The value streams set out above indicate the manner in which we create value and serve our customers, meeting their needs today, tomorrow and well into the future.

See above.

4 Our strategy

Our ability to deliver sustained value depends on the successful execution of our strategy.

See page 3.

Dissolving wood pulp

Dissolving wood pulp (DWP) is a truly sustainable raw material. Our customers transform our DWP into products which meet the needs of people around the globe every day. Products which enable fashion, household comfort, personal beauty and hygiene, as well as a healthy lifestyle.

Launched Sappi Verve

Specialities and packaging papers

Our customers use our specialities and packaging papers to add value to niche markets, enable product differentiation and offer environmentally conscious consumers an alternative to fossil-fuel based packaging. Our focus on innovation helps our customers to meet and anticipate the challenges of changing market dynamics.

Conversions of Maastricht and Somerset Mills

Printing and writing papers

While the digital age has impacted on the use of paper, our printing and writing papers continue to meet the needs of consumers and marketers around the world. They rely on paper for a tactile, emotional experience no other communication medium can replicate.

Paper remains a relevant advertising medium

Marketing and sales

5 Our outcomes

While we acknowledge that our business activities have both positive and negative outcomes, we strive to maximise the positive consequences of our value streams in terms of Prosperity, People and Planet.

See page 10.

6 Our key relationships

Ongoing engagement with our stakeholders conducted in a spirit of trust and mutual respect enables more tangible business value creation.

See page 32.

7 Our global sustainability goals

Monitoring and reporting transparently on our ambitious Prosperity, People and Planet targets aligns with our 2020Vision and One Sappi strategic approach.

See page 40.

Our mission

All our activities aim to realise our mission:

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.

Our business model

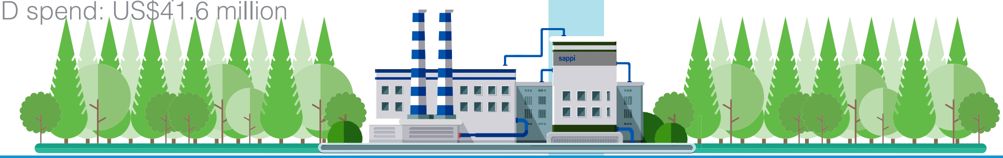
Inputs

Outputs

Prosperity
(FINANCIAL, INTELLECTUAL AND MANUFACTURED CAPITAL)

Inputs

- Eighteen production facilities:
  - Eight paper mills
  - Four speciality paper mills and one other operation
  - One paper and speciality paper mill
  - Two dissolving wood pulp and paper mills
  - One dissolving wood pulp mill, and
  - One sawmill and one other operation
- Nanocellulose demonstration plant
- Sugar demonstration plant
- Biomass plant
- Cham Paper Group and Rockwell Solutions acquisitions
- Total assets: US$5.67 billion
- Net debt: up US$246 million to US$1.57 billion
- Cash and cash equivalents: US$363 million
- R&D spend: US$41.6 million



Outputs

- 6.4 million tons of saleable production
- Increase in net debt of 19%
- Profits down by 4%
- Dividends up by 13%
- New products to meet changing customer expectations and market trends, our new brands include: **Atelier, Fusion Uncoated, MF Bright, MF Bright OF, Proto, Seal Spectro, Valida** and **Verve**

Cham Paper Group acquisition **US$132 million**

People
(HUMAN CAPITAL)

Inputs

- 12,645 employees including 624 fixed-term contractors
- US$500 average training spend per employee
- Ongoing stakeholder engagement
- US$5.6 million invested in corporate social responsibility

Outputs

- Productivity: 3.63 hours per employee in terms of air dry tons of saleable production
- Internal global awards (Technical Innovation Award and CEO's Award for Excellence), together with regional awards, drive excellence and innovation

US$500 average training spend per employee

Planet
(NATURAL CAPITAL)

Inputs

- Access to 516,000 ha plantations, of which approximately
  - 379,000 ha are owned or leased, and
  - 129,000 ha are contracted supply
- 2,628 MW energy purchased, 1,889 MW generated on site
- Energy intensity: 22.38 GJ/adt
- 2.87 million litres of total water extracted for all purposes
- 34.37 m^3/adt specific process water extracted

1,889 MW generated on site

Outputs

- Waste: 1,649,458 tons of waste, of which almost 422,376 tons sent to landfill
- Emissions: 4.3 million tCO_2e direct Scope 1 GHG

Outcomes

Actions to enhance outcomes

positive negative neutral earth kind

- Our investors received US$81 million in dividends
- Our high levels of innovation give our customers competitive edge in global markets—we were the world's first manufacturer to present an innovative speciality paper with a mineral barrier and heat sealing properties integrated directly into the paper
- Globally we contributed US$136 million to government taxation
- We paid US$1,026 million to employees as salaries, wages and other benefits
- Lenders of capital received US$88 million as interest
- We invested US$538 million to grow business
- Overspend on Cloquet Mill conversion project
- Project delays at Somerset and Ngodwana Mills

- Focus on project delivery and implementation
- Investment in R&D to ensure cutting edge solutions for customers
- Ongoing focus on balancing competing stakeholder interests to ensure sustainable growth

- Two fatalities
- We play an active role in South Africa's transformation agenda and are classified as a level 3 BBBEE contributor
- In Southern Africa our operations provide employment for just over 10,000 contractor employees
- Our specialised sustainable packaging solutions:
  - Preserve and protect
  - Convey information, and
  - Offer convenience
- Acquisition of Cham Paper Group—employees' jobs were saved and opens up opportunities as part of a global organisation
- Shared Service Centres set up globally to improve efficiency—negative impact on people not able to relocate to new locations

- Continued investment in embedding a safety culture across the group
- Focus on entrenching transformation within our Southern African operations to support inclusive growth
- Investment in training and development of our employees
- Strong governance; Code of Ethics training
- New Supplier Code of Conduct

- 46.8% renewable energy, of which 71.5% own black liquor
- Training of smallholders to educate them on more sustainable forestry practices
- 95% of water drawn returned to the environment
- Impact on GHG emissions offset by carbon sequestration
- 75.2% of fibre used certified
- World-leading tree improvement programmes have led to shorter growth times and enhanced fibre gain
- One-third of owned and leased plantations set aside for biodiversity conservation
- Negative impact on plantation biodiversity at stand level (not plantation level)
- DWP used for clothing and household textiles, baby wipes and wet wipes—reducing environmental impact
- Lighter weight packaging products—reduction of carbon footprint
- Expanded packaging portfolio offers customers and consumers more sustainable alternatives to fossil fuel based packaging (plastics)
- Ecosystem services benefit various stakeholders

- Increased energy self-sufficiency by 5.6% over five years due to focus on reducing purchased energy
- Established training centre for smallholders in South Africa
- Participated in initiatives to enable certification for small growers
- Adjusted our tree breeding strategy to mitigate the impacts of climate change
- Revised our Group Woodfibre Procurement Policy in line with stringent procurement procedures
- Increased annual speciality paper capacity by 160,000 tons (Cham Paper Group acquisition) and DWP capacity by 60,000 tons (further expansion planned), thereby increasing the range of sustainable products available to environmentally conscious consumers

courage

CHANGING AND EVOLVING
TO DELIVER WEALTH

Climbing a mountain requires dedication, training, fitness, the right equipment, teamwork, meticulous planning, but above all courage. Because a mountain, like the future, is never predictable.

Sappi recognised the need to change, respond to and take advantage of new trends and realities; instant digital communication, the drive for a low carbon future, increasing consumer preference for renewable raw materials, radical technological innovation, as well as shifting global economic and geopolitical realities. Such a change does not just happen. It takes careful planning, the right strategy, teamwork and ultimately courage to execute.

We recognised that we had to respond to the global changes shaping our lives in unprecedented ways and at an accelerated pace. We also understood that we needed to do business better tomorrow than today. Our response was to refocus our business and intentionally evolve our strategy —encapsulated in our 2020Vision and One Sappi approach.

While this process of evolution has not been radical, it has been based on a bold departure from traditional ways of thinking about the value streams inherent in woodfibre.

We might not have reached the top of the mountain yet, but we have it firmly in our sights: We have established a strong platform for further value creation, one which has positioned us well to meet and exceed the forces of change ushered in by Industry 4.0, together with any others on the global horizon. A platform which has enabled us to deliver wealth and will continue to underpin our ability to grow and thrive tomorrow and well into the future.

Letter to stakeholders
from the Chairman and CEO

Presenting a coherent and consistent culture of the highest integrity is a pillar of our strategy.

Operating review

The overall result for the year was in line with that of the prior year on a like-for-like basis, despite the disruption caused by a number of large capital projects. Market demand for dissolving wood pulp (DWP) and specialities and packaging papers ensured our production capacity in these grades was fully utilised, further supporting our decision to invest in additional capacity in these business segments. In the printing and writing papers segment, a series of successful selling price increases throughout the year enabled margins to be maintained notwithstanding significantly higher raw material costs, mainly from paper pulp and various process chemicals. The profitability of the Southern African business was under pressure due to the stronger Rand.

Increased capital expenditure in growth projects, including the conversions of paper machines in Europe and North America as well as debottlenecking DWP plants in Southern Africa, was managed around our target of two times net debt to EBITDA. This facilitated a further shift in the product mix of the group away from the traditional printing and writing papers business towards higher margin and growth segments.

The group's EBITDA excluding special items was US$762 million, declining US$3 million on a like-for-like basis (2017 benefited by approximately US$20 million due to an additional accounting week). Profit for the period was US$323 million compared to US$338 million in the prior year.

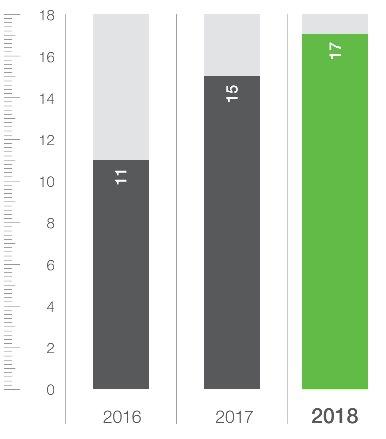
In the past year we have worked to prioritise safety for our employees and those of contractors in our workplaces, bringing in external experts, reviewing risk conditions in all our operations and emphasising the importance of both the individual and the collective with regards to safety. This renewed commitment and focus resulted in each of the three regions improving their LTIFR rates, with both North America and Southern Africa achieving their lowest ever employee injury rate. Despite this, we regret having to report two fatalities, one of which was an employee in one of our European mills and the other a contractor that died in a motor vehicle accident in the Southern African operations. Our target is zero injuries, and we continue to believe we can achieve this with enhanced procedures, approach and most importantly behaviour.

We built on our commitment to be an ethical corporate citizen with an ongoing communication and training campaign following our roll-out of the revised Code of Ethics (Code) in 2016. The Code 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 must 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 must live our core values of doing business with integrity and courage; making smart decisions which we execute with speed.

Maintaining the highest standards of 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. The Sappi board is concerned about the ongoing allegations and investigations into KPMG South Africa and continues to monitor the situation and will re-evaluate our position if any new information becomes available.

Our European business maintained a good level of profitability, with increased sales volumes and prices, along with an expanded proportion of specialities and packaging papers offsetting significant cost pressure from purchased paper pulp costs. Demand for coated mechanical (CM) paper was good for the first nine months of the year, while coated woodfree (CWF) paper demand was slightly weaker than expected. Gains in market share allowed us to limit coated paper sales volumes declines. Cost pressures and tightening supply led to a number of selling price increases for CWF paper throughout the year, and prices ended 9% higher than at the end of 2017. The last few months of the year, however, were particularly weak across both coated grades and all indications are that the European economy is slowing, and that the cumulative impact of selling price increases has affected downstream demand. Variable costs increased 6% year-on-year, despite various cost savings initiatives, the primary reason being a further 24% and 16% rise in hardwood and softwood pulp prices respectively.

Dividends per share (US cents)



Sir Nigel Rudd
Chairman

Steve Binnie
Chief Executive Officer

In North America multiple coated paper selling price rises, supported by supply tightness in the market, offset the negative sales volume and cost impact of the major project to convert PM1 at the Somerset Mill. The project to convert the machine to paperboard grades, while ultimately successful, overran both in cost and time, exacerbating the impact of lost production and increased manufacturing costs. The causes of the overrun, which led to US$10 million in lost production over that originally planned and a further US$35 – 50 million in capital expenditure, and the steps we will take to improve our project delivery in future are outlined in the **Q & A with the CEO** on page 18. Variable costs increased by 4% year-on-year, primarily due to higher purchased paper pulp prices.

Margins in the Southern African business were under pressure due to the stronger Rand/US Dollar exchange rate during the first three quarters of the year. This lowered the effective Rand pricing for DWP (which is priced in US Dollars) and led to decreased margins in this segment. Delayed start-ups post upgrade projects at Saiccor and Ngodwana Mills resulted in lower production and reduced DWP sales volumes for the year which exacerbated the situation. Containerboard sales did well, with both sales volumes and prices improving as strong growth in the agricultural sector led to increased exports of fruit, the primary driver of demand for this product. Variable costs increased by 7%, led by price increases in energy, chemicals and fibre.

Global demand for DWP continues to grow, and our sales volumes were 1% higher as increased production from the Cloquet Mill more than offset the lost production and sales volumes from the Southern African mills referred to above. Higher paper pulp prices supported DWP selling prices throughout the year, while a weaker downstream viscose staple fibre (VSF) market prevented DWP prices from rising further throughout the year as additional VSF capacity was brought to the market, lowering operating rates and causing VSF prices to decline. This led to spot prices in China for DWP trading in a range of US$920/ton to US$950/ton for most of the year, resulting in lower average net realised prices than that achieved in 2017. During the year we launched the Verve brand as the umbrella brand for our DWP products with the brand promise of *Fibre made with the future in mind*. This launch recognises the importance that customers and consumers place in sustainably sourced fibres.

The European specialities and packaging papers business grew sales volumes by 8% over the prior year, excluding the additional volumes from the mills acquired as part of the Cham Paper Group (CPG) acquisition (see the strategic review below for more detail on the acquisition and rationale therefore). The acquisition of CPG aligns closely with our focus on the growing higher margin coated specialities and packaging papers such as release liner, solid bleached board and functional papers, and allows us to leverage our coating expertise. We are working closely with customers to develop new and innovative solutions to their packaging needs. In North America, packaging sales volumes increased by 68%, with gains in both our legacy packaging products and paperboard sales post the completion of the PM1 conversion at Somerset Mill.

Strategic review

Three years into our strategic 2020Vision we have made good progress towards improving profitability, cash generation and growth. In 2018 we increased capital expenditure significantly over that of the prior four years as we initiated a number of important projects to deliver on our growth targets. While increasing the capital expenditure we have been mindful of our long-term sustainable leverage target of two times net debt to EBITDA.

Our strategy 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 to lower costs.
- **Rationalise declining businesses** – Recognising the decreasing demand for printing and writing 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 products** – We will invest in expanding our packaging papers grades, enhancing our DWP portfolio and in the extraction of value from our biorefinery stream.

Letter to stakeholders *continued*

The strategic objectives are supported by our value statement: 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.

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

Achieve cost advantages

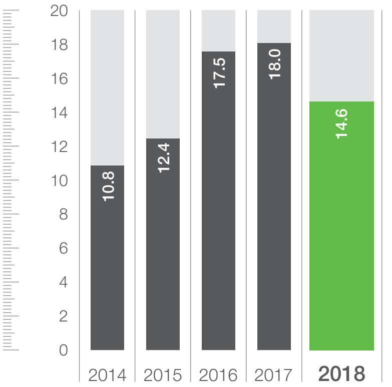
Reducing both variable and fixed costs throughout the business is integral both to maintaining or improving margins and to the sustainability of our operations. This is especially true in commodity type businesses and those where we face declining demand, such as printing and writing papers. In the past year we set ourselves a US$60 million target to reduce third party expenditure compared to 2017 through efficiency and raw material usage improvements as well as delivering savings through various procurement initiatives. Pleasingly we achieved savings of US$82 million, which helped offset pressure from higher paper pulp, chemicals and energy prices. In 2019 we are targeting a further US$60 million in savings. During the year we commenced the Saiccor Mill woodyard upgrade to improve wood efficiency as well as to allow for further expansion of the Saiccor Mill. In 2019 we will proceed with the Saiccor Mill 110,000 tons expansion having recently received EIA approval for the project. This project will improve our energy and water efficiency and result in improved energy and chemical recovery, leading to lower operating costs. We will also invest in upgrades to the Gratkorn Mill, resulting in improved production efficiency and lower costs.

Rationalise declining businesses

Printing and writing papers demand in Europe and North America continues to be in long-term structural decline, the rate of which is also impacted by general economic conditions. Maintaining operating rates and lowering costs form our strategy to maximise cash generation in these markets.

In North America our cost-competitive manufacturing facilities, excellent customer service and superior paper quality, along with closures or conversions of some of our competitors' mills and machines allowed us to increase market share in 2018. During the year we converted PM1 at the Somerset Mill. The capacity of the machine was expanded, and it now has the flexibility to produce both coated

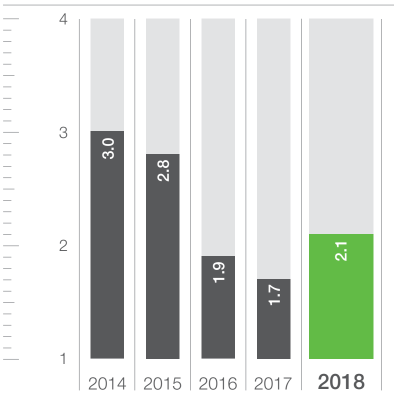
Operating profit excluding special items to capital employed (ROCE) (%)



woodfree paper and packaging paper used in the folding carton and food service markets.

In Europe we have focused on cost reduction 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 both direct sales and market share in a declining market. During the year we converted the Maastricht Mill to focus predominantly on paperboard in support of our existing specialities and packaging papers business in Europe. In 2019 we will undertake the conversion of PM8 at Lanaken Mill to enable the machine to make either CWF or CM, and this will allow the transition from CM to CWF production on that machine over the next three years, bringing our CM capacity in line with that of the expected decline in that market. We will also be investing at Ehingen and Alfeld Mills to enhance their specialities and packaging papers offerings. The combination of the above projects will result in the replacement of 200,000 tons of printing and writing paper with a similar volume of specialities and packaging papers.

Net debt to EBITDA excluding special items



In Southern Africa our exposure to declining markets is limited to newsprint, where we are the last remaining local producer, and office paper which has become more cost competitive post the transfer of production from Enstra Mill, which we disposed of in December 2015, to Stanger Mill.

Maintain a healthy balance sheet

Having achieved our target leverage ratio of two times net debt to EBITDA in 2017 we will continue to focus on cash flow generation and the cost of our debt in order to maintain a healthy balance sheet, which is the prerequisite for Sappi to be able to make the investments in higher margin and growing businesses. There are no significant maturities due before 2022 and we are comfortable with the maturity profile of our debt. Net finance costs have stabilised in the range of US$60 – 70 million per annum, and we continue to assess opportunities to refinance debt at lower rates as and when the opportunities arise.

Accelerate growth in higher margin products

In addition to the specialities and packaging papers investments mentioned above, we purchased the paper mill assets of the Cham Paper Group (CPG) for US$132 million during the past financial year. The acquisition of CPG positions us well for growth in the specialities and packaging papers market, with a range of new and complementary products. The performance of the business since the acquisition was completed at the end of February 2018 has exceeded our expectations, and along with the technology acquired with Rockwell Solutions in 2017, allows us to accelerate the development of new solutions for a growing market focused on delivering sustainable packaging solutions. Our total specialities and packaging papers sales has grown from 854,000 to 1,009,000 tons per annum over the past year post the acquisition of CPG and the completed conversion projects. Our total production capacity is now approaching 1.5 million tons, and we expect to ramp up towards full capacity over the next three years.

During 2018 we completed debottlenecking projects at both Saiccor and Ngodwana Mills, adding 10,000 and 50,000 tons of DWP capacity respectively. In 2019 we will initiate the debottlenecking of our Cloquet Mill, adding a further 30,000 tons, and we will commence with the project to expand Saiccor Mill by a further 110,000 tons as described above. Further significant expansion opportunities remain apparent in our DWP business, with robust demand growth from our major customers and from a textile market increasingly looking for more sustainable textile solutions. Whilst our strategic direction is clear, high paper pulp prices and the narrowing of the price premium between DWP and paper pulp meant that we have not found an external project that delivers a reasonable return. We continue to look for projects that meet our various investment criteria.

Our new business development team, Sappi Biotech, has had a busy and successful year.

Sappi Biotech made further strides in developing new and innovative products for a world looking for more sustainable chemical and material solutions. In 2017, we commissioned a sugar extraction pilot plant at Ngodwana Mill and acquired technology from Plaxica related to sugar extraction from waste streams. In July 2018, we announced further progress in the development of our biorefinery capacity with the decision to construct a demonstration plant adjacent to our Ngodwana Mill that will scale up the novel Xylex technology to produce xylitol and furfural. Pending successful results, this may result in the construction of commercial xylitol and furfural plants at our mills in North America and Southern Africa. We have also made good strides in the development of our cellulose nanofibrils (CNF) and cellulose microfibrils (CMF), with some exciting co-development being undertaken with firms in the motor manufacturing, coatings and cosmetics industries. Within the next three years we believe that Sappi Biotech could contribute as much as 10% of the group's EBITDA.

Looking forward

The debottlenecking of Saiccor, Ngodwana and Cloquet Mills as well as fewer production disruptions in 2019 should lead to increased DWP sales volumes to meet growing demand. DWP spot prices are forecast to remain range-bound at current levels in the coming year as VSF prices are expected to be under pressure from excess VSF capacity, while paper pulp prices which are forecast to remain at high levels should provide support.

Demand for specialities and packaging papers continues to grow, driven by increasing consumer preference for paper based packaging and legislative changes promoting recycling and the use of recyclable materials. The completion of the conversion projects at the Somerset and Maastricht Mills in the past year will allow us to increase production of paperboard grades to serve this growing market.

Industrywide conversion and closure of printing and writing papers machines in the USA and Europe are expected to keep the markets balanced in the coming year should demand contract at similar levels to those of the past few years. Recent European data, however, indicates that a potential downturn may be realised in 2019. Cost control measures will be implemented in order to support margins as we manage the price elasticity in our paper markets.

Capital expenditure in 2019 is expected to increase to US$590 million as we proceed with the Saiccor Mill 110,000 tons expansion having recently received initial EIA approval for the project, complete the Saiccor Mill woodyard upgrade, convert Lanaken Mill PM8 from CM to CWF paper production and upgrade the Gratkorn Mill.

Having completed significant projects in 2018 to convert paper machines to higher margin and growing packaging papers, in addition to the debottlenecking of both Saiccor and Ngodwana Mills, we expect EBITDA in the first quarter of financial year 2019, given current exchange rates, to be comfortably higher than that of 2018.

Appreciation

No business operates in isolation from a wide and varied group of stakeholders that contribute in many ways to our development and performance, and who may be impacted both positively and negatively by the decisions and trade-offs that we make on a continuous basis. Our interactions with these stakeholders, their ideas, suggestions, requests and support guide us and we thank them for their contribution towards making Sappi a better corporate citizen.

To our customers in all our different markets and geographies we extend our gratitude. We will continue to work together to provide relevant products and services which provide sustainable value while impacting our natural capital as little as possible.

Our employees continue to support the strategic initiatives of the group, and in a year where we completed a number of

Cham Paper Group acquisition
US$132 million

Major conversion projects
completed

major capital projects and where we were faced with significant cost pressures, they helped us deliver a credible result while enacting our One Sappi vision. We also thank them for embracing the values and ethics that are vital to good corporate citizenship.

Thanks to our board for their continued commitment to the group and sound corporate governance. Their valuable insights and encouragement, all while holding us to the highest ethical standards, enable us to execute our strategy with confidence.

We welcomed Mrs Zola Malinga as independent non-executive director and member of the Sappi Audit and Risk Committee with effect from 01 October 2018.

In January, we announced the retirement of Dr Deenadayalen (Len) Konar, independent non-executive director, effective from the end of January 2018. Dr Konar was appointed to the board and Audit Committee in March 2002 and had served as chair of the Audit Committee since 2007. Dr Konar was also a member of the Nomination and Governance Committee following his appointment to that committee in 2008. In August, we announced the retirement of Mr Bob DeKoch, independent non-executive director, with immediate effect due to health reasons. Mr DeKoch was appointed to the board in March 2013 and also served as a member of the Social, Ethics, Transformation and Sustainability Committee. We would like to thank them both for the important contributions which they have made to the board since their appointments.

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 06 February 2019.

Q & A with the CEO

Steve Binnie

We believe that our leading position in the dissolving wood pulp (DWP) market offers us exciting growth prospects into the future.

Q Despite your continued efforts in employee and contractor safety you have again suffered fatalities in your operations—what more can you do to achieve your aim of zero harm?

Regrettably, we suffered two fatalities in the past year, one of our own employees at the Ehingen Mill and one South African contractor employee that died in a vehicle accident. Our group-wide commitment to our goal of zero lost time injuries, is a non-negotiable priority, and as such a world leader in safety performance was commissioned to review and audit Sappi's safety initiatives, processes and procedures, focusing mainly on employee engagement and risk-based approach. Detailed action plans and focus areas have been implemented and are underpinned with the *'Own Safety, Share Safety'* theme—to get into the hearts and minds of our people and ensuring safety becomes engrained into our business values. Each region and mill has undertaken exciting initiatives and there will be ongoing engagement with our people across the business. Where there are operations that are centres of excellence in terms of safety performance we will look to them to share best practices with the rest of our operations. Importantly, safety performance is an integral part of the leadership and management reward and recognition system.

Q Sappi completed a number of significant capital projects in the past year, though not without delays and cost overruns. How are you going to manage future project execution risk?

The specific issues with each of the major projects at Somerset, Saiccor and Ngodwana Mills were different, but there were some common themes. Firstly, we encountered certain vendor design issues in some of the projects which were not expected and were ultimately resolved but not without delay. A second key issue was availability of local resources and skills due to other projects or local conditions in those regions, particularly in the United States of America (USA) where unemployment is very low. Lastly, with the latest technology installed on some of the projects, it took longer than expected to optimise the upgraded equipment and processes. In recent months, we are pleased to report that the performance of the various machines has reached the technical, quality and market performance expectations. The packaging papers qualification trials are mostly complete, with encouraging results and growing commercial sales.

To improve our delivery on future capital projects we have completed a detailed and comprehensive internal review of the various projects to ensure both positive and negative lessons learnt are communicated and integrated globally in upcoming projects. As a result of this review additional detailed front-end engineering must be completed and we revised our supplier contract philosophies specific to the regions in which we operate. In addition to the above, greater emphasis is placed on the use of modern tools available to improve the efficacy in design, engineering, standards, cost control and planning functions. We continue to develop strong relationships with the main suppliers and have a rigorous process in place to select potential contractors that are aligned to Sappi's commitment to safety and quality. Lastly, we will be implementing more regular risk based critical review processes.

Q What impact has growing regulatory and policy uncertainty had on the business and how do you manage the business in this environment?

Policy or regulatory uncertainty is seldom good for business. The USA/China trade tariffs situation is disrupting markets all over the world. There are direct impacts where the price competitiveness of either our or our customers' products are affected by the tariffs, and there are indirect consequences where whole industries may be uncertain as to the longer-term affect of the tariffs. In this environment companies may reduce activity levels, lower inventory and even cancel projects or postpone investment decisions. We believe that this uncertainty has negatively affected the textile industry in China in particular, and that this is apparent in textile fibre pricing. The debate around expropriation without compensation in South Africa, where we own significant land, has raised investor concerns as to the impact this could have on Sappi. While we do not believe that the outcome of the current land debate will result in any negative outcome for our operations, we are involved in many forums to ensure that our views, suggestions and contributions to the resolution of a pressing social issue are heard. We are of the view that the legacy of property ownership is an obstacle to transformation, economic growth and human development, we thus support the objective of pursuing accelerated land reform. Importantly, we note the ANC's comments that any changes should not undermine future investment in the economy, damage agricultural production nor food security, and that other sectors of the economy must not be harmed.

Q Leadership in business is often about trade-offs. What trade-offs have you had to make in the past year?

Whether in reference to the 3Ps of Prosperity, People and Planet or the six capitals, it is clear that many, if not all, decisions a business makes involve some trade-off where one element benefits at some expense to another. As I think about the past year, two trade-offs come to mind. Firstly, safety and the goal of zero harm to our employees which underpins our values. Mechanisation of manual processes is certainly a route to lowering risk, especially in high risk activities such as plantation tree harvesting. However, mechanisation inevitably leads to lower employment, and in a country such as South Africa where such a high percentage of people are unemployed, especially in the rural areas in which we operate, there is a social cost related to mechanisation that cannot be ignored. Therefore we have redoubled our efforts with all employees and contractors in the forestry area to train and educate in all aspects of safety. Timber certification is a second – where the concerns of rural smallholders, that may find certain certification schemes prohibitively expensive, must be weighed against the needs of customers for ever increasing levels of certified timber, and the realities of sustainable forest practices which may benefit from smaller scale timber operations.

Q The world has become more focused on the harmful impact of plastics, especially on the world's water sources and landfills. What are the opportunities in this for Sappi?

Individuals, NGOs and governments have become increasingly aware of the challenges caused by pollution of our water sources and oceans as well as landfills that are being filled with waste that cannot or is not being recycled. Much of this waste is packaging. In some instances the nature of the packaging makes it more difficult to recycle. Plastics can and will continue to have a major role to play in the packaging industry, especially in multi-use applications or where the material is easily recycled. Multi-substrate, single use packaging is a particular challenge, however, and it is here where we believe we should focus our strategy. The shift towards paper-based solutions represents a significant opportunity for Sappi. We have made investments to convert printing and writing papers machines to packaging applications as well as additional research and development. Furthermore, we have made acquisitions, such as Rockwell Solutions and Cham Paper Group, that will give us the technology to replace some of the barrier layers in multi-layer packaging and to make us more relevant to large FMCG companies who are emphasising paper based materials.

The textile and non-woven wipes industries are responding to the challenge of making their products more sustainable, with polyester coming under increasing scrutiny for the release of microplastics when washed and a need for biodegradable and flushable fibres for use in applications like cosmetic and baby wipes. Cellulosic fibres, such as DWP produced from sustainably sourced wood, offer solutions to these challenges.

Q For the past few years you have spoken about the opportunities to significantly grow your DWP business. Do these opportunities still exist given the rising acquisition/construction costs of pulp mills and a major customer's backward integration plans?

Steve Binnie
Chief Executive Officer

We believe that our leading position in the DWP market offers us exciting growth prospects into the future. Our debottlenecking investments in the past year at Saiccor and Ngodwana Mills, as well as the upcoming debottlenecking of Cloquet and expansion of Saiccor Mills, will add 200,000 tons (15% growth) of additional DWP capacity in a little over two years. Most of this additional capacity is already committed to our major customers. While the backward integration plans of major customers mean that further growth with them may be limited for some time, we believe that the market and growth aspirations of other customers, particularly in China, can more than make up for that lost opportunity. Excluding our current large contract customers in China, we supply only 4% of the DWP used in that market.

As highlighted in a question above, the textile market is increasingly becoming aware of the importance of sustainability in the value chain. The Chinese viscose industry has adopted a road map towards a better environmental footprint, and our strong certified timber base, including FSC®, PEFC™ and SFI® are key differentiators which not all DWP suppliers can emulate.

We don't want to overpay for these opportunities, either in capital costs to convert or build DWP mills, nor in acquiring mills. With current DWP and paper pulp price levels, and looking at recent pulp mill acquisitions it is clear to us that valuations have become stretched, making it difficult to achieve the returns that we would want to deliver to shareholders. We will continue to look for opportunities to deliver the growth and returns and entrench our leading position in this market.

group overview

Where we operate

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

Paper production per year **5.7 million tons**

Paper pulp production per year **2.3 million tons**

Dissolving wood pulp production per year **1.4 million tons**

Globally we have **12,645 employees**

The wood and pulp needed for our products are either produced within Sappi or bought from accredited suppliers. Sappi sells almost as much as it buys.

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.

Logistics offices
Durban, New York

Sales offices
Bogotá, Buenos Aires, Hong Kong, Johannesburg, México City, Nairobi, São Paulo, Singapore, Shanghai, Sydney, Vienna

Europe

Capacity(1) ('000 tons)

Mills	Products produced	Paper	Pulp
Alfeld Mill	Bleached chemical pulp for own consumption Coated and uncoated speciality paper	 275	120
Carmignano Mill	Speciality paper; dye sublimation paper, flexible packaging paper, inkjet paper and label paper	100	
Condino Mill	Speciality paper; dye sublimation paper, flexible packaging paper, inkjet paper and silicone base paper	60	
Ehingen Mill	Bleached chemical pulp for own consumption and market pulp Coated woodfree paper and coated speciality paper	 280	140
Gratkorn Mill	Bleached chemical pulp for own consumption Coated woodfree paper	 980	250
Kirkniemi Mill	Bleached mechanical pulp for own consumption Coated mechanical paper	 750	300
Lanaken Mill	Bleached chemi-thermo mechanical pulp for own consumption Coated mechanical paper and coated woodfree paper	 530	165
Maastricht Mill	Coated woodfree paper and coated speciality paper	280	
Stockstadt Mill	Bleached chemical pulp for own consumption and market pulp Coated woodfree paper and uncoated woodfree paper	 445	145
	Total Sappi Europe	3,700	1,120

Other operation		Capacity (million m²)
Rockwell Solutions	Coated barrier film and paper	100

Produces **51%** of group sales

paper mills	5
speciality paper mill	3
paper and speciality paper mill	1
other operation	1
sales offices	14
employees	**5,308**

(1) *Capacity at maximum continuous run rate.*
* *Approximately 138,000 ha 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 contracted supply.*
*** *Sappi ReFibre collects waste paper in the South African market which is used to produce packaging papers.*

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 and packaging paper	970	
Westbrook Mill	Coated speciality paper	40	
	Total Sappi North America	**1,350**	**865**

paper mill	**1**
speciality paper mill	**1**
paper and dissolving wood pulp mill	**1**
sales offices	**6**
employees	**2,131**

Produces **25%** of group sales

Produces **24%** of group sales

paper mills	**2**
dissolving wood pulp mill	**1**
paper and dissolving wood pulp mill	**1**
sawmill	**1**
sales offices	**6**
forests	**516,000 ha**
employees	**5,206**

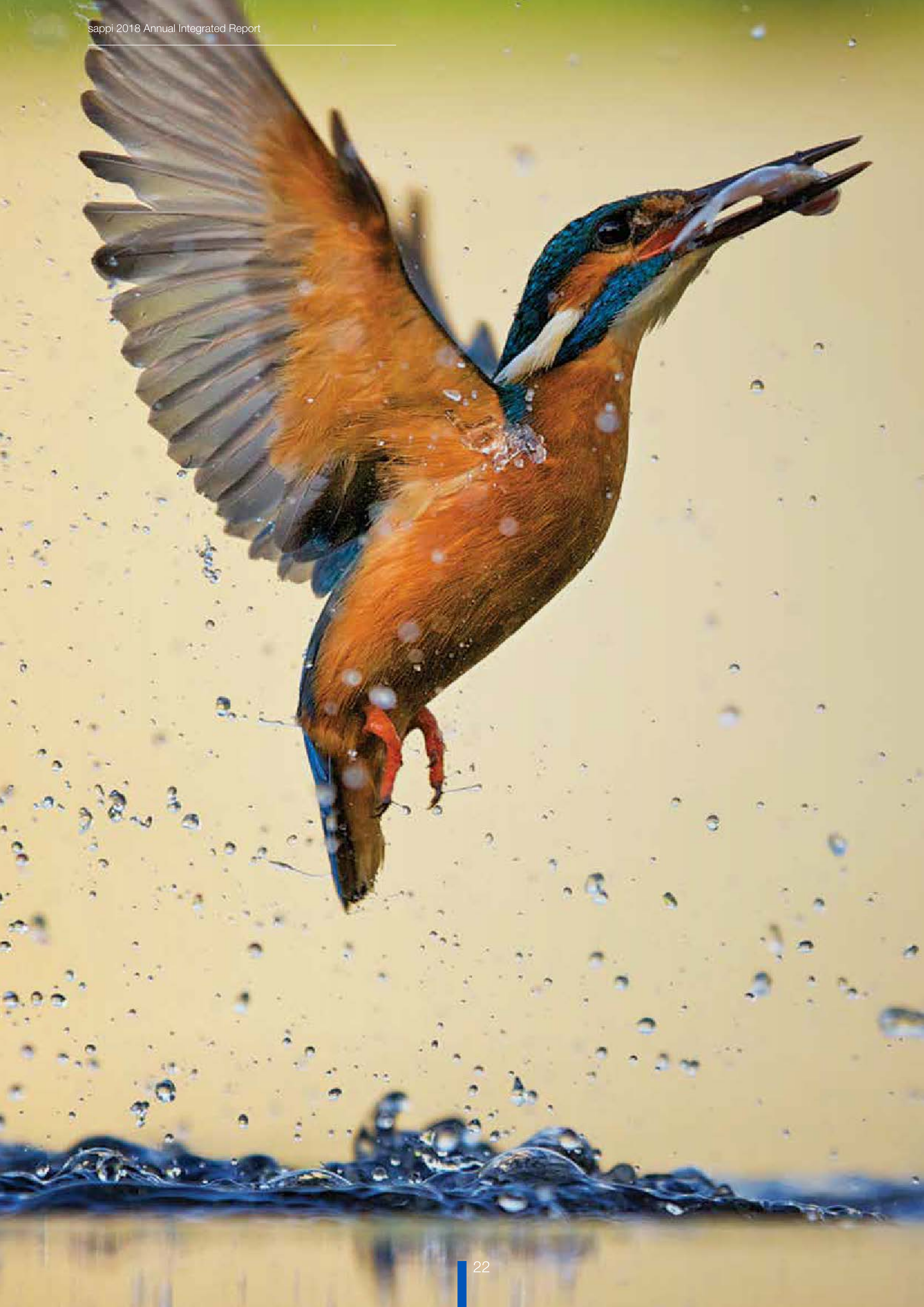
Southern Africa

Capacity(1) ('000)

Plantations*	Products produced	Ha	Standing tons	m³
KwaZulu-Natal	Plantations (pulpwood and sawlogs)**	253	11,336	
Mpumalanga	Plantations (pulpwood and sawlogs)**	263	16,252	
Lomati Sawmill	Sawn timber (m^3)			102
	Total Sappi Forests	**516**	**27,588**	**102**

Capacity(1) ('000 tons)

Mills	Products produced	Paper	Pulp
Ngodwana Mill	Unbleached chemical pulp for own consumption		210
	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		150
	Corrugating medium	200	
Sappi ReFibre***	Waste paper collection and recycling for own consumption		140
	Total Sappi Paper and Paper Packaging	**690**	**670**
Ngodwana Mill	Dissolving wood pulp		250
Saiccor Mill	Dissolving wood pulp		800
	Total Sappi Specialised Cellulose		**1,050**
	Total Sappi Southern Africa	**690**	**1,720**



focus

MAKING SMART DECISIONS THAT WE EXECUTE WITH SPEED

In a competitive, increasingly crowded marketplace, as an organisation we can take lessons from the kingfisher, which is capable of some of the smartest, most speedy aerial manoeuvres in the animal kingdom.

From its vantage point over a river or stream, the bird hones in on a single fish and then watches silently overhead by rapidly beating its wings as fast as eight times a second. In order to remain in sync with the fish's exact coordinates, the kingfisher must keep its head almost entirely motionless, letting the wings and counterbalancing tail do all the work.

When ready, the kingfisher strikes, performing a controlled vertical dive to ensure its dart-like bill is the first thing to enter the water. Though sharp and streamlined, this movement still generates shockwaves through the water, so speed is of the essence in order not to startle the fish.

At Sappi, the smart decisions that we execute with speed include responding to global trends and anticipating customers' needs; establishing global production sites which can switch between printing and writing papers or packaging papers; making capacity conversions to take advantage of market dynamics and increasing DWP capacity.

These decisions also include exploring new opportunities to make better use of the woodfibre that we have to hand; working on product portfolios to match changing market expectations and increasing the share of packaging papers in our portfolio to bring us closer to brand owners' and consumers' expectations.

Going forward, we will continue to operate with focus and agility by making smart investments in existing and adjacent areas with strong potential growth. This in turn will enable us to offer an expanded range of products that contribute towards a tomorrow that is better than today.

performance during the year

Product review

With 16% share of the DWP market and producing close to 1.4 million tons per annum, our dissolving wood pulp brand Verve is a significant player within this market.

From textiles to pharmaceuticals and food applications, Sappi has the expertise, technology and track record to meet almost any challenge from these DWP market segments.

Dissolving wood pulp

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

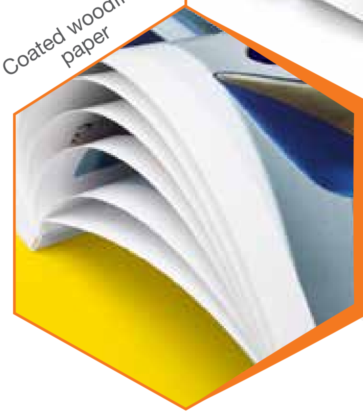
Our range of coated and uncoated printing and writing papers cover varying visual and tactile qualities to ensure that whether you're looking for a high-end product with extra wow factor, a comprehensive solution that caters to all of your campaign's requirements, or a paper that helps you make a saving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

Printing and writing papers

Coated mechanical paper

Newsprint

Coated woodfree paper



Uncoated woodfree paper

We are your value-creating partner, offering an extensive range of innovative products and services.

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.

Product review *continued*

Dissolving wood pulp

Dissolving **wood pulp**

Sappi continues to invest in dissolving wood pulp (DWP) capacity to ensure our customers can meet the demands for sustainably grown and responsibly processed dissolving wood pulp.

Demand for DWP continues to grow as consumer preference increases for products made from renewable, sustainably sourced and processed woodfibre. Sappi has been a leading world producer of DWP over the past few decades, and today produces close to 1.4 million tons per annum, enjoying a significant 16% share of the DWP market.

Building on our reputation for quality, service and responsibility, Sappi moved to strengthen our leadership in the DWP market with the launch of the Verve brand — sustainable DWP for a thriving a world.

In 2018, 18% of Sappi's sales were DWP.

DWP is a highly purified form of cellulose extracted from sustainably grown and responsibly managed trees using unique cellulose chemistry technology. The majority of DWP is consumed in the viscose and lyocell industry where DWP is converted to viscose and lyocell staple fibre, from there into yarn and ultimately textiles, providing naturally soft, breathable fabrics which are smooth to the touch, hold colour and drape well. The fibres produced from DWP also act as good blend partners in fabric with cotton and polyester. DWP can also be processed into products that are used in food and beverages, health and hygiene, wrapping and packaging, pharmaceuticals and many more applications that touch our daily lives.

Demand for DWP used in textiles, particularly for viscose and lyocell fibres, is both the largest and fastest growing sector, while end markets and demand growth for other applications, are smaller and have lower growth rates. Based on the growth rate in the overall textile market, driven by factors such as population growth, rising urbanisation, wealth and the shift towards more comfortable, environmentally friendly natural fibres, we expect long-term growth in demand of approximately 6% per annum for DWP. Textile and other fibres produced from DWP also benefit from the growing need for biodegradable products.

Market prices for DWP are influenced by several variables, including the selling prices for viscose staple fibre (VSF) and lyocell fibres, the pricing differential between paper pulp and DWP and currency movements. Prices for competing fibres in the textile industry, cotton and polyester, impact the VSF price, and consequently the DWP price. Cotton prices rose in May and June this year as cotton was subject to international trade tariffs between China and the United States of America. Along with the rise in oil prices since July, polyester prices have risen, prompting textile manufacturers to seek alternative fibres, positively impacting VSF demand and supporting pricing. Lastly, much of the supply and market for DWP is within China, the Renminbi/US Dollar exchange rate also affects the market price for DWP.

Our markets in 2018 and outlook for 2019

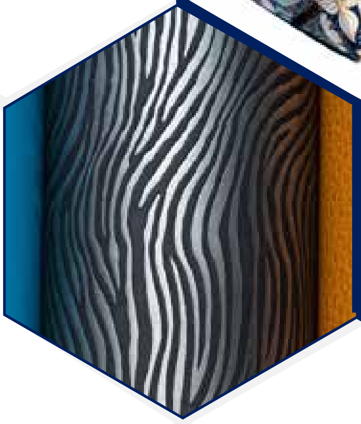
The VSF industry continues to add larger, more modern, environmentally friendly machines, particularly in China and India, while the enforcement of stricter environmental standards has forced several smaller, less efficient VSF plants to run intermittently and some others had to cease production. Taken together, these additions and subtractions of capacity have left the VSF industry with a more eco friendly footprint. Viscose production in China rose 3% in the 10 months of our financial year relative to the same period last year. Through 2022, wood based textile fibre capacity is expected to grow at approximately 6% per annum.

2018 was a year of large-scale capital investment in our DWP business. We completed debottlenecking projects at both Southern African mills, adding approximately 50,000 tons of capacity towards the end of the year. Sales volumes for the year were 1% higher than the prior year. We have a further debottlenecking project planned for our Cloquet Mill in 2019 to increase our capacity by 30,000 tons. During 2018, we also announced an expansion plan to increase our capacity at our Saiccor Mill by 110,000 tons to meet strong projected demand growth. The construction work for this project at our Saiccor Mill has started, and the planned startup is in the last quarter of 2020. The project will bring much needed investment and jobs to the KwaZulu-Natal region, as well as further entrench South Africa as a leader in the DWP industry.

DWP prices traded at a high level and relatively narrow band this year, starting the year at approximately US$921/ton and ending at US$925/ton, while the range was between US$918/ton and US$940/ton. The DWP price was supported by high paper pulp prices, but additional VSF capacity led to pressure from weak pricing in the VSF market. We expect prices for DWP to trade at fairly similar levels throughout 2019 as these market forces are expected to continue.

DWP demand is expected to continue to grow, and we strive to serve our customers with unmatched quality, consistency and scale. The long-term market fundamentals for DWP are very attractive. Our competitive and geographic positioning, long-term relationships with key customers, sustainably managed plantations and forests and reputation in the market as a reliable partner provides Sappi with the ideal platform to differentiate and grow the DWP business further.

Product review *continued*



Specialities and packaging papers

Through this year's acquisition and conversion projects, we are investing in the sustainable future of our business.

Specialities and packaging papers

Both legislative changes and consumer preference for more sustainable packaging are driving the growth in demand for our specialities and packaging papers.

The evolution of our focus from printing and writing papers toward specialities and packaging papers is derived from the suitability of many of our printing and writing paper machines for conversion to packaging papers that require some form of coating. Ahead of commissioning the various conversion projects, we carefully analysed our assets, specifically their production capabilities for specialities and packaging papers, and how those capabilities matched their expected cost of production, the cost to serve customers, historical demand growth, forecasts for the future, as well as competitive threats—choosing only those mills/products/projects where we believed we held a significant advantage. Two conversion projects were completed this year and the response from customers has been positive.

Specialities and packaging papers 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.

In 2018, 19% of Sappi's sales were specialities and packaging papers, up from 16% last year.

Sappi offers products and solutions in many different segments including:

Flexible packaging can be coated or uncoated, for food and non-food applications, such as sachets, pouches and wrappers.

Label papers for pressure-sensitive applications as well as for wet glue and wet strength labels.

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 boxboard for luxury packaging with more graphic applications. Packaging for cosmetic, perfume, confectionery and premium beverages use our products.

Silicone base papers and glassine papers for self-adhesive applications, such as graphic art applications with outdoor advertisements, adhesive tapes and office materials.

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.

Dye sublimation papers, a coated sublimation paper for digital transfer printing with water based dye sublimation inks. Designed for the transfer of an image onto various polyester materials, such as banners, flags, snowboards, gadgets, (mugs, mouse pads, etc) apparel and home textiles.

Inkjet papers for large format inkjet printing. Posters, for indoor/outdoor applications, and technical printing in the construction industry (CAD/Engineering).

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

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 to be 3% to 6% per year across the spectrum of our products. We manufacture from a suite of machines within Europe, North America and Southern Africa, ensuring scale based efficiencies and security of supply.

Our Southern African operations mainly focus on the local containerboard market. We have traditionally supplied the agricultural sector with cartonboard to protect fresh produce as it is shipped from farms to tables locally and around the world. Our North American operations currently make functional packaging papers, label papers, and more recently with the Somerset Mill conversion, paperboard for folding cartons. Our paperboard is sold to converters who then print, laminate, cut and prefold the paperboard before transporting to packagers. Examples include perfume boxes, toys, and other fast-moving consumer goods. The focus of our European operations in this segment is much more diverse, and niche. Our portfolio has higher levels of specialisation and customisation than most other speciality paper producers. We are capable of engineering specific products for specific customers, particularly those who want more than just a package. We are capable of coating paper to give the paper functionality that was previously unavailable; such as moisture controls, oxygen barriers, grease resistant barriers, vapour barriers, etc. Our European operations are ideally located in a part of the world leading the 'paper-for-plastic' packaging movement. In May 2018, the European Union (EU) introduced new rules to reduce marine litter by banning certain single-use plastic items, like cutlery, straws, and drink stirrers, alongside a measure which holds those plastic producers responsible for the cost of cleaning these items from EU beaches. The industry will also be given incentives to develop less polluting alternatives for these products. So with this comprehensive product range on three continents, R&D centres in each region sharing best practices and new findings from new customers, our customers can expect reliability of supply from a broad geographic footprint, and a leader in innovation within the sector.

Our markets in 2018 and outlook for 2019

In 2018, the EBITDA contribution from our specialities and packaging papers to the Sappi group was approximately 18%. Part of our 2020Vision goals are to expand and grow our specialities and packaging papers segment to 25% of group EBITDA. To that end, in 2018, Sappi acquired the Cham Paper Group, (CPG) a Swiss-based speciality paper producer, and completed two conversion projects with the aim of growing into these adjacent markets that exhibit good demand growth and higher average margins.

The acquisition of CPG supports our diversification strategy by adding three new paper grades under the Sappi portfolio which broadens our offering to customers and earning greater share of wallet with valued brand owners. These new products increase our relevance to more customers, enabling us to bundle both volumes and customer service, providing economies of scale and synergies. We plan to take advantage of our larger research and development team to accelerate innovation and new product development in a very competitive European market.

Two conversion projects and a machine upgrade were completed this year with the aim of matching supply and demand in the printing and writing paper markets, as well as in the specialities and packaging papers markets. Before our conversion this year, the paper machine at our Maastricht Mill made approximately 280,000 tons of coated woodfree paper per year. With the project completed, we expect to ramp up over three years to approximately 150,000 tons of folding boxboard at the Maastricht Mill, with the balance of the capacity on the machine dedicated to coated woodfree paper. The machine upgrade at our Ehingen Mill has enabled us to expand our white topliner offering from that mill. The conversion of PM1 at the Somerset Mill was completed in our third quarter, and although the project was delayed and costs overran, we are very satisfied with the quality paperboard grades being produced on that machine. Our plans call for a three-year ramp up in paperboard volumes towards the capacity of 350,000 tons per year. As orders for paperboard grow, we will continue to fill the machine with legacy coated woodfree paper as we match supply to demand in both grades. Taken together, over three years, our plans call for an additional 560,000 tons of paperboard, folding boxboard, white topliner and a number of other speciality papers while we reduce our overall exposure to the coated woodfree market by approximately 350,000 tons.

In 2018, volumes from our specialities and packaging papers segment were 30% higher than last year, much of the increase coming from the inclusion of the newly acquired CPG mills for seven months of the year. EBITDA contribution to the group rose from 15% last year to 18% in 2018. In 2019, with CPG fully integrated, and the conversions ramping up, our goal this year is to grow our volumes and customer base in all regions. These actions provide the basis to progress toward our 2020 targets.

performance during the year

Product review

Printing and writing papers

Before customers ever read content or recognise a logo, they've come to a conclusion about the brand.

The science of touch, or haptics, tells us that the experiences of holding something, like coated paper, leaves a powerful and lasting impression. In a sense, they're holding a brand in their hands, triggering a reaction that causes the body to form a deeper connection. In fact, customers remember content read on high-quality coated paper three times better than content they read online. The geographic spread of our operations provides the ability to optimise global knowledge of market developments, operational best practices, and technology.

Our markets in 2018 and outlook for 2019

Demand drivers, such as direct mailings, catalogues, magazines, and commercial printing are all believed to be in fairly consistent decline in most regions of the world. Because part of our strategy is to continuously balance market supply with that of market demand, we undertook and completed several conversion or upgrade projects this year to reduce our exposure to coated woodfree paper, where demand is declining, while expanding our presence in the specialities and packaging papers markets in the USA and Europe, where demand is growing. We completed two such projects in Europe this year, one a conversion project at Maastricht Mill and one a machine upgrade project at Ehingen Mill, in addition to the conversion of PM1 at Somerset Mill in the USA. Over three years, our plans call for an additional 570,000 tons of paperboard, folding boxboard, white-top liner and a number of other speciality paper products, while reducing our overall exposure to the printing and writing papers market by approximately 350,000 tons. We aim to maximise the significant cash flow generation of our existing printing and writing paper assets, continuously improve our cost position, and maximise the utilisation of our best-in-class production assets.

Volumes from the segment were 3% lower this year relative to last due to the aforementioned projects. Sales values, however, were 7% higher as market prices rose throughout the year. Our EBITDA margin was slightly higher this year at 8.8%. Average prices realised per ton were 12% higher than last year, slightly outpacing our realised cost per ton, which rose 11%, mainly due to purchased pulp.

In 2019, we expect to sell lower volumes of printing and writing papers as we ramp up the production of specialities and packaging papers from the converted machines. Displaced coated woodfree orders from the Maastricht and Ehingen Mills are expected to gradually fill capacity at our Lanaken Mill, which currently produces coated mechanical paper, and which will be converted by our third financial quarter to give it the capability to additionally produce coated woodfree paper. At our Somerset Mill, and in line with our strategy, we aim to increase our paperboard volumes on the newly converted PM1 while maximising up-time with orders for coated woodfree paper. Over the next three years, we aim to balance supply and demand in both markets as demand for coated woodfree declines, and demand for paperboard continues to grow. We expect both costs and sales prices to remain elevated.

In 2018, 61% of Sappi's sales were in four different grades of printing and writing papers discussed on the following pages:

Coated woodfree paper
Share of sales: 44%

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. We manufacture coated woodfree paper in our North American and European businesses, but sell to customers all over the world. In 2018, 44% of Sappi's sales were in this segment, typically through large paper merchants.

Demand trends: As demand for coated paper depends largely on advertising, we've seen a decline in spend for printed materials. However, we believe there will always be a place for paper within the marketing mix. Globally, demand for coated woodfree paper is forecast to decline 2% for the next several years, from approximately 23 million tons in 2018 to approximately 21 million tons by 2022.

Sales: Sappi's net revenue from coated woodfree paper was 6% greater than last year as prices in our major markets rose throughout the year. Sales volumes declined approximately 5% in 2018, due to conversion projects we undertook to grow our specialities and packaging papers business. Globally, demand for coated woodfree paper declined by approximately 4%.

Coated mechanical paper
Share of sales: 11%

Coated mechanical paper is primarily used in magazines, catalogues, newspaper inserts and other advertising materials. In 2018, 11% of Sappi's sales constituted coated mechanical paper, all coming from our European business. Customers for this paper are typically large paper merchants, commercial printers and publishers of weekly and/or monthly magazine titles.

Demand trends: Demand for coated mechanical paper is more closely linked to that of demand for magazines. Readership, subscriptions, circulation, pagination and advertising revenue per page continue to decrease in larger markets as consumers opt for digital formats. Demand for this type of paper is forecast to decline more rapidly than for coated woodfree paper in the years to come.

Sales: Sappi's net revenue from coated mechanical paper was 14% higher than last year, due to higher volumes and selling prices. Volumes were approximately 5% greater than 2017 due to tight trading conditions in adjacent grades. The global market contracted by approximately 3%.

Uncoated woodfree paper
Share of sales: 5%

Uncoated woodfree paper is used in letterhead, business stationery, photocopy paper, with certain brands sold to converters for books, brochures, envelopes, pamphlets and magazines. Sappi makes and sells uncoated woodfree paper in our European and Southern African businesses. In 2018, 5% of Sappi's sales were made up of uncoated woodfree paper. Our main customers in this sector are paper merchants and converters.

Demand trends: Demand for uncoated woodfree paper is expected to remain flat over the next several years. Like most printing and writing papers, demand continues to decline in mature markets, with small growth coming from emerging markets.

Sales: Our net revenue from uncoated woodfree paper was 13% higher than last year, as a result of increased volumes and prices in Southern Africa. Globally, demand was relatively stable this financial year, with a modest decline of 0.5%.

Newsprint
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. We manufacture and sell newsprint from our South African business.

Demand trends: Demand for newsprint principally is derived from newspaper circulation and overall retail advertising. Newspaper readership is declining around the world. Publishers are consolidating, while some titles have closed. Pockets of growth exist in ad-financed daily newspapers typically found in large metropolitan cities.

Sales: Though demand for newsprint continues to decline at a global level, our newsprint volumes were 5% higher in 2018 relative to last year, due to a machine closure by a competitor in the South African market last year.

Our key relationships

17 PARTNERSHIPS FOR THE GOALS

Strengthen the means of implementation and revitalise the global partnership for sustainable development.

We view stakeholder engagement not as a once-off annual intervention but as an ongoing dynamic process which enables us to respond to the changing nature of shared priorities of parties who are interested in, and affected by, our business.

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

- **Materiality** – identifying the legitimate interests and material concerns of stakeholder groupings
- **Relevance** – focusing on those issues of legitimate and 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 legitimate and 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 stakeholder work is aligned to the governance outcomes of the King IV Code, namely ethical culture, performance and value creation, adequate and effective control and trust, good reputation and legitimacy.

Employees

We invest in future talent while challenging our people so that they are able to leverage the opportunities presented by global megatrends.

Shared priorities	Our response
• Making resources available to enable our people to grow intellectually, fulfil their potential and drive innovation within Sappi	• Training targets and initiatives are aligned with the needs of each region (see our **Group Sustainability Report** on www.sappi.com/sustainability)
• Creating an ethical culture	• Code of Ethics communication and training is ongoing in all regions (see page 14)
• Connecting our people to our strategic goals	• Employee engagement held every two years measures engagement levels
• Focusing on safety, health, wellness and recognition programmes	• All our people are involved in our safety drive, recognition programme at group and regional level
• Promoting corporate citizenship	• Eco-effectiveness campaign in Sappi Europe highlights how we generate results to make our business more sustainable
• Encouraging employee volunteerism through initiatives like:	**SEU:** Support of various local education, cultural and environmental projects based on annual requests and identified needs **SNA:** The Employee Ideas that Matter initiative through which we provide grants to employees to fund their individual projects to support good in local communities **SSA:** Employee Wellbeing Committees at each mill support local community projects and also support Mandela Day

Value add of engagement

- Employees who understand and buy into our 2020Vision 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 establish a base of the technical skills needed by the industry
- An increased commitment to safety delivers benefits at personal, team and operational levels
- By establishing an ethical culture where corporate citizenship is promoted, we ensure the ongoing viability of our business, enhance reputation and become an employer of choice

Unions

Given today's extremely 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.

Shared priorities	Our response
• Freedom of association and collective bargaining	• We recognise the rights of our employees to associate freely and bargain collectively, consistent with regional laws and regulations
• Safety and wellness initiatives	• Unions are involved in health and safety committees at each mill
• Remuneration, working hours and other conditions of service	**SEU:** Collective labour agreements **SNA:** Collective bargaining with hourly paid employees and labour agreements with various unions **SSA:** Employees (collective bargaining); forestry workers (sectoral determination/ consultation)
• Resolution of grievances • Engagement on strategy	• Well-established grievance channels and disciplinary procedures • Engage with unions on economic conditions, market dynamics and growth plans

Value add of engagement

Meaningful engagement on a number of issues affecting both business and employees results in:
- Improved relationships
- More stable labour force and productivity, and
- Enhanced productivity

Communities

We work to incorporate the communities close to our operations into our journey of intentional evolution, which recognises the importance of sharing value with all our stakeholders; conserving natural resources and uplifting people so that they are well positioned to thrive in our increasingly inter-connected world. We launched a new Corporate Citizenship Policy in 2018.

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 South Africa, there are local farmer and community forums related to our forestry communities.

Our initiatives are described in more detail in our **Group Sustainability Report** on www.sappi.com/sustainability.

Shared priorities	Our response
Community support including employment, job creation, 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	**SEU:** Mills offer support and financial sponsorships to local schools, sport and hobby clubs, forest products industry students, local safety/environmental organisations and also support local charities **SNA:** • Each business unit has a lead sustainability ambassador who is 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 • Our employees support initiatives like Living Lands and Waters and the Charles River Watershed Association focused on environmental stewardship and education • The Ideas that Matter programme continues to recognise and reward designers who support good causes • The Printer of the Year awards recognise excellence in print **SSA:** Given South Africa's significant development needs, community support is mainly focused in this region and includes: • Sappi Khulisa, our enterprise development scheme (see page 59) • The Abashintshi programme (see page 53) • Early Childhood Development • Education, including Khulisa Ulwazi, our training centre for small growers and two training centres for local unemployed youth, one at Saiccor Mill and the other at Ngodwana Mill • Support for local tourism through our mountain biking sponsorships and promotion of recreational riding on Sappi land

Value add of engagement
- Enhances our licence to operate
- Promotes socio-economic development which could in the long term, lead to increased demand for our products
- Initiates real social mobilisation and change for the better

Customers

We adopt a partnership approach, whereby we develop long-term relationships with global, regional and local customers. We also accommodate more transactional customers. Where relevant, we will conduct R&D and develop products to suit customers' specific needs.

In addition to the usual avenues of engagement, we engage through initiatives like the Sappi Football Cup, now in its eighth year (SEU); Printer of the Year (SNA) and by sponsoring the Citrus Research Symposium (SSA).

Shared priorities	Our response
New or enhanced products that meet rapidly changing market demand	In 2018 we branded our dissolving wood pulp (DWP) range as Verve and launched: • Sappi Seal • New packaging grades Spectro C1S and Proto Litho C1S • Fusion Uncoated – a white topliner • Fashion White and Fashion White OF for shopping bags • Atelier, a folding boxboard (see page 45) We also established Sappi Digital Solutions, focused on the dye sublimation papers market
Support in terms of paper, packaging, DWP and sustainability goals	In terms of DWP, technical centres of excellence are located at Saiccor and Cloquet Mills Customers can make use of the competence centre for speciality papers and paper laboratory at Alfeld Mill In North America, the Sustainability Customer Council provides candid feedback, identifies emerging issues and helps to establish goals
Information and campaigns to promote print as a communication medium and encouraging the use of packaging	In 2018, SNA launched • True or False – an informative guide about coated and uncoated paper myths and facts • The Five Second Rule a promotional resource focused on direct mail We showcased our brands at Fach Pack (where we launched Atelier); LUXE PACK, SGIA, FESPA Berlin, HOW Design Live Globally, we continue to participate in industry initiatives like TwoSides
Information about the fibre sourcing and production processes behind our brands	At the request of our customers, we participate in EcoVadis and Sedex In Europe and Southern Africa, we publish paper profiles and information sheets for our papers In North America, we use GreenBlue's Environmental Performance Assessment Tool (EPAT) which enables buyers to evaluate our performance on a mill-by-mill basis
Provision of technical information	Globally, a series of technical brochures is available on our website www.sappi.com **SEU:** The Sappi Houston online knowledge platform **SNA:** • The newly launched POP site is aimed at marketers, creatives, designers and printers looking to innovate in their categories (www.sappipops.com) • Sappi etc is an educational platform for designers and printers (www.sappi.com/sappietc) **SSA:** Our paper and paper pulp product offerings are supported by strong technical teams at each mill and the Technology Centre in Pretoria

Value add of engagement

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

Industry bodies and business

We partner with industry and business bodies 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 promoting the use of our products.

Sappi has been a signatory to the UN Global Compact since 2008.

Shared priorities	Our response
• Issues that affect the sustainability of our industry—woodfibre base, carbon taxes, energy and emissions etc • Ethical issues impacting business • 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	In 2018, we: • Became a founding partner of the University of Cambridge Institute for Sustainability Leadership's (CISL) Prince of Wales Global Sustainability Fellowship Programme. Work here will include examining drivers including the rise of artificial intelligence and the need to bring carbon emissions to net zero (see page 49) • **SEU:** – Continued to actively contribute to the development of an industry standard for delivery of chemical information through the paper and pulp supply chain by chairing the consortium's working group – Continued to participate in work related to deep eutectic solvents' within the Biobased Industries Initiative, with the goal of significantly reducing CO_2 emissions in pulp and papermaking • **SNA:** – Joined the Recycling Partnership as a funding partner – Active board-level participant in the Paper and Packaging Board • **SSA:** – Under the PEFC, Sappi Forests helped to finalise the South African Forest Assurance Scheme (SAFAS) standard – Joined the South African Ethics Institute to benefit from the various activities and materials they provide to members in advancing ethical behaviour – Signed the Business Leadership South Africa Integrity Pledge, thereby committing ourselves to actively combating corrupt practices wherever encountered, preventing anti-competitive behaviour, adopting a zero-tolerance approach to corrupt behaviour and protecting whistle-blowers.

Value add of engagement

- Work with industry and business associations through collective initiatives to support societal change and deal with societal challenges
- Promote an ethical culture
- 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 membership of industry associations

Sappi Limited: TAPPI (the Technical Association of the Pulp and Paper Industry) • Business Leadership South Africa • The CEO Initiative

SEU: Confederation of European Paper Industries (CEPI) • Eurograph • European Joint Undertaking on Bio-based Industries • Print Power • Save Food • 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

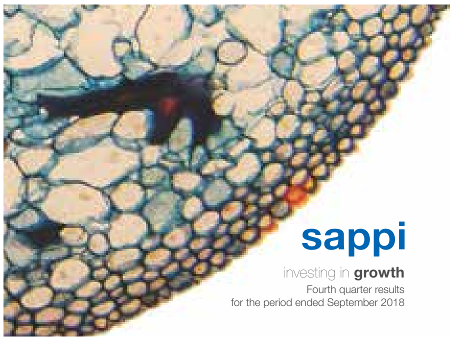
SNA: American Forests and Paper Association (AF&PA) • Paper and Paper Packaging Board • Agenda 2020 Technology Alliance • Forest Products Working Group • Forest Stewardship Council® (FSC®)• Sustainable Packaging Coalition (SPC) • The Recycling Partnership • TwoSides

SSA: Business Unity 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) • Recycle Paper ZA• Printing SA (PIFSA) • Manufacturing Circle • South African Chamber of Commerce and Industry (SACCI) and local chambers of commerce and industry • TwoSides • National Business Initiative (NBI)

Sappi Forests: Institute for Commercial Forestry Research (ICFR) • Founding member of the Tree Protection Co-operative Programme (TPCP) • BiCEP (Biological Control of Eucalyptus Pests) (http://bicep.net.au) • Eucalyptus Genome Network (EUCAGEN) • CAMCORE

Investors

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



Shared priorities	Our response
• Information on Sappi's strategy • Return on investment • Transparent information about risks, opportunities and environmental, social and governance (ESG) performance	• Our investor relations (IR) team engages with shareholders and analysts on an ongoing basis. Our chairman also engages with shareholders on relevant issues • We engage with various ratings agencies, particularly in terms of ESG performance • We conduct ad hoc mill visits and road shows, and issue announcements through Stock Exchange News Services (SENS), in the press and on our website (www.sappi.com) • We publish our Annual Integrated Report and Group 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

Value add of engagement

- Understanding of our strategic direction
- Enhanced reputation
- Greater investment confidence
- Broader licence to invest

Suppliers and contractors

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.

Shared priorities	Our response
• Safety • Transparency	Given our focus on zero harm in the workplace, we work with our contractors to ensure that they follow Sappi's safety systems. In South Africa, Sappi Forests worked closely with contractors and their workers to develop and implement its innovative 'Stop and Think before you Act' programme
• Increased value and decreased costs, security of fibre supply, certification, income generation and job creation	Shortly after year-end we adopted an updated Supplier Code of Conduct **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 Maine Forestry Programme and the Sappi Lake State Private Forest Programme assist 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 and providing an extensive network of environmental and marketing resources **SSA:** Qualified extension officers provide growers in our Sappi Khulisa enterprise development scheme with ongoing growing advice and practical assistance

Value add of engagement

- Security of woodfibre supply
- Improved supplier relations
- Better understanding of the requirements of the Sappi group
- Expanded basket of certified fibre
- Support for local economic development
- Support for emerging supplier/contractor development

See **Group Sustainability Report** on www.sappi.com/sustainability for more detailed information about out stakeholder relationships.

Civil society (and media)

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. We engage with civil society organisations on issues of mutual interest and belong to key organisations relevant to our operations.

We engage with various civil society groups regarding our societal and development impact.

In Europe and North America, close engagement is maintained directly and through the respective industry bodies CEPI and AF&PA with the FSC® and WWF International. In Europe also 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 South Africa, Sappi is a member of the local WWF organisation as well as FSC.

Shared priorities	Our response
• Business developments • The future of our industry • Our impacts on our communities • Protecting the environment	• 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 terms of civil society, in South Africa, 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 African Honey Bee project on our plantations (See **SSA Sustainability Report** on www.sappi.com/sustainability)

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

Government and regulatory bodies

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.

Shared priorities	Our response
• 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 • Increased investment	• Consultations take place on an ongoing basis with government departments and regulatory bodies in each region. In Europe we also regularly engage with the European Commission • We undertake briefings to legislators • We support specific government initiatives, including in South Africa the renewable energy push—our biomass project at Ngodwana Mill achieved regulatory approval and financial close (see page 83) and our group CEO participated in and made commitments at the investment conference hosted by the South African President

Value add of engagement
- Promote understanding of issues and challenges
- Help governments to understand the strategic value of our industry
- More receptive regulatory and policy environment

Our global 2020 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 2018, together with commentary, is set out below.

Prosperity

Global target	2014 base	2018 performance	2018 compared to 2014 baseline	2020 goal
ROCE	10.8%	14.6%	35.19% improvement	12% ROCE minimum

The 35.19% improvement in ROCE compared with the 2014 base year reflects the ongoing successful implementation of our One Sappi strategy and 2020Vision.

People

Global target	2014 base	2018 performance	2018 compared to 2014 baseline	2020 goal
LTIFR (combined own and contractor employees)	0.53	0.43	18.8% improvement	Target zero LTIFR with minimum 10% improvement year-on-year
Sustainable engagement – increase level of survey participation	Not measured (2015: 74%)	Not measured (2017: 85%)	15% improvement	Maintain or improve

Safety: Globally, despite the overall improvement in own LTIFR, safety performance was highly disappointing, with one fatality in Europe and one in Southern Africa.

Sustainable engagement: The high rate of participation (85%) in our latest engagement survey gives us confidence we will achieve our 2020 goal.

Planet

Global target	2014 base	2018 performance	2018 compared to 2014 baseline	2020 goal
Energy intensity	22.66 GJ/adt	22.38 GJ/adt	1.24% improvement	5% improvement over the period
Certified fibre	79%	75.2%	4.81% decline	Maintain or improve percentage

Energy intensity: Our ongoing efficiency improvement projects continue to reduce energy intensity.

Certified fibre: The amount of certified fibre procured (2017: 73.5%) year-on-year increased across all regions.

Sappi and the United Nations Sustainable Development Goals at a glance

We work to integrate the principles and aspirations of the United Nations Sustainable Development Goals (SDGs) into our everyday business activities.

- Hotlines in each region
- Reporting on calls and outcomes
- Ongoing Code of Ethics awareness and training programmes
- Partnerships with institutions – eg Business Leadership SA
- Transparent supply chain – new Supplier Code of Conduct

- Development promoted throughout the value chain in rural areas in each region where we operate
- Inclusive culture
- Salaries in accordance with, or exceed the minimum wage
- Freedom of association
- Ongoing corporate social responsibility investment to drive shared value
- SSA:
  - Poverty Stoplight implemented in communities
  - Development of local SMMEs and local suppliers

- Project Zero safety drive
- *'Own Safety Share Safety'* theme
- Health and wellbeing programmes at all operations
- Community health initiatives
- Reducing emissions

- High levels of certification
- One third of landholdings
- Managed for biodiversity conservation
- Provision of extensive ecosystem services
- Ongoing forestry research

- Internal and external skills development
- Support for external training and scholarship programmes
- SSA: Sponsorship of Programme for Technological Careers centres and a digital resource centre
  - Early Childhood Development
  - Skills Centres at Saiccor and Ngodwana Mills
  - Training centre for small growers for small growers

- Forests and plantations from which we source woodfibre – carbon sequestration
- High levels of renewable energy generated – more environmentally friendly than fossil fuel based energy
- Lighter weight packaging products – lower carbon footprint
- New capex investments reduce environmental impact

- 95% of water extracted returned to the environment
- Water and sanitation upliftment programmes in Southern Africa
- Focused riparian management on owned and leased landholdings
- Plantations are not irrigated

- Renewable raw materials sourced from responsible managed and certified sources
- Provide smallholders with market opportunities and management assistance
- Raw materials do not compete with food production
- Renewable, recyclable products offer consumers an alternative to fossil fuel based packaging

- Ongoing investment in R&D
- Partnerships with various research institutions
- Founding partner of programme at CISL – artificial intelligence and block chain technology
- Research work on deep-eutectic solvents

- Focus on bio-energy – biomass plant at Ngodwana Mill
- Co-generation at mills enhances energy efficiency

Our key material issues

The issues set out on the following pages are those that we believe underpin our strategic risks and opportunities and have the highest potential impact—positive and negative—on stakeholder value.

Governance

Related SDGs

16 PEACE AND JUSTICE STRONG INSTITUTIONS

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

17 PARTNERSHIPS FOR THE GOALS

Strengthen the means of implementation and revitalise the global partnership for sustainable development

Key material issue

Ethical behaviour and corruption

Background

In South Africa, in particular, various incidents in state-owned enterprises and private and public entities have led to outrage and criticism at the lack of governance and ethical leadership at all levels of our society.

Our response

Code of Ethics

Sappi's high premium on adherence to ethical behaviour is entrenched in our Code of Ethics (Code). In addition to training all new employees during induction, we conduct ongoing awareness training. In the past year this included online or in-person awareness training on various topics covered in the Code. These ranged from dawn raid awareness to the protection of personal information. In addition, all relevant new employees in all regions were trained on anti-fraud and corruption as well as Competition Law.

Regretfully, notwithstanding these training initiatives, there were breaches of the Code. We have investigated these incidents with the assistance of internal audit and/or external advisers, addressed the issues and where required, taken steps to seriously sanction the underlying relationships—an indication of the seriousness with which we view these transgressions.

Sappi continues to provide avenues to stakeholders to communicate breaches or apparent breaches of the Code either through hotlines or via email (ethics@sappi.com). All complaints are registered and investigated by Sappi's internal audit and then reported into the Audit and Risk Committee on a quarterly basis. (See page 101.)

During March 2019, we will once again be rolling out the engagement survey, part of which tests values and ethical leadership as perceived by employees. The results in this area will be a useful guide to understanding the culture of ethical behaviour and conduct in Sappi and where improvements can be made.

We are also in the process of rolling out a Supplier Code of Conduct which calls on suppliers to commit to ethical behaviour, human rights, health and safety, diversity and equal opportunity and environmental awareness.

KPMG

In 2017, we reported that our auditors, KPMG South Africa, had been implicated in allegations related to patronage and corruption at other clients which caused us to reassess their provision of services to Sappi. We have engaged with KPMG International in this regard and are satisfied that more stringent checks and balances have been established which will prevent a reoccurrence of incidents of a similar nature.

Value impact

- Greater understanding of the 'One Sappi' approach to ethics and human rights
- More stable and sustainable business

Prosperity
Related SDGs

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Ensure sustainable consumption and production patterns

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

Key material issue

See R 3 on page 61 and T on page 40.

Ongoing investment and cost containment

Background

Ongoing investment and cost containment are strategic pillars of competitive advantage.

Our response

We continued to make significant investments in line with our 2020Vision, the aims of which include diversifying group EBITDA by remaining an industry leader in printing and writing papers manufacturing; expanding specialities and packaging papers and growing dissolving wood pulp (DWP) capacity.

Ongoing investment

- We completed a capital investment at Cloquet Mill to replace the headbox on PM12. This investment enabled the mill to maintain capacity by adding a state-of-the-art, dilution profiled headbox—the part of the paper machine responsible for spreading the pulp fibres evenly to form the sheet—that produces excellent basis weight profiles.
- In September 2018, we announced the completion of a year-long rebuild of PM1 at Somerset Mill to increase the mill's annual production capacity to almost one million tons per year. The rebuild has enabled the launch of new paperboard grades (See **New products** on page 45) which provide luxury packaging and folding carton applications that complement our existing speciality packaging products. We also completed the modernisation of Somerset Mill's woodyard.
- We advanced our work in increasing chipping capacity and modernising the Saiccor Mill woodyard. The new equipment for the woodyard is scheduled to be delivered and installed at the end of 2018, with start-up planned in 2019. The woodyard investments will result in cost, quality, environmental and efficiency benefits to Saiccor Mill and is also a major step towards preparing the mill to expand further.
- We also completed the rebuild of the PM6 at Maastricht Mill. This involved the installation of a new three-layer headbox and metal belt calender. This has facilitated improved board surface quality and reduced costs.

Going forward, investment plans include:
- A €30 million upgrade of PM9 at Gratkorn Mill. The upgrade at this mill, due for completion in 2019, will optimise raw materials to reduce production costs and will also result in reduced energy demand.
- At Lanaken Mill, the PM8 will be rebuilt to support our coated woodfree paper business.
- An investment at Alfeld Mill will add speciality paper capacity of up to 10,000 tons.
- A debottlenecking project at Cloquet Mill, due for completion in 2019, will increase DWP production by around 30,000 tons.
- Significant investment plans in Southern Africa which are described in further detail on page 16.

Cost containment

We work to lower fixed and variable costs, increase cost efficiencies and invest for cost advantages. Building on the global procurement and efficiency savings drive launched in 2016 whereby we achieved US$57 million more in savings than target three years ahead of schedule, in 2018 we achieved an additional US$81 million in group efficiency and procurement initiatives.

We achieved upgrades at Maastricht and Ehingen Mills on time and within budget. However, capital costs and timing overran at Somerset Mill, negatively impacting production volumes. We also experienced delayed start-ups at both Ngodwana and Saiccor Mills post machine upgrades.

Key material issues *continued*

We have analysed the reasons behind the costs and timing overruns and implemented a strategy to ensure that these issues will not be repeated.

Value impact

- Delayed project execution impacted on volumes and income
- Ongoing investment and cost containment increase investor value
- Continuous improvement enhances our competitive position
- Investments at key mills/machines lower costs, support our existing position in printing and writing papers and establish a strong platform for growth in paperboard packaging
- Investments have added to the diversification of our packaging line to meet a variety of needs

Key material issue

See R 4 on page 62.

Growth in the specialities and packaging papers sector

Background

Growing concerns about the negative impacts of fossil-fuel based packaging, in particular its impact on the world's oceans, have resulted in bans on single-use plastics in many countries around the world. At the 2018 World Economic Annual Forum in Davos, 11 industry leaders committed to 100% recyclable packaging by 2025. This is driving demand for paper based packaging, which is set to intensify going forward.

Our response

We significantly expanded our specialities and packaging papers capacity in 2018, as set out below:

Cham Paper Group

We concluded the acquisition of the speciality paper business of Cham Paper Group Holding AG (CPG). The transaction includes the acquisition of CPG's Carmignano and Condino Mills (Italy) and its digital imaging business located in Cham (Switzerland), as well as all brands and know-how. Significantly, the acquisition has added 160,000 tons of speciality paper to our capacity, supporting our diversification strategy and 2020Vision to grow in higher margin growth segments. In terms of financial impact, the acquisition will add €183 million of sales and approximately €20 million of EBITDA before taking synergies into account.

Sappi Digital Solutions, formed by the acquisition of CPG was established at the beginning of 2018. The business unit's broad portfolio of dye sublimation papers supports many industries in their quest to meet demand for individualisation and speed to market.

The CPG acquisition has enabled us to:

- Increase our relevance in speciality papers, opening up new customers and markets to Sappi's existing products and generating economies of scale and synergies
- Gain greater share-of-wallet with valued brand owners, thereby accelerating innovation and new product development
- Improve near-term profitability and serve as platform for organic growth and further acquisitions
- Build on the investments currently underway to increase speciality paper capacity at our Somerset, Maastricht and Alfeld Mills, and
- Unlock the growth potential of the CPG speciality paper business.

The value-add of the CPG acquisition to our business was highlighted when we presented solutions in the fields of dye sublimation papers, inkjet papers, silicone base papers and containerboard at the FESPA Berlin. FESPA is a global federation of 37 national associations for the screen, digital and textile printing industries.

Here, in addition to our specialities and packaging papers, we showed Transjet dye sublimation transfer papers for textiles previously marketed by CPG, along with a line of wide format inkjet papers. We also showed tear-resistant Scrolljet wide format inkjet paper at the show. This 100% recyclable speciality paper is suitable for use with solvent, UV-curable and latex inks. Its special surface treatment ensures brilliant colour results that provide exceptional luminosity for front- and back-lit applications.

Value impact

- Expanded capacity strengthens our speciality paper business both in Europe and globally by combining CPG's strong brands and assets with Sappi's global reach
- Increases profitability and unlocks the significant growth and innovation potential inherent within the speciality paper market
- Helps us to realise our 2020Vision goal

New products

- Following the rebuild of the PM1 at Somerset Mill, we introduced the new packaging grades Spectro C1S and Proto Litho C1S. Spectro is a single-ply paperboard with enhanced optics, making it ideal for premium applications. End-use markets include luxury beverages, cosmetics and perfumes, health and beauty care, covers (books/magazines), greeting cards/folders/lottery, calendars, shopping bags, point of sale (POS) material, menus, direct mail, pharmaceutical, confectionery, fashion and lifestyle, as well as consumer electronics. Proto is a lightweight paperboard suitable for displays, mailing envelope, fashion and lifestyle, consumer electronics, beverage, food packaging, POS material and shelf-ready packaging.
- In 2016, Sappi was the first manufacturer to launch a packaging paper with integrated sealing functionality. This generated considerable market interest and has gradually been developed further, culminating in the launch of Seal. Designed to replace hot seal laminates made from plastic with materials containing a high proportion of renewable raw materials, Seal is single side coated. A dispersion coating on the reverse side makes it ideal for use as flexible standard packaging in the food and non-food sectors, where hot sealing properties are required. The market includes both primary packaging—sachets, and secondary packaging—flow-wraps for sweets, toys and do-it-yourself (DIY) goods.
- Based on the paper concept for our successful Fusion Topliner, we launched Fusion Uncoated. With a natural, uncoated surface, the product is an alternative to brown liner papers. Applications include inner packaging such as white corrugated board inserts for high-end perfume boxes as well as food packaging.
- We added to our shopping bag portfolio with Fashion White and Fashion White OF. Both these uncoated, machine finished grades feature high whiteness and offer good printability in a wide range of virgin fibre grades and grammages between 70 g/m² and 130 g/m². They are both ISEGA-certified for direct food contact and DIN EN71-certified for toy safety.
- Atelier, a premium folding boxboard available in weights from 220 g/m² to 350 g/m². With a brightness level of 100% on the top side, Atelier exceeds the current industry top value of around 92%. On the reverse side, Atelier offers a brightness factor of 98,5% to accommodate the increasing demand for printing on both sides of the board for added impact.

Value impact

- New products meet the needs of brand manufacturers and consumers looking for more environmentally friendly, lighter weight packaging
- Proto and Spectro enable greater product differentiation in a crowded marketplace
- Seal meets the needs of changing market dynamics by offering functionality and convenience
- Fusion Uncoated targets the high-volume corrugated board market
- Atelier folding boxboard introduces a completely unique concept to the paperboard market

Key material issue

See R 4 on page 62.

Growing demand for cellulosic based fibres

Background

While cellulosic based fibres are globally popular, Asia is the primary market for DWP. Rising urbanisation and higher standards of living in the greater Asian region are driving increasing demand for more comfortable clothing. This trend is set to continue, with the Asian middle-class population and attendant consumer consumption growing rapidly—accounting, by some estimates, for 43% of total global consumption by 2030. Research by Hawkins Wright shows the five-year outlook for DWP expanding at an average annual growth rate of 4.9%.

Demand for DWP could also increase in the short term, given China's imposition of increased tariffs on cotton imported from the USA.

Our response

Textiles are the primary market for our DWP, now branded as Verve, which is sold globally for use in viscose staple fibre (rayon) and solvent spun fibres (lyocell). We also supply smaller quantities into other DWP market segments.

Given tight supply in the DWP market and the limited new capacity in the medium term, we completed debottlenecking projects at Ngodwana and Saiccor Mills which have added 50,000 and 10,000 tons respectively. A further debottlenecking project at Cloquet Mill, due for completion in 2019, will increase DWP production by around 30,000 tons.

Looking ahead, we have started preparatory work under a project known as Vulindlela for the potential expansion of Saiccor Mill to add 110,000 tons of DWP capacity.

Key material issues *continued*

Value impact

- Capacity growth:
  - Entrenches long-established relationships with key customers
  - Establishes capacity to meet current and future demand
- Vulindlela:
  - Aligns with the South African government's investment drive
  - Will create significant job opportunities—during the peak period, there will be between 2,500 and 2,800 contractors working onsite at one time
  - Will result in CO_2 emissions halving and waste to landfill being reduced by 48%, SO_2 reducing by 35% and water use efficiency increasing by 17%

Key material issue

See R 7 on page 63.

Extracting maximum value from woodfibre in adjacent markets

Background

The world has moved away from a linear model of value creation that begins with extraction and concludes with end-of-life disposal to a more circular economy. One of the key focus areas of this approach is optimising resource yields.

Our response

In keeping with the approach outlined above, our aim is to extract more value from each tree and in doing so, move into adjacent markets in order to strengthen our overall core business model. The Sappi Biotech business unit, established in 2016, continued successfully to drive innovation and commercialisation in terms of biomaterials and biochemicals.

Hemicellulose sugars

In 2017 in partnership with Valmet, we commissioned a hemicellulose sugar extraction demonstration plant at Ngodwana Mill. After operating for 12 months to demonstrate the extraction of C5 sugars from DWP production, the plant exceeded all efficiency targets for cost, cycle time and yield.

We are now progressing the development of our biorefinery capacity with the construction of a demonstration plant to further scale up our novel Xylex technology—acquired in 2017—for the clean-up of the extracted sugars stream, to allow production of xylose, xylitol and furfural. A low-calorie sweetener, xylitol has positive dental properties and produces no insulin response, so is suitable for diabetics. Furfural is a versatile green industrial chemical derived from C5 sugars with a diverse range of derivatives.

The Xylex demonstration plant will be located adjacent to the existing sugars extraction plant at Ngodwana Mill, and will be commissioned in 2019. Pending successful results, we may construct commercial xylose, xylitol and furfural plants adjacent to our mills in North America and Southern Africa.

The combination of Sappi's operational excellence and the proposed co-location of the commercial plants at existing mill sites delivers strong integration synergies. In addition, the cost advantages offered by Sappi's scale and the Xylex technology give us a globally competitive cost base for C5 sugar extraction and beneficiation to xylose, xylitol and furfural.

Going forward, our strategic intent is to enter the xylitol value chain with a world-scale production plant. Furan markets are showing strong market pull for new investments due to growth as well as the phasing out of older and smaller unviable assets. Against this backdrop, sugars extraction from our DWP assets combined with our Xylex capabilities will allow us to pursue various partnerships in either the xylitol or furan chemistry value chains.

Value impact

- Valorisation of C5 sugars produced as a co-product of our DWP production, and from the lignin produced in our global pulp production
- Product offering of second-generation sugars does not impact food security
- Meaningful revenue from a new business segment

Lignin

Sappi Biotech offers Hansa and Collex, two lignin-based dispersants used extensively in the concrete industry as plasticisers, produced from our lignin sources in Europe and Southern Africa and sold to global markets.

Our Lignex product was initially launched at Tugela Mill in 2012. Lignex is used as an effective wetting and binding agent to suppress dust and bind unpaved road surfaces, with many health, safety and cost benefits. It has been used extensively in the mining industry for several years and its benefits are now attracting a lot of interest in the agriculture and forestry sectors.

The focus of interest for the forestry industry is the use of Lignex to improve high traffic, unpaved plantation roads, timber depots and woodyards. Mixed into the road materials and/or sprayed onto the road surface it acts as a surfactant which gives excellent dust suppressant properties. The binding power of lignin also aids in binding the aggregate material together and sealing the road. This result in safer, more durable and longer lasting roads with reduced maintenance costs. There is strong interest in using the product in the citrus industry where dust contaminates the fruit, both in the orchards and around the packhouses.

Our Zewilex product is aimed at end-use applications in the resin industry, an area where research into lignin modification is an ongoing effort to meet performance and sustainability requirements of customers.

Currently, our research in the lignin area involves assessing the extraction of high value aromatic compounds from lignin using advanced chemical and technical processes for various end-use applications where the common theme is to offer brand owners renewable and sustainable alternatives.

Value impact

- As a co-product, lignin increases the value derived from trees and supports the core cellulose business

Valida nanocellulose

Valida is a lightweight, solid substance which is comprised of nano-sized fibrils—the high strength building blocks of cellulose fibres. At our pilot-scale Valida plant at the Brightlands Chemelot Campus in the Netherlands, we use woodpulp obtained from various accredited sources as feedstock.

Work progressed at the plant with the development of technology to produce dry redispersible nanocellulose. This high-quality product, which has been branded as Valida, is easily dispersed into a variety of matrices. Valida technology uses an environmentally friendly production process which is also compatible with the requirements of the targeted applications. While naturally hydrophilic, Valida can also be subjected to surface modification to suit hydrophobic applications. Valida is suitable for many applications, including:

- Biobased composites: Improves the mechanical properties of plastics, rubber, latex, thermosetting resins, soya protein and starch-based matrices
- Food: Used for thickening, stabilising and enhancing the texture of food
- Cosmetics: Acts as a powerful, natural rheology modifier in personal and home care products
- Paper: Improves paper strength
- Packaging: Enhances barrier properties on packaging materials to prolong food shelf life
- Medicine: Performs as an advanced excipient in medicines, thereby facilitating drug delivery and active ingredient release, and
- Paint and adhesives: Used for thickening and stabilising.

We are conducting third-party market development work with prominent global brand owners and technology institutions.

Value impact

Valida:

- Derived from cellulose, the most abundant polymer on earth, and a renewable resource
- Holds great potential in helping the world shift to materials that do not require fossil based fuels as feedstock
- Biocompatible and biodegradable

Symbio

Over many years, Sappi has developed advanced technologies to combine cellulose fibres with other polymers and materials with emphasis on both function and aesthetics. Symbio, developed in 2016, is a good example of where we have leveraged our fibre expertise to launch an innovative product.

Symbio is a cellulose fibre plastics composite combining up to 55% high quality cellulose from woodfibre and a polypropylene plastic material. Delivered as granules, it can be injection moulded and therefore deployed in various industrial sectors, including automotive, furniture, appliances and consumer electronics.

We are currently developing Symbio Vivid, an exciting new look and feel for uniquely coloured decorative plastic composites.

We are in discussions with automotive original equipment manufacturers (OEMs) regarding the use of Symbio in vehicle applications. The key benefits of Symbio lie in positive touch and feel (haptics), durability and lighter weight. The latter is particularly important in the drive to reduce carbon emissions.

Key material issues *continued*

Value impact

Symbio:
- Meets the need for lightweight products with strong environmental credentials
- Woodfibre used is FSC®- or PEFC™-certified
- Renewable resource to replace fossil-fuel based sources

Bio-energy

Biomass energy project

In 2018, Sappi Southern Africa reached financial close with the Department of Energy to build a renewable energy plant at Ngodwana Mill in Mpumalanga province. The project, whereby Sappi and consortium partners KC Africa and African Rainbow Energy and Power will establish a 25 MW biomass energy unit at the mill, falls under the South African government's Renewable Energy Independent Power Producer Programme (REIPPP).

Sappi will have a 30% stake in the facility, which is expected to contribute to the national grid from July 2020.

The project will use biomass recovered from surrounding plantations and screened waste material from the mill production process. The power plant will burn up to 35 tons per hour of biomass in a boiler to generate steam and drive a turbine to generate electricity which will be fed into the grid as from 2020.

Sappi already contributes to the national grid by selling surplus energy from Ngodwana Mill to the state power utility, Eskom.

With this project, Sappi has become one of only a few companies in South Africa to embark on a biomass energy project.

Fuel rods

Some 150 years of intensive coal mining in South Africa have produced about a billion tons of discarded thermal-grade coal fines.

To utilise this energy source, we constructed and tested a small fuel rod manufacturing plant at Ngodwana Mill. The fuel rods comprise a mixture of coal slurry, biomass and lignosulphonate, which can be used as a coal replacement. Initial fuel rod test results are positive and could lead to reduced greenhouse gas emissions when compared to low-grade coal.

Sappi has entered into a joint venture agreement with the Industrial Development Corporation (IDC) as a strategic equity and debt partner to provide the balance of the capital required for the demonstration plant.

The fuel rods will be tested in one of Sappi's boilers at Tugela Mill for a 12-month period. The demonstration facility will be upgraded if the test results are positive.

Value impact

Biomass energy:
- Catalyst for energy transition in South Africa
- Positive monetary, job creation and socio-economic impacts:
  - Financial impact: ZAR13 billion direct value add over 20 years
  - Project will employ 350 South Africans during construction
  - Biomass collection from surrounding plantations will result in 50 new jobs, and
  - Significant empowerment component

Fuel rods:
- Resolve an environmental issue
- Created enterprise development opportunities in areas where coal fines are located

Key material issue

See R 2,4,7 from page 61.

Investing in innovation

Background

The challenge for the pulp and paper industry is how to transform in order to meet the challenges of inclusive growth, industrial transformation and the circular economy.

Our response

Through our focus on innovation, we are developing ways of becoming much more effective tomorrow than we are today, both in our journey towards durable sustainability and the need for economic vitality and employment for future generations. We live in an age of hyper-innovation and we take responsibility for making it work positively in a number of different ways:

Cambridge Institute for Sustainability Leadership

In 2018, we announced a founding partnership with The Prince of Wales Global Sustainability Fellowship Programme at the Cambridge Institute for Sustainability Leadership (CISL). Together with other partners, we are funding research on Artificial Intelligence and bringing carbon emissions to net zero in the paper and pulp industry.

The three to five-year fellowships of which there are currently eight, will involve academics from around the world in identifying breakthrough solutions to meet the UN Sustainable Development Goals (SDGs).

The Sappi-supported Fellowship will focus on the UN SDG 9, which relates to industry and innovation. It aims to build on Sappi's current engagement with the CISL by investigating how trends of innovation and sustainability will come together to reshape the future of industry—looking at the paper and pulp industry as an initial example and examining drivers including the rise of artificial intelligence and the need to bring carbon emissions to net zero.

The CISL continues to support our work with the European industry in issues related to the Green Growth Platform. These include the development of a new low carbon pulp technology (deep eutectic solvents), exploring financing options to support industry's transformation and investigating block chain technology for timber certification. The latter would support risk assessment and Chain-of-Custody woodfibre audits from forest/plantation to retail shelf. Sappi is representing the paper industry in this project.

Value impact

- The Fellowship programme will deliver students with a profound knowledge and understanding of issues which will help drive new solutions for us and others, creating exciting opportunities far into the future

R&D

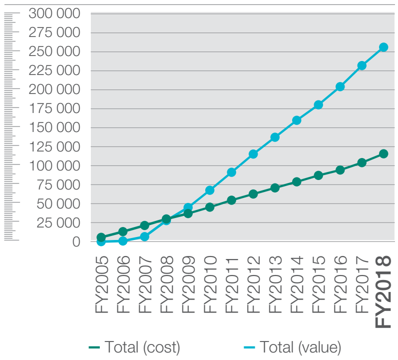
Technology is a core pillar of competitive advantage in our industry and represents a risk if we do not make ongoing technology investments. With a strong focus on innovation and R&D, Sappi is committed to developing new processes and biomaterials which extract more value from each tree and support our business strategy to move into new and adjacent markets.

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

Total R&D spend in 2018 increased significantly from US$29.5 million in 2017 to US$41.6 million. This includes spend of approximately US$11.5 million on our Exciter programme (2017: US$9.8 million) which focuses on core business (Exciter 1) and new and adjacent business (Exciter II).

Core business support (Exciter I) included:
- Cost reduction through novel innovations for the paper industry, latex replacement in particular
- Processing in our pulp and paper mills, particularly the continuous optimisation of the cooking and bleaching processes to achieve cost reduction and increased fibre yields
- Support for packaging grades like Seal
- Transferring Rockwell Solutions' coating concepts to paper substrates
- The evaluation of alternative hardwood species for one of our Southern African mills
- Viscose application testing at Saiccor Mill, and
- The ongoing evaluation of new, disruptive technologies.

Cumulative global value generated versus expenditure
(Investment/value delivered (US$ '000))



Work in terms of Exciter II was focused primarily on new technologies in adjacent areas to the current business, including Symbio, Valida development and applications, as well as work related to biorefinery—notably the scaled-up sugar demonstration plant at Ngodwana Mill.

Value impact

- Market growth
- Cost reduction
- Continuous improvement
- Efficiency optimisation
- Competitive positioning

performance during the year

Key material issues *continued*

People
Related SDGs[1]

1 NO POVERTY	End poverty in all its forms everywhere
3 GOOD HEALTH AND WELL-BEING	Ensure healthy lives and promote wellbeing for all at all ages
4 QUALITY EDUCATION	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
8 DECENT WORK AND ECONOMIC GROWTH	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Key material issue

See R 10 on page 64.

Safety

Background

Unsafe practices and conditions can have devastating consequences—the impact of human loss and suffering on individuals and those around them is immeasurable.

Our response

Our ongoing Project Zero campaign highlights our commitment to zero injuries. Our target remains a zero own employee and contractor combined Lost Time Injury Frequency Rate (LTIFR) with a minimum of a 10% improvement year-on-year.

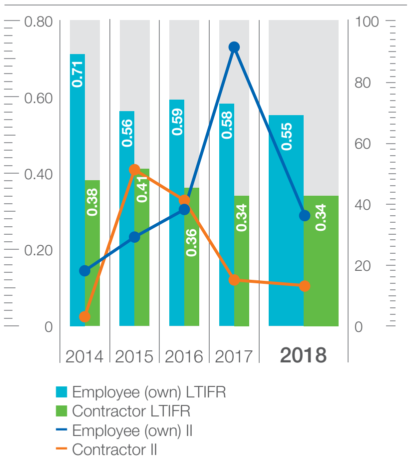
We keep safety at the top of employees' minds with relevant, actionable programmes that challenge them to proactively identify potential hazards and make safe choices. Once potential hazards are identified, teams seek first to understand them and then control and minimise exposures within our operations. We have a zero-tolerance approach to safety, both in terms of our own employees and contractors and believe it is unacceptable that a single life should be lost in the course of our business.

Globally, satisfaction with our safety performance, particularly in North America, must be tempered by our collective shock, regret and grief at two fatalities in 2018: At Ehingen Mill in Europe, an employee was cleaning the conveyor belts leading from the woodchip silos to the digesters when he was pulled in between a guiding roll and a conveyor belt and killed. In Sappi Forests (Southern Africa), a contractor lost control of his vehicle which left the road, resulting in his death.

Regrettably, the start of the 2019 year was marred by two contractor fatalities, one at Ngodwana Mill and one at Sappi Forests in KwaZulu-Natal. Sappi people around the world have joined the CEO and board in supporting the families, friends and colleagues of those who tragically passed away.

In terms of regional safety performance:
- **Sappi North America** had the best-ever employee LTIFR on record and the severity rate in this region declined significantly.
- Although there was no improvement in the LTIFR for own employees in **Sappi Europe**, which stayed constant, this figure was somewhat skewed by the recent integration of new business units. On average, with some exceptions, the existing business units improved safety performance, however, all the new entities were at a lower safety level with action plans put into place to reverse this trend. Ehingen Mill took immediate action following the fatality:
  – Activities previously classified as low risk were reassessed
  – Mill representatives participated in a workshop in South Africa held with external service providers (see below), and
  – Works Council members and safety representatives travelled to Cloquet Mill to share best practices.
- At **Sappi Southern Africa**, employee LTIFR was the best ever, with the LTIFR for contractors just above the best ever figure. We believe these achievements are the result of safety initiatives launched in 2018 following three fatalities in 2017:
  – A team from an internationally recognised safety consultancy was tasked to perform a safety culture review and suggest mitigation actions
  – Sappi Forests initiated the 'Stop and Think before you Act' programme underpinned by an intense communication programme supported by graphic materials, and
  – We established a forum that involves contractors in safety plans and programmes and emphasises their inputs.

Lost time injury frequency rate



[1] Figures for the digital imaging business and the Carmignano and Condino Mills acquired from Cham Paper Group are not included in the people data, but will be fully included in 2019. However, safety data from the new acquisitions has been included.

Sappi Forests' 'Stop and Think before you Act' safety initiative, which adopted a storytelling approach, won a Gold Quill Award of Excellence for Safety Communication Management from the International Association of Business Communications (IABC) in 2018. In addition, the work was also selected as one of eight Best of the Best entries from 258 awarded entries. In total, 699 entries from 27 countries were judged.

In support of Sappi's 2020Vision objectives, all regions have set specific safety targets to be achieved by 2020 and each region has compiled specific action plans to achieve these targets. (See **Group Sustainability Report** on www.sappi.com/sustainability for more detail).

The 13th Global Safety Awareness Week was held in June 2018. The theme, 'Own Safety, Share Safety' highlighted the message that every individual should be responsible not only for their safety, but also for their colleagues' and family's safety. The initiative was well supported with senior managers visiting and participating in events at all the Sappi sites. The safety theme for 2019 is 'WE VALUE SAFETY'. This aims to reinforce the direct link to our values and the engagement of all within our group—I value my safety, I value your safety and Sappi values our safety.

Value impact

The safety and wellbeing of employees and contractors

Key material issue

See R10 on page 64.

Employee engagement

Background

When employees are engaged at work, they feel a connection with the company. They believe that the work they're doing is important and therefore work harder. This has obvious implications for productivity, career development and overall job satisfaction.

Our response

We hold an employee engagement survey every two years, with the last one rolled out in September 2017. The objectives of the survey are to measure:

- Changes in employee opinions and perceptions of Sappi as a place to work since the first baseline survey conducted in 2013
- The evolution of sustainable engagement within Sappi globally in order for us to understand what drives sustainable engagement among our employees, and
- The employee value proposition to understand what motivates and drives our employees to work in our organisation.

The 2017 results were compared to industry benchmarks (global manufacturing norm), best in class benchmarks (high performing companies norm) and cultural benchmarks.

Sappi's global participation rate was 85%—a significant 15% increase from 2015. The global manufacturing norm participation rate is 83% and the response rate for high performing companies is 87%. There was an overall improvement in all categories that were measured in the survey when compared to the 2015 results.

Globally the most improved scores were for leadership and direction; operational efficiency and talent and recognition. Areas that require focus were identified as image and customer focus and safety and wellbeing.

Value impact

- Reduced staff turnover
- Improved productivity and efficiency
- Higher levels of customer retention and profitability

In 2018, we spent an average of US$500 on training per employee. Internal training is supported by external training initiatives in each region. See our **Group Sustainability Report** on www.sappi.com/sustainability for more information.

Key material issues *continued*

Key material issue

See R 10 on page 64.

Labour relations

Background

Sound labour relations underpin the ongoing production and ability to generate income for any business.

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.

We endorse the principles entrenched in the United Nations Global Compact and the Universal Declaration of Human Rights. In many areas, at a minimum, we conform to and often exceed the labour legislation requirements in countries in which we operate. We also promote freedom of association and engage extensively with representative trade unions. Globally, approximately 62% of Sappi's workforce is unionised, with 70% belonging to a bargaining unit.

Overall, 2018 was characterised by very tough negotiations, particularly in South Africa, but relatively good relationships with organised labour across the geographies. However, community unrest is starting to impact on businesses across South Africa. (See **On our watchlist** on page 59.)

In **Europe**, approximately 67% of employees are members of a union and are represented through Works Councils. European Works Council meetings at which Sappi is represented by the Chief Executive Officer and Human Resources Director, take place twice a year. There were no major disputes in this region and we concluded collective labour agreements (CLAs) at Alfeld, Ehingen, Stockstadt, Lanaken, Kirkniemi, Carmignano and Condino Mills. At Maastricht Mill, the current CLA is in place until November 2019.

In **North America**, approximately 64% of employees are unionised. SNA has 11 collective bargaining agreements with its hourly employees. The overall industrial relations climate in SNA remained good with no major disputes. We satisfactorily reached labour agreements with two unions at Cloquet Mill, while negotiations with one union at Somerset Mill are ongoing. SNA also has a number of negotiations planned for 2019.

In **Southern Africa**, 56% of our employees belong to a trade union. While the industrial relations climate has been volatile, with trade unions competing amongst each other for improved membership and existence, we have continued to maintain a stable industrial relations environment across our operations—the result of our proactive engagement strategy and initiatives. We continue to engage with trade union leadership.

Wage negotiations were tough, but amicably settled. The Pulp and Paper Chamber is currently reviewing its future of the chamber given the fact that no industry agreement has been reached over the last two years. This will assist the SSA leadership decision on how to approach the 2019 collective bargaining process.

We expect another tough wage negotiation process in 2019, with the country preparing for election and the majority union continuing to operate under pressure from other trade unions.

Value impact

- Increased levels of engagement
- Enhanced productivity
- More harmonious working environment

Key material issue

Shared value

Background

Creating shared value (CSV) is not about philanthropy or even corporate social responsibility. It is about creating meaningful economic and social value that benefits companies, communities and individuals.

Our response

Our revised **Group Corporate Citizenship Policy** (available on www.sappi.com) recognises the importance of CSV in securing sustainable communities and increased profitability.

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.

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 Southern Africa.

While each region has its own programmes, they conform to common themes that are aligned with our business needs and priorities, including education, local community support, the environment and health and welfare. We encourage employees to participate in outreach and community projects.

Our CSV initiatives in 2018 are described in more detail in our **Group Sustainability Report** on www.sappi.com/sustainability, but a snapshot of initiatives in each region gives some idea of our approach below.

In **Europe**, our focus is on adding to the wellbeing, safety and health of our communities. Each Sappi mill and sales office supports various local education, cultural and environmental projects based on annual requests and identified needs.

In **North America**, to encourage more engagement and involvement from employees, we have implemented a staff version of the long-standing Sappi Ideas that Matter (ITM) programme known as Employee Ideas that Matter. We established ITM 19 years ago to fund designers who apply their creative talents to causes that address significant issues facing our society. The employee programme operates on similar principles whereby US$25,000 is made available to staff for worthy causes close to their hearts. In 2018, 50 entries were received and 11 projects were supported. Each business unit in this region has a Community Connections Group to channel local support.

One of the Employee Ideas that Matter projects that received funding was a book called 'The Rainbow Rescue' written by a retired Sappi employee. The book aims to teach children about diversity and acceptance. The book is being used to promote literacy in the Westbrook area through the Westbrook Children's Project, a programme of the United Way of Greater Portland that brings community resources together to help children through their school years. A number of copies have been donated to the Westbrook Community Centre and Westbrook schools. Additional copies may be donated to other school libraries in the area.

In **Southern Africa**, employee wellbeing committees at each Sappi mill support local community projects based on annual requests and identified needs. These are coordinated via the annual Mandela Day (67 minutes) initiative.

Our Alien Vegetation Removal Programme at our mills in KwaZulu-Natal province in collaboration with the non-governmental organisation WESSA (Wildlife and Environmental Society of SA) is a good example of our approach to CSV. It involves the removal of alien vegetation on the land surrounding our mills—important to us as weeds have been identified as one of the biggest threats to biodiversity. A total of 20 community members per mill are being trained and employed through the programme, with the goal of establishing viable businesses which would ultimately serve other customers.

First established in KwaZulu-Natal in 2015, the Abashintshi (isiZulu for 'change agents') programme includes life skills training for the youth, the Ifa Lethu programme for the elderly (protecting cultural heritage), holiday programmes for school children and Asset Based Community Development (ABCD). The latter is based on the premise that communities can drive the development process themselves by identifying and mobilising existing, but often unrecognised, assets.

The programme has been expanded to 65 Sappi communities across the KwaZulu-Natal and Mpumalanga provinces, with 117 Abashintshi now involved. They are generating an income for themselves through their own businesses and they are helping community members to improve their own businesses. During 2018, 190 micro- and small businesses were started or rejuvenated, earning an income for 268 people.

Social investment spend in 2018

Total	Spend 2018
Europe	€100,000
North America (ITM US$250,000)	US$550,000
South Africa Spend by Sappi Forests on water, sanitation and general upgrades to villages	ZAR56 million ZAR8.3 million

Value impact

- Greater understanding of community issues
- Socio-economic upliftment
- Expanded channels of communication
- Enhanced licence to trade

Key material issues *continued*

Planet
Related SDGs[1]

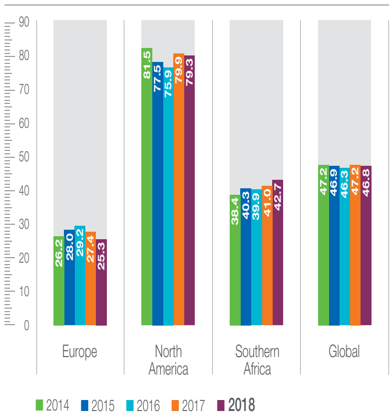
6 CLEAN WATER AND SANITATION — Ensure availability and sustainable management of water and sanitation for all

7 AFFORDABLE AND CLEAN ENERGY — Ensure access to affordable, reliable, sustainable and modern energy for all

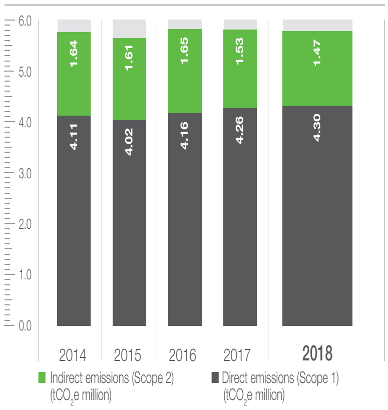
13 CLIMATE ACTION — Take urgent action to combat climate change and its impacts

15 LIFE ON LAND — Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Renewable energy (%)



Absolute direct emissions (Scope 1) and indirect emissions (Scope 2) (tCO_2e million)



Key material issue

See R 10 on page 64.

Energy

Background

Given the high energy intensity of our industry, the cost and availability of energy is a key consideration.

Our response

We leverage the significant opportunities inherent in our business and processes to help us reduce energy usage and impact:

- Using a high proportion of renewable energy as a fuel source, most of it self-generated in the form of black liquor
- Operating combined heat and power (CHP) plants in many of our mills. These plants not only generate electricity but also heat, which is used at the paper machines to dry the paper. Such efficiencies mean our CHP units are twice as energy efficient as conventional power plants
- Improving the energy efficiency of our mills, and
- Selling surplus electricity from Alfeld, Ehingen, Gratkorn, Maastricht and Stockstadt Mills in Europe; Cloquet, Somerset and Westbrook Mills in North America and Ngodwana Mill in Southern Africa.

We track purchased energy costs as a percentage of cost of sales to assess whether we are succeeding in this regard. As indicated by the graph on the following page, in 2018, global energy costs in relation to cost of sales remained stable, largely due to reduced costs in Europe which offset the sharp increase in Southern Africa.

Our focus is on reducing externally purchased power to reduce costs and also on reducing our reliance on fossil fuels. Over time, we have slowly but steadily reduced our use of purchased energy (electricity and fossil fuel) and also reduced energy intensity. Globally, over five years, energy self-sufficiency has increased by 5.6%.

In addition, we have increased our use of renewable energy—an approach which ultimately results in a reduction in GHG emissions and has positive economic implications. Our use of renewable energy in 2018 was 46.8%, of which 71.5% was own black liquor. This not only helps to reduce greenhouse gas emissions, but also separates our operations from the volatility of energy prices. While we are committed to higher use of renewable energy, we have certain process constraints.

Value impact

- We acknowledge that our industry is energy-intensive and that we generate greenhouse gas emissions. We believe that this is mitigated by the carbon sequestration of the plantations and forests from which we source woodfibre.

Key material issue

See R 7 on page 63 and T targets on page 40.

Woodfibre certification

Background

Forestry and mill Chain-of-Custody certification assures consumers that the forest products they buy originate from legally harvested and sustainably managed forests and plantations.

Our response

[1] Statistics for the digital imaging business and the Carmignano and Condino Mills acquired from Cham Paper Group are not included in the Plant graphs, but will be fully included in 2019.

With only 10% of the world's forests certified, we work hard to expand our certified woodfibre basket and have targets in each region, as well as a global target in place to achieve this. Globally, 75.2% of fibre supplied to our mills is certified.

In Europe, all mills are FSC®- and PEFC™-certified. In North America, Sappi includes fibre sourced from the Certified Logging Professional and Maine Master Logger programmes. Cloquet, Westbrook and Somerset Mills are FSC-, SFI®- and PEFC Chain of Custody-certified. We source only from controlled, non-controversial sources and 100% of wood and pulp is purchased in accordance with SFI Certified Sourcing Standard. The standards we use are a critical element of our due diligence for Lacey Act compliance. In Southern Africa, 100% of Sappi's owned and managed plantations are FSC-FM certified, while Ngodwana, Saiccor, Stanger and Tugela Mills and Lomati Sawmill are FSC Chain of Custody-certified.

In Southern Africa, we recognised that we needed to obtain certification over and above the FSC Group Scheme certification, based on the difficulty of getting small growers certified and on customers' requests for PEFC labelled products. PEFC endorses national certification schemes, which meant South Africa had to develop a new certification scheme including a forest management standard. This is now known as the South African Forest Assurance Scheme (SAFAS). We now await the finalisation of our SAFAS certification and as soon as PEFC endorses SAFAS, we will be able to label our woodfibre as being PEFC-certified.

Value impact

- Ensures strong environmental credentials and promotes environmental responsibility
- Enhances reputation
- Meets customer needs
- While certification undoubtedly adds value, the drive for certification can negatively impact on small growers, who help to promote healthy forest and plantation landscapes, but for whom the costs of certification are onerous.

Key material issue

See R7 on page 63.

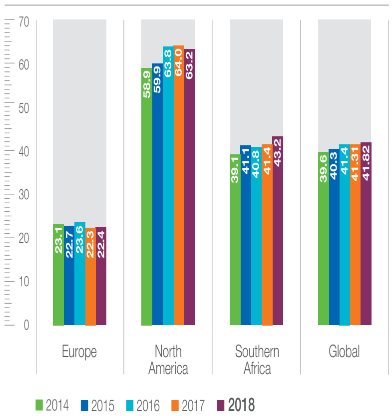
Climate change

Background

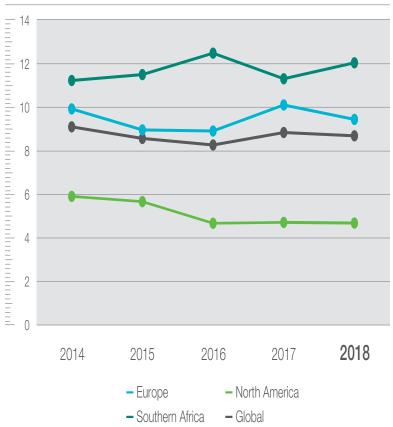
The fifth IPCC assessment report[1] indicates that each of the last three decades has been successively warmer at the Earth's surface than any preceding decade since 1850. The globally averaged combined land and ocean surface temperature data, as calculated by a linear trend, show an average warming of 0.85°C over the period 1880 to 2012. Anthropogenic greenhouse gas emissions have increased since the pre-industrial era to levels that are unprecedented in at least the last 800,000 years. Their effects, together with those of other anthropogenic drivers, have been detected throughout the climate system and are extremely likely to have been the dominant cause of the observed warming since the mid-20th century. The effects of climate change are already noticeable in changing weather patterns.

Our response

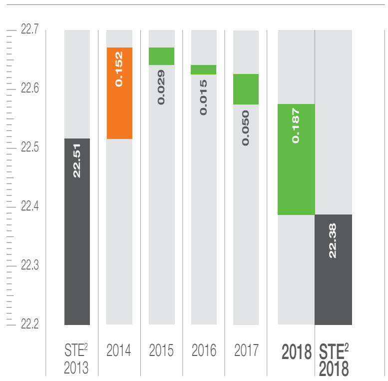
Energy self-sufficiency (%)



Purchased energy costs as a percentage of cost of sales (%)



Reduction of energy intensity (GJ/adt)



[1] IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, RK Pachauri and LA Meyer (eds.)]. IPCC, Geneva, Switzerland, 151 pp.

[2] Specific total energy (STE).

Key material issues *continued*

In 2018, there were record high temperatures in Europe. There were also major wildfires in northern England, Sweden and Greece. The 2017 fire year in the United States of America (USA) was one of the most destructive on record and the most expensive in USA history, with damage estimates topping US$10 billion. To date, the damage in the 2018 season has also been extensive, with extreme temperatures across large parts of North America.

While our business is wholly dependent on woodfibre, given SEU'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 SNA, 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.

However, the situation is different in Southern Africa, where Sappi Forests owns and leases 379,000 ha of land, with contracted supply covering a further 129,000 ha. Climate change has already impacted some of our plantations and has the potential to significantly impact our woodfibre base. Accordingly, we take concerted action to mitigate the risk, beginning with understanding where the largest risks of climate change will be to Sappi, how climate is likely to change further into the future and to formulate a multi-pronged response which involves:

- **Climate change investigations** — to determine which plantations are most at risk, and also to identify which climatic variables are likely to change, as well as the magnitude and direction of such change. The preliminary study showed that maximum temperatures are more likely to increase than minimum temperatures, especially during spring and summer. It is also likely that spring rainfall will decrease, with more high-intensity rainfall during summer. The combined effect of higher temperatures and lower rainfall in spring is likely to exacerbate tree stress, thereby increasing susceptibility to pests and diseases, as well as fire. (Further details are set out in the Planet section of our **Group Sustainability Report** on www.sappi.com/sustainability).

- **Replacing pure species with hybrids** — on the Mpumalanga highveld, Sappi experienced the impact of the changes described above with *Eucalyptus (E.) nitens* becoming unsuitable due to pest and disease issues, on plantations with the highest risk of climate change. *E. nitens* has a very narrow ideal temperature range and is very sensitive to changes in temperature. Subsequently, after evaluating management options and associated risks across the entire value chain, the decision was taken to replace *E. nitens* in KwaZulu-Natal by replacing it with *E. grandis x E. nitens* hybrid varieties.

- **Adjusting and directing our tree breeding strategy** — through the use of modelled future climate data. Traditional tree breeding is a relatively slow process and in order to keep up with environmental changes, Sappi's tree breeding programme is producing and selecting the most optimally suited hybrid varieties for each climatic zone. Our tree breeding division has a target of developing a hybrid varietal solution for all our sites by 2025. We are also making use of genetic tools, like DNA fingerprinting, to enhance and accelerate their breeding and selection process.

- **Facilitating the production of more rooted cuttings** — as pine and eucalypt hybrids are more successfully propagated through rooted cuttings rather than seed, a strategy is being rolled out to meet future requirements. In addition to the recent construction of Clan Nursery and the rebuild of the Ngodwana Nursery, we plan to upgrade Richmond Nursery in 2023 to enable the production of additional hybrid cuttings in addition to seedlings.

- **Implementing rapid detection techniques** — together with rapid understanding of the relative tolerance/susceptibility of our growing stock to newly introduced pests or disease, these techniques are critical in successfully managing the viability of our woodfibre base. Accordingly, we have instituted a series of *Sentinel* trials across various climatic regions. These trials are made up of many genotypes—both currently commercially planted and also pre-commercial varieties. In addition to different genotypes, different ages (life stages) of trees are also represented. Using these trials, our objective is to rapidly identify a new pest or disease, and immediately determine which genotypes are susceptible or tolerant, and also which life stage of the tree is impacted. This puts us in a position to react very quickly.

  In addition to these trials, we have recently completed a pilot study on the use of automated change detection using satellite imagery focused on rapidly detecting and reacting to damage—drought, pests, diseases, etc—to our plantations. The study entailed the acquisition of *Sentinel 2* imagery which gives a new image every five days. Newly acquired images are compared to the previous image via cloud processing using complex change detection algorithms. The resultant change is fed live to the Sappi GIS system, and integrated with enterprise data (age, species, tree size, etc). Given the success of the project, we are now rolling it out to all our plantations, while making use of the higher resolution and daily Planet satellite images (www.planet.com) which offer daily change detection.

- **Long-term soil monitoring** — under hotter and drier climatic conditions, the importance of soil organic matter will increase because of its ability to reduce soil temperature, and also to increase the soil water infiltration rate and soil water holding capacity. A major barrier to monitoring slow-changing soil attributes is the scarcity of long-term data sets. Against this backdrop, in 2018 Sappi Forests established long-term soil monitoring plots through a collaborative research project managed by the Institute for Commercial Forestry Research. These monitoring plots will form part of the current inventory plot network (permanent sample plots) and will be used to interpret and relate changes in soil quality parameters to stand productivity and site management.

Value impact

- Global potential to impact our woodfibre base if we do not take concerted action
- Sappi Forests:
  - Rapid response to climatic conditions.
  - Enhanced soil and woodfibre productivity.
  - More sustainable woodfibre base.

Critical to the sustainable production of timber is the impact that management operations have on the environment, and specifically the soil in which the trees grow. Because of its effect on physical, chemical and biological properties, soil organic matter exerts a dominating influence on crop productivity and environmental quality. The objective of our long-term monitoring programme is to overcome the scarcity of long-term data sets key to analysing forest site productivity questions.

Long-term monitoring provides an opportunity to assess changes across rotations and is an essential requirement for monitoring attributes that may change slowly or that are cumulative over time. A number of international forestry research organisations and companies have implemented long-term monitoring plots.

During June to August 2018, the first five long-term soil monitoring plots were initiated on Sappi land holdings through a collaborative research project managed by the Institute for Commercial Forestry Research based in Pietermaritzburg. The goal is to establish 10 twin-plots per year (five on Sappi land and five on land owned by other collaborating members). On one plot, harvest residue will be removed and on the other plot harvest residue will be retained. This will allow evaluation of the effect of biomass removal on growth and soil properties of the sites, providing additional information on site nutritional resilience and will assist with the extrapolation of results from a separate set of Nutrient Depletion Studies.

These monitoring plots will form part of the current inventory plot network (permanent sample plots). Data from this monitoring network will be used to interpret and relate changes in soil quality parameters to stand productivity and site management. More detailed studies will be conducted at selected sites which will be aimed at developing a better understanding of the process that can be used to further refine indicators.

Key material issue

See R7 on page 63.

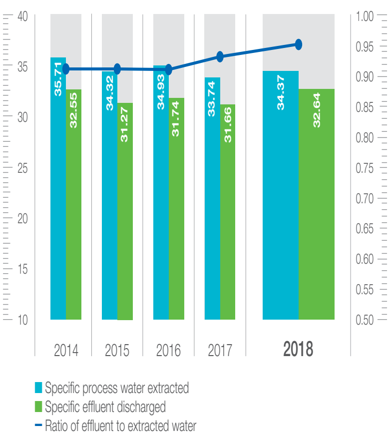
Water

Background

Our operations are highly dependent on the use and responsible management of water resources. Water is used in all major process stages, including raw materials preparation (woodchip washing), pulp washing and screening, and paper machines (pulp slurry dilution and fabric showers). Water is also used for process cooling, materials transport, equipment cleaning and general facilities operations.

Our response

Specific water return to extracted (m³/adt)



Most of our mills are situated in the vicinity of rivers from which they draw water. Withdrawal from surface sources (mostly rivers) accounts for the largest percentage of water use. This withdrawal is subject to licence conditions in each area where we operate.

The World Resources Institute has identified South Africa and Belgium as having high levels of water stress. We have embarked on a number of water efficiency projects in South Africa (described in more detail in our **Group Sustainability Report** on www.sappi.com/sustainability) and in terms of Saiccor Mill, by having access to the Sappi-owned Comrie Dam where we completed a project to raise the dam wall in 2016. Our response in terms of Lanaken Mill in Belgium is also described in our Group Sustainability Report.

In Europe, exceptionally low water levels in most of the region's rivers are not affecting our mills directly, but are having an impact on transport logistics.

In North America, our mills draw water from surface sources (rivers and lakes) and return treated water to the same primary sources. The areas in the two states where our mills operate have been identified as having low levels of water stress.

Key material issues *continued*

It is important to note that globally, 95% of the process water we use is returned to the environment. While it is difficult to improve this metric due to the nature of our processes, over five years specific water extracted has reduced by 3.8%.

Water used for pulp and paper production is mostly recycled in the system. However, minerals from woodfibre make it necessary to discharge some amount of water which is purified in high-end waste water treatment facilities.

Water and effluent testing are routinely conducted at mill sites.

Globally, over five years, we have achieved a positive result in effluent concentration by reducing chemical oxygen demand (COD) by 5.2% and total suspended solids (TSS) by 17.2%. In accordance with previous years, Saiccor Mill has been excluded from the global trend COD reporting. The mill is building up the biodispersion COD dataset, which will be used for future reporting. This value, tested in the marine environment, supports the historical environmental impact studies and the recently conducted biodegradation test, performed on the waste water. The use of this value was also endorsed and used by Quantis for a recent Lifecycle Assessment (LCA). (For a five-year trend of effluent discharge quality, see the Planet section of our **Group Sustainability Report** on www.sappi.com/sustainability.)

In terms of our plantations in Southern Africa, these are not irrigated and fertiliser use is kept to a minimum—being used only once in each rotation. This limits the potential impact on water sources in terms of nutrient load. In addition, our minimal use of pesticides is strictly controlled by the forest certification systems to which we conform.

Value impact

- We do have an impact on water sources from which we draw and return water. However, this has to be offset against the high level of economic value added by our water usage and by the percentage of water (95%) returned to the environment

On our watchlist

Land restitution

Sappi is currently engaged in 65 land claims in South Africa. Six claims have been settled and the extent of the land agreed, but we are waiting for finalisation from the KwaZulu-Natal and Mpumalanga regional land claims commissioners. To date, 20 claims have been agreed to, but the extent of the land still has to be finalised with the regional commissioners or claimants. Of the 65 claims, 20 have been referred to court, either because we questioned their validity or the extent of the claim. In the past 10 years, we have settled 37 claims involving 8,151 ha in which claimants took ownership of the land and claims for 11,629 ha in which claimants preferred to seek compensation.

For many of the land claims in which we have been involved, and where there has been a change in ownership, we continue to buy the timber and help to manage those plantations.

While we support the land claims initiatives generally, we have been frustrated around the implementation of the policies and slow levels of bureaucracy. The forestry industry is a key driver of rural growth. If government could unlock some of the bureaucratic lagging, the attendant benefit would flow directly to rural communities.

Social unrest

There have been incidents of social unrest in South Africa, the result of a disaffected population who are protesting about lack of service delivery and job opportunities. Officially, the country's unemployment is standing at 27.5%. In certain regions of the country, particularly the rural areas, it is much higher.

We played a role in helping to alleviate the situation by spending ZAR8.3 million on upgrading infrastructure in villages close to our forests in 2018. We also promote socio-economic development in rural areas, in particular through our Abashintshi programme (see page 53) and our enterprise development initiative, Sappi Khulisa ('Khulisa' means 'to grow' in isiZulu). The latter 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 27,080 ha. In 2018, under the programme 483,359 (2017: 448,221 tons) worth approximately ZAR387 million was delivered to our operations. Since 1995, a total volume of 3,796,940 tons to the value of ZAR2.1 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 believe the government's expedition of planting licences in this area where 100,000 ha are available for planting would play a significant role in promoting rural development.

We are intensifying our focus on enterprise development to cover other areas apart from forestry and have appointed a specialist to drive this forward.

Risk management

Risks

Our 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.

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, taking into account the recommendations set out in ISO 31000 standard (for guidance only)—'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 and Risk 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, business unit and operation.

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** on www.sappi.com/annual-reports.

For a detailed discussion of the group's risk factors, please see **Risk Management Report** on www.sappi.com/annual-reports.

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. This is the maximum level of loss or reduced earnings that can be absorbed without compromising key objectives, eg return on investment.

Top 10 key risks (in no specific order)

Context	Mitigating actions
1. Employee safety	
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 continuous improvement in safety performance • 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. An external recognised world leader in safety performance was commissioned to review and audit Sappi safety initiatives, processes and procedures focusing mainly on engagement and risk based issues. Detailed action plans and focus areas have been implemented being underpinned with the *'Own Safety, Share Safety'* theme—getting into the hearts and minds of our people and ensuring safety becomes engrained into our business values. For 2018, our performance criteria on the Management Incentive Scheme (MIS) has been reviewed and an increased score has been allocated to safety.
3Ps impact	**Strategic and 2020Vision responses** • Safety initiatives

Context	Mitigating actions
2. Cyclical macro-economic context	
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.
3Ps impact	**Strategic and 2020Vision responses** • Achieve cost advantages • Rationalise declining businesses • Accelerate growth in higher margin growth segments
3. Highly competitive industry	
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. We recently announced our plan to invest ZAR5 billion (US$353 million) over the next five years through maintenance and upgrade projects to decrease production costs, introduce new technology and optimise processes at Saiccor Mill. These investments will secure the mill's future by increasing its global cost competitiveness and significantly reducing its environmental footprint. During the fourth quarter we announced our commitment to capital investments at our Saiccor Mill in Umkomaas, south of Durban. The investments include a ZAR2.7 billion (US$191 million) dissolving wood pulp capacity expansion project.
3Ps impact	**Strategic and 2020Vision responses** • Achieve cost advantages • Accelerate growth in higher margin growth segments • Reduce our environmental footprint

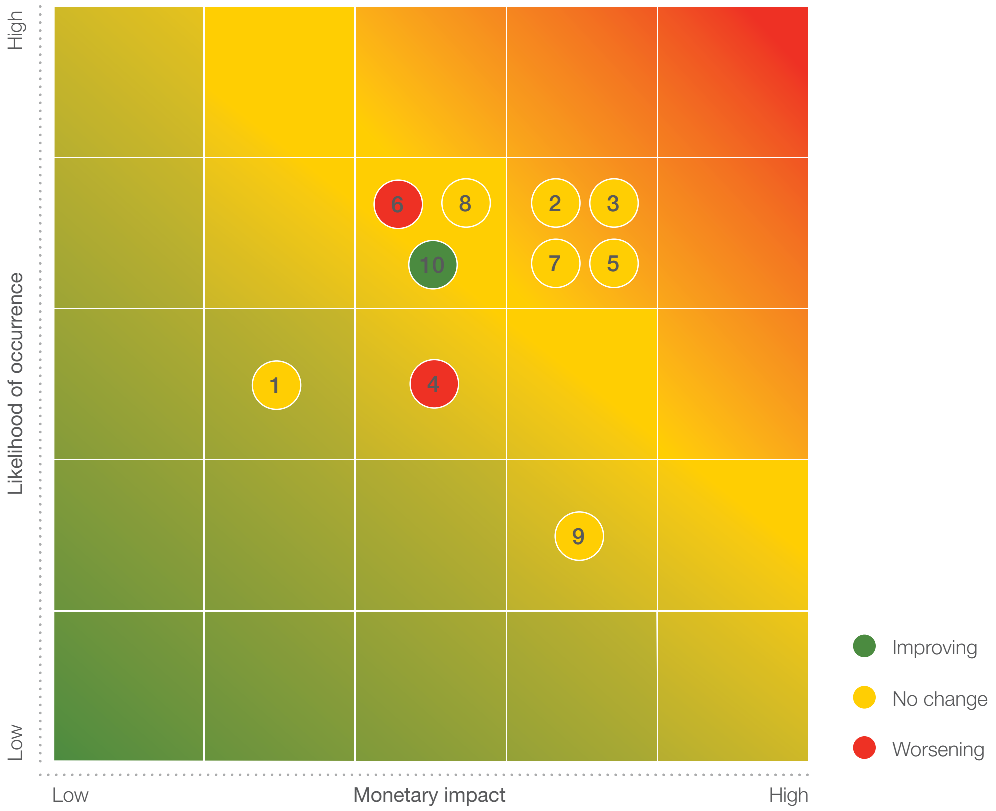
Risk management *continued*

Context	Mitigating actions
4. Project implementation	
In executing our strategy we carry out a number of capital expenditure projects. There is a risk that these projects may not be completed on time, do not deliver the expected quality or cost performance requirements or exceed the allocated capital spend. This would impact the project's financial return metrics, impact normal operations, delay the time to market or loss in market share. Reasons for this could be supplier and vendor performance, skill levels and ineffective project management and controls.	A comprehensive internal review of recently executed projects has been completed and engagement with key vendors continues to ensure lessons learnt, both positive and negative, are applied and included in future project management and controls globally. Identified shortcomings between contractor and supplier interfaces, which together with the planning of local skilled resource availability, is to be addressed well in advance. This includes various contracting philosophies specific to the regions in which we operate in. Notwithstanding the above, a huge effort is placed on the use of modern tools available to improve the efficacy in the front-end engineering design, engineering standards, cost control and planning functions throughout the construction, erection and commissioning phases. We continue to develop strong relationships with the main suppliers to integrate project documentation seamlessly. A rigorous process is in place to select potential contractors that have the same Sappi commitment to quality and safety. Where applicable, cross-functional global teams, additional internal expert resources and detailed oversight and review, including risk metrics, will be brought into the various phases of projects to ensure project execution. Operational and maintenance training also remains a key focus area.
3Ps impact	**Strategic and 2020Vision responses** • Achieve cost advantages • Rationalise declining businesses • Accelerate growth in higher margin growth segments • Provide greater opportunities for local communities • Reduce our environmental footprint
5. Evolving technologies and consumer preferences	
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 paper 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 second quarter we acquired the speciality paper business of Cham Paper Group Holding AG for US$132 million. The transaction included all brands and know-how, the Carmignano and Condino Mills (Italy), as well as their digital imaging business and facility situated in Cham (Switzerland). The acquisition increases Sappi's relevance in specialities and packaging papers, opening up new customers and markets to Sappi's existing products and generating economies of scale and synergies. It will improve near-term profitability and serve as a platform for organic growth, further acquisitions and will add approximately €183 million (US$212 million) of annual sales and approximately €20 million (US$23 million) of annual EBITDA before taking into account synergies. The acquisition was financed from internal resources.
3Ps impact	**Strategic and 2020Vision responses** • Achieve cost advantages • Rationalise declining businesses • Accelerate growth in higher margin growth segments • Provide greater opportunities for local communities • Reduce our environmental footprint

Context	Mitigating actions
6. Uncertain and evolving regulatory landscape	
Regulatory limitations/requirements on business (including complying with environmental, health and safety laws) as well as international political uncertainty (including land reform policy uncertainty in South Africa) could translate into cost increases that directly impact Sappi's competitiveness and profitability. Our worldwide operations are subject to various economic, fiscal, monetary, regulatory, operational and political conditions. We are therefore exposed to risks such as material changes in laws and regulations, political, financial and social changes and instabilities, exchange controls, risks related to relationships with local partners and potential inconsistencies between commercial practices, regulations and business models in different countries.	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 and Risk Committee. 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, waste water discharges and waste generation. (See **Our key material issues** on page 42.) We closely monitor the potential for changes in pollution control laws, including GHG emission 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.
3Ps impact	**Strategic and 2020Vision responses** • Achieve cost advantages • Provide greater opportunities for local communities • Reduce our environmental footprint
7. Foreign exchange volatility	
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 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). See note 31 in **Group Annual Financial Statements** on www.sappi.com/annual-reports.
3Ps impact	**Strategic and 2020Vision responses** • Achieve cost advantages • Maintain a healthy balance sheet

Risk management *continued*

Context	Mitigating actions
8. Natural resource constraints	
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.
3Ps impact	**Strategic and 2020Vision responses** • Achieve cost advantages • Reduce our environmental footprint
9. Market share and customer concentration	
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 are, on a continuous basis, working to expand and diversify our customer base. We sell a significant portion of our products to several significant customers. During 2018, 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.
3Ps impact	**Strategic and 2020Vision responses** • Accelerate growth in higher margin growth segments • Reduce our environmental footprint
10. Employee relations	
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.
3Ps impact	**Strategic and 2020Vision responses** • Achieve cost advantages



Insurance

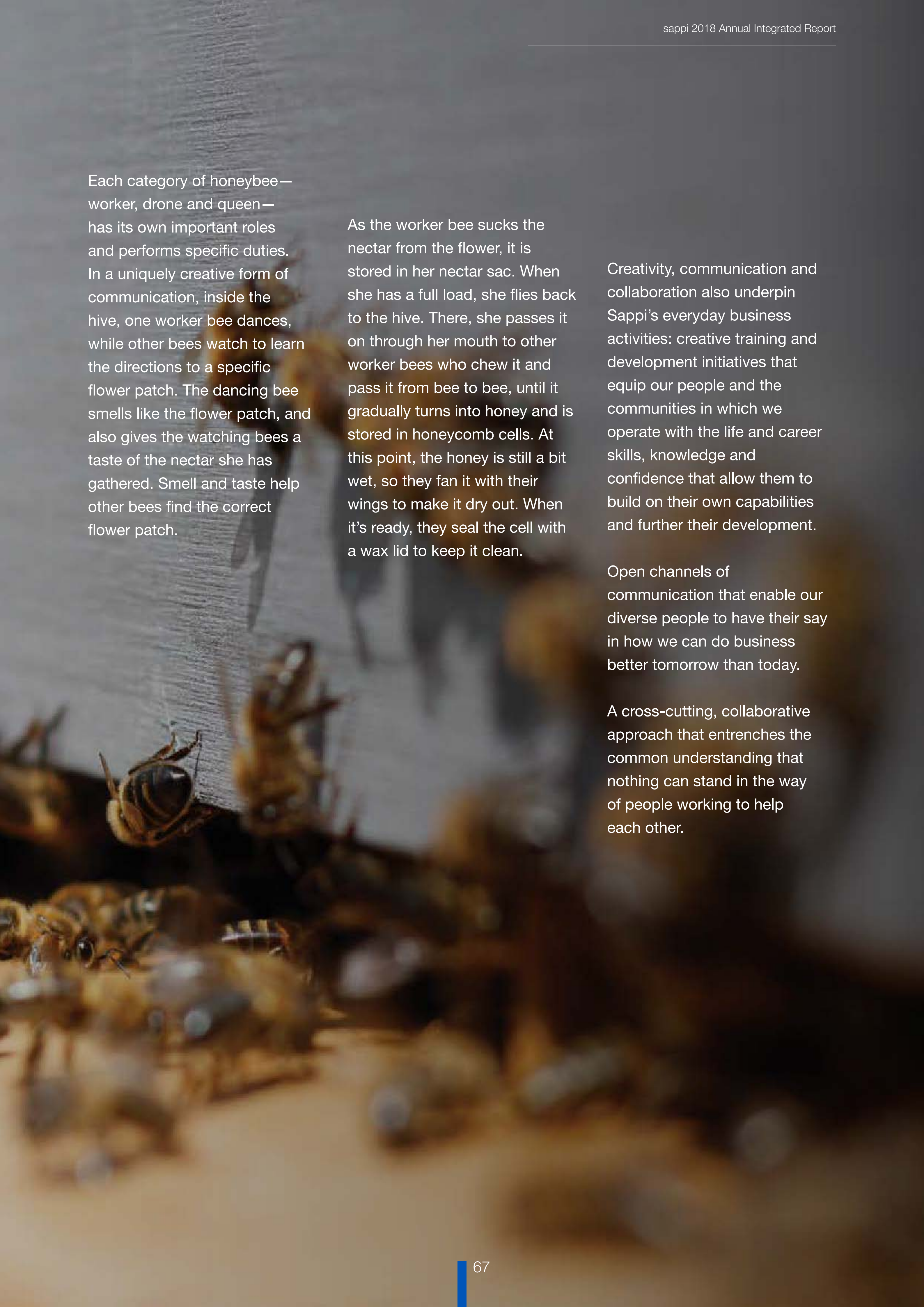
The group has an active programme of risk management in each of its geographical operating regions to address and reduce exposure to property damage and business interruption incidents. All production units are subject to regular risk assessments by external risk engineering consultants, the results 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 and business interruption occurrence is US$24 million (€20.5 million) with the annual aggregate set at US$38 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$871 million (€750 million) has been deemed to be adequate for the reasonable foreseeable loss for any single claim.

enhanced value

NOTHING CAN STAND IN THE WAY OF PEOPLE WORKING TO HELP EACH OTHER



Each category of honeybee—worker, drone and queen—has its own important roles and performs specific duties. In a uniquely creative form of communication, inside the hive, one worker bee dances, while other bees watch to learn the directions to a specific flower patch. The dancing bee smells like the flower patch, and also gives the watching bees a taste of the nectar she has gathered. Smell and taste help other bees find the correct flower patch.

As the worker bee sucks the nectar from the flower, it is stored in her nectar sac. When she has a full load, she flies back to the hive. There, she passes it on through her mouth to other worker bees who chew it and pass it from bee to bee, until it gradually turns into honey and is stored in honeycomb cells. At this point, the honey is still a bit wet, so they fan it with their wings to make it dry out. When it's ready, they seal the cell with a wax lid to keep it clean.

Creativity, communication and collaboration also underpin Sappi's everyday business activities: creative training and development initiatives that equip our people and the communities in which we operate with the life and career skills, knowledge and confidence that allow them to build on their own capabilities and further their development.

Open channels of communication that enable our diverse people to have their say in how we can do business better tomorrow than today.

A cross-cutting, collaborative approach that entrenches the common understanding that nothing can stand in the way of people working to help each other.

Chief Financial Officer's Report

Our 2020Vision had identified fiscal 2018 as a transition year.

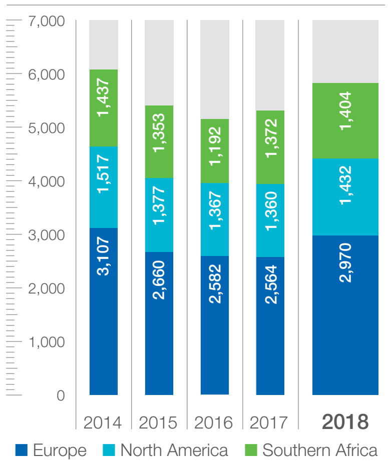
This report is divided into six sections and offers a comprehensive understanding of the Group's financial performance:

- Section 1: Financial highlights
- Section 2: Group financial performance
- Section 3: Regional financial performance
- Section 4: Cash flow
- Section 5: Balance sheet, and
- Section 6: Share price performance.

Section 1
Financial highlights

(US$ million)	2018	2017	% change
Sales	**5,806**	5,296	10
EBITDA excluding special items	**762**	785	(3)
Operating profit excluding special items	**480**	526	(9)
Profit for the year	**323**	338	(4)
EBITDA excluding special items to sales (%)	**13.1**	14.8	n/a
Operating profit excluding special items to sales (%)	**8.3**	9.9	n/a
Operating profit excluding special items to capital employed (ROCE) (%)	**14.6**	18.0	n/a
Net cash (utilised) generated	**(254)**	108	n/a
Net debt	**1,568**	1,322	19
Basic earnings per share (US cents)	**60**	63	(5)

Sales over five years (US$ million)



Our 2020Vision had identified fiscal 2018 as a transition year. Following the debt reduction initiatives during the previous reporting periods, the group addressed the capacity constraints in the dissolving wood pulp (DWP) and specialities and packaging papers segments. DWP capacity increased by 60,000 tons and the conversion of printing and writing papers capacity to speciality paper products in our North American and European regions provided us with approximately 550,000 tons increase in specialities and packaging papers capacity. Additionally, the purchase of the Cham Paper Group (CPG) supplemented 160,000 tons of specialities and packaging papers capacity. As a result, capital expenditure (inclusive of maintenance expenditure) and the acquisition of CPG amounted to US$673 million for the year. Cash utilised for the year of US$254 million was managed within our leverage target of two times net debt to EBITDA.

Stronger than expected market demand across all our product segments provided us with high capacity utilisation rates on all our machines. Volumes and net selling prices improved by 2% and 7% respectively causing net sales to increase by 10%. Variable costs increased by 12% in absolute terms, driven mainly by purchased pulp and delivery cost increases. There was a lag in securing selling price increases which squeezed EBITDA margins from 15% to 13%. The increased sales volumes reduced the impact of the lower margins, and EBITDA excluding special items of US$762 million was in line with the previous year after adjusting for the benefit of the additional accounting week of approximately US$20 million.

GT Pearce
Chief Financial Officer

Net finance costs reduced by 15% to US$68 million as the full impact on the previous years' debt reduction initiatives took effect. The average tax rate of 23% was below the average statutory rate as we utilised assessed losses available mainly in our European operations. Profit for the year was US$323 million (LY = US$338 million) and earnings per share excluding special items reduced from 64 US cents to 60 US cents. A dividend of 17 US cents per share has been declared at a three times earnings cover adjusted for non-cash items.

Cash utilisation for the year of US$254 million includes a dividend payment of US$81 million, tax payments of US$73 million and the acquisition of CPG of US$132 million.

Segment reporting

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

The selected product line information is reviewed by our Executive Committee in addition to the geographical basis upon which the group is managed. This additional information is presented in this report 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	
	2018	2017	**2018**	2017
EUR1 = US$	**1.1902**	1.1055	**1.1609**	1.1814
US$1 = ZAR	**13.0518**	13.3813	**14.1473**	13.5561

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.

Section 2
Financial performance
Group

The discussion in this section focuses on the group financial performance in 2018 compared with 2017. 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:

US$ million	2018	2017	% change
Sales volume (metric tons '000)	**7,591**	7,410	2
	US$ million	US$ million	% change
Sales revenue	**5,806**	5,296	10
Variable manufacturing and delivery costs	**(3,521)**	(3,147)	12
Fixed costs	**(1,767)**	(1,601)	10
Sundry items[1]	**(38)**	(22)	73
Operating profit excluding special items	**480**	526	(9)
Special items	**9**	–	–
Operating profit	**489**	526	(7)
Net finance costs	**(68)**	(80)	(15)
Taxation	**(98)**	(108)	(9)
Net profit	**323**	338	(4)
EPS excluding special items (US cents)	**60**	64	(6)

[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 2018, sales volume increased by 181,000 tons, or 2%, compared with 2017. The regional contributions to sales volume are shown below:

Sales volume (metric tons '000)	2018	2017	% change
North America	**1,371**	1,359	1
Europe	**3,366**	3,343	1
Southern Africa	**2,854**	2,708	5
Group	**7,591**	7,410	2
Printing and writing papers	**4,150**	4,270	(3)
Specialities and packaging papers	**1,009**	854	18
Dissolving wood pulp	**1,198**	1,184	1
Forestry	**1,234**	1,102	12

In North America, increases in specialities and packaging papers and dissolving wood pulp (DWP) sales volumes were offset by reduced printing and writing papers volumes due to the conversion of PM1 at Somerset Mill.

European volumes increased by 1% with good growth in the mechanical coated paper and specialities and packaging papers segments. The growth in sales volumes was offset by lower demand in the coated woodfree paper market.

Volumes in Southern Africa increased by 5% mainly due to growth in the specialities and packaging papers and forestry volumes. DWP volumes were marginally lower, impacted by production problems during the earlier part of the fiscal.

Sales volume to capacity (%)	2018	2017
Europe	**93**	94
North America	**93**	97
Southern Africa	**95**	95
Sappi group	**93**	95

Sales revenue

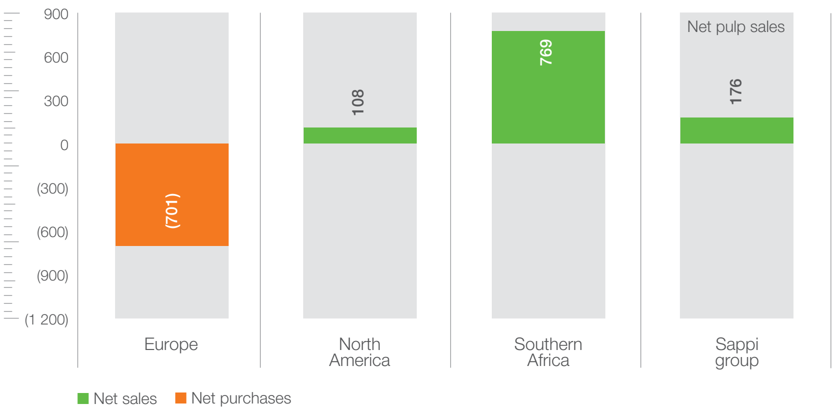
Sales revenue increased by 10% from US$5.3 billion in 2017 to US$5.8 billion in 2018. The increase was due to the higher sales volumes discussed above, higher sales prices and improved sales mix.

Variable and delivery costs

Variable and delivery costs increased by US$374 million, or 12%, from 2018. Higher sales volumes and an increase in purchased pulp, energy, delivery and chemical prices contributed to the increase in costs.

The net 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)	2018	2017	% change
Wood	**598**	603	(1)
Energy	**411**	372	10
Chemicals	**851**	787	8
Pulp and other	**1,171**	944	24
Delivery	**490**	441	11
Sappi group	**3,521**	3,147	12

Section 2 continued
Financial performance
Group

Fixed costs

Fixed costs increased by US$166 million, or 10%, from fiscal 2017. This increase was mainly due to a higher depreciation charge (US$19 million) as a result of the increased capital spend, the acquisition of the Cham Paper Group business (US$26 million) and the stronger Rand and Euro resulting in an increase in US Dollar costs (US$28 million). Excluding the currency impact fixed cost increased by US$138 million.

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

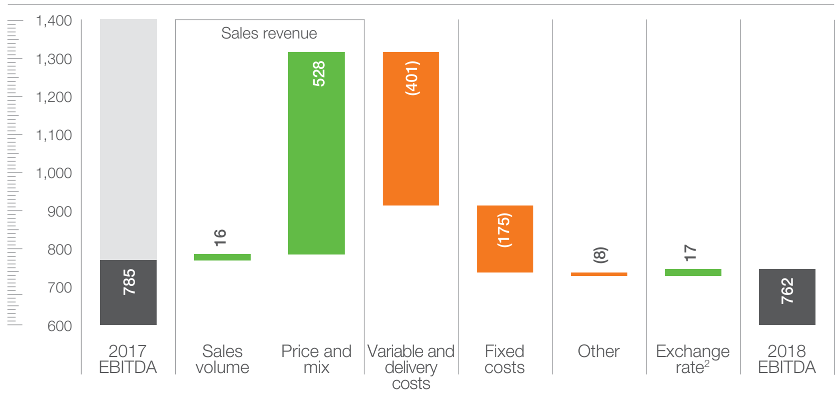
Fixed costs (US$ million)	2018	2017	% Change
Personnel	**1,043**	930	12
Maintenance	**235**	212	11
Depreciation	**274**	255	7
Other	**215**	204	5
Sappi group	**1,767**	1,601	10

EBITDA and operating profit excluding special items

EBITDA excluding special items decreased to US$762 million, 3% lower than the previous year. On a like-for-like basis the decline in EBITDA was US$3 million (2017 benefited by approximately US$20 million due to an additional accounting week). Operating profit excluding special items declined from US$526 million last year to US$480 million in 2018.

The EBITDA bridge reflected in the graph below shows the impact on profitability from higher sales volumes, higher sales prices, improved sales mix and favourable exchange rate movements, which were offset by increased variable and fixed cost.

Reconciliation of EBITDA excluding special items: 2018 compared to 2017[1] (US$ million)

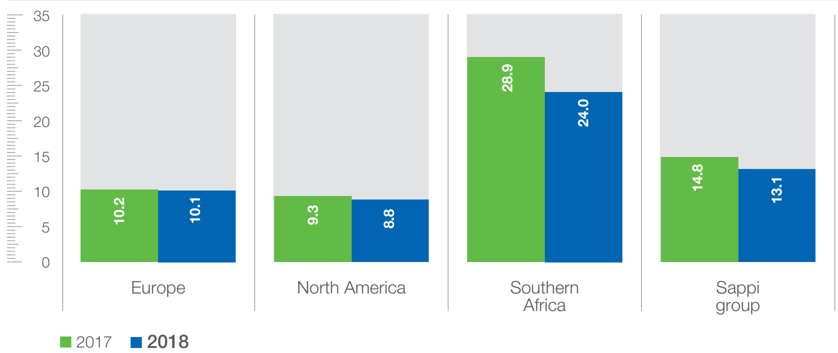


[1] *All variances were calculated excluding Sappi Forests.*
[2] *'Exchange rate' reflects translation and transactional effect on consolidation.*

The tables below detail the EBITDA and operating profit excluding special items of the business for both 2018 and 2017 and the margins of each.

EBITDA excluding special items by region (US$ million)	2018	2017
Europe	299	262
North America	126	126
Southern Africa	337	396
Corporate and other	–	1
Sappi group	**762**	785

EBITDA margin by region (%)

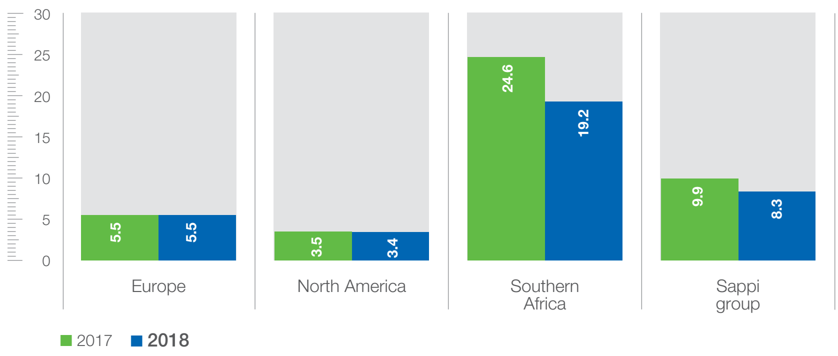


EBITDA excluding special items by product category (US$ million)	2018	2017
Dissolving wood pulp	306	386
Specialities and packaging papers	138	117
Printing and writing papers	318	281
Other	–	1
Sappi group	**762**	785

Section 2 continued
Financial performance
Group

Operating profit excluding special items by region (US$ million)	2018	2017
Europe	163	140
North America	49	47
Southern Africa	270	337
Corporate and other	(2)	2
Sappi group	**480**	526

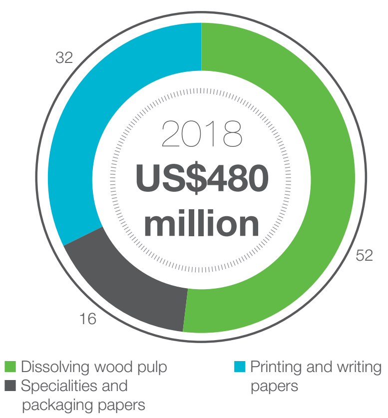
Operating profit margin by region (%)



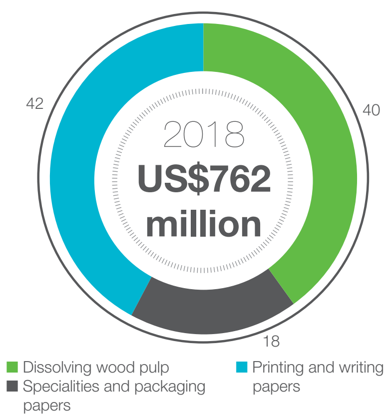
Operating profit excluding special items by product category (US$ million)	2018	2017
Dissolving wood pulp	251	334
Specialities and packaging papers	78	76
Printing and writing papers	153	114
Other	(2)	2
Sappi group	**480**	526

The charts below illustrate that 68% of the group's EBITDA originates from growing markets in the DWP and specialities and packaging papers segments. The printing and writing papers segment, which contributes a third of the EBITDA remains an important strategic component of our business.

Operating profit excluding special items by segment (%)



EBITDA excluding special items by segment (%)



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

Key operating targets

Our financial targets and performance against them are dealt with in the **Letter to shareholders** on page 14.

Section 2 continued
Financial performance
Group

Special items

Special items consist of those items which management believe are material, by nature or amount, to the results for the year and require separate disclosure. A breakdown of special items for 2018 and 2017 is reflected in the table below:

Special items – gain (loss) (US$ million)	2018	2017
Plantation price fair value adjustment	**27**	21
Acquisition costs	**(2)**	–
Net restructuring provisions	**(1)**	(1)
Profit (loss) on disposal and written off assets	**4**	(2)
Asset (impairment) reversals	**3**	(6)
Black economic empowerment charge	**(1)**	(1)
Fire, flood, storm and other events	**(21)**	(11)
Total	**9**	–

The net impact of special items in 2018 was US$9 million. The major components are described below:

- A positive non-cash US$27 million plantation price fair value adjustment was recognised following increases to the market price of timber
- An asset impairment reversal of US$3 million was recorded in Southern Africa related to previously impaired project costs, and
- Fire, flood, storm and other events includes turbine damage at our Saiccor, Alfeld and Stockstadt Mills amounting to US$13 million, unplanned downtime events at our Saiccor, Ngodwana, Somerset and Ehingen Mills amounting to US$10 million offset by a contingent consideration release of US$6 million.

Net finance costs

(US$ million)	2018	2017
Net interest expense	**76**	92
Interest capitalised	**(2)**	–
Net foreign exchange gains	**(6)**	(12)
Total	**68**	80

Net finance costs were lower than the prior year, despite net debt increasing during the year as a result of the Cham Paper Group acquisition in February for US$132 million and increased capex expenditure. We also repaid US$38 million (ZAR500 million) of our South African bonds in April 2018 from available cash resources.

Section 2 continued
Financial performance
Group

Taxation

A regional breakdown of the tax charge is provided below.

(US$ million)	Profit before tax	Tax (charge) relief	Effective tax rate %
Europe	81	**(4)**	(5)
North America	34	**(12)**	(36)
Southern Africa	306	**(82)**	(27)
Total	421	**(98)**	(23)

In Europe, an increase in deferred tax assets and the utilisation of assessed losses reduced the effective rate to 5%.

The North American effective tax rate has largely been impacted by one-time adjustments recognised from the US Tax Reform (rate change from 35% to 21%).

The Southern African tax rate of 27% is lower than the statutory tax rate of 28% due to the impact of non-taxable items.

Net profit, earnings per share and dividends

After taking into account net finance costs and taxation, our net profit and earnings per share for 2018, with comparatives for 2017, were as follows:

(US$ million)	2018	2017
Operating profit	**489**	526
Net finance costs	**68**	80
Profit before taxation	**421**	446
Taxation	**98**	108
Profit for the period	**323**	338
Weighted average number of shares is issue (millions)	**538.1**	533.9
Basic earnings per share (US cents)	**60**	63

The directors have declared a dividend of 17 US cents, representing a three times earnings cover adjusted for non-cash items, and a 13% improvement on the 15 US cents declared last year. The group aims to declare ongoing annual dividends, and over time achieve a long-term average earnings to dividends ratio of three to one.

North America

(metric tons '000)	2018	2017	% change
Sales volume	**1,371**	1,359	1

	US$ million 2018	US$ million 2017	% change	**US$ per ton 2018**	US$ per ton 2017	% change
Sales	**1,432**	1,360	5	**1,044**	1,001	4
Variable manufacturing and delivery costs	**(856)**	(814)	5	**(624)**	(599)	4
Contribution	**576**	546	5	**420**	402	4
Fixed costs	**(506)**	(485)	4	**(369)**	(357)	3
Sundry costs and consolidation entries	**(21)**	(14)	50	**(15)**	(10)	50
Operating profit excluding special items	**49**	47	4	**36**	35	3
EBITDA excluding special items	**126**	126	0	**92**	93	(1)

The conversion of PM1 at Somerset Mill to produce paperboard grades reduced available coated woodfree paper capacity and had a negative impact of approximately US$19 million on earnings for the year. Both DWP and packaging papers volumes increased year-on-year. Average net selling prices increased by 4% as supply tightened following capacity closures in the North American coated woodfree paper market. Variable costs increased by a similar percentage led by higher purchased paper pulp prices.

EBITDA of US$126 million was in line with the previous year.

Europe

(metric tons '000)	2018	2017	% change
Sales volume	**3,366**	3,343	1

	€ million 2018	€ million 2017	% change	**€ per ton 2018**	€ per ton 2017	% change
Sales	**2,494**	2,320	8	**741**	694	7
Variable manufacturing and delivery costs	**(1,632)**	(1,509)	8	**(485)**	(451)	8
Contribution	**862**	811	6	**256**	243	5
Fixed costs	**(712)**	(673)	6	**(212)**	(201)	5
Sundry costs and consolidation entries	**(13)**	(11)	18	**(3)**	(4)	(25)
Operating profit excluding special items	**137**	127	8	**41**	38	8
EBITDA excluding special items	**254**	239	6	**75**	71	6

Fiscal 2018 includes seven months of the Cham Paper Group (CPG) operations. Excluding the CPG volumes, sales volumes were down on last year as the reductions in coated woodfree paper volumes exceeded growth in the specialities and packaging papers and coated mechanical paper volumes. There were several selling price increases during the year culminating in a 7% increase relative to last year.

The steep increase in purchased pulp prices, combined with increases in delivery and chemical costs (directly and indirectly linked to oil price increases), reduced margins during the earlier part of the year. Margins recovered during the third and fourth quarter following the successful implementation of selling price increases. The integration of CPG has progressed according to plan and the profitability from the newly acquired mills have exceeded expectations.

Section 3

Financial performance

Regional

Alongside 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.

Section 3 continued
Financial performance
Regional

Southern Africa*

(metric tons '000)	2018	2017	% change
Sales volume*	**1,620**	1,606	1

	ZAR million 2018	ZAR million 2017	% change	ZAR per ton 2018	ZAR per ton 2017	% change
Sales*	**17,333**	17,489	(1)	**10,699**	10,890	(2)
Variable manufacturing and delivery costs	**(10,415)**	(9,769)	7	**(6,429)**	(6,083)	6
Contribution	**6,918**	7,720	(10)	**4,270**	4,807	(11)
Fixed costs	**(5,403)**	(4,991)	8	**(3,335)**	(3,108)	7
Sundry income and consolidation entries	**2,009**	1,781	13	**1,240**	1,109	12
Operating profit excluding special items	**3,524**	4,510	(22)	**2,175**	2,808	(23)
EBITDA excluding special items	**4,398**	5,299	(17)	**2,715**	3,300	(18)

* Excludes Sappi Forests.

The relatively insignificant strengthening of the annual average rate of the Rand by 2,5%, hides the volatile movements during the fiscal period. DWP sales volumes were stable relative to last year with the increase experienced in the packaging papers segment. Packaging papers sales prices increased by 5% but, were offset by lower DWP selling prices, reducing the net selling price for the region by 2%. Increases in delivery, energy and wood costs reduced contribution per ton by 11%. Fixed costs were mainly influenced by wage inflationary increases at 7% for the year. The net result of the above is a reduction in EBITDA to ZAR4,398 million with annual operating profit of ZAR3,524 million.

The region's capital expenditure focused on increasing DWP capacity 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	Sappi group US$ million
Net selling prices	1%	28	17	208	–	64
Dissolving wood pulp prices	US$10	–	3	140	–	13
Variable costs	1%	16	9	104	–	34
Sales volume	1%	9	6	92	–	24
Fixed costs	1%	7	5	50	–	16
Paper pulp price	US$10	6	3	7	–	11
Oil price	US$1	1	0	2	–	2
ZAR/US$ (Weakening)	10 cents	–	–	80	(3)	3
EUR/US$ (Weakening)	10 cents	–	(4)	–	(27)	(31)

* 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 consider potential management interventions to mitigate negative impacts or enhance benefits.

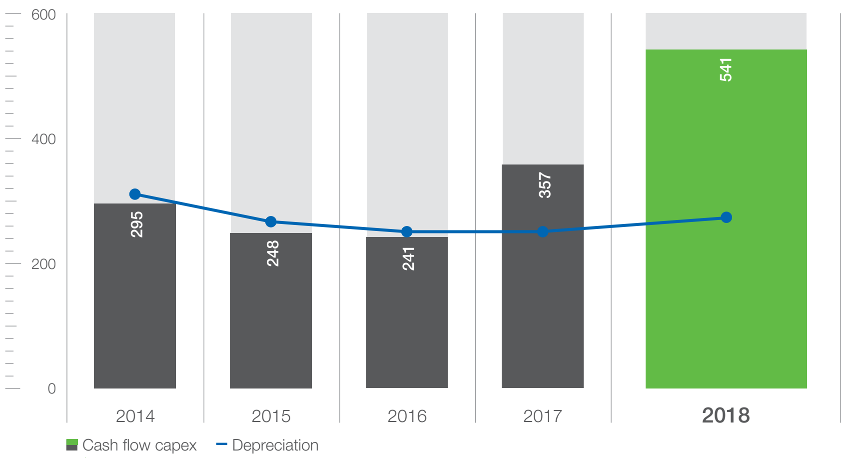
Section 4
Cash flow

In the table alongside, we present the group's cash flow statement for 2018 and 2017 in a summarised format.

(US$ million)	2018	2017
Operating profit excluding special items	480	526
Depreciation and amortisation	282	259
EBITDA excluding special items	**762**	785
Contributions to post-employment benefits	(45)	(43)
Other non-cash items	(8)	6
Cash generated from operations	**709**	748
Movement in working capital	(79)	(27)
Net finance costs	(66)	(81)
Taxation	(73)	(100)
Dividend paid	(81)	(59)
Capital expenditure	(541)	(357)
Net proceeds on disposal of assets	11	4
Acquisition of subsidiary	(132)	(11)
Other	(2)	(9)
Net cash (utilised) generated	**(254)**	108

Net cash utilised for the financial year was US$254 million (2017: US$108 million generated). The cash utilisation includes the acquisition of Cham Paper Group (US$132 million) and capital expenditure of US$541 million (LY = US$357 million). Finance costs and taxation payments were less than the previous year.

Investment in fixed assets versus depreciation (US$ million)



Section 5
Balance sheet

This section provides a comprehensive review of the group's assets, liabilities and equity position.

Summarised balance sheet

(US$ million)	2018	2017
Property, plant and equipment	**3,010**	2,681
Plantations	**466**	458
Net working capital	**493**	436
Other assets	**323**	254
Net post-employment liabilities	**(261)**	(309)
Other liabilities	**(516)**	(451)
Employment of capital	**3,515**	3,069
Equity	**1,947**	1,747
Net debt	**1,568**	1,322
Capital employed	**3,515**	3,069

Sappi has 18 production facilities in eight countries, capable of producing approximately 3.7 million tons of pulp and 5.7 million tons of paper. For more information on our mills, their production capacities and products, see **Where we operate** on page 20.

During 2018, capital expenditure for property, plant and equipment was US$541 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)	2018	2017
Cost	**9,077**	8,681
Accumulated depreciation and impairment	**6,067**	6,000
Net book value	**3,010**	2,681

Plantations
We regard ownership of our plantations in South 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 516,000 hectares of land of which approximately 379,000 hectares are planted with pine and eucalyptus. These plantations provide approximately 65% of the wood requirements for our Southern Africa mills.

During the year, there were market price increases coupled with higher average fair value rates. These increases were offset by the rising cost of fuel and an increase in the discount rate. 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 2.3.4 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.

Section 5 continued
Balance sheet

Working capital

The component parts of our working capital at the 2018 and 2017 fiscal year-ends are shown in the table below:

Net working capital

(US$ million)	2018	2017
Inventories	**741**	636
Trade and other receivables	**767**	668
Trade and other payables and provisions	**(1,015)**	(868)
Net working capital	**493**	436

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$493 million in 2018 from US$436 million in 2017. The material movements in working capital are discussed below:

- Inventories increased by US$105 million, caused mainly by higher purchased pulp prices. This was partially offset by a favourable currency translation impact of US$13 million
- Receivables increased by US$99 million following higher net selling prices and increased volumes in the fourth quarter. This was partially offset by a favourable currency translation impact of US$9 million, and
- Payables increased by US$147 million. The increase in payables is largely due to a favourable currency translation impact of US$21 million, increased raw material prices and higher accruals for capital expenditure.

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)	2018	2017
Defined benefit obligation	**(1,431)**	(1,448)
Fair value of plan assets	**1,170**	1,139
Net balance sheet liability	**(261)**	(309)
Cash contributions to defined benefit plans/subsidies	**40**	39
Income statement charge (credit) to profit or loss*	**18**	30
Cash contributions deemed 'catch-up'**	**19**	18

* The income statement charge in 2018 is lower than in 2017 due to a net negative past service cost recognised in profit and loss.

** 'Catch-up' is cash contributions paid to defined benefit plans in excess of current service cost.

Gross liabilities from all our plans (funded plans and unfunded) reduced by US$17 million compared with last year. The main cause of the overall decrease was slightly higher discount rates due to rising yields in respective bond markets, a net negative past service cost and net reductions in longevity provisions.

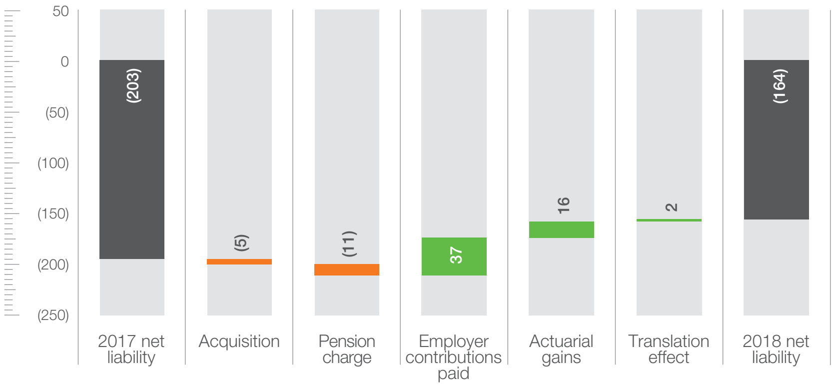
Fair value of plan assets rose by US$31 million over the year due to favourable investment returns of assets in our funded plans from outperforming equity markets.

Included in the liability and asset movements above is a US$3 million gain resulting from movements relative to the reporting currency.

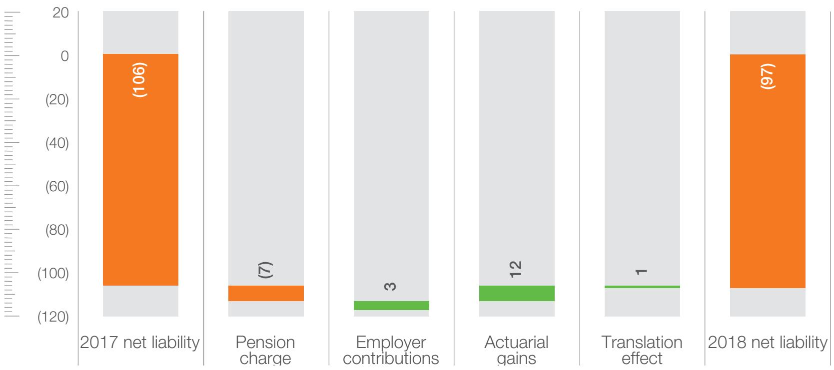
The reduction in liabilities and increase in assets both contributed to a reduction in the net overall net liability by US$48 million as at September 2018. A reconciliation of the movement in the balance sheet over the year is shown graphically below and disclosed in more detail in note 28 of the annual financial statements.

Section 5 continued
Balance sheet

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$200 million to US$1,947 million as summarised below:

Equity reconciliation (US$ million)	2018
Equity as at September 2017	1,747
Profit for the year	323
Dividend paid	(81)
Share-based payments	15
Movement in hedging reserves	4
Foreign currency movements	(61)
Equity as at September 2018	**1,947**

The US$200 million increase was the result of the profit for the year of US$323 million offset by dividends paid and foreign currency movements.

Debt

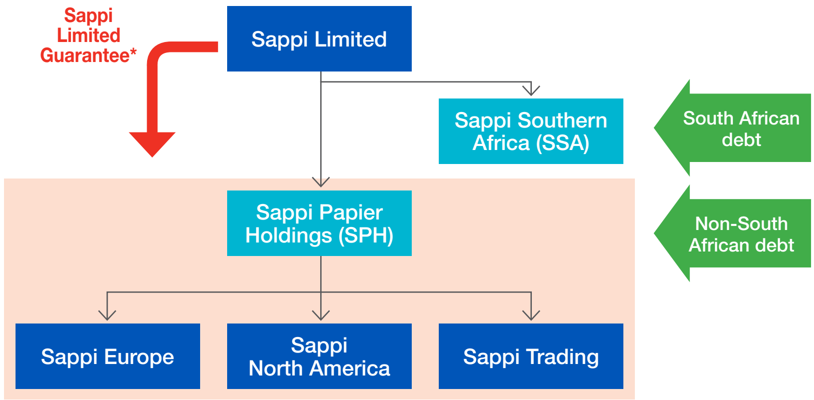
Debt is a major source of funding for the group. In the management of debt, we focus on net debt, which is the sum of current and non-current interest-bearing borrowings and bank overdrafts, net of cash and cash equivalents.

Debt funding structure

The Sappi group principally takes up debt in two legal entities. Sappi Southern Africa Limited issues debt in the local South 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-South 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 on the next page.

Section 5 continued
Balance sheet

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 previous €465 million SPH Revolving Credit Facility maturing in 2020 was renewed with a new €525 million Revolving Credit Facility maturing in 2023.
- The conversion project at the Somerset Mill is financed with a €150 million term loan. The facility was arranged with the OeKB (Öesterreichische Kontrollbank, an Austrian development bank). This long-term facility is structured as a seven-year term facility with drawings taking place in line with the progress of the project and is now fully drawn.
- The purchase price for the Cham Paper Group acquisition was funded from cash resources at SPH.
- The SSA05 ZAR500 million bond in South Africa was repaid from local cash resources.
- A new biomass project at the Ngodwana Mill in South Africa achieved financial closing during the year. This project will use biomass from the Ngodwana Mill to provide electricity to the South African electricity provider, Eskom. The ZAR1.8 billion (approximately. US$127 million) project is structured on a project finance basis with two local banks and various equity partners. Construction has commenced and the construction period will be approximately 30 months. The contract with Eskom is to supply electricity for an initial period of 20 years.

Structure of net debt and liquidity

We consider the liquidity position to be sufficient, with cash holdings exceeding short-term obligations by US$250 million at fiscal year-end. In addition, Sappi has US$680 million of unutilised committed credit facilities, including the Revolving Credit Facility at SPH of €525 million (US$609 million).

The structure of our net debt at September 2018 and 2017 is summarised below:

(US$ million)	2018	2017
Long-term debt	**1,818**	1,739
Senior unsecured debt	**1,471**	1,436
Securitisation funding	**376**	364
Less: Short-term portion	**(29)**	(61)
Net short-term debt/(cash)	**(250)**	(417)
Overdrafts and short-term loans	**84**	72
Short-term portion of long-term debt	**29**	61
Less: Cash	**(363)**	(550)
Net debt	**1,568**	1,322

Section 5 continued
Balance sheet

Movement in net debt

The movement of our net debt from fiscal 2017 to fiscal 2018 is explained in the table below:

(US$ million)	2018
Net debt as at September 2017	1,322
Net cash utilised	122
Cham Paper Group acquisition price	132
Acquired debt, Cham Paper Group	12
Currency and other movements	(20)
Net debt as at September 2018	**1,568**

Group debt profile

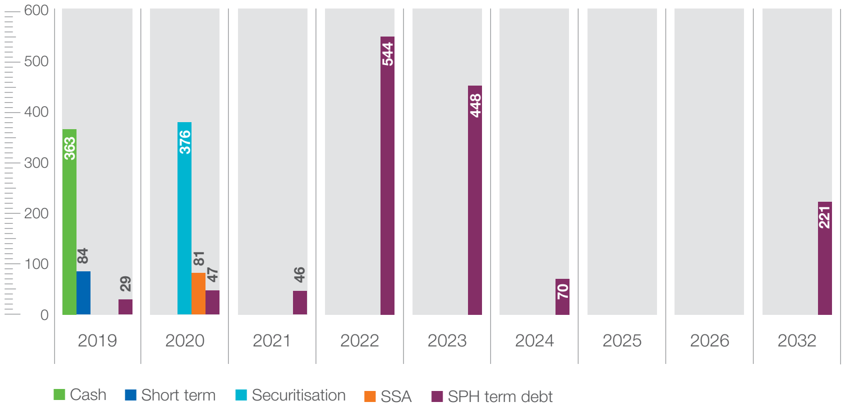
We show the major components and maturities of our net debt at September 2018 below. These are split between our debt in South Africa and our debt outside South Africa.

	Amount US$ million	Interest rates (local currencies)	Fixed/ variable	Maturity (Sappi fiscal years) 2019	2020	2021	2022	Thereafter
Southern Africa								
Bank debt	28	7.85%	Variable		28			
2020 bond	53	8.06%	Fixed		53			
Gross debt	81							
Less: Cash	(72)			(72)				
Net SA debt	9			(72)	81	0	0	0
Non-Southern African								
Securitisation (US$)	134	3.53%	Variable		134			
Securitisation (EUR)	242	1.38%	Variable		242			
OeKB term loan 1	71	1.25%	Fixed	24	24	24		
OeKB term loan 2	174	2.20%	Fixed		21	21	21	111
Other bank debt	95	0.43%	Variable	90	2.9	1.4	0.6	1
2022 bonds (EUR)	522	3.38%	Fixed				522.4	
2023 bonds (EUR)	406	4.00%	Fixed					406
2032 bonds (US$)	221	7.50%	Fixed					221
IFRS adjustments	(16)							(16)
Gross debt	1,850							
Less: Cash	(291)			(291)				
Net non-SA debt	1,559			(178)	423	46	544	724
Net group debt	1,568			(250)	504	46	544	724

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 for Sappi fiscal years (US$ million)



Covenants

Non-South African covenants

Financial covenants apply to US$245 million of our non-South African bank debt, the €525 million revolving credit facility and our securitisation borrowings.

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

- The ratio of group net debt to EBITDA be not greater than 3.75-to-1, and
- The ratio of group EBITDA to net interest expense be not less than 2.50-to-1.

The table below shows that at September 2018 we were well in compliance with these covenants.

Non-South African covenants	2018	Covenant
Net debt to EBITDA	**2.07**	<3.75
EBITDA to net interest	**11.18**	>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.

Section 5 continued
Balance sheet

South African covenants

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

These covenants are calculated on a rolling 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 2018 the South African financial covenants were comfortably met.

South African covenants	2018	Covenant
Net debt to equity	**0.62%**	<65%
EBITDA to net interest	**Net interest received**	>2.00

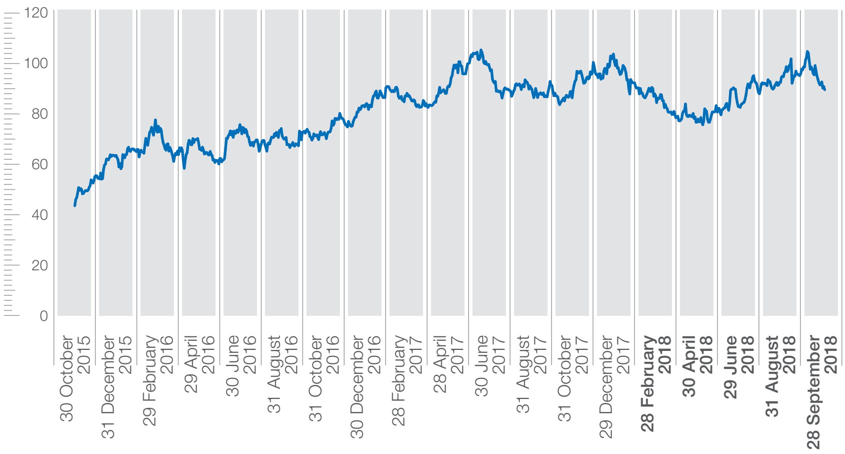
Credit ratings

Global Credit Ratings: South African national rating	Sappi Southern Africa Limited: • A+(za)/A1+(za)/Positive Outlook (May 2018)
Moody's	Sappi corporate family rating: • Ba2/NP/Positive Outlook (June 2018) SPH debt rating: • 2022/2023 Bonds and RCF: Ba2/Positive Outlook (May 2018) • 2032 Bonds: B1
S&P Global Ratings	Corporate credit rating: • BB/B/Stable Outlook (June 2018) SPH debt rating: • 2022/2023/2032 Bonds and RCF: BB Stable Outlook (June 2018)

Section 6
Share price performance

A dividend of 17 US cents has been declared

Sappi share price – October 2015 to September 2018
(ZAR)



Conclusion

We embarked on major capital expenditure projects in all three operating regions during the year under review. The growth in our specialities and packaging papers and dissolving wood pulp (DWP) sectors was in line with expectations and confirmed our decision to invest in these areas. The steep increase in variable costs was offset by selling price increases, but the lag in implementing the price increases reduced margins.

The four main objectives of our strategy were evident during the year. The increase in purchased pulp and delivery costs was tempered by internal cost reduction initiatives of US$82 million. We rationalised the business by converting coated woodfree paper capacity in Europe and North America to packaging paper capacity. The balance sheet was managed close to the leverage target of two times net debt to EBITDA during a transition year which included capital expenditure of US$541 million and the acquisition of the Cham Paper Group of US$132 million. There was growth in higher margin products as we completed debottlenecking projects at Saiccor and Ngodwana Mills to increase production of DWP and invested in specialities and packaging papers capacity.

We start fiscal 2019 on a sound financial platform.

G T Pearce
Chief Financial Officer

safety
IS NOT SOMETHING WE CAN ACHIEVE ALONE

Meerkats are uniquely adapted to the harsh desert environments they generally inhabit—the dark patches around their eyes reduce the glare of the sun while their colouration helps camouflage them from predators. But more than these adaptations, it is their ability to work together and to communicate that enables them not just to survive, but also to thrive.

They live in tightly-knit groups or mobs, with all members of the mob participating in gathering food and taking care of the young.

In addition, while meerkats are foraging—they do this by digging in sand which prevents them from visually scanning their surrounding for predators—'sentinels' contribute to the general safety of the mob by keeping a lookout for danger.

These high levels of social cohesion are enhanced by meerkats' ability to produce six different sentinel calls which warn those foraging about approaching predators like martial eagles, jackals and caracals. A particular call warns of a specific type of danger.

Similarly, our overall approach to safety, encapsulated in our 2018 '*Own Safety, Share Safety*' theme, is based on the power of teamwork in creating a safe work environment. We expect all our people to participate in our concerted safety drive and will not accept the status quo. This means raising the alarm when identifying a barrier to safety so that we can remove it. It means making our colleagues aware of unsafe behaviour and helping them understand how they need to change.

Ultimately, it means being on the lookout for the unexpected, having the courage to speak up and taking action in order to flourish and thrive, certain in the knowledge that all our people go home safely to their families at the end of every working day.

Our leadership

Non-executive directors

Sir Nigel Rudd (71)
Independent Chairman
Qualifications: DL, Chartered Accountant
Nationality: British
Appointed: April 2006

Skills, expertise and experience
Having founded Williams plc, one of the largest industrial holding companies in the United Kingdom, and with more than 35 years of experience, Sir Nigel Rudd brings his expertise in finance, management, governance and leadership to the Sappi board.

Michael Anthony Fallon (Mike) (60)
Independent
Qualifications: BSc Hons (First Class)
Nationality: British
Appointed: September 2011

Skills, expertise and experience
Mr Fallon's management and leadership experience extend across a wide range of functions from plant management, sales and marketing and supply chain to general management, and includes mergers and acquisitions, strategy development and governance.

Sappi board committee memberships:
- Audit and Risk Committee
- Human Resources and Compensation Committee
- Nomination and Governance Committee
- Social, Ethics, Transformation and Sustainability Committee

Nkateko Peter Mageza (Peter) (64)
Independent
Qualifications: FCCA (UK)
Nationality: South African
Appointed: January 2010

Skills, expertise and experience
With expertise in leadership and management, Mr Mageza has held senior executive positions across a wide range of industries.

John David McKenzie (Jock) (71)
Lead independent director
Qualifications: BSc (Chemical Engineering) (cum laude), MA, PMD
Nationality: South African
Appointed: September 2007

Skills, expertise and experience
Mr McKenzie joined the Sappi board after having held senior executive positions globally and in South Africa, in the public and private sectors. His experience includes strategy, leadership and governance, amongst others.

Dr Bonakele Mehlomakulu (Boni) (46)
Independent
Qualifications: PhD (Chemical Engineering)
Nationality: South African
Appointed: March 2017

Skills, expertise and experience
With a PhD in Chemical Engineering, Dr Mehlomakulu has experience and expertise in engineering, management and leadership.

Mohammed Valli Moosa (Valli) (61)
Independent
Qualifications: BSc (Mathematics and Physics)
Nationality: South African
Appointed: August 2010

Skills, expertise and experience
Mr Moosa has held numerous leadership positions across business, government, politics and civil society in South Africa and internationally. Mr Moosa has expertise in finance, general business and mining and is an international expert on sustainable development and climate change.

Karen Rohn Osar (69)
Independent
Qualifications: MBA (Finance)
Nationality: American
Appointed: May 2007

Skills, expertise and experience
Mrs Osar has extensive experience across multiple industries and brings her expertise in leadership, corporate activities and financing to the Sappi board.

Robertus Johannes Antonius Maria Renders (Rob Jan) (65)
Independent
Qualifications: MSc (Mechanical Engineering), MDP
Nationality: Dutch
Appointed: October 2015

Skills, expertise and experience
Currently a business consultant, Mr Renders has extensive experience in governance and leadership as well as operational expertise in manufacturing and packaging internationally.

Dr Rudolf Thummer* (71)
Independent
Qualifications: Dr Techn (Polymer Science), Dipl-Ing
Nationality: Austrian
Appointed: February 2010
Retired: December 2017

Skills, expertise and experience
Dr Thummer has worked in the pulp and paper industry for many years, developing a depth of experience in research and development as well as technology and innovation.

* Retired during current reporting period.

Dr Deenadayalen Konar* (Len) (64)
Independent
Qualifications: BCom, MAS, DCom, CA(SA), CRMA
Nationality: South African
Appointed: March 2002
Retired: January 2018

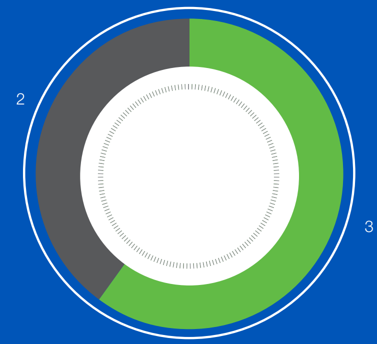
Skills, expertise and experience
As the previous Professor and Head of the Department of Accountancy at the University of Durban-Westville, and current member of the King Committee on Corporate Governance in South Africa and the SA Institute of Directors, Dr Konar has a wealth of experience in governance, accountancy and oversight.

* Retired during current reporting period.

Robert John DeKoch (Bob) (66)
Non-independent
Qualifications: BA (Chemistry), MBA
Nationality: American
Appointed: March 2013
Retired: August 2018

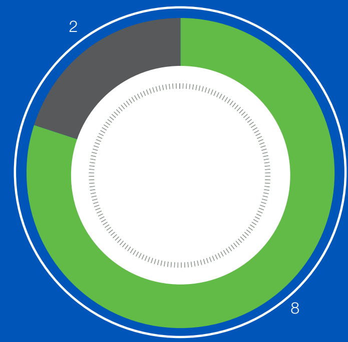
Skills, expertise and experience
Mr DeKoch's experience includes production and mill management, coupled with a deep understanding of leadership thinking.

Race (South Africa only)



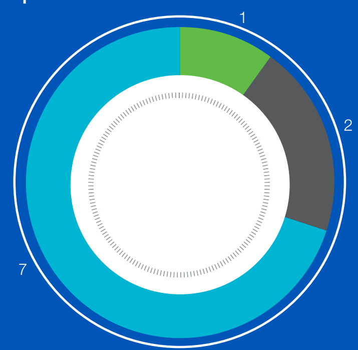
African, Coloured and Indian
White

Gender



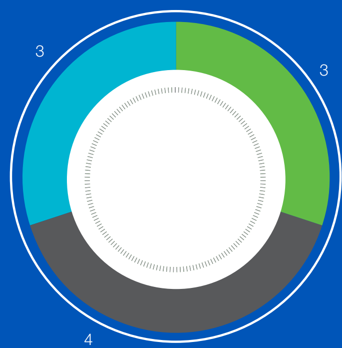
Male
Female

Independence



Non-independent directors
Independent directors
Executive directors

Tenure



0 to 5 years
11+ years
6 to 10 years

Our leadership *continued*

Executive directors

Stephen Robert Binnie (Steve) (51)
Chief Executive Officer
Qualifications: BCom, BAcc, CA(SA), MBA
Nationality: British
Appointed: September 2012

Skills, expertise and experience
Mr Binnie was appointed Chief Executive Officer of Sappi Limited in July 2014. He has extensive experience in financial management, leadership, corporate activity and strategy.

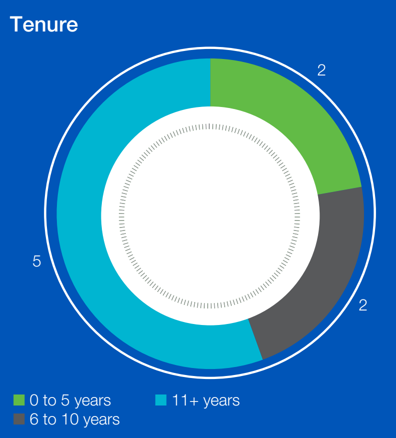
Attends meetings of all other board committees by invitation.

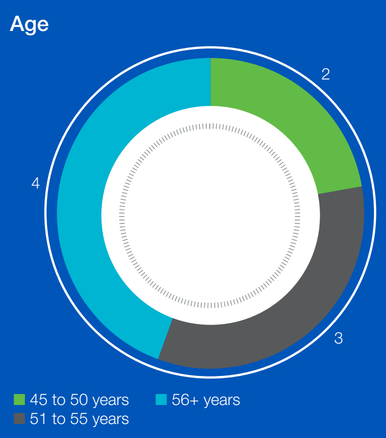
Glen Thomas Pearce (55)
Chief Financial Officer
Qualifications: BCom, BCom Hons, CA(SA)
Nationality: South African
Appointed: July 2014

Skills, expertise and experience
Mr Pearce has extensive financial management experience, both locally and abroad, and was promoted to Chief Financial Officer and executive director of Sappi Limited in July 2014.

Sappi board committee memberships:

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





Executive management

Berend John Wiersum (Berry) (63)
Chief Executive Officer of Sappi Europe
Qualifications: MA (Medieval and Modern History)
Appointed: January 2007

Skills, expertise and experience
Mr Wiersum brings a deep experience to the Sappi board, with experience in the paper and packaging industry across Europe, as well as mergers and acquisitions.

Mark Gardner (63)
President and Chief Executive Officer of Sappi North America
Qualifications: BSc (Industrial Technology)
Appointed: September 1981

Skills, expertise and experience
With qualifications in statistical process control, management effectiveness design, change management and business optimisation, Mr Gardner offers his experience in manufacturing, production and supply chain management to the Sappi board.

Alexander van Coller Thiel (Alex) (57)
Chief Executive Officer of Sappi Southern Africa
Qualifications: BSc (Mechanical Engineering), MBA (Financial Management and Information Technology)
Appointed: December 1989

Skills, expertise and experience
Mr Thiel has a long history with Sappi. His experience and expertise includes marketing, logistics, procurement, strategy and operations across Europe and Southern Africa.

Gary Bowles (58)
Group Head Technology
Qualifications: BSc (Electrical Engineering), GCC, PR Eng, PMD, EDP
Appointed: November 1990

Skills, expertise and experience
With 28 years' experience with Sappi, Mr Bowles has a deep understanding of the organisation. Mr Bowles has expertise in engineering, research, manufacturing, project execution, operational and risk management.

Mohamed Mansoor (51)
Executive Vice President of Sappi Dissolving Wood Pulp
Qualifications: BSc (Chemistry and Mathematics), BSc Hons (Chemistry), MBA
Appointed: August 1991

Skills, expertise and experience
Mr Mansoor's expertise includes contract negotiation and management, supply chain management, strategic planning, sales management, key account management, dissolving wood pulp, international logistics and technical application support.

Fergus Marupen (53)
Group Head Human Resources
Qualifications: BA Hons (Psychology), BEd (Education Management), MBA
Appointed: March 2015

Skills, expertise and experience
Mr Marupen's experience across a variety of industries in South Africa enables him to offer insight into human resources, governance and management, amongst many other fields.

Maarten van Hoven (45)
Group Head Strategy and Legal
Qualifications: BProc, LLM (International Business Law)
Appointed: December 2011

Skills, expertise and experience
As an admitted attorney of the High Court in South Africa, Mr Van Hoven brings expertise in corporate, commercial and competition law, both in private and public sectors, as well as experience in mergers and acquisitions.

Corporate governance

Sappi is committed to the highest 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 effective control of the business, legitimacy and good performance. Governance is one of our key enablers to unlocking and protecting value, as we optimise the use of our capitals, address our key risks while taking advantage of exciting opportunities (see **Risk management** on page 60), while minimising the negative impacts of trade-offs that have to be made, as set out in the presentation of our key material issues (see **Key material issues** on page 42). The group endorses the recommendations contained in the King Code of Governance Principles for South Africa 2016 (King IV) and applies the various principles in the achievement of good governance outcomes.

See **2018 King IV** on www.sappi.com/annual-reports for an application register of how Sappi applies the King IV principles.

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.

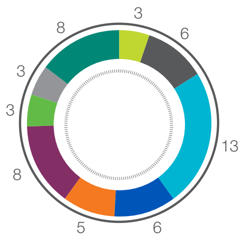
See **2018 Our leadership and executive management** on www.sappi.com/annual-reports.

Overall committee attendance rate

99%

Skills and experience

Our well diversified board fosters integrated thinking in order to create value for our stakeholders in the short-, medium- and long-term.



- Banking
- Financial services/insurance/asset management
- Industrial/manufacturing/construction/logistics/retail
- Pulp, paper and packaging
- Mining resources
- Accounting and auditing
- Economics/public/macropolicy
- Innovation/information technology/digital
- Human resources/strategic planning/stakeholder management

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 2018:

					Board committees											
Name	**Status**	**Board**			**Audit and Risk**			**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	5/5	✓		3/3
GT Pearce	Chief Financial Officer	✓		6/6		B	5/5								B	1/3
Sir Nigel Rudd	Independent non-executive Chairman	✓	C	6/6		E	4/5	✓	C	3/3		E	4/5		E	3/3
RJ DeKoch(1)	Non-executive (retired 16/8/2018)	✓	R	6/6										✓	R	3/3
MA Fallon	Independent non-executive	✓		6/6	✓		5/5				✓	C	5/5		B	1/3
D Konar(2)	Independent non-executive (retired 31/1/2018)	✓	R	3/3	✓	C/R	2/2	✓	R	1/1						
JD McKenzie	Lead independent director	✓		6/6				✓		3/3	✓		5/5		B	3/3
NP Mageza(3)	Independent non-executive	✓		6/6	✓	C	4/5				✓		4/5			
B Mehlomakulu	Independent non-executive	✓		5/6										✓		3/3
MV Moosa(4)	Independent non-executive	✓		6/6		B	2/5	✓		1/1				✓	C	3/3
KR Osar	Independent non-executive	✓		6/6	✓		5/5									
RJAM Renders	Independent non-executive	✓		6/6	✓		5/5				✓		5/5		B	1/3
R Thummer(5)	Independent non-executive (retired 31/12/2017)	✓	R	3/3										✓	R	2/2
Attendance by board and board committee members (%)				99			95			100			95			100

(1) Mr RJ DeKoch retired from the board of Sappi Limited and the SETS Committee with effect from 16 August 2018.
(2) Dr D Konar retired from the Sappi Limited board and the Audit and Risk Committee with effect from 31 January 2018.
(3) Mr Peter Mageza was appointed Chairman of the Audit and Risk Committee following Dr D Konar's retirement with effect from 31 January 2018. Mr Mageza was also designated as the Audit and Risk Committee financial expert from 31 January 2018.
(4) Mr MV Moosa was appointed to Nomination and Governance Committee with effect from 06 February 2018.
(5) Dr R Thummer retired from the board of Sappi Limited and the SETS Committee with effect from 31 December 2017.
Other ✓ Indicates board committee membership, **C** indicates board committee chairman, **B** indicates attendance by invitation, **E** indicates attendance ex officio and **R** indicates that the director retired from the Sappi Limited board and the respective sub-committee. 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 all directors receive training tailored to their individual needs, when required.

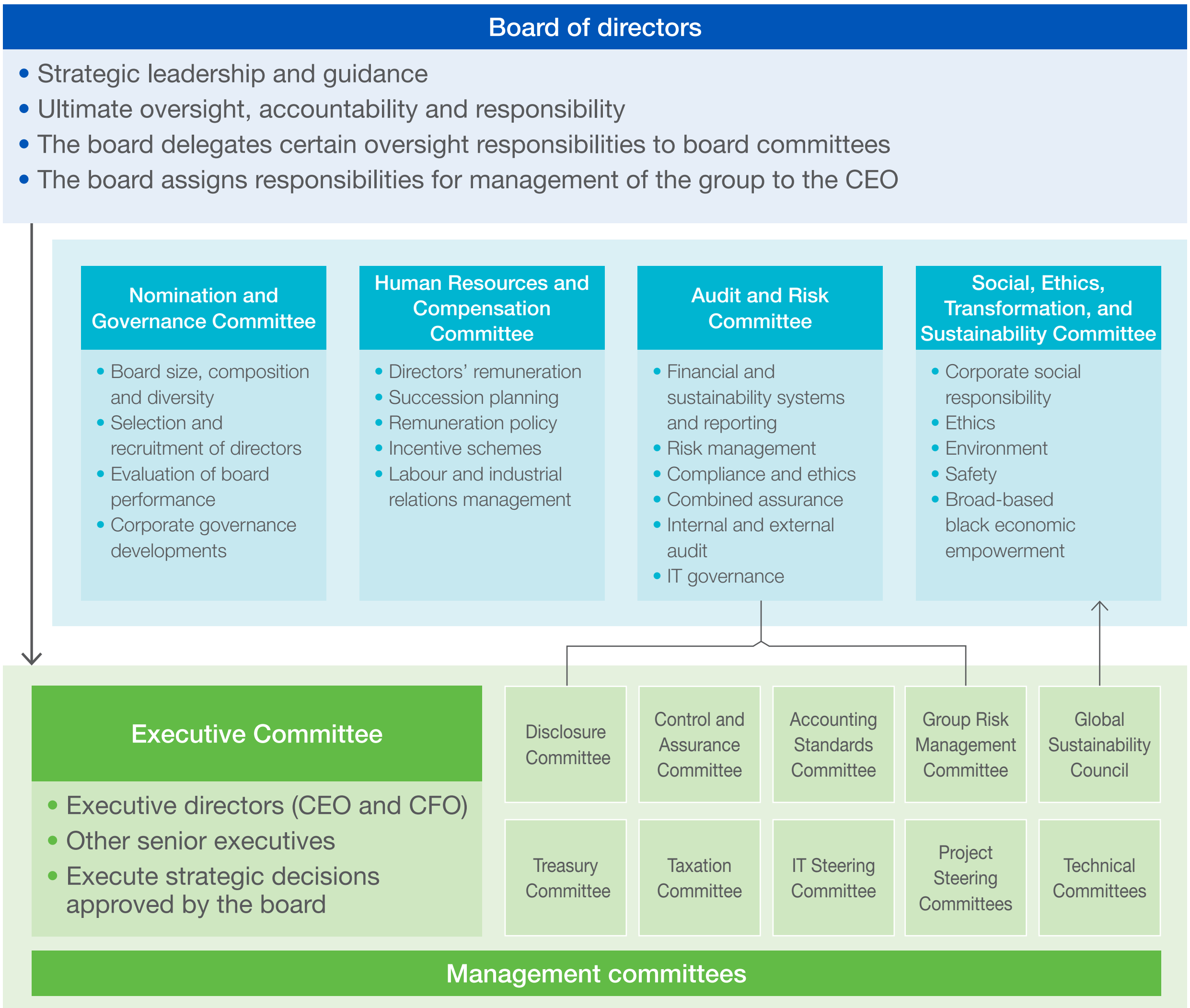
Stakeholder communication

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. The reporting includes information on key trade-offs that have to be made. 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** on www.sappi.com/policies. 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).

See **Our key relationships** on page 32 for more information.

Sappi board and management committees

Board and management committees have been established and are discussed on pages 96 to 100.



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 and Risk Committee

NP Mageza
Chairman

Appointed: 31 January 2018

Membership details at September 2018:
- NP Mageza
- MA Fallon
- KR Osar
- RJAM Renders

95%
overall committee attendance rate

Roles and responsibilities

The Audit and Risk Committee consists of four independent, non-executive directors. The committee 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 the integrity of financial information and the preparing of accurate financial reports in compliance with applicable regulations and accounting standards
- Reviewing the quality and transparency of 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, independence and performance. For 2018, this included close monitoring of the audit activities of the recently appointed external audit firm KPMG, as well as the ongoing review of reputational concerns relating to media reports involving KPMG South Africa
- 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.

Strategic focus areas

The Audit and Risk Committee helped to protect value by providing oversight and guidance for a wide range of topics, including the following areas related to Sappi's strategy:
- Global Business Systems projects tasked with harmonising diverse systems and processes, in order to achieve streamlined, effective ways of working across the group and the associated cost advantages
- Investment projects designed to rationalise declining businesses
- Management's efforts to maintain a healthy balance sheet
- Projects to accelerate the group's ability to take advantage of opportunities in higher margin growth segments, such as in dissolving wood pulp, specialities and packaging papers and the biotech field.

Areas of additional oversight for the committee in 2019 will be:
- Refinement of the risk framework
- Additional oversight of the expanded scope of the repurposed Control and Assurance Committee (CAC), and
- A continuation of the monitoring of the performance and reputation of external audit.

See **2018 Audit and Risk Committee Report** on www.sappi.com/annual-reports for more information.

The Audit and Risk Committee confirms that it has received and considered sufficient and relevant information to fulfil its duties, as set out in the Audit and Risk Committee Report.

The external and internal auditors attended Audit and Risk Committee meetings and had unrestricted access to the committee and chairman. The external and internal auditors met privately with the Audit and Risk Committee during 2018.

Mr NP Mageza was appointed Chairman and designated financial expert of the Audit and Risk Committee following Dr D Konar's retirement, effective 31 January 2018. Mr Mageza attended the Annual General Meeting (AGM) held on 07 February 2018. Ms ZN Malinga, joined the board and the Audit and Risk Committee with effect from 01 October 2018.

Stakeholders

The Audit and Risk Committee has helped to protect value for the following stakeholders: **employees, customers, shareholders and regulators.**

See **Our key relationships** on page 32 for more information.

Risks

The Audit and Risk Committee has provided oversight for all the risk in the Group Risk Register and this includes addressing the following top 10 risks:
(1) Employee safety
(2) Cyclical macro-economic context
(3) Highly competitive industry
(4) Project implementation
(5) Evolving technologies and consumer preferences
(6) Uncertain and evolving regulatory landscape
(7) Foreign exchange volatility
(8) Natural resource constraints
(9) Market share and customer concentration
(10) Employee relations

See **Risk management** on page 60 for more information.

Nomination and Governance Committee

Sir Nigel Rudd
Chairman

Membership details at September 2018:
- Sir Nigel Rudd
- JD McKenzie
- MV Moosa

Roles and responsibilities

100%
overall committee attendance rate

The Nomination and Governance Committee consists of three independent directors. The committee considers the leadership and governance 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 externally in 2018 and established that the board and board committees functioned well.

Strategic focus areas

The Nomination and Governance Committee helped to protect value by providing oversight and guidance in 2018 over:
- Corporate governance
- Tone at the top
- Succession plans for senior executives and the board
- Assessment of the board and board committee performance, and
- Rotation and replacement of directors.

A focus area for 2019 will be board succession planning.

Stakeholders

The Nomination and Governance Committee has helped to protect value primarily for the following stakeholders: **shareholders and regulators**.

See **Our key relationships** on page 32 for more information.

Risks

The Nomination and Governance Committee focused on the following of the top 10 risks:
(1) Employee safety
(4) Project implementation

See **Risk management** on page 60 for more information.

Corporate governance *continued*

Human Resources and Compensation Committee

MA Fallon
Chairman

Membership details at September 2018:
- MA Fallon
- NP Mageza
- JD McKenzie
- RJAM Renders

Roles and responsibilities

95%
overall committee attendance rate

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 to executive proposals on the compensation of non-executive directors for approval by the board and ultimately by shareholders.

Strategic focus areas

The key focus area in 2018 was to review Sappi's compensation policy and practices to ensure alignment and compliance to the requirements of King IV. The Sappi Limited AGM was held on 07 February 2018 and the requisite ordinary resolutions endorsing the remuneration policy (99% majority) and the implementation reports (92% majority) were passed. This vote by our shareholders is an endorsement for our ongoing commitment to good governance and disclosure.

The strategic focus areas for the committee in 2019 will be:
- To maintain high standards of corporate governance and supports and applies the principles of good governance advocated by the South African Institute of Directors (IoD) and the King IV Report on Corporate Governance for South Africa 2016 (King IV). This will ensure compliance with legal and regulatory requirements as they pertain to compensation, and
- To review succession and retirement plans for key positions in Sappi.

See **Remuneration Report** on page 105 for more information.

Stakeholders

The Human Resources and Compensation Committee has helped to protect value primarily for the following stakeholders: **employees, shareholders and regulators**.

See **Our key relationships** on page 32 and **Remuneration Report** on page 105 for more information.

Risks

The Human Resources and Compensation Committee has focused on the following of the top 10 risks:
(1) Employee safety
(2) Cyclical macro-economic context
(3) Highly competitive industry
(4) Project implementation
(5) Uncertain and evolving regulatory landscape
(10) Employee relations

See **Risk management** on page 60 for more information.

Social, Ethics, Transformation and Sustainability Committee

MV Moosa
Chairman

Appointed: 06 February 2018

Membership details at September 2018:
- MV Moosa
- SR Binnie
- B Mehlomakulu

Roles and responsibilities

100%
overall committee attendance rate

The Social, Ethics, Transformation and Sustainability (SETS) Committee comprises two independent non-executive directors, and the CEO. A 100% attendance record was achieved by board committee members for 2018. Other executive and group management committee members attend SETS Committee meetings by invitation. Dr R Thummer retired from the board and the SETS Committee on 31 December 2017 and Mr R DeKock retired from the board and SETS Committee on 16 August 2018.

The committees 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 regards to the group's South African subsidiaries, the strategic business priority of transformation.

The SETS Committee is supported by the Global Sustainability Council as well as by regional sustainability committees in dealing with day-to-day sustainability issues and helping to develop and entrench related initiatives in the business.

Strategic focus areas

In 2018 the committee:
- Approved the implementation of a Supplier Code of Conduct which will enable Sappi to manage our supply chain risks more closely
- Approved safety initiatives including studies by outside experts to help Sappi imbed safety first practices, not just in the workplace, but in all aspects of our employees lives
- Oversaw external assurance on LTIFR and emissions data as well as environmental impact analyses for major investment projects
- Considered trade-offs between:
  – Productivity and safety advantages of mechanisation and the social and human capital implications, and
  – Financial and natural capitals relating to the use of coal versus other renewable energy fuels for our heating requirements).

The strategic focus areas for the committee in 2019 will be:
- Overseeing an emerging risk and opportunity in the textile supply chain where major fashion brands are becoming far more aware of supply chain risks and the trade-offs between alternative textiles, and
- Safety initiatives.

See **SETS Committee Report** on page 118 and **Our global 2020 sustainability goals** on page 40 for more information.

Stakeholders

The SETS Committee has a broad spread of stakeholders for which it helps to protect (or create) value: ***suppliers, customers, employees, regulators, shareholders and society***.

See **Our key relationships** on page 32 for more information.

Risks

The SETS Committee has focused on the following of the top 10 risks:
(1) Employee safety
(4) Project implementation
(5) Evolving technologies and consumer preferences
(8) Natural resource constraints
(9) Market share and customer concentration
(10) Employee relations

See **Risk management** on page 60 for more information.

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. The management committees are a key component of Sappi's second line of defence and assurance. See **Risk management** on page 60 for additional details of Sappi's approach to risk, controls and assurance.

Executive Committee

This committee comprises executive directors and senior management from Sappi Limited as well as the CEOs of the three main regional and dissolving wood pulp business units. 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 regards to disclosure.

Treasury Committee

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

Taxation Committee

The Taxation Committee meets monthly to discuss and address global taxation matters.

Project Steering Committees

For key strategic projects, steering committees are established to oversee successful execution of the project.

Technical Committees

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

Group Risk Management Committee

The committee is known as the Group Risk Management Team (GRMT) and is mandated by the board 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 and Risk Committee and the board. Risk management software is used to support the risk management process.

Control and Assurance 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. One of the main focus areas for 2018 was to formulate plans for expanding the scope of the committee to include, in a more thorough manner, oversight of the combined assurance process and coordination of assurance providers at Sappi. In its expanded role, this revised committee, which will be known as the Control and Assurance Committee (CAC), will be accountable to the Group Risk Management Team (GRMT) and the Audit and Risk Committee.

The committee will, among other things, oversee the activities of control and assurance workgroups (CAW) established to review key risks, identify risk mitigations and controls, assurance provision and identification of any gaps and subsequent remediation activities. The first working group will meet in the first financial quarter of 2019 and will focus on IT security risks, fibre certification risk as well as our periodic review and streamlining of the group's risk and control framework, which is the foundation for Sappi's first line of defence and assurance.

IT Steering Committee

The 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 and Risk Committee and the board. An IT governance framework has been developed and IT feedback reports are presented to the Audit and Risk 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. The committee has helped to create value for shareholders in 2018 by its oversight of:

- The SAP S/4HANA project which forms part of Sappi's Global Business Systems project in support of the One Sappi strategy to achieve cost advantages, and
- The negotiation of an enterprise licence agreement with Microsoft, which included migration to Office 365.

Oversight by the committee will continue in 2019 for these IT initiatives, as well as:

- The integration of the SAP systems of the recently acquired operating units in Italy into Sappi's SAP environment, and
- The implementation of COBIT 2019.

Ensuring **leadership through ethics and integrity**

Sappi is committed to doing business the right way. Trust is created by operating from a commonly accepted set of values, enhancing and protecting our reputation. We require our 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.

Code of Ethics

Our values underpin the group's Code of Ethics and commit the group and its employees to sound business practices and compliance with applicable legislation, which help to promote legitimacy.

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 and 2018.

See **Code of Ethics** on www.sappi.com/code-of-ethics.

Legal compliance programme

The programme is designed to increase awareness of, and enhance compliance with, applicable legislation is in place. The group compliance officer reports twice per annum to the Audit and Risk Committee.

Sappi enhanced the legal compliance programme in 2018 by the acquisition and implementation of Exclaim legal compliance software for Sappi group and Sappi Southern Africa. In addition, online training has been provided to employees across the group on relevant core legal compliance topics.

We intend to expand the use of the Exclaim software in support of our legal compliance responsibilities in 2019. This will help to create and protect value primarily for employees, customers, shareholders and regulators.

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 that 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.

See **Code of Ethics** (Preventing fraud and corruption) on www.sappi.com/code-of-ethics.

Insider trading

The company has a code of conduct for dealing in company securities and follows the JSE Limited listings requirements in this regard.

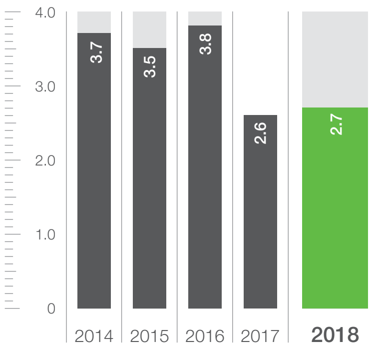
See **Code of Ethics** (Insider trading) on www.sappi.com/code-of-ethics.

Reporting on compliance and ethics concerns

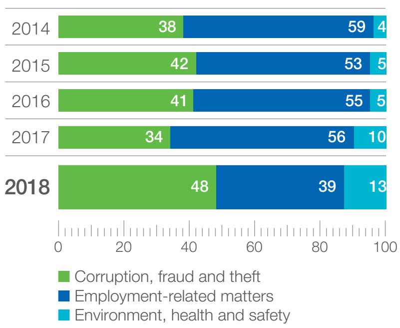
Sappi employees and stakeholders can report any potential illegal or non-compliant behaviour they observe directly to (senior) management, internal audit or legal counsel, or alternatively, report anonymously, via telephone or an online form. Whistle-blower 'hotlines' have been implemented in all the 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 and Risk 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.

See **Code of Ethics** (Reporting and whistle-blowing) on www.sappi.com/code-of-ethics.

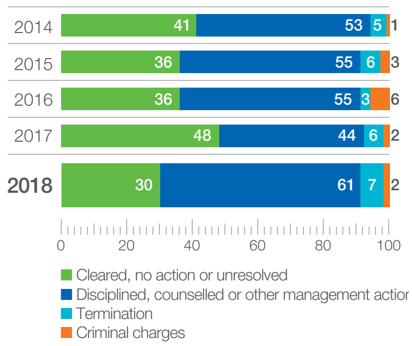
Hotline report rate per 1,000 employees



Analysis of hotline and ethics reports by category (%)



Analysis of hotline and ethics report case outcomes (%)



Corporate governance *continued*

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 as well as the Audit and Risk Committee, and
- Interim and final results – by external audit.

Risk, controls and assurance at Sappi

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 and the achievement of governance outcomes by helping to: create an ethical culture; establishing effective control; and promoting legitimacy, all of which helps Sappi and its stakeholders to benefit from good performance. The framework includes controls addressing our material matters, by focusing on the main drivers of Sappi and comprises both financial and non-financial controls, which support the achievement of 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.

See **Our strategy and performance** on page 3 and **Our global 2020 sustainability goals** on page 40 for more information on these capitals and integrated thinking in the context of Sappi's sustainable business model.

The group's internal controls and systems are designed in accordance with the COSO control framework to support the achievement of the group's objectives including strategic, operational and financial performance goals, effective and efficient use of resources, safeguarding assets against material loss, integrity and reliability of internal and external financial and non-financial reporting, and compliance 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.

During 2018, we further developed our approach to combined assurance which will be overseen by the repurposed Control and Assurance Committee (CAC). The committee and workgroups it establishes will be tasked with providing more holistic feedback to the GRMT and Audit and Risk Committee on the state of controls and the quality and coverage of assurance from the various assurance providers across Sappi's three lines of defence.

Sappi's combined assurance framework, incorporating the three lines of defence and oversight by the board and board sub-committees

	First line of defence	Second line of defence	Third line of defence	Oversight by the board
Risk areas and value drivers, capitals	Business management operations supported by appropriate controls and systems	Monitoring and oversight functions	Independent assurance provided by external audit, internal audit and other assurance providers	Board and board sub-committees
Governance, risk, and controls – general (core business cycles)	Day-to-day risk management activity Established risk and control environment: Executive, corporate and regional lead teams Corporate and regional business functions, eg sales, finance, IT, HR, purchasing Business units, eg forestry, mills, sales offices Business unit operations, eg production, engineering, controlling, materials management	Control and Assurance Committee management self-assessments	Internal audit	Audit and Risk Committee
Strategy and vision; competition and markets; socio-political		Executive Committee, Group Head Strategy, Control and Assurance Committee, management self-assessments	Internal audit	Nomination and Governance Committee
Financial, tax and treasury		Control and assurance, accounting standards, taxation, Treasury and Disclosure Committees, management self-assessments	KPMG, tax authorities, internal audit	Audit and Risk Committee
Legal and compliance		Legal Compliance Programme, Group Compliance Manager	Legal compliance audits, internal audit	Audit and Risk, SETS, HR and Compensation Committees
IT		IT Steering Committee; Group IT Governance functions, management self-assessments	KPMG, ISA 3402s, penetration testing, internal audit	Audit and Risk Committee
Planet, environment, natural capital		Sustainability councils, Environmental and Energy (E4) Global Cluster, GRMT	ISO 14001, FSC, PEFC, EMAS, KPMG Government reviews emissions effluent etc internal audit	SETS Committee
Ethics		Group Compliance Manager, ethics surveys, management self-assessments	Internal audit	SETS Committee
People, HR and transformation		Global HR Committee, regional labour forums, employee engagement surveys, management self-assessments	BEE audits, internal audit	Audit and Risk, SETS, HR and Compensation Committees
Research and development, intellectual property		Group Technical Cluster, management self-assessments	ISO 17025, internal audit	SETS Committee
Manufacturing; supply chain management, quality, forestry		Technical clusters and platforms. regional SHEQ audits, supplier audits, management self-assessments	ISO 9001, ISO 50001, FSC-PEFC, Matrix, internal audit	SETS Committee
Stakeholders, communication, reputation, society		Group corporate affairs, sustainability and investor relations functions	Internal audit	SETS Committee
Safety		Group and regional risk management teams, safety audits	OHSAS 18000, regulatory inspections, internal audit	SETS Committee

A key element of combined assurance at Sappi is derived from the annual control self-assessments completed by control owners, which helps to protect value to stakeholders by providing management and the board with assurance on the state of controls throughout the group. Control gaps identified through this process are recorded and remediation progress is monitored by management, relevant committees, auditors and the board.

The Audit and Risk Committee advises the board on the state of risk management 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 integrated report and annual financial statements, on risk management and the effectiveness of internal controls and assurance within Sappi.

As part of combined assurance in respect of reported information, Sappi has obtained assurance on the data in the integrated report from the following sources:

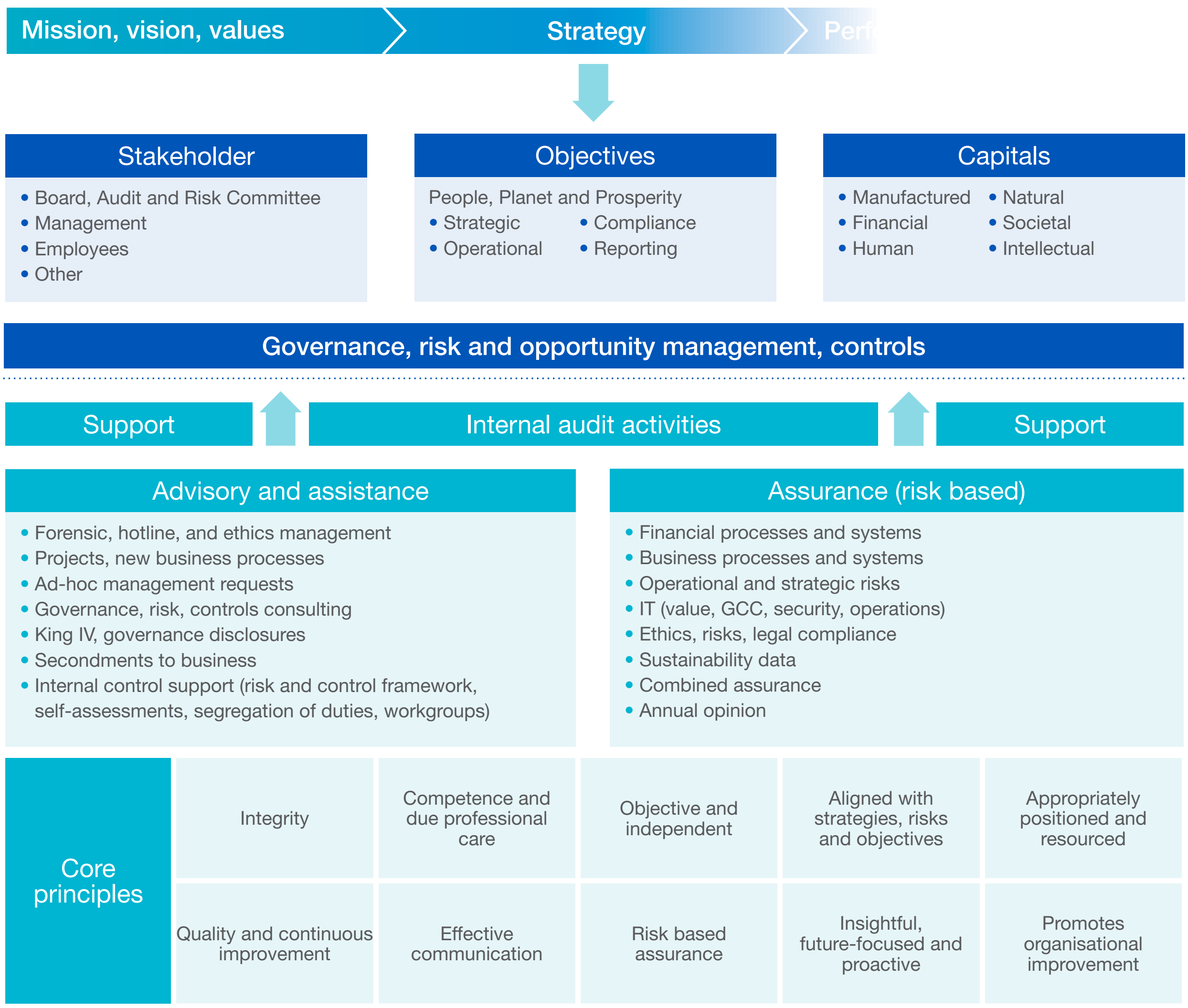
- Financial data is independently audited by KPMG
- External sustainability assurance was obtained from KPMG for direct emissions (Scope 1) tCO_2e and indirect emissions (Scope 2) tCO_2e information as well as specific safety information.
- Specific Planet (environment) related processes are subject to review by third parties during the year. Certain local environmental and safety reporting is subject to audit by local regulators, and
- Limited reviews of sustainability information have been undertaken by central technical management and internal audit.

Internal audit

The group has an effective risk-based Internal Audit Department which is suitably resourced. It has a specific charter from the Audit and Risk 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 the Audit and Risk Committee.

The head of internal audit reports to the Audit and Risk 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



Corporate governance *continued*

During 2018, apart from the ongoing focus on financial controls, which includes supporting Sappi's strategy to maintain a healthy balance sheet, internal audit helped to create and protect value by completing reviews in support of the following strategic objectives:

- **Achieve cost advantages:** Advisory services to the global business systems projects (requisition to pay, sales order to cash, SAP S/4 HANA, shared service centre optimisation)
- **Rationalising declining businesses:** Assurance reviews of contractors and capital expenditure for project balance in Sappi North America, and
- **Accelerate growth in high margin products:** Integration and control onboarding reviews of the newly acquired operating units in the UK and Italy.

In 2019, internal audit will continue to create and protect value for shareholders, management, several management committees, as well as the Audit and Risk Committee by:

- Undertaking further advisory or assurance assignments for strategic projects
- Implementing a more agile approach to establishing the audit plan and to streamline our way of working; and spearheading Sappi's enhanced focus on combined assurance by playing a leading role in coordinating the efforts of control and assurance workgroups (CAW) which will address key risks, provision of assurance and identification of gaps, with feedback to the Control and Assurance Committee (CAC), the GRMT and the Audit and Risk Committee, and
- Capital expenditure and contractor reviews for the Vulindlela project in Sappi Southern Africa.

Internal audit maintains an internal quality assurance programme. An external quality assurance review is undertaken periodically. The most recent review was in 2015, 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. The 2018 review was performed internally and highlighted a need for greater agility as well as more comprehensive combined assurance reporting to the Audit and Risk Committee. Both these opportunities will be addressed in 2019.

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 2018. 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 financial statements, Annual Integrated Report and other reports used internally for management decision making.

Company secretary

The company secretary does not fulfil executive management functions outside of the duties of company secretary and is not a director. During the year, the board has assessed the independence, competence, qualifications and experience of the 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 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.

Remuneration Report

This 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.

The 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 2018.

Section A: Remuneration background statement disclosures

I am pleased to present the committee's report on remuneration. Our report and disclosures fully comply with regulatory and statutory provisions relating to reward governance in all the countries in which we operate. This report is aligned to the principles and recommended practices of the King IV Report on Corporate Governance of South Africa (King IV). This demonstrates our continued commitment to good corporate governance.

Sappi Limited Annual General Meeting (AGM) was held on 07 February 2018 and the requisite ordinary resolutions endorsing the remuneration policy and the implementation reports were passed. These resolutions were passed by a 99% and 92% majority respectively. This vote by our shareholders is an endorsement for our ongoing commitment to good governance and disclosure.

Our shareholders also gave us some guidance on areas where we can improve and to ensure clear disclosure on key items. For 2018 our performance criteria on the Management Incentive Scheme (MIS) has been reviewed and an increased score has been allocated to safety. See page 60 for more information. We value the input of our shareholders and will continue to seek their input to ensure good disclosure.

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 in line with last year. This year continued the ongoing improved performance of the last five years, as reflected in the recent Sunday Times business awards. The group's EBITDA excluding special items was US$762 million, being US$3 million less than the previous year when comparing on a like-for-like basis after adjusting US$20 million for the additional accounting week. Implementing the strategy developed, management planned major capital projects in all three regions in order to transition the business to expand in the growing markets of packaging and dissolving wood pulp. The resultant reduction of available capacity to facilitate the capital projects restricted sales volumes and profitability during the current year, but has laid the foundation for improved returns in the year ahead. The major projects are set to deliver on the expected returns which is supported by the growth in earnings demonstrated in the 2019 budget targets.

These projects include the acquisition of the Cham Paper Group (CPG), conversion of paper machine 1 at our Somerset Mill, the conversion of the paper machine at Maastricht Mill and various dissolving wood pulp debottlenecking projects at Saiccor and Ngodwana Mills in Southern Africa.

With product now successfully flowing from these investments and the successful integration of CPG, the market response has been very encouraging, strongly supporting the strategic direction of Sappi.

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.

The performance period for the 2014 PSP ended on 30 September 2018. Half of this 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 third. The peer group is detailed on page 114 and represents industry players in printing and writing 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 fifth. Thus, 100% on the TSR portion vested. The result has been a net vesting of 100% of the 2014 share awards.

For 2019, the focus for Steve and his leadership team will be:

- Drive the *'Own Safety, Share Safety'* theme
- Continue living the Sappi values (integrity, speed, courage and smart)
- Transition the business towards higher margin growth segments and away from the declining coated woodfree paper
- Discipline in the execution of all projects
- Drive One Sappi initiatives across all the regions
- Reward and the development of our people
- Sustain the environment and improve Sappi's footprint
- Operate machines as efficiently and effectively as possible, and
- Stay focused to achieve our 2020Vision goals and targets an EBITDA of US$1 billion.

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 2018 reflects our successes to date in the delivery of our strategy. I trust that you will support the remuneration resolutions at this year's Annual General Meeting.

Mike Fallon
Chairman
Human Resources and Compensation Committee

Statement of voting at Annual General Meeting

The Annual General Meeting (AGM) of Sappi Limited was held on 07 February 2018 and the requisite resolutions endorsing the remuneration policy and the implementation report were passed as follows:

Ordinary resolution number 7: Non-binding endorsement of remuneration policy

For	Against	Shares voted	Abstain
447,387,560	2,550,370	453,163,691	3,225,761
(99.43%)	(0.57%)	(100%)	

Ordinary resolution number 8: Non-binding endorsement of implementation report

For	Against	Shares voted	Abstain
414,427,624	35,376,959	453,163,691	3,359,108
(92.14%)	(7.86%)	(100%)	

At the February 2016 and 2017 AGMs, the results for the requisite ordinary resolution endorsing the remuneration policy were 81.2% and 94.7% 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 NP Mageza
- Mr JD McKenzie
- Mr RJ Renders.

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

Mrs A Mahendranath, Group 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 94.

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 2018 are summarised as follows:

- Reviewed and approved the vesting, or otherwise, of the performance share plan awards which were awarded on 04 December 2014
- Approved the allocation of 2018 performance share 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 2019
- 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 2018 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 Annual General Meeting in February 2018
- Approved the 2019 Management Incentive Scheme rules and reviewed the Share Incentive Plan rules, including changes to the Performance Share Plan
- Reviewed the succession, retirement and development plans for key management positions, and
- Review the group's industrial relations policy and implementation.

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)
- Korn Ferry (South Africa)
- KPMG Inc (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 King IV Report on Corporate Governance for South Africa 2016 (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.

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 2019

Key activities for the committee in 2019 will be, inter alia, the approval of the remuneration and bonuses for executive directors and senior management.

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. The committee will also consider options available for a future Sappi empowerment scheme to replace the Sefate scheme that will vest in August 2019.

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 Bonus Scheme, provide for a voluntary deferral of 40% of the Chief Executive Officer'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

Remuneration Report *continued*

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 2018 were: EBITDA (50%); working capital (20%), safety (10%) and individual performance (20%) • Bonuses are paid in cash. The group Chief Executive Officer 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

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 142,000 conditional share awards to the Chief Executive Officer, and between 39,000 and 79,000 conditional share awards to Executive Committee members • Measures for 2018 awards were relative total shareholder return (TSR) – 50% and relative cash flow return on net assets (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 years 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 2018, why they were chosen and how targets are set.

Metric	Percentage (%)	Relevance	How do we set the targets?
EBITDA	50	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	20	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	10	One of the key indicators of whether the business is meeting its sustainability goal of zero harm.	The committee considers input from the SETS Committee, and sets appropriate standards and goals.
Individual performance	20	An indicator of the contribution of each executive director, individual performance for relevant managers includes several key non-financial targets in relation to sustainability (environment, energy consumption, water usage and waste management), living the Sappi values, discipline in executing all projects and operating machines as efficiently and effectively as possible, and BBBEE in the case of South Africa.	Targets and ranges are set each year by the committee, based on the specific priorities, and areas of responsibility of the role.

Performance Share Plan (PSP)

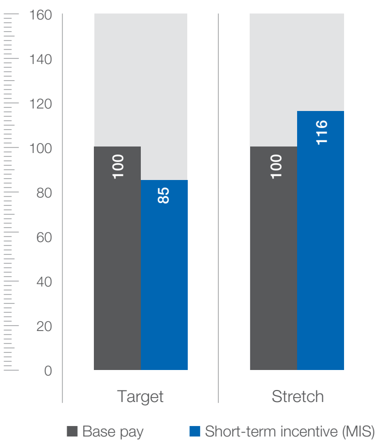
The table below shows the metrics for 2018 grants, why they were chosen and how targets are set.

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 – 17 of the peer group. Vesting increases from 25% at position 9 to 100% for positions 1 – 5.
Cash flow return on net assets	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 – 17 of the peer group. Vesting increases from 25% at position 9 to 100% for positions 1 – 5.

Remuneration scenarios at different performance levels

The charts below illustrate the total potential remuneration (base pay and short-term incentives) for executive director at different performance levels.

Remuneration levels (CEO and CFO)
(percentage 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 of the Johannesburg Stock Exchange. Sappi participates in global remuneration surveys and uses data from global remuneration survey, 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 Report *continued*

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 lead independent director are paid additional fees to reflect their extra responsibilities	• Non-executive directors' fees are reviewed periodically by the chairman and Human Resources and Compensation Committee • Fees are set by reference to market median data for companies of similar size and complexity to Sappi

Sappi may reimburse the reasonable expenses of board directors that relate to their duties on behalf of Sappi. 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 Annual General Meetings 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 Annual General Meeting (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.

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.

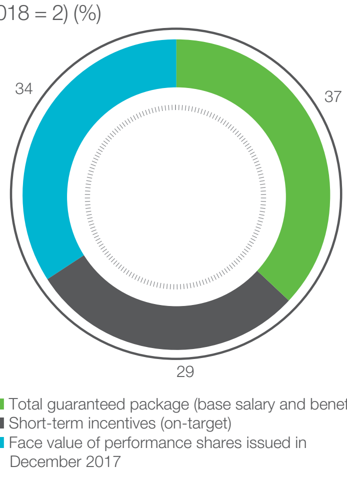
Compensation mix

The compensation mix for executive directors and executive committee members is shown in the schematics below.

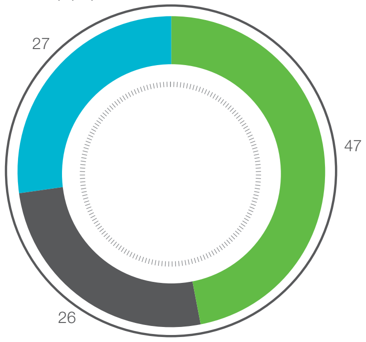
The term 'target' in terms of short-term incentive refers to the annual bonus award if all performance criteria were met at 100% achievement.

The long-term incentive awards are based on the face value of the performance plan shares issued in December 2017 (share price at date of allocation: ZAR95,64 December 2017).

Executive directors (average)
(number of employees at 30 September 2018 = 2) (%)



Executive Committee (average)
(number of employees at 30 September 2018 = 7) (%)



■ Total guaranteed package (base salary and benefits)
■ Short-term incentives (on-target)
■ Face value of performance shares issued in December 2017

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 2018 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 director and executive committee members' increases as was the mandate for general staff, dependent on location.

Mr Binnie received a market adjustment to his salary in June 2017. The adjustment was to ensure that his salary stays market competitive and was fully disclosed in last year's report.

For 2018, Mr Binnie received a salary increase of 5.5% on the South African portion of his salary and 1.5% on the off-shore portion of his salary. His salary with effect from 01 January 2018 was USD$558,318 per annum.

Mr Pearce received a salary increase of 5.5% 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 2018 was US$322,878 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 each.

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 pre-defined annual financial targets and personal objectives which are critical measures of business success.

For the 2018 financial year, the financial business performance criteria were: EBITDA (50%), working capital (20%) and safety (10%)—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 chief executive officer	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 2017.

The group's performance for the 2018 financial year:

Performance criteria	Target	2018 Actual achievement
EBITDA	50	**58.5**
Working capital	20	**29.3**
Safety	10	**0***
Total	80	**87.8**

* The group and regional safety performance improved, zero was allocated to the Executive Committee and applicable regions due to the tragic fatalities.

Remuneration Report *continued*

Mr Binnie will receive a bonus award of US$525,830 and Mr Pearce will receive a bonus award of US$303,971 to be paid in December 2018.

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

The percentage values of the performance criteria were changed as follows for 2018:
- EBITDA from 48% to 50%
- Working capital from 24% to 20%, and
- Safety from 8% to 10%.

Long-term incentive

The Sappi Performance Share Plan (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 2018 PSP award will consist of the following 16 industry-related companies:
- Fortress Paper
- Lenzing
- Rayonier Advance Materials
- Ahlstrom-Munksjo
- Borrogaard
- Domtar
- West Rock
- Sun Paper
- UPM-Kymmene, and
- Holmen.
- Metsá Board
- Verso
- Mondi Plc
- International Paper
- Stora Enso, and
- Resolute Forest Products.

Performance Share Plan

The vesting schedule for 2014 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 ending September 2018, Sappi's performance relative to the peer group measured on TSR was ranked fifth, which meant that 100% TSR component shares vested on the due date in December 2018.

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 third place. The determination of the vesting of this portion of the shares was verified by KPMG South Africa auditors.

In aggregate, therefore 100% of the total 2014 awards vested.

In December 2014, Mr Binnie was granted 175,000 conditional performance plan shares of which 175,000 will vest in December 2018.

In December 2014, Mr Pearce was granted 85,000 conditional performance plan shares of which 85,000 will vest in December 2018.

The historical vesting of Performance Share Plan awards:

Share awards	2014 %	2015 %	2016 %	2017 %	**2018 %**
TSR	0	0	100	100	**100**
CFRONA	100	100	100	100	**100**
Aggregate	50	50	100	100	**100**

Mr Binnie was awarded 137,000 conditional performance plan shares in December 2017 in line with the plan rules.

Mr Pearce was awarded 63,000 conditional performance plan shares in December 2017, 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, namely the ESOP (Employee Share Ownership Plan) and MSOP (Management Share Ownership Plan). 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 2018, the resulting dilution effect would be 2.42% (2017: 2.79%) 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 Chief Executive Officer, 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 250% 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 2018 (US$)

	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share based payment benefit	**Total 2018**
SR Binnie	558,318	525,830	14,907	85,129	701,472	**1,885,656**
GT Pearce	322,878	303,971	8,473	63,461	292,857	**991,640**

Executive directors' emoluments for 2017 (US$)

	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share based payment benefit	Total 2017
SR Binnie	464,563	440,139	12,944	76,580	561,959	1,555,821
GT Pearce	302,683	283,986	8,295	61,090	212,657	868,711

- Base salary – the actual salary earned during 2018.
- 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 2018 based on the rules of the Management Incentive Scheme.
- Long-term incentive – conditional performance plan shares awarded in 2018 financial year which will vest in 2022.
- Local earnings are translated into the reporting currency (US Dollar) using the average exchange rate over the financial year. The average rate for South African Rand appreciated by 2.5%, and for the Swiss Franc by 1.1%.

Remuneration Report *continued*

Prescribed officers/Executive Committee members

Prescribed officers are members of the Group Executive Committee.

The table below sets out the remuneration for prescribed officers for 2018 (US$).

	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share based payment benefit	**Total 2018**
B Wiersum	779,507	511,203	2,976	261,304	353,023	**1,908,013**
M Gardner	548,690	442,734	–	56,125	353,023	**1,400,572**
A Thiel	336,541	230,261	9,435	61,199	384,436	**1,021,872**
A Rossi	84,049	43,391	2,460	–	–	**129,900**
M van Hoven	173,061	123,824	4,994	47,087	279,116	**628,082**
G Bowles	251,038	183,597	7,534	104,581	297,682	**844,329**
F Marupen	188,705	134,788	5,250	50,189	196,818	**575,750**
M Mansoor	205,370	152,653	115,083	73,390	66,188	**612,684**

The table below sets out the remuneration for prescribed officers for 2017 (US$).

	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share based payment benefit	Total 2017
B Wiersum	713,361	522,618	2,764	233,429	275,892	1,748,064
M Gardner	534,626	276,294	–	54,754	275,892	1,141,566
A Thiel	315,836	224,665	9,237	59,159	360,039	968,936
A Rossi	325,362	162,220	9,682	–	–	497,264
M van Hoven	161,408	115,370	4,888	44,891	220,367	546,924
G Bowles	204,802	160,033	6,254	87,767	235,990	694,846
F Marupen	176,898	125,925	5,140	48,381	125,608	481,952
M Mansoor	–	–	–	–	–	–

Non-executive directors' fees

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 more than 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 ZAR/US$ 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 Human Resources and Compensation Committee, recommended by the board and approved at the AGM by the shareholders.

The non-executive directors' fees for 2018 financial year were approved by shareholders. The table below sets out the remuneration for non-executive directors for 2018:

US$	2018 Board fees	2018 Committee fees	2018 Travel allowance	2018 Total
D Konar[1]	**13,686**	**14,344**	**–**	**28,030**
KR Osar	**74,140**	**34,100**	**18,000**	**126,240**
JD McKenzie	**50,394**	**20,511**	**7,200**	**78,105**
ANR Rudd	**419,684**	**–**	**10,800**	**430,484**
NP Mageza	**34,729**	**37,569**	**7,200**	**79,498**
R Thummer[2]	**24,700**	**7,478**	**7,000**	**39,178**
MV Moosa	**34,729**	**24,834**	**7,200**	**66,763**
MA Fallon	**66,335**	**67,223**	**10,800**	**144,358**
RJ DeKoch[3]	**65,806**	**21,357**	**14,400**	**101,563**
RJAM Renders	**78,937**	**67,022**	**10,800**	**156,759**
B Mehlomakulu[4]	**31,565**	**10,255**	**7,200**	**49,020**
	894,705	**304,693**	**100,600**	**1,299,998**

US$	2017 Board fees	2017 Committee fees	2017 Travel allowance	2017 Total
D Konar	35,200	43,811	7,000	86,011
B Radebe[5]	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	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[5]	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	20,043	5,557	7,000	32,600
	996,748	347,032	108,500	1,452,280

(1) Retired from the board in January 2018.
(2) Retired from the board in December 2017.
(3) Retired from the board in August 2018.
(4) Appointed to the board in March 2017.
(5) Retired from the board in February 2017.

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 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 (SETS) Committee Report

Introduction

The Social, Ethics, Transformation and Sustainability (SETS) Committee presents its report for the financial year ended September 2018. 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.

Multi-functional regional sustainability councils provide strategic and operational support to a Group Sustainability Council which in turn provides support to the SETS Committee in dealing with key sustainability issues.

During the financial year the committee formally met three times at which meetings it deliberated on all aspects relating to its terms. A 100% attendance record was achieved by board committee members for 2018.

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 2018 financial year were:

- Mr MV Moosa (Chairman from 01 March 2016)
- Mr SR Binnie
- Mr RJ DeKoch (until August 2018)
- Dr B Mehlomakulu (from 01 March 2017), and
- Dr R Thummer (until December 2017).

Three members of the committee were 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, the Executive Vice President Dissolving Wood Pulp 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.
- Reviewed the UN sustainable development goals most relevant to Sappi.
- Sappi's standing in terms of:
  - The principles set out in the United Nations Global Compact Principles
  - The OECD recommendations regarding corruption
  - The Employment Equity Act, and
  - The Broad-based Black Economic Empowerment Act (BBBEE).
- 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, 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 Sustainability Charter and Group Environmental Policy.
- Reviewed the material indicators of the group's environmental performance.
- Reviewed regional sustainability performance against goals for 2018.
- Reviewed regional and global public policy matters affecting the group and its operations.
- Reviewed the various production unit operating efficiencies, reliability and unscheduled downtime metrics for 2018.
- Approved the revised Group Woodfibre Procurement Policy and the new Supplier Code of Conduct.
- In-depth review on the group's energy and emissions profile and future strategies in this regard.
- In-depth review of Saiccor Mill's environmental footprint and improvements resulting from the proposed 110,000 tons expansion project.
- In-depth review of community and government engagement in South Africa and global corporate citizenship activities.
- Reviewed the SETS Committee Report for the Annual Integrated Report as well as sustainability information presented in the Annual Integrated Report.

At each meeting a topic is selected for an in-depth review, typically matters which in the view of the committee represent key risks or opportunities for the business. In the past year the three focus areas were energy production and opportunities to lower cost and emissions through increased self-generation, particularly from renewable energy. Secondly, the planned investment at Saiccor Mill, which not only results in increased production but importantly would also lead to improved energy and water efficiency as well as lower specific emissions and improved air and water quality. These improvements align with the growing emphasis on sustainability in the textile value chain. Lastly, the committee reviewed the company's engagement with governments and communities within which they operate as part of the corporate citizenship programme.

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. In fulfilling their mandate, the committee has sought to ensure the needs of a wide set of stakeholders, including employees, local communities, customers and shareholders are considered and that key sustainability risks are identified and managed.

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

Five-year review

for the year ended September 2018

(US$ million)	2018	2017	2016	2015	2014
Income statement					
Sales	**5,806**	5,296	5,141	5,390	6,061
Variable manufacturing and delivery costs	**3,521**	3,147	3,061	3,414	3,887
Fixed costs	**1,767**	1,601	1,571	1,613	1,837
Sundry expenses (income)[1]	**38**	22	22	6	(9)
Operating profit excluding special items	**480**	526	487	357	346
Special items – (gains) losses	**(9)**	–	(57)	(54)	32
Operating profit	**489**	526	544	411	314
Net finance costs	**68**	80	121	182	177
Profit (loss) before taxation	**421**	446	423	229	137
Taxation charge	**98**	108	104	62	2
Profit (loss) for the year	**323**	338	319	167	135
EBITDA excluding special items	**762**	785	739	625	658
Balance sheet					
Total assets	**5,670**	5,247	5,177	4,913	5,465
Non-current assets	**3,766**	3,378	3,171	3,174	3,505
Current assets	**1,904**	1,869	2,006	1,739	1,960
Current liabilities	**1,173**	1,043	1,474	1,092	1,223
Shareholders' equity	**1,947**	1,747	1,378	1,015	1,044
Net debt	**1,568**	1,322	1,408	1,771	1,946
Gross interest-bearing debt	**1,931**	1,872	2,111	2,227	2,474
Cash	**(363)**	(550)	(703)	(456)	(528)
Capital employed	**3,515**	3,069	2,786	2,786	2,990
Cash flow					
Cash generated from operations	**709**	748	693	544	566
Decrease (increase) in working capital	**(79)**	(27)	4	(11)	34
Finance costs paid	**(84)**	(96)	(107)	(148)	(170)
Finance revenue received	**18**	15	16	13	8
Taxation paid	**(73)**	(100)	(56)	(16)	–
Dividends paid	**(81)**	(59)	–	–	–
Cash generated from operating activities	**410**	481	550	382	437
Net cash generated (utilised)	**(254)**	108	359	145	243
Cash effects of financing activities	**68**	(279)	(130)	(127)	(36)
Capital expenditure (gross)	**541**	357	241	248	295
To maintain operations	**167**	140	155	175	148
To expand operations	**374**	217	86	73	147
Exchange rates					
US$ per one EUR exchange rate – closing	**1.161**	1.181	1.123	1.120	1.269
US$ per one EUR exchange rate – average (financial year)	**1.190**	1.106	1.111	1.150	1.358
ZAR to one US$ exchange rate – closing	**14.147**	13.556	13.714	13.914	11.229
ZAR to one US$ exchange rate – average (financial year)	**13.052**	13.381	14.788	11.964	10.566

[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)	2018	2017	2016	2015	2014
Statistics					
Number of ordinary shares (millions)[1]					
In issue at year-end	**539.3**	535.0	530.6	526.4	524.2
Basic weighted average number of shares in issue during the year	**538.1**	533.9	529.4	525.7	522.5
Per share information (US cents)					
Basic earnings (loss)	**60**	63	60	32	26
Diluted earnings (loss)	**59**	62	59	31	26
Headline earnings (loss)	**59**	64	58	32	31
Diluted headline earnings (loss)	**58**	63	57	31	31
EPS excluding special items (US cents)	**60**	64	57	34	22
Net asset value	**361**	327	260	193	199
Profitability ratios (%)					
Operating profit to sales	**8.4**	9.9	10.6	7.6	5.2
Operating profit excluding special items to sales	**8.3**	9.9	9.5	6.6	5.7
EBITDA excluding special items to sales	**13.1**	14.8	14.4	11.6	10.9
Operating profit excluding special items to capital employed (ROCE)	**14.6**	18.0	17.5	12.4	10.8
Net debt to EBITDA excluding special items	**2.1**	1.7	1.9	2.8	3.0
Interest cover	**11.0**	9.1	7.3	4.4	3.6
Return on average equity (ROE)	**17.5**	21.6	26.7	16.2	12.3
Debt ratios (%)					
Net debt to total capitalisation	**44.6**	43.1	50.5	63.6	65.1
Efficiency ratios					
Asset turnover (times)	**1.0**	1.0	1.0	1.1	1.1
Inventory turnover ratio	**6.7**	7.0	7.0	7.9	7.8
Liquidity ratios					
Current asset ratio	**1.6**	1.8	1.4	1.6	1.6
Trade accounts receivable days outstanding (including receivables securitised)	**45**	45	44	45	45
Cash interest cover (times)	**9.3**	8.1	5.6	3.0	3.1
Other non-financial information[2]					
Sales volumes	**7,591**	7,410	7,253	7,306	7,524
Number of full-time equivalent employees	**12,645**	12,158	12,051	12,548	13,064
Lost-time injury frequency rate (including contract employees)	**0.43**	0.44	0.46	0.48	0.53
Energy					
Energy intensity (GJ/adt)	**22.38**	22.57	22.62	22.63	22.66
Renewable energy to total energy (%)	**46.76**	47.23	46.32	46.87	47.20
Water					
Specific process water drawn (m^3/adt)	**34.37**	33.74	34.93	34.32	35.71
Specific process water returned (m^3/adt)	**32.64**	31.66	31.74	31.27	32.55
Waste					
Specific total landfill (t/adt)	**0.066**	0.079	0.069	0.077	0.067
Emissions					
Specific direct emissions (Scope 1) (tCO_2e/adt)	**0.68**	0.67	0.68	0.66	0.67
Direct emissions (Scope 1) (tCO_2e)	**4,297,429**	4,260,165	4,156,172	4,022,428	4,112,641
Specific indirect emissions (Scope 2) (tCO_2e/adt)	**0.23**	0.24	0.27	0.26	0.27
Indirect emissions (Scope 2) (tCO_2e)	**1,473,162**	1,530,997	1,648,052	1,611,175	1,634,761

See **Share statistics** on page 122 for more market- and share-related information.

[1] Net of treasury shares (see note 18 to **Group Annual Financial Statements** on www.sappi.com/annual-reports).
[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** (see page 126).

Share statistics

for the year ended September 2018

Shareholding

Ordinary shares in issue	Number of shareholders	%	Number of shares[1]	% of shares in issue
1 – 5,000	5,214	79.1	2,779,842	0.5
5,001 – 10,000	203	3.1	1,471,336	0.3
10,001 – 50,000	472	7.2	12,161,136	2.3
50,001 – 100,000	234	3.6	16,598,775	3.1
100,001 – 1,000,000	383	5.8	120,020,729	22.3
Over 1,000,000	83	1.2	386,222,299	71.5
	6,589	100.0	539,254,117	100.0

[1] The number of shares excludes 17,948,456 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	–
Shareowners 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 2018 was 6,578)	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 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 2018, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	81,263,256	15.1

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 2018, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

Fund manager	Shares	%
Public Investment Corporation	71,469,658	13.3
Prudential Investment Managers	56,429,600	10.5
Allan Gray Proprietary Limited	32,328,109	6.0
Investment Asset Management	31,763,927	5.9
BlackRock Inc	27,683,095	5.1

Share statistics		2018	2017	2016	2015	2014
Ordinary shares in issue (million)[1]		**539.3**	535.0	530.6	526.4	524.2
Net asset value per share (US cents)		**361**	327	260	193	199
Number of shares traded (million)						
	JSE	**557.4**	630.7	544.7	351.0	296.9
	New York	**0.4**	3.1	0.9	1.1	2.0
Value of shares traded						
JSE (ZAR million)		**49,837.1**	54,760.0	35,428.6	15,642.5	10,500.0
New York (US$ million)		**2.9**	20.3	4.2	4.4	6.1
Percentage of issued shares traded		**103.4**	118.5	102.8	66.9	57.0
Market price per share						
– year-end	JSE (South African cents)	**8,875.0**	9,206	7,226	4,069	4,337
	New York (US cents)	**639.0**	681	522	286	385
– highest	JSE (South African cents)	**10,579.0**	10,438	7,942	5,279	4,755
	New York (US cents)	**749.0**	797	522	448	425
– lowest	JSE (South African cents)	**7,180.0**	6,953	3,982	3,610	2,525
	New York (US cents)	**613.0**	509	282	267	247
Earnings yield (%)[2]		**9.56**	9.28	11.39	10.94	6.73
Price/earnings ratio (times)[2]		**10.46**	10.78	8.78	9.14	14.86
Total market capitalisation (US$ million)[2]		**3,383**	3,633	2,796	1,539	2,025

[1] The number of shares excludes 17,948,456 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** (see page 126).

You'd think the sheer weight of polar bears would send them plunging through the ice, and the fact is, it can, if the ice is too thin. But polar bears have adapted through the size of their feet, how they walk on ice and instinct to safely traverse and live on ice, even when their bodyweight increases by more than 50 percent after the spring/summer hunting season.

In a similar way, acting with integrity helps to keep a company and its employees from falling through the proverbial 'ice' into ethical trouble. It is not something we take for granted at Sappi.

It begins with questioning our motivations every step of the way. Are we delivering the best product and/or service we can at the best value? Are we truly developing our people? Are our shared value initiatives achieving their goals? Are we really living up to our aim of producing more with less and consuming more wisely?

Doing the right thing the right way underpins everything we do at Sappi.

Not because integrity is easy—in fact, it's often the more difficult path to follow—but because we will not do otherwise. Because it draws on the best of our energies and skills and is our most valuable asset; and because we know it adds value to us as individuals, as teams, as a society and as an organisation.

It's how we ensure that future generations, not just our own, flourish and thrive.

integrity

DOING THE RIGHT THING
THE RIGHT WAY

Glossary

General definitions

AGM – Annual General Meeting.

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.

Cham Paper Group Holding AG (CPG) – Speciality paper business acquired by Sappi, which included CPG's Carmignano and Condino Mills (Italy) and its digital imaging business located in Cham (Switzerland) as well as all brands and know-how.

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

coated paper – 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 paper – 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.

EIA – Environmental impact assessment.

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.

Forest Stewardship Council® (FSC®) – Is a global, not-for-profit organisation dedicated to the promotion of responsible forest management worldwide. (FSC-C015022) (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.

hemicellulose sugars – The biorefinery process for second generation hemicellulose sugars involves recovering them from the prehydolysate liquor, and then separating them.

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 – Pristine areas not used commercially.

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.

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-governmental 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.

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 works by endorsing national forest certification systems and 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.

Glossary *continued*

printing and writing papers – a generic term for a group of papers intended for commercial printing use such as coated woodfree paper, coated mechanical paper, uncoated woodfree paper and newsprint.

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.

Sappi Biotech – The business unit within Sappi which drives innovation and commercialisation of biomaterials and biochemicals.

Sappi Europe (SEU) – The business unit within Sappi which oversees operations in the European region.

Sappi Dissolving Wood Pulp – The business unit within Sappi which oversees the production and marketing of dissolving wood pulp (DWP).

Sappi North America (SNA) – The business unit within Sappi which oversees operations in the North American region.

Sappi Southern Africa (SSA) – The business unit within Sappi which oversees operations in the Southern Africa region.

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.

SETS – Social, ethics, transformation and sustainability.

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

solid waste – Dry organic and inorganic waste materials.

specialities and packaging papers – a generic term for a group of papers intended for commercial and industrial use such as flexible packaging, label papers, functional papers, containerboard, paperboard, silicone base papers, casting and release papers, dye sublimation papers, inkjet papers and tissue paper.

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.

specific total energy (STE) – The energy intensity ratio defined by the total energy consumption in the context of the saleable production.

Sustainable Forestry Initiative® (SFI®) – 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™ program. (http://www.sfiprogram.org)

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 1,000 kg.

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

tons per annum (TPA) – Term used in this report to denote tons per annum (tons a year). Capacity figures in this report denote tons per annum at maximum continuous run rate.

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.

United Nations Global Compact (UNGC) – A principle-based framework for businesses, stating 10 principles in the areas of human rights, labour, environment and anti-corruption.

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.

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.

glossary and notice to shareholders

Glossary *continued*

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.

GAAP – Generally accepted accounting principles.

headline earnings – As defined in Circular 4/2018, issued by the South African Institute of Chartered Accountants in April 2018, 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 cash (utilised) generated – Cash flows from operating activities less cash flows from investing activities.

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.

revolving credit facility (RCF) – A variable line of credit used by public and private businesses.

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 adviser immediately.

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

The eighty-second Annual General Meeting (AGM) of Sappi will be held at Sappi's registered office, in the Oxford Room, Ground Floor, 108 Oxford Road (entrance on Ninth Street), Houghton Estate, Johannesburg, 2196, Republic of South Africa on Wednesday, 06 February 2019 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, 01 February 2019.

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

Ordinary resolution number 1 is proposed to present the Group Annual Financial Statements of the company for the year ended September 2018, including the **Directors' Report**, the Auditors' Report (see **Group Annual Financial Statements**) and the **Audit and Risk Committee Report** on www.sappi.com/annual-reports.

Abridged or summarised financial statements are contained in the **Chief Financial Officer's Report** of the Annual Integrated Report (see page 68). The complete **Group Annual Financial Statements** for the year ended September 2018 are available on www.sappi.com/annual-reports.

"Resolved that the Group Annual Financial Statements for the year ended September 2018 of the company, including the Directors' Report, Auditors' Report and the Audit and Risk Committee Report, 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 Mrs ZN Malinga with effect from 01 October 2018 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 Mrs Malinga's brief biographical details, see note 1 in **Notice to shareholders** on page 131.

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 3.2: 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, see note 2 in **Notice to shareholders** on page 131.

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 Mr SR Binnie is re-elected as a director of Sappi."

Ordinary resolution number 3.2
"Resolved that Mr RJAM Renders is re-elected as a director of Sappi."

Ordinary resolution number 3.3
"Resolved that Mrs KR Osar is re-elected as a director of Sappi."

Notice to shareholders *continued*

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

Ordinary resolution number 4 is proposed to elect the members of the Audit and Risk 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 and Risk Committee comprising at least three members.

The Nomination and Governance Committee assessed the performance and independence of each of the directors proposed to be members of the Audit and Risk 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 and Risk 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 and Risk Committee are included in the biographies of all directors contained under **Our leadership** of the Annual Integrated Report (see page 90).

"Resolved that an Audit and Risk Committee be and is hereby elected, by separate election to the committee of the following independent directors:

4.1	Mr NP Mageza	Chairman
4.2	Mr MA Fallon	Member
4.3	Mrs ZN Malinga	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 her confirmation as a director pursuant to ordinary resolution number 2.

** Subject to his/her re-election as a director pursuant to ordinary resolution numbers 3.2 and 3.3.

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 2019 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, 21,009,790 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 21,691,080 shares which can still be issued or transferred to the Schemes. Of that number, there are currently 12,310,170 Performance Share Plan awards which are still subject to vesting and 715,635 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 (Subsidiary) 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 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 under **Remuneration Report** of the Annual Integrated Report (see page 105), 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: Remuneration implementation report

"Resolved as an ordinary resolution, that the company's remuneration implementation report under **Remuneration Report** of the Annual Integrated Report (see page 105), 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.

Notice to shareholders *continued*

9. Special resolution number 1: Non-executive directors' fees

"Resolved that, with effect from 01 October 2018 and until otherwise determined by Sappi in general meeting, the remuneration of the non-executive directors for their services shall be increased as follows:

Fee structure

		From	To
1.	**Sappi board fees**[1]		
	Chairperson		
	If United Kingdom resident	£307,520	£315,210*
	Lead independent director		
	If South African resident	ZAR616,430	ZAR644,790
	If United Kingdom resident	£67,350	£69,030
	If United States of America resident	US$101,120	US$103,950
	If European resident	€90,580	€92,120
	Other directors		
	If South African resident	ZAR411,980	ZAR430,930
	If United Kingdom resident	£44,860	£45,980
	If United States of America resident	US$67,400	US$69,290
	If European resident	€60,340	€61,370
2.	**Audit and Risk Committee fees**[1]		
	Chairperson		
	If South African resident	ZAR427,790	ZAR447,470
	If United Kingdom resident	£45,550	£46,690
	If United States of America resident	US$69,820	US$71,770
	If European resident	€61,270	€62,310
	Other directors		
	If South African resident	ZAR213,900	ZAR223,740
	If United Kingdom resident	£22,910	£23,480
	If United States of America resident	US$34,100	US$35,050
	If European resident	€30,800	€31,320

* Inclusive of all board committee fees. If a future Chairperson is not United Kingdom domiciled, appropriate benchmark information in relation to his/her domicile will be used to determine fees payable.

[1] Fees per annum unless otherwise indicated.

		From	To
3.	**Human Resources and Compensation Committee, Nomination and Governance Committee, Social, Ethics, Sustainability and Transformation Committee and any other committee[1]**		
	Chairperson		
	If South African resident	ZAR257,200	ZAR269,030
	If United Kingdom resident	£27,060	£27,740
	If United States of America resident	US$39,890	US$41,010
	If European resident	€36,390	€37,010
	Other directors		
	If South African resident	ZAR133,850	ZAR140,010
	If United Kingdom resident	£18,970	£19,440
	If United States of America resident	US$24,370	US$25,050
	If European resident	€25,510	€25,940
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	ZAR41,300 per meeting	ZAR43,200 per meeting
	If United Kingdom resident	£4,450 per meeting	£4,560 per meeting
	If United States of America resident	US$6,740 per meeting	US$6,930 per meeting
	If European resident	€5,980 per meeting	€6,080 per meeting
5.	**Travel compensation**		
	If South African resident	US$3,600 per meeting	US$3,700 per meeting
	If United Kingdom resident	US$3,600 per meeting	US$3,700 per meeting
	If United States of America resident	US$3,600 per meeting	US$3,700 per meeting
	If European resident	US$3,600 per meeting	US$3,700 per meeting

[1] Fees per annum unless otherwise indicated.

Notice to shareholders *continued*

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 1.7% and 4.6% per annum depending generally on the domicile of the directors and the currency in which they are paid, with effect from 01 October 2018. The fees were last increased with effect from 01 October 2017 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 2018 onwards. Initially the December 2018 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 2018 payment will be made up in the March 2019 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 06 February 2019 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 (SETS) Committee

Shareholders are referred to the **Social, Ethics, Transformation and Sustainability (SETS) Committee Report** in the Annual Integrated Report (see page 118).

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 (ie 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 (ie 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 06 February 2019 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 under **Administration** (see page 140), 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, 01 February 2019 at:

108 Oxford Road
Houghton Estate
Johannesburg, 2198
South Africa

or

PO Box 52264
Saxonwold, 2132
South Africa

or

By email to
Ami.Mahendranath@sappi.com

Group Company Secretary
Ami Mahendranath

Secretaries
Sappi Southern Africa Limited
108 Oxford Road
Houghton Estate
Johannesburg, 2198
South Africa

07 December 2018

Notice to shareholders *continued*

Notes

1. Approval and confirmation of appointment of directors appointed since the last AGM and subsequent to the year-end

Zola Nwabisa Malinga (41)
(Independent)

Qualifications: BCom, CA(SA)

Nationality: South African

Appointed: October 2018

Sappi board committee memberships
- Audit and Risk Committee

Other board and organisation memberships
- Grindrod Bank
- Grindrod Limited
- South African Property Owners Association

Skills, expertise and experience
Mrs Malinga, a Chartered Accountant, has over 10 years' experience in investment banking and corporate finance. She is the founder and Executive Director of Jade Capital Partners, a women-owned investment company which invests in the property and industrial sectors. She was previously a director in the Real Estate Finance Division of Standard Bank where she was also a member of the Executive and Deal Approval Committees. Prior to this, she was an Investment Banker at Standard Bank and a Corporate Finance Consultant at Investec Bank Limited. Mrs Malinga previously served as a non-executive director on Sasol Inzalo Limited and Hospitality Property Fund Limited.

2. Directors retiring by rotation who are seeking re-election

Stephen Robert Binnie (Steve) (51)
(Chief Executive Officer)

Qualifications: BCom, BAcc, CA(SA), MBA

Nationality: British

Appointed: September 2012

Sappi board committee memberships
- Social, Ethics, Transformation and Sustainability Committee
- Attends meetings of all other board committees by invitation

Skills, expertise and experience
Mr Binnie was appointed Chief Executive Officer of Sappi Limited in July 2014. He joined Sappi in July 2012 as Chief Financial Officer designate and was appointed Chief Financial Officer and executive director from 01 September 2012. Prior to joining Sappi, he held various senior finance roles and was previously Chief Financial Officer of Edcon Proprietary Limited for 10 years after having been in a senior finance role at Investec Bank Limited for four years.

Karen Rohn Osar (69)
(Independent)

Qualifications: MBA (Finance)

Nationality: American

Appointed: May 2007

Sappi board committee memberships
- Audit and Risk Committee

Other board and organisation memberships
- Innophos Holdings Inc (Audit Committee and Nominating and Governance Committee)
- Webster Financial Corporation (Chairperson of the Audit Committee, and also serves on the Risk and Executive Committees)

Skills, expertise and experience
Mrs Osar was Executive Vice President and Chief Financial Officer of speciality chemicals company, Chemtura Corporation, until her retirement in March 2007. Prior to that, she held various senior management and board positions in her career. She was Vice President and Treasurer for Tenneco, Inc and also served as Chief Financial Officer of Westvaco Corporation and as Senior Vice President and Chief Financial Officer of the merged MeadWestvaco Corporation. Prior to those appointments she spent 19 years at JP Morgan and Company, becoming a Managing Director of the Investment Banking Group. She has chaired several external board audit committees. During her tenure at JP Morgan, Mrs Osar provided advice to Fortune 100 companies on financial management in Brazil and other high-inflation countries, advised Fortune 50 companies on financing their major foreign investments, including foreign currency and US Dollar bond financings, cross-border leases, long-term currency hedges and long-term interest-rated and currency swaps.

At Tenneco, then a US$12 billion conglomerate, she oversaw the financing of eight spin-off companies, in packaging, chemical, shipping, auto parts, gas pipeline systems, farm equipment and other industries, in each case arranging new debt financing, handling rating agency and bank financings and managing the efforts of the various banks involved, including overseeing financial projections for the new standalone entities. At Westvaco, then a US$4billion paper and packaging company, she managed all financial aspects of its 2002 merger of equals with Mead Corporation, also a US$4-billion paper and packaging company, and, as Chief Financial Officer of the merged entity, handled all aspects of the financial integration of the companies. She oversaw the delivery of tens of millions of merger savings and a US$100 million reduction in inventory.

At Chemtura, then a US$4 billion speciality chemical company, Mrs Osar oversaw the refinancing of the balance sheet and financial recovery of a company beset by troubled earnings, and lawsuits arising from anti-trust actions, and managed the subsequent merger of equals with Great Lakes Chemical Company, and as Chief Financial Officer of the combined companies handled all financial aspects of the integration. As a director, Mrs Osar has chaired the Audit Committee of numerous New York Stock Exchange and NASDAQ companies, including Allergan, a major global pharmaceutical company, a mutual fund company, a medical device company, a speciality chemical company, and a major regional bank in the United States of America.

Robertus Johannes Antonius Maria Renders (Rob Jan) (65)
(Independent)

Qualifications: MSc (Mechanical Engineering), MDP

Nationality: Dutch

Appointed: October 2015

Sappi board committee memberships
- Human Resources and Compensation Committee
- Audit and Risk Committee

Other board and organisation memberships
- Walki Group Oy (Chairman)

Skills, expertise and experience:
Currently a business consultant, Mr Renders was a member of the board of Duropack GmbH from 2012 until the end of May 2015, as well as Chief Executive Officer of Duropack from May 2013 until May 2015. From 2006 to 2010, he served as Chairman of OTOR Société Anonyme, a leading packaging provider in France. Between 1989 and 2006 he held various positions at Svenska Cellulosa Aktiebolaget (SCA), a leading global producer of hygiene products and packaging solutions, including Mill Manager at SCA Packaging De Hoop, Managing Director of SCA Packaging De Hoop, President of SCA Packaging Containerboard, President of SCA Packaging Europe and Senior Vice President Special Project Global Packaging for SCA Group. He has various consulting positions and is also the Chairman of the Supervisory Board of Walki Group Oy based in Espoo (Finland), a company specialising in extrusion coating.

Shareholders' diary

Annual General Meeting	06 February 2019
First quarter results released	February 2019
Second quarter and half-year results released	May 2019
Third quarter results released	August 2019
Financial year-end	September 2019
Preliminary fourth quarter and year results	November 2019
Annual Integrated Report posted to shareholders and posted on website	December 2019

Administration

Sappi Limited
Registration number: 1936/008963/06
JSE code: SAP
ISIN code: ZAE 000006284

Group Company Secretary
Ami Mahendranath

Secretaries
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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-second Annual General Meeting of the members to be held at 14:00 on Wednesday, 06 February 2019 at Sappi in the Oxford Room, Ground Floor, 108 Oxford Road (entrance on Ninth Street), Houghton Estate, Johannesburg, 2196, 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, 04 February 2019, 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, 06 February 2019 or any adjournment thereof, as follows:

	Number of shares		
	For	**Against**	**Abstain**
Ordinary resolution number 1 – Receipt and acceptance of 2018 Group Annual Financial Statements, including Directors' Report, Auditors' Report and Audit and Risk Committee Report			
Ordinary resolution number 2 – Approval and confirmation of appointment of Mrs ZN Malinga as a director of Sappi			
Ordinary resolution number 3 – Re-election of directors retiring by rotation in terms of Sappi's Memorandum of Incorporation[1]			
Ordinary resolution number 3.1 – Re-election of Mr SR Binnie as a director of Sappi			
Ordinary resolution number 3.2 – Re-election of Mr RJAM Renders as a director of Sappi			
Ordinary resolution number 3.3 – Re-election of Mrs KR Osar as a director of Sappi			
Ordinary resolution number 4 – Election of Audit and Risk Committee members			
Ordinary resolution number 4.1 – Election of Mr NP Mageza as member and chairman of the Audit and Risk Committee			
Ordinary resolution number 4.2 – Election of Mr MA Fallon as a member of the Audit and Risk Committee			
Ordinary resolution number 4.3 – Election of Mrs ZN Malinga as a member of the Audit and Risk Committee[2]			
Ordinary resolution number 4.4 – Election of Mrs KR Osar as a member of the Audit and Risk Committee[3]			
Ordinary resolution number 4.5 – Election of Mr RJAM Renders as a member of the Audit and Risk Committee[3]			
Ordinary resolution number 5 – Re-appointment of KPMG Inc. as auditors of Sappi for the year ending September 2019 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 remuneration 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			

[1] See notes in **Notice to shareholders** on page 131.
[2] Subject to her appointment under ordinary resolution number 2 above.
[3] Subject to his/her re-election as a director pursuant to ordinary resolutions number 3.2 and 3.3 above.

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.

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, 04 February 2019 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.
- 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.


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2018 Group Annual Financial Statements

Contents

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 the Financial Reporting Standards Council, 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 that are free from material misstatements, whether due to fraud or error. 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 Annual Financial Statements.

The directors' report and the Group Annual Financial Statements appear on pages 4 to 91 and were approved by the board of directors on 07 December 2018 and signed on its behalf by:

SR Binnie
Chief Executive Officer

GT Pearce
Chief Financial Officer

Sappi Limited

07 December 2018

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 2018, 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 A Mahendranath
Group Company Secretary

07 December 2018

Audit and Risk Committee Report

for the year ended September 2018

Introduction

The Audit and Risk Committee presents its report for the financial year ended September 2018. The 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 a 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
  - 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 is comprised of independent non-executive directors, all of whom are financially literate, with three members forming a quorum:

Mr NP Mageza	(Appointed in February 2010, Chairman from February 2018)
Mr RJAM Renders	(Appointed in March 2017)
Mr MA Fallon	(Appointed in January 2012)
Mrs KR Osar	(Appointed in November 2007)
Dr D Konar	(Retired January 2018)

Biographical details of the current members of the committee are set out in **Our leadership** in the Annual Integrated Report.

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 2018. 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 given adequate consideration to the information presented by the external auditor as required by the JSE Listings requirements. The committee has consequently nominated, for approval at the Annual General Meeting, KPMG as the external auditor for the 2019 financial year of whom Mr Coenie Basson is the designated auditor for Sappi Limited and Safeera Loonat is the designated auditor for Sappi Southern Africa Limited. The committee confirms that the auditors are accredited by the JSE Limited and the designated auditors do not appear on the JSE Limited's list of disqualified individual auditors.

Annual Integrated Report and the Group Annual Financial Statements

The committee has evaluated the Annual Integrated Report, incorporating the Group Annual Financial Statements, for the year ended September 2018. The 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 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 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 committee to indicate that the internal financial controls were not operating effectively.

P Mageza
Chairman
Audit and Risk Committee

07 December 2018

Directors' Report

for the year ended September 2018

The directors have pleasure in presenting their report for the year ended September 2018.

Nature of business

Sappi Limited ('Sappi'), the holding company of the group, was formed in 1936 and is incorporated and domiciled in the Republic of South Africa.

Sappi is a global company with operations in North America, Europe and Southern Africa and is focused on providing dissolving wood pulp, paper pulp and paper-based solutions to its direct and indirect customer base across more than 160 countries. The group's dissolving wood pulp products are used worldwide by converters to create viscose fibre for clothing and textiles, acetate tow, pharmaceutical products, as well as a wide range of consumer products. The group's market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and in the Southern African region newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products.

Financial results

The group generated a profit of US$323 million for the year ended September 2018 (60 US cents) compared to US$338 million profit (63 US cents) for the prior year.

Detailed commentary on the 2018 financial results is contained in various reviews throughout our Annual Integrated Report.

Dividends

The directors have declared a dividend of 17 US cents per share, payable in ZAR using the exchange rate at the date of declaration, representing a three 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 **Corporate Governance** in our Annual Integrated Report for full details and to our website (**www.sappi.com**) 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 **Performance during the year** in our Annual Integrated Report.

Significant announcements during the year under review and subsequent to year-end

There was one significant announcement:

- In December 2017 the group announced the proposed acquisition of the speciality paper business of the Cham Paper Group Holding AG whereby Sappi would acquire two mills in Italy producing a combined 160,000 tons of paper and a digital imaging business in Switzerland for a consideration of CHF146.5 million. This acquisition was concluded on 28 February 2018.

Liquidity and financing

At September 2018, we had liquidity comprising US$363 million of cash on hand, which exceeds the amount of short-term interest-bearing debt (including bank overdrafts) of US$113 million by US$250 million, and US$680 million available from undrawn committed facilities in Europe and South Africa.

Net debt increased to US$1,568 million from US$1,322 million as the group utilised net cash of US$254 million during the year (2017: Net cash generated US$108 million). The utilisation arose from the Cham Paper Group acquisition of US$132 million combined with increases in capital expenditure, dividends and working capital.

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 **Risk management** in 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 2018 of US$541 million (2017: US$357 million) was greater than the prior year due to various upgrade and expansion projects throughout the group. Maintenance expenditure of US$167 million (2017: US$140 million) was in line with the prior year and largely incurred on efficiency projects.

Subsequent events
The dividend of 17 US cents per share was declared on 14 November 2018 being after the reporting date.

Directorate
The composition of the board of directors is set out in **Our leadership** in our Annual Integrated Report. During the year, the following changes were announced:
- The retirement of Dr Rudolf Thummer as an independent non-executive director with effect from 31 December 2017.
- The retirement of Dr Len Konar as an independent non-executive director with effect from 31 January 2018.
- The retirement of Mr Bob DeKoch as an independent non-executive director with effect from 16 August 2018.
- The appointment of Ms Zola Malinga as an independent non-executive director with effect from 01 October 2018.

At the end of September 2018, there were 10 directors, two of whom are executive directors. Seven of the eight 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. The committee further assessed the independence of Mr Moosa in detail following the termination of a lock-in restriction on the disposal of shares from Sappi's Black Economic Empowerment transaction on 31 October 2018 concluded that in their view, and after taking steps to become reasonably informed themselves, that Mr Moosa can be regarded as independent.

In terms of the company's Memorandum of Incorporation, Ms K Osar, Mr RJ Renders and Mr S Binnie 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 reappointment.

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, no significant contracts were entered into in which directors and officers had an interest and which affected the business of the group.

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 and its subsidiaries (the Group) set out on pages 9 to 91, which comprise the Group balance sheet as at September 2018, 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 Group 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 2018, 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 (ISAs). 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 plantations	
Refer to note 2.3.4 for the accounting policies applied and note 11 to the Group Financial Statements. Plantations are valued in terms of IAS 41 *Agriculture* and are stated at fair value less cost to sell at the harvesting stage, using the income approach, and is a level 3 measure in terms of IFRS 13 *Fair Value Measurement.* The valuation of plantations requires complex measurements and involves estimation uncertainty. The key measurement and assumptions having the most significant impact on the fair value of the plantations include: • Estimated prices less cost of delivery; • Volume and growth estimations; • Cost assumptions; and • Discount rate. Given the complexity and the significant amount of estimation and judgement 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, amongst others: • Critically evaluating the fair value methodology against the criteria in IAS 41 *Agriculture* and IFRS 13 *Fair Value Measurement*, 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 estimates, and the related sensitivity disclosures, by performing our own sensitivity analysis of the plantation valuations. We considered the adequacy and appropriateness of the Group's disclosures on the valuation of plantations.

The key audit matter	How the matter was addressed in our audit
Taxation	
Refer to note 2.3.3 for the accounting policies applied and notes 6 and 12 to the Group Financial Statements. The Group has operations in a number of geographical locations and as such is subject to examination by tax authorities in the jurisdictions in which they operate, giving rise to complexity in the accounting for the Group's taxation. As detailed in note 12, the existence of historical unused tax losses, particularly in the European tax jurisdictions, requires significant 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, the reversal of taxable temporary differences and the application of existing tax laws in each jurisdiction. Given the complexity and judgement involved in the accounting for income and deferred taxation, taxation has been identified as a key audit matter.	We involved our tax specialists, with local and international tax knowledge, who formed part of the audit team. Our audit procedures included an assessment of the Group's taxation assets and liabilities with particular consideration given to the judgements applied by management in accounting for uncertain tax positions and the recognition and measurement of deferred tax assets. This more specifically included: • Evaluating the basis of accounting for recognising deferred tax assets based on our knowledge of the tax environment in which the Group operates and work performed on the forecasts of future taxable profits and the reversal of taxable temporary differences; • Considering the application of the relevant accounting standards in respect of recognising deferred tax assets for entities with a history of unused tax losses; and • Evaluating the Group's assessment of its exposure to tax risks and accounting for related uncertain tax positions. We also reviewed correspondence with tax authorities in this regard to support the Group's assessments made. We considered the adequacy and appropriateness of the Group's taxation disclosures, including the recognised and unrecognised deferred tax assets in the consolidated financial statements.

Other information

The directors are responsible for the other information. The other information comprises the Group Company Secretary's certificate, the Audit and Risk Committee Report and the Directors' Report as required by the Companies Act of South Africa and the Directors' approval and the Annual Integrated 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.

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.

Independent Auditor's Report continued

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 ISAs 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 ISAs, 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 4 December 2015, we report that KPMG Inc. has been the auditor of Sappi Limited for two years.

KPMG Inc.
Registered Auditor

Per Coenie Basson
Chartered Accountant (SA)
Registered Auditor
Director

85 Empire Road, Parktown
Johannesburg, 2193

07 December 2018

Group income statement

for the year ended September 2018

(US$ million)	Note	2018	2017
Revenue		**5,806**	5,296
Cost of sales	4	**4,928**	4,429
Gross profit		**878**	867
Selling, general and administrative expenses	4	**396**	334
Other operating (income) expenses		**(4)**	14
Share of profit from equity accounted investees		**(3)**	(7)
Operating profit	4	**489**	526
Net finance costs	5	**68**	80
Finance costs		**92**	107
Finance income		**(18)**	(15)
Net foreign exchange gains		**(6)**	(12)
Profit before taxation		**421**	446
Taxation charge	6	**98**	108
Profit for the year		**323**	338
Basic earnings per share (US cents)	7	**60**	63
Weighted average number of ordinary shares in issue (millions)		**538.1**	533.9
Diluted earnings per share (US cents)	7	**59**	62
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)		**550.0**	547.4

Group statement of comprehensive income

for the year ended September 2018

(US$ million)	Note	2018	2017
Profit for the year		**323**	338
Other comprehensive income (loss), net of tax	19	**(57)**	78
Item that will not be reclassified subsequently to profit or loss		**–**	68
Actuarial gains (losses) on post-employment benefit funds		**28**	101
Deferred tax on above items and changes in tax rates		**(28)**	(33)
Items that may be reclassified subsequently to profit or loss		**(57)**	10
Exchange differences on translation to presentation currency		**(61)**	(1)
Gains (losses) on hedging reserves		**8**	10
Fair value adjustments on available-for-sale financial instruments		**(1)**	–
Tax effect on above items		**(3)**	1
Total comprehensive income for the year		**266**	416

Group balance sheet

as at September 2018

(US$ million)	Note	2018	2017
Assets			
Non-current assets		**3,766**	3,378
Property, plant and equipment	10	**3,010**	2,681
Plantations	11	**466**	458
Deferred tax assets	12	**106**	123
Goodwill and intangible assets	13	**63**	39
Equity accounted investees	14	**33**	26
Other non-current assets	15	**88**	51
Current assets		**1,904**	1,869
Inventories	16	**741**	636
Trade and other receivables	17	**767**	668
Derivative financial instruments	30	**21**	3
Taxation receivable		**12**	12
Cash and cash equivalents		**363**	550
Total assets		**5,670**	5,247
Equity and liabilities			
Shareholders' equity		**1,947**	1,747
Ordinary share capital and share premium	18	**858**	894
Non-distributable reserves	20	**133**	123
Foreign currency translation reserve		**(180)**	(158)
Hedging reserves		**(28)**	(34)
Retained earnings		**1,164**	922
Non-current liabilities		**2,550**	2,457
Interest-bearing borrowings	21	**1,818**	1,739
Deferred tax liabilities	12	**335**	295
Defined benefit liabilities	28	**329**	344
Other non-current liabilities	22	**68**	79
Current liabilities		**1,173**	1,043
Interest-bearing borrowings	21	**97**	133
Overdrafts		**16**	–
Trade and other payables		**1,009**	858
Provisions	23	**6**	10
Derivative financial instruments	30	**6**	5
Taxation payable		**39**	37
Total equity and liabilities		**5,670**	5,247

Group statement of cash flows

for the year ended September 2018

(US$ million)	Note	2018	2017
Cash retained from operating activities		**410**	481
Cash generated from operations	24.1	**709**	748
– Decrease (increase) in working capital	24.2	**(79)**	(27)
Cash generated from operating activities		**630**	721
– Finance costs paid	24.3	**(84)**	(96)
– Finance income received		**18**	15
– Taxation paid	24.4	**(73)**	(100)
– Dividends paid		**(81)**	(59)
Cash utilised in investing activities		**(664)**	(373)
Investment to maintain operations		**(167)**	(140)
Investment to expand operations		**(374)**	(217)
Proceeds on disposal of other non-current assets	24.5	**11**	4
Investment in equity accounted investees		**(10)**	(5)
Dividends received from equity accounted investees		**6**	7
Decrease (increase) in other non-current assets		**2**	(11)
Acquisition of subsidiary	9	**(132)**	(11)
Cash effects of financing activities		**68**	(279)
Proceeds from interest-bearing borrowings		**137**	186
Repayment of interest-bearing borrowings		**(69)**	(465)
Net movement in cash and cash equivalents		**(186)**	(171)
Cash and cash equivalents at beginning of year		**550**	703
Translation effects		**(1)**	18
Cash and cash equivalents at end of year		**363**	550

Group statement of changes in equity

for the year ended September 2018

(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[1]	Retained earnings	Total equity
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**
Dividend paid – 11 US cents per share	–	–	–	–	–	–	–	(59)	**(59)**
Translation of parent company's ordinary share capital and share premium	–	–	10	10	–	(10)	–	–	**–**
Profit for the year	–	–	–	–	–	–	–	338	**338**
Other comprehensive (loss) income	–	–	–	–	2	(1)	9	68	**78**
Balance – September 2017	535.0	40	854	894	123	(158)	(34)	922	**1,747**
Share-based payments	–	–	–	–	11	–	–	–	**11**
Transfers of vested share options and other	4.3	–	1	1	3	–	–	–	**4**
Translation of parent company's ordinary share capital and share premium	–	(2)	(35)	(37)	–	37	–	–	**–**
Dividend paid – 15 US cents per share	–	–	–	–	–	–	–	(81)	**(81)**
Profit for the year	–	–	–	–	–	–	–	323	**323**
Other comprehensive (loss) income	–	–	–	–	(4)	(59)	6	–	**(57)**
Balance – September 2018	539.3	38	820	858	133	(180)	(28)	1,164	**1,947**
Note				*18*	*20*				

[1] Includes available-for-sale financial assets amounting to US$ Nil (2017: US$1 million).

Notes to the Group Annual Financial Statements

for the year ended September 2018

1. Basis of preparation

The consolidated financial statements of Sappi Limited (the 'Company') as at and for the year ended September 2018 comprise the Company and its subsidiaries (together referred to as the 'group' and individually as 'group entities' or 'group entity') as well as the Group's interests in associates and joint ventures.

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 2008 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.

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).

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:

- 02 October 2017 to 30 September 2018 (52 weeks)
- 26 September 2016 to 01 October 2017 (53 weeks)
- 28 September 2015 to 25 September 2016 (52 weeks)

The Group Annual Financial Statements are prepared on the going concern basis.

Assets and liabilities and income and expenses are not offset in the income statement or balance sheet unless specifically permitted by IFRS.

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.

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.

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.

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

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 Dollars, which is the group's presentation currency.

The functional currency of the parent company is ZAR (Rand). 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, intangible assets 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 at each reporting date.

The group used the following exchange rates for financial reporting purposes:

	2018	2017
Period-end rate		
US$1 = ZAR	**14,147**	13,556
EUR1 = US$	**1,161**	1,181
Annual average rate		
US$1 = ZAR	**13,052**	13,381
EUR1 = US$	**1,190**	1,106

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 of disposal) 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 2018

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, i.e. 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) Finance income and finance costs

Finance income and finance costs are recognised in profit or loss using the effective interest 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, customer relationships and customer technology

Brands, customer relationships and customer technology 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 license fees, trademarks and carbon certificates which are amortised on a straight-line basis over their useful lives between three 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

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.

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 2018

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.

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 produce 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 to reflect the number of awards for which the related service and non-market performance conditions are expected to be met.

(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.

2.2.15 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 2018

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.15 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 hedging relationships as well as the impact of the hedge on the pretax profit or loss for the period.

2.2.16 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 pretax 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 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.

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.

2.2.17 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.

2.2.18 Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2. Accounting policies continued

2.3 Critical accounting policies and key sources of estimation uncertainty

2.3.1 Impairment of assets other than goodwill and financial instruments

The group assesses all assets other than goodwill at each balance sheet date for indications of impairment or whether an impairment reversal is required.

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 of disposal.

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.

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.

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

2. Accounting policies continued

2.3 Critical accounting policies and key sources of estimation uncertainty continued

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.

(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. Accounting policies continued

2.3 Critical accounting policies and key sources of estimation uncertainty continued

2.3.4 Plantations

Plantations are stated at fair value less 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 profit or loss 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.

- *Discount rate*
  The discount rate used is the applicable pre-tax discount rate.

- *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 tonne allocation method multiplied by unadjusted current market prices. Tonnes 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 five 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 tendering 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 2018

2. Accounting policies continued

2.3 Critical accounting policies and key sources of estimation uncertainty continued

2.3.5 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.

2.4 Adoption of accounting standards in the current year

The group adopted the following standards, interpretations, amendments and improvements to standards in the current fiscal year, all of which had no material impact on the group's reported results or financial position:

- IAS 12 *Income Taxes* – Recognition of Deferred Tax Assets for Unrealised Losses
- 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, and
- Annual Improvements 2014 – 2016 Cycle.

2. Accounting policies continued

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. These are listed below together with their effective dates*.

- IFRS 9 *Financial Instruments* – IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities – Effective October 2018. Management has implemented and concluded a project to assess the revised classification and measurement impact of this standard IFRS 9 has set out a new classification and measurement approach for financial assets that reflect the business model in which the assets are managed and their cash flow characteristics. The three principal classification categories for financial assets are: measured at amortised cost, fair value through profit or loss and fair value through other comprehensive income (FVOCI). Based on management's assessment, the new classification will not have a significant impact compared to the current accounting for financial assets in terms of IAS 39. IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The group will apply the practical expedient in IFRS 9 to calculate the ECL on trade receivables using a provision matrix. Based on management's assessment, application of the ECL model will not result in a material impact compared to the current accounting for in terms of IAS 39. With respect to hedging, on transition a new class of non-distributable equity reserve will be created called Cost of hedging reserve. This reserve will be used to separate all time value of money and forward point valuations on hedged instruments, as required per IFRS 9, which is not material at transition.

  The overall impact on retained earnings on transition to IFRS 9 is expected to be immaterial. Additional disclosures will be required for financial instruments in terms of IFRS 9.

- IFRS 15 *Revenue from Contracts with Customers* – provides a single, principles-based five-step model to be applied to all contracts with customers – Effective October 2018. Management has reviewed the significant customer contracts to determine the recognition, measurement and disclosure impact of the new standard. Adoption of IFRS 15 is not expected to have a material impact on the recognition and measurement of revenue when compared to the current application of IAS 18.

  Under IAS 18, Sappi derives revenue from contracts with customers from one revenue stream being the sale of 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.

  Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. Management's assessment indicates that this will not result in a material change in timing of revenue recognition with revenue being recognised at a point in time, with no deferral of revenue. As a result, the impact on retained earnings on transition to IFRS 15 is expected to be immaterial. Additional disclosures will be required for revenue in terms of IFRS 15.

  The group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (ie October 2018). As a result, the group will not apply the requirements of IFRS 15 to the comparative periods presented.

- 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* – Effective October 2019.

  Management is currently reviewing the operating lease contracts in place to determine the impact of this standard.

The following standards are not expected to have a material impact:

- IFRS 2 – *Classification and Measurement of Share-based Payment Transactions* – Effective October 2018.
- IFRIC 22 – *Foreign Currency Transactions and Advance Consideration* – Effective October 2018.
- IFRIC 23 – *Uncertainty over Income Tax Treatments* – Effective October 2019.
- IAS 19 – *Plan Amendment, Curtailment or Settlement* – Effective October 2019.
- IAS 28 – *Long-term Interests in Associates and Joint Ventures* – Effective October 2019.
- Annual Improvements 2015 – 2017 Cycle – Amendments to IFRS 1 and IAS 28 – Effective October 2019.

* *Effective date refers to annual period beginning on or after said date.*

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

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 (and which have remained unchanged from the prior year) 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)	**2018**	2017	**2018**	2017
Income statement				
Total sales	**1 485**	1 408	**3 094**	2 683
Intersegmental sales	**(53)**	(48)	**(124)**	(119)
External sales[1]	**1,432**	1,360	**2,970**	2,564
Operating profit (loss) excluding special items	**49**	47	**163**	140
Special items – gains (losses)[2]	**(2)**	–	**3**	(4)
Segment operating profit (loss)	**47**	47	**166**	136
EBITDA excluding special items[2]	**126**	126	**299**	262
Share of profit of equity investments	**–**	–	**–**	–
Depreciation and amortisation	**(77)**	(79)	**(136)**	(122)
Net asset (impairments) reversals	**–**	–	**–**	(1)
Profit (loss) on disposal and written off assets	**–**	–	**–**	(1)
Fellings	**–**	–	**–**	–
Plantation fair value adjustment	**–**	–	**–**	–
Restructuring provisions (raised) released and closure costs	**–**	–	**–**	–
Other non-cash items	**(4)**	(16)	**(7)**	(15)
Balance sheet				
Capital expenditures	**196**	132	**121**	131
Segment assets[2]	**1,137**	1,026	**1,574**	1,373
Property, plant and equipment	**960**	841	**1,112**	1,042

Reconciliation of operating profit excluding special items to segment operating profit (loss):

	North America		Europe	
US$ million	**2018**	2017	**2018**	2017
Operating profit excluding special items	**49**	47	**163**	140
Special items – gains (losses)[2]	**(2)**	–	**3**	(4)
Segment operating profit (loss)	**47**	47	**166**	136

[1] *Sales of products are allocated to where the product is manufactured.*
[2] *Refer to the definitions below.*
[3] *Primarily includes the group's treasury operations and its self-insurance captive.*

EBITDA excluding special items – *Earnings before interest (net finance costs), taxation, depreciation, amortisation and special items.*
Net operating assets – *Total assets (excluding deferred tax assets and cash) less current liabilities (excluding interest-bearing borrowings and overdraft). Net operating assets equate to segment assets.*
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.*

	Southern Africa		Unallocated and eliminations[3]		Group	
	2018	2017	**2018**	2017	**2018**	2017
	1 404	1 372	**–**	–	**5 983**	5 463
	–	–	**–**	–	**(177)**	(167)
	1,404	1,372	**–**	–	**5,806**	5,296
	270	337	**(2)**	2	**480**	526
	25	10	**(17)**	(6)	**9**	–
	295	347	**(19)**	(4)	**489**	526
	337	396	**–**	1	**762**	785
	4	6	**(1)**	1	**3**	7
	(67)	(59)	**(2)**	1	**(282)**	(259)
	3	(3)	**–**	–	**3**	(4)
	4	(1)	**–**	–	**4**	(2)
	(66)	(63)	**–**	–	**(66)**	(63)
	96	79	**–**	–	**96**	79
	–	–	**(1)**	(1)	**(1)**	(1)
	(2)	6	**(3)**	–	**(16)**	(25)
	261	105	**1**	2	**579**	370
	1,392	1,263	**38**	2	**4,141**	3,664
	930	789	**8**	9	**3,010**	2,681

	Southern Africa		Unallocated and eliminations[3]		Group	
	2018	2017	**2018**	2017	**2018**	2017
	270	337	**(2)**	2	**480**	526
	25	10	**(17)**	(6)	**9**	–
	295	347	**(19)**	(4)	**489**	526

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

3. Segment information continued

Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to profit (loss) before taxation:

	North America		Europe	
(US$ million)	**2018**	2017	**2018**	2017
EBITDA excluding special items[2]	**126**	126	**299**	262
Depreciation and amortisation	**(77)**	(79)	**(136)**	(122)
Operating profit excluding special items	**49**	47	**163**	140
Special items – gains (losses)[2]	**(2)**	–	**3**	(4)
Segment operating profit (loss)	**47**	47	**166**	136
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 is shown below. The group has however changed the financial information by major product category, as reviewed by the chief operating decision maker during the quarter ended December 2017. Accordingly the group has restated the financial information presented by major product category for the prior year.

(US$ million)
Sales
Dissolving wood pulp
Specialities and packaging papers
Printing and writing papers
Forestry
Total
Operating profit excluding special items
Dissolving wood pulp
Specialities and packaging papers
Printing and writing papers
Unallocated and eliminations[3]
Total
EBITDA excluding special items
Dissolving wood pulp
Specialities and packaging papers
Printing and writing papers
Unallocated and eliminations[3]
Total

[1] Sales of products are allocated to where the product is manufactured.
[2] Refer to the definitions below.
[3] Primarily includes the group's treasury operations and its self-insurance captive.

EBITDA excluding special items – *Earnings before interest (net finance costs), taxation, depreciation, amortisation and special items.*
Net operating assets – *Total assets (excluding deferred tax assets and cash) less current liabilities (excluding interest-bearing borrowings and overdraft). Net operating assets equate to segment assets.*
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.*

Southern Africa		Unallocated and eliminations[3]		Group	
2018	2017	**2018**	2017	**2018**	2017
337	396	**–**	1	**762**	785
(67)	(59)	**(2)**	1	**(282)**	(259)
270	337	**(2)**	2	**480**	526
25	10	**(17)**	(6)	**9**	–
295	347	**(19)**	(4)	**489**	526
				(68)	(80)
				421	446

Group	
2018	2017
4,141	3,664
106	123
363	550
1,009	858
6	10
6	5
39	37
5,670	5,247

Group	
2018	2017
1,043	1,059
1,087	833
3,600	3,339
76	65
5,806	5,296
251	334
78	76
153	114
(2)	2
480	526
306	386
138	117
318	281
–	1
762	785

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

4. Operating profit

Operating profit has been arrived at after charging (crediting):

(US$ million)	2018 Cost of sales	2018 Selling, general and administrative expenses	2017 Cost of sales	2017 Selling, general and administrative expenses
Raw materials, energy and other direct input costs	**3,030**	**–**	2,705	–
Wood (includes growth and felling adjustments)[1]	**666**	**–**	603	–
Energy	**411**	**–**	372	–
Chemicals	**851**	**–**	787	–
Pulp	**1,001**	**–**	753	–
Other variable costs	**101**	**–**	190	–
Plantation price fair value changes	**(27)**	**–**	(21)	–
Employment costs	**858**	**185**	769	160
Depreciation	**261**	**12**	247	8
Delivery charges	**490**	**–**	441	–
Maintenance	**236**	**–**	213	–
Other overheads	**80**	**–**	75	–
Marketing and selling expenses	**–**	**85**	–	81
Administrative and general expenses	**–**	**114**	–	85
	4,928	**396**	4,429	334

(US$ million)	2018	2017
Silviculture costs (included within cost of sales)	**65**	58
Leasing charges for premises	**14**	13
Leasing charges for plant and equipment	**15**	14
Remuneration paid other than to employees of the company in respect of	**24**	27
Technical services	**9**	11
Administration services	**15**	16
Auditor's remuneration	**4**	4
Tax planning and advice	**1**	1
Research and development costs	**42**	29
Amortisation	**9**	4
Cost on derecognition of loans and receivables[2]	**15**	11
Net asset impairment of assets and investments	**(3)**	4
Restructuring provisions and closure costs raised (reversed)	**1**	1
(Profit) loss on sale/scrapping of assets	**(4)**	2
Post-retirement plan settlements and amendments	**(11)**	–
Broad-based Black Economic Empowerment (BBBEE) charge	**1**	1
Employment costs consist of	**1,043**	929
Wages and salaries	**952**	838
Defined contribution plan expense	**39**	36
Defined benefit pension plan expense	**10**	21
Other defined benefit plan expense	**3**	2
Share-based payment expense	**11**	9
Other	**28**	23
[1] Changes in plantation volumes		
Fellings	**66**	63
Growth	**(69)**	(58)

[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)	2018	2017
5.	**Net finance costs**		
	Interest and other finance costs on liabilities carried at amortised cost	**89**	100
	Interest on redeemable bonds and other loans	**89**	100
	Net interest on employee benefit liabilities	**5**	7
	Interest capitalised to property, plant and equipment[1]	**(2)**	–
	Finance costs	**92**	107
	Finance income received on assets carried at amortised cost	**(18)**	(15)
	Interest income on bank accounts	**(14)**	(12)
	Interest income on other loans and investments	**(4)**	(3)
	Net foreign exchange gains	**(6)**	(12)
		68	80

[1] *Borrowing costs incurred on the conversion project at the Somerset Mill in North America were capitalised at a rate of 2.65%.*

	(US$ million)	2018	2017
6.	**Taxation charge**		
	Current taxation		
	Current year	**70**	99
	Prior year	**2**	(5)
	Other company taxes	**2**	1
	Deferred taxation		
	Current year	**14**	12
	Prior year	**(3)**	1
	Attributable to tax rate changes	**13**	–
		98	108
	Reconciliation of the tax rate		
	Profit before taxation	**421**	446
	Profit-making regions	**421**	447
	Loss-making regions	**–**	(1)
	Taxation at the average statutory tax rate	**113**	125
	Profit-making regions at 27% (2017: 28%)	**113**	125
	Non taxable income[1]	**(18)**	(26)
	Non-deductible expenditure[2]	**21**	29
	Effect of tax rate changes[3]	**13**	–
	No tax relief on losses	**5**	3
	No tax charge on profits	**(10)**	(4)
	Derecognition of deferred tax assets	**17**	–
	Recognition of deferred tax assets	**(44)**	(16)
	Prior year adjustments	**(1)**	(4)
	Other taxes	**2**	1
	Taxation charge	**98**	108
	Effective tax rate for the year	**23%**	24%

In addition to income taxation charges to profit or loss, a taxation charge of US$28 million (2017: US$33 million charge) has been recognised directly in other comprehensive income (refer to note 12).

[1] *This includes income in foreign jurisdictions, notional interest deductions and dividends received.*
[2] *This includes mainly provisions for uncertain tax positions and non-deductible interest.*
[3] *The effect of tax rate changes relate primarily to the reduction of the federal corporate income tax rate in the USA where the rate changed from 35% in 2017 to 21% in 2018.*

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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.

	2018 Profit US$ million	2018 Shares million	2018 Earnings per share US cents	2017 Profit US$ million	2017 Shares million	2017 Earnings per share US cents
Basic EPS calculation	**323**	**538.1**	**60**	338	533.9	63
Share options and performance shares under Sappi Limited Share Trust	**–**	**11.9**		–	13.5	
Diluted EPS calculation	**323**	**550.0**	**59**	338	547.4	62

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR87.95 (2017: ZAR85.47). 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 is 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)	2018 Gross	2018 Tax	2018 Net	2017 Gross	2017 Tax	2017 Net
Attributable earnings to ordinary shareholders	**421**	**98**	**323**	446	108	338
Impairments of assets and investments	**–**	**–**	**–**	6	–	6
Profit on disposal and written off assets	**(4)**	**1**	**(3)**	2	(1)	1
Asset impairment reversals	**(3)**	**–**	**(3)**	(2)	–	(2)
Headline earnings	**414**	**97**	**317**	454	107	343
Weighted average number of ordinary shares in issue (millions)			**538.1**			533.9
Headline earnings per share (US cents)			**59**			64
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**550.0**			547.4
Diluted headline earnings per share (US cents)			**58**			63

(1) ***Headline earnings –*** *As defined in Circular 4/2018, 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.

	2018			2017		
(US$ million)	Gross	Tax	Net	Gross	Tax	Net
Attributable earnings to ordinary shareholders	421	98	323	446	108	338
Special items	(9)	(7)	(2)	–	(2)	2
Tax special items	–	(3)	3	–	–	–
Earnings excluding special items	412	88	324	446	106	340
Weighted average number of ordinary shares in issue (millions)			538.1			533.9
EPS excluding special items (US cents)			60			64
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			550.0			547.4
Diluted EPS excluding special items (US cents)			59			62

8. Dividends

The directors have resolved to declare a gross dividend (number 88) of 17 US cents per share on 14 November 2018, payable in ZAR at an exchange rate (US$1 = ZAR) of 14.43176, being ZAR245.33992 cents per share, for the year ended September 2018 out of income, in respect of Sappi ordinary shares in issue on the record date. Holders of Sappi "A" ordinary unlisted shares in issue on the record date shall be entitled to receive 8.5 US cents per share being 50% of the ordinary dividend declared.

9. Acquisition of subsidiary

9a. On 28 February 2018, Sappi acquired the speciality paper business of Cham Paper Group Holding AG (CPG) for CHF132 million (US$139 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 was financed from internal resources. The acquisition increases Sappi's relevance in specialities and packaging papers, opening up new customers and markets to Sappi's existing products and generating economies of scale and synergies. It will improve near-term profitability and serve as a platform for organic growth and further acquisitions.

The fair values of assets acquired and liabilities assumed as at 28 February 2018 were as follows:

	EURO'm	US$m
Property, plant and equipment	81	98
Intangible assets	32	39
Inventories	25	31
Trade receivables	28	36
Prepayments and other assets	2	3
Cash and cash equivalents	6	7
Trade payables	(23)	(29)
Pension liabilities	(4)	(5)
Provisions	(1)	(2)
Other payables and accruals	(9)	(11)
Deferred tax liabilities	(15)	(18)
Non-current interest-bearing borrowings	(5)	(7)
Current interest-bearing borrowings	(5)	(6)
Net asset value acquired	112	136
Goodwill	2	3
Purchase consideration	114	139
Less: Cash and cash equivalents acquired	(6)	(7)
Net cash outflow on acquisition	108	132

CPG earned revenues of €118 million and profit after tax of €4 million since acquisition.

9b. In the prior year the group 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) was a contingent consideration and US$11 million was paid in cash. The net assets acquired included tangible net assets of US$7 million, goodwill of US$3 million and identified intangible assets of US$13 million. US$6 million of the contingent consideration was released through profit or loss in 2018.

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

	(US$ million)	2018	2017
10.	**Property, plant and equipment**		
	Land and buildings[1]		
	At cost	**1,403**	1,385
	Accumulated depreciation and impairments	**(863)**	(860)
		540	525
	Plant and equipment[2]		
	At cost	**7,674**	7,296
	Accumulated depreciation and impairments	**(5,204)**	(5,140)
		2,470	2,156
	Aggregate cost	**9,077**	8,681
	Aggregate accumulated depreciation and impairments	**(6,067)**	(6,000)
	Aggregate book value[3]	**3,010**	2,681

The movement of property, plant and equipment is reconciled as follows:

(US$ million)	Land and buildings	Plant and equipment	Total
Net book value at September 2016	517	1,984	**2,501**
Additions	20	350	**370**
Acquisition	5	5	**10**
Disposals	(1)	(5)	**(6)**
Depreciation	(29)	(226)	**(255)**
Translation differences	13	48	**61**
Net book value at September 2017	525	2,156	**2,681**
Additions	22	557	**579**
Acquisition[4]	38	60	**98**
Finance costs capitalised	–	2	**2**
Disposals	(2)	(6)	**(8)**
Depreciation	(32)	(241)	**(273)**
Translation differences	(11)	(58)	**(69)**
Net book value at September 2018	540	2,470	**3,010**

[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] *Includes an amount of US$285 million (2017: US$298 million) relates to assets under construction.*
[4] *Acquisition relates to the Cham Paper Group Holding AG (CPG) acquisition on 28 February 2018*

	(US$ million)	2018	2017
11.	**Plantations**		
	Fair value of plantations at beginning of year	**458**	441
	Gains arising from growth	**69**	58
	Fire, flood, storms and related events	**–**	(5)
	In-field inventory	**1**	1
	Gain arising from fair value price changes	**27**	21
	Harvesting – agriculture produce (fellings)	**(66)**	(63)
	Translation differences	**(23)**	5
	Fair value of plantations at end of year	**466**	458

Sappi manages the establishment, maintenance and harvesting of its plantations on a compartmentalised basis. These plantations are comprised of 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 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 11.04% (2017: 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 16 tons of timber per hectare while immature timber comprise approximately 107,000 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)	2018	2017
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)**	(3)
1% decrease in rate	**3**	3
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 continued

for the year ended September 2018

(US$ million)	2018 Assets	2018 Liabilities	2017 Assets	2017 Liabilities
12. Deferred tax				
Other liabilities, accruals and prepayments	**(51)**	**(117)**	(69)	(90)
Inventory	**7**	**2**	10	2
United States of America (USA) tax credits carry forward	**12**	**–**	16	–
Tax loss carry forward	**113**	**12**	127	29
Property, plant and equipment	**(19)**	**(222)**	(64)	(209)
Plantations	**–**	**(14)**	–	(32)
Other non-current assets	**5**	**(2)**	18	2
Other non-current liabilities	**39**	**6**	85	3
	106	**(335)**	123	(295)

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 probable 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)	2018	2017
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	**21**	29
Tax losses	**579**	682
	600	711
Attributable to the following tax jurisdictions:		
Austria	**457**	529
Belgium	**57**	115
Finland	**39**	40
The Netherlands	**47**	27
	600	711
Expiry between one and five years	**54**	70
Expiry after five years	**24**	24
Indefinite life	**522**	617
	600	711

(US$ million)	2018	2017
12. Deferred tax continued		
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	**711**	748
No tax relief on losses	**2**	1
No tax charge on profits	**(46)**	(60)
Derecognition of deferred tax assets	**17**	–
Recognition of deferred tax assets	**(44)**	(16)
Prior year adjustments	**(10)**	4
Rate adjustments	**(20)**	–
Movement in foreign exchange rates	**(10)**	34
Balance at end of year	**600**	711
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**123**	152
Deferred tax liabilities	**(295)**	(272)
	(172)	(120)
Deferred tax charge for the year	**(24)**	(13)
Other liabilities, accruals and prepayments	**(12)**	(28)
Inventory	**(3)**	1
USA tax credits carry forward	**(4)**	(3)
Tax loss carry forward	**(27)**	–
Property, plant and equipment	**35**	(58)
Plantations	**17**	17
Other non-current assets	**(22)**	(30)
Other non-current liabilities	**(8)**	88
Amounts recorded directly in other comprehensive income	**(28)**	(33)
Acquisition of subsidiary	**(18)**	(3)
Translation differences	**13**	(3)
Deferred tax balances at end of year	**(229)**	(172)
Deferred tax assets	**106**	123
Deferred tax liabilities	**(335)**	(295)

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

13. Goodwill and intangible assets

(US$ million)	2018 Goodwill	Brands	Customer relationship	Customer technology	Other[1]	Total
Net carrying amount at beginning of year	7	13	7	6	6	39
Additions	–	–	–	–	–	–
Acquisitions	3	–	27	5	7	42
Amortisation	–	(3)	(2)	(2)	(2)	(9)
Utilisation	–	–	–	–	(4)	(4)
Impairment	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Translation difference	(2)	(1)	–	–	(2)	(5)
Net carrying amount	8	9	32	9	5	63
Cost (gross carrying amount)	8	31	34	11	10	94
Accumulated amortisation and impairments	–	(22)	(2)	(2)	(5)	(31)
Net carrying amount	8	9	32	9	5	63

Goodwill increased by US$3 million during the year due to the acquisition of Cham Paper Group Holding AG. Goodwill is attributable to the cash-generating units of specialities of US$4 million (2017: US$3 million) and coated woodfree of US$4 million (2017: US$4 million) in Sappi Europe. The goodwill has been assessed for impairment by comparing the carrying amount against the recoverable amount.

[1] *Included in other intangible assets is licence fees, trademarks and carbon certificates.*

(US$ million)	2018	2017
14. Equity accounted investees		
Group's share of carrying amount of equity accounted investees		
Umkomaas Lignin Proprietary Limited	11	14
Other equity accounted investees	22	12
	33	26

Dividends received from joint ventures for the 2018 financial year were US$6 million (2017: 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.

	2017				
Goodwill	Brands	Customer relationship	Customer technology	Other[1]	Total
3	5	–	–	9	17
–	–	–	–	2	2
3	9	7	6	–	25
–	(2)	–	–	(4)	(6)
–	–	–	–	–	–
–	–	–	–	(1)	(1)
–	–	–	–	(1)	(1)
1	1	–	–	1	3
7	13	7	6	6	39
7	32	7	6	7	59
–	(19)	–	–	(1)	(20)
7	13	7	6	6	39

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

14. Equity accounted investees continued

Summarised financial information of Umkomaas Lignin Proprietary Limited:

(US$ million)	2018	2017
Current assets	19	25
Non-current assets	18	19
Current liabilities	(7)	(7)
Non-current liabilities	(7)	(9)
The above assets and liabilities include the following:		
Cash and cash equivalents	5	10
Current financial liabilities (excluding trade and other payables, and provisions)	(7)	(7)
Non-current financial liabilities (excluding trade and other payables, and provisions)	(7)	(9)

(US$ million)	2018	2017
Sales	49	49
Depreciation and amortisation	2	2
Taxation charge	2	4
Profit from continuing operations	7	13
Total comprehensive income	7	13

Reconciliation of the financial information to the carrying amount of the joint venture:

(US$ million)	2018	2017
Net assets of the joint venture	23	28
Proportion of the group's ownership interest	50%	50%
Carrying amount of the joint venture	11	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)	2018	2017
Profit (loss) from continuing operations	(1)	3
Other comprehensive income	–	–
Total comprehensive income	(1)	3

(US$ million)	2018	2017
Carrying amount of these other equity accounted investees	22	12

	(US$ million)	2018	2017
15.	**Other non-current assets**		
	Investment funds	**7**	7
	Defined benefit pension plan assets (refer to note 28)	**68**	35
	Advances to tree growers	**3**	3
	Ngodwana energy loan	**5**	–
	Other non-financial assets	**2**	4
	Financial assets	**3**	2
		88	51

	US$ million	2018	2017
16.	**Inventories**		
	Raw materials	**173**	134
	Work in progress	**65**	56
	Finished goods	**355**	311
	Consumable stores and spares	**148**	135
		741	636

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US$2 million (2017: US$6 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$4,432 million (2017: US$3,995 million).

	(US$ million)	2018	2017
17.	**Trade and other receivables**		
	Trade receivable, gross	**649**	581
	Allowance for credit losses	**(15)**	(10)
	Trade accounts receivable, net	**634**	571
	Prepayments and other receivables	**133**	97
		767	668

Management rates the quality of trade and other receivables periodically against its internal credit rating parameters. The quality of these trade and other 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 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 12.4% (2017: 12.3%) of turnover.

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

(US$ million)	2018	2017
17. Trade and other receivables continued		
17.1 Reconciliation of the allowance for credit losses		
Balance at beginning of year	**10**	14
Raised during the year	**16**	8
Released during the year	**(7)**	(8)
Utilised during the year	**(3)**	(5)
Translation differences	**(1)**	1
Balance at end of year	**15**	10

The allowance for credit losses has been determined by reference to specific customer delinquencies.

17.2 Analysis of amounts past due

September 2018

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	**10**	**–**	**10**
Between 7 and 30 days overdue	**15**	**–**	**15**
Between 30 and 60 days overdue	**3**	**–**	**3**
More than 60 days overdue	**4**	**15**	**19**
	32	**15**	**47**

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

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$ Nil million (2017: US$1 million) against trade receivables past contractual repayment terms.

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$383 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$438 million (2017: US$432 million) have been pledged as collateral for amounts received as funding under the programme of US$376 million (2017: US$364 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.

17. Trade and other receivables continued

17.3 Trade receivables securitisation continued

Off-balance sheet structures

Southern African securitisation facility

Sappi sells the majority of its ZAR 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, the group 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 2018 amounted to US$71 million (2017: US$72 million).

Details of the securitisation programme at the end of the 2018 and 2017 financial years are disclosed in the table below:

Bank	Currency	Value	Facility[1]	Discount charges
2018				
Rand Merchant Bank Limited	**ZAR**	**ZAR1,004 million**	**Unlimited**	**Linked to 3-month JIBAR**
2017				
Rand Merchant Bank Limited	ZAR	ZAR980 million	Unlimited	Linked to 3-month JIBAR

[1] *The securitisation facility is unlimited, but subject to the sale of qualifying receivables to the bank.*

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. The total charge related to this discounting amounted to US$7 million (2017: US$5 million).

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17. Trade and other receivables continued

17.4 Concentration of credit risk

A significant portion of the group's sales and trade receivables 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 2018 and September 2017.

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$767 million (2017: US$668 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:

	2018			2017		
Threshold	Number of customers	US$ million	Percentage	Number of customers	US$ million	Percentage
Greater than US$10 million	**6**	**103**	**16%**	6	109	19%
Between US$5 million and US$10 million	**9**	**63**	**10%**	8	50	9%
Less than US$5 million	**2,497**	**468**	**74%**	2,450	412	72%
	2,512	**634**	**100%**	2,464	571	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.

	2018		2017	
	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**	**39**	557,202,573	41
Fully paid 'A' ordinary shares of ZAR1 each[1]	**19,961,476**	**2**	19,961,476	2
Treasury shares[2]	**(37,909,932)**	**(3)**	(42,143,854)	(3)
Share premium		**820**		854
	539,254,117	**858**	535,020,195	894
The movement in ordinary share capital and share premium is reconciled as follows:				
Opening balance		**894**		879
Transfers from Sappi Limited Share Incentive Trust		**1**		4
Translation movements		**(37)**		11
Closing balance		**858**		894

[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 17,948,456 (2017: 22,182,378) ordinary shares as well as 19,961,476 (2017: 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	2018	2017
Ordinary treasury shares:		
Opening balance	**22,182,378**	10,882,622
Issue of treasury shares	**–**	15,756,350
Treasury shares issued to participants	**(4,233,922)**	(4,456,594)
– Scheme shares (refer to note 29)	**(583,804)**	(1,218,849)
– Plan shares (refer to note 29)	**(3,650,118)**	(3,237,745)
Closing balance	**17,948,456**	22,182,378
'A' ordinary treasury shares:		
'A' ordinary shares issued to the Broad-based Black Economic Empowerment trusts	**19,961,476**	19,961,476
	37,909,932	42,143,854

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 2018 and 2017 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 in the objectives, policies or processes during the current period.

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

	(US$ million)	2018	2017
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
	Gross amount	**28**	101
	Tax on above	**(9)**	(33)
	Tax rate change[1]	**(19)**	–
	Items that may or are being reclassified subsequently to profit or loss		
	Exchange gains (losses) on translation to presentation currency	**(61)**	(1)
	Translation of foreign operations	**(58)**	(1)
	Exchange differences arising on non-distributable reserves	**(4)**	2
	Exchange differences arising on hedging reserves	**1**	(2)
	Fair value adjustment on available-for-sale financial instruments	**(1)**	–
	Gross amount	**(1)**	–
	Hedging reserves	**5**	11
	Gains (losses) during the year	**(2)**	30
	Reclassified to profit or loss	**2**	(19)
	Reclassified to property, plant and equipment	**8**	
	Tax	**(3)**	1
	Other comprehensive income (loss) recorded directly in equity	**(57)**	78
	Profit for the year	**323**	338
	Total comprehensive income for the year	**266**	416

[1] *The effect of tax rate changes relate primarily to the reduction of the federal corporate income tax rate in the USA where the rate changed from 35% in 2017 to 21% in 2018.*

(US$ million)	2018 Legal reserves[1]	2018 Share-based payment reserve	2018 Other	2018 Total	2017 Legal reserves[1]	2017 Share-based payment reserve	2017 Other	2017 Total
20. Non-distributable reserves								
Opening balance	**60**	**61**	**2**	**123**	58	53	3	114
Transfers of vested share options	**–**	**(1)**	**–**	**(1)**	–	(2)	–	(2)
Share-based payment expense	**–**	**11**	**–**	**11**	–	9	–	9
Other movements[2]	**–**	**4**	**–**	**4**	–	–	–	–
Translation differences	**(1)**	**(3)**	**–**	**(4)**	2	1	(1)	2
	59	**72**	**2**	**133**	60	61	2	123

[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.
[2] Other movements include deferred tax effect on IFRS 2 charges in some regions and other share based payment transactions.

(US$ million)	2018	2017
21. Interest-bearing borrowings		
Secured borrowings[1]	**376**	364
Unsecured borrowings	**1,539**	1,508
Total borrowings (refer to note 31)	**1,915**	1,872
Less: Current portion included in current liabilities	**(97)**	(133)
Total non-current interest-bearing borrowings	**1,818**	1,739
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2018		133[2]
2019	**97**	24
2020	**504[2]**	481
2021	**46**	32
2022	**538**	533
2023 (September 2017: Thereafter)	**443**	669
Thereafter	**287**	–
	1,915	1,872

[1] Consists of pledge over securitised trade receivables (refer to note 25 for details of encumbered assets).
[2] Includes securitisation debt.

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

21. Interest-bearing borrowings continued

Set out below are details of the more significant interest-bearing borrowings in the group at September 2018:

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry[8]	Financial covenants
Redeemable bonds							
Public bond	EUR	Fixed	€450 million	€445 million[3][4][5]	Unsecured	April 2022	No financial covenants
Public bond	EUR	Fixed	€350 million	€345 million[3][4][5]	Unsecured	April 2023	No financial covenants
Public bond	US$	Fixed	US$221 million	US$218 million[4][5][6]	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed	ZAR745 million	ZAR745 million[4]	Unsecured	April 2020	No financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€208 million	€208 million	Trade receivables (securitisation programme)	August 2020	EBITDA to net interest and net debt to EBITDA[7]
UniCredit Bank	US$	Variable	US$134 million	US$134 million	Trade receivables (securitisation programme)	August 2020	EBITDA to net interest and net debt to EBITDA[7]
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million		December 2018	No financial covenants
Österreichische Kontrollbank	EUR	Fixed	€61 million	€61 million[4][2]		June 2021	EBITDA to net interest and net debt to EBITDA[7]
Österreichische Kontrollbank	EUR	Fixed	€150 million	€149 million[4][2]		March 2024	EBITDA to net interest and net debt to EBITDA[7]
GroCapital Financial Services	ZAR	Variable	ZAR400 million	ZAR400 million		May 2020	No financial covenants

(1) The nature of the rates for the group bonds are explained in note 31.
(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 upon the present values of remaining payments at a rate based upon 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) Financial covenants relate to the Sappi Limited group.
(8) The expiry date reflects the final repayment date of the borrowings. Certain borrowings have separate instalment payments prior to the expiry date which is reflected in the repayment profile of the borrowings.

The majority of the non-Southern African long-term debt is guaranteed by Sappi Limited.

	Local currency million	US$ million
21. Interest-bearing borrowings continued		
The analysis of the currency per debt is:		
US Dollar	352	**352**
Euro	1,277	**1,482**
ZAR	1,145	**81**
		1,915

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 Sappi Southern Africa, 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 2018 and 2017 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$383 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 Trading sell certain eligible trade receivables to Elektra Purchase N° 29 DAC (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 2018, a funding reserve, that is reset on a monthly basis, amounted to 13.89% (2017: 14.80%).

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$348 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 continued

for the year ended September 2018

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 and current liabilities are included in the determination of the headroom available.

(US$ million)	Currency	Interest rate	2018	2017
Unutilised committed facilities				
Syndicated loan/revolving credit facility[1]	EUR/ZAR	Variable (EURIBOR/JIBAR)	**680**	623
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**8**	26
			688	649
Unutilised uncommitted facilities				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (ZAR bank prime rate)	**19**	20
Cash management overdraft facility	USD	Variable (LIBOR)	**20**	20
			39	40
Total unutilised facilities (committed and uncommitted) excluding cash			**727**	689

[1] *Two syndicated loans with a consortium of banks with revolving facilities available of €525 million (2017: €465 million) and ZAR1,000 million (2017: ZAR1,000 million). Both facilities were unutilised as at financial year-end. The €525 million facility matures in February 2023, 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$4.5 million (2017: 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.

(US$ million)	2018	2017
22. Other non-current liabilities		
Long-term employee benefits	**4**	1
Workmen's compensation	**14**	16
Long service awards	**19**	20
Land restoration obligation	**14**	15
Restructuring provisions	**3**	4
Contingent consideration liability	**7**	11
Other	**7**	12
	68	79

(US$ million)	**2018**	2017
23. Provisions		
Restructuring provisions	**9**	13
Long-term	**3**	4
Short-term	**6**	9
Other provisions	**–**	1
	9	14

Details of restructuring provisions are provided below:

(US$ million)	Severance, retrenchment and related costs
Balance at September 2016	23
Increase in provisions	1
Utilised	(7)
Released during the year	(5)
Translation effect	1
Balance at September 2017	13
Increase in provisions	4
Utilised	(5)
Released during the year	(3)
Balance at September 2018	**9**

Europe

Due to the decline in demand for coated paper, Sappi Europe has embarked on various cost savings 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 2019 with the long-term provisions expected to be fully utilised by September 2025.

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

	(US$ million)	2018	2017
24.	**Notes to the group statement of cash flows**		
24.1	**Cash generated from operations**		
	Profit for the year	**323**	338
	Adjustment for:		
	Depreciation	**273**	255
	Fellings	**66**	63
	Amortisation	**9**	4
	Taxation charge	**98**	108
	Net finance costs	**68**	80
	Impairments of assets and investments	**(3)**	–
	Restructuring provisions and closure costs raised	**1**	1
	Fair value adjustment gains and growth on plantations	**(96)**	(79)
	Post-employment benefits funding	**(45)**	(43)
	Profit (loss) on disposal of assets	**(4)**	2
	Share-based payment charges	**13**	10
	Other non-cash items	**6**	9
		709	748
24.2	**Decrease (increase) in working capital**		
	(Increase) decrease in inventories	**(92)**	(19)
	Decrease (increase) in receivables	**(87)**	(4)
	(Decrease) increase in payables	**100**	(4)
		(79)	(27)
24.3	**Finance costs paid**		
	Interest and other finance costs on liabilities carried at amortised cost	**(92)**	(107)
	Net foreign exchange gains	**6**	12
	Transfers to financing activities and non-cash items	**2**	(1)
		(84)	(96)
24.4	**Taxation paid**		
	Net amounts payable at beginning of year	**(25)**	(31)
	Taxation charge to profit or loss	**(74)**	(95)
	Translation and other	**(1)**	1
	Less: Net amounts payable at end of year	**27**	25
		(73)	(100)
24.5	**Proceeds on disposal of property, plant and equipment**		
	Book value of non-current assets disposed of	**8**	6
	Gain (loss) on disposal	**3**	(2)
		11	4

24.6 Reconciliation of liabilities arising from financing activities

(US$ million)	2017	Cash flows	Transfers between long-term and short-term	Acquisition	Foreign exchange move-ments	Other changes	2018
Long-term borrowings	1,739	124	(25)	7	(30)	3	**1,818**
Short-term borrowings[1]	133	(56)	25	6	5	–	**113**
Total	1,872	68	–	13	(25)	3	**1,931**

[1] *Includes overdraft.*

(US$ million)	**2018**	2017
25. Encumbered assets		
The carrying 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	**438**	432

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of US$383 million (EUR330 million), of which US$376 million (EUR324 million) was utilised at financial year-end (refer to notes 17 and 21).

(US$ million)	**2018**	2017
26. Commitments		
Capital commitments		
Contracted but not provided	**293**	253
Approved but not contracted	**381**	219
	674	472
Future forecast cash flows of capital commitments in the year ended:		
2018	**–**	435
2019	**432**	26
2020	**208**	3
2021	**24**	–
2022	**2**	–
2023 (2017: Thereafter)	**–**	8
Thereafter	**8**	–
	674	472
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:		
2017		
2018	**–**	22
2019	**26**	14
2020	**18**	11
2021	**14**	8
2022	**8**	5
2023 (2017: Thereafter)	**6**	17
Thereafter	**19**	–
	91	77

The group enters into a number of leases, mainly relating to property, plant and equipment and vehicles. Leased terms range between three to 10 years and may be renegotiated on expiry.

27. Contingent liabilities

Contingent liabilities mainly relate to environmental and taxation queries in respect of certain group companies.

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.

Notes to the Group Annual Financial Statements continued

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28. Post-employment benefits

Summary of results

	Defined contribution plans		Defined benefit pension plans		Post-employment healthcare subsidy	
(US$ million)	**2018**	2017	**2018**	2017	**2018**	2017
Post-employment plan costs recognised in profit and loss	**39**	36	**11**	24	**7**	6
Employer contributions paid during the financial year			**37**	36	**3**	3
Amounts presented in the group balance sheet are as follows:						
Net pension/healthcare subsidy liabilities			**232**	238	**97**	106
Net pension assets (refer to note 15)[1]			**(68)**	(35)	**–**	–
Net balance sheet liabilities			**164**	203	**97**	106
Movement in the balance sheet for the pension/healthcare subsidy						
Net pension/healthcare subsidy liabilities at beginning of year			**(203)**	(303)	**(106)**	(108)
Acquisitions			**(5)**	–	**–**	–
Net pension/healthcare subsidy costs for the year			**(11)**	(24)	**(7)**	(6)
Employer contributions			**37**	36	**3**	3
Net actuarial gains for the year			**16**	96	**12**	5
Translation differences			**2**	(8)	**1**	–
Net pension/healthcare liabilities at end of year			**(164)**	(203)	**(97)**	(106)

[1] *Defined benefit plans in South Africa, United Kingdom and certain defined benefit plans in North America.*

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$39 million (2017: US$36 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$41 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 taxpayers, 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 in employee costs reported in note 4 and are excluded from the figures reported in this note.

Defined benefit pension/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, Austrian and Italian 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 (i.e. members and the various local sponsoring companies across the group). The pension funds comprise of 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 '$ 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), Italy
Fixed EUR-value	Germany, Austria
Nominal USD-value (periodically revalued)	North America (works plans)
Old age accounts with minimum guarantees	Switzerland

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.

Notes to the Group Annual Financial Statements continued

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28. Post-employment benefits continued

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 42% equity and real estate instruments, 38% debt instruments, 20% multi-asset and other instruments.
- **North America:** Asset mix based on 23% equity instruments, 60% debt instruments, 17% multi-asset and other instruments.

[1] *Weighted average of plans in this region.*

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 South 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 South 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.

28. Post-employment benefits continued

Other employee benefits

Group companies have no significant post-employment defined benefit obligations other than the following:

(US$ million)	2018	2017
Jubilee (long service award) in continental Europe in other non-current liabilities	19	20
Early retirement (temporary pension) benefit in Belgium	4	1
ATZ (early retirement – temporary salary supplement) obligations in Germany and Austria	10	11
Workmen's compensation benefit obligations in North America	14	16

	Defined benefit pension plans		Post-employment healthcare subsidy	
(US$ million)	2018	2017	2018	2017
Components of defined benefit cost recognised in profit or loss				
Current service cost	18	19	3	2
Past service credit	(9)	–	–	–
Interest on net defined benefit	1	3	4	4
Fund administration costs	2	2	–	–
Non-routine settlement gain	(1)	–	–	–
Net amount recognised in profit or loss	11	24	7	6
Charge attributed to operating cost	10	21	3	2
Charge attributed to finance cost	1	3	4	4
Components of defined benefit cost recognised in OCI				
Actuarial gains (losses) arising from membership experience	(6)	7	8	2
Actuarial gains (losses) arising from changes in demographic assumptions	5	27	(2)	(1)
Actuarial gains (losses) arising from changes in financial assumptions	50	63	7	4
Return on plan assets (excluding amounts included in interest income)	(33)	(1)	(1)	–
Gain (loss) recognised in other comprehensive income	16	96	12	5

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for the year ended September 2018

28. Post-employment benefits continued

(US$ million)	Defined benefit pension plans 2018	2017	Post-employment healthcare subsidy 2018	2017
Movement in the present value of the defined benefit obligation in the current year				
Defined benefit obligation at beginning of year	**1,334**	1,409	**114**	116
Current service cost	**18**	19	**3**	2
Past service credit	**(9)**	–	**–**	–
Interest expense	**46**	45	**5**	5
Plan participants' contributions	**2**	2	**–**	–
Remeasurements	**(49)**	(97)	**(13)**	(5)
Membership experience changes	**6**	(7)	**(8)**	(2)
Demographic assumption changes	**(5)**	(27)	**2**	1
Financial assumption changes	**(50)**	(63)	**(7)**	(4)
Acquisition[1]	**78**	13	**–**	–
Non-routine plan settlements	**(1)**	–	**–**	–
Benefits paid	**(77)**	(77)	**(4)**	(4)
Translation difference	**(15)**	20	**(1)**	–
Defined benefit obligation at end of year	**1,327**	1,334	**104**	114
– Present value of wholly unfunded obligation	**176**	177	**77**	88
– Present value of wholly or partially funded obligation	**1,151**	1,157	**27**	26
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	**1,131**	1,106	**8**	8
Interest income	**45**	42	**1**	1
Employer contributions	**37**	36	**3**	3
Plan participants' contributions	**2**	2	**–**	–
Remeasurements				
Return (loss) on plan assets net of interest income	**(33)**	(1)	**(1)**	–
Acquisitions[1]	**73**	13	**–**	–
Benefits paid	**(77)**	(77)	**(4)**	(4)
Fund administration costs	**(2)**	(2)	**–**	–
Translation difference	**(13)**	12	**–**	–
Fair value of plan assets at end of year	**1,163**	1,131	**7**	8
Net balance sheet defined benefit liability	**164**	203	**97**	106

[1] *Acquisitions: Refers to assets and liabilities acquired with Cham Paper Group.*

28. Post-employment benefits continued

The major categories of plan assets at fair value are presented as follows:

(US$ million)	Funded pension plans 2018	Funded pension plans 2017	Funded subsidy plans 2018	Funded subsidy plans 2017
Investments quoted in active markets				
– Equity and high yield investments	**232**	399	**–**	–
– Investment grade debt instruments	**215**	201	**–**	–
– Property investment funds	**16**	14	**–**	–
Unquoted investments				
– Equity and high yield investments[1]	**680**	501	**6**	7
Cash	**20**	16	**1**	1
	1,163	1,131	**7**	8

[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.

	Funded pension plans 2018	Funded pension plans 2017	Funded subsidy plans 2018	Funded subsidy plans 2017
Total investment return on plan assets	**12**	41	**–**	1

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:

	2018 North America	2018 Europe (incl UK)	2018 Southern Africa	2017 North America	2017 Europe (incl UK)	2017 Southern Africa
Discount rate – pension (%)	**4,02**	**1,70**	**9,69**	3,53	1,90	9,28
Discount rate – post-employment healthcare subsidy (%)	**3,93**	**n/a**	**10,00**	3,35	n/a	9,75
Future salary increase rate – pension (%)	**–**	**1,00**	**7,09**	–	1,00	7,28
Cost of living adjustment for pensions in payment (%)[1]	**–**	**1,80**	**4,87**	–	2,00	5,03
Healthcare cost trend rate (%)[2]	**8.00 – >4.50**	**n/a**	**7,75**	8.20 – >4.50	n/a	8,25
Sample rate average life expectancy from retirement (years)[3]						
– For current beneficiaries	**25,40**	**24,40**	**19,20**	25,60	23,90	19,20
– For future retiring beneficiaries	**27,10**	**26,20**	**20,20**	27,30	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 nine years (2017: 10 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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for the year ended September 2018

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, whilst holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by US$149 million (increase by US$182 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$20 million (decrease by US$16 million).
- If the post-retirement pension increase (cost of living adjustment) rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$38 million (decrease by US$32 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$35 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	11 years	9 years
Europe (including UK)	12 years	n/a
Southern Africa	9 years	15 years

Regional split of results

(US$ million)	2018 North America	2018 Europe (incl UK)	2018 Southern Africa	2017 North America	2017 Europe (incl UK)	2017 Southern Africa
Defined benefit obligation (pension)	**(665)**	**(547)**	**(115)**	(710)	(496)	(128)
Defined benefit obligation (healthcare)	**(77)**	**n/a**	**(27)**	(88)	n/a	(26)
Fair value of plan assets (pension)	**675**	**355**	**133**	696	290	145
Fair value of plan assets (healthcare)	**–**	**n/a**	**7**	–	n/a	8
Net defined benefit liability	**(67)**	**(192)**	**(2)**	(102)	(206)	(1)
Reconciliation of the regional balance sheets						
Net defined benefit liability at beginning of year	**(102)**	**(206)**	**(1)**	(188)	(230)	7
Defined benefit cost recognised in profit or loss (pension)	**(9)**	**2**	**(4)**	(12)	(8)	(4)
Defined benefit cost recognised in profit or loss (healthcare)	**(4)**	**n/a**	**(3)**	(5)	n/a	(1)
Balance sheet take-on of Cham acquisition plans		**(5)**			–	
Net gain (loss) recognised in OCI (pension)	**18**	**(2)**	**–**	80	23	(7)
Net gain (loss) recognised in OCI (healthcare)	**12**	**n/a**	**–**	6	n/a	(1)
Company contributions paid during the year	**18**	**17**	**5**	17	17	5
Translation differences	**–**	**2**	**1**	–	(8)	–
Net defined benefit liability at end of year	**(67)**	**(192)**	**(2)**	(102)	(206)	(1)

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.

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 continued

for the year ended September 2018

29. Share-based payments continued

Movements in share options and performance shares for the financial years ended September 2018 and September 2017 are as follows:

	Performance shares[1]	Share options	Weighted average share option exercise price (ZAR)	**Total shares**
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**
– Offered	2,755,650	–	–	**2,755,650**
– Paid for/vested	(3,650,118)	(583,804)	31,63	**(4,233,922)**
– Returned, lapsed and forfeited	(280,117)	(126,350)	32,95	**(406,467)**
Outstanding at September 2018	12,310,170	715,635	26,67	**13,025,805**
Exercisable at September 2016	–	2,825,679	30,23	
Exercisable at September 2017	–	1,425,789	28,99	
Exercisable at September 2018	–	715,635	26,67	

[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:

	2018	2017	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
09 December 2009	**–**	272,550	Time	Vested	09 December 2017	33,85
03 December 2010	**214,200**	462,825	Time	Vested	03 December 2018	35,20
02 December 2011	**501,435**	690,414	Time	Vested	02 December 2019	22,90
Performance shares:						
13 December 2013	**–**	3,658,024	Performance	13 December 2017	n/a	Rnil
04 December 2014	**3,130,645**	3,190,630	Performance	04 December 2018	n/a	Rnil
07 December 2015	**3,548,110**	3,644,447	Performance	07 December 2019	n/a	Rnil
09 December 2016	**2,889,604**	2,991,654	Performance	09 December 2020	n/a	Rnil
04 December 2017	**2,741,811**	–	Performance	04 December 2021	n/a	Rnil
	13,025,805	14,910,544				

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 43	Issue 43
Date of grant	04 December 2017	04 December 2017
Type of award	Performance	Performance
Share price at grant date	ZAR95,64	ZAR95,64
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	61%	61%
Number of shares offered	1,377,825	1,377,825
Volatility	31%	n/a
Risk-free discount rate	2.148% (US yield)	n/a
Expected dividend yield	2,2%	n/a
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR68,40	ZAR58,44

Volatility has been determined with reference to the historic volatility of the Sappi share price over the expected period.

Refer to note 36 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 South 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 South African employees (62.5%)
- South African black managers (15%)
- Strategic partners (12.5%) (refer below for more detail), and
- Communities surrounding the South 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 South 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 South African business under the Forestry Charter and BBBEE legislation in general.

Notes to the Group Annual Financial Statements continued

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29. Share-based payments continued

Broad-based Black Economic Empowerment 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 (2017: US$1 million) during the 2018 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	ZAR72,18
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)		2018	2017
30.	**Derivative financial instruments**			
	Hedging instrument	**Hedged item**		
	Current assets			
	Pulp swaps	Raw materials	**4**	1
	Forward exchange contracts	Various	**17**	2
			21	3
	Current liabilities			
	Forward exchange contracts	Various	**2**	3
	FX zero cost collar	Highly probable forecast sales	**4**	2
			6	5

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, trade receivables, certain investments, trade payables, 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, and
- Commodity price risk

(b) Liquidity risk, and
(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, whilst commodity price risk is managed regionally within the overall commodity group policy.

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 principal 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 2018 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 30 September 2018. The information is presented in US Dollar, which is the group's reporting currency.

(US$ equivalent in millions)	Expected maturity date 2019	2020	2021	2022	2023	2024+	**2018 Carrying value**	**2018 Fair[(4)] value**	2017 Carrying value	2017 Fair value
US Dollar										
Fixed rate debt	–	–	–	–	–	218	**218**	**223**	218	237
Average interest rate (%)	–	–	–	–	–	7.60	**7.60**		7.61	
Variable rate debt[(1)]	–	134	–	–	–	–	**134**	**134**	127	127
Average interest rate (%)	–	4.46	–	–	–	–	**4.46**		3.49	
Euro										
Fixed rate debt	28	46	46	538	443	69	**1,170**	**1,249**	1,100	1,214
Average interest rate (%)	1.21	1.67	1.68	3.36	3.88	2.24	**3.30**		3.36	
Variable rate debt[(2)]	69	243	–	–	–	–	**312**	**313**	306	306
Average interest rate (%)	0.33	1.38	–	–	–	–	**1.15**		1.51	
Rand										
Fixed rate debt	–	53	–	–	–	–	**53**	**55**	121	127
Average interest rate (%)	–	8.06	–	–	–	–	**8.06**		7.83	
Variable rate debt[(3)]	–	28	–	–	–	–	**28**	**30**		
Average interest rate (%)	–	9.46	–	–	–	–	**9.46**			
Total										
Fixed rate debt	28	99	46	538	443	287	**1,441**	**1,527**	1,439	1,578
Average interest rate (%)	1.21	5.07	1.68	3.36	3.88	6.32	**4.13**		4.38	
Variable rate debt	69	405	–	–	–	–	**474**	**477**	433	433
Average interest rate (%)	0.33	2.96	–	–	–	–	**2.57**		2.09	
Fixed and variable	97	504	46	538	443	287	**1,915**	**2,004**	1,872	2,011
Current portion							**97**	**98**	133	135
Long-term portion							**1,818**	**1,906**	1,739	1,876
Total interest-bearing borrowings (refer to note 21)							**1,915**	**2,004**	1,872	2,011

(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) *The ZAR floating interest rates are based on the Johannesburg Inter-bank Agreed Rate (JIBAR).*
(4) *The method used to measure fair value is the net present value method using a yield curve plus an appropriate credit spread for Sappi. The fair value hierarchy that these instruments would fall into are level 2 instruments.*

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 0.88% and 9.46% (depending on currency). At September 2018, 75.20% of Sappi's borrowings were at fixed rates of interest and 24.80% 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

Depending on the market conditions, Sappi uses interest rate derivatives 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. As per September 2018 there are no remaining interest rate hedges.

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 DAC (only if double notch downgrade below BB-)	376	1.39
Commitment fee on unused revolving credit facility	609	0.53
Interest on utilised bank syndicated loans	245	0.62
	1,230	2.54
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 50 bps to the interest rates.

(US$ million)	Total	Fixed rate debt	Floating rate debt	Impact on profit or loss of 50 bps interest
Total debt	1,915	1,440	475	2
Ratio fixed/floating to total debt		75.20%	24.80%	

The floating rate debt represents 24.80% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by US$2.375 million.

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

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 2018 and 2017 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 2018							
Classes of financial instruments							
Non-current assets							
Other non-current assets	**88**	**10**	–	10	–	–	–
Current assets							
Trade receivables	**634**	**634**	272	285	8	32	37
Prepayments and other receivables	**133**	**36**	8	13	14	–	1
Derivative financial instruments	**21**	**21**	8	–	13	–	–
Cash and cash equivalents	**363**	**363**	218	41	74	1	29
		1,064	506	349	109	33	67
Non-current liabilities							
Interest-bearing borrowings	**1,818**	**1,818**	352	1,385	81	–	–
Other non-current liabilities	**68**	**8**	1	–	–	7	–
Current liabilities							
Interest-bearing borrowings	**97**	**97**	–	97	–	–	–
Overdrafts	**16**	**16**	–	16	–	–	–
Derivative financial instruments	**6**	**6**	–	–	6	–	–
Trade payables	**637**	**637**	187	268	179	2	1
Other payables and accruals	**372**	**163**	31	77	54	–	1
		2,745	571	1,843	320	9	2
Foreign exchange gap		**(1,681)**	(65)	(1,494)	(211)	24	65

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 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	79	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
		2,537	548	1,703	281	3	2
Foreign exchange gap		(1,372)	(107)	(1,377)	31	26	55

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)		**2018** Contract amount (notional amount)	**2018** Fair value (unfavourable) favourable	2017 Contract amount (notional amount)	2017 Fair value (unfavourable) favourable
Foreign currency					
Bought:	US Dollar	**4**	**–**	3	–
	Euro	**83**	**–**	93	(1)
	Rand	**93**	**4**	118	–
Sold:	US Dollar	**(130)**	**4**	(97)	(2)
	Euro	**(36)**	**–**	(11)	–
	Rand	**(160)**	**7**	(39)	1
		(146)	**15**	67	(2)

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

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 2018 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 31 August 2020.

As at September 2018, there was an open exposure of US$12 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	(1,6)	(0,1)	0,2
EUR	(6,8)	(0,6)	0,8
GBP	3,8	0,3	(0,4)
USD	(3,2)	(0,3)	0,4
ZAR	(9,0)	(0,8)	1,0
Other currencies	(0,1)	(0,0)	0,0
Total	(12,2)	(1,1)	1,4

Based on the exposure at the end of September 2018, 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$1.1 million or a gain of US$1.4 million respectively.

During 2018, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$301 million which were used as an overlay hedge of export sales from Southern Africa. The total impact on profit or loss amounted to a net gain of US$1.8 million (net of US$3.5 million positive forward points and US$1.7 negative spot-to-spot movement). We also contracted zero cost foreign exchange collars for a total nominal value of US$220 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 2018 the impact on profit or loss of the marking to market relating to the time value of the collar amounted to a loss of US$4.1 million.

31. Financial instruments continued

(a) Market risk continued

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 2018 financial year, the hedges were highly effective. A realised loss of US$5.2 million relating to the realised spot-to-spot movements of non-deliverable forward exchange contracts was transferred from OCI to revenue in profit or loss and at the financial year-end, a positive amount of US$2.4 million was deferred in equity. A realised gain of US$3.5 million relating to the settled zero cost foreign exchange collars was transferred from OCI to revenue in profit or loss and at the financial year-end, a negative intrinsic value in the amount of US$0.65 million was deferred to equity.

Mill expansion and maintenance capital expenditure projects

Sappi Southern Africa (SSA) has approved several capex projects requiring the acquisition of property, plant and equipment for the maintenance and expansion of its South African mills Saiccor and Ngodwana. An important part of the equipment was ordered in foreign currency, predominantly in EUR and in USD which created a foreign exchange exposure as SSA is a ZAR functional entity. To cover these foreign exchange exposures either as highly probable forecast transactions or as firm commitments, SSA entered into forward foreign exchange contracts (FECs) which were designated as hedging instruments in a cash flow hedge. The full fair value of the FECs, including forward points, have been designated as hedging instruments.

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 2018 financial year, most of the hedges were highly effective, some ineffective hedges were terminated prospectively and the related positive foreign exchange result of US$2.9 million was transferred from other comprehensive income to profit or loss into the foreign exchange result.

A realised foreign exchange loss of US$1.1 million of the designated FECs was transferred from OCI as a basis adjustment to fixed assets, a positive amount of US$8.3 million was deferred in equity.

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

31. Financial instruments continued

(a) Market risk 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 EUR36.9 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- and re-designations took place in line with the evolving net USD exposure linked to the net investment. As at September 2018 the hedged notional amount at amortised cost amounted to US$103 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 2018 financial year, the hedge was 100% effective.

	2018		2017	
(US$ million)	**Hedged notional**	**Foreign exchange result deferred in OCI**	Hedged notional	Foreign exchange result deferred in OCI
Bond 2032	**103**	**(1)**	102	0,2
Previous designations	**–**	**(34)**	–	(34)
	103	**(35)**	102	(34)
Net investment value of North America	**815**		798	

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 2018, pulp swaps, pulp futures and pulp zero-cost options in Europe were contracted for a total volume of 100,500 tons of pulp.

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, future and pulp zero rated options whereby the variable price was swapped for an annual fixed price.

A realised gain of US$12.2 million resulting from the settled pulp contracts was booked into the income statement.

The group's pulp contracts (swaps and zero-cost options) outstanding at September 2018 are detailed below:

		2018		2017	
(US$ million)	Base currency	Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value (unfavourable) favourable
Northern Bleached Softwood Kraft Pulp (NBSK)					
Bought:	USD	**16**	**2**	–	–
Bleached Hardwood Kraft Pulp (BHKP)					
Bought:	USD	**13**	**2**	4	1
		29	**4**	4	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 2018

31. Financial instruments continued

(b) Liquidity risk

Liquidity risk management

The following tables for the 2018 and 2017 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.

(US$ million)	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows 0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years	Total
September 2018								
Non-current assets								
Other non-current assets	**10**	**10**	–	–	9	–	1	10
Current assets								
Trade receivables	**634**	**634**	634	–	–	–	–	634
Prepayments and other receivables	**36**	**36**	36	–	–	–	–	36
Derivative financial instruments	**21**	**21**	21	–	–	–	–	21
Cash and cash equivalents	**363**	**363**	363	–	–	–	–	363
			1,054	–	9	–	1	1,064
Non-current liabilities								
Interest-bearing borrowings	**1,818**	**1,906**	93	9	478	1,181	441	2,202
Other non-current liabilities	**8**	**8**	–	–	8	–	–	8
Current liabilities								
Interest-bearing borrowings	**97**	**98**	98		–	–	–	98
Overdrafts	**16**	**16**	–	16	–	–	–	16
Derivative financial instruments	**6**	**6**	6	–	–	–	–	6
Trade payables	**637**	**637**	637	–	–	–	–	637
Other payables and accruals	**163**	**163**	163	–	–	–	–	163
			997	25	486	1,181	441	3,130
Liquidity surplus (gap)			57	(25)	(477)	(1,181)	(440)	(2,066)

The liquidity gaps will be funded by cash generated from operations and existing unutilised facilities as well as refinancing of borrowings when due.

31. **Financial instruments** continued

(b) Liquidity risk continued

Liquidity risk management continued

(US$ million)	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows 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)

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

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 2018 and 2017 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

		Maturity analysis Undiscounted cash flows				
(US$ million)	**Total**	0 – 6 months	6 – 12 months	1– 2 years	2 – 5 years	>5 years
September 2018						
Assets						
Fair value of derivatives by risk factor						
Foreign exchange risk						
IRCS and FX forward contracts	**17**	17	–	–	–	–
– receiving leg	**220**	220	–	–	–	–
– paying leg	**(203)**	(203)	–	–	–	–
Commodity price risk	**4**	4	–	–	–	–
Liabilities						
Fair value of derivatives by risk factor						
Foreign exchange risk						
IRCS and FX forward contracts	**6**	6	–	–	–	–
– receiving leg	**(51)**	(51)	–	–	–	–
– paying leg	**57**	57	–	–	–	–

31. Financial instruments continued

(b) Liquidity risk continued

Derivative financial instruments with maturity profile continued

(US$ million)	Total	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years
		Maturity analysis Undiscounted cash flows				
September 2017						
Assets						
Fair value of derivatives by risk factor						
Interest rate risk						
Interest rate swaps	–	–	–	–	–	–
– receiving leg	5	3	2	–	–	–
– paying leg	(5)	(3)	(2)	–	–	–
Foreign exchange risk						
IRCS and FX forward contracts	2	1	1	–	–	–
– receiving leg	150	161	(11)	–	–	–
– paying leg	(148)	(160)	12	–	–	–
Commodity price risk	1	1	–	–	–	–
Liabilities						
Fair value of derivatives by risk factor						
Foreign exchange risk						
IRCS and FX forward contracts	5	5	–	–	–	–
– receiving leg	134	134	–	–	–	–
– paying leg	(129)	(129)	–	–	–	–

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, trade receivables, certain investments, bank overdraft, trade payables 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.

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 2018

31. Financial instruments continued

(b) Liquidity risk continued

Fair values continued

(US$ million)	Total balance	As determined by IAS 39: Total out of scope	Total in scope	Categories in accordance with IAS 39: Fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Fair value
September 2018								
Non-current assets								
Other non-current assets	**88**	78	10	–	3	–	7	10
	88	78	10	–	3	–	7	10
Current assets								
Trade receivables	**634**	–	634	–	634	–	–	634
Prepayments and other receivables	**133**	97	36	–	36	–	–	36
Derivative financial instruments	**21**	–	21	21	–	–	–	21
Cash and cash equivalents	**363**	–	363	–	363	–	–	363
	1,151	97	1,054	21	1,033	–	–	1,054

(US$ million)	Total balance	As determined by IAS 39: Total out of scope	Total in scope	Categories in accordance with IAS 39: Fair value through profit or loss	Other financial liabilities	Fair value
September 2018						
Non-current liabilities						
Interest-bearing borrowings	**1,818**	–	1,818	–	1,818	1,906
Other non-current liabilities	**68**	60	8	7	1	8
	1,886	60	1,826	7	1,819	1,914
Current liabilities						
Interest-bearing borrowings	**97**	–	97	–	97	98
Overdrafts	**16**	–	16	–	16	16
Derivative financial instruments	**6**	–	6	6	–	6
Trade payables	**637**	–	637	–	637	637
Other payables and accruals	**372**	209	163	–	163	163
	1,128	209	919	6	913	920

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 receivables	Held to maturity	Available for sale	Fair value
	As determined by IAS 39			Categories in accordance with IAS 39				
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)	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 2017						
Non-current liabilities						
Interest-bearing borrowings	1,739	–	1,739	–	1,739	1,871
Other non-current liabilities	79	78	1	–	1	1
	1,818	78	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

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

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)	2018 Total fair value	2018 Fair value hierarchy Level 1	2018 Level 2	2018 Level 3	2017 Total fair value	2017 Fair value hierarchy Level 1	2017 Level 2	2017 Level 3
Non-current assets								
Other non-current assets	10	7	3	–	7	7	–	–
	10	7	3	–	7	7	–	–
Current assets								
Derivative financial instruments	21	–	21	–	3	–	3	–
	21	–	21	–	3	–	3	–
Non-current liabilities								
Contingent consideration liability	7	–	–	7	11	–	–	11
	7	–	–	7	11	–	–	11
Current liabilities								
Contingent consideration liability	–	–	–	–	2	–	–	2
Derivative financial instruments	6	–	6	–	5	–	5	–
	6	–	6	–	7	–	5	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, 71% 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		Purchases		Amounts owed by related parties		Amounts owed to related parties	
(US$ million)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
– proNARO GmbH	**–**	–	**118.0**	117.3	**–**	–	**–**	–
– Umkomaas Lignin (Pty) Ltd	**5.2**	5.2	**–**	–	**0.6**	0.7	**–**	–
– Papierholz Austria GmbH	**–**	–	**91.5**	82.9	**–**	–	**–**	5.0
– The Boldt Company (Boldt)	**–**	–	**88.0**	8.0	**–**	–	**25.7**	–
	5.2	5.2	**297.5**	208.2	**0.6**	0.7	**25.7**	5.0

The related-party arrangement with Boldt ended August 2018. There are ongoing disputes over amounts billed and arbitration has been requested by Boldt.

The amounts outstanding at balance sheet date are unsecured and will be settled in cash or, in the case of Boldt, may be adjusted by the arbitration panel or a negotiated settlement. 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$10 million (2017: US$8.5 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.

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 2018, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	81 263 256	15,1

33. Events after balance sheet date

The directors declared a gross dividend of 17 US cents per share, payable in ZAR at an exchange rate of US$1 = ZAR14.43176 being ZAR245.33992 cents per share on 14 November 2018. See note 8 for further details.

Other than the non-adjusting event as described above, there have been no subsequent events that occurred between financial year-end and the date of authorisation for issue of these financial statements that require disclosure or adjustment to the Group Annual Financial Statements.

Notes to the Group Annual Financial Statements continued

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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 Human Resources and Compensation Committee, recommended by the board and approved at the Annual General Meeting by the shareholders.

	2018			
(US$)	Board fees	Committee fees	Travel allowance	Total
D Konar[1]	13,686	14,344	–	28,030
KR Osar	74,140	34,100	18,000	126,240
JD McKenzie	50,394	20,511	7,200	78,105
ANR Rudd	419,684	–	10,800	430,484
NP Mageza	34,729	37,569	7,200	79,498
R Thummer[2]	24,700	7,478	7,000	39,178
MV Moosa	34,729	24,834	7,200	66,763
MA Fallon	66,335	67,223	10,800	144,358
RJ DeKoch[3]	65,806	21,357	14,400	101,563
RJAM Renders	78,937	67,022	10,800	156,759
B Mehlomakulu[4]	31,565	10,255	7,200	49,020
	894,705	304,693	100,600	1,299,998

[1] *Retired from the board in January 2018.*
[2] *Retired from the board in December 2017.*
[3] *Retired from the board in August 2018.*
[4] *Appointed to the board in March 2017.*

34. Directors' and prescribed officers' remuneration continued

Non-executive directors continued

(US$)	Board fees	Committee fees	Travel allowance	Total
	2017			
D Konar	35,200	43,811	7,000	86,011
B Radebe[(5)]	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	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[(5)]	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	20,043	5,557	7,000	32,600
	996,748	347,032	108,500	1,452,280

[(5)] *Retired from the board in February 2017.*

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

34. Directors' and prescribed officers' remuneration continued

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$)	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share based payment benefit	Total
2018						
SR Binnie[(1)]	**558,318**	**525,830**	**14,907**	**85,129**	**701,472**	**1,885,656**
GT Pearce[(2)]	**322,878**	**303,971**	**8,473**	**63,461**	**292,857**	**991,640**
	881,196	**829,801**	**23,380**	**148,590**	**994,329**	**2,877,296**

(US$)	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share based payment benefit	Total
2017						
SR Binnie	464,563	440,139	12,944	76,580	561,595	1,555,821
GT Pearce	302,683	283,986	8,295	61,090	212,657	868,711
	767,246	724,125	21,239	137,670	774,252	2,424,532

(1) *SR Binnie received a 5.5% 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). Overall salary expressed in reporting currency was 20% higher in 2018 than in 2017.*

(2) *GT Pearce received a 5.5% 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). Overall salary expressed in reporting currency was 7% higher in 2018 than in 2017.*

The remuneration figures shown above are affected by the translation into US Dollar.

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	Share based payment benefit	Total
B Wiersum	**779,507**	**511,203**	**2,976**	**261,304**	**353,023**	**1,908,013**
M Gardner	**548,690**	**442,734**	**–**	**56,125**	**353,023**	**1,400,572**
A Thiel	**336,541**	**230,261**	**9,435**	**61,199**	**384,436**	**1,021,872**
A Rossi	**84,049**	**43,391**	**2,460**	**–**	**–**	**129,900**
M van Hoven	**173,061**	**123,824**	**4,994**	**47,087**	**279,116**	**628,082**
G Bowles	**250,935**	**183,597**	**7,534**	**104,581**	**297,682**	**844,329**
F Marupen	**188,705**	**134,788**	**5,250**	**50,189**	**196,818**	**575,750**
M Mansoor	**205,370**	**152,653**	**115,083**	**73,390**	**66,188**	**612,684**
Total – 2018	**2,566,858**	**1,822,451**	**147,732**	**653,875**	**1,930,286**	**7,121,202**
B Wiersum	713,361	522,618	2,764	233,429	275,892	1,748,064
M Gardner	534,626	276,294	–	54,754	275,892	1,141,566
A Thiel	315,836	224,665	9,237	59,159	360,039	968,936
A Rossi	325,362	162,220	9,682	–	–	497,264
M van Hoven	161,408	115,370	4,888	44,891	220,367	546,924
G Bowles	204,802	160,033	6,254	87,767	235,990	694,846
F Marupen	176,898	125,925	5,140	48,381	125,608	481,952
M Mansoor	–	–	–	–	–	–
Total – 2017	2,432,293	1,587,125	37,965	528,381	1,493,788	6,079,552

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.

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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.

	2018		2017	
Director	Direct interests Beneficial	Indirect interests Beneficial	Direct interests Beneficial	Indirect interests Beneficial
Non-executive directors				
MV Moosa	–	576,542	–	576,542
MA Fallon	5,000	–	5,000	–
Executive directors				
SR Binnie	217,522	–	97,522	–
GT Pearce	67,067	–	49,412	–
Prescribed officers	1,006,800	–	842,295	–
B Wiersum	352,929	–	275,429	–
M Gardner	124,164	–	84,164	–
A Thiel	361,664	–	267,902	–
A Rossi	–	–	125,831	–
M van Hoven	107,618	–	56,289	–
G Bowles	26,040	–	26,040	–
F Marupan	9,385	–	6,640	–
M Mansoor	25,000	–	–	–
	1,296,389	576,542	994,229	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 739,721 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

	SR Binnie		GT Pearce		Executive directors	
					Total 2018	Total 2017
	Allocated price	Number of shares	Allocated price	Number of shares	**Number of shares**	Number of shares
Outstanding at beginning of year						
Number of shares held		837,000		283,000	**1,120,000**	1,018,000
'A' ordinary shares		–		–	**–**	–
Performance shares 38		–		–	**–**	135,000
Performance shares 39		310,000		33,000	**343,000**	343,000
Performance shares 40		175,000		85,000	**260,000**	260,000
Performance shares 41		190,000		90,000	**280,000**	280,000
Performance shares 42		162,000		75,000	**237,000**	–
Offered and accepted during the year						
Performance shares 42						237,000
Performance shares 43		137,000		63,000	**200,000**	–
Vested during the year						
Number of shares		(310,000)		(33,000)	**(343,000)**	(135,000)
Appointment during the year						
Number of shares		–		–	**–**	–
Outstanding at end of year						
Number of shares		664,000		313,000	**977,000**	1,120,000
'A' ordinary shares		–		–	**–**	–
Performance shares 39		–		–	**–**	343,000
Performance shares 40		175,000		85,000	**260,000**	260,000
Performance shares 41		190,000		90,000	**280,000**	280,000
Performance shares 42		162,000		75,000	**237,000**	237,000
Performance shares 43		137,000		63,000	**200,000**	–

Notes to the Group Annual Financial Statements continued

for the year ended September 2018

36. Directors' and prescribed officers' participation in the Sappi Limited share schemes continued

Changes in executive directors' and prescribed officers' share options and performance shares before financial year-end continued

	B Wiersum		M Gardner		A Thiel	
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares
Outstanding at beginning of year						
Number of shares held		405,000		405,000		605,000
'A' ordinary shares		–		–		–
Performance shares 38		–		–		–
Performance shares 39		110,000		110,000		310,000
Performance shares 40		100,000		100,000		100,000
Performance shares 41		105,000		105,000		105,000
Performance shares 42		90,000		90,000		90,000
Offered and accepted during the year						
Performance shares 42						
Performance shares 43		76,000		76,000		76,000
Vested during the year						
Number of shares		(110,000)		(110,000)		(310,000)
Appointment during the year						
Number of shares		–		–		–
Outstanding at end of year						
Number of shares		371,000		371,000		371,000
'A' ordinary shares		–		–		–
Performance shares 39		–		–		–
Performance shares 40		100,000		100,000		100,000
Performance shares 41		105,000		105,000		105,000
Performance shares 42		90,000		90,000		90,000
Performance shares 43		76,000		76,000		76,000

36. Directors' and prescribed officers' participation in the Sappi Limited share schemes continued

Changes in executive directors' and prescribed officers' share options and performance shares before financial year-end continued

	A Rossi		M v Hoven		G Bowles	
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares
Outstanding at beginning of year						
Number of shares held		–		325,000		350,000
'A' ordinary shares		–		–		–
Performance shares 38		–		–		–
Performance shares 39		–		90,000		100,000
Performance shares 40		–		80,000		85,000
Performance shares 41		–		85,000		90,000
Performance shares 42		–		70,000		75,000
Offered and accepted during the year						
Performance shares 42						
Performance shares 43		–		59,000		63,000
Vested during the year						
Number of shares		–		(90,000)		(100,000)
Appointment during the year						
Number of shares		–		–		–
Outstanding at end of year						
Number of shares		–		294,000		313,000
'A' ordinary shares		–		–		–
Performance shares 39		–		–		–
Performance shares 40		–		80,000		85,000
Performance shares 41		–		85,000		90,000
Performance shares 42		–		70,000		75,000
Performance shares 43		–		59,000		63,000

Notes to the Group Annual Financial Statements continued

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36. Directors' and prescribed officers' participation in the Sappi Limited share schemes continued

Changes in executive directors' and prescribed officers' share options and performance shares before financial year-end continued

	Prescribed officers					
	F Marupen		M Mansoor		**Total 2018**	Total 2017
	Allocated price	Number of shares	Allocated price	Number of shares	**Number of shares**	Number of shares
Outstanding at beginning of year						
Number of shares held		148,213		–	**2,238,213**	2,261,713
'A' ordinary shares		18,213		–	**18,213**	18,213
Performance shares 38		–		–	**–**	498,500
Performance shares 39		–		–	**720,000**	720,000
Performance shares 40		–		–	**465,000**	465,000
Performance shares 41		70,000		–	**560,000**	560,000
Performance shares 42		60,000		–	**475,000**	–
Offered and accepted during the year						
Performance shares 42						475,000
Performance shares 43		51,000		–	**401,000**	
Vested during the year						
Number of shares		–		–	**(720,000)**	(498,500)
Appointment during the year						
Number of shares		–		79,100	**79,100**	–
Outstanding at end of year						
Number of shares		199,213		79,100	**1,998,313**	2,238,213
'A' ordinary shares		18,213		–	**18,213**	18,213
Performance shares 39		–		–	**–**	720,000
Performance shares 40		–		11,000	**476,000**	465,000
Performance shares 41		70,000		15,000	**575,000**	560,000
Performance shares 42		60,000		15,100	**490,100**	475,000
Performance shares 43		51,000		38,000	**439,000**	–

Performance shares are issued for Rnil and vest after four years subject to performance criteria being achieved. Plan share issue 39 vested at R96.99.

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$2.9 million (2017: US$2.3 million).

Vesting dates

Performance shares 40	04 December 2018
Performance shares 41	07 December 2019
Performance shares 42	09 December 2020
Performance shares 43	04 December 2021
'A' ordinary shares	28 August 2019

37. Investments

Set out below are the significant subsidiaries of the group as at financial year-end:

Name of subsidiary	Country of incorporation	Principal activity	Effective holding (%) 2018	2017
Elektra Purchase No 29 Limited	Ireland	Securitisation of receivables	**–**	–
Rockwell Solutions Limited	Scotland	Manufacture of paper	**100**	100
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 Italy Operations SpA[(1)]	Italy	Manufacture of paper	**100**	–
Sappi International Holdings (Pty) Ltd	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
Sappi North America Inc[(2)]	United States of America	Manufacture of paper and paper pulp	**100**	100

(1) Acquired during the year. Refer note 9a.
(2) Renamed from SD Warren Company during the year.

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