

2013



## 2013 an important transitional year

Two major dissolving  
wood pulp projects

**completed and  
commissioned**

Steps taken to  
**improve** European  
paper business

INTEGRATED REPORT

FOR THE YEAR ENDED SEPTEMBER 2013

Inspired by life  
**sappi**

# about this report

Our annual integrated report for the year ended September 2013 aims to provide a succinct assessment of our strategy in relation to the key opportunities and risks in our markets, our performance against financial and non-financial objectives, and our priorities and expectations for the year ahead. The scope of this report includes all our operations, as set out on page 14.

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.

## External assurance

Currently, assurance of sustainability information is conducted by our internal audit team. Their verification process includes reviewing the procedures applied for collecting and/or measuring, calculating and validating non-financial data, as well as reviewing reported information and supporting documentation.

In practice, most of our key operations undergo external verification including the Eco-Management Audit System (EMAS) in Europe and globally, ISO 14001 environmental certification, 9001 quality certification and OHSAS 18001 certification. We are also assessed in terms of the forest certification systems we use, and in South Africa; our Broad-based Black Economic Empowerment (BBBEE) performance is assessed by an external ratings agency. In addition, our global governance, social and environmental performance is assessed annually in terms of our listing on the Socially Responsible Investment (SRI) Index of the Johannesburg Stock Exchange (JSE).

Collectively, these external assessments and certifications as well as interaction with our stakeholders give us confidence that our performance indicators are reliable, accurate and pertinent. The Social Ethics Transformation and Sustainability (SETS) Committee reviews the efficacy of conducting external assurance annually.

Due to our de-listing from the New York Stock Exchange, this year we are not publishing an annual report on Form 20-F.

For information on the combined assurance model relevant to the disclosure in this report, and for the independent auditor's report, please refer to pages 51 and 85, respectively. For important information relating to forward-looking statements, refer to the inside back cover.

We present this Integrated Report as a basis for engagement and welcome any feedback. Please direct any comments or questions to Sappi Corporate Affairs using the details provided on page 106.


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

## Financial results and sustainability reports

**Latest financial results**  <http://www.sappi.com/regions/sa/investors/FinancialInformation/Pages/Latest-financial-information.aspx>


**Integrated reports**  <http://www.sappi.com/regions/sa/investors/FinancialInformation/annualreports/Pages/2013.aspx>

**Integrated report and group annual financial statements – online**

 [www.sappi.com](http://www.sappi.com) and [http://sappi.investoreports.com/sappi\\_ar\\_2013/](http://sappi.investoreports.com/sappi_ar_2013/)



### Quarterly results announcements and analyst presentations

 <http://www.sappi.com/regions/sa/investors/FinancialInformation/Pages/Quarterly-reports.aspx>



### Group sustainability report, which includes a Global Reporting Initiative (GRI) content index:

 <http://www.sappi.com/regions/sa/Sustainability/Pages/Group-sustainability.aspx>

## Regional sustainability reports, which provide in-depth information pertinent to our European, North American and Southern African operations



### European

 <http://www.sappi.com/group/Sustainability/2013%20Sappi%20Fine%20Paper%20Europe%20Sustainability%20Report.pdf>



### North American

 <http://www.sappi.com/group/Sustainability/2013%20Sappi%20Fine%20Paper%20North%20America%20Sustainability%20Report.pdf>



### Southern African

 <http://www.sappi.com/regions/sa/Sustainability/Documents/2013%20Sappi%20Southern%20Africa%20Sustainability%20Report.pdf>



*This report is printed on Sappi Magno™ Satin – cover 250g/m² and text 135g/m².*

*Sappi Magno™ coated fine papers, manufactured at Sappi's European mills, are made from pulp bleached without the use of chlorine. The wood for this pulp is sourced from sustainably managed forests and plantations. The paper mills have ISO 9001 quality, ISO 14001 and EMAS environmental certification. Magno is acid-free and fully recyclable and biodegradable.*

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## about the 2013 cover

We are a market leader in specialised cellulose used widely in the Viscose Staple Fibre (VSF) segment. We are ideally positioned to take advantage of increased demand.

## chief financial officer's report

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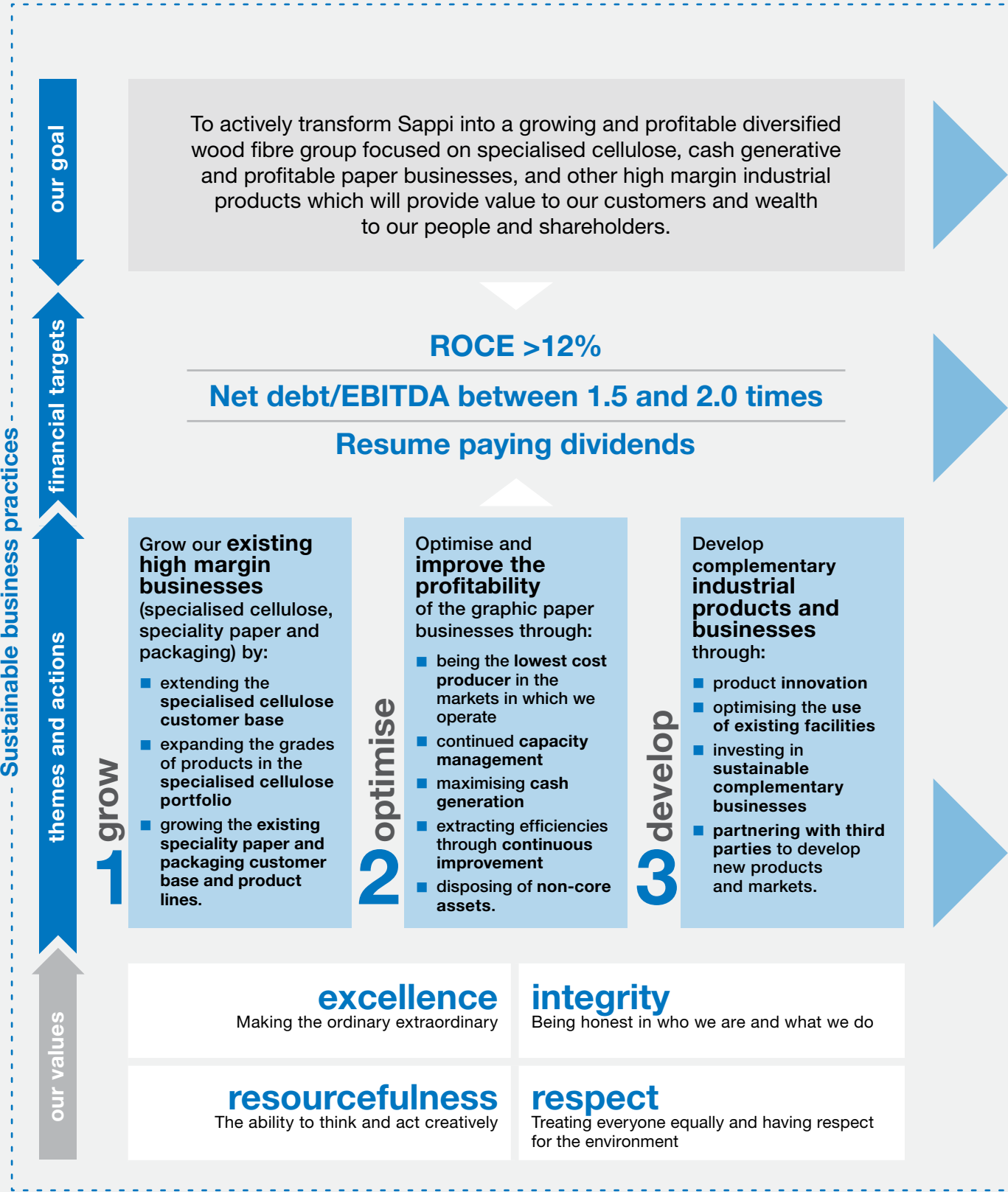
## summarised group results

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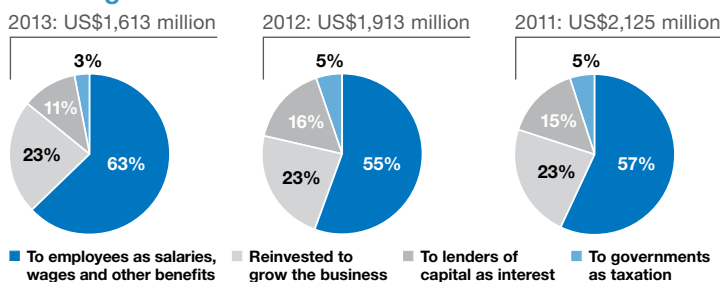
# group overview our strategy





## Delivering on our strategy in 2013

### Creating wealth

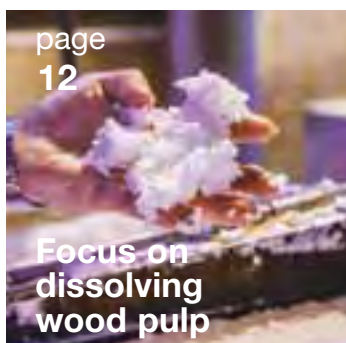
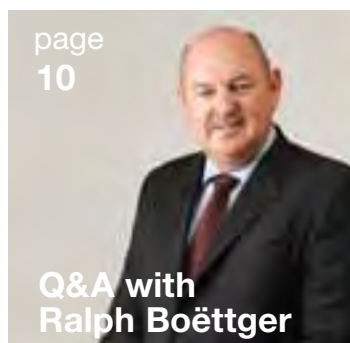


2013  
ROCE **5.6%**

2013  
Net debt/  
EBITDA **4.1**

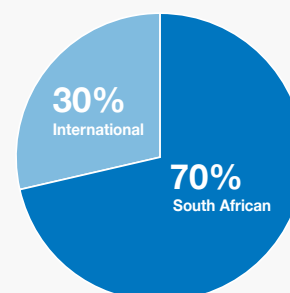
2013 was an important transitional year for Sappi. In line with our strategy, significant progress was made in positioning the group for accelerated growth in higher margin, growing businesses and in addressing some of the underperforming paper businesses.

## Executing our strategy



The two Q&As included in our report this year provide more detail on our strategic themes.

### Key shareholders



### Customers

Mostly we operate a **business-to-business model** through merchants, or direct to customers. Buying decisions are influenced by: paper merchants, printers, publishers, corporate end-users, advertising agencies, designers, packaging, release and fibre (cellulose) converters. Southern Africa also operates a **retail business model** for uncoated office paper.

### Employees and contractors

**13,700 employees** in over **20 countries**.

### Communities

**Major employer** in many remote or rural communities or small towns.

### Suppliers

**Mix of local and global relationships** with preference for long-term value partnerships.

### Industry bodies

Participation in **business and industry bodies, associations and campaigns**.

### Governments and regulators

**Interaction at local, national and regional levels** to inform development of policy and regulations, coordinate social investment and support the sustainability of operations.

## our performance in 2013

net debt  
**US\$2,214 million**

energy and emissions reduction **9.3%**

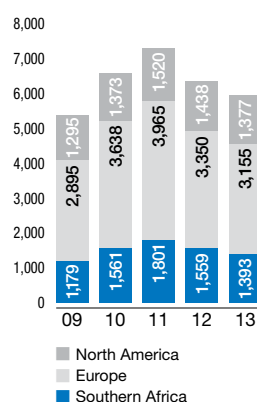
**completion** of specialised cellulose projects

specialised cellulose EBITDA margin excluding special items **US\$226 million**

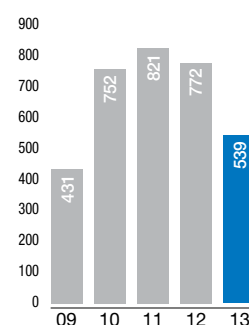
This was a year in which major steps were taken in the transition of the business towards one that has an exciting higher margin business with excellent growth prospects, and is less reliant on declining graphic paper markets.



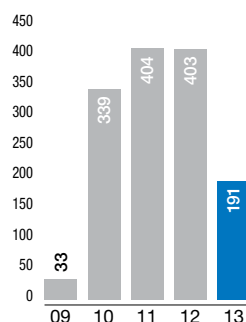
**Sales**  
(US\$ million)



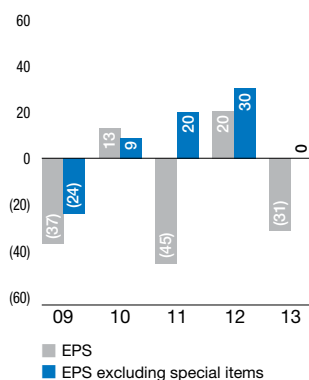
**EBITDA excluding special items**  
(US\$ million)



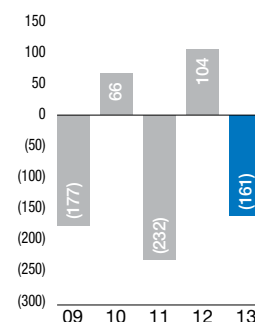
**Operating profit excluding special items**  
(US\$ million)



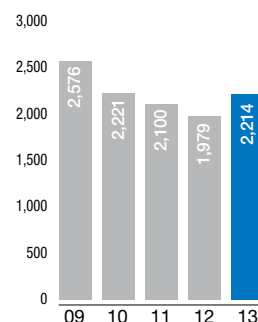
**EPS and EPS excluding special items**  
(US cents)



**Net profit (loss)**  
(US\$ million)



**Net debt**  
(US\$ million)



The capacity of the specialised cellulose business increased significantly during the past year, with the completion of the two pulp conversion projects at Cloquet (Minnesota, USA) and Ngodwana (Southern Africa) Mills at a total cost of US\$510 million. Total dissolving wood pulp capacity is now 1.34 million tons, an increase of more than 65% over the prior year. These conversions strengthen Sappi's position as the global leader in the supply of dissolving wood pulp. The start-up of both of these large projects proceeded largely to plan. Production and quality were excellent and were at or ahead of the start-up plan. The Saiccor Mill continued their excellent performance, with a weaker Rand exchange rate and strong demand contributing to an average EBITDA margin of more than 30% for the year.

During the course of the year our European business experienced a rapid deterioration in the graphic paper market, with lower paper prices, higher input costs, particularly for pulp, and a decline in paper demand. This deterioration led to the announcement during the fourth quarter that we intend to take further steps to lower costs and recover margins in this business.

The North American paper business performed well, despite a continued decline in demand for graphic paper and lower paper prices. Results were impacted however, by the conversion of the pulp mill at Cloquet and the attendant costs and impact on production.

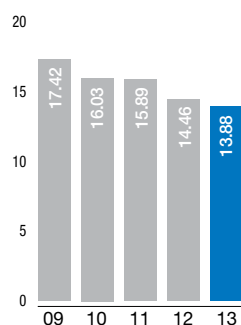
The Southern African business had a mixed year. The strong performance from the specialised cellulose business was partially offset by a weak performance in both the

packaging and graphic paper segments for most of the year. Towards the end of the year however, the prospect for the packaging segment had improved due to increased domestic demand and higher pricing.

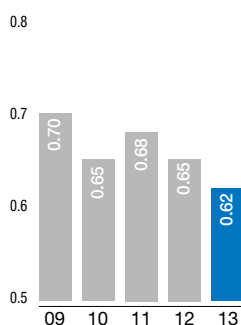
Despite the increased capital expenditure during the year and the weaker than expected operating performance, the group's net debt increased by only US\$235 million from US\$1,979 million at the end of the prior year, as a result of good cash management.

The group's performance in non-financial metrics was in general pleasing with improvements in specific energy and specific emissions as a result of various energy efficiency programmes. These efficiency improvements help alleviate the cost pressures from rising energy costs in Southern Africa and Europe in particular.

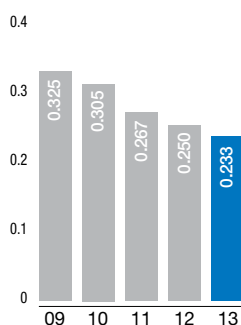
**Specific purchased energy**  
(GJ/adt)



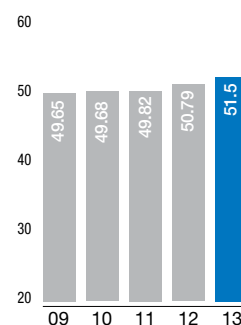
**Specific Scope 1 emissions**  
(ton CO<sub>2</sub> eq/adt)



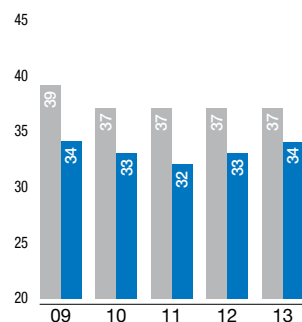
**Specific Scope 2 emissions**  
(ton CO<sub>2</sub> eq/adt)



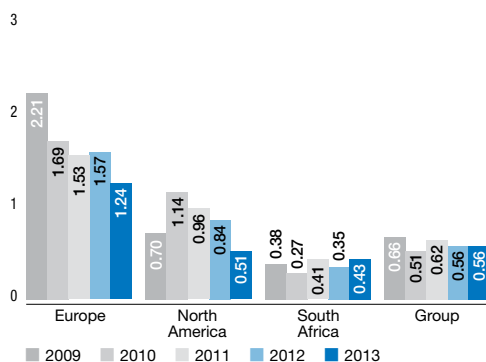
**Renewable energy to total energy**  
(%)



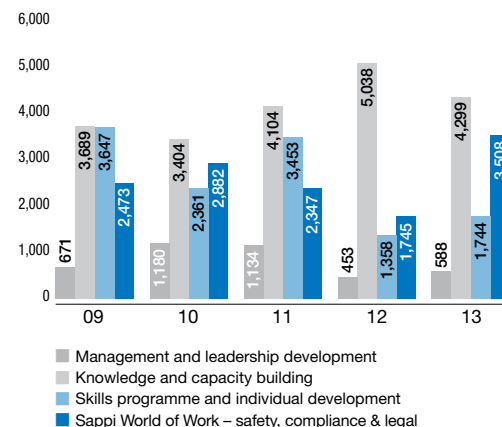
**Process water and water returned**  
(m<sup>3</sup>/adt)



**Lost Time Injury Frequency Rate**  
(Own employees and contractors)



**Training spend per employee by category**  
(US\$)



# letter to stakeholders

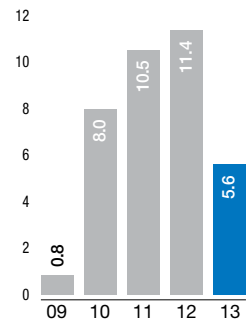
from the Chairman and Chief Executive Officer



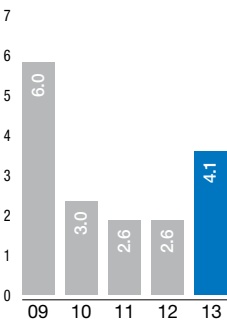
Danie Cronjé – Chairman

Ralph Boëtger – Chief Executive Officer

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



Net debt to EBITDA excluding special items (times)



## Operating review

2013 was an important transitional year for Sappi. In line with our strategy, significant progress was made in positioning the group for accelerated growth in higher margin, growing businesses and in addressing some of the underperforming paper businesses. The two major dissolving wood pulp projects in Southern Africa and North America were successfully completed and commissioned during the year. Important steps were also taken to turn around our European paper business towards improved margins and sustained strong cash generation. In this regard the Alfeld paper machine conversion to speciality packaging paper was an important step, and will be commissioned during the first quarter 2014. Good progress was made across the group to lower costs and improve efficiencies, competitiveness and customer service.

It was a challenging year from a financial results perspective. As expected, we came under pressure particularly as a result of the negative impact on operating profit of the three major capital projects. Each of these projects involved lengthy downtime and reduced production. The various restructuring initiatives also had an impact on our performance.

However, operating profit and loss for the year were disappointing, as European market conditions deteriorated significantly, resulting in an operating loss in Europe for the year. The net result for the group was a lower than expected operating profit, a slightly better than breakeven profit excluding special items, and a loss for the year after once-off items.

The group reported a net outflow of US\$247 million, which resulted in net debt of US\$2,214 million at year-end. This is reasonable given the large capital projects completed during the year, total cash capital expenditure of US\$552 million and an





**The specialised cellulose business performed very well, with excellent production volumes, good cost control, a weak Rand and higher Dollar selling prices contributing to the result.**

operating performance that was worse than expected. Liquidity remained strong with cash reserves of US\$385 million and undrawn committed revolving credit facilities totalling US\$577 million at year-end.

From a regional and business perspective, the specialised cellulose business performed very well, with excellent production volumes, good cost control, a weak Rand and higher Dollar selling prices contributing to the result. By the end of the financial year both the newly converted mills were ahead of dissolving wood pulp production and quality targets, and sales were significantly boosted in the final quarter with production from the Cloquet Mill.

Sappi's North American business continued to outperform its peers in a competitive domestic coated paper market. The speciality release paper business had a good year due to improved demand and the successful launch of a number of new products. The sales of our North American paper pulp business were significantly reduced due to the conversion of the Cloquet Mill, but we remain excited by the future prospects of this newly converted mill in the growing dissolving wood pulp market segment.

As mentioned, our European business was negatively impacted by weaker than expected demand for paper, lower paper prices and input cost pressures, particularly for pulp. The conversion of Paper Machine 2 (PM2) to speciality paper production at our Alfeld Mill will be completed during the first quarter. Further action has been, and will be, taken in this business to return to the levels of operating performance and cash generation that we believe it should generate.

The Southern African paper business had a disappointing year. This was despite the significant action taken in 2012 to align costs and production to the Southern African market for graphic and packaging papers.

Towards the end of the year, we started to see an improvement in the business, particularly for packaging and kraft paper, as a result of the actions taken, leaving us optimistic for a much improved performance going forward.

We have worked very hard to create a culture which prioritises safety for our own employees and contractors at all times. While there were improvements in reducing fatalities and lost time injuries throughout the group, I deeply regret having to report one own employee fatality and one contractor fatality in our South African operations. We will continue to focus on entrenching a strong safety culture with the ultimate target of zero harm.

### Strategic review

We remain firmly focused on improved profitability, good returns and growth. Our strategy to achieve this encompasses three main objectives:

- 1 Focused, low cost paper businesses with reasonable margins and strong cash flows.
- 2 Growth in profitable specialised cellulose based solutions and speciality paper and paper packaging.
- 3 A healthy balance sheet.

Initiatives and actions undertaken in line with our three strategic themes are outlined below.

### A focused paper business with strong cash flows

Our major area of focus is to turn around the performance of our European graphic paper business. We assume that paper demand and pricing will continue to decline and, despite our own and industry action, excess capacity will prevail for the foreseeable future. In the next two years, we aim to be the lowest cost and most competitive producer of coated graphic paper in Europe,

with a smaller but much more competitive asset base and business. We have announced that we intend to transfer the production of our Nijmegen Mill to our other existing mills in Europe, and consultations with labour are ongoing in this regard. Provision has been made for the costs associated with this action. In addition, in November 2013 we announced that we will invest in our two worldclass assets in Europe, Gratkorn and Kirkniemi Mills, to significantly lower their cost base and further improve efficiencies. Further capacity and cost reductions are expected to follow across the business in the coming years. We will continue to optimise and grow our speciality packaging business in Europe.

Our North American coated business continues to perform well. Record sales volumes in 2013 were driven by a focus on strategic growth segments and customers within our markets. We continue to take action and invest in our plants to improve production efficiencies and lower cost. This allowed the Somerset pulp and paper mill as well as the Cloquet paper mill to achieve new annual production records in 2013. This process will continue in the year ahead.

The South African paper business had a challenging year. The weaker Rand and higher pulp prices placed pressure on Dollar denominated input costs, and the domestic market was generally weak. There were encouraging signs at the end of the financial year that the local packaging market was improving. After significant restructuring initiatives and with our continued focus on cost reduction and product rationalisation, the packaging business is expected to generate reasonable returns going forward.



Capital expenditure and investment in the paper businesses will target a stronger competitive position and will be restricted mainly to our larger and lowest cost mills.

### Growth in specialised cellulose and other high margin businesses

Our leading position as the largest and lowest cost producer in the dissolving wood pulp market was significantly strengthened with the conversion of the Cloquet and Ngodwana paper pulp mills to dissolving wood pulp production in this past year. The total capacity of our specialised cellulose business is now 1.34 million tons per annum, representing nearly 20% of world capacity.

Dissolving wood pulp is used in the textile, consumer goods, food and pharmaceutical industries. This business has historically been a high growth, high margin business and this growth is expected to continue, if not accelerate. This will be as a result of market dynamics in the textile and agriculture industries as well as demographic trends.

We have further entrenched our leading market position and lowest production cost status through our newly expanded capacity. This positions us well to take advantage of the growth in this market and to continue generating good margins. Our specialised cellulose business will form the backbone of our growth businesses going forward.

The conversion of PM2 at our Alfeld Mill significantly expands our capacity in the higher margin and growing speciality paper market in Europe and, at the same time, reduces our exposure to the declining coated graphic paper market.

### A healthy balance sheet

Our strategy aims to balance growth and debt reduction. Significant steps in our growth plan have now been completed. In the past year, as a result of our three major capital projects, our net debt increased. For the next two to three years we aim to accelerate the reduction in net debt as we reduce our capital expenditure and improve profitability. Our debt maturity profile gives us the necessary flexibility to implement our strategy. Beyond the short-term target of reducing our net debt to below US\$2 billion as a minimum, we look to maintain a net debt to EBITDA ratio of between 1.5 to 2.0 times. Our expected better operating performance, significantly reduced capital expenditure and the potential disposal of certain non-core forestry assets in Southern Africa will help us achieve these targets.

### Looking forward

Our strategy to reposition Sappi for growth, higher margins and improved profitability is on track. The major specialised cellulose conversion projects in Southern Africa and

the United States were successfully completed during the year and both are delivering quality pulp to customers. The conversion of Alfeld PM2 will also be completed during the first quarter of 2014. Consequently, our profitability in the 2014 financial year is expected to be better than that of 2013.

A larger specialised cellulose business, the gradual improvement in performance of our European paper business, an improvement in the profitability of our Southern African paper business and the consistent performance of our North American paper businesses underpins this expectation.

Markets will, however, remain challenging, particularly for the paper businesses. Demand for graphic paper in our major markets of the United States and Europe is expected to decline at approximately 3% and 6% per annum respectively. Improvements in the performance of these businesses will come from production efficiencies, lower costs and a focus on selling higher margin products. In Europe, we expect a slow recovery in profitability, with the benefits of the latest round of cost reduction programmes likely to be fully evident only in the second half of the financial year.

In the specialised cellulose business, where dissolving wood pulp demand is expected to grow at approximately 6 – 8% per annum,

margins will be restricted as a result of the anticipated increased competition from a number of new entrants and mill conversions and particularly as a result of pressure on viscose staple fibre manufacturers due to low viscose prices. We believe that Sappi, as the global leader, particularly with its low cost base, increased production capacity and high levels of contracted volumes, is well positioned nevertheless to continue to generate reasonable returns from this business despite a competitive market.

Currency movements will continue to affect margins in our various regions, having both transactional and translation impacts. Our Southern African businesses are particularly sensitive to the value of the Rand in relation to the US Dollar. The European paper business is also impacted by the strength of the Euro.

We continue to focus on reducing our input costs, particularly wood, paper pulp, chemicals and energy through more efficient procurement, product composition and increasing operational efficiencies.

We expect that 2014 will see significantly reduced capital expenditure post the completion of the dissolving wood pulp projects, and a reduction in the operational impact that these large capital projects had in the past year.

The expected improvement in the group's operational performance and reduced capital expenditure should enable us to

generate positive cash flow. This will support our intention to lower our net debt levels towards achieving our short-term target of US\$2 billion. The possibility of further asset sales could see us ending the year with even lower net debt levels.

In summary, we expect a better year and believe we are gaining traction in achieving our strategic and financial goals.

### Appreciation

Our wide and varied stakeholder groups have contributed in many ways to our development and performance in the past year. Our interactions with these stakeholders, their ideas, criticisms and support guide us and we thank them for their contribution.

To our customers who have placed enormous trust in us and our ability to meet their changing and growing requirements in this transition period, we thank you. We undertake to continue to work closely with you to ensure we meet both your, and our needs for value.

Our employees have supported the strategic initiatives of the group, and we thank them for the professionalism with which they have embraced the interventions made during the year, and the challenges that lie ahead. We also thank them for their hard work and dedication displayed in all regions and areas of our group.

Our board has continued to provide insight and encouragement as we tackled the challenges of the past few years, and we thank them for their professionalism and guidance.

Professor Meyer Feldberg, the Lead Independent Director, retired from the board at the end of December 2012 after nearly 12 years of service. During this time he played a valuable role, not only in the affairs of the board, but also as Chairman and a member of both the Nomination and Governance Committee and the Human Resources and Compensation Committee (formerly the Compensation Committee) for various periods. We thank him for his valuable contribution which will be missed. Sir Nigel Rudd succeeded Professor Feldberg as Lead Independent Director from 01 January 2013.

We welcomed Mr Robert (Bob) DeKoch to the board as an independent Non-executive Director from 01 March 2013. Mr DeKoch brings wide and varied experience to the board.

We thank our shareholders for their continued support, particularly as we continue to position the group for the future, and look forward to their participation at the Annual General Meeting on 05 February 2014.





## executing our strategy



with CEO  
Ralph Boëttger



**Q** You spoke last year of 2013 as a 'transition year'. Did the transition go as planned?

**A** This year was indeed a very important transitional year for Sappi. We successfully completed and commissioned the two major dissolving wood pulp projects, as well as the conversion of PM2 at our Alfeld Mill to speciality paper. These projects were of significant strategic importance, accelerating our expansion in higher margin growth businesses. We also made good progress in repositioning the European graphic paper and Southern African paper businesses for improved and sustainable margins and strong cash flow. Further steps were taken to improve efficiencies and lower our costs. In summary, we have successfully implemented the majority of the actions we intended for the year. Our financial performance was disappointing, and not in line with our expectations. We always expected the performance to be negatively affected by the once-off impacts of the major projects, but the combination of high input costs, lower selling prices and lower demand in our European paper business resulted in an operational loss for that business that was not expected. A number of our businesses, particularly specialised cellulose and the speciality paper businesses performed very well and provided important support in this transitional year.

**Q** You have invested in the specialised cellulose business, spending more than US\$500 million over the past two years to increase your capacity. What is the outlook for this business and can we expect to see additional investments in the near future?

**A** We have now successfully completed the two projects and these are running well. Demand from our key customers and in general is good. Estimates for annual growth range from 6 – 8% for the commodity grade of dissolving wood pulp, where the majority of our production is targeted. The market remains competitive with expected additional dissolving wood pulp capacity coming to market and a more competitive viscose staple fibre market. Our low cost base, modern facilities, quality product and decades of manufacturing and sales experience, gives us the confidence that we can continue to generate good returns, well above our cost of capital. We aim to remain very competitive not only on cost, but importantly in quality and service levels. We have long-term contracts and valuable relationships with the leading customers in this market. With regards to investments we certainly are looking at various growth opportunities as regards capacity and product range. In the near term we will focus on efficiency and quality improvements and do not plan any major investments in the next two years.

**Q** The Chinese authorities recently announced anti-dumping duties against a range of dissolving wood pulp producers. Is Sappi affected?

**A** We do not anticipate that the recently announced preliminary duties will impact our business results due to the nature of our current sales plans. Duties have been imposed on manufacturers in three countries: the USA, Canada and Brazil. 75% of our dissolving wood pulp capacity is in Southern Africa, capable of supplying our customers in China.

**Q** After an improved performance towards the end of 2012, the European paper business margins declined rapidly during 2013, with little sign of any improvement during the year. What is your strategy in Europe?

**A** We expect market conditions to remain challenging, with continued pressure on pricing and volumes. Our strategy and actions to improve the performance of this business take this into account. Our strategy is therefore to aggressively position our European business as the lowest cost producer within Europe over the next two years. To achieve this we will exit high cost capacity, improve efficiencies and invest to significantly lower the cost base of our worldclass mills. The result of this will be a smaller but more profitable European business which will provide reasonable margins and produce good cash returns on a sustainable basis.



Sappi has an exciting and bright future. We have worked hard to implement our strategy to position Sappi for growth in higher margin businesses, to improve the returns of our graphic paper business... and to sustain the performance of our other businesses.

**Q** Given your strategy and expected operational performance, what can we expect of your strategic drive towards a healthier balance sheet?

**A** Our stated target is a net debt to EBITDA ratio of 1.5 to 2 times. With the major capital projects now completed and behind us, the expected improvement in operating performance going forward and the strategic actions being implemented, I am confident that a net debt level of below US\$2 billion by the end of the 2014 financial year-end is very much achievable. We are, in addition, working on a number of projects which include the possible disposal of surplus softwood plantations in Southern Africa which, if successful, will result in a significant further reduction in net debt. We have adequate liquidity and headroom to execute our strategy, and our debt maturity profile is sound.

**Q** Taking into account the many strategic initiatives and focus on improving the performance of the business, do you continue to maintain your focus on sustainability or is there a danger of short-term thinking driving management decisions?

**A** I believe that the single most important factor in terms of the sustainability of a business is its financial performance. This allows more flexibility and strength to deal with all the other relevant sustainability measures. Sustainability is ingrained in everything we do at Sappi. We are a long-term business with a wide footprint encompassing forests, mills, distribution centres and customers in more than 100 countries. We take our responsibility as regards the environment, employees and stakeholders very seriously and see these responsibilities as being totally aligned with our financial goals. In short, sustainability in all its facets remains a priority.



**Q** Are you positive about Sappi's prospects and outlook?

**A** Yes, Sappi has an exciting and bright future. We have worked hard to implement our strategy to position Sappi for growth in higher margin businesses, to improve the returns of our graphic paper business, particularly in Europe and Southern Africa, and to sustain the performance of our other businesses. In this regard we have made very good progress and are well advanced down this road. Secondly, we have committed enthusiastic and competent people across our business that are eager to be part of a successful and growing Sappi. We will return to profitability in 2014 and will make good progress in strengthening our balance sheet. I am of the opinion that we will gain further momentum beyond 2014 as well.

## executing our strategy

# Focus on dissolving wood pulp



**Q** What is dissolving wood pulp, and what is it used for?

**A** Dissolving wood pulp (DWP) is a term used for the product produced from the process of extracting cellulose (a natural organic polymer chain found in all plant materials) from wood. The wood from sustainable forest resources is processed and purified by applying specialised chemistry to extract the cellulose fibre chains which are then dissolved by our customers, regenerated and reformed to produce a host of natural products. When converted to viscose staple fibre, it is a natural substitute in many applications for cotton and is also a blend partner for a number of other fibres, most notably polyester. VSF is used in the textile world for making clothes, in home furnishing applications, for wash and wipe toweling and for bed linen. In addition to its suitability for a host of fibre and textile applications, DWP can also be processed into products for eating and drinking, in health and hygiene products, wrapping and packaging and many more applications that touch our daily lives.



**Q** What is driving the demand in the VSF segment in particular?

**A** Due to the natural and sustainable attributes of VSF, it has characteristics which are not only complementary in blends with oil based synthetic fibres but which are often preferable to oil based synthetic fibres such as polyester. The textile market demand is over 80 million tons of fibre with cellulosic fibres (VSF is the primary cellulosic fibre) being 6% of this demand. The demand for clothing and other household needs follows the global GDP and world population growth. The increasing need for more comfortable clothing, increasing urbanisation globally and the increasing standard of living in many parts of the world, especially in Asia, has increased the per capita consumption demand for most fibres including VSF. The production of cotton (a major component of the textile fabric) is expected to stagnate over the next few years as arable land used for cotton planting will be converted to edible crops. Being a natural substitute in many areas for cotton, due to its ease of processing as well as the moisture management properties of this natural man-made fibre, the future for VSF remains extremely positive. Growth in demand for VSF will be boosted in future as it fills the increasing gap in demand for a hydrophilic fibre created by expected limited cotton supplies, a phenomenon which has commonly become known as the 'Cellulose Gap'.

The demand for clothing and other household needs follows the global GDP and world population growth. The increasing need for more comfortable clothing, increasing urbanisation globally and the increasing standard of living in many parts of the world, especially in Asia, has increased the per capita consumption demand for most fibres including viscose staple fibre.

**Q** You have expanded capacity significantly, in excess of demand growth, why are you confident that you can sell your increased capacity?

**A** Real demand growth for dissolving pulp, including cotton linter pulps for all applications including acetate, Micro Crystalline Cellulose (MCC), ethers, cellophane, nitrocellulose, sponges and filaments has doubled over the past 10 years. It is expected to continue growing around 6% or higher in the next five years. Sappi's DWP capacity growth is aligned to that of our major customers where we enjoy strong and mature relationships as well as long-term commitments and agreements. Sappi's extensive R&D capability, process knowledge, strong technical partnerships with customers, market leadership and expertise in its key target market segments, which is in particular focused on providing customer support and innovation, will enable the increased capacity to be absorbed into the marketplace. Our other competitive advantages will also stand us in good stead. These include our lower cost quartile position, proven track record, worldclass manufacturing and R&D assets, consistent operational performance, three manufacturing sites on two continents offering supply and process flexibility, a global sales presence and low cost logistics capability, differentiated quality options and a sustainable and results driven business model focused on continuous value added improvements. We are confident these competitive advantages will allow Sappi to grow its market share and leadership position in this competitive environment.

**Q** Do you plan to expand further any time soon?

**A** We are in the process of optimising the recently converted DWP mills at Ngodwana and Cloquet. Both these mills are already producing exceptional quality pulp and their products continue to gain customer acceptance. Ramping up to full design rates and further de-bottlenecking will occupy our time in the immediate future.

**Q** How do the three Sappi mills compare in terms of their competitive cost positions and is this sustainable?

**A** All three Sappi mills currently fall within the lowest 10% of the competitor cost curves published by independent consultancies. This position is sustainable and can be attributed in large part to worldclass operational excellence and manufacturing leadership. The technical age of our modern assets and the process of continuous improvement and optimisation, as well as wood fibre yield improvements, increasing energy self-sufficiency, and supply chain optimisation are other contributors to this competitive cost position.

**Q** Are there any other existing or potential future markets that you are targeting for growth or is VSF it?

**A** There are focus areas in the field of bio-refineries and speciality product development which will allow further diversification and growth opportunities in the near future. Our key focus, however, remains building and supporting our position in the VSF and Lyocell segments while also pursuing growth and development in those speciality segments such as MCC, ethers and acetate where Sappi pulp qualifies.

**Q** Spot prices for DWP and VSF have fallen over the past two years, what is the reason for this?

**A** There is over-capacity in the supply of DWP in both the VSF and speciality markets. Also, these are extremely competitive sectors, so we will continue to see pressure on prices and this may drive prices to the marginal costs of some competitive producers. Sappi plans to maintain full operating rates through the cycle due to its competitive cost position and by offering sustainable solutions to our customers.

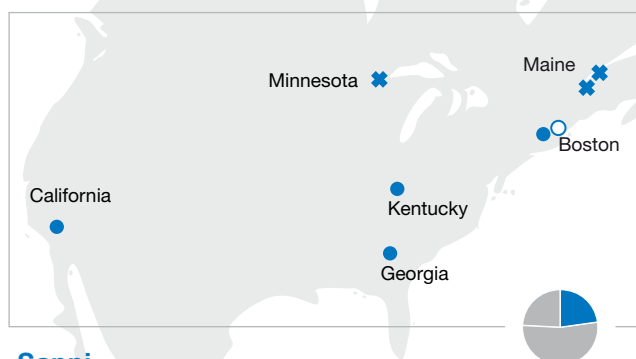
The global economic downturn has also impacted the textile industry and, combined with over-capacity in the VSF market, this has resulted in the current VSF pricing levels. Many VSF producer margins are under pressure. While VSF prices are currently low, volumes continue to move and VSF operating rates remain in the upper 80% with inventory levels remaining at about two weeks. The China cotton reserve policy has allowed VSF to substitute for cotton in many areas, particularly in the very large Chinese fibre market. VSF expansion plans have also been announced in many Asian countries.

## our businesses

Sappi is a global company focused on providing dissolving wood pulp, paper pulp and paper based solutions to its direct and indirect customer base across more than 100 countries.

Our 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. Our 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 newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products in the Southern Africa region.

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

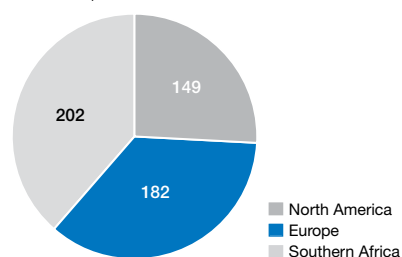


Sappi

**North America**  
**23%**  
**of group sales**

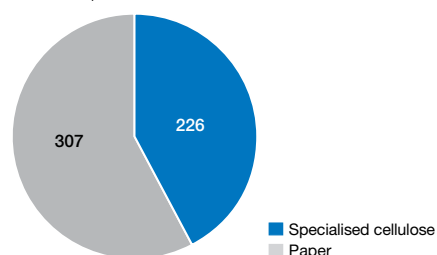
- 1 Paper mill
- 1 Speciality paper mill
- 1 Paper and specialised cellulose mill
- 4 Sales offices

**EBITDA excluding special items**  
2013: US\$539 million



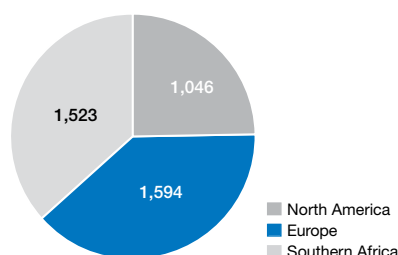
*Excludes US\$6 million relating to corporate*

**EBITDA excluding special items by product**  
2013: US\$539 million



*Excludes US\$6 million relating to corporate*

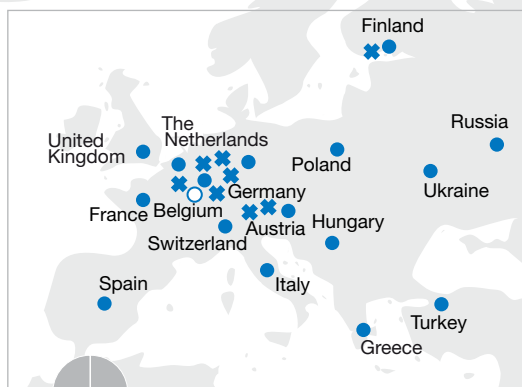
**Segment assets**  
2013: US\$4,138 million



*Excludes US\$25 million net liability relating to corporate*

- Corporate head office
- Regional head offices
- ✕ Mills
- Sales offices



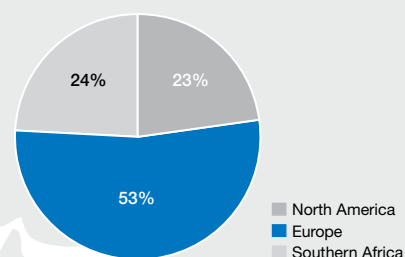


Sappi

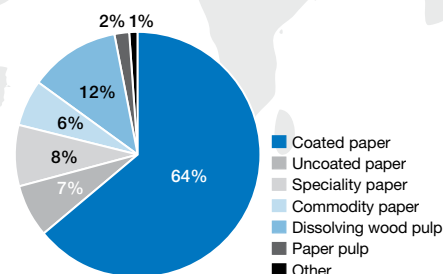
**Europe**  
53%  
of group sales

8 Paper mills  
16 Sales offices

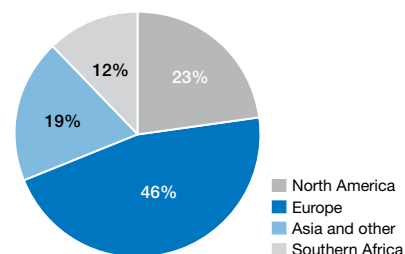
**Sales by source**  
2013: US\$5,925 million



**Sales by product**  
2013: US\$5,925 million

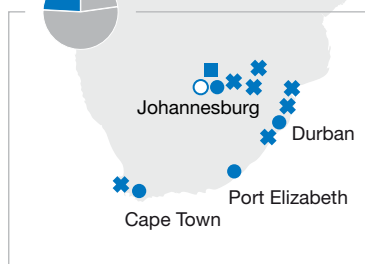


**Sales by destination**  
2013: US\$5,925 million



**Sappi**  
**Southern Africa**  
24%  
of group sales

4 Paper mills  
1 Paper and specialised  
cellulose mill  
1 Specialised cellulose mill  
1 Sawmill  
4 Sales offices  
561,000ha forests



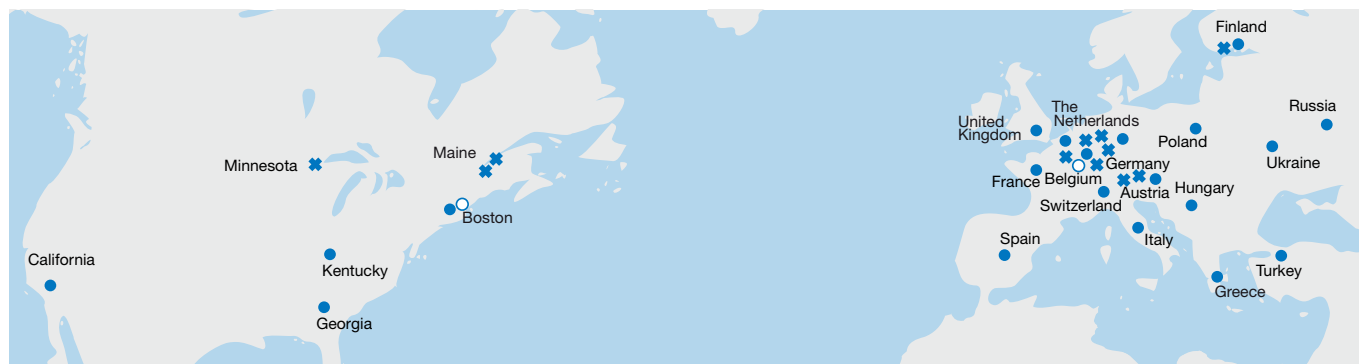
## Sappi Trading

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

**Sales offices** Bogotá | Hong Kong | Johannesburg | Mexico City | Nairobi | São Paulo | Singapore | Shanghai | Sydney | Taipei | Vienna

**Logistics offices** Durban | New York

## Europe and North America



Printed communication remains effective, cost-efficient and powerful in delivering messages to and eliciting actions from target audiences. Printers use Sappi's coated graphic paper because of its quality and the technical support we provide.

Publishers, advertising agencies, designers and corporate end-users benefit from Sappi's innovations, sustainable practices and quality products when choosing our paper for their calendars, catalogues, brochures, books, premium magazines, direct mailings and annual reports.

Suppliers, converters and end-use customers rely on our coated and uncoated speciality paper, such as paper used in flexible packaging and release paper used in the manufacture of synthetic leather and decorative laminate products.

Sappi also produces dissolving wood pulp in North America, a product made from wood and which is sold to customers who use the product to manufacture a wide range of consumer products, such as clothing, cellophane wrap for sweets and flowers, pharmaceutical and household products,

and make-up such as lipstick. We are the world's largest manufacturer of dissolving wood pulp and we export almost all of the production from our mill at Cloquet.

Our range of uncoated graphic and business papers, our technical support services and research and development facilities, as well as our close interaction with our customers across the globe, ensures that we help our customers meet their business objectives.

The Sappi group, including Southern Africa, is approximately 95% economically integrated in terms of pulp purchases and sales. On a regional basis, we purchase slightly less than half of our pulp requirements in Europe, and are net sellers of pulp in North America and Southern Africa, including sales of dissolving wood pulp.

### Europe

In 2013, our European business experienced very challenging market conditions, with a combination of higher raw material costs, particularly for pulp, lower graphic paper sales prices and demand that was substantially weaker than expected. This led to an operating loss in this business, a result that was particularly disappointing and worse than expected after a reasonably good end to the 2012 financial year. Sales volumes were 4% lower than last year, despite a 10% increase in speciality volumes which reflected the impact of weak coated woodfree and coated mechanical markets on our sales.

In response to the worsening profitability of our European business we have embarked on a range of actions to significantly lower our costs and reduce our exposure to the coated graphic market. We have announced our intention to transfer the production of coated woodfree paper away from our Nijmegen Mill to our other lower cost mills, and consultations are ongoing in this regard. We have also announced investment totalling US\$162 million (€120 million), in our worldclass mills at Gratkorn and Kirkniemi. These investments will substantially lower the cost base of these already low cost mills and will allow us to generate reasonable margins and cash flow as we become the lowest cost producer in Europe within the next two years. We are restructuring our support functions to more closely align with our smaller, more profitable and low cost business, and this will further reduce cost and improve profitability. Impairments and charges relating to these actions have been taken in the 2013 financial year.

In September 2013, we commenced with the final phase of the conversion of the Paper Machine 2 (PM2) at the Alfeld Mill from coated woodfree production to coated speciality packaging paper. This project will be completed in the first quarter of 2014. This conversion not only reduces our exposure to the declining coated woodfree market, but enables us to expand in the growing and higher margin speciality paper segment.

## Europe



Mills	Products produced	Capacity ('000 tons)		Employees
		Paper	Pulp	
Alfeld Mill	Bleached chemical pulp for own consumption		120	
	Coated woodfree paper, coated and uncoated speciality paper <sup>(1)</sup>	330		
Ehingen Mill	Bleached chemical pulp for own consumption and market pulp		135	
	Coated woodfree paper	285		
Gratkorn Mill	Bleached chemical pulp for own consumption		250	
	Coated woodfree paper	990		
Kirkniemi Mill	Bleached mechanical pulp for own consumption		330	
	Coated mechanical paper	735		
Lanaken Mill	Bleached chemi-thermo mechanical pulp for own consumption		180	
	Coated mechanical paper	470		
Maastricht Mill	Coated woodfree paper	280		
Nijmegen Mill	Coated woodfree paper	240		
Stockstadt Mill	Bleached chemical pulp for own consumption and market pulp		150	
	Coated woodfree paper, uncoated woodfree paper	440		
<b>Total Europe</b>		<b>3,770</b>	<b>1,165</b>	<b>5,611</b>

## North America



Mills	Products produced	Capacity ('000 tons)		Employees
		Paper	Pulp	
Cloquet Mill	Dissolving wood pulp		330	
	Coated woodfree paper	330		
Somerset Mill	Bleached chemical pulp for own consumption and market pulp		525	
	Coated woodfree paper	790		
Westbrook Mill	Coated speciality paper	40		
<b>Total North America</b>		<b>1,160</b>	<b>855</b>	<b>2,188</b>

1. We have announced the conversion of our PM2 at the Alfeld Mill from coated woodfree production to speciality packaging paper production. This conversion commenced at the end of our 2012 financial year and will result in a reduction of 150,000 tons per annum of coated woodfree production capacity, and the addition of 135,000 tons of speciality packaging paper production in our 2014 financial year.

## North America

Sappi's North American operations performed largely according to plan. The significant event for the year was the completion and commissioning of the conversion at our Cloquet Mill of the 455,000 ton NBHK paper pulp mill to a 330,000 ton dissolving wood pulp mill. The project was completed in June 2013 as scheduled, and the ramp-up of quality pulp to close to full production has been ahead of plan. The loss of paper pulp sales in

the second half of the year as a result of the conversion affected the total sales volume for the year as the dissolving wood pulp sales only ramped up in the fourth quarter.

The graphic paper business did well to record domestic sales volumes greater than those of the prior year in a market which continued to decline. This business continues to outperform the industry as it leverages its strong brand equity, leading market position and low cost base. Lower average selling prices and generally flat

variable and input costs led to a small margin decline in the paper business. The focus remains on keeping the mills running at full capacity along with efficiency and cost improvements to maintain or widen margins.

The casting release business had a better year than in 2012, with total volumes up 9% compared to last year, driven by the successful launch of 11 new patterns. The strong Euro and improved European demand, particularly in the automotive sector, led to a good finish to the year.

The safety performance of the business was the best in the company's history with a Lost Time Injury Frequency Rate (LTIFR) of 0.43, a 40% improvement on the prior year.

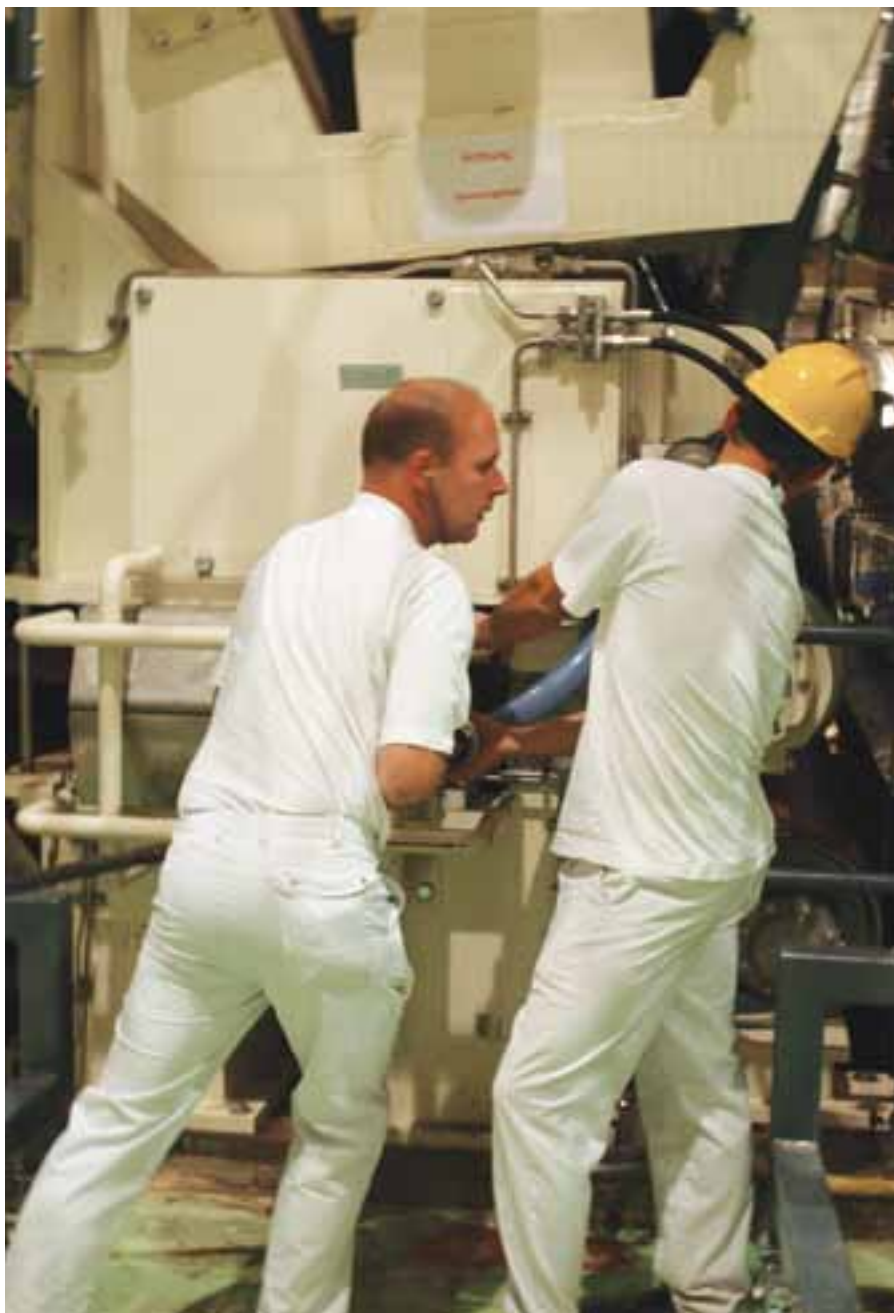
## Looking forward

We expect demand for coated paper in our major markets to continue to be impacted by global market sentiment, advertising spend as well as the secular demand impact of electronic media. We also believe that despite our own actions and those of the industry, there will continue to be excess global capacity for coated graphic paper in the foreseeable future. We have therefore based our forecast and strategies on demand declines of around 3% and 6% in the North American and European markets respectively, and that prices will continue to fall, particularly in Europe. To improve margins we are therefore continuing to take steps to improve efficiencies, substantially lower the costs of our worldclass mills in Europe, and eliminate high cost capacity.

Hardwood pulp prices in Dollar terms are expected to decline somewhat in the second half of the new financial year as significant new capacity is brought on stream. This will benefit our North American business, who are net buyers of paper pulp post the Cloquet conversion, as well as our European business that purchases nearly half of their pulp requirements. Softwood (NBSK) prices are expected to remain at or about current levels, which is beneficial to the group as the majority of our dissolving wood pulp sales are linked to NBSK prices.

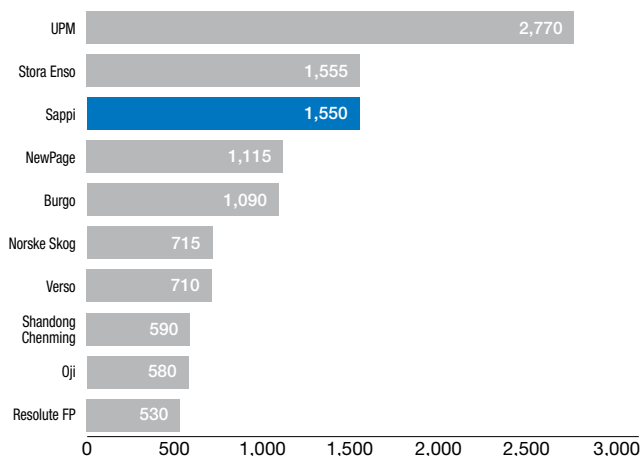
The ramp-up to full capacity of our Cloquet pulp mill and resultant sales will improve the pulp sales of the North American business. This will help to offset the expected decline in margin of the paper business there as a result of lower paper prices.

Our European business should gradually return to profitability over the course of the year as our strategic actions offset the weaker market. We expect to return to profitability in the second half of the year from this business.



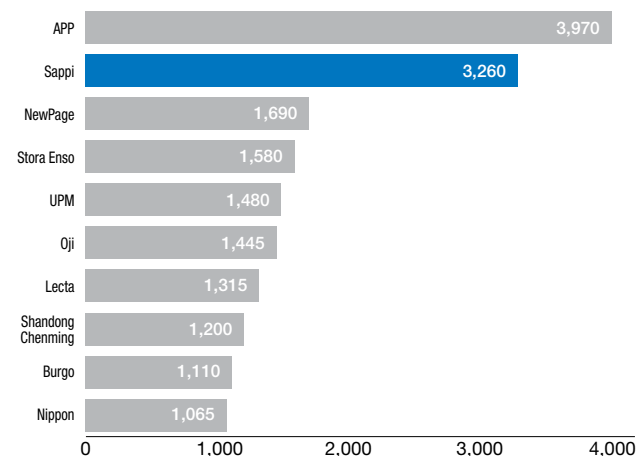


## Sappi's global position – coated mechanical paper (capacity '000 tons)



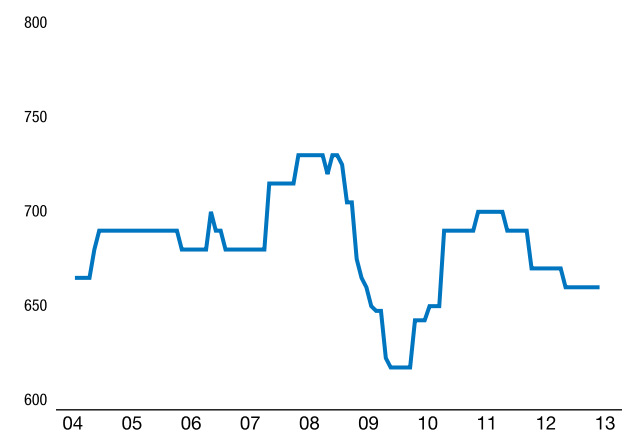
Source: EMGE World Graphics Paper Report, September 2013

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



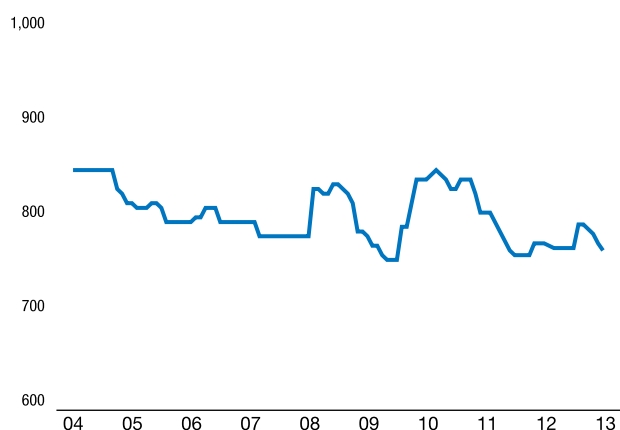
Source: EMGE World Graphics Paper Report, September 2013

## Coated mechanical prices – 60g/m<sup>2</sup> offset reels Germany (Euro/metric ton\*)



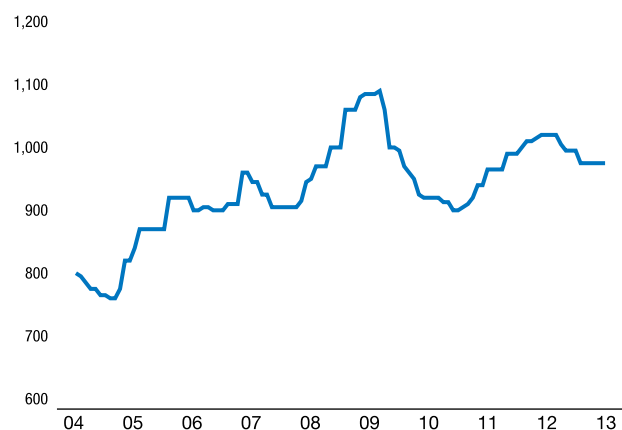
\* Prices are list prices. Actual transaction prices could differ from prices shown.  
Source: RISI

## Coated woodfree prices – 100g/m<sup>2</sup> sheets Germany (Euro/metric ton\*)



\* Prices are list prices. Actual transaction prices could differ from prices shown.  
Source: RISI

## Coated woodfree prices No 3 – 60lb (90g) rolls USA (East Coast) (US\$/short ton\*)



\* Prices are list prices. Actual transaction prices could differ from prices shown.  
Source: FOEX PIX Pulp Price Index

## Southern Africa



### Sappi was formed in South Africa in 1936 to serve South African consumers with locally produced paper.

Sappi continues this tradition by innovating and developing new products to meet local demand for newsprint, coated and uncoated fine paper, office and business paper (stationery, printing and photocopying), security and speciality paper (passport and election ballot paper), containerboard (such as cardboard boxes used for exporting fruit) and packaging paper (such as shopping bags). We also produce bleached paper-pulp which is sold in the Southern African market.

Sappi also produces dissolving wood pulp, which is sold to customers who use the product to manufacture a wide range of consumer products. We are the world's largest manufacturer of dissolving wood pulp and we export almost all of the production of our mills in Southern Africa.

Sappi Forests supplies over 78% of the wood requirements of Sappi Southern Africa from both our own and managed commercial timber plantations of 561,000ha. This

equates to more than 35 million tons of standing timber. All wood grown on Sappi-owned land and a large proportion grown on plantations managed by us is Forest Stewardship Council™ (FSC™) and ISO 9000 certified. Approximately 150,000ha of our land is set aside and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there, including indigenous forests and wetlands.

Sappi Southern Africa is a net seller of pulp, which effectively hedges pulp purchases by our European business.

Investment in low cost wood is a growth driver and a strategic resource to supply our operations and to secure our margins in competitive commodity markets, such as dissolving wood pulp. To this end we continue to work with local government and communities to accelerate afforestation in the northern region of the Eastern Cape. This development not only provides one of the only sources of income and jobs to these local communities, but will also secure valuable hardwood timber resources close to our Saiccor Mill in KwaZulu-Natal. In addition to Sappi's own plantation area, we continue to identify ways to ensure access to pulpwood in the wood baskets close to our key operations, by means of land or timber delivery swaps. Where plantations and wood resources do not fit in with our current strategy in Southern Africa, we may look to unlock value via disposal.

This past winter was a difficult fire season, with dry and abnormally warm weather prevalent in our main forestry regions. In total 2,137ha of plantation was lost to fire in 2013. However, our significant investments over the past years in protecting our plantations against fire, using modern identification, alarm and response technology, as well as continued engagement with the communities in and around our plantations, has kept fire losses in our Southern African operations to a minimum.

## Southern Africa

### Forests



Plantations	Products produced	Capacity ('000)		Employees
		Hectares	m <sup>3</sup>	
KwaZulu-Natal	Plantations (pulpwood and sawlogs)*	227	11,295	
Mpumalanga	Plantations (pulpwood and sawlogs)*	267	18,060	
Swaziland	Plantations (pulpwood)**	67	5,649	
Sawmills	Sawn timber (m <sup>3</sup> )		102	
<b>Total Sappi Forests</b>		<b>561</b>	<b>35,106</b>	

### Dissolving wood pulp



Mills	Products produced	Capacity ('000 tons)	
		Paper	Pulp
Saiccor Mill	Dissolving wood pulp		800
Ngodwana Mill	Dissolving wood pulp		210
<b>Total Specialised Cellulose</b>			<b>1,010</b>

### Paper and Paper Packaging



		Capacity ('000 tons)		
Mills	Products produced	Paper	Pulp	
Cape Kraft Mill	Waste based linerboard and corrugating medium	60		
Enstra Mill	Uncoated woodfree and business paper	200		
Ngodwana Mill	Unbleached chemical pulp for own consumption		200	
	Mechanical pulp for own consumption		110	
	Kraft linerboard	230		
	Newsprint	140		
Stanger Mill	Bleached bagasse pulp for own consumption		60	
	Coated woodfree paper and tissue paper	110		
Tugela Mill	Neutral Sulfite semi-chemical pulp for own consumption		130	
	Corrugating medium	210		
Sappi ReFibre**	Waste paper collection and recycling for own consumption		250	
Total Paper and Paper Packaging		950	750	
Total Southern Africa		950	1,760	5,637

\* Plantations include owned and leased areas as well as projects.

\*\* Sappi ReFibre collects waste paper in the SA market which is used to produce packaging paper.



Saiccor Mill had another excellent year, with record dissolving wood pulp production and sales levels. We link the contracted sales prices of our products to the Dollar European NBSK pulp list price plus a suitable premium. The benchmark NBSK price rose fairly consistently throughout the year, although on average the price was slightly lower than in the past year. The weaker Rand/Dollar exchange rate more than compensated for the lower average pulp price. This led to excellent EBITDA margins excluding special items for the year.

The conversion of the Ngodwana softwood bleached pulp mill to produce 210,000 tons of dissolving wood pulp was completed in July 2013. The start-up has gone to plan, with good production and quality levels reached. The first dissolving wood pulp sales from this mill were made after the end of the financial year.

2012 and 2013 saw a number of major interventions in the Southern African paper business, culminating in the mothballing of Paper Machine 4 at Tugela Mill in January 2013. These changes were made to address environmental issues, to align more closely with our customers' needs and to become more competitive and profitable. The South African graphic paper business became more reliant on imported hardwood paper pulp as a result of these actions, such that higher Dollar denominated pulp prices and a weaker Rand/Dollar exchange rate had a material adverse impact on its profitability.

The Southern African paper packaging business had a slow start to the year, but domestic volumes and pricing improved towards the end of the year. We believe that the restructured packaging business is now well positioned.

We have a strong focus on social responsibility in Southern Africa, which is an economic imperative in the region. Our plantations and most of our mills are located in rural areas and we therefore have an important influence on development in these areas. We continue to make progress on each of the elements of our Black Economic Empowerment scorecard, although we continue to grapple with improving diversity at middle and senior management levels.

Full details of our education, training, health and environmental initiatives can be found on our website [www.sappi.com](http://www.sappi.com).

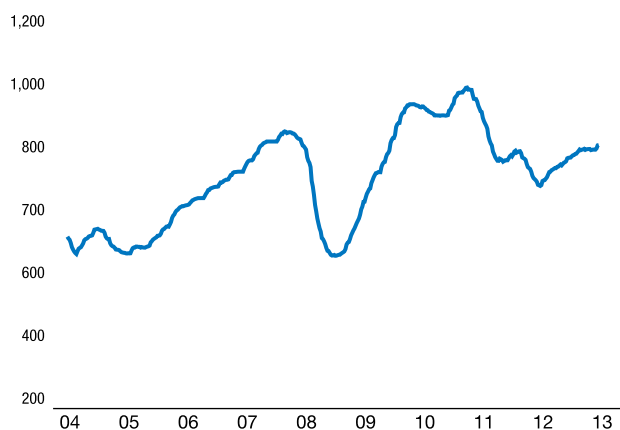
### The year ahead

The newly expanded specialised cellulose business, including the recently converted Ngodwana production, is expected to take advantage of the continued growth in demand for dissolving wood pulp. Our low cost position and long-term contracts with the major producers of viscose staple fibre, who in turn have their own growth plans, should ensure that we maintain a high level of production utilisation in a very competitive market. NBSK prices are expected to remain at fairly high levels as they have been for the past year, and the Rand/Dollar exchange rate is also expected to remain fairly weak.

We expect the graphic paper business to continue to face high pulp prices, but further actions to take cost out of this business should bolster its margins. Paper packaging is one area where we see significant opportunity and a much improved performance in the coming financial year.

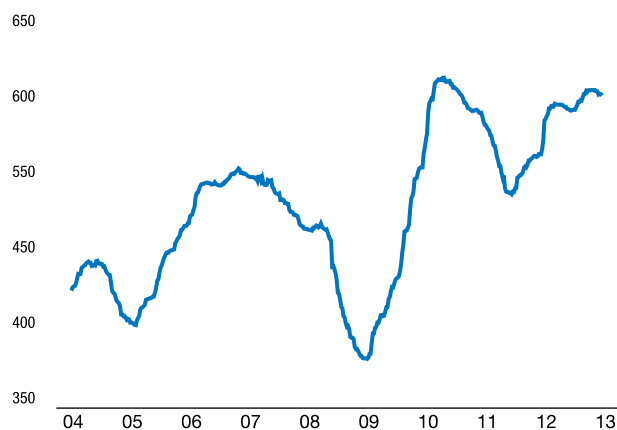


**Unbleached kraft linerboard – 175g/m<sup>2</sup> CIF Germany**  
(Euro/metric ton\*)



\* Prices are list prices. Actual transaction prices could differ from prices shown.  
Source: FOEX PIX Pulp Price Index

**Northern bleached softwood kraft pulp – Europe**  
(US\$/metric ton\*)



\* Prices are list prices. Actual transaction prices could differ from prices shown.  
Source: FOEX PIX Pulp Price Index



## our products



### Woodfree paper

made from pulp produced in a chemical process

#### Share of sales

Coated	50%
Uncoated	7%
Speciality	8%

	Description and typical uses	Demand trends	Our markets in 2013
Coated	Higher level of smoothness than uncoated paper achieved by applying a coating (typically clay based) on the surface of the paper. As a result, higher reprographic quality and printability is achieved. Uses include marketing promotions and brochures, catalogues, corporate communications materials, direct mail, textbooks and magazines. Customers are typically large paper merchants.	This market is driven by the main end-uses, which tend to be the more expensive magazines and direct mail. These end-uses are vulnerable to economic uncertainties and business and consumer confidence. As they are highly dependent on advertising expenditures, coated woodfree paper is the first to react to changes (up or down) in economic indicators. Demand for coated woodfree paper is expected to continue to decline in mature markets, yet grow in developing economies with the net effect being positive over the long-term.	Demand for coated woodfree paper fell in our European markets by approximately 7% from 2012. Globally, demand fell by 1.5%.
Uncoated	Uses include business forms, business stationery, tissue and photocopy paper as well as cut-size, preprint and office paper. Certain brands are used for books, brochures and magazines. Customers are typically large paper merchants.	Demand for uncoated woodfree paper continues to be weak. Adoption of paperless solutions by financial institutions as well as hospitals and healthcare offices is expected to continue as companies seek to cut costs while environmental groups advocate for less paper usage. Like other graphic paper grades, demand is expected to fall in mature markets, yet grow in emerging economies.	Demand for our products and our ability to raise prices were weaker than anticipated this year. The uncoated woodfree paper market remains under pressure, like most graphic paper grades.
Speciality	Can be either coated or uncoated. Uses include bags, labels, flexible and rigid packaging and release paper for casting innovative surface textures (eg artificial leather, decorative laminates) for use in the textile, automotive, furniture and engineering film markets. Customers cover a wide range of industries dependent on the particular product.	Flexible paper packaging demand is driven by steady consumption growth in the healthy food and drink markets. Paper based packaging is highly regarded as a sustainable solution. Markets are characterised by small volumes, little standardisation and high levels of customisation.  Release paper demand is expected to grow along with the textile and automotive industry, as well as in new and innovative applications.	Demand for our speciality paper products continues to show promise. Our newly converted paper machine at Alfeld Mill is expected to add to our diverse product offering in the speciality paper market in Europe. From our US operations, a very rich sales mix led to higher average price realisation.



### Mechanical paper

made from pulp produced in a mechanical process

#### Share of sales

Coated	14%
Newsprint and packaging paper	6%

	Description and typical uses	Demand trends	Our markets in 2013
Coated	A coated mechanical fibre based paper, primarily used for magazines, catalogues and advertising material. Customers are typically large merchants and printers, and publishers of many weekly magazine titles.	A weak global economy combined with a further loss of advertising Dollars and circulation to electronic editions is expected to drive down demand for coated mechanical paper.	The ongoing decline in print circulation and advertising in magazines contributed to a further decline in demand for coated mechanical paper of approximately 4%.
Newsprint	Manufactured from mechanical and bleached chemical pulp. Uses include advertising inserts and newspapers.	Demand is highly dependent on newspaper circulation and retail advertising. Advertising spend in electronic media continues to grow worldwide with many newsprint titles going 'digital-only'. This has led to demand declines in global markets.	Southern African demand has fallen over the last three years as some smaller newspaper titles have stopped printing. Advertising subsidised free daily newspapers offer steady orders for newsprint producers.



## Packaging paper

	Description and typical uses	Demand trends	Our markets in 2013
Packaging paper	Heavy and lightweight grades of paper and board primarily used for primary and secondary packaging of fast moving consumer goods, agricultural and industrial products. Products include containerboard (corrugated shipping containers), sackkraft (multi-walled shipping sacks) and machine glazed kraft (grocers' bags). Can be coated to enhance barrier and aesthetic properties. Customers are typically converters of the packaging paper.	Packaging demand is driven by population growth, higher standards of living, urbanisation and globalisation. Paper packaging is seen as playing an increasingly important role in a environmentally conscious world.	2013 was marked by flat volumes but higher prices in the Southern African market.



## Pulp

### Share of sales

Paper pulp and dissolving wood pulp 14%

	Description and typical uses	Demand trends	Our markets in 2013
Paper pulp	Main raw material used in production of printing, writing and packaging paper. Pulp is the generic term that describes the cellulose fibre derived from wood. These cellulose fibres may be separated by mechanical, thermo-mechanical or chemical processes. The chemical processes involve removing the glues (lignins) which bind the wood fibres to leave cellulose fibres. Paper made from chemical pulp is generally termed 'woodfree'. Uses include paper, paperboard and tissue.	With gradually improving global demand for packaging paper, tissue paper and other paper based products, demand for paper pulp is expected to recover.	Global demand for paper pulp varied by region in fiscal 2013. Demand for paper pulp declined in more mature economies as paper consumption continued to decline. In China, however, demand for paper pulp grew as non-integrated facilities continued to come on stream.
Dissolving wood pulp	Dissolving wood pulp is a highly purified form of cellulose extracted from wood through specialised cellulose chemistry. It is intended primarily for the manufacture of viscose staple fibres, solvent spun fibre, and filament as well as for conversion into chemical derivatives of cellulose. Dissolving wood pulp is also known in the industry as specialised cellulose.	Dissolving wood pulp has a wide range of applications. Demand is therefore expected to continue growing at good rates. Textile uses in particular are predicted to show increasing levels of growth as the supply of cotton becomes increasingly constrained.	Demand for dissolving wood pulp continues to be strong although new dissolving wood pulp capacity and an over-supplied viscose staple fibre market has increased the pressure on sales prices. We announced two expansion projects in 2012 which were successfully started up during 2013. The newly expanded Sappi Specialised Cellulose business remains focused on ramping up both conversion projects to full capacity thereby cementing our position as the leading global producer of dissolving wood pulp. It also enables Sappi to meet the continuing growth in demand from its two most significant customers, Lenzing and the Aditya Birla Group while allowing us to expand our customer base to include major viscose staple fibre producers from China.



## Timber and other products

### Share of sales

1%

	Description and typical uses	Demand trends	Our markets in 2013
	Sawn timber for construction and furniture manufacturing purposes.	As consumer and housing markets recover in Southern Africa, demand for timber products is expected to recover.	The South African government continued to focus on infrastructure spend, mainly housing. Despite this, the South African lumber market remained flat in 2013.

# sustainability our key stakeholders

Our key stakeholders are parties who can affect or be affected by our activities, objectives and policies. We recognise that we will not be able to implement our business strategy and achieve our goals without the engagement of our stakeholders. Building relationships with them in a spirit of trust and mutual respect helps ensure alignment with our strategic goals, creates value and promotes our overall sustainability.

Accordingly, we engage with a broad range of stakeholders through a variety of formal and informal channels. This extends from ongoing engagement across all our stakeholder groupings, including investors, government, industry bodies, customers, communities and NPOs; to collective public meetings with stakeholders around our mills, as well as surveys of selected groups such

as employees, customers and investors, and audits with suppliers. All of these engagement activities help us to identify and address issues of mutual interest, thereby facilitating our licence to operate and enhancing our organisational effectiveness. We see such engagement as an ongoing dynamic process able to respond to the changing nature of issues and of interested and affected parties.

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

- Materiality – identifying the material concerns of stakeholder groupings
- Relevance – focusing on those issues of material concern to our stakeholders and to Sappi and identifying how best to address them for our mutual benefit

- Completeness – understanding the views, needs, performance expectations and perceptions associated with these material issues and assessing them against prevailing local and global trends
- Responsiveness – engaging with stakeholders on these issues and giving regular, comprehensive, coherent feedback.

Sappi's main stakeholder groupings, according to our stakeholder engagement policy, are reflected below, along with selected examples of engagement undertaken during the reporting period.

Our stakeholder group and management approach	Avenues of engagement	Areas of mutual interest	Key issues in 2013
<b>Employees</b>			
Our focus is on building a skilled, engaged workforce where diversity is encouraged and valued, and people are provided with ongoing development opportunities so that they can fulfil their full potential. In so doing, we enhance productivity and our ability to service global markets.	<p>Our group Chief Executive Officer and regional Chief Executive Officers engage with staff through site visits, presentations and discussions; suggestion lines exist at some facilities, and unions have formal channels through which they engage with management.</p> <p>We encourage full engagement between managers and their staff. Other avenues of engagement include:</p> <ul style="list-style-type: none"> <li>■ Global, regional and local newsletters</li> <li>■ Global intranet</li> <li>■ Letters, roadshows and presentations by the group Chief Executive Officer as well as regional Chief Executive Officers</li> <li>■ Operating unit meetings, briefings and workshops</li> <li>■ Various forums (SA) <ul style="list-style-type: none"> <li>– National Employment Equity and Skills Development Forum</li> <li>– Shop Steward Forum</li> <li>– Partnership Forum</li> </ul> </li> <li>■ Global Employee Engagement Survey (every second year)</li> <li>■ Wellbeing committees at mills and business units</li> <li>■ Health and safety committees at mills</li> <li>■ Sustainability Ambassador Programmes to promote Sappi's Sustainability Programme to Stakeholders</li> <li>■ Code of Ethics and confidential hotlines.</li> </ul>	<p>To be informed about and engage with the strategy, priorities and performance of the company and its components.</p> <p>To be informed about the internal and external activities of the company, its staff and its communities.</p> <p>To be informed about and engage with organisational developments, particularly in respect of restructuring.</p> <p>Maintaining ethical standards.</p>	<p>In <b>Europe</b>, following the announcement on 30 September 2013 giving notice of the start of consultations regarding the future of Nijmegen Mill, subsequent to year-end, Sappi Nijmegen BV, the central works council of Sappi Netherlands and the works council of Sappi Nijmegen entered into an information and consultation agreement.</p> <p>In <b>Southern Africa</b>, numerous meetings, briefings and workshops were held including on the restructuring of the business and changes to the areas of production, procurement and sales and marketing, aimed at returning the business to acceptable profitability.</p> <p>In <b>South Africa</b>, we conducted a Skills Audit within our professional population. In this region the National Employment Equity and Learning Forum established two task teams to work on the elimination of barriers to employment equity and to assess our skills and development initiatives.</p> <p>The results and action plans regarding the Global Employee Engagement Survey conducted at the end of 2013 will be discussed in the 2014 report.</p> <p>An analysis of hotline calls is given on page 52 of this report. Across the group we are in the process of rolling out the refreshed Code of Ethics. The Code reflects a move away from a compliance based mode to an integrity mode of ethics, and is built on the underlying Sappi group values of Excellence, Integrity, Respect and Resourcefulness.</p>



Our stakeholder group and management approach	Avenues of engagement	Areas of mutual interest	Key issues in 2013
<b>Unions</b>			
<p>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. Protecting the right to freedom of association and collective bargaining are fundamental to the manner in which Sappi does business. Globally, approximately 56% of our workforce is represented by unions, with 66.5% covered by collective bargaining agreements.</p>	<p><b>Southern Africa:</b> Our wage negotiations with recognised trade unions take place at the Pulp and Paper and Sawmilling Chambers under the auspices of the Bargaining Council for the Wood and Paper Sector in South Africa, and our agreements are generally annual.</p> <p>We also engage on broader issues with the recognised trade unions at the National Employment Equity and Skills Development Forum, the Shop Steward Forum and the Partnership Forum.</p> <p><b>North America:</b> The majority of our hourly employees – generally production unit employees – are represented by the United Steelworkers (USW) union, but employees are also represented by various craft, guard and railroad unions. In this region, labour agreements are usually for three years.</p> <p>In addition to meeting with local union leadership for the purposes of bargaining contracts and resolving grievances, the company relies on local unions to help with safety and wellness initiatives, as well as various forms of community outreach.</p> <p><b>Europe:</b> Negotiations occur at the various country and industry-specific collective labour associations, and the contract terms range from one to two years. The labour framework in Europe consists of works councils and collective labour agreements and differs from country to country.</p> <p>The European Works Council meetings take place twice a year and representatives meet with Sappi European leadership to share information and consult on topics of interest, including market developments, macro-economic effects, industry changes and organisational restructuring. Within the collective labour framework, Sappi is represented by industry employer representatives.</p>	<p>Wages, working hours, other conditions of service.</p>	<p>In <b>South Africa</b>, wage negotiations were successfully concluded by the Chambers of which Sappi is a member.</p> <p>We successfully concluded a number of wage agreements in <b>North America</b> that kept wage increases at market rates, minimised the pension multiplier increase, and improved the medical plan design in the final year of the contract.</p> <p>In <b>Europe</b>, wage negotiations were successfully concluded in the Netherlands, Germany and Austria. In Finland the 2012 wage agreement is still in force and in Belgium negotiations will take place later this year.</p>
<b>Communities</b>			
<p>Having a mutually respectful relationship with the communities in which our business is situated is critical to our success. Our engagement ranges across the three pillars of sustainability, namely Prosperity – our contribution to each other; People – our support for social cohesion and community needs; and Planet – working to reduce our combined impact thereby securing the sustainability of the natural resources and ecosystems on which our business depends.</p> <p>Social projects are reviewed on a case-by-case basis and we encourage projects which facilitate partnerships and collaboration between communities, government and the private sector.</p>	<p>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 licencing conditions of mills.</p> <p>We also engage in local farmer and community forums regarding our forestry communities in South Africa.</p> <p>We also engage with local communities through support of and sponsorship for local events and initiatives.</p>	<p>Key issues discussed on a regular basis include water usage and quality, effluent quality and air emissions, employment and business opportunities, and community support.</p>	<p>Of particular relevance to local communities were the conversion and expansion projects at our Cloquet, Ngodwana and Alfeld Mills, their impacts during the construction phase and thereafter, as well as the local benefits of these projects.</p> <p>In association with the South African Institute of Entrepreneurship (SAIE), we developed Forest Biz, which introduces communities to the business management aspects related to managing their forestry projects.</p> <p>Community outreach activities at our mills include papermaking demonstrations at local schools, coordinating recycling drives with community partners and facilitating other conservation and environmental projects. An example is the ongoing efforts of the employees of Cloquet Mill as regards River Quest, a hands-on learning experience conducted annually for more than 1,000 students in the area.</p>



Our stakeholder group and management approach	Avenues of engagement	Areas of mutual interest	Key issues in 2013
<b>Customers</b>			
<p>We adopt a partnership approach, whereby we develop long-term relationships with global, regional and local customers. We also accommodate more transactional customers.</p> <p>We offer customers innovative products and high levels of service that enable them to meet the needs of a rapidly changing world.</p> <p>Where relevant, we will also conduct research and development of products to suit the specific needs of a customer.</p>	<p>Senior and executive management regularly engage with customers in support of the ongoing engagement by the relevant sales and marketing teams.</p> <p>In North America we also meet annually with the Sappi Merchant Association.</p>	<p>Information about organisational developments, and the fibre sourcing and production processes behind our brands.</p> <p>Information and campaigns to promote print as a communication medium and technical information.</p> <p>Information and campaigns to promote paper packaging.</p> <p>Information about new products.</p>	<p>In <b>Europe</b> and <b>South Africa</b> we continued to publish paper profiles and information sheets for our papers. These give details regarding the composition of our papers, as well as key environmental parameters related to our pulp and paper production processes and information on environmental management systems and woodfibre sourcing policies.</p> <p>In <b>North America</b>, we use GreenBlue's Environmental Performance Assessment Tool (EPAT) which enables buyers to evaluate our performance on a mill-by-mill basis.</p> <p>A series of technical brochures is available on our website <a href="http://www.sappi.com">www.sappi.com</a>.</p> <p>In <b>North America</b> the web based eQ tool provides users with the ability to generate a customised product statement that summarises the environmental benefits of choosing Sappi North America's papers for a print job. <a href="http://www.na.sappi.com/eq">www.na.sappi.com/eq</a>.</p> <p>As part of the company's education, training and consulting programme aimed at customers, we launched the Sappi etc<sup>®</sup> microsite, an online educational platform providing access to more than a century's worth of rare historical documents, detailed case studies and expert technical advice.</p> <p>In <b>North America</b> the region has a Sustainability Customer Council. The group meets twice a year to discuss ongoing and emerging issues relevant to the supply chain.</p> <p>In <b>Europe</b>, our positivity website gives details of our sustainability journey and the Houston microsite provides technical support to printers.</p> <p>In each region, we continued to publish marketing material.</p> <p>We conducted extensive roadshows and participated in trade conferences in the <b>Far East</b> to inform customers about our expanded dissolving wood pulp capacity.</p> <p>In <b>Europe</b>, we launched the new Mineral Oil Barrier substrates: MOB Kraft and MOB Gravure at FachPack.</p>

Our stakeholder group and management approach	Avenues of engagement	Areas of mutual interest	Key issues in 2013
<b>Industry bodies</b>			
We partner with industry and business bodies to provide input into issues and regulations that affect the industry.	<p>Sappi is a member of various industry and business associations in each region.</p> <p>Consultations take place on an ongoing basis with industry and business associations in each region.</p>	<p>Energy issues in general and in particular government moves on carbon taxation.</p> <p>The impact of increased regulations on business.</p> <p>The benefits of our industry and our economic contribution.</p>	<p>In <b>South Africa</b>, we engaged with the Department of Trade and Industry and Treasury via our industry representative, PAMSA, regarding possible exemption from the proposed carbon tax.</p> <p>Also in <b>South Africa</b>, we engaged through our industry representative, Forestry South Africa (FSA), with the Department of Agriculture, Forestry and Fisheries regarding their determination of the minimum wage for the agriculture and forestry sectors. The minimum wage has increased by 52% with effect from 01 April 2013.</p> <p>In <b>Europe</b> our interests were represented through the work programme of our industry body (CEPI) with the European Commission. In North America our interests were represented through the work programme of our industry body (AF&amp;PA).</p> <p>We have supported the launch of the Two Sides industry campaign which works to debunk myths regarding the paper, printing and forestry industries. We had previously supported the establishment of Two Sides industry campaigns in the UK, the USA and Australia and are currently working on a launch in South Africa in 2014.</p>
<b>Investors</b>			
Our aim is to provide investors (shareholders and bondholders) and analysts with transparent, timely, relevant communication that facilitates informed decisions.	<p>Our investor relations (IR) team engages with shareholders and analysts on an ongoing basis. This team has direct access to the executive directors and any issues shareholders raise that may be relevant to the board are channelled through the IR team. Our Chairman also engages with shareholders on relevant issues.</p> <p>We also do ad hoc mill visits and roadshows, and issue announcements through Stock Exchange News Services (SENS), in the press and on our website <a href="http://www.sappi.com">www.sappi.com</a>.</p> <p>We publish our Integrated Report, Group Annual Financial Statements and Sustainability Reports on the company website.</p> <p>Shareholders can attend and participate in the AGM as well as the quarterly financial results briefings.</p> <p>Our Chief Financial Officer and Head of Treasury engage with bondholders, banks and rating agencies on an ongoing basis regarding the performance of the company.</p>	<p>Return on investment.</p> <p>Transparent information about risks and opportunities.</p>	<p>The major conversion and expansion projects for dissolving wood pulp at our Cloquet and Ngodwana Mills and speciality paper at our Alfeld Mill.</p> <p>Progress with the restructuring of the company.</p> <p>Progress with actions to return the group to acceptable levels of profitability and turn around the paper businesses.</p> <p>In <b>Southern Africa</b>, we announced the sale of our Usutu Forest Products Company to Swaziland's Montigny Investments for US\$99 million. The deal is subject to several conditions including approval from competition authorities in both countries.</p> <p>We announced our intention to de-list from the New York Stock Exchange. Sappi's ADRs will now be traded in the USA through a Level 1 over-the-counter (OTC) ADR programme.</p> <p>We participated in the Carbon Disclosure and Forest Footprint Disclosure projects.</p>

Our stakeholder group and management approach	Avenues of engagement	Areas of mutual interest	Key issues in 2013
<b>Suppliers and contractors</b>			
<p>We are committed to establishing mutually respectful relationships with our suppliers and encouraging them to join our commitment to the 3Ps (Prosperity, People, and Planet). We aim to build long-term partnerships.</p> <p>We work with our contractors to ensure they follow Sappi safety systems and rules.</p>	<p>The procurement executives from each region coordinate at global level to improve relations with suppliers, and provide benefits to all parties through better understanding of the requirements of the Sappi group.</p> <p>In North America and Southern Africa, our foresters work extensively with contractors and communities.</p> <p>Our contractors must adhere to Sappi's safety systems and rules.</p> <p>In South Africa, we work with rural communities to help them establish and manage timber farms. In terms of Project Grow, our enterprise development initiative, we provide interest-free loans and guaranteed markets.</p>	<p>Transparent information.</p> <p>Forest certification.</p> <p>Increased value and decreased costs.</p> <p>Security of fibre supply, income generation and job creation.</p>	<p>In each region we conducted audits of selected suppliers.</p> <p>In <b>North America</b>, we have been assisting two landowners and a timber mill to adopt FSC® certification to obtain higher levels of certified fibre for Somerset Mill. All three sources will be certified in December 2013, providing a combined total of 87,000tpa of wood. The procurement team has also been working with another landowner who is planning to adopt the SFI® programme to certify two separate parcels totalling 100,000 acres. The net result will be an additional 120,000 tons of SFI® wood.</p> <p>In 2013, Project Grow celebrated its 30<sup>th</sup> anniversary. The volumes provided by Project Grow represent 7.5% of Sappi's hardwood woodfibre intake in South Africa.</p>
<b>Civil society</b>			
<p>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.</p> <p>We engage with civil society organisations on issues of mutual interest.</p> <p>We are members of key organisations relevant to our operations.</p>	<p>We join key organisations as members.</p> <p>We develop personal relationships and engage on an ongoing basis.</p> <p>We provide support to and sponsorship for key organisations on issues of mutual interest.</p>	<p>Business developments, impact on communities and on the environment.</p>	<p>In <b>Europe and North America</b>, we maintain close engagement directly and through our industry body (CEPI) with the FSC® and WWF International.</p> <p>In <b>North America</b>, Sappi is a member of the economic chamber of both FSC® US and SFI®. We actively engage with these organisations through a variety of working groups and committee activities.</p> <p>In <b>South Africa</b>, a two-year Birdlife South Africa project will be funded to assess the current avian value of Sappi-owned property in southern KwaZulu-Natal in relation to the Important Bird Area (IBA) network. This will include the implementation of biodiversity stewardship in these areas. The ultimate aim is to contribute to Sappi's environmental management objectives and conservation vision while simultaneously improving the conservation of avian species within the grassland biome.</p> <p>We continued to engage on issues of climate change and the positive nature of the forest products industry with regards to CO<sub>2</sub> emissions and our carbon positive footprint, given the renewable nature of the woodfibre that we utilise.</p>

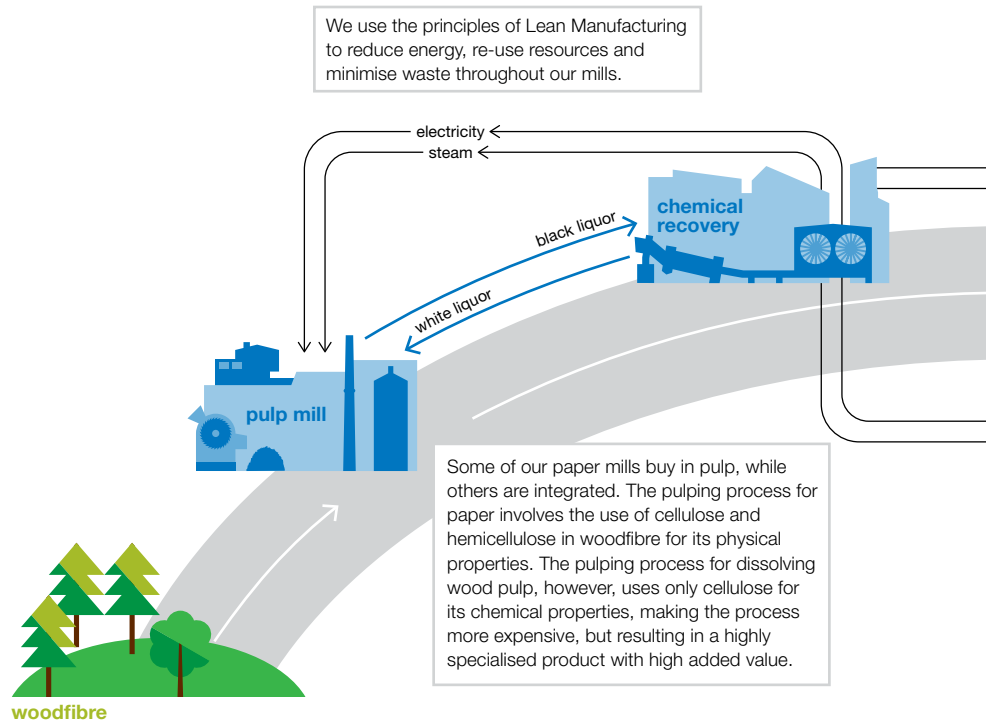
Our stakeholder group and management approach	Avenues of engagement	Areas of mutual interest	Key issues in 2013
<b>Government and regulatory bodies</b>			
We engage with government departments and regulatory bodies to provide input into issues and regulations that affect our industry.	Consultations take place on an ongoing basis with government departments and regulatory bodies in each region.	<p>Energy issues in general and in particular government moves on carbon taxation.</p> <p>The impact of increased regulations on business.</p> <p>The benefits of our industry and our economic contribution.</p>	<p>Please refer to the content under Industry Bodies.</p> <p>We submitted an anti-dumping application to the International Trade Administration Commission of South Africa against cheap imported coated and uncoated paper products. This was done to protect local employment as well as all those businesses that are dependent on our paper mills. Preliminary duties have thus far been imposed on coated paper.</p>



## our process

### planet

- **Southern Africa:** All timber is sourced from plantations (planted forests) of softwoods and hardwoods. All our owned and leased plantations are 100% FSC™ certified; 86% of fibre used is certified. Approximately one third of our plantations are managed for biodiversity conservation.
- **Europe:** Woodfibre is sourced from forests close to each mill. Softwood and hardwood pulp is sourced from Europe and the Americas. Tree species used include spruce and beech. Lanaken Mill can also process significant amounts of poplar; 71.4% of fibre used is certified through FSC® and PEFC.
- **North America:** Woodfibre is sourced from landowners and commercial loggers operating in temperate forests in Maine, New Hampshire, Michigan, Minnesota and Wisconsin and from the Canadian provinces of New Brunswick, Quebec and Ontario. The tree species used include maple, poplar, aspen, beech and birch (hardwoods) and spruce, pine and fir (softwoods). 58.7% of fibre used is certified through FSC® and SFI®.



Recovering and recycling paper and board helps to minimise the emissions associated with landfill.

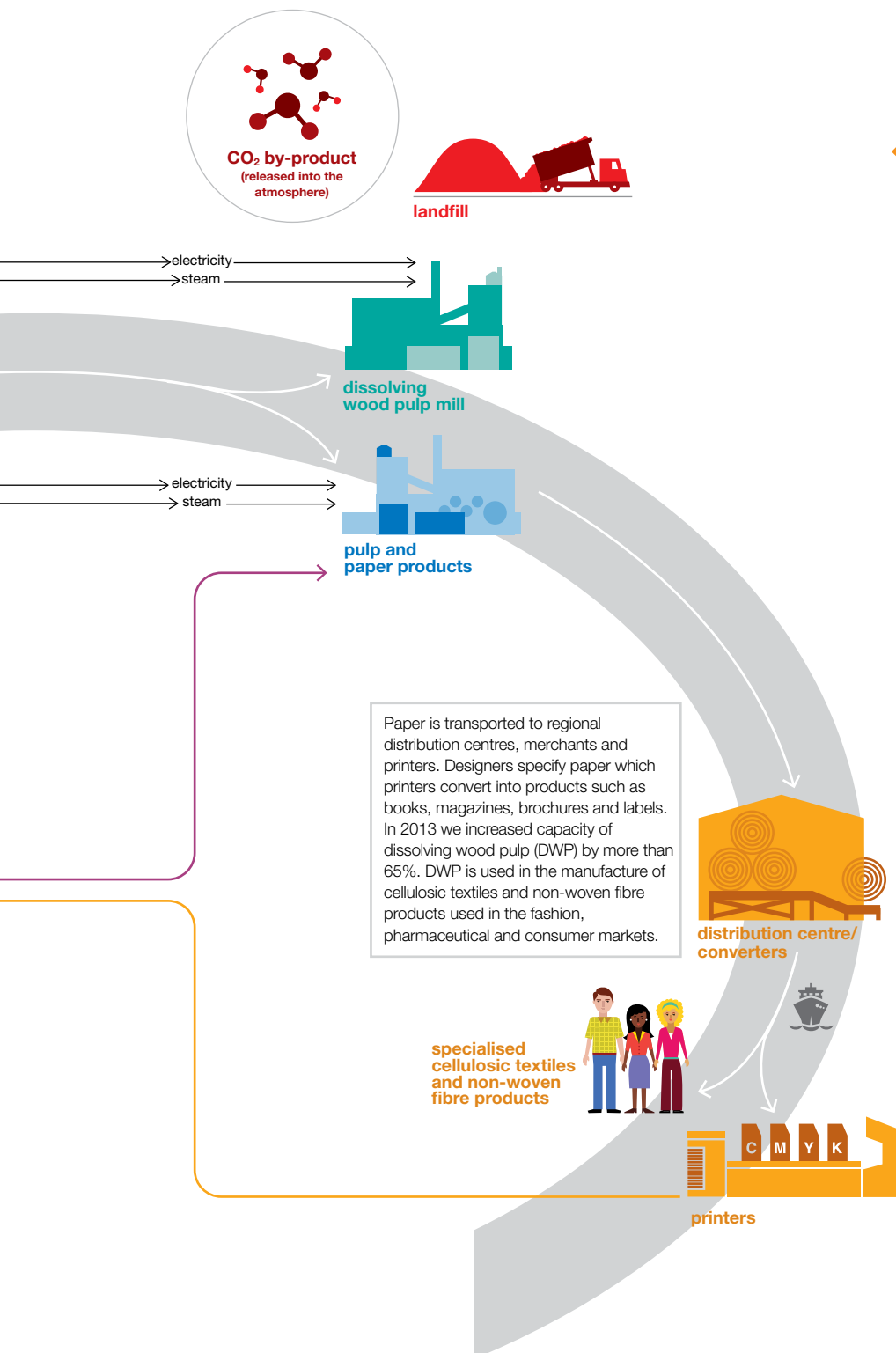
### people

- 13,665 employees globally
- 750 contractors globally (plus 11,700 people employed by contractors working for Sappi Forests)
- OHSAS 18001 certification achieved for all mills
- US\$1.4 million direct corporate social responsibility (CSR) spend (excludes indirect spend on infrastructure and community support)



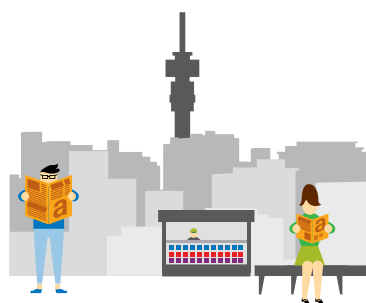
Our pulp, paper and dissolving wood pulp solutions touch the lives of millions of people around the world, create direct employment for 13,665 people and indirect employment for thousands of others, have a positive impact on communities and generate significant economic benefits.





## prosperity

- Interest bearing debt: US\$2,598 million
- Cash and cash equivalents: US\$385 million
- Ordinary shareholders' interest: US\$1,144 million
- US\$29.5 million R&D spend
- Returns on Exciter (innovation) projects are double the investment spend
- Value of property plant and equipment: US\$3,078 million; plantations in Southern Africa: US\$464 million
- Sales in FY 2013:
  - coated graphic paper: 4,048,000 tons
  - uncoated graphic paper: 397,000 tons
  - speciality paper: 244,000 tons
  - commodity paper: 560,000 tons
  - dissolving wood pulp: 795,000 tons
  - paper pulp: 237,000 tons
  - other: 1,185,000 tons
- Power sold to third party customers in FY 2013:
  - North America: 770,350 gigajoules (GJ)
  - Europe 1,605,360GJ
  - South Africa: 190,295GJ.
- Percentage renewable energy: 51.5%
- Decrease in solid waste to landfill over five years: 33.4%
- Decrease in specific water usage over five years: 4%
- All mills ISO 9000 and ISO 14001 certified



## prosperity

### Our value add

As stated in our Sustainability Charter: "Our approach to sustainability is based on a holistic view of Prosperity, People and Planet. Being a sustainable organisation means that we balance and integrate the 3Ps into our business decisions, strategies and processes to help us create added value for all our stakeholders."

Manufacturing our pulp, paper and specialised cellulose solutions in a manner that 'does not compromise the ability of future generations to meet their own needs' is the basis for achieving this vision.

Sappi's products add value to people's lives every day. The uses for our products include:

- Dissolving wood pulp: viscose fabrics and textiles, foodstuffs, cosmetics and pharmaceutical products.
- Graphics papers: commercial printing including magazines, brochures, catalogues, direct mail, corporate reports and calendars.
- Packaging papers: convenience food, fast food and to protect and transport fresh produce.
- Speciality, security and release papers: consumer goods, labels, passports and a variety of other applications.

We contribute to social and economic wellbeing by employing labour drawn from local communities, and the services of small and medium enterprises situated in the areas around plantations and production facilities. We also have a best practice training programme and, through our corporate social responsibility programme together with our enterprise development programme in Southern Africa, invest in the socio-economic development of the communities in which our workers live.

In 2013, we added value to the Prosperity of the regions where we operate:

- By employing 13,665 employees and 750 contractors globally. In addition, approximately 11,700 people employed by contractors work for Sappi Forests in Southern Africa.
- By creating millions of dollars' worth of goods each year. In FY 2013 sales per region were: US\$1,393 million in Southern Africa; US\$3,155 million in Europe; US\$1,377 million in North America.
- By contributing to domestic growth and the balance of payments in each region where we operate by exporting products to over 100 countries around the world.

We enhance our financial position by using a high percentage of self-generated energy, selling excess power, reducing our use of water and by minimising waste production and disposal. We are increasingly generating revenue from waste (for an example, please refer to our 2013 sustainability report for Sappi Southern Africa on [www.sappi.com](http://www.sappi.com)).

### Technology and innovation

Recognising that technology is the cornerstone of our business, in 2004 we established a global technology strategy which aligned technology and R&D expertise across three continents to the different sectors of the business. This centrally coordinated approach allows us to pool and leverage our expertise across the regions to ensure that our solutions remain relevant to the needs of our customers. Our Technology Centres around the world are focused on product/process improvements and development and are supported by 11 technology 'clusters'.

These clusters are comprised of internal experts and focused on aligning technology and R&D expertise. The clusters promote the sharing of ideas, technical excellence and best practice across Sappi's business units. To ensure central coordination, clusters report to the Group Technology Management Team (GTMT) which is responsible for technical management and overseeing research activities across the group. The clusters are supported by 'Centres of Excellence' in various fields.

Our total R&D spend in 2013 was US\$29.5 million including spend of US\$8.1 million related to our 'Exciter' programme. This programme is focused on creating breakthrough technological competency for Sappi which will allow us to develop new and improved products and processes to drive market differentiation.

Work takes place in two areas: core business (Exciter I) and new adjacent business (Exciter II). Exciter I is focused on cost reduction, developing new technology to drive down production costs and process improvements, mainly originating from the pilot digester and pilot refiner centres of excellence. Exciter II projects are focused on the development of products for new adjacent markets. Here a number of prototypes in the areas of speciality chemicals and fibre composites are ready for market testing and present an opportunity to develop new revenue streams for Sappi in the future.

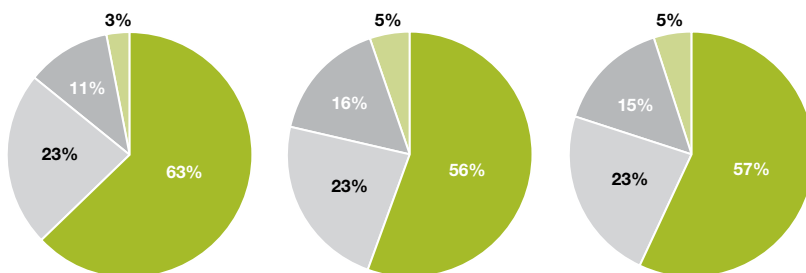
Exciter value delivery for FY 2013 was approximately double the investment, as indicated by the graph below.

### Value added

(2013: US\$1,613 million)

(2012: US\$1,913 million)

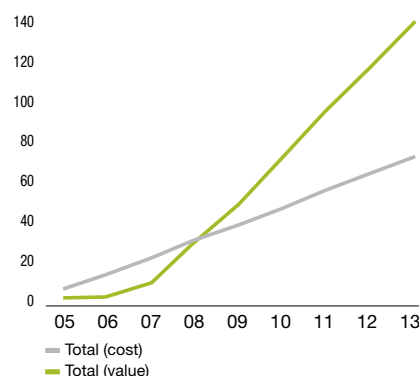
(2011: US\$2,125 million)



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

### Investment/Value delivered

(US\$ million)



## people

### Manufacturing efficiency

In our mills, we use the principles of Lean Manufacturing to minimise waste in all areas including raw material and energy usage, operating efficiencies, product rationalisation and time management. We have a rigorous system of measuring our outputs, particularly those of all our paper machines, so that we know how much production capacity exists and where it is located. This allows us to focus on our performance gaps and to take the necessary actions to continually improve our paper machine efficiencies. The direct comparison of operating equipment between mills helps us identify strengths and weaknesses in our operations, and promote the group's best practices and improve our processes, thereby increasing profitability.

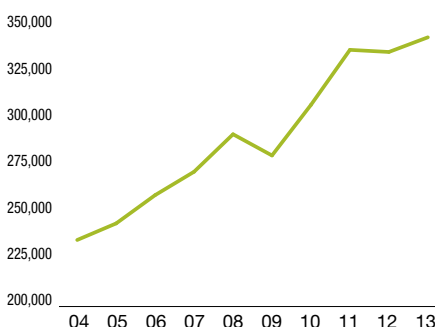
We also track the efficiency and reliability of each paper machine and its financial impact throughout the group. The graph below gives an indication of production improvement at Cloquet Mill.

We have a major benefit in our high use of renewable energy (51.5% globally), derived mainly from black liquor, sludges and biomass. This results in a high degree of energy self-sufficiency and lower levels of greenhouse gas emissions from fossil fuels. It also helps cushion us from proposed carbon taxes, emission caps or other limits on fossil fuel use. In FY2013, in North America we sold 770,350 gigajoules (GJ); in Europe 1, 605,360GJ and in South Africa 190,295GJ of power to third party customers.

In South Africa, under the Medium-Term Risk Mitigation (MTRM) determination, the Department of Energy (DoE) is seeking to procure 800MW of near-term cogeneration capacity, which could come from biomass, industrial waste and combined heat and power sources. Through the Paper Manufacturers' Association of South Africa (PAMSA), we have engaged with government on the cogeneration issue, and the potential for us to participate in adding to the electricity we already sell to Eskom looks promising. We have a number of cogeneration and renewable biomass power plant projects in the pipeline that can be implemented relatively quickly should a positive COGEN programme be implemented by government. An announcement regarding the status of the programme is expected early in 2014.



**Cloquet paper production**  
(adt/annum)



### Our people profile

In recent years our business focus has been on improving the profitability of the graphic paper business and growing the higher margin specialised cellulose business. This has led to a number of restructuring initiatives which have resulted in machine closures and headcount reductions in Europe and Southern Africa. Our current headcount is 13,665 (2012: 14,039).

### Recruitment and retention

Ensuring our sustainability well into the future requires us to recruit talented individuals with the right skills sets, retain talent within Sappi and develop employees to reach their full potential so that they contribute fully to our success. In 2013, our employee turnover rates were 16.18% in Southern Africa; 5.4% in Europe; 6.06% in North America; and 10.4% in Sappi Trading. During the course of 2013, we recruited 1,082 employees across our businesses, of which 705 were employed in Southern Africa; 179 in Europe; 181 in North America; and 17 in Sappi Trading. Women made up 36% of new hires and the majority of our new hires were local residents.

### Skills development

Investing in our people to learn, grow and to have a productive career with Sappi is a business imperative. Each of our business units manage their own training and development based on the operational requirements of the mill and/or region.

We emphasise employee involvement in all our skills development initiatives. In terms of personal development plans (PDPs), in South Africa, Europe and North America, the percentages stand at 77%, 65% and 23% (66% of eligible employees in North America) respectively. A significant portion of training and development spend is allocated according to needs identified in the PDPs. Due to lack of education and poor skills levels among certain sectors of the South African population, there is a greater focus on and investment in skills development and training in this region than in our European and North American operations. In South Africa, our Workplace Skills Plan, submitted annually to the South African Sectoral Education and Training Authority for the Fibre Process and Manufacturing Sector, is compiled together with our union shop stewards.

We conduct annual talent reviews for professional levels and middle management and above, as well as succession planning for lead team roles and mission critical roles. This gives us an indication of our functional bench strengths and an understanding of our promotional and development opportunity pool.

Recognising the importance of leadership at various levels in the organisation, our leadership development begins at first line supervisor training all the way to successors for lead team roles. While a defined set of leadership competencies form the basis of our Leadership Academy, senior managers are developed in line with their PDPs.

## Communities

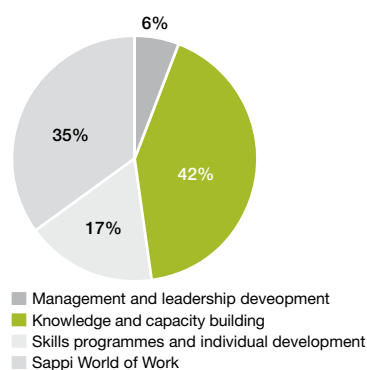
Our corporate social responsibility (CSR) initiatives and programmes are in line with, and supportive of, our business strategy and are developed with input from key stakeholder groups. Our support is focused on the communities where we have an impact. Our preference is for multi-year

programmes which create sustained impact in our communities. The majority of Sappi's CSR spend takes place in Southern Africa, given the development needs of the country. Our direct spend in Southern Africa stood at 1.59% of Net Profit After Tax (NPAT), again exceeding our regional target that CSR spend should represent 1% of NPAT.

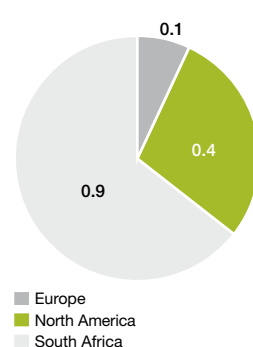
Sappi's CSR related projects across all regions address four broad themes:

- Literacy and education, with a particular focus on developing mathematics and science skills.
- The environment and conservation programmes, with a particular focus on the natural resources and ecosystems on which our business depends.
- Health and welfare, with a particular focus on the communities surrounding our operations.
- Community engagement and upliftment including projects to improve basic infrastructure and services as well as projects which improve community life.

Allocation of group spend per category of training in 2013



CSR split by region in FY 2013  
US\$ 1.4 million



## Supporting educational and environmental causes in Europe

The region continued to support the rebuilding of a school in Haiti – a project initiated after the earthquake in 2010 – and the planting of trees to re-establish natural forests (in partnership with Belgian authorities). At a community level, mills supported local projects ranging from youth clubs, community centres, vulnerable groups, sports clubs, environmental education and paper donations.

## Supporting Ideas that Matter in North America

The main focus is on the Ideas That Matter (ITM) programme which funds the best paper based communication campaigns for charities and other worthwhile causes created by graphic designers (a key target audience for our graphics paper business). In addition, scholarships are provided for high school students to study at the University of Maine (Pulp and Paper Association) and support is provided to the New England Aquarium.

## Supporting education and literacy in South Africa

In Southern Africa, education and literacy makes up 45.7% of total CSR spend, including eight PROTEC (Programme for Technological Careers) Maths and Science student branches (in mill communities) for grades 10, 11 and 12. PROTEC is a national independent non-profit educational service provider in South Africa specialising in Maths, Science and Technology education.

In this region we have identified Early Childhood Development (ECD) as a new focus area to help break the cycle of poor education results by investing in the 0 – 7 age group within our communities, in particular our forestry communities. We are partnering with Penreach, a not-for-profit school development programme focused on creating 'communities of learning', to establish an ECD Centre at Elandschoek close to our Ngodwana Mill. The centre is expected to begin operating in 2014. In addition, 25 ECD sites will be developed in Sappi's KwaZulu-Natal forestry communities through the non-profit organisation, Training & Resources In Early Education (TREE).





## planet

One of the greatest benefits of our paper, paper packaging and dissolving wood pulp solutions is that the woodfibre they are derived from is a sustainable, natural and renewable resource. When managed in accordance with the principles of sustainable forest management, as promoted at Sappi, the use of the products we manufacture drives the growth of plantations and forests, making a valuable contribution to mitigating global warming through carbon sequestration. These plantations and forests are managed through the use of independent, internationally accredited forest certification systems including the Programme for the Endorsement of Forest Certification (PEFC), the Forest Stewardship Council® (FSC®), and the Sustainable Forestry Initiative (SFI®). These internationally recognised, independent auditing procedures mean that it is possible to trace our virgin fibre from source to end product.

In Southern Africa, Europe and North America, 86%, 71.4% and 58.7% respectively of the fibre we procure is certified, with the rest procured from known and trusted suppliers close to each mill, regularly visited by our buyers. FSC®-controlled wood and PEFC Due Diligence Systems (DDS) requirements are incorporated into our purchasing specifications and contracts in line with our purchasing policy. Environmental- and forestry-related information (including wood sources) is obtained from pulp suppliers on a regular basis and this data is then internally evaluated by a team of experts.





## our key sustainability issues

The issues set out below and on the following pages are important factors that we believe may have a material impact on our success as a business either by directly impacting our ability to operate profitably or by affecting our reputation and the trust stakeholders have in Sappi.

### Our markets

**Issue** *The downturn in the global economy has accelerated the decline of graphic paper use in the developed world as consumers turn to electronic media to access news and to e-Readers for books and magazines.*

### Our response

Our response has been to diversify our product portfolio and exposure to the markets we serve.

### Dissolving wood pulp

One of the cornerstones of our business strategy is growth in profitable specialised cellulose (dissolving wood pulp – DWP) solutions. The successful commissioning of our conversion projects at Ngodwana Mill in South Africa and Cloquet Mill in the USA to increase our capacity from 800,000 tons to 1.34 million tons took us a long way down the road to achieving this strategy.

The trends of increasing population growth and affluence in Asia are important for Sappi because currently, the bulk of our DWP production is sold into the Asian market for use in textiles. With greater affluence, many Asians are already moving from non-breathable fibres derived from oil to

natural fibres and blends, which include derivatives of DWP. According to RISI, global consumption of DWP grew 9% in 2012, reaching 5.8 million tons. RISI predicts world DWP usage at 6.9 million tons in 2014, up 1.1 million tons from the 2012 figure<sup>1</sup>.

These trends hold significant growth opportunities as Sappi is positioned in the lowest cost quartile of the world's DWP manufacturers. Having the ability to carousel between mills also enhances our service position, enabling faster customer turnaround times and service.

The dissolving wood pulp principally produced by Sappi is the type used in the manufacture of a variety of cellulose products, including viscose staple fibres or rayon, solvent spun fibres (lyocell) and viscose filament yarns which have a soft, natural feel and excellent breathing properties. Given their particularly high absorbency properties, these fibres are also used in non-woven applications in the healthcare, industrial and disposable product markets.

### Paper and paper packaging

We are countering the trends away from graphic paper in the developed world by moving into more specialised paper solutions, including intelligent packaging, security papers, label and food-safe papers and papers designed to meet specific customer needs. We believe opportunities will grow as consumers increasingly look for alternatives to plastics, and as environmental and health regulations become more stringent.

As an example, our European brand, Algro Nature is the first and only one side coated packaging paper that is certified to be composted at home. In conjunction with Innovia Films, we developed a flexible packaging solution that can convert waste into energy (anaerobic digestion and biomethanisation) or, at a minimum, can

be composted by the consumer to reduce the burden on landfills and provide a solution to fight plastic pollution through littering.

In 2013, in **Europe** we launched two new mineral oil barrier flexpack grades: MOB Kraft and MOB Gravure. These innovative speciality papers solve the problem of migration of mineral oil and other contaminants into food from cardboard packaging containing recycled paper. The mineral oil barrier in the papers protects foodstuffs from mineral oil compounds that are a complex mixture of saturated and unsaturated hydrocarbons, which are suspected to be carcinogenic.

We also launched Jaz Book, a coated digital paper, the result of our partnership with Hewlett Packard. Available in a lower grammage, this paper is specifically targeted at full colour book production and is an ideal choice for the education market.

In **North America**, we manufacture Lusterprint, a grease proof product with an excellent print surface. Used primarily in pet food packaging, Lusterprint is approved by the US Food and Drug Administration (FDA) for food contact and can also be used in applications such as popcorn bags.

In **South Africa**, customers are increasingly requesting paper that incorporates recovered fibre, which a number of our mills are capable of processing.

At Enstra Mill in South Africa, a repulper, which was commissioned in August 2013, has enabled the mill to supply a wide variety of pulp types to the paper machines, while the recovered fibre plant will process recycled grades. The capacity to blend recovered fibre into paper grades has given the mill more flexibility in producing competitive products that meet customer requirements and enables the mill to meet increased market demand for products incorporating recovered fibre.

<sup>1</sup> <http://www.risiinfo.com/magazines/March/2013/PPI/No-signs-of-this-market-dissolving.html>



## Our people

**Issues** Ensuring that our people have an overriding culture of safety first in everything they do, that they are engaged with and connect to our business, that we meet our transformation agenda in South Africa and that we maintain mutually respectful relationships with our employees.

## Our response

### Safety

*"We have worked very hard to create a culture which prioritises safety at all times and incorporates contractors into this culture. While there were improvements in reducing fatalities and lost time injuries throughout the group, I deeply regret having to report one own employee fatality and one contractor fatality in our South African operations. We will continue to focus on entrenching a strong safety culture with the ultimate target of zero harm."*

### Ralph Boëtger

– Chief Executive Officer, Sappi Limited

Our approach to safety is based on the principles of Project Zero – zero fatalities and zero injuries. Project Zero is a global initiative that aims to accelerate improved safety performance in areas of concern and to develop a safety awareness culture in all parts of our business. The initiative includes integrated health and safety planning and management; training at all levels; participative information and control structures; and adherence to international best practice and safety standards.

In addition to addressing hazards in the workplace by means of the OHSAS 18001 related systems in place at all our pulp and paper mills, we also address 'at risk behaviour' by means of a behaviour based safety (BBS) system.

Our focus going forward is on further entrenching a sense of ownership and awareness among our employees. We are achieving this by involving them in selecting the most appropriate leading performance indicators and identifying the areas of our activities that present the greatest threat to performance or opportunity for improvement, and sharing regular feedback on performance.

## Transformation

We view Broad-based Black Economic Empowerment (BBBEE) as a key requirement for sustainable growth and social development in South Africa. We have long been committed to participating in the country's transformation and development through our South African forestry and manufacturing operations. We currently hold a level 4 BBBEE rating.

As the scorecard below indicates, greater emphasis needs to be placed on employment equity. To address this, we have adopted a 10-point action plan which includes specific key deliverables and timelines. Details are available in our 2013 sustainability report for Sappi Southern Africa.

## Celebrating 30 years of Project Grow

In South Africa, our enterprise development initiative, Project Grow, celebrated its 30<sup>th</sup> anniversary. In keeping with government's strategy of promoting forestry as a means of sustainable livelihoods in rural areas, the project is aimed at promoting access to and developing the timber farming industry.

From three farmers managing 12 hectares (ha) in 1983, the project has grown significantly. At the peak, 10,000 growers were involved, and many of these have now become self-sufficient, indicating that the model is sustainable. Currently, approximately 4,500 growers are involved, ranging from small individual growers to larger community projects, farming just over 19,257ha. It is estimated that approximately 1,747 people are directly employed in these projects.

Project Grow currently provides us with nearly 238,000 tons of timber per annum, with a total value in excess of US\$13.3 million based on current mill delivered prices. The volumes provided by Project Grow represent 7.5% of our hardwood woodfibre intake in South Africa.

Elements	Sappi's rating (at end December 2012 in terms of our Empowerdex rating)	Target score	2013 status at end Sept 2013
Ownership	15.74	20	15.11
Management control	4.49	10	5.99
Employment equity	3.69	15	2.43
Skills development	9.55	15	8.28
Preferential procurement	18.76	10	18.02
Enterprise development	14.96	15	15
Socio-economic development	8	5	8
Overall score	75.19	100	72.83

### Note:

The score shown in the last column of the table above has not been verified yet. Verification will be conducted in December 2013 by an external ratings agency. We have been restructuring the business over the last two years and this has had a major impact on our ability to improve our rating.

## Industrial relations

Protecting the right to freedom of association and collective bargaining is fundamental to the manner in which we do business. Globally, 56% of our workforce is unionised, with 66.5% of our employees belonging to bargaining units.

### South Africa

To ensure stability in the complex South African working environment we have established forums including:

- The National Employment Equity and Skills Development Forum, which meets quarterly, and is attended by union officials from three unions, shop steward representatives and management representatives. The primary focus of this forum is to consult and mutually agree on the Employment Equity Plan and Workplace Skills Plan and its implementation.
- Local shop steward committees at each mill which meet with management to discuss mill-specific issues of mutual interest. In the Forests division, we have established labour liaison committees where we have in-sourced operations to ensure regular communication between employees and management at local level.
- The National Partnership Forum, a joint union and Sappi senior management forum which meets quarterly to share information on business performance, strategy direction, industry developments and union priorities.
- The Pulp and Paper and Sawmilling Chambers, an industry body that deals with wage negotiations and other employment relations and conditions of employment issues affecting the industry. Currently, the Chamber has established a work group to investigate a collective bargaining framework in an attempt to enhance the collective bargaining process in our industry.

### Europe

The labour relations framework in Europe comprises a combination of Works Councils and collective labour agreement organisations and these differ from country to country. Works Councils are elected every four to five years at each mill site as well as the sales offices in Germany, Austria and the Benelux countries. Meetings with the Works Councils take place twice a year and are attended by representatives from each manufacturing site, the Chief Executive Officer for the region and regional Human Resources

Director. The purpose of the meeting is to share information and consult on topics of interest such as business performance, planned business changes, industry development and pan-European topics.

Because of the number of geographies in which we operate in Europe, we manage relationships with 13 different unions.

### North America

The majority of our employees are represented by the United Steelworkers (USW), as well as through various craft, guard and railroad unions. In this region, labour agreements are usually for three years. A new contract with the Cloquet Mill USW was ratified in December 2012 and we successfully concluded a number of other contracts in the region.

## Fibre supply and forest certification

***Issue** The implications of a constrained fibre source would have consequences for our business. Forest certification is an important reputational issue.*

### Fibre supply Our response

In **Southern Africa**, we own, manage and lease 561,000ha of land, so have a certain level of control over our fibre sources. In this region, we continue to invest in developing our low cost fibre base and are mitigating fibre supply risk by:

- Helping to promote access to and developing the timber farming industry through Project Grow, our enterprise development initiative. (See page 39 for further details.)
- Forestry is classified as a streamflow reduction activity – the only agricultural activity in the country to be classified in this manner and accordingly, is subject to a water-use licence. We are working with communities in the Eastern Cape to obtain water-use licences for the establishment of new plantations. To date, we have assisted several communities in the Eastern Cape in obtaining a total of 4,546ha of water-use licences, including 584ha of new licences awarded during 2013. We are also assisting the communities in the Eastern Cape who have been successful in obtaining water-use licences to secure Recapitalisation and Development Funds (RECAP) from the Department of Rural Development and Land Reform.

- Assisting with land reform projects where timber is grown. We have, for example, signed a Service Level Agreement (SLA) with the National Department of Rural Development and Land Reform. As part of the SLA, government has appointed us as a strategic partner to assist land reform beneficiaries with the management of the timber on their property.
- Ongoing research, including collaboration with industry and various research institutes to improve silvicultural practice, develop biocontrol measures and breed genetically more resistant planting stock.
- Breeding for specific pulping characteristics to improve process efficiency.
- Lowering costs by improving yield:
  - Over 15 years, our research efforts have resulted in a 60% improvement in eucalyptus plantation yield.
  - In our Usutu pine plantations we have maintained sample plots to allow comparison of four successive rotations of pine since the first rotation planted in the 1950s. The latest measurements taken in 2011 indicate an 8% yield improvement – consistent with the expectation from genetically superior planting stock and measures taken to maintain site productivity.

In **Europe** and **North America**, fibre is sourced from forest owners close to each operation, with whom we have longstanding relationships. In these regions, we mitigate fibre supply risk through a combination of approaches which include both short and long-term wood supply agreements and shareholdings in wood sourcing cooperatives.

In January 2013, Sappi Europe took this one step further by establishing a joint venture with SCA Hygiene Products called proNARO. The joint venture focuses on the wood sourcing process of pulp operations in Alfeld, Stockstadt, Mannheim and Echingen. This move has secured wood supply on a long-term basis for our pulp production in a cost efficient, sustainable manner.

However, in both these regions, the diversion of biomass to energy is threatening the sustainability of fibre supply for our industry.

In **Europe**, our position is that we should take advantage of the many versatile and renewable properties of wood to create wood products, pulp and paper, and recycled paper, all of which can then be



used for renewable energy after their material use. By extending the lifecycle of wood before it is ultimately used for energy, we can add value to the economy, create and retain jobs, and in effect use our raw materials more efficiently.

In **North America**, a growing number of prospective and existing government mandates and incentives promote the use of biomass for energy, including state and federal Renewable Electricity Standards, climate policies, and the Renewable Fuel Standard. The rapid increase and the combined effect of these mandates could affect the balance between the many users of, the forest resource as well as the sustainability of this resource.

We share the position of the American Forests & Paper Association (AF&PA) that any government policies which encourage additional demand for biomass should be coupled with policies that increase the available long-term supply of wood to meet future demand for paper and wood products as well as new and growing energy markets. Policies also should include safeguards to minimise disruptions in the flow of fibre and related market distortions.

Our research centre in KwaZulu-Natal plays an important role in optimising our woodfibre base. Our tree breeding programme at the centre continuously tests and selects genotypes best suited to the range of sites where Sappi plants trees, including harsh sites that are drought susceptible. In this way more drought tolerant trees have been identified. The eucalypt species *Eucalyptus dunnii* has proven to be the most drought tolerant of Sappi's commercial species and is now planted on sites where drought risk is high.

Biotechnology tools – such as DNA fingerprinting – help improve our tree breeding, seed production and propagation efficiencies by allowing us to keep track of our elite pine and eucalypt breeding. We also use biotechnology to develop trait-linked molecular markers for breeding and for understanding host defence mechanism to important tree pests and disease such as *Lepitocybe invasa* and *Fursarium circinatum*.

## Climate change

**Issue** Drought, changing weather patterns, increased risk of fire and pest infestations could potentially impact the sustainability of our fibre supply.

## Our response

Climate influences the structure and function of forest ecosystems and plays an essential role in forest health. A changing climate could exacerbate many of the threats to forests and plantations, such as pest outbreaks, fires, human development, and drought. It could also have both negative and positive implications for growth. In each region where we operate, we monitor the situation very closely.

In **Southern Africa**, where we have a high degree of control over our fibre resource, we maintain a broad genetic base, comprising many species, populations and trees. This ensures that we are able to respond to new challenges like pests, diseases, changing markets and global warming while providing continuous genetic improvement over the long-term. Our exposure to climate change related risk in this region is moderated by:

- Maintaining wide genetic variability in our planting material. This enables us to breed trees for a wide range of conditions and the rate of change in conditions is likely to be slow enough for us to respond in the breeding programme. In other words, we will produce better trees as conditions change.
- Continually monitoring and reviewing forest best practices in the light of changing environmental factors, thus helping to mitigate any increased threat from environmental conditions.
- Implementing extensive planting of more drought-tolerant eucalypt hybrids.
- Fire risks are mitigated via an integrated fire risk management system comprising a comprehensive risk assessment, monthly compliance checks for monitoring, management procedures, standards, and general back-up information. We also involve our neighbours and communities in fire prevention.

In all regions, woodfibre could be positively or negatively affected by climate change.



**Energy and carbon footprint**

**Issue** *As pulp and paper production is highly energy intensive, the cost and availability of energy is a key consideration for Sappi.*

**Our response**

Energy costs as a percentage of operating costs have been rising for several years and currently account for approximately 12% of our cost of sales. We mitigate this risk by focusing on increasing renewable energy, promoting cogeneration and investigating biofuel opportunities.

As stated on page 35, we have a major advantage over other industrial companies in our high usage of renewable energy, derived from black liquor, sludges and biomass. This results in a high degree of energy self-sufficiency and lower levels of greenhouse gas emissions from fossil fuels and helps cushion us from proposed carbon taxes, emission caps or other limits in fossil fuel use. All regions have established energy targets and report on these on a quarterly basis.

Globally, over five years, specific purchased energy has dropped by 20.3%. This decrease has been largely due to production closures

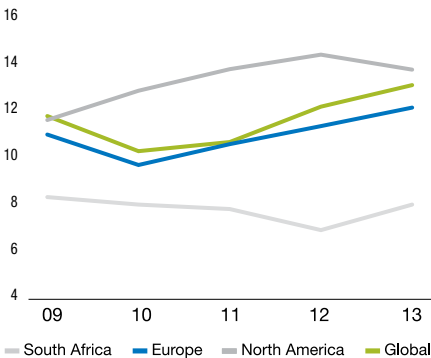
in South Africa, as well as the ‘Amakhulu’ expansion project at Saiccor Mill, which significantly enhanced energy efficiency.

We continue to focus on reducing our carbon footprint in all regions by improving energy use efficiency and decreasing our reliance on fossil fuels. We are achieving this by making process changes, installing more efficient equipment, reducing purchased energy (electricity and fossil fuel) and by increasing our use of renewable energy – an approach that ultimately results in a reduction in carbon dioxide (CO<sub>2</sub>) emissions. In addition, through the use of black liquor, we have been steadily increasing energy self-sufficiency over time. Independence from fossil fuels not only lowers greenhouse gas emissions but helps to isolate our operations from fluctuations in energy prices – making us a more profitable and sustainable business.

Globally, over five years, Scope 1 (direct) and 2 (indirect) CO<sub>2</sub> emissions have decreased by 12.2% and 28.4% respectively. These reductions represent reductions of 584,936 tons CO<sub>2</sub> equivalent (CO<sub>2</sub>e) (Scope 1) and 607,906 CO<sub>2</sub>e (Scope 2).

We continue to explore biorefining projects in all regions to reduce exposure to future energy price increases and provide a stable supply of energy. Further, bioenergy projects may represent important new revenue streams. Our Technology Research Centre in Pretoria, for example, is looking at various conversion technologies for lignin, including gasification.

**Energy costs as a percentage of cost of sales (%)**





## Carbon tax

**Issue** Carbon taxes could have a material impact on our profitability.

### Our response

In **South Africa**, the government is proposing a carbon tax of R120 per ton of CO<sub>2</sub> emitted. We provided extensive input to the submission made to the National Treasury by the Pulp and Paper Manufacturers' Association (PAMSA) before the end of August 2013. We subscribe to PAMSA's view that "climate change will have a significant impact on South Africa, its economy and its people and we recognise the importance of reducing greenhouse gas (GHG) emissions in mitigating the effects of climate change". We further recognise that the proposed carbon tax is viewed as a means of driving behavioural changes towards low carbon and energy efficient technologies.

However, in line with PAMSA's 2013 submission to Treasury, we maintain that when plantations and the pulping and paper making process are considered as an integrated entity, together with process emissions and plantation absorptions, the net result is GHG absorption. We believe that a tax offset mechanism should be developed to recognise the sequestration effect of plantations. In addition, we believe that carbon taxes would impact on the competitiveness of our industry by adding another layer of costs. This would mean unfair competition from papers imported from countries without carbon taxes.

The sequestration effect can be demonstrated by using the Forest Industries Carbon Assessment Tool (FICAT™) methodology, a GHG accounting tool developed specifically for the forestry and paper industries by the National Council for Air and Stream Improvement, a US environmental NGO.

The use of FICAT demonstrates that the trees in Sappi's plantations absorb 12.5 million tons of CO<sub>2</sub> and emit eight million tons of oxygen annually. The estimation is based on an average absorption of 27 tons of CO<sub>2</sub> per hectare of plantation per year.

"The International Council of Forest and Paper Associations (ICFPA) acknowledges that Forest Industry Carbon Accounting Tool (FICAT™) software was designed for circumstances unique to the forest products sector and recognises that it is an appropriate method to measure the overall lifecycle greenhouse gas impact of activities associated with producing forest products."

Letter from ICFPA to PAMSA,  
15 July 2013

There are as yet no proposals for federal carbon taxes in **North America**. However, the states of Oregon and Washington recently announced moves towards a carbon-pricing system similar to the seven-year-old carbon tax in British Columbia. Earlier this year, California introduced a carbon-pricing mechanism as part of its carbon cap-and-trade system. There appear to be no moves towards carbon tax in the states in which we operate in North America. We do, however, believe that we would be cushioned from carbon taxes by our high use of renewable energy, currently standing at over 80% – well above the industry benchmark of 62% in this region.

In **Europe**, there is considerable regulatory uncertainty regarding emissions allowances. In September 2013, the European Commission announced it would cut free allocation of emission credits to industry by an additional 6% in 2013 – adding up to a startling 18% extra cut by 2020. The Confederation of European Paper Industries (CEPI) has called the decision "very harsh", saying that "even the most carbon efficient companies in Europe would not receive the credits they need to operate".<sup>1</sup>

We continue to monitor developments in this region.

## Water

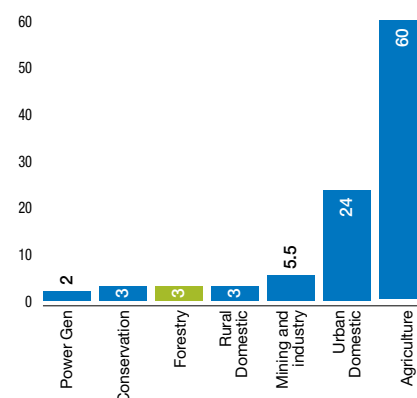
**Issue** Climate change is expected to have a profound impact on the world's rainfall patterns, river flows and freshwater reserves. Any decrease in available water supplies could significantly affect our fibre supply and production processes.

### Our response

Reducing water usage within our mills and improving the quality of water returned to the environment continues to be a key area of focus. We return approximately 89.7% of water drawn to the environment after cleaning and filtering. Between 2009 and 2013, globally, specific water use decreased by 4%. Over the same period, total suspended solids (TSS) and chemical oxygen demand (COD) – both measures of water quality – improved by 7.8% and 1.1% respectively.

In Southern Africa, some of our stakeholders have expressed concern that forestry uses large amounts of water. However, unlike most other forms of agriculture, our plantations are not irrigated and use comparatively little water as indicated in the table below.

Water use per sector in Southern Africa (%)



Source: Department of Water Affairs, 2010

## Code of Ethics

Underpinning Prosperity, People and Planet is our Code of Ethics, based on our core values of Excellence, Integrity, Respect and Resourcefulness. A refreshed Code, based on an integrity, rather than a compliance framework, was approved by the Sappi Limited board in February 2013.

Promotional tools including posters, vendor letters and booklets have been translated into various African and European languages. Each region appointed representatives from legal, communication and human resources to assist with the roll out of the refreshed Code. Campaigns were designed and implemented with due consideration for cultural and regional dynamics.

We continue to monitor the programme and feedback.

<sup>1</sup> <http://www.cepi.org/node/16438#sthash.WTHJovQw.dpuf>

# governance and compensation our leadership

## non-executive directors



**Daniël (Danie) Christiaan Cronjé**  
(Independent Chairman)

Age **67**  
Qualifications **BCom (Hons), MCom, DCom**  
Nationality **South African**  
Appointed **January 2008**

### Sappi board committee memberships

- Nomination and Governance Committee (Chairman)
- Attends Audit Committee meetings
- Human Resources and Compensation Committee meetings and Social, Ethics, Transformation and Sustainability Committee meetings (ex officio)

**Other board and organisation memberships**  
Die Dagbreek Trust (Chairman)

### Skills, expertise and experience

Dr Cronjé retired in July 2007 as Chairman of both ABSA Group Limited and ABSA Bank Limited (a leading South African Banking organisation in which Barclays plc obtained a majority share in 2005). Dr Cronjé had been with ABSA Group since 1975 and held various executive positions including Group Chief Executive for four years and Chairman for 10 years. Prior to that, Dr Cronjé was lecturer in Money and Banking at Potchefstroom University.

**Godefridus (Frits) Peter Franciscus Beurskens**  
(Independent)

Age **66**  
Qualifications **BSc Mechanical Engineering, MSc Industrial Engineering and Management Science**  
Nationality **Dutch**  
Appointed **October 2011**

### Sappi board committee memberships

- Audit Committee

### Other board and organisation memberships

- Smurfit Kappa Group
- A number of supervisory boards of companies

### Skills, expertise and experience

The Smurfit Kappa Group is a leader in paper based packaging with annual sales of more than €7 billion globally. As President and Chief Executive Officer of Kappa Packaging, prior to its merger with the Smurfit Group, he oversaw the establishment of Kappa Packaging as a top performer and one of Europe's largest companies operating in the production, development and sale of containerboard, corrugated board, solid board packaging, graphic board and speciality board. He is a past Chairman of CEPI (the Confederation of European Print Industries) and of ICCA (the International Corrugated Case Association). In December 2007, he was appointed by the Dutch Queen as officer of the Order of Orange Nassau (Knighthood).

**Robert (Bob) John DeKoch**  
(Independent)

Age **61**  
Qualifications **BA (Chemistry), MBA**  
Nationality **USA**  
Appointed **March 2013**

### Sappi board committee memberships

- Social, Ethics, Transformation and Sustainability Committee

### Other board and organisation memberships

- The Boldt Company (President)
- Palmer Johnson Power Systems
- New North, Inc (Chairman)
- The Building for Kids

### Skills, expertise and experience

Mr DeKoch is the current President and Chief Operating Officer of The Boldt Company in Appleton, Wisconsin, USA. Prior to joining The Boldt Company, Mr DeKoch served as a Production Manager and Mill Manager, as well as VP of Manufacturing for Appleton Papers (USA). He has co-authored two books on leadership thinking.

**Michael (Mike) Anthony Fallon**  
(Independent)

Age **55**  
Qualifications **BSc (Hons) (First Class)**  
Nationality **British**  
Appointed **September 2011**

### Sappi board committee memberships

- Audit Committee
- Human Resources and Compensation Committee

### Skills, expertise and experience

Prior to retirement, Mr Fallon was President of NSG global automotive division. With annual sales of around €6 billion, the NSG Group is one of the world's largest manufacturers of glass and glazing products for the building, automotive and speciality glass sectors. His management and leadership experience extend across a wide range of functions from plant management, sales and marketing and supply chain to general management, including mergers and acquisitions experience. He has been a Director and Chairman of companies in the United Kingdom, New Zealand and Finland.

**Dr Deenadayalen (Len) Konar**  
(Independent)

Age **59**  
Qualifications **BCom, MAS, DCom, CA(SA), CRMA**  
Nationality **South African**  
Appointed **March 2002**

### Sappi board committee memberships

- Audit Committee (Chairman)
- Nomination and Governance Committee

### Other board and organisation memberships

- Exxaro Resources Limited (Chairman)
- Illovo Sugar Limited
- Lonmin plc
- JD Group Limited
- Mustek Limited (Chairman)
- Steinhoff International Holdings Limited (Chairman)

### Skills, expertise and experience

Previously professor and head of the Department of Accountancy at the University of Durban-Westville, Dr Konar is a member of the King Committee on Corporate Governance in South Africa and the SA Institute of Directors, past member and Chairman of the external Audit Committee of the International Monetary Fund and member of the Safeguards Panel and Implementations Oversight Panel of the World Bank (Co-chairman).

**Nkateko Peter Mageza (Peter)**  
(Independent)

Age **59**  
Qualifications **FCCA (UK)**  
Nationality **South African**  
Appointed **January 2010**

### Sappi board committee memberships

- Audit Committee
- Human Resources and Compensation Committee

### Other board and organisation memberships

- Anglo American Platinum
- Eqsra Holdings Limited (Chairman)
- Ethos Private Equity (Pty) Limited
- RCL Foods Limited (formerly Rainbow Chicken Limited)
- Remgro Limited
- MTN Group Limited

### Skills, expertise and experience

Mr Mageza joined the Sappi board after having held senior executive positions across a wide range of industries. He is a former Group Chief Operating Officer and Executive Director of ABSA Group Limited, Assistant General Manager at Nedcor Limited and Chief Executive Officer of Autonet, the Road Passenger and Freight Logistics Division of Transnet Limited.



**John (Jock) David McKenzie**  
(Independent)

Age **67**  
Qualifications **BSc Chemical Engineering (Cum Laude), MA**  
Nationality **South African**  
Appointed **September 2007**

**Sappi board committee memberships**

- Human Resources and Compensation Committee
- Social, Ethics, Transformation and Sustainability Committee (Chairman)

**Other board and organisation memberships**

- Capitec Bank
- Coronation Fund Managers
- University of Cape Town Foundation (Chairman)
- WESGRO
- Save the Children Fund (Cape)
- Rondebosch Schools Education Trust (Chairperson)
- Carleton Lloyd Educational Trust (Chairperson)

**Skills, expertise and experience**

Mr McKenzie joined the Sappi board after having held senior executive positions globally and in South Africa. He is a former president for Asia, Middle East and Africa Downstream of the Chevron Texaco Corporation and also served as the Chairman and Chief Executive Officer of the Caltex Corporation. He was a member of the Singapore Economic Development Board from 2000 – 2003.

**Mohammed Valli Moosa (Valli)**

Age **56**  
Qualifications **BSc (Mathematics)**  
Nationality **South African**  
Appointed **August 2010**

**Sappi board committee memberships**

- Social, Ethics, Transformation and Sustainability Committee

**Other board and organisation memberships**

- Auditor-General's Advisory Committee (South Africa)
- Anglo Platinum Limited (Chairman)
- Imperial Holdings Limited
- Lereko Investments (Pty) Limited (Deputy Chairman)
- Various other associate companies of Lereko Investments (Pty) Limited
- Sanlam Life Limited
- Sanlam Limited
- SolAfrica Thermal Energy (Pty) Limited
- Sun International Limited (Chairman)
- WWF – SA (Chairman)

**Skills, expertise and experience**

Mr Moosa is currently the Deputy Chairman of Lereko Investments (Pty) Limited, Sappi's Strategic Black Economic Empowerment partner. He has held numerous leadership positions across business, government, politics and civil society in South Africa. To name but a few, he was South African Minister of Environmental Affairs and Tourism; the President of the International Union for the Conservation of Nature; and Chairman of the UN Commission for Sustainable Development, and he served as a member of the National Executive Committee of the African National Congress until 2009.

**Sir Anthony Nigel Russell Rudd (Nigel)**  
(Lead Independent Director)

Age **67**  
Qualifications **DL, Chartered Accountant**  
Nationality **British**  
Appointed **April 2006**

**Sappi board committee memberships**

- Human Resources and Compensation Committee (Chairman)
- Nomination and Governance Committee

**Other board and organisation memberships**

- Business Growth Fund (Chairman)
- iPulse Limited
- Cyden Limited (Chairman)
- Heathrow Airport Holdings Limited (Chairman)
- Invensys plc (Chairman)

**Skills, expertise and experience**

Sir Nigel Rudd has held various senior management and board positions in a career spanning more than 35 years. He founded Williams plc in 1982 and the company went on to become one of the largest industrial holding companies in the United Kingdom. He was knighted by the Queen for services to the manufacturing industry in the UK in 1996 and holds honorary doctorates from Loughborough and Derby Universities. In 1995, he was awarded the Founding Societies Centenary Award by the Institute of Chartered Accountants. He is a Deputy Lieutenant of Derbyshire and a Freeman of the City of London.

**Dr Rudolf Thummer**  
(Independent)

Age **66**  
Qualifications **Dr Techn, Dipl-Ing**  
Nationality **Austrian**  
Appointed **February 2010**

**Sappi board committee memberships**

- Social, Ethics, Transformation and Sustainability Committee

**Skills, expertise and experience**

Dr Thummer joined the Sappi board after having served many years in the pulp and paper industry. He joined Hannover Papier in 1979 (later purchased by Sappi) as Manager of Research and Development. In 1982, he became the Paper Mill Manager at Alfeld Mill. In 1990 he was appointed Technical Director of Alfeld Mill. In 1992, Dr Thummer became an executive board member of the Hannover Papier Group, responsible for Manufacturing at the Alfeld and Ehingen Mills. In 1998, he moved to Sappi Fine Paper Europe based in Brussels as Technical Director and executive board member. He served as Group Head Technology of Sappi Limited from 01 January 2006 up to his retirement at the end of December 2007.

**Karen Rohn Osar**  
(Independent)

Age **64**  
Qualifications **MBA, Finance**  
Nationality **USA**  
Appointed **May 2007**

**Sappi board committee memberships**

- Audit Committee

**Other board and organisation memberships**

- Innophos Holdings, Inc (also Chairperson of Audit Committee)
- Webster Financial Corporation (also Chairperson of Audit Committee)

**Skills, expertise and experience**

Ms Osar was Executive Vice President and Chief Financial Officer of specialty 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 Mead Westvaco 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.

**Bridgette Radebe**  
(Independent)

Age **53**  
Qualifications **BA (Pol Sc and Socio)**  
Nationality **South African**  
Appointed **May 2004**

**Sappi board committee memberships**

- Social, Ethics, Transformation and Sustainability Committee

**Other board and organisation memberships**

- Mmakau Mining (Pty) Limited (Executive Chairperson)
- South African Mining Development Association (President)
- New Africa Mining Fund (Founder and board trustee)

**Skills, expertise and experience**

Ms Radebe was the first black South African deep level hard rock mining entrepreneur in the 1980s. She has more than a decade of experience in contract mining, mining construction and mining mergers and acquisitions. She is founder of Mmakau Mining which has investments in platinum, coal, chrome and gold mines. She participated in the design of the South African Mining Charter and present mining legislation.



## executive directors



## executive management



**Roeloff (Ralph)  
Jacobus Boëttger**  
(Chief Executive  
Officer)

Age **52**  
Qualifications **BAcc  
(Hons), CA(SA)**  
Nationality **South African**  
Appointed **July 2007**

**Sappi board committee  
memberships**

- Social, Ethics,  
Transformation and  
Sustainability Committee
- Attends meetings of all  
other board committees  
by invitation

**Skills, expertise  
and experience**

At the age of 34 he was appointed Chief Executive Officer of Safair and the next year appointed to the executive committee of Safmarine Limited. From 1998 until July 2007, he was with Imperial Holdings when Imperial acquired Safair. From 2002, he was an Executive Director of Imperial Holdings with responsibility for their local and international logistics operations, the aviation division and the heavy commercial vehicle distribution operations. His field of responsibility encompassed business operations in Southern Africa, numerous European countries, the Middle East and Asia. He is well versed in managing an operation with diverse cultures.

**Stephen (Steve)  
Robert Binnie**  
(Chief Financial Officer)

Age **46**  
Qualifications **BCom,  
BAcc, CA(SA), MBA**  
Nationality **British**  
Appointed **September 2012**

**Sappi board committee  
memberships**

Expected to attend Audit  
Committee meetings by  
invitation.

**Skills, expertise  
and experience**

Mr Binnie 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 most recently Chief Financial Officer of Edcon (Pty) Limited for 10 years after having been financial manager at Investec Bank Limited for four years.

**Mark Gardner**  
(President and Chief  
Executive Officer  
Sappi North America)

Age **58**  
Qualifications **BSc  
(Industrial Technology)**

Mr Gardner was named President and Chief Executive Officer of Sappi Fine Paper North America (SFPNA) in 2007 and is responsible for leading all Sappi operations in the region. That same year, he was also appointed to the SFPNA board. He joined Sappi in 1981 and his experience includes serving as the Vice President of manufacturing and Vice President of supply chain, prior to which he worked in a variety of production management roles at Sappi, including Production Manager at the Westbrook Mill, Paper Mill Manager at the Somerset Mill, Managing Director at the Muskegon Mill and Director of engineering and manufacturing technology at the regional head office in Boston. In 2009, Mr Gardner received the TAPPI (Technical Association of the Pulp and Paper Industry/ PIMA (Paper Industry Management Association) Executive of the Year Award. The award is the highest recognition for leadership and management given by PIMA. He currently serves on the board of directors of the American Forest & Paper Association. In September 2012, he was appointed to the Board of Trustees for the University of Maine System.

**Alexander van  
Collier Thiel**  
(Chief Executive  
Officer Sappi  
Southern Africa)

Age **52**  
Qualifications **BSc  
Mechanical Engineering,  
MBA (Financial  
Management and IT)**

Mr Thiel joined Sappi in December 1989 as the Executive Assistant to the Executive Chairman in Johannesburg. In April 1993, as part of Sappi's expansion into Europe, he moved to Brussels as the Administration Manager reporting to the Managing Director of Sappi Europe. With the creation of Sappi Fine Paper Europe he was appointed in February 1998 as Manager marketing intelligence, reporting to the sales and marketing director. In January 2003, he became the Director logistics, reporting to the Chief Executive Officer of Sappi Fine Paper Europe. He was appointed as Group Head Procurement, Sappi Limited in January 2008 and Integration Executive, in charge of the integration of the acquired business into Sappi's operations, in September 2008. He led a project to redefine and implement Sappi's 'go-to-market' strategy in Europe from October 2009. Mr Thiel was appointed Chief Executive Officer of Sappi Southern Africa with effect from 01 December 2010.

**Berend (Berry)  
John Wiersum**  
(Chief Executive  
Officer Sappi  
Paper Europe)

Age **58**  
Qualifications **MA  
(Medieval and Modern  
History)**

Mr Wiersum joined Sappi in January 2007 as Chief Executive Officer Sappi Fine Paper Europe. Prior to joining Sappi, Mr Wiersum was a freelance mergers and acquisitions consultant for one year. He previously was Managing Director of Kappa Packaging and member of the management board in Eindhoven (The Netherlands) where he was responsible for overseeing over 90 packaging plants across Europe, Russia, the Middle East and North Africa. Mr Wiersum was Chairman of CEPI (Confederation of European Paper Industries) from 2011 – 2012.



**Gary Bowles**  
(Executive Vice  
President Specialised  
Cellulose)

Age **53**  
Qualifications **BSc  
Electrical Eng, PMD,  
EDP**

Mr Bowles joined Saiccor Mill in 1990. He served in various positions at the mill until he was appointed as General Manager of Sappi Saiccor Mill in 2004. In January 2011, he was appointed as Managing Director of Sappi Chemical Cellulose and in July 2011, Mr Bowles joined the Group Management Team with responsibility for the increased need to coordinate the global marketing, sales and customer engagement responsibilities of our Specialised Cellulose business, while continuing to be responsible for dissolving wood pulp production in South Africa. In October 2013, he joined the Group Executive Committee as Executive Vice President Specialised Cellulose and joined the Sappi North American board releasing his manufacturing role at the Sappi Saiccor Mill.

**Andrea Rossi**  
(Group Head  
Technology)

Age **59**  
Qualifications **BSc Eng  
(Hons), C Eng**

Mr Rossi joined Sappi in 1989. Prior to becoming Group Head Technology, Mr Rossi held numerous roles in the company including Project Director Sappi Saiccor 'Amakhulu' expansion project, Sappi Kraft Manufacturing Director, Managing Director Sappi Forests, General Manager Enstra Mill, and Engineering Services Manager for Sappi Management Services.

**Lucia Adele Swartz**  
(Group Head Human  
Resources)

Age **56**  
Qualifications **BA, Dip HR**

Ms Swartz joined Sappi in May 2002 in her current position. Prior to joining Sappi she worked for the Seagram Spirits and Wine Group as Human Resources Director, Global Functions based in New York. In addition to her role as Group Head Human Resources, she has also assumed operational responsibility for the Sappi Southern Africa human resources function.

**Maarten van Hoven**  
(Group Head Strategy  
and Legal)

Age **40**  
Qualifications **BProc, LL.M  
(International Business  
Law)**

Mr van Hoven joined Sappi in December 2011. Mr van Hoven, an admitted attorney of the High Court in South Africa, has held various positions at the South African Competition Commission, most recently as Divisional Manager: Mergers & Acquisitions. As well as being on the Group Executive Committee he has joined the boards of Sappi Europe, Sappi North America and Sappi Southern Africa.



## corporate governance


Sappi is committed to high standards of corporate governance which form the foundation for the long-term sustainability of our company and creation of value for our stakeholders.

The group endorses the recommendations contained in the King Code of Governance Principles for South Africa 2009 (King III) and applies the various principles. A summary of how Sappi applies the King III principles is provided on the group's website ([www.sappi.com](http://www.sappi.com)).

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 major policies and strategies and is responsible for managing risk.

 For further information about the board and the board charter please refer to the group's website ([www.sappi.com](http://www.sappi.com)).

The composition of the board and attendance at board meetings and board committee meetings is set out in the following table:

		Board Committees								
Name	Status	Board		Audit	Nomination and Governance		Human Resources and Compensation		Social, Ethics, Transformation and Sustainability (SETS)	
RJ Boëtter	Chief Executive Officer	5/5	B	5/6	B	3/3	B	4/4	✓	4/4
SR Binnie	Chief Financial Officer	5/5	B	6/6						
DC Cronjé	Independent Non-executive, Chairman	5/5	E	4/6	✓C	3/3	E	4/4	E	3/4
GPF Beurskens	Independent Non-executive	4/5	✓	6/6						
RJ DeKoch <sup>(1)</sup>	Independent Non-executive	3/3							✓	2/2
MA Fallon <sup>(2)</sup>	Independent Non-executive	5/5	✓	6/6			✓	3/3		
M Feldberg <sup>(3)</sup>	Lead Independent Director	1/1			✓	1/1	✓C	2/2		
D Konar	Independent Non-executive	5/5	✓C	6/6	✓	3/3				
JD McKenzie	Independent Non-executive	5/5					✓	4/4	✓C	4/4
NP Mageza	Independent Non-executive	5/5	✓	6/6			✓	4/4		
MV Moosa	Non-executive	5/5							✓	4/4
KR Osar	Independent Non-executive	5/5	✓	6/6						
B Radebe	Independent Non-executive	3/5							✓	2/4
ANR Rudd <sup>(4)</sup>	Lead Independent Director	4/5			✓	3/3	✓C	4/4		
R Thummer	Independent Non-executive	5/5							✓	3/4

1) Mr DeKoch was appointed to the board with effect from 01 March 2013 and to the SETS Committee with effect from 01 March 2013.

2) Mr Fallon was appointed to the Human Resources and Compensation Committee with effect from 05 February 2013.

3) Professor Feldberg retired from the board and from the Human Resources and Compensation Committee with effect from 31 December 2012.

4) Sir Nigel Rudd was appointed Lead Independent Director and Chairman of the Human Resources and Compensation Committee on the retirement of Professor Feldberg.

✓ Indicates board committee membership, C indicates board committee Chairman, B indicates attendance by invitation and E indicates attendance ex officio.

The figures in each column indicate the number of meetings attended out of the maximum possible number of meetings during the period indicated.

### Induction and training of directors

Following appointment to the board, directors receive induction and training tailored to their individual needs, when required.

### 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. The board committees are as follows:

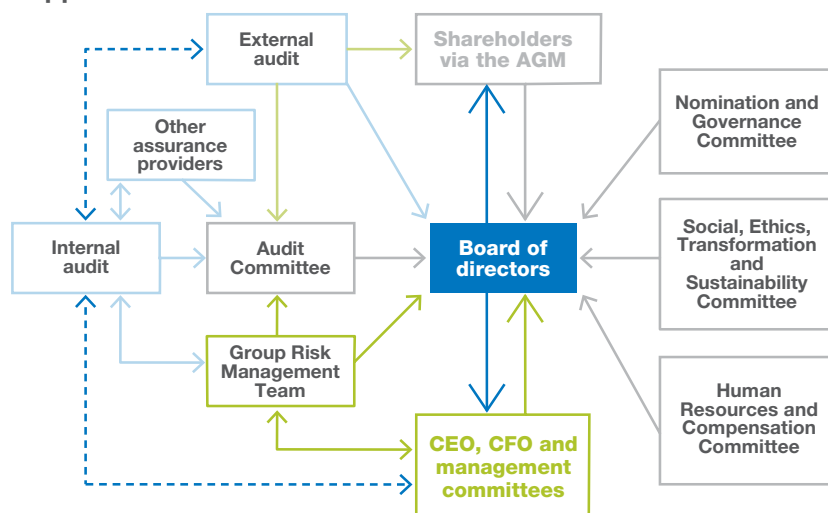
### Audit Committee

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

- safeguarding and efficient use of assets
- oversight of the risk management function
- operation of adequate systems and control processes
- reviewing financial information and the preparing of accurate financial reports in compliance with applicable regulations and accounting standards

- reviewing sustainability information included in the integrated report
- reviewing compliance with the group's Code of Ethics and external regulatory requirements
- oversight of the external auditors' qualifications, experience and performance
- oversight of the performance of the internal audit function
- oversight of non-financial risks and controls, as well as IT governance, through a combined assurance model.

## Sappi board committees



The Audit Committee confirms that it has received and considered sufficient and relevant information to fulfil its duties, as set out in the Audit Committee report on page 86.

The external and internal auditors attended Audit Committee meetings and had unrestricted access to the committee and its Chairman. The external and internal auditors met privately with the Audit Committee during 2013.

Regional Audit Committees exist in the three major regions and are chaired by independent Non-executive Directors. These committees have a mandate from the group's Audit Committee, to which they report on a regular basis. The regional committees each met four times during 2013.

Dr D Konar has been designated as the Audit Committee financial expert and attended the Annual General Meeting in 2013.

## Nomination and Governance Committee

The Nomination and Governance Committee consists of three independent directors and considers the leadership requirements of the company including a succession plan for the board. The committee identifies and nominates suitable candidates for appointment to the board, 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 oversees the appraisal of 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. Following the 2011 appraisal process which was conducted by an external evaluator, the 2012 and 2013 performance assessments were conducted internally. As with the 2011 process, the 2012 and 2013 results indicated that the board and all the board committees functioned well and that there were no major shortcomings.

## Human Resources and Compensation Committee

The Human Resources and Compensation Committee consists of four independent directors. The responsibilities of the Human Resources and Compensation Committee are, among others, to 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 Chief Executive Officer (CEO) and management. The committee ensures that the compensation philosophy and practices of the group are aligned to its strategy and performance goals. It reviews and agrees the various compensation programmes and in particular the compensation of Executive Directors and

senior executives as well as employee benefits. It also reviews and agrees executive proposals on the compensation of Non-executive Directors for approval by the board and ultimately by shareholders.

Regional Human Resources and Compensation Committees meet on an ad-hoc basis to execute HR strategy and implement policy at a regional level.

## Social, Ethics, Transformation and Sustainability Committee

The Social, Ethics, Transformation and Sustainability (SETS) Committee comprises four independent Non-executive Directors, a Non-executive Director and the CEO. Other executive and group management Committee members attend SETS committee meetings by invitation. Its mandate is to oversee the group's sustainability strategies, ethics management, good corporate citizenship, labour and employment as well as its contribution to social and economic development and, with regards to the group's Southern African subsidiaries, the strategic business priority of transformation.

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

For more information on sustainability at Sappi, refer to pages 26 to 43 for a summary of the group's initiatives and [www.sappi.com](http://www.sappi.com).

## Sappi management committees



## 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 structure is set out above.

### Executive Committee

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

### Disclosure Committee

The Disclosure Committee comprises members of the Executive Committee and senior management from various disciplines. Its objective is to review and discuss financial and other information prepared for public release. The head of internal audit attends meetings by invitation.

### Treasury Committee

The Treasury Committee meets regularly to assess risk and to advise on treasury related matters.

## Technical Committees

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

### Group Risk Management Team

The board mandates the Group Risk Management Team (GRMT) to establish, coordinate and drive the risk management process throughout Sappi. It has established a risk management system to identify and manage significant risks. The GRMT reports regularly on risks to the Audit Committee and the board. The main focus in 2013 was improving the alignment of the risk management practices with King III. Risk management software is used to support the risk management process throughout the group.

### Internal Control Steering Committee

The Internal Control Steering Committee meets half yearly to provide oversight and guidance to the business on internal controls and combined assurance for financial, strategic and operational risks.

### Group IT Steering Committee

The Group IT Steering Committee promotes IT governance throughout the group. The committee has a charter approved by the Audit Committee and the board. An IT governance framework has been developed and IT feedback reports have been presented to the Audit Committee and the board. Sappi IT has implemented a standardised approach to IT risk management through

a groupwide risk framework supported by the use of risk management software. IT management is improving the quantification of IT project spend and related value to the business, as well as information about disaster recovery plans, and IT risks, in its reporting to the Audit Committee.

## Financial statements

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

The group's results are reviewed prior to submission to the board, as follows:

- All quarterly results – by the Disclosure Committee and Audit Committee
- Interim and preliminary results – by external audit
- Integrated report and group financial statements by the Disclosure Committee, Audit Committee and by external audit.

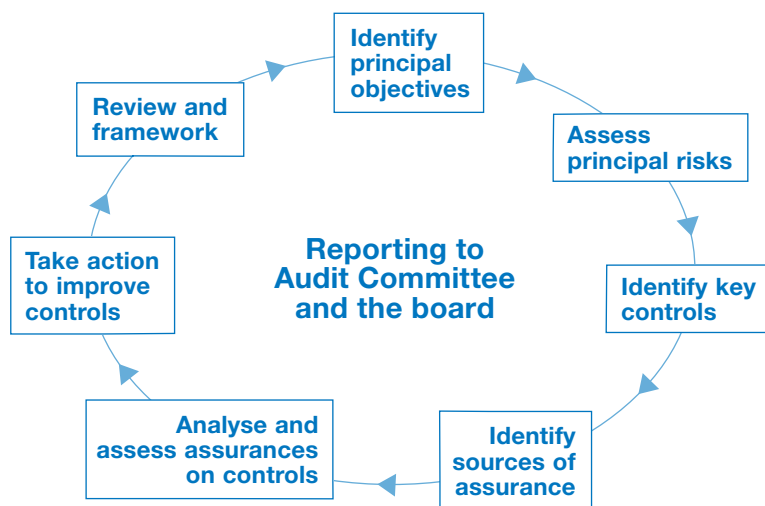
## Internal controls

The board is responsible for the group's systems of internal financial and operational control. The group's internal controls and systems are designed to provide reasonable assurance as to the integrity and reliability of the annual financial statements and operational management information, that assets are adequately safeguarded against material loss and that transactions are properly authorised and recorded. Internal controls also provide assurance that the group's resources are utilised efficiently and that the activities of the group comply with applicable laws and regulations.

As part of an ongoing comprehensive evaluation process, control self-assessments, year-end external audits and independent reviews by internal 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 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.

The board has decided to de-list from the New York Stock Exchange. Sappi's risk and control framework will continue in use as part of Sappi's application of the King III guidelines. Sappi remains committed to

## Sappi combined assurance framework



maintaining the same high standard of internal control as in the past.

### Sappi combined assurance framework

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.

Sappi's combined assurance framework is integrated with the group's risk management approach. Risks facing the group are identified, evaluated and managed by implementing risk mitigations also known as internal controls. Feedback as to the effectiveness of the internal controls is obtained from various assurance providers in a coordinated manner which avoids duplication of effort. Combined assurance helps to identify gaps or improvement areas in the internal control framework.

The assurance obtained informs executive management and the Audit Committee about the effectiveness of the group's internal controls in respect of significant risks. The Audit Committee, which is responsible for the oversight of risk management at Sappi, considers the risks and the assurance provided through the combined assurance framework and periodically advises the board on the state of risks and controls 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, on risk management and the effectiveness of internal controls within Sappi.

In addition to combined assurance in respect of internal controls, Sappi has also obtained assurance on the data in the integrated report from the following sources:

- Financial data is independently audited by Deloitte & Touche.
- Limited reviews of sustainability information have been undertaken by central technical management and internal audit. Specific Planet related processes are subject to review by third parties during the year. No external assurance was obtained on the sustainability indicators reported. Currently, we do not perceive external assurance as being a cost effective alternative to internal auditing of our indicators, particularly given our global spread of operations and the industry-specific nature of many of our indicators.
- Black Economic Empowerment performance has been reviewed internally by management and internal audit as well as externally by Empowerdex. We await external verification in December 2013.

### Board assessment of the company's risk management, compliance function and effectiveness of internal controls

Nothing has come to the attention of the board nor has arisen from the internal control self-assessment process, internal audits or year-end external audits that leads the board to an opinion that the group's system of internal controls, the compliance function and risk management is not effective, or that the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

The board's opinion is based on the combined assurances of external and internal auditors, management and the Audit Committee.

### Internal audit

The group has an effective risk-based internal audit department which is suitably resourced. It has a specific charter from the Audit Committee and independently appraises the adequacy and effectiveness of the group's systems, internal controls and accounting records. It plays a coordination role in obtaining combined assurance and reports its findings to local and divisional management, the external auditors as well as the regional and group Audit Committees. Internal audit also consults on risks, controls and governance developments.

The head of internal audit reports to the Audit Committee, meets with board members, has direct access to executive management and is invited to attend various management meetings.

During 2013, apart from the ongoing focus on financial controls, internal audit undertook reviews of non-financial risk areas such as energy and water management. This coincided with its coordination of the combined assurance model and advising on other practices recommended in King III. Internal audit maintains an internal quality assurance programme, which includes periodic external review. A full review was conducted by the Institute of Internal Auditors (IIA) in 2010 and a 'generally complies' rating was received. Internal audit's in-house review in 2013 highlighted, among other things, the need to improve certain aspects of our audit documentation in our electronic working paper files and review processes.

### Company Secretary

The company secretary does not fulfil any executive management function and is not a director. During the year, the board has assessed the independence, competence, qualifications and experience of the company secretary and concluded that he 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 his 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.

## Code of Ethics

Sappi requires its directors and employees to act with Excellence, Integrity, Respect and Resourcefulness in all transactions and in their dealings with all business partners and stakeholders. These values underpin the group's Code of Ethics, and commit the group and its employees to sound business practices and compliance with applicable legislation. Actions are taken against employees who do not abide by the spirit and provisions of our Code. The SETS committee provides oversight for social, ethics, transformation and sustainability matters throughout the group.

Refer to **www.sappi.com** for the Code of Ethics.

## Legal compliance programme

A legal compliance programme designed to increase awareness of, and enhance compliance with, applicable legislation is in place. The group compliance officer reports quarterly to the group Audit Committee.

## Conflict of interests

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

## Insider trading

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

For further information refer to **www.sappi.com**.

## Whistle-blower hotlines and follow up of tip-offs

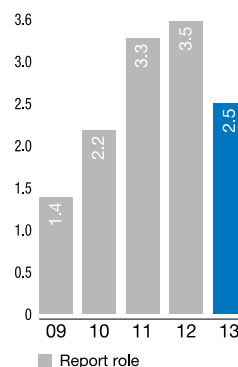
Whistle-blower 'hotlines' have been implemented in all the regions in which the group operates. This service, operated by independent service providers, enables all stakeholders to anonymously report environmental, safety, ethics, accounting, auditing, control issues or other concerns. It is the responsibility of all employees and stakeholders to report known or suspected unethical or illegal conduct. Retaliation against whistle-blowers is not tolerated. The follow up on all reported matters is coordinated by Internal Audit and reported to the Audit Committee. The majority of calls received related to the Southern African region. Please refer to the whistle-blower hotline graphs for information on the number of hotline calls, the types of calls, and the outcome of the investigations. The hotline call rates, categories of calls and outcomes of cases broadly align with international whistle-blower benchmark data.

## Stakeholder communication

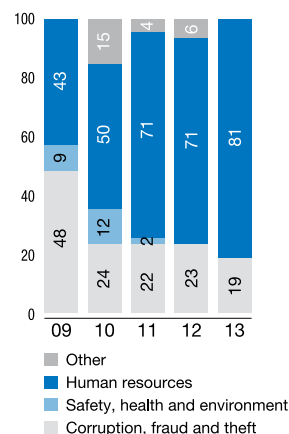
The board is responsible for presenting a balanced and understandable assessment of the group's position in reporting to stakeholders. The group's reporting addresses material matters of significant interest and is based on principles of openness and substance over form. Various policies have been developed to guide engagement with Sappi's stakeholders such as the stakeholder engagement policy and group corporate social responsibility policy. Sappi introduced a policy addressing Alternate Dispute Resolution (ADR) in 2012 and relevant ADR clauses are now generally included in contracts with customers and suppliers. A review is being performed of the policies and processes in place to record and address complaints. There have been no requests for information for the period under review in terms of the Promotion of Access to Information Act (South African legislation).

For a summary of how Sappi applies the principles contained in King III, please refer to **www.sappi.com**.

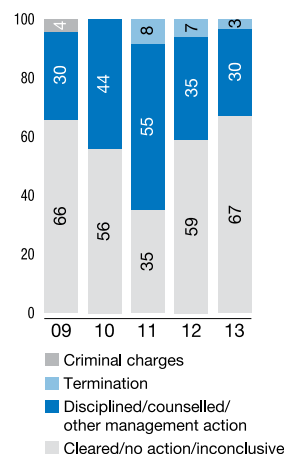
Hotline report rate per 1,000 employees



Analysis of hotline reports per category (%)



Analysis of hotline report case outcomes (%)





## compensation report

### Compliance statement

The Human Resources and Compensation Committee is committed to maintaining high standards of corporate governance and supports and applies the principles of good governance advocated by the South African Institute of Directors (IoD) and the King Code of Governance Principles of South Africa 2009 (King III).

### Human Resources and Compensation Committee

The Human Resources and Compensation Committee comprises of four independent non-executive directors. The Chairman of the company, Dr DC Cronjé, attends committee meetings ex officio while Mr RJ Boëttger, group Chief Executive Officer and Ms LA Swartz, Group Head Human Resources attend meetings by invitation. Mr DJ O'Connor, Company Secretary, attends the meetings as secretary to the committee.

During the year, the committee consisted of independent Non-executive Directors:

- Professor M Feldberg, who retired as Chairman in December 2012
- Sir ANR Rudd, who served as interim Chairman until February 2013, and thereafter as duly appointed Chairman
- Mr JD McKenzie
- Mr NP Mageza
- Mr MA Fallon (appointed February 2013).

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

None of the committee members has any personal financial interest, or conflict of interest, or any form of cross-directorship, or day-to-day involvement in the running of the business. No executive Director or manager is present when their own remuneration is being discussed.

Attendance at meetings by individual members is detailed on page 48.

The committee ensures that the compensation philosophy and practices of the group are aligned to the group's strategy and performance goals. It reviews and agrees the various compensation programmes and in particular the compensation of executive directors and other key executives, as well as all employee benefits. It also reviews and agrees executive proposals on the compensation of Non-executive Directors for approval by the board and ultimately by shareholders.

The key activities of the committee for 2013 are summarised as follows:

- Reviewed and approved the recommended salary increases and share plan allocations for executive directors and other key senior managers for 2012/2013.
- Reviewed Non-executive Directors' fees for 2013 and agreed the recommended fee levels for approval by the Sappi Limited board and ultimately by shareholders.
- Reviewed the content of the company's compensation policy and practices which was put to shareholders for a non-binding vote at the Annual General Meeting in February 2013.
- Reviewed the compensation report for inclusion in the 2013 integrated report.
- Reviewed and approved the vesting or otherwise, of the 2008 performance share plan awards.
- Reviewed and approved the 2013 management incentive scheme awards and the performance ratings of executive directors and other key senior managers.
- Approved the allocation of 2013 performance share plan awards to executive directors and all other eligible participants.
- Approved the 2014 management incentive scheme rules, and reviewed the share incentive plan rules.
- Reviewed and approved, in principle, the transfer of the pensioners' liability of the Sappi Southern Africa pension fund to an external insurance company.

### Independent advice

Kepler Associates assisted management with the amendments to the annual management incentive scheme and independently calculated the performance of the group in terms of Total Shareholder Return (TSR) relative to the peer group, to determine the vesting of performance share plan awards.

KPMG South Africa was engaged by management to verify Sappi's performance on Cash Flow Return on Net Assets (CFRONA) relative to that of the peer group, to determine the vesting of performance share plan awards.

Cravath, Swaine and Moore LLP in the United States of America and United Kingdom provided legal assistance in determining the impact of the delisting of the American depository shares of Sappi Limited from the New York Stock Exchange on the US based participants of the Sappi performance share incentive plan and Sappi share incentive scheme.

### Principles of 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 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.
- Through the executive management incentive bonus scheme, provide a deferral of up to 40% of the Chief Executive Officer's, and 30% of the executive managers' annual bonus, to ensure a long-term focus 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
<b>Fixed</b>		
<b>Component – Base salary</b>		
<ul style="list-style-type: none"> <li>To reflect market value of the role, individual's skills, contribution, experience and performance.</li> <li>To attract and retain key talent.</li> </ul>	<ul style="list-style-type: none"> <li>Paid monthly in cash.</li> <li>Reviewed annually with increases commencing 01 January.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Increases are applied in line with outcomes of the performance discussion.</li> </ul>
<b>Component – Benefits</b>		
<ul style="list-style-type: none"> <li>To provide protection and market competitive benefits to aid recruitment and retention.</li> </ul>	<ul style="list-style-type: none"> <li>Private medical insurance.</li> <li>Income in the event of death or disability.</li> <li>Appropriate in terms of level of seniority.</li> <li>Market related.</li> <li>Death benefit is a multiple of base salary.</li> <li>Non-pensionable.</li> </ul>	<ul style="list-style-type: none"> <li>None.</li> </ul>
<b>Component – Pension</b>		
<ul style="list-style-type: none"> <li>Rewards ongoing contribution during employment.</li> <li>To provide market related benefits.</li> <li>Facilitates the accumulation of savings for post-retirement years.</li> </ul>	<ul style="list-style-type: none"> <li>Comprises defined benefit and defined contribution plans.</li> <li>A large number of defined benefit plans are closed to new hires.</li> <li>Employees in legacy defined benefit plans continue to accrue benefits in such plans for both past and future service.</li> <li>Retirement plans differ by region.</li> </ul>	<ul style="list-style-type: none"> <li>Executive members of defined contribution plans receive a contribution of up to 27.7% of salary.</li> <li>Executive members of defined benefit plans receive contributions of up to 33.4% of salary. This contribution varies annually based on the actuarial valuation of the reserves of the schemes.</li> </ul>
<b>Variable</b>		
<b>Component – Annual cash incentive</b>		
<ul style="list-style-type: none"> <li>Focuses participants on targets relevant to the group's strategic goals.</li> <li>Drives performance.</li> <li>Motivates executives to achieve specific and stretching short-term goals.</li> <li>Rewards individuals for their personal contribution and performance.</li> <li>Deferred share proportion aligns interests with shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>All measures and objectives are reviewed and set at the beginning of the financial year.</li> <li>Payments are reviewed and approved at year-end by the committee based on performance against the targets.</li> <li>Threshold is required to be met for any bonus payment to occur.</li> <li>Target level of bonuses varies from 65% to 85% of base salary.</li> <li>Weightings for 2013 were: Operating Profit – 60%; Working Capital – 30%; and Safety – 10%.</li> <li>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 shares are deferred for up to three years, subject to no individual member being terminated for cause.</li> <li>Non-pensionable.</li> </ul>	<ul style="list-style-type: none"> <li>The maximum bonus for executive directors is 116% of salary.</li> <li>Executive committee members and other senior managers may earn a maximum bonus of up to 95% of base salary.</li> <li>The deferred executive management incentive scheme provides a top-up payment of 20% of the original number of shares purchased provided the employee holds all the shares for a period of three years.</li> </ul>
<b>Component – Long-term incentive plans</b>		
<ul style="list-style-type: none"> <li>Align the interests of the executive members with those of the shareholder.</li> <li>Rewards the execution of the strategy and long-term outperformance of our competitors.</li> <li>Encourages long-term commitment to the company.</li> <li>Is a wealth creation mechanism for executive members if the company outperforms the peer group.</li> </ul>	<ul style="list-style-type: none"> <li>Conditional grants awarded annually to executive directors, executive committee members and other key senior managers of the company.</li> <li>Cliff vesting after four years.</li> <li>Performance is measured relative to a peer group of 14 other industry-related companies.</li> <li>The number of conditional shares allocated varies from 200,000 conditional share awards to the Chief Executive Officer, and between 50,000 and 114,000 conditional share awards to Executive Committee members.</li> <li>Measures for 2013 awards were relative TSR – 50% and relative CFRONA – 50%.</li> </ul>	<ul style="list-style-type: none"> <li>None.</li> </ul>

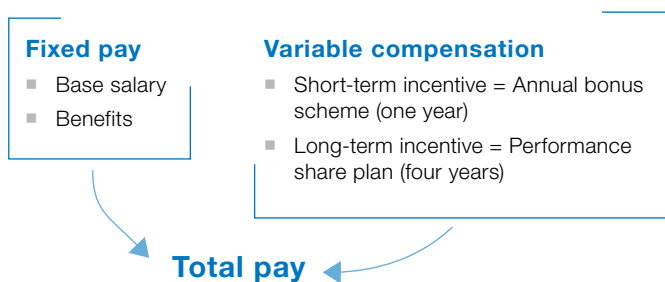
Purpose	Operations	Opportunity
<b>Variable</b>		
<b>Component – Broad-based Black Economic Empowerment</b>		
<ul style="list-style-type: none"> <li>Provides black managers with the opportunity to acquire equity in the company.</li> <li>Attracts, motivates and retains black managers.</li> </ul>	<ul style="list-style-type: none"> <li>Established to meet the requirements of the Forestry Sector Charter.</li> <li>Eligible employees receive an allocation based on seniority of 'A' ordinary shares.</li> <li>Shares vest 40% after three years and 10% each year thereafter.</li> <li>Shares can only be taken up after September 2019.</li> <li>Managers receive the net value in shares or cash at the end of the lock-in period.</li> </ul>	<ul style="list-style-type: none"> <li>None.</li> </ul>
<b>Other</b>		
<b>Component – Service contracts</b>		
<ul style="list-style-type: none"> <li>Provide an appropriate level of protection to both the executive and to Sappi.</li> </ul>	<ul style="list-style-type: none"> <li>With the exception of the Chief Executive Officer, who is on an 18 months' notice period, all other Executive Committee members have notice periods of 12 months or less.</li> <li>Separation agreements, when appropriate, are negotiated with the individual concerned with prior approval being obtained in terms of our governance structures.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>

## Compensation structure

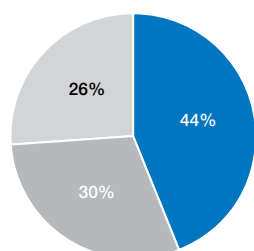
Total compensation comprises fixed pay and variable performance related pay, which is further divided into short-term incentives with a one- year performance period and long-term incentives which have a four-year performance period.

## Compensation mix

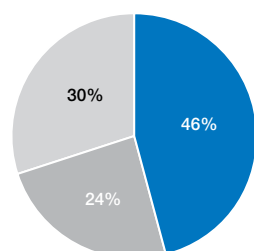
The compensation mix for employee categories reported on is displayed in the chart below:



**Executive directors**  
(averaged)



**Executive committee members**  
(averaged)

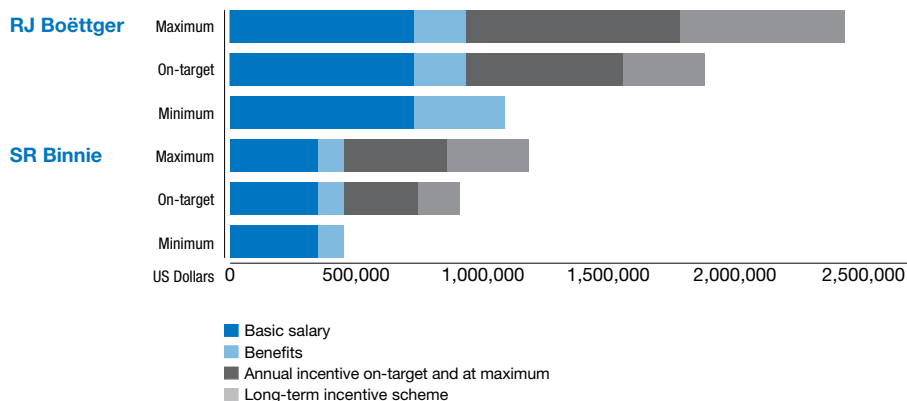


■ Basic salary and benefits effective 01 January 2013  
 ■ Target short-term incentive for FY 2013  
 ■ \*2013 long-term incentive award (based on face value of the shares) issued December 2012

\* Share price at date of allocation: 05 December 2012

## Pay for performance scenario: illustrative scenario analysis

The charts below illustrate the compensation opportunity provided to each of the executive directors under three different scenarios – minimum, target/median and maximum performance levels.



### Assumptions

Base salary	At 01 January 2013. RJ Boëttger – US\$725,921 per annum SR Binnie – US\$347,562 per annum
Benefits	Value of the annual benefit received – company contribution to retirement funding and medical insurance
Annual incentive	On-target – 85% of base salary Maximum – 116.4% of base salary
Long-term incentive	On-target/median – 50% vesting of the shares Maximum – 100% vesting of the shares

### Base salary

The Compensation Committee approves the level of base salary for each Executive Director, Executive Committee members and other key senior managers annually.

Increases are effective from 01 January each year.

There is no automatic annual base salary adjustment.

The 2013 increases were based on individuals' performance and contribution, internal relativities, inflation in the countries of operation, general market salary movement and overall affordability.

The approach to reviewing the base salary of executive directors, Executive Committee members and other key senior managers in 2013 was in line with the salary increase mandate for general staff, dependent on location.

Based on the feedback received from some shareholders regarding the benchmarking peer group and median target of salaries for executive members, we undertook to review our benchmarking philosophy and to use the median benchmark of market salary data for the 2014 financial year as a guide only.

Mr Boëttger received a salary increase of 6% on the South African portion of his salary and 3% on the off-shore portion of his salary, below the general staff increases in South Africa and the United Kingdom respectively. His base salary effective 01 January 2013 was US\$725,921 per annum.

Mr SR Binnie received a salary increase of 9.5% on the South African portion of his salary and 4.0% on the off-shore portion of his salary. The increases to Mr Binnie's 2013 salary included a market adjustment to bring his base salary in line with market rates for his role. Mr Binnie's salary with effect from 01 January 2013 was US\$347,562 per annum.

### Retirement benefits

Retirement benefits are largely in the form of defined contribution schemes, and in some instances, legacy defined benefit schemes exist. Almost all of the defined benefit schemes are closed to new hires. Company contribution rates for executive directors depend on whether the director is a member of a defined benefit fund or the defined contribution fund.

Both Mr Boëttger and Mr Binnie are members of defined contribution funds and the company contribution is 27.7% of base salary.

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

### Short-term incentive

Performance related annual bonuses may be paid to executive directors and other executive managers under the management incentive scheme. The management incentive scheme provides annual incentives to encourage the achievement of pre-defined annual financial targets and personal objectives which are critical measures of business success.

For the 2013 financial year, the financial operating performance criteria were Operating Profit (60%); Working Capital (30%); 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 managers is as follows:

#### On-target bonus

- 85% of base salary for executive directors
- 70% of base salary for regional Chief Executive Officers
- 65% of base salary for Executive Committee members

#### Stretch target

- 116% of base salary for executive directors
- 95% of base salary for regional Chief Executive Officers
- 88.5% of base salary for other Executive Committee members

A performance threshold of 75% of Operating Profit is required before a bonus can be paid. If the group or a business unit does not achieve the threshold target, no bonus is paid to participants in either the group or the business unit.

No bonus was paid for the financial year 2013 to participants in the Sappi corporate office or in Sappi Europe, as they did not meet their performance thresholds. Participants in Sappi North America and Sappi Southern Africa were paid a bonus for the year.

This means that neither Mr Boëttger nor Mr Binnie earned an annual bonus for the 2013 financial year.



The group's performance for the 2013 financial year:

Performance criteria	Weighting	Target points	2013 Actual achievement
Operating Profit	60%	48	28.8
Working Capital	30%	24	21.4
Safety	10%	8	8
		80	58.2

There were no changes to the 2013 management incentive scheme rules.

The terms and conditions of the annual incentive scheme for executive directors and Executive Committee members afford the company the right to seek redress and recoup from an individual where 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.

### Long-term incentive

The Sappi Performance Share Plan provides for annual awards of conditional performance shares 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 14 other industry related companies, is ranked at median or above the median.

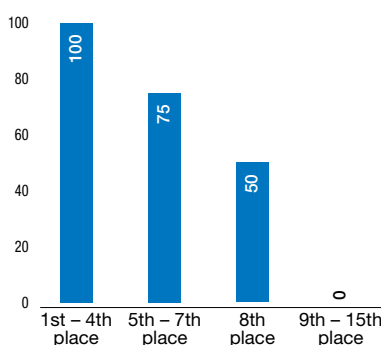
The performance criteria are relative Total Shareholder Return (TSR) and Relative Cash Flow Return on Net Assets (CFRONA).

The peer group consists of the following industry related companies:

- Resolute Forest Products
- UPM-Kymmene
- Holman AB
- Stora Enso OYJ
- Mondi plc
- MeadWestvaco
- Fibria Cellulose SA
- Nippon Paper Group
- International Paper
- Weyerhaeuser
- Metsä Board
- Norkse Skogindustria
- Oji Holdings
- Domtar

From time to time, the Human Resources and Compensation Committee reviews the peer group to establish relevance and appropriateness of the group of companies as a peer to Sappi. The peer group was last reviewed in financial year 2010 and will be reviewed again in financial year 2014.

#### Vesting schedule for 2012 and 2013: Performance Share Plan (% of awards vesting)



For the four-year period ending September 2012, Sappi's performance relative to the peer group measured on TSR was ranked 12th place, which resulted in no shares vesting on the due date in December 2012. The determination of the vesting of the shares was provided by Kepler Associates, an independent third party. This 50% portion of the total 2008 awards lapsed on the due date in December 2012.

Sappi's performance relative to the peer group measured on CFRONA for the same period resulted in 75% of this portion of the award vesting, as Sappi's performance was ranked in 5th place. The determination of the vesting of this portion of the shares was verified by KPMG Auditors.

In aggregate therefore 37.5% of the total 2008 awards vested.

In December 2008, Mr Boëttger was granted 154,000 conditional plan shares of which 57,750 vested in December 2012.

### The vesting of Performance Share Plan awards

Share awards	2010	2011	2012
TSR	0%	0%	0%
CFRONA	50%	50%	37.5%

In December 2012, Mr Boëttger sold a sufficient number of shares that vested in the 2013 financial year to defray tax payable on the vested shares. Mr Boëttger did not sell any of his beneficially held shares during this year.

Mr Boëttger and Mr Binnie were awarded 200,000 and 100,000 conditional performance plan shares respectively in December 2012, in line with the plan rules.

### Employee Share Ownership Plan (Broad-based Black Economic Empowerment)

The employee share ownership plan 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 were 260 participants in the Management Share Ownership Scheme at the end of September 2013. 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 can 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 plan shares were to be exercised or vest as at September 2013, the resulting dilution effect would be 3.76% (2012: 4%) of issued ordinary share capital excluding treasury shares.

To the extent possible, treasury shares will be used to meet the future requirements for shares arising from the exercise of options and vesting of awards.

## Share ownership guidelines and restrictions

There is no explicit requirement for executive directors and/or Executive Committee members to hold a specified number of shares during their employment with the company.

## Service contracts

Mr Boëttger has an ongoing employment contract which requires nine months' notice of termination by the employee and 18 months' notice of termination by the company.

Mr Binnie has 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, other members of the executive committee 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 (ie guaranteed package) which they would have received during the notice period.

Executive directors are required to retire from the company at the age of 60 years. The retirement age for other Executive Committee members is generally between the ages of 60 years and 65 years and differs by region.

## Remuneration disclosure of executive directors and prescribed officers

### Executive directors' emoluments for 2013 (US Dollars)

Executive director	Base salary	Retirement funding and medical insurance	Other benefits	Annual cash bonus	Total 2013	Total 2012
RJ Boëttger	716,034	207,447	8,339	–	931,820	1,470,075
SR Binnie	337,768	102,500	10,625	–	450,893	164,458

- Base salary – the actual salary earned during 2013.
- Retirement benefits – the annual contribution paid by the company into a defined benefit fund or defined contribution fund on behalf of the member determined as a percentage of their base salary.
- Other benefits – the value of other benefits received.
- Annual cash bonus – no bonus paid for performance in 2013.
- Long-term incentive – share options awarded in the 2013 financial year which will vest in 2017.

### Prescribed officers/group Executive Committee members (US Dollars)

The table below sets out the remuneration for prescribed officers/group Executive Committee members for 2013:

Prescribed officers/ Group Executive Committee members	Base salary	Retirement funding and medical insurance	Other benefits	Annual bonus	Total 2013	Total 2012
Officer 1	791,630	135,019	3,280	–	929,929	1,382,244
Officer 2	480,082	48,844	–	185,918	714,844	501,869
Officer 3	354,370	68,546	–	228,726	651,642	639,582
Officer 4	301,126	88,996	11,024	–	401,146	580,075
Officer 5	248,216	115,629	7,176	–	371,021	489,428
Officer 6	160,597	52,865	4,843	–	218,305	245,531

# social, ethics, transformation and sustainability committee report

## Introduction

The Social, Ethics, Transformation and Sustainability (SETS) Committee presents its report for the financial year ended September 2013. The SETS Committee is a statutory committee with a majority of independent non-executive members, 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 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 no 71 of 2008, read with regulation 43 of the Companies Regulations, 2011. These regulations required the establishment of a Social and Ethics Committee, to which were added the transformation and sustainability oversight roles previously contained in the Sustainability and Human Resources and Transformation Committees.

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

## Objectives of the committee

The role of the SETS Committee is to assist the board with the oversight of the company and to provide guidance to management's work in respect of its duties in the fields of social, ethics, transformation and sustainability. The committee relies on international best practice as well as the laws and regulations under which Sappi businesses are operated to ensure that the group not only complies with but fully implements all agreed requirements. The committee addresses issues relating to corporate social responsibility (CSR), ethical conduct, 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 or prevailing codes of best practice. The committee will meet a minimum of two times per year.

## Membership of the committee

The members of the SETS Committee during the 2013 financial year were:

Mr JD McKenzie (Chairman)

Mr RJ Boëttger

Mr RJ DeKoch (appointed 01 March 2013)

Mr MV Moosa

Mrs B Radebe

Dr R Thummer

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

Committee activities during the year:

- Reviewed the South African Skills Audit as well as the training and development plan.
- Reviewed the safety programmes and safety performance.
- Reviewed and approved the CSR programmes and policy.
- Reviewed the stakeholder engagement, human rights and human resources policies.
- Reviewed the company's Sustainability Charter.
- Reviewed Sappi's standing in terms of social and economic development in terms of the goals and purposes of:
  - the principles set out in the United Global Compact Principles
  - the OECD recommendations regarding corruption
  - the Employment Equity Act
  - the Broad-based Black Economic Empowerment Act.
- Reviewed regional sustainability performance against goals for 2013.
- Reviewed regional and global public policy matters affecting the group and its operations as they relate to sustainability.

- Reviewed the corporate social development programme.
- Reviewed the participation of the company in various sustainability surveys and indices.
- Reviewed the various production unit operating efficiencies, reliability and unscheduled downtime metrics for 2013.
- Reviewed the SETS Committee report for the integrated report as well as sustainability information presented in the integrated report.
- Approved the updated ethics policy and reviewed the implementation of the revised policy.
- Reviewed the company performance relative to the Employment Equity Act and the company's transformation strategies.

## Conclusion

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

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

## JD McKenzie

Chairman  
Social, Ethics, Transformation and Sustainability Committee

09 December 2013

# top risks

## 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 processes, quality management, and a range of other line management interventions.

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

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

Group Internal Audit provides independent assurance on the risk management process

For a detailed discussion of the group's risk factors and the principal financial risks to which Sappi is exposed, please see note 31 contained in the group annual financial statements and the separate risk analysis which are available on the group's website ([www.sappi.com](http://www.sappi.com)).

## Top 10 ranked key risks

### 1 We operate in a cyclical industry. 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, recent turmoil in the world economy has led to sharp reductions in volume and pressure on prices in many of our markets. We took actions to improve efficiencies and reduce costs in all aspects of our business. We continue to benefit from a high level of economic pulp integration on a groupwide basis, which reduces the impact of pulp price fluctuations on our consolidated group results. We will continue to monitor the supply/demand balance, which might require us to impair operating assets and/or implement further capacity closures.

### 2 The markets for pulp and paper products are highly competitive, and some of our competitors have advantages that may adversely affect our ability to compete with them.

There has been a recent 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 European business. We are also taking steps to improve the performance of our Southern African paper and packaging paper business. We continue to drive down costs across all our businesses.

### 3 We require a significant amount of financing to fund our business and service our debt. Our ability to generate sufficient cash depends on many factors, some of which are beyond our control.

Our ability to fund our working capital, capital expenditure, research and development requirements and to make payments on our debt principally depends on cash available from our operating performance, credit facilities, and other debt arrangements.

Our year-end cash balance and our committed revolving credit facilities provide us with adequate headroom to fund our short-term requirements. Our extended debt maturity profile indicates no material short-term refinancing requirements. We are also focusing on profit improvement in our operations by reducing fixed and variable costs, spending capital prudently and managing working capital levels. Recent refinancing initiatives have significantly reduced our annual finance charges.

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

Trends in advertising, electronic data transmission and storage and the internet could have adverse effects on traditional print media and other paper applications, including our products and those of our customers. 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 dissolving wood pulp capacity and higher margin speciality businesses. The specialised cellulose capacity conversions at our Ngodwana and Cloquet Mills, to increase our market share and strengthen our leading position in the dissolving wood pulp market, have been completed.

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

Our aim is to minimise our impact on the environment. The principles of ISO 14000, Forest Stewardship Council® (FSC®), SFI®, PEFC and other recognised programmes are well entrenched across the group. We have also made significant investments in operational and maintenance activities related to reductions in air emissions, wastewater discharges and waste generation.



However, we are subject to a wide range of environmental, health and safety laws and regulations in the various jurisdictions in which we operate. We closely monitor the potential for changes in pollution control laws, including greenhouse gas emissions requirements, and take action with respect to our operations accordingly. We invest to maintain compliance with applicable laws and cooperate across regions to apply best practices in a sustainable manner.

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

We are exposed to economic, transaction and translation currency risks. The objective of the group in managing transactional currency risks is to ensure that foreign exchange exposures are identified as early as possible and actively managed. In managing transactional currency risks, the group first makes use of internal hedging techniques (hedging to the functional currency of the entity concerned) with external hedging being applied thereafter. External hedging techniques consist primarily of foreign exchange contracts and currency options. Foreign currency capital expenditure on projects is covered as soon as practical (subject to regulatory approval). For further detail, see note 31 to the group annual financial statements which are available online at [www.sappi.com](http://www.sappi.com).

## 7 The inability to obtain energy or raw materials at reasonable prices, or at all, could adversely affect our operations.

We require substantial amounts of wood, chemicals and energy for our production activities. The prices for, and availability of, these energy supplies and raw materials may be subject to change or curtailment. 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.

## 8 A limited number of customers account for a significant amount of our sales. Therefore, should the recent global liquidity and credit crises have a negative impact on them, it could materially adversely affect our results of operations and financial position.

We sell a significant portion of our products to several significant customers. During 2013, however, no single customer individually represented more than 10% of our total sales. Any adverse development affecting our significant customers or our relationships with such customers could have an adverse effect on our credit risk profile, our business and results of operations. We are, on a continuous basis, working to expand and diversify our customer base. Future production at our two new specialised cellulose facilities is being marketed into a range of new customers.

## 9 A large percentage of our employees are unionised and wage increases or work stoppages by our unionised employees may have a material adverse effect on our business.

A large percentage of our employees are represented by labour unions under collective bargaining agreements, which need to be renewed from time to time. In addition, we have in the past, and may in the future, seek or be obligated to seek agreements with our employees regarding workforce reductions, closures and other restructurings. We may become subject to material cost increases or additional work

rules imposed by agreements with labour unions, which could increase expenses in absolute terms and/or as a percentage of net sales. A concerted effort is being made across all our regions to interact and engage with our union representatives and organised labour on a frequent basis and to work on building constructive work relationships.

## 10 Injuries and fatalities.

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

- Performing root cause analyses of all major incidents and fatalities, which are reviewed at all levels of the business including the board.
- Group and industry wide sharing of all incidents and associated mitigating steps thereby helping to ensure that all our regions remain in the top 10% quartile for our industry.
- Enforcing compliance with Behaviour Based Safety (BBS) principles.
- Providing continuing education and having a disciplined approach to all transgressions of our safety policies, inclusive of our contractors.







# chief financial officer's report

## section 1 financial highlights

US\$ million	2013	2012	% Change
Sales	5,925	6,347	(7)
EBITDA excluding special items	539	772	(30)
Operating profit excluding special items	191	403	(53)
Net (loss) profit	(161)	104	n/a
EBITDA excluding special items to sales %	9.1%	12.2%	n/a
Operating profit excluding special items to sales %	3.2%	6.3%	n/a
Operating profit excluding special items to capital employed (ROCE) %	5.6%	11.4%	n/a
Net cash (utilised) generated	(247)	127	n/a
Net debt	2,214	1,979	12
(Loss) earnings per share (US cents per share)	(31)	20	n/a

The last year was one of transition for Sappi as we successfully completed the two conversion projects in Southern Africa and North America to produce dissolving wood pulp. The subsequent ramp-up of production at both mills has progressed well. The combined capital cost of these projects was US\$510 million, of which US\$353 million was paid in 2013. Despite the complexities of such large ventures, we are pleased to have contained the costs to within a 5% variance of the original budget. During the 2013 financial year our operating profit was negatively impacted by once-off costs of US\$36 million associated with the start-up phase of the conversions. These projects are part of Sappi's strategy to grow higher margin businesses and cement our position as the world leader in dissolving wood pulp production. Operating profit and cash flows will be positively impacted by the increased volumes from the 2014 financial year.

Deteriorating trading conditions, particularly in Europe, have made the year extremely difficult. Our primary markets for coated paper still face the challenge of excess capacity leading to downward pressure on selling prices and volumes. As a result, operating profit excluding special items reduced from US\$403 million in the prior year to US\$191 million in 2013.

Cost containment is an important strategic priority for Sappi. During the year we have undertaken a review of our European production assets and evaluated possible mitigating actions against the loss generated by our European businesses. The preferred option is to relocate the production of Nijmegen Mill to other mills in Europe. We are currently in a process of consultation with our employee representatives. In addition, we are exploring further cost reduction opportunities across the group. As a result of the challenging market conditions, the carrying value of assets in Europe and Southern Africa were assessed and impairments of US\$63 million and US\$92 million respectively were incurred. In addition, we raised restructuring and retrenchment provisions of US\$97 million.

We continue to prioritise cash generation and improving our financial position. Despite a loss for the period of US\$161 million and an increase in cash capex from US\$358 million last year to US\$552 million in 2013, net debt at year-end was contained to US\$2,214 million. With the bulk of the cash outlay for the two conversion projects now behind us we can resume the path towards lowering net debt to EBITDA to within our long-term target of between 1.5 and 2.0 times. The successful debt refinancing of the past few years has ensured we have a satisfactory maturity profile and are therefore able to implement our strategic initiatives with no substantial debt maturities until 2017.

### Segment reporting

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

As is required by IFRS 8 – *Operating Segments*, this is the basis on which financial and descriptive information is evaluated by our Executive Committee in deciding how to allocate resources and evaluate performance.

With the completion of the group's major dissolving wood pulp conversion projects at Ngodwana and Cloquet in the current fiscal year, specialised cellulose has become increasingly important to the group. As such, selected product line information in the form of specialised cellulose and paper is reviewed by our Executive Committee in addition to the predominant graphical basis upon which the group is managed. This additional information is presented to assist our stakeholders in obtaining a complete understanding of our business.

### Exchange rates and their impact on the group's results

The group reports its results in US Dollars and the main exchange rates used in preparing the financial statements were:

	Income statement average rates		Balance sheet closing rates	
	2013	2012	2013	2012
Euro (EUR) 1 = US Dollar (US\$)	1.3121	1.2988	1.3522	1.2859
US Dollar (US\$) 1 = Rand (ZAR)	9.2779	8.0531	10.0930	8.3096

Two of our three geographic business units (Europe and Southern Africa) have home or functional currencies other than US Dollars (our reporting currency). The revenue and cost items of the two non-US Dollar units are translated into US Dollars at the average exchange rate for the period in order to arrive at the group revenue and costs in US Dollars. When exchange rates differ from one period to the next, the impact on group revenue and costs in US Dollars can be large, but offset one another to a large extent at the net level (when netting costs against revenue).

## section 2

# financial performance – group

The discussion in this section focuses on the group financial performance in 2013 compared with 2012. 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	2013	2012	% Change
<b>Sales volume (metric tons '000)</b>	<b>7,466</b>	<b>7,705</b>	<b>(3)</b>
	US\$ million	US\$ million	% Change
<b>Sales revenue</b>	<b>5,925</b>	<b>6,347</b>	<b>(7)</b>
Variable manufacturing and delivery costs	(3,768)	(3,919)	(4)
Fixed costs	(1,932)	(1,992)	(3)
Sundry items <sup>(1)</sup>	(34)	(33)	3
<b>Operating profit excluding special items</b>	<b>191</b>	<b>403</b>	<b>(53)</b>
Special items	(161)	18	n/a
<b>Operating profit</b>	<b>30</b>	<b>421</b>	<b>(93)</b>
Finance costs	(166)	(283)	(41)
Taxation	(25)	(34)	(26)
<b>Net (loss) profit</b>	<b>(161)</b>	<b>104</b>	<b>n/a</b>
Basic (loss) earnings per share (US cents)	(31)	20	n/a

(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 2013, sales volume decreased by 239,000 tons, or 3%, compared with 2012. The regional contributions to sales volumes are shown below:

Sales volume (metric tons '000)	2013	2012	% Change
Europe	3,367	3,507	(4)
North America	1,298	1,400	(7)
Paper and pulp (excluding dissolving wood pulp)	1,252	1,400	(11)
Dissolving wood pulp	46	–	n/a
Southern Africa	2,801	2,798	–
Paper and pulp (excluding dissolving wood pulp)	871	933	(7)
Dissolving wood pulp	748	743	1
Forestry	1,182	1,122	5
<b>Group</b>	<b>7,466</b>	<b>7,705</b>	<b>(3)</b>

Trading conditions in many of our markets continued to be difficult throughout the year and demand for our products was under pressure.

Volumes in Europe were impacted adversely by the continuing and accelerating drop in demand for coated paper. Speciality paper achieved strong growth and this performance reinforces our decision to convert the Alfeld coated woodfree machine to speciality paper. We anticipate commencing production on this machine in the first quarter of financial year 2014.

In North America, paper pulp sales volumes reduced significantly due to downtime related to the conversion at the Cloquet Mill and the subsequent building of inventories to service the dissolving wood pulp business.

Similarly, volumes in Southern Africa were lower because of the conversion at Ngodwana Mill. In addition, the paper and packaging market was weak during the year.

As a result of the difficult trading environment experienced throughout 2013, European capacity utilisation was below last year but North America and Southern Africa remained consistent, as shown in the table below.

Sales volume to capacity	2013	2012
Europe	89%	93%
North America	94%	95%
Southern Africa	91%	87%
<b>Group</b>	<b>91%</b>	<b>92%</b>

### Sales revenue

Sales revenue decreased by 7% from US\$6.3 billion in 2012 to US\$5.9 billion in 2013. In addition to the lower sales volumes discussed above, average selling prices in Europe and North America reduced due to the competitive market conditions. These impacts were partially offset by higher pulp prices for kraft pulp and dissolving wood pulp.

The significantly weaker Rand relative to the US Dollar and its translation impact on the South African business' sales also reduced revenue (see the bridge chart on page 65).

### Variable and delivery costs

Variable and delivery costs decreased by US\$151 million, or 4%, from 2012. This reduction was proportionally larger than the drop in sales volumes and reflects the good work being done across the production units to tightly manage costs. Furthermore, we are pleased to achieve this in a period of rapidly rising pulp prices. The procurement team were able to achieve significant cost savings in wood, chemicals and transport. The exception was the cost of energy in South Africa which continues to experience substantial increases in pricing from the national energy supplier.

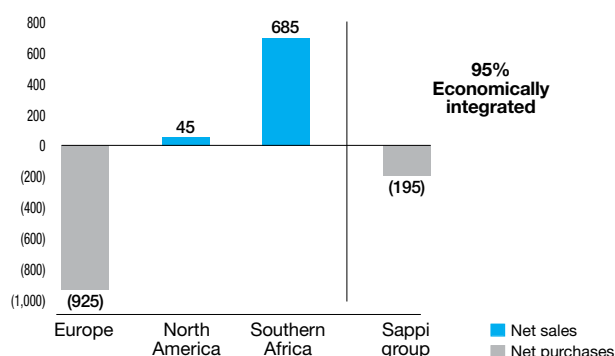
Following a fall in financial year 2012, pulp prices increased throughout 2013. For example, the Northern Bleached Softwood Kraft (NBSK) index, which represents 48% of our external pulp purchases by value, began the year at US\$762 per ton and by 29 September 2013 had risen to US\$871 per ton. The proportion of softwood will reduce from next year as we ramp up the dissolving wood pulp business which utilises hardwood as an input.

Across the group, we are approximately 95% economically pulp integrated. See the graph below for the integration by region. Lower pulp prices benefit our European business through reduced input costs but would adversely impact dissolving wood pulp prices (which are linked largely to NBSK prices) in Southern Africa and, going forward, North America.



### Economic pulp integration

Sappi group pulp balance\* ('000 tons)



\* Based on pulp production capacity and includes annual production of 1,340,000 tons of dissolving wood pulp.

Metric tons '000	Europe	North America	Southern Africa	Sappi group
Pulp production capacity	1,165	855	1,510	3,530
Pulp requirement	(2,090)	(810)	(825)	(3,725)
<b>Net (purchases) sales</b>	<b>(925)</b>	<b>45</b>	<b>685</b>	<b>(195)</b>

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

Variable manufacturing and delivery costs (US\$ million)	2013	2012	% Change
Wood	641	723	(11)
Energy	547	565	(3)
Chemicals	946	1,028	(8)
Pulp and other	1,124	1,077	4
Delivery	510	526	(3)
<b>Group</b>	<b>3,768</b>	<b>3,919</b>	<b>(4)</b>

### Fixed costs

Fixed costs decreased by US\$60 million, or 3%, from last year. This achievement is further evidence of the efforts to lower costs and improve efficiencies across the group.

Fixed costs (US\$ million)	2013	2012	% Change
Personnel	1,045	1,098	(5)
Maintenance	254	253	–
Depreciation	345	367	(6)
Other	288	274	5
<b>Group</b>	<b>1,932</b>	<b>1,992</b>	<b>(3)</b>

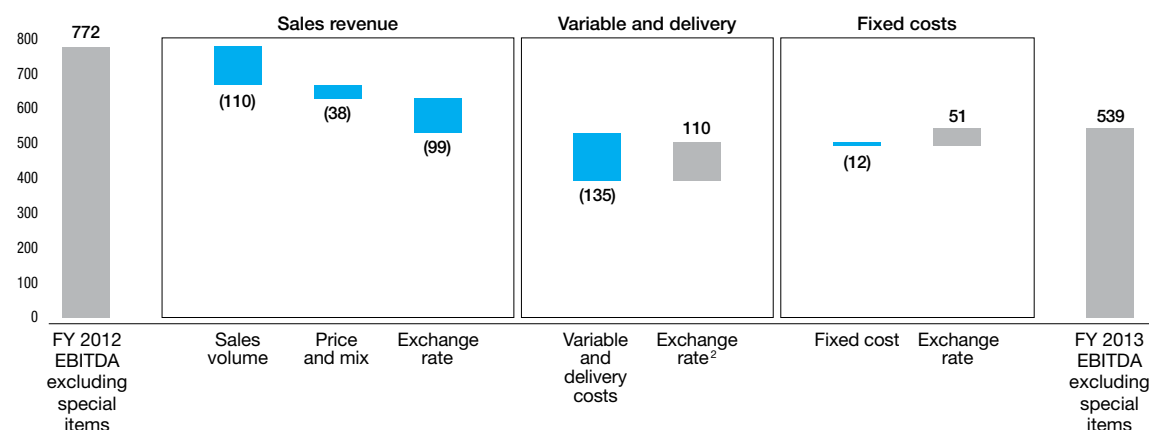
### EBITDA and operating profit excluding special items

The difficult trading environment throughout 2013 severely impacted margins and consequently EBITDA excluding special items, was US\$539 million, 30% lower than the US\$772 million achieved in 2012. Similarly, operating profit excluding special items dropped from US\$403 million last year to US\$191 million in 2013.

The EBITDA bridge reflected in the graph below highlights the significant impact on profitability from lower sales volumes. Exchange rate movements had a significant impact on both revenue and costs. In addition, the lower pricing in Europe and North America impacted profitability.

### Reconciliation of EBITDA excluding special items: 2013 compared to 2012<sup>1</sup>

(US\$ million)



1. All variances were calculated excluding Sappi Forestry.

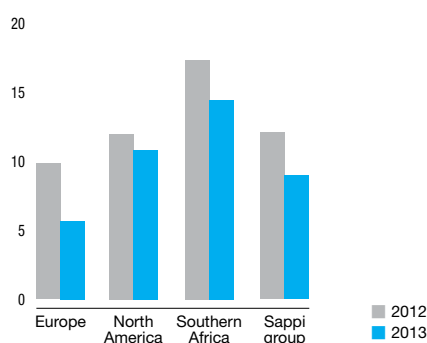
2. Exchange rate reflects the impact of changes in the average rates of translation of foreign currency results.

## section 2 *continued*

The tables below show the EBITDA and operating profit excluding special items of the business for both 2013 and 2012 and the margins of each.

EBITDA excluding special items by region (US\$ million)	2013	2012
Europe	182	329
North America	149	173
Southern Africa	202	271
Corporate and other	6	(1)
<b>Group</b>	<b>539</b>	<b>772</b>

**EBITDA margin\* by region (%)**

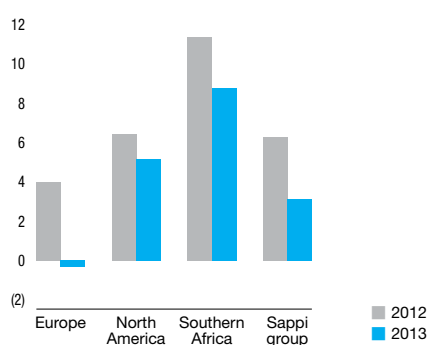


\* EBITDA excluding special items divided by sales.

EBITDA excluding special items by product category (US\$ million)	2013	2012
Specialised cellulose (dissolving wood pulp)	226	235
Paper	307	538
Other	6	(1)
<b>Group</b>	<b>539</b>	<b>772</b>

Operating profit excluding special items by region (US\$ million)	2013	2012
Europe	(9)	133
North America	71	94
Southern Africa	123	178
Corporate and other	6	(2)
<b>Group</b>	<b>191</b>	<b>403</b>

**Operating margin\* by region (%)**

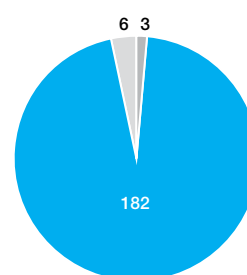


\* Operating profit excluding special items divided by sales.

Operating profit excluding special items by product category (US\$ million)	2013	2012
Specialised cellulose (dissolving wood pulp)	182	200
Paper	3	205
Other	6	(2)
<b>Group</b>	<b>191</b>	<b>403</b>

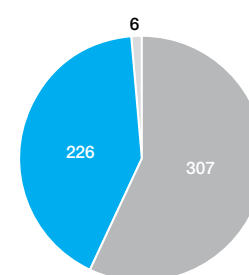
The charts below demonstrate that despite the paper business only achieving a US\$3 million operating profit, it contributes 57% of the EBITDA. Consequently, it still generates the majority of cash for Sappi and remains an important strategic component of our business.

**Operating profit excluding special items 2013 US\$191 million**



■ Paper  
■ Specialised cellulose  
■ Unallocated

**EBITDA excluding special items 2013 US\$539 million**



■ Paper  
■ Specialised cellulose  
■ Unallocated

Difficult markets have impacted the overall paper business, however, the weak operating performance in Europe and Southern Africa offset the good operating performance in North America.

Macro-economic volatility combined with over-capacity in coated paper and a competitive export market continues to put significant downward pressure on our European business. Demand for both coated woodfree and coated mechanical paper dropped at a much faster pace than we expected and selling prices continued to decline. Cost savings initiatives were able to offset some of this impact. However, the region generated an EBITDA of US\$182 million, compared with US\$329 million from last year, while EBITDA margin reduced from 9.8% to 5.8%.

Our North American business experienced increasing competitive pressure which had a negative effect on selling prices. We successfully completed the conversion of the Cloquet pulp mill to dissolving wood pulp during the year and started production in June 2013. The start-up proceeded according to plan. EBITDA for the year was impacted negatively by an estimated US\$21 million due to 22 days of incremental downtime taken for the conversion and the associated once-off costs. As a result, EBITDA excluding special items reduced to US\$149 million from US\$173 million and EBITDA margin decreased from 12.0% to 10.8%.

In Southern Africa, the specialised cellulose business benefited from both rising NBSK prices, which sets the reference point for the pricing of our dissolving wood pulp, and significant weakening of the Rand against the US Dollar. The sensitivity to the currency and pulp prices in the Southern African business can be assessed from the 'Major Sensitivities' in section 3. The domestic market for containerboard and graphic paper continued to be difficult. Variable costs, particularly purchased timber and pulp, remain a challenge with the imported components especially problematic due to the weaker Rand exchange rate. The estimated adverse EBITDA impact from the conversion to dissolving wood pulp at the Ngodwana Mill was approximately US\$15 million. Consequently, EBITDA excluding special items reduced from US\$271 million to US\$202 million and EBITDA margin dropped from 17.4% to 14.5%.

For the overall group, EBITDA margin weakened from 12.2% to 9.1%.

### Key operating targets

Our financial targets and performance against them are dealt with in some detail in the Letter to stakeholders on page 6.

### 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 2013 and 2012 is reflected in the table below:

Special items gain (charge) (US\$ million)	2013	2012
Plantation price fair value adjustment	87	(15)
Restructuring provisions (raised) released	(97)	2
Asset impairments	(155)	(10)
Fire, flood and related events	(15)	(19)
Black Economic Empowerment charge	(3)	(3)
(Loss) profit on disposal of property, plant and equipment	(2)	63
Post-retirement plan amendment gain	24	–
<b>Total</b>	<b>(161)</b>	<b>18</b>

The net impact of special items was to reduce our net profit in 2013 by US\$161 million. The major components are described below:

- A positive non-cash US\$87 million plantation price fair value adjustment was recognised. This arose largely from the reclassification of a certain portion of the Southern African soft-wood plantations that were previously utilised in the paper pulp production but now will be sold to the local sawlog markets. Our paper pulp requirements reduced following the Ngodwana dissolving wood pulp conversion and the closure of the kraft continuous digester at Tugela.
- The accelerating structural drop in demand for coated papers in Europe has impacted margins. As discussed above, we undertook a review of our production assets. Exhaustive analysis has indicated that the preferred option would be to relocate the entire production of Nijmegen Mill to other mills in Europe. This possible action combined with the lower profitability for the region has necessitated an impairment of plant and equipment of US\$63 million.

- In Southern Africa, the prospects for certain paper and packaging divisions have diminished. As a result, the carrying value of the assets of this business were assessed resulting in an impairment of US\$92 million. These assets were primarily located at our smaller and higher cost mills of Tugela, Enstra and Stanger.
- A key priority for Sappi is to reduce fixed costs and run profitable operations across all our regions. In Europe, in light of the possible relocation of Nijmegen production discussed above, we have raised a US\$43 million restructuring provision. In addition, we embarked on a general fixed cost optimisation programme across the region resulting in further restructuring provisions of US\$36 million.

A similar initiative has been undertaken in the Southern African business and corporate head office, for which a charge of US\$18 million has been incurred.

- A gain of US\$24 million was recognised when the Southern African medical aid was incorporated into an external medical aid provider. The cross subsidisation achieved within the larger scheme and the expectation of lower future premiums resulted in a reduced post-retirement medical aid liability.

### Finance costs

US\$ million	2013	2012
Net interest paid	177	299
Net foreign exchange gains	(1)	(5)
Net fair value gain on financial instruments	(1)	(5)
Interest capitalised	(9)	(6)
<b>Total</b>	<b>166</b>	<b>283</b>

Finance costs in financial 2013 of US\$166 million were US\$117 million lower than last year for the following reasons:

US\$ million	Decrease
Costs for settlement of the 2014 bonds incurred in 2012	86
Interest saved on refinancing the above debt	21
Difference on amortisation of costs	8
Exchange rate impact and other items	2
<b>Total</b>	<b>117</b>

The 2012 financial year included US\$86 million once-off costs related to the refinancing of our 2014 bonds that occurred during that year. The benefits of the refinancing are reflected in a US\$21 million interest cost saving in the 2013 financial year.

section 2 *continued*

## Taxation

The tax expense decreased by US\$9 million to US\$25 million in 2013. The group's effective tax rate was negative 18%. A regional breakdown of the tax charge is provided below:

Taxation US\$ million	Profit (loss) before tax	Tax charge (relief)	Effective tax rate %
Europe	(289)	12	(4)
North America	60	18	30
Southern Africa	93	(5)	(5)
<b>Group</b>	<b>(136)</b>	<b>25</b>	<b>(18)</b>

In Europe, the loss before tax is primarily attributable to once-off expenses related to restructuring and asset impairments. We do not recognise tax relief on all pre-tax losses because at this point we do not believe there is sufficient certainty that we will generate enough taxable profits in certain countries to recover these losses in the near future. We have large unrecognised tax losses in Austria, Finland, Belgium and the Netherlands which will substantially shield any profits earned in those countries in future.

The North American tax rate has been reduced by recognising a portion of a cellulosic biofuel tax credit as we expect a refund of federal alternative minimum taxes paid in prior years. Our North American operation has unused tax losses and credits that can be utilised in the future.

Southern Africa benefited from tax incentives granted for our capital expenditure on the specialised cellulose conversion project.

## Net profit, earnings per share and dividends

After taking into account finance costs and taxation our net profit and earnings per share for 2013, with comparatives for 2012, were as follows:

US\$ million	2013	2012
Operating profit	30	421
Finance costs	(166)	(283)
(Loss) profit before tax	(136)	138
Taxation	(25)	(34)
<b>(Loss) profit for the period</b>	<b>(161)</b>	<b>104</b>
Weighted average number of shares in issue (millions)	521	521
<b>(Loss) earnings per share (US cents)</b>	<b>(31)</b>	<b>20</b>

In view of the group's level of debt, the board does not believe it to be appropriate to declare a dividend for financial year 2013.



## section 3

# financial performance – regional

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

### Europe

	2013	2012	% Change			
Sales volume (metric tons '000)	3,367	3,507	(4)			
	€ million 2013	€ million 2012	% Change	€ per ton 2013	€ per ton 2012	
Sales	2,405	2,579	(7)	714	735	(3)
Variable manufacturing and delivery costs	(1,627)	(1,690)	(4)	(483)	(482)	–
Contribution	778	889	(12)	231	253	(9)
Fixed costs	(758)	(771)	(2)	(225)	(220)	2
Sundry costs and consolidation entries	(27)	(16)	69	(8)	(4)	100
Operating (loss) profit excluding special items	(7)	102	n/a	(2)	29	n/a
EBITDA excluding special items	139	253	(45)	41	72	(43)

The European business continued to experience difficult trading conditions in the face of declining demand and over-capacity in the coated paper market. European coated woodfree industry shipments reduced by 5% and mechanical coated reel shipments declined by 7% compared to last year. Good cost control was not enough to prevent a decline in the EBITDA margin to 5.8% in financial year 2013 from 9.8% last year. The business recorded an EBITDA excluding special items for the year of €139 million compared to €253 million last year.

Overall our sales volumes reduced by 4% compared to last year due to lower sales of all major graphic paper products offset partially by an increase in the sales of speciality products. Average selling prices were 3% lower than in financial year 2012 which, coupled with the lower sales volumes, resulted in a 7% decline in sales revenue compared to last year.

Variable manufacturing and delivery costs decreased from last year by 4% which is in line with the reduction in sales volumes. On a per ton basis, variable costs remained basically the same as last year.

A reduction in the Euro input price of hardwood pulp was offset by increases in other input costs, mainly chemicals. The region is constantly striving to reduce all costs and increased production efficiencies largely mitigated raw material price increases.

A reduction of 2% in cash fixed costs compared to financial year 2012 reflects the success of our fixed cost optimisation programme. Cash fixed costs reduced from €635 million in FY 2012 to €624 million in financial year 2013. Going forward, variable and fixed cost reduction through improving efficiencies and also through capacity rationalisation, where necessary, remains a priority in our business.

The project to convert the Paper Machine 2 at the Alfeld Mill from 150,000 tons of coated fine paper production to 135,000 tons of speciality paper per annum is well underway and we expect the machine to commence production during the first financial quarter of 2014. We anticipate good returns from this project as the speciality market has been growing in line with our estimates.

### North America

North America

	2013	2012	% Change			
Sales volume (metric tons '000)	1,298	1,400	(7)			
	US\$ million 2013	US\$ million 2012	% Change	US\$ per ton 2013	US\$ per ton 2012	
Sales	1,377	1,438	(4)	1,061	1,027	3
Variable manufacturing and delivery costs	(846)	(879)	(4)	(652)	(628)	4
Contribution	531	559	(5)	409	399	3
Fixed costs	(460)	(458)	–	(354)	(327)	8
Sundry costs and consolidation entries	–	(7)	n/a	–	(5)	n/a
Operating profit excluding special items	71	94	(24)	55	67	(18)
EBITDA excluding special items	149	173	(14)	115	124	(7)

## section 3 *continued*

The North American business performed satisfactorily in 2013 despite facing market headwinds in our coated business and as we focused on transitioning from kraft pulp to dissolving wood pulp at the Cloquet Mill. USA industry coated demand declined nearly 2%, although coated woodfree paper, the segment in which we compete, saw a 1% increase in demand compared to the 2012 financial year. Our coated paper business outperformed the industry, achieving a 2% increase in volume compared to last year, resulting in a market share gain. The coated paper business also benefited from strong manufacturing performance and good cost control, which helped mitigate the downward pressure on selling prices. During the third financial quarter, we successfully completed the conversion of the pulp mill at Cloquet from kraft pulp to dissolving wood pulp. The conversion and production start-up had a once-off negative impact on operating profit of approximately US\$21 million. Total EBITDA excluding special items declined from US\$173 million in 2012 to US\$149 million this year. The EBITDA margin declined slightly from 12.0% last year to 10.8% this year.

Total sales volumes decreased by 7% from last year, driven entirely by our exit from the kraft pulp business at the Cloquet Mill at the end of the second financial quarter. The new dissolving wood pulp

business made its first sales during the last quarter of the financial year and ramped up over the course of the quarter to the planned production run rate. In addition to the increase in coated paper sales volumes discussed above, sales volumes in our specialties business increased by 9% compared to last year.

Overall average selling prices increased by 3% compared with financial year 2012. This was due to the change in the mix of products sold, as we reduced sales volumes of relatively low priced kraft pulp. Average coated paper prices declined by 3% compared to last year, driven by continued over-capacity and pressure from imports, leading to aggressive pricing behaviour from competitors. Average selling prices for our specialties products were up slightly compared to last year.

Cost management remained a priority and costs continued to be well controlled. Variable manufacturing costs per ton increased by 6% compared to last year, driven predominantly by the impact of purchased fibre at the Cloquet Mill following the pulp mill conversion. Raw material input prices were slightly lower than last year. We remain focused on reducing variable manufacturing costs through improved production efficiencies and several cost savings programmes. Fixed costs were at a similar level to last year.

### Southern Africa

Sales volume (metric tons '000)	2013	2012	% Change
Pulp & paper	1,619	1,676	(3)
Forestry	1,182	1,122	5
<b>Total</b>	<b>2,801</b>	<b>2,798</b>	<b>-</b>

	ZAR million 2013	ZAR million 2012	% Change	ZAR per ton 2013	ZAR per ton 2012	
Sales	12,924	12,555	3	4,614	4,487	3
Variable manufacturing and delivery costs	(7,302)	(6,801)	7	(2,607)	(2,431)	7
Contribution	5,622	5,754	(2)	2,007	2,056	(2)
Fixed costs	(4,426)	(4,284)	3	(1,580)	(1,531)	3
Sundry costs and consolidation entries	(55)	(37)	49	(20)	(13)	54
Operating profit excluding special items	1,141	1,433	(20)	407	512	(21)

EBITDA excluding special items	1 874	2 182	(14)	669	780	(14)
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The specialised cellulose business delivered very strong results this year, which was unfortunately offset to some extent by a weak result from the paper business. The paper business was, as expected, negatively impacted by the new dissolving wood pulp conversion project at the Ngodwana Mill. This new production facility is in the production ramp up phase and should reach full production capacity by the end of the second calendar quarter of 2014. The project had a once-off negative impact on operating profit for the year of approximately ZAR140 million. The region's EBITDA excluding special items for the year declined to ZAR1,874 million compared to ZAR2,182 million in 2012. The EBITDA margin declined from 17.4% in financial year 2012 to 14.5% this year.

The specialised cellulose business in Southern Africa continued to experience strong demand during FY 2013 and returned an EBITDA margin of 34%. The average NBSK US Dollar pulp price, to which our dissolving wood product pricing is linked, decreased by approximately 1% from last year, but this was offset by a significantly weaker Rand exchange rate against the US Dollar relative to last year. Average selling prices for dissolving wood pulp increased by

9% in Rand terms. Dissolving wood pulp sales volumes remained robust and were consistent with last year.

The sales volumes in the Southern African paper business were 6% lower than last year, mainly due to the loss of sackkraft sales after the closure of Paper Machine 4 at the Tugela Mill in the first financial quarter of 2013. Excluding the impact of this closure, overall paper sales volumes were 1% below last year. On average, paper selling prices increased by 4% per ton compared to last year. Market conditions remained difficult, particularly with increased competition from imports.

Overall variable manufacturing and delivery costs per ton in the Southern African business increased by 7% compared to FY 2012. Variable manufacturing costs were unfavourably impacted by increased prices for purchased wood and pulp. Delivery costs per ton increased by 10% compared to last year due to additional export volumes together with increased warehousing and fuel costs.

Cash fixed costs for the Southern African business increased by 3% compared to last year, mainly as a result of an increase in the plantation silviculture expenditure.

## Major sensitivities

Some of the more important factors which impact the group's operating profit 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	Group US\$ million
Net selling prices	1%	22	17	142	60
Variable costs	1%	13	9	81	33
Sales volume	1%	8	6	57	22
Fixed costs	1%	8	5	48	20
Oil price	US\$1	3	1	4	5
Pulp prices	US\$10	(6)	3	89	5
Wood prices	1%	2	2	7	6
ZAR/US\$	10 cents	–	–	58	6
Euro/US\$	10 cents	–	3	–	3

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

A rise in international pulp prices positively impacts the Southern African and North American businesses as these operations are net sellers of pulp whereas the European business, as net purchaser of pulp, is adversely impacted from such a shift.

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

## section 4

# cash flow

In the table below we present the group's cash flow statement for 2013 and 2012 in a summarised format:

US\$ million	2013	2012
Operating profit excluding special items	191	403
Depreciation and amortisation	348	369
<b>EBITDA excluding special items</b>	<b>539</b>	<b>772</b>
Contributions to post employment benefits	(74)	(62)
Other non-cash items	(18)	18
<b>Cash generated from operations</b>	<b>447</b>	<b>728</b>
Movement in working capital	(20)	(102)
Capital expenditure	(552)	(358)
Finance costs	(164)	(195)
Taxation	(17)	(20)
Proceeds from disposal of assets	53	71
Other	6	3
<b>Net cash (utilised) generated</b>	<b>(247)</b>	<b>127</b>

Following the net cash generation of US\$127 million in 2012, we utilised US\$247 million in the current year. This was as a result of the significantly higher capital expenditure to fund the dissolving wood pulp conversion projects. The lower operating profits resulted in a reduction of the cash generation.

The net working capital investment of US\$20 million primarily arose from a build-up of inventories associated with the larger dissolving wood pulp business ahead of anticipated sales in the 2014 financial year. Working capital management remains a high priority and this is discussed in more detail in the Balance Sheet section 5.

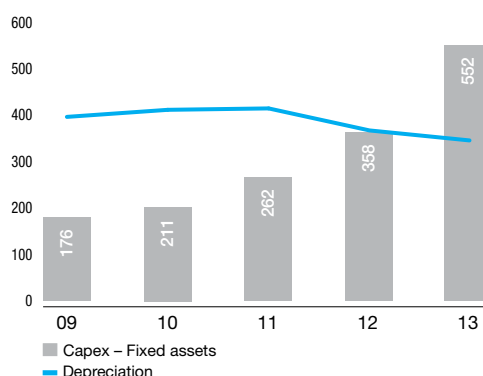
Capital expenditure for the year of US\$552 million includes the outlay of US\$353 million for the dissolving wood pulp conversions. We spent US\$83 million on other projects to increase capacity or improve efficiency. We strive to keep our expenditure at relatively low levels and the balance of US\$116 million is aimed at projects to maintain our production facilities. As can be observed from

the bar graph below, in recent years, if you exclude the impact from the two conversions, we have spent considerably less on capital expenditure than our depreciation charge. We estimate our future annual maintenance capital expenditure to be approximately US\$170 million.

Cash finance costs for the year of US\$164 million were US\$31 million less than last year because of the lower costs associated with the bonds that were refinanced in 2012.

An objective for our group is to sell any non-core or underperforming assets. During the year we received US\$42 million for the sale of the Jiangxi Chenming Joint Venture concluded in 2012. We also announced that we had entered into an agreement to dispose of Usutu Forest Products company for approximately US\$99 million subject to the fulfilment of certain conditions precedent. If this transaction is completed the cash flow will occur in early 2014.

**Investment in fixed assets versus depreciation**  
(US\$ million)





## section 5

# balance sheet

### Summarised balance sheet

US\$ million	2013	2012
Property, plant and equipment	3,078	3,157
Plantations	464	555
Net working capital	383	504
Other assets	324	285
	4,249	4,501
Net post-employment liabilities	(410)	(510)
Other liabilities	(481)	(487)
<b>Employment of capital</b>	<b>3,358</b>	<b>3,504</b>
Equity	1,144	1,525
Net debt	2,214	1,979
<b>Capital employed</b>	<b>3,358</b>	<b>3,504</b>

We have 17 mills in seven countries capable of producing approximately four million tons of pulp and six million tons of paper products. For more information on our mills, their production capacities and products, please refer to pages 17 and 21.

As a result of the diminishing prospects for certain paper divisions in Europe and Southern Africa, we impaired the carrying value of assets by US\$63 million and US\$92 million respectively. We depreciated assets by a further US\$345 million.

During 2013, capital expenditure for property, plant and equipment was US\$575 million, including US\$330 million for the dissolving wood pulp projects. Currency translation differences reduced the net book by US\$134 million compared with 2012.

The capacity replacement value of the property, plant and equipment for insurance purposes has been assessed at approximately US\$24 billion.

### Property, plant and equipment

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

### Book value of property, plant and equipment

US\$ million	2013	2012
Cost	9,190	9,375
Accumulated depreciation and impairments	6,112	6,218
<b>Net book value</b>	<b>3,078</b>	<b>3,157</b>

### Plantations

We regard ownership of our plantations in Southern Africa as a key strategic resource which gives us access to low cost fibre for our pulp production. Having control of an important raw material input ensures continuity of supply, and following the expansion of our dissolving wood pulp business, this is particularly relevant for hardwood. We currently have an excess supply of softwood plantations and are exploring opportunities to dispose of certain forests to generate additional cash.

We currently have access to approximately 403,000ha of plantable land of which approximately 378,000ha are planted with pine and eucalyptus. Our plantations provide approximately 74% of the wood requirements for our Southern Africa mills.

During the year, our paper pulp requirements reduced following the Ngodwana dissolving wood pulp conversion and the closure of the kraft continuous digester at Tugela. Therefore we reclassified a certain portion of the softwood plantations that will be sold as saw-logs and recognised a positive US\$87 million fair value adjustment. The balance of the movement principally related to a reduction in the carrying value due to the weaker South African Rand versus the US Dollar at year-end when translating into our reporting currency.

In terms of the relevant accounting standard, we value these plantations on our balance sheet at fair value less the estimated costs of delivery, including harvesting and transport costs. In note 2.3.5 in our group annual financial statements we provide more detail about our accounting policies for plantations.

### Working capital

The component parts of our working capital at the 2013 and 2012 financial year-ends are shown in the table below:

### Net working capital

US\$ million	2013	2012
Inventories	728	726
Trade and other receivables	747	800
Trade and other payables	(1,092)	(1,022)
<b>Net working capital</b>	<b>383</b>	<b>504</b>

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.

Excellent work was done across the business to contain net working capital to US\$383 million, a reduction of US\$120 million, including a currency translation impact which increased working capital by US\$31 million. The other material movements in working capital are discussed below:

- Inventories increased by only US\$2 million, despite an additional investment of US\$37 million to build up the supply chain for the new dissolving wood pulp conversions.
- Receivables continue to be tightly managed and reduced by US\$53 million, reflecting the lower sales volumes across the business. We continue to achieve excellent performance from the collecting teams resulting in a net recovery of US\$2 million in 2013.
- Payables increased by US\$70 million, partially because of the raising of US\$97 million restructuring provisions as we commence further cost containment initiatives, particularly in the European region.

section 5 *continued*

## Post-employment liabilities

We operate various defined benefit pension, post-retirement medical aid and other employee benefits in the various countries in which we operate. A summary of defined benefit assets and liabilities (pension and post-retirement medical aid) is as follows:

## Defined benefit liabilities

US\$ million	2013	2012
Liabilities of funded defined benefit plans	1,672	1,862
Assets of funded defined benefit plans	1,560	1,689
Net deficit on funded plans	(112)	(173)
Liabilities of unfunded plans	(298)	(337)
<b>Net balance sheet liability</b>	<b>(410)</b>	<b>(510)</b>
Cash contributions to defined benefit plans	71	58
Income statement charge for defined benefit plans	23	37
Net credit from a plan amendment, settlement and curtailment recognised in the income statement	(29)	–
Portion of cash contributions deemed 'catch-up'*	29	12

\* Company contributions paid over and above current service cost for funded plans.

The liabilities of our funded and unfunded plans reduced by US\$190 million and US\$39 million respectively compared with last year. This was due to the net effects from higher discount rates adopted in our Southern African and North American regions offset slightly by lower discount rates in our European region compared with last year-end. These discount rates are determined by changes to bond yield in the respective regions. Liabilities also reduced due to the settlement of pensioner liabilities from our pension plan in Southern Africa of US\$102 million, a plan amendment to our post-retirement medical aid liabilities also in Southern Africa of US\$24 million and a curtailment of our pension plan in the Netherlands of US\$6 million.

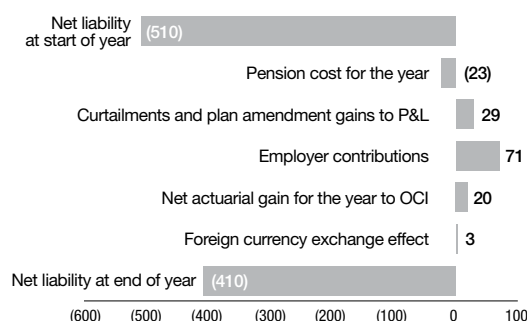
Assets reduced by US\$129 million over the year. This was mainly due to an outflow of funds of US\$103 million from our pension plan in Southern Africa as part of the pensioner liability settlement terms. Investment returns were lower – strong equity returns were mostly offset by investment losses from our bond holdings. However, losses in our bond holdings were to be expected since they are mainly invested for liability matching strategies and therefore invested in the same markets that saw yields rise to value liabilities (as discussed above).

Since the reduction in liabilities was greater than the reduction in assets, the overall net liability reduced by US\$100 million as at September 2013.

Income statement charges are expected to increase slightly next year, due to the effects from adopting the revised IAS 19 *Employee Benefits*. Under this revised standard, the expected return on assets, the expected asset return rate is no longer permitted, and instead the discount rate used in determining the interest cost on the liability must also be used to determine the expected interest earned on the assets.

## Defined benefit pension and other benefit plans

## Sources of credits and debits to the balance sheet liability (US\$ million)



## Equity

Year-on-year, equity decreased by US\$381 million to US\$1,144 million as summarised below:

## Equity reconciliation

US\$ million	2013
Equity at September 2012	1,525
Loss for the year	(161)
Actuarial gains on pension funds	20
Translation differences on non-Dollar operations	(225)
Deferred tax effect recognised in other comprehensive income	(29)
Share-based payments	11
Other	3
<b>Equity at September 2013</b>	<b>1,144</b>

More detail on the movement in equity can be found in the statement of changes in equity in the group annual financial statements.

## 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.

## Refinancing activities during financial year 2013

Below, we highlight the main financing events that occurred during the year:

- Because of our weaker performance during 2013 and the implementation of restructuring initiatives in our European business which would require additional cash outlays in early 2014, the forecast headroom in our covenants was expected to reduce. As a result, we engaged with our banking group and requested additional short-term covenant headroom, more specifically the net debt to EBITDA covenant and the complete removal of the net debt to total capitalisation covenant. These discussions were successful and the entire banking group supported the proposal. The revised covenants are discussed in more detail below.

- In December 2012, a new ZAR1 billion Revolving Credit Facility (RCF) was concluded in Southern Africa, syndicated amongst four local banks. This facility consolidated a number of local bilateral facilities into a single facility and aligned covenants and conditions within the banking group. This RCF does not have an expiry date, and subject to meeting the financial covenants and certain terms and conditions, it can only be cancelled by the banks within a 15-month notice period.
- The three-year €360 million securitisation programme of Sappi Papier Holding would have matured in 2014. The facility was renewed and extended to August 2016 in June 2013 at a lower level of €330 million, in line with current sales volumes. The renewal also includes improved conditions, with an increased level of funding and a reduced funding margin.
- A tender for the repayment of the remaining €31 million 2014 Sappi Papier Holding bonds was successfully completed in December 2012. This completed the project to refinance and repay the most expensive debt in the capital structure.
- The ZAR1 billion SMF1 public bond matured in June 2013. In April 2013 the South African bond market was accessed to raise a ZAR1.5 billion bond. The proceeds were used to refinance the ZAR1 billion SMF1 bond and ZAR500 million was utilised for the partial funding of the Ngodwana dissolving wood pulp conversion project. The new bond was raised in three tranches of three, five and seven-year notes, at a weighted fixed cost of 7.64%.
- During the year we also had to refinance approximately ZAR460 million maturing long-term promissory notes, staggered over a 12-month period. In April 2013 Sappi Southern Africa raised a new ZAR400 million bilateral seven-year loan in the South African bank market. This bullet loan carries a floating rate of interest at JIBAR plus 205bp and was swapped to a fixed rate of 7.85%. The terms and conditions of the loan are identical to the Domestic Medium Term Note programme under which Southern Africa raises long-term bonds.

### Structure of net debt and liquidity

We believe the liquidity position is good, and with our large conversion projects now complete, will continue to improve. Our cash holding exceeds short-term obligations by US\$285 million at 2013 year-end. In addition, we have US\$619 million unutilised committed facilities, including a revolving credit facility in Europe of €350 million (US\$473 million) which provides further flexibility.

The structure of our net debt at September 2013 and 2012 is summarised below:

US\$ million	2013	2012
<b>Long-term debt</b>	<b>2,499</b>	<b>2,358</b>
Secured debt	1,376	1,432
Unsecured debt	741	736
Securitisation funding	403	376
Less: Short-term portion	(21)	(186)
<b>Net short-term debt (cash)</b>	<b>(285)</b>	<b>(379)</b>
Overdrafts and short-term loans	79	80
Short-term portion of long-term debt	21	186
Less: Cash	(385)	(645)
<b>Net debt</b>	<b>2,214</b>	<b>1,979</b>

### Movement in net debt

The movement of our net debt over fiscal 2013 is explained in the table below:

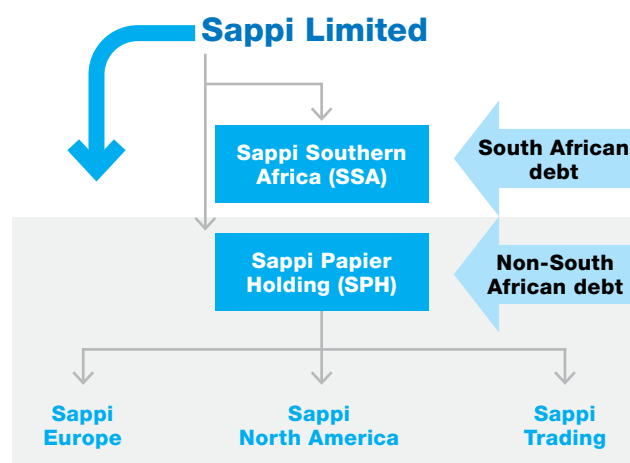
US\$ million	
Net debt at September 2012	1,979
Net cash utilised in 2013	247
Currency translation impact	(14)
Fair value and other non-cash adjustments	(1)
Interest capitalised	2
Other	1
<b>Net debt at September 2013</b>	<b>2,214</b>

### 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, which is our international holding company, issues debt in the international money and capital markets to fund our non-South African businesses. Sappi Papier Holding's long-term debt is supported by a Sappi Limited guarantee and the financial covenants on certain of its debt are based on the ratios of the consolidated Sappi Limited group. The covenants applicable to the debt of these two entities and their respective credit ratings are discussed below.

The diagram below depicts our debt funding structure:

#### Sappi Limited guarantee\*



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

## section 5 *continued*

### Group debt profile

We show the major components and maturities of our net debt at September 2013 below. These are split between our debt in South Africa (where we have an investment grade rating) and our debt outside South Africa (where our credit rating is sub-investment grade) – see more on our 'Credit Rating' below.

US\$ million	Amount	Local interest rate weighted	Fixed/variable	Maturity (Sappi fiscal years)				
				2014	2015	2016	2017	Thereafter
<b>South Africa</b>								
Bank debt	67	9.15%	Fixed**	22	5			40
Bonds	273	8.04%	Fixed**		74	75		124
Gross debt	340							
Less: Cash	(80)			(80)				
<b>Net South Africa debt</b>	<b>260</b>			<b>(58)</b>	<b>79</b>	<b>75</b>	<b>0</b>	<b>164</b>
<b>Non-South African</b>								
Securitisation	405	2.20%	Variable			405		
OeKB loan	184	3.90%	Variable		24	24	136	
Other bank debt	82	0.88%	Variable	79.4	0.4	0.4	0.3	1.5
2017 Bonds (US\$)	400	7.75%	Fixed				400	
2018 Bonds (EUR)	338	6.63%	Fixed					338
2019 Bonds (US\$)	300	8.38%	Fixed					300
2021 Bonds (US\$)	350	6.63%	Floating*					350
2032 Bonds	221	7.50%	Fixed					221
IFRS adjustments	(21)							
Gross debt	2,259							
Less: Cash	(305)			(305)				
<b>Net non-South Africa debt</b>	<b>1,954</b>			<b>(226)</b>	<b>24</b>	<b>429</b>	<b>536</b>	<b>1,211</b>
<b>Net group debt</b>	<b>2,214</b>			<b>(284)</b>	<b>103</b>	<b>504</b>	<b>536</b>	<b>1,375</b>

\* Swapped to floating

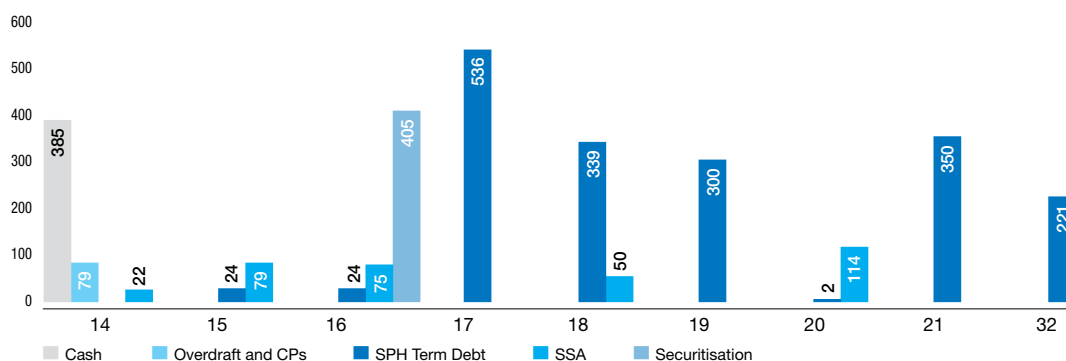
\*\* Floating bonds/bank loans swapped to fixed

The highlighted debt components are secured by claims over certain of our non-South African fixed assets, inventories in North America, the pledge of shares of certain subsidiaries and upward guarantees by some of our subsidiaries.

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 is shown below:

### Debt maturity profile (US\$ million)



Outside South Africa we do not have any material debt maturities until the Sappi Papier Holding securitisation programme matures in 2016. The South African business has public bonds of US\$74 million and US\$75 million that will mature in 2015 and 2016 respectively.



## Covenants

### Non-South African covenants

Financial covenants were renegotiated during 2013 and apply to US\$184 million of our non-South African bank debt, the €350 million revolving credit facility and our securitisation borrowings.

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

- the ratio of group net debt to EBITDA be not greater than 4.95-to-1 at the end of September 2013, reducing over the term of the facility to 3.75-to-1 by March 2016; and
- the ratio of group EBITDA to net interest expense be not less than 2.25-to-1 at the end of September 2013, increasing over the term of the facility to 2.5-to-1 by September 2014.

As discussed above, we removed the net debt to total capitalisation covenant.

The table below shows that at September 2013 we were well in compliance with these covenants:

Non-South African covenants	2013	Covenant
Net debt to EBITDA	4.08	<4.95
EBITDA to net interest	3.16	>2.25

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, including the payment of dividends. As regards dividend payments, the group is restricted from paying cash dividends in certain circumstances, for example, if the net debt to EBITDA ratio exceeds 4-to-1 or if the EBITDA to net interest is less than 2-to-1. In addition, any cash dividends paid may not exceed 50% of profit excluding special items after tax and certain other adjustments.

### South African covenants

Separate covenants also apply to certain of the debt of our South African business.

These covenants require that, with regards to Sappi Southern Africa Limited and its subsidiaries:

- the ratio of net debt to equity is not at the end of any quarter greater than 65% and
- at the year-end, the ratio of EBITDA to net interest paid for the year is not less than 3-to-1.

Below we show that for the year ended September 2013, the South African financial covenants were comfortably met:

South African covenants	2013	Covenant
Net debt to equity	31%	<65%
EBITDA to net interest	6.39	>3.00

## Credit ratings

At the date of this Integrated Report, our credit ratings were as follows:

### Fitch: South African national rating

Sappi Southern Africa Limited: A+/F1/Stable (February 2013)

### Moody's:

Sappi Corporate Credit Rating: Ba3/NP/Stable (May 2013)

Secured Debt Rating: Ba2 (May 2013)

Unsecured Debt Rating: B2 (May 2013)

### Standard & Poor's:

Corporate Credit Rating: BB-/B/Negative (June 2013)

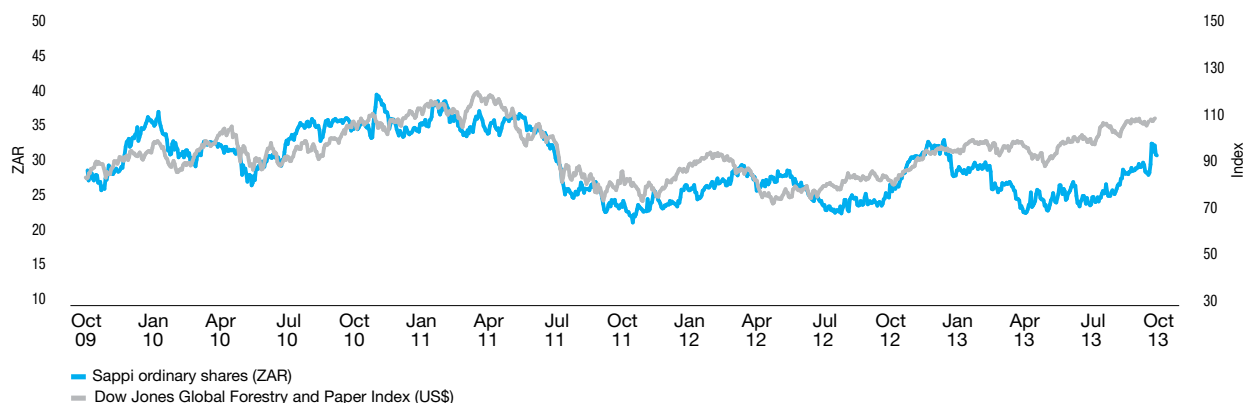
Secured Debt Rating BB: (June 2013)

Unsecured Debt Rating B: (June 2013)

## section 6

# share price performance

Sappi share price – 1 October 2009 to 31 October 2013  
(US\$ million)



### Conclusion

We are pleased that the transformation of our business, with less reliance on graphic paper, continues to pick up momentum following the successful completion of the projects at Ngodwana, Cloquet and Alfeld.

The prospects for dissolving wood pulp, although encountering short-term margin reduction, are very exciting and will continue to deliver higher margins, albeit perhaps not at the level achieved in 2013.

The paper businesses still face a tough, challenging environment. However, the cost-cutting initiatives we are preparing to implement will allow the business to reduce costs and ultimately result in a smaller, focused business in the lowest cost quartile in all our regions in which we operate. The cash generated by graphic paper will continue to be substantial and will provide a platform to grow our higher margin business.

The debt profile ensures we have sufficient resources and flexibility to deliver our strategic objectives.

**SR Binnie**

Chief Financial Officer

09 December 2013



## five year review

US\$ million	2013	2012	2011	2010	2009
<b>Income statement</b>					
Sales	5,925	6,347	7,286	6,572	5,369
Variable manufacturing and delivery costs	3,768	3,919	4,559	4,008	3,296
Fixed costs	1,932	1,992	2,296	2,158	1,974
Sundry expenses <sup>(1)</sup>	34	33	27	67	66
Operating profit excluding special items	191	403	404	339	33
Special items – losses (gains)	161	(18)	318	(2)	106
Operating profit (loss)	30	421	86	341	(73)
Net finance costs	166	283	307	255	145
(Loss) profit before taxation	(136)	138	(221)	86	(218)
Taxation charge (benefit)	25	34	11	20	(41)
(Loss) profit for the year	(161)	104	(232)	66	(177)
EBITDA excluding special items	539	772	821	752	431
<b>Balance sheet</b>					
Total assets	5,727	6,168	6,308	7,184	7,297
Non-current assets	3,754	3,990	4,085	4,653	4,867
Current assets	1,973	2,178	2,223	2,531	2,430
Current liabilities	1,212	1,315	1,652	2,039	1,841
Shareholders' equity	1,144	1,525	1,478	1,896	1,794
Net debt	2,214	1,979	2,100	2,221	2,576
Gross interest-bearing debt	2,599	2,624	2,739	3,013	3,346
Cash	(385)	(645)	(639)	(792)	(770)
Capital employed	3,358	3,504	3,578	4,117	4,370
<b>Cash flow</b>					
Cash generated from operations	447	728	798	737	432
(Increase) decrease in working capital	(20)	(102)	(98)	(5)	152
Finance costs paid	(171)	(206)	(266)	(206)	(107)
Finance revenue received	7	11	10	12	26
Taxation paid	(17)	(20)	(38)	(9)	(5)
Dividends paid	–	–	–	–	(37)
Cash generated from operating activities	246	411	406	529	461
Net cash (utilised) generated excluding acquisitions of businesses	(247)	127	163	341	289
Cash effects of financing activities	(8)	(103)	(296)	(256)	707
Capital expenditure (gross)	552	358	262	211	175
To maintain operations	116	177	213	173	146
To expand operations	436	181	49	38	29

(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	2013	2012	2011	2010	2009
<b>Statistics</b>					
<b>Number of ordinary shares (millions)</b>					
In issue at year-end <sup>(1)</sup>	521.5	520.8	520.5	519.5	515.7
Basic weighted average number of shares in issue during the year <sup>(1)</sup>	521.3	520.8	519.9	516.7	482.6
<b>Per share information (US cents per share)</b>					
Basic (loss) earnings	(31)	20	(45)	13	(37)
Diluted (loss) earnings	(31)	20	(45)	13	(37)
Headline (loss) earnings	(6)	9	(16)	10	(21)
Diluted headline (loss) earnings	(6)	9	(16)	10	(21)
Net asset value	219	293	284	365	348
<b>Profitability ratios (%)</b>					
Operating profit (loss) to sales	0.5	6.6	1.2	5.2	(1.4)
Operating profit excluding special items to sales	3.2	6.3	5.5	5.2	0.6
EBITDA excluding special items to sales	9.1	12.2	11.3	11.4	8.0
Operating profit excluding special items to capital employed (ROCE)	5.6	11.4	10.5	8.0	0.8
Return on average equity (ROE)	(12.1)	6.9	(13.8)	3.6	(10.4)
<b>Debt ratios (%)</b>					
Net debt to total capitalisation	65.9	56.5	58.7	53.9	58.9
<b>Efficiency ratios</b>					
Asset turnover (times)	1.0	1.0	1.2	0.9	0.7
Inventory turnover ratio	7.2	7.6	8.6	6.9	6.3
<b>Liquidity ratios</b>					
Current asset ratio	1.6	1.7	1.4	1.2	1.3
Trade accounts receivable days outstanding (including receivables securitised)	47	44	43	54	58
Cash interest cover (times)	2.7	2.4	2.4	2.5	3.2
<b>Other non-financial information<sup>(2)</sup></b>					
Sales volumes	7,466	7,705	7,898	7,894	6,707
Number of full-time equivalent employees	13,665	14,039	14,862	15,586	16,427
Lost Time Injury Frequency Rate (including contract employees)	0.56	0.56	0.62	0.51	0.66
<b>Energy</b>					
Specific net purchased energy (GJ/adt)	13.88	14.49	15.92	16.06	17.43
Renewable energy to total energy (%)	51.49	50.75	49.78	49.63	49.65
<b>Water</b>					
Specific process water drawn (m <sup>3</sup> /adt)	37.93	37.02	37.09	37.57	39.52
Specific process water returned (m <sup>3</sup> /adt)	34.02	33.26	32.67	33.15	34.29
<b>Waste</b>					
Specific total landfill (tonne/adt)	0.070	0.073	0.081	0.076	0.096
<b>Emissions</b>					
Specific Scope 1 emissions from purchased energy (ton CO <sub>2</sub> eq/adt)	0.62	0.65	0.68	0.65	0.70
Specific Scope 2 emissions from purchased energy (ton CO <sub>2</sub> eq/adt)	0.23	0.25	0.27	0.31	0.33
<b>Exchange rates</b>					
US\$ per one Euro exchange rate – closing	1.3522	1.2859	1.3386	1.3491	1.4688
US\$ per one Euro exchange rate – average (12-month)	1.3121	1.2988	1.3947	1.3658	1.3657
ZAR to one US\$ exchange rate – closing	10.0930	8.3096	8.0963	7.0190	7.4112
ZAR to one US\$ exchange rate – average (12-month)	9.2779	8.0531	6.9578	7.4917	9.0135

Refer to share statistics on page 82 for other market and share related information.

(1) Net of treasury shares (refer to note 18).

(2) Certain energy, water, waste and emissions data for the comparative periods has been restated using latest measurement methodology.

**Note:**

Definitions for various terms and ratios used above are included in the Glossary on page 97.



## share statistics

### Shareholding

Ordinary shares in issue	Number of shareholders	%	Number of shares <sup>(1)</sup>	% of shares in issue
1 – 5,000	4,660	81.1	2,912,137	0.6
5,001 – 10,000	172	3.0	1,329,187	0.3
10,001 – 50,000	313	5.4	7,546,013	1.4
50,001 – 100,000	138	2.4	10,593,431	2.0
100,001 – 1,000,000	364	6.3	112,692,647	21.6
Over 1,000,000	101	1.8	386,440,160	74.1
	5,748	100.0	521,513,575	100.0

### Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.21
Group directors	0.21
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	–
Shareowners interested in 10% or more of the issued shares	–
Public (the number of public shareholders as at September 2013 was 5,748)	99.79
	100.00

(1) The number of shares excludes 19,932,648 treasury shares held by the group.

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

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to section 56(7) of the Companies Act no 71 of 2008 (as amended) 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 2013, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

	Shares	%
Public Investment Corporation	55,712,225	10.7

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 2013, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

	Shares	%
Allan Gray Limited	101,390,421	19.4
Investec Asset Management	71,932,651	13.8
Coronation Fund Managers	53,580,693	10.3
Public Investment Corporation	44,086,532	8.5
Dimensional Fund Advisors	28,257,131	5.4

Share statistics	2013	2012	2011	2010	2009
Ordinary shares in issue (millions) <sup>(1)</sup>	521.5	520.8	520.5	519.5	515.7
Net asset value per share (US cents)	219	293	284	365	348
Number of shares traded (millions)					
JSE	323.3	365.3	469.1	467.0	443.4
New York	3.1	2.8	6.3	11.3	66.3
Value of shares traded					
JSE (ZAR million)	8,634.7	9,262.9	15,786.4	14,859.9	12,989.4
New York (US\$ million)	8.8	8.9	31.1	46.4	259.1
Percentage of issued shares traded	62.6	70.7	91.3	92.1	98.8
Market price per share					
– year-end JSE (South African cents)	2,549	2,366	2,385	3,565	2,855
New York (US\$)	2.49	2.85	3.04	5.14	3.76
– highest JSE (South African cents)	3,300	2,999	3,962	3,792	5,403
New York (US\$)	3.89	3.73	5.95	5.14	6.41
– lowest JSE (South African cents)	2,204	2,092	2,107	2,539	1,290
New York (US\$)	2.28	2.57	2.92	3.27	1.24
Earnings yield (%) <sup>(2)</sup>	negative	7.02	negative	2.56	negative
Price/earnings ratio (times) <sup>(2)</sup>	negative	14.24	negative	39.07	negative
Total market capitalisation (US\$ million) <sup>(2)</sup>	1,317	1,484	1,535	2,639	1,989

(1) The number of shares excludes 19,932,648 treasury shares held by the group.

(2) Based on financial year-end closing prices on the JSE Limited. Income statement amounts have been converted at average year-to-date exchange rates.

**Note:**

Definitions for various terms and ratios used above are included in the Glossary on page 97.

# summarised group results

These summarised group results comprise a summary of the audited group annual financial statements for the year ended September 2013 that were approved by the board on 09 December 2013. The preparation of the audited group annual financial statements was supervised by the Chief Financial Officer, SR Binnie CA(SA) and have been audited by the independent auditors, Deloitte & Touche, whose unmodified audit report is available for inspection at the group's registered office. The summarised group results are not the group's statutory accounts and do not contain all the disclosures required by International Financial Reporting Standards. Reading the summarised group results, therefore, is not a substitute for reading the audited group annual financial statements, as they do not contain sufficient information to allow for a complete understanding of the results and state of affairs of the group. The audited group annual financial statements are available online at [www.sappi.com](http://www.sappi.com), or can be obtained from the Company Secretary.

## Basis of preparation

The summarised group results are prepared in accordance with the Listings Requirements of the JSE Limited, the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and, the Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and must contain the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of these summarised group results are consistent with those applied in the group annual financial statements.

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## To the shareholders of Sappi Limited

The summarised consolidated financial statements of Sappi Limited, contained in the accompanying summarised report, which comprise the summarised group balance sheet as at September 2013, the summarised group income statement, summarised group statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Sappi Limited for the year ended September 2013. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 09 December 2013. Our auditor's report on the audited consolidated financial statements contained an Other Matter paragraph 'Other reports required by the Companies Act' (included below).

The summarised consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summarised consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of Sappi Limited.

## Directors' responsibility for the summarised consolidated financial statements

The directors are responsible for the preparation of the summarised consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for summarised reports, set out in the basis of preparation to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements, and for such internal control as the directors determine is necessary to enable the preparation of the summarised consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Listings Requirements require summarised reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Pronouncements as issued by the Financial Reporting Standards Council also, and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

## Auditor's responsibility

Our responsibility is to express an opinion on the summarised consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, *Engagements to Report on Summary Financial Statements*.

## Opinion

In our opinion, the summarised consolidated financial statements derived from the audited consolidated financial statements of Sappi Limited for the year ended September 2013 are consistent, in all material respects, with those consolidated financial statements, in accordance with the requirements of the JSE Limited Listings Requirements for summarised reports, set out in the basis of preparation to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements.

## Other reports required by the Companies Act

The 'other reports required by the Companies Act' paragraph in our audit report dated 09 December 2013, states that as part of our audit of the consolidated financial statements for the year ended September 2013, we have read the Directors' report, the Audit Committee's report and the Company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. The paragraph also states that, based on reading these reports, we have not identified material inconsistencies between these reports and the audited consolidated financial statements. The paragraph furthermore states that we have not audited these reports and accordingly do not express an opinion on these reports. The paragraph does not have an effect on the summarised consolidated financial statements or our opinion thereon.

## Other matter

We have not audited future financial performance and expectations by management included in the accompanying summarised consolidated financial statements and accordingly do not express any opinion thereon.

## Deloitte & Touche

Registered Auditors

Per RC Campbell  
Partner

09 December 2013

Johannesburg, South Africa

*National Executive: LL Bam Chief Executive AE Swiegers Chief Operating Officer  
GM Pinnock Audit DL Kennedy Risk Advisory NB Kader Tax TP Pillay Consulting  
K Black Clients & Industries JK Mazzocco Talent and Transformation CR Beukman  
Finance M Jordan Strategy S Gwala Special Projects TJ Brown Chairman of the  
Board MJ Comber Deputy Chairman of the Board*

A full list of partners and directors is available on request

B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

# audit committee report

for the year ended September 2013

## Introduction

The Audit Committee presents its report for the financial year ended September 2013. The Audit Committee is an independent statutory committee, whose duties are delegated to it by the board of directors. The committee has conducted its affairs in compliance with 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 the group annual 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
- 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 III.

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
- 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. This included:
  - The 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
- 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 comprised exclusively of independent Non-executive Directors, all of whom are financially literate, with three members forming a quorum:

Dr D Konar (Chairman)	(appointed in January 2004, Chairman from January 2007)
Mr GPF Beurskens	(appointed in January 2012)
Mr MA Fallon	(appointed in January 2012)
Mrs KR Osar	(appointed in November 2007)
Mr NP Mageza	(appointed in February 2010)

Biographical details of the current members of the committee are set out on pages 44 to 45 of this 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 is entitled to attend 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 has satisfied itself through enquiry that the auditor of Sappi Limited is independent as defined by the Companies Act. Meetings were held with the auditor where management was not present.

No material non-audit services were provided by the external auditors during the year under review.

The committee has reviewed the performance of the external auditors and nominated, for approval at the Annual General Meeting, Deloitte & Touche as the external auditor for the 2014 financial year. Mr Roy Campbell is the designated auditor and, in terms of the rotation requirements of the Companies Act, he will be in his fourth year as designated auditor of the company in 2014. The committee confirms that the designated auditor is accredited by the JSE Limited.

## Integrated report and the group annual financial statements

The Audit Committee has evaluated the Integrated Report, incorporating the group annual financial statements, for the year ended September 2013. The Audit Committee has also considered the sustainability information as disclosed in the Integrated Report and has assessed its consistency with operational and other information known to Audit Committee members. The committee has also considered the report and is satisfied that the information is reliable and consistent with the financial results. The annual financial statements have been prepared using appropriate accounting policies, which conform to International Financial Reporting Standards.

The committee has therefore recommended the 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, nothing has come to the attention of the Audit Committee to indicate that the internal financial controls were not operating effectively.

**D Konar**

Chairman of the Audit Committee

09 December 2013



The directors have pleasure in presenting their report for the year ended September 2013.

## Nature of business

Sappi Limited, 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 100 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 incurred a loss of US\$161 million for the year ended September 2013 (basic loss of 31 US cents) compared to US\$104 million profit (profit of 20 US cents) for the prior year.

The loss was largely due to market conditions in the group's graphic paper business, particularly in Europe, which were worse than expected, with significant demand declines in both the European local and export markets, and continued downward pressure on selling prices. As a result, significant asset impairments and restructuring charges were incurred which related to both our European and South African businesses of US\$142 million and US\$109 million respectively. In addition, although the group's major dissolving wood pulp conversions at the group's Cloquet and Ngodwana Mills were successfully completed and commissioned during the year with the speciality paper conversion at Alfeld Mill being completed shortly after year-end (in October 2013), these projects also negatively impacted the group's result for the year.

Detailed commentary on the 2013 financial results is contained in various reviews throughout this Integrated report.

## Dividends

In light of the group's current financial performance and debt levels, the directors have decided not to declare a dividend for the current financial year.

## 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 Limited adopted a new Memorandum of Incorporation during the year that is in line with the provisions of the Companies Act, 2008 (as amended) and the Listings Requirements of the JSE Limited. A copy of this Memorandum of Incorporation is available on our website.

A report on our practice of corporate governance is included on pages 48 to 52 and the application of the principles of King III is on our website.

## Health, safety, environment and community

Information on our health, safety and environmental performance is provided in our Sustainability report on pages 26 to 43.

## Significant announcements during the year under review and subsequent to year-end

The announcements were:

- In October 2012, Sappi announced that it had decided to mothball a paper machine (PM4) at Tugela Mill from 01 January 2013.
- In July 2013, Sappi announced that it had entered into an agreement with Montigny Investments Limited in terms of which, subject to the fulfilment of certain conditions precedent, Montigny will acquire all the shares in, and the shareholder loan claim against, Usutu Forest Products Company Limited, from the Sellers for US\$99 million (ZAR1,000 million).
- On 09 September 2013, Sappi announced its intention to voluntarily de-list from the New York Stock Exchange (NYSE) based on the low trading volume of its American Depositary Shares on the NYSE as well as the high costs and administrative complexity associated with maintaining its listing and registration in the United States. The delisting became effective on 30 September 2013.
- In September 2013, Sappi announced that it had begun consultations regarding the future of its Nijmegen Mill in the Netherlands due to market conditions and a sustained increase in input costs.
- In November 2013, investment plans were announced that over the next three years, approximately US\$162 million (€120 million) would be invested in the group's coated graphic paper mills at Kirknemi and Gratkorn to significantly reduce the cost base and improve the profitability of these mills.

## Financing

The significant financing events were:

- Because of our weaker performance during 2013 and the implementation of restructuring initiatives in our European business which would require additional cash outlays in early 2014, the forecast headroom in our covenants was expected to reduce. As a result, we engaged with our banking group and requested additional short-term covenant headroom, more specifically, the net debt to EBITDA covenant and the complete removal of the net debt to total capitalisation covenant. These discussions were successful and the entire banking group supported the proposal. The revised covenants are discussed in more detail below.
- In December 2012, a new ZAR1,000 million Revolving Credit Facility (RCF) was concluded in Southern Africa, syndicated amongst four local banks. This facility consolidated a number of local bilateral facilities into a single facility and aligned covenants and conditions within the banking group. This RCF does not have an expiry date, and subject to meeting the financial covenants and certain terms and conditions, it can only be cancelled by the banks with a 15-month notice period.
- The group's existing three-year €360 million securitisation programme would have matured in 2014. The facility was renewed and extended to August 2016 in June 2013 at a lower level of €330 million, in line with current sales volumes. The renewal also includes improved conditions, with an increased level of funding and a reduced funding margin.
- A tender for the repayment of the remaining €31 million 2014 Sappi Papier Holding bonds was successfully completed in December 2012. This completed the project to refinance and repay the most expensive debt in the capital structure.
- The ZAR1,000 million SMF1 public bond matured in June 2013. In April 2013, the South African bond market was accessed to raise a ZAR1,500 million bond. The proceeds were used to refinance the ZAR1,000 million SMF1 bond and ZAR500 million was utilised for the partial funding of the Ngodwana dissolving wood pulp conversion project. The new bond was raised in three tranches of three-, five- and seven-year notes, at a weighted fixed cost of 7.64%.

## Financing continued

- During the year, we also had to refinance approximately ZAR460 million maturing long-term promissory notes, staggered over a 12-month period. In April 2013, Southern Africa raised a new ZAR400 million bilateral seven-year loan in the South African bank market. This bullet loan carries a floating rate of interest at the Johannesburg Interbank Agreed Rate (Jibar) plus 205bps and was swapped to a fixed rate of 7.85%. The terms and conditions of the loan are identical to the Domestic Medium Term Note programme under which Southern Africa raises long-term bonds.

At September 2013, we had liquidity comprising US\$385 million of cash on hand, which exceeds the amount of short-term interest-bearing debt (including overdrafts) of US\$100 million, and US\$577 million available from undrawn committed facilities in Europe and South Africa. Net cash utilised for the year was US\$247 million largely as a result of the increased capital expenditure for the group's dissolving wood pulp and speciality conversion projects and, the lower operating performance from our European region.

The group's financial covenants, which were renegotiated in the last financial quarter to provide additional headroom on the net debt/EBITDA ratio and to remove the net debt/total capitalisation ratio, are similar to certain international term debt and are described further in the Chief Financial Officer's report.

## Borrowing and financing

The group's net debt at September 2013 amounted to US\$2,214 million (2012: US\$1,979 million). Details of the non-current borrowings are set out in Note 21 to the group annual financial statements.

## 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. All production and distribution units are subjected 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 uncontrolled incidents.

Asset insurance is renewed on a calendar year basis. The self-insured retention portion for any one property damage occurrence is US\$28 million (€20.5 million) with the annual aggregate set at US\$45 million (€33 million). For property damage and business interruption insurance, cost-effective cover to full value is not readily available. A loss limit of US\$947 million (€700 million) has been deemed to be adequate cover for the reasonable foreseeable loss for any single claim.

## Property, plant and equipment

Significant capital expenditure of US\$575 million including US\$9 million of capitalised interest was incurred during the year. This is largely related to the successful completion and commissioning of the major dissolving wood pulp conversions at our Cloquet and Ngodwana Mills in the year and the speciality paper conversion at our Alfeld Mill which was completed post year-end (in October 2013).

Difficult market conditions in the group's graphic paper business, particularly in Europe, resulted in substantial impairments being taken in our European and South African businesses of US\$72 million and US\$92 million respectively. Within our European business, the major impairments related to our Nijmegen Mill of US\$38 million and our coated mechanical cash generating unit of US\$25 million. In South Africa, the major impairments related to our Tugela Mill of US\$47 million, our Enstra Mill of US\$32 million and our Stanger Mill of US\$12 million. An impairment reversal of US\$9 million was also recorded on the sale of our Kangas paper machine which was impaired in the 2010 financial year.

See Note 10 to the group annual financial statements for full details regarding our property, plant and equipment.

## Litigation

From time to time, we become involved in various claims and lawsuits incidental to the ordinary course of our business. We are not currently involved in legal proceedings which, either individually or in the aggregate, are expected to have a material adverse effect on our business, assets or properties (see Note 27 to the group annual financial statements).

## Directors and secretaries

The composition of the board of directors is provided on pages 44 to 45. During the year, the following changes occurred:

- Professor M Feldberg, the lead independent director, retired as a director on 31 December 2012.
- Sir ANR Rudd, an independent director, was appointed lead independent director upon Professor Feldberg's retirement.
- Mr RJ DeKoch was appointed as an independent director with effect from 01 March 2013. In terms of the company's Memorandum of Incorporation, it will be necessary to confirm Mr DeKoch's appointment at the forthcoming Annual General Meeting where he will retire from the board at that meeting, and being eligible, has offered himself for re-election.

At the end of September 2013, there were 14 directors, two of whom were executive directors. Eleven of the 12 Non-executive Directors were 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. This included a more rigorous review of the independence of the two directors who have served more than nine years on the board, viz Dr D Konar and Mrs B Radebe.

In terms of the company's Memorandum of Incorporation, Messrs GPF Beurskens, RJ Boëttger, MA Fallon, Dr D Konar and Mrs B Radebe 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, including Mr RJ DeKoch, the board recommends each of them for re-appointment.

Details of the secretaries and their business and postal addresses are set out on page 106.

### Directors' remuneration

The remuneration and fees of the directors of Sappi Limited are set out in Note 35 to the group annual financial statements.

The beneficial interests of directors in the shares of the company including conditional share awards in terms of the plan are set out in Notes 36 and 37 to the group annual financial statements.

### Directors' and officers' disclosure of interests in contracts

During the period under review, no 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.

### Special resolutions

The following is a list of the special resolutions passed by Sappi Limited and its South African incorporated subsidiaries during the year:

Sappi Limited

- Increase in Non-executive Directors' fees
- The provision of direct or indirect financial assistance to related or inter-related companies
- Adoption of a new Memorandum of Incorporation

Sappi Southern Africa Limited

- Adoption of a new Memorandum of Incorporation
- Conversion from a private to a public company

### Subsidiary companies

Details of the company's significant subsidiaries are set out in Annexure A on page 78 of the annual group financial statements.

## summarised group income statement

for the year ended September 2013

US\$ million	Note	2013	2012	2011
<b>Sales</b>		<b>5,925</b>	6,347	7,286
Cost of sales		5,274	5,552	6,454
Gross profit		651	795	832
Selling, general and administrative expenses		384	417	454
Other operating expenses (income)		244	(41)	298
Share of profit from equity investments		(7)	(2)	(6)
<b>Operating profit</b>	1	<b>30</b>	421	86
Net finance costs		166	283	307
Net interest expense		168	293	336
Net foreign exchange gain		(1)	(5)	(13)
Net fair value gain on financial instruments		(1)	(5)	(16)
<b>(Loss) profit before taxation</b>		<b>(136)</b>	138	(221)
Taxation		25	34	11
Current		(4)	28	14
Deferred		29	6	(3)
<b>(Loss) profit for the year</b>		<b>(161)</b>	104	(232)
<b>Basic (loss) earnings per share (US cents)</b>		<b>(31)</b>	20	(45)
Weighted average number of shares in issue (millions)		521.3	520.8	519.9
<b>Diluted (loss) earnings per share (US cents)</b>		<b>(31)</b>	20	(45)
Weighted average number of shares on fully diluted basis (millions)		521.3	522.2	519.9

## summarised group statement of comprehensive income

for the year ended September 2013

US\$ million	2013	2012	2011
(Loss) profit for the year	(161)	104	(232)
<b>Other comprehensive loss, net of tax</b>			
<i>Items that can subsequently be reclassified to the income statement</i>	(224)	(103)	(145)
Exchange differences on translation of foreign operations	(225)	(60)	(151)
Movements in hedging reserves	3	(47)	6
Movement on available for sale financial assets	–	1	2
Tax effect on above items	(2)	3	(2)
<i>Items that cannot subsequently be reclassified to the income statement</i>	(7)	34	(60)
Actuarial gains (losses) on post-employment benefit funds	20	(88)	(59)
Tax effect on above items	(27)	122	(1)
<b>Total comprehensive (loss) income for the year</b>	<b>(392)</b>	35	(437)

## summarised group balance sheet

at September 2013

sappi

US\$ million	2013	2012
<b>Assets</b>		
<b>Non-current assets</b>	<b>3,754</b>	3,990
Property, plant and equipment	3,078	3,157
Plantations	464	555
Deferred tax assets	92	154
Other non-current assets	120	124
<b>Current assets</b>	<b>1,879</b>	2,178
Inventories	728	726
Trade and other receivables	748	800
Taxation receivable	18	7
Cash and cash equivalents	385	645
Assets held for sale	94	–
<b>Total assets</b>	<b>5,727</b>	6,168
<b>Equity and liabilities</b>		
<b>Shareholders' equity</b>		
Ordinary shareholders' interest	1,144	1,525
<b>Non-current liabilities</b>	<b>3,371</b>	3,328
Interest-bearing borrowings	2,499	2,358
Deferred tax liabilities	267	319
Other non-current liabilities	605	651
<b>Current liabilities</b>	<b>1,206</b>	1,315
Interest-bearing borrowings	99	261
Overdrafts	1	5
Other current liabilities	1,094	1,023
Taxation payable	12	26
Liabilities associated with assets held for sale	6	–
<b>Total equity and liabilities</b>	<b>5,727</b>	6,168
Number of shares in issue at balance sheet date (millions)	521.5	520.8



## summarised group statement of cash flows

for the year ended September 2013

US\$ million	2013	2012	2011
<b>(Loss) profit for the year</b>	<b>(161)</b>	104	(232)
Adjustment for:			
Depreciation, fellings and amortisation	414	442	499
Taxation	25	34	11
Net finance costs	166	283	307
Defined post-employment benefits paid	(74)	(62)	(70)
Plantation fair value adjustments	(166)	(68)	(65)
Asset impairments	155	10	167
Net restructuring provisions	97	(2)	135
Profit on disposal of investment	–	(11)	–
Profit on disposal of non-current assets held for sale	–	(48)	–
Other non-cash items	(9)	46	46
<b>Cash generated from operations</b>	<b>447</b>	728	798
Movement in working capital	(20)	(102)	(98)
Net finance costs paid	(164)	(195)	(256)
Taxation paid	(17)	(20)	(38)
<b>Cash generated from operating activities</b>	<b>246</b>	411	406
<b>Cash utilised in investing activities</b>	<b>(493)</b>	(284)	(243)
Capital expenditure <sup>(1)</sup>	(552)	(358)	(262)
Proceeds on disposal of non-current assets	53	71	6
Other movements	6	3	13
<b>Net cash (utilised) generated</b>	<b>(247)</b>	127	163
<b>Cash effects of financing activities</b>	<b>(8)</b>	(103)	(296)
Proceeds from interest-bearing borrowings	388	1,025	1,364
Repayment of interest-bearing borrowings	(389)	(1,066)	(1,578)
Cash costs attributable to refinancing transactions	(3)	(66)	(78)
Movement in overdrafts	(4)	4	(4)
<b>Net movement in cash and cash equivalents</b>	<b>(255)</b>	24	(133)
Cash and cash equivalents at beginning of year	645	639	792
Translation effects	(5)	(18)	(20)
<b>Cash and cash equivalents at end of year</b>	<b>385</b>	645	639

(1) Includes capitalised interest of US\$9 million (2012: US\$6 million, 2011: Nil).

## summarised group statement of changes in equity

for the year ended September 2013

US\$ million	2013	2012	2011
<b>Balance – beginning of year</b>	<b>1,525</b>	1,478	1,896
Total comprehensive (loss) income for the year	(392)	35	(437)
Transfers of vested share options	–	–	(1)
Share-based payment reserve	11	12	20
<b>Balance – end of year</b>	<b>1,144</b>	1,525	1,478

US\$ million	2013	2012	2011
<b>1. Operating profit</b>			
Included in operating profit are the following non-cash items:			
Depreciation and amortisation	348	369	417
Fair value adjustment on plantations (included in cost of sales)			
Changes in volume			
Fellings	66	73	82
Growth	(79)	(83)	(81)
	(13)	(10)	1
Plantation price fair value adjustment	(87)	15	16
	(100)	5	17
Included in other operating expenses (income) are the following:			
Net restructuring provisions	97	(2)	135
Loss (profit) on disposal of property, plant and equipment	2	(4)	(1)
Profit on disposal of investment	–	(11)	–
Profit on disposal of non-current assets held for sale	–	(48)	–
Asset impairments	155	10	167
Post-retirement plan amendment	(24)	–	–
Black Economic Empowerment charge	3	3	5

US\$ million	2013	2012	2011
<b>2. Headline (loss) earnings per share</b>			
Headline (loss) earnings per share (US cents)	(6)	9	(16)
Weighted average number of shares in issue (millions)	521.3	520.8	519.9
Diluted headline (loss) earnings per share (US cents)	(6)	9	(16)
Weighted average number of shares on fully diluted basis (millions)	521.3	522.2	519.9
<b>Calculation of headline (loss) earnings</b>			
(Loss) profit for the year	(161)	104	(232)
Asset impairments	155	10	167
Loss (profit) on disposal of property, plant and equipment	2	(4)	(1)
Profit on disposal of investment	–	(11)	–
Profit on disposal of non-current assets held for sale	–	(48)	–
Tax effect of above items	(27)	(2)	(17)
<b>Headline (loss) earnings</b>	<b>(31)</b>	<b>49</b>	<b>(83)</b>

US\$ million	2013	2012
<b>3. Capital commitments</b>		
Contracted	62	267
Approved but not contracted	195	244
	257	511

In addition to the above capital commitments, subsequent to financial year-end, the group announced a further US\$67 million relating to capital expenditure over a three-year period at Kirkniemi Mill.

US\$ million	2013	2012
<b>4. Contingent liabilities</b>		
Guarantees and suretyships	33	31
Other contingent liabilities	11	10
	44	41

## 5. Material balance sheet movements

Since the 2012 financial year-end, the period-end ZAR rate has weakened by approximately 21% to the US Dollar, the group's presentation currency, resulting in a similar decrease on translation of the group's ZAR functional currency assets and liabilities to US Dollar.

### ***Property, plant and equipment***

Following the recent announcement in Europe to relocate production from Nijmegen Mill to other Sappi mills in Europe, the group has impaired Nijmegen Mill together with other assets in the region to the value of US\$63 million (€48 million). In South Africa, the negative outlook for certain paper and packaging operations has resulted in impairment charges of US\$92 million (ZAR854 million) related largely to our Tugela, Enstra and Stanger Mills.

Capital expenditure of US\$575 million was incurred in the year largely due to the dissolving wood pulp conversion projects at the Cloquet and Ngodwana Mills and a conversion project at Alfeld Mill to produce speciality products.

### ***Plantations***

Due to the Ngodwana Mill dissolving wood pulp conversion project and the closure of the Kraft Continuous Digester at Tugela Mill, a certain portion of Southern Africa's softwood plantations that were previously utilised in the paper pulp production will now be sold to the local saw log markets. Consequently, Southern Africa's plantations were revalued resulting in a once-off favourable price fair value adjustment of US\$93 million (ZAR863 million) which is included in cost of sales.

### ***Deferred taxation assets***

Deferred tax assets of US\$24 million (€18 million) were reversed within Europe as they were no longer deemed recoverable.

### ***Trade and other receivables***

The decrease in trade and other receivables is primarily due to the receipt of US\$42 million on the sale of the previously equity accounted 34% shareholding in Jiangxi Chenming Paper Company.

### ***Interest-bearing borrowings and cash and cash equivalents***

During the year, the group repaid the remaining senior secured notes due 2014 of US\$41 million (€31 million), the US\$108 million (ZAR1,000 million) public bond maturing in June 2013, the private placement bonds of US\$41 million (ZAR382 million) and incurred cash capital expenditure of US\$552 million. These outflows were partially funded by the placement of a public bond offering of US\$162 million (ZAR1,500 million) and a seven-year bullet loan from GroCapital of US\$43 million (ZAR400 million).

### ***Other non-current liabilities***

The group transferred its South African medical aid scheme to an independent medical aid scheme which resulted in a reduction in the liability of US\$24 million (ZAR222 million).

### ***Other current liabilities***

The increase in other current liabilities relates largely to restructuring provisions raised following the implementation of a number of cost saving and efficiency initiatives in Southern Africa and Europe.

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## 6. Assets held for sale

During the year, Southern Africa entered into an agreement with Montigny Investments Limited to sell its shares in Usutu Forest Products Company Limited (Usutu). These shares represent assets comprising mainly plantations as well as the shareholder loan claim against Usutu. The timing of the sale is subject to the fulfilment of certain conditions precedent.

No remeasurements were recognised on reclassification of the disposal group as held for sale nor at financial year-end.

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## 7.

US\$ million	2013	2012	2011
<b>Segment information</b>			
<b>Sales</b>			
North America	1,377	1,438	1,520
Europe	3,155	3,350	3,965
Southern Africa – Pulp and paper	1,316	1,475	1,721
– Forestry	77	84	80
<b>Total</b>	<b>5,925</b>	<b>6,347</b>	<b>7,286</b>
<b>Operating profit (loss) excluding special items</b>			
North America	71	94	129
Europe	(9)	133	68
Southern Africa	123	178	199
Unallocated and eliminations <sup>(1)</sup>	6	(2)	8
<b>Total</b>	<b>191</b>	<b>403</b>	<b>404</b>
<b>Special items – losses (gains)</b>			
North America	(6)	7	(7)
Europe	142	(45)	139
Southern Africa	8	25	136
Unallocated and eliminations <sup>(1)</sup>	17	(5)	50
<b>Total</b>	<b>161</b>	<b>(18)</b>	<b>318</b>
<b>Segment operating profit (loss)</b>			
North America	77	87	136
Europe	(151)	178	(71)
Southern Africa	115	153	63
Unallocated and eliminations <sup>(1)</sup>	(11)	3	(42)
<b>Total</b>	<b>30</b>	<b>421</b>	<b>86</b>
<b>EBITDA excluding special items</b>			
North America	149	173	203
Europe	182	329	300
Southern Africa	202	271	309
Unallocated and eliminations <sup>(1)</sup>	6	(1)	9
<b>Total</b>	<b>539</b>	<b>772</b>	<b>821</b>
<b>Segment assets</b>			
North America	1,046	919	908
Europe	1,594	1,776	1,889
Southern Africa	1,523	1,605	1,574
Unallocated and eliminations <sup>(1)</sup>	(25)	20	51
<b>Total</b>	<b>4,138</b>	<b>4,320</b>	<b>4,422</b>

(1) Includes the group's treasury operations and the self-insurance captive.



## 7. Segment information *continued*

### Reconciliation of EBITDA excluding special items and operating profit excluding special items to segment operating profit and (loss) profit for the period

Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure.

US\$ million	2013	2012	2011
<b>EBITDA excluding special items</b>	<b>539</b>	772	821
Depreciation and amortisation	(348)	(369)	(417)
<b>Operating profit excluding special items</b>	<b>191</b>	403	404
Special items – (losses) gains	(161)	18	(318)
Plantation price fair value adjustment	87	(15)	(16)
Net restructuring provisions	(97)	2	(135)
(Loss) profit on disposal of property, plant and equipment	(2)	4	1
Profit on disposal of investment	–	11	–
Profit on disposal of non-current assets held for sale	–	48	–
Asset impairments	(155)	(10)	(167)
Post-retirement plan amendment	24	–	–
Black Economic Empowerment charge	(3)	(3)	(5)
Insurance recoveries	–	–	10
Fire, flood, storm and related events	(15)	(19)	(6)
<b>Segment operating profit</b>	<b>30</b>	421	86
Net finance costs	(166)	(283)	(307)
<b>(Loss) profit before taxation</b>	<b>(136)</b>	138	(221)
Taxation	(25)	(34)	(11)
<b>(Loss) profit for the period</b>	<b>(161)</b>	104	(232)
<b>Reconciliation of segment assets to total assets</b>			
<b>Segment assets</b>	<b>4,138</b>	4,320	4,422
Deferred taxation	92	154	45
Cash and cash equivalents	385	645	639
Other current liabilities	1,094	1,023	1,182
Taxation payable	12	26	20
Liabilities associated with assets held for sale	6	–	–
<b>Total assets</b>	<b>5,727</b>	6,168	6,308

# glossary

## General definitions

**ABET** – adult basic education and training

**AF&PA** – American Forest and Paper Association

**air dry tons (ADT)** – meaning dry solids content of 90% and moisture content of 10%

**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

**black liquor** – is 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

**CEPI** – Confederation of European Paper Industries

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

**chemical pulp** – a generic term for pulp made from wood fibre that has been produced in a chemical process

**CHP** – combined heat and power

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

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

**coated woodfree** – coated paper made from chemical pulp which is made from wood fibre that has been produced in a chemical process, primarily used for high end publications and advertising material

**contractor** – refers to an independent employer or self-employed person performing work for Sappi, excludes temporary or fixed-term employees

**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

**COSO** – the Committee of Sponsoring Organisations of the Treadway Commission

**CSI and CSR** – corporate social investment and corporate social responsibility

**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

**Elemental Chlorine Free (ECF)** – refers to bleaching sequences in which no chlorine is used

**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

**Forestry SA** – largest forestry organisation representing growers of timber in South Africa

**FSC** – in terms of the Forest Stewardship Council (FSC) scheme, there are two types of certification. In order for land to achieve FSC endorsement, its forest management practices must meet the FSC's 10 principles and other assorted criteria. For manufacturers of forest products, including paper manufacturers like Sappi, Chain-of-Custody certification involves independent verification of the supply chain, which identifies and tracks the timber through all stages of the production process from the tree farm to the end product

**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

**Green-e®** – an independent consumer protection programme created by the Centre for Resource Solutions for the sale of renewable energy and greenhouse gas reduction ([www.green-e.org](http://www.green-e.org))

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

**HFO** – heavy fuel oil

**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, previously known as the Johannesburg Stock Exchange

**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

**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

**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

**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 wood chips

**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

**NPO** – non-profit organisation

**natural/indigenous forest** – pristine areas not used commercially

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

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

**OTC** – over-the-counter trading of shares

**packaging paper** – paper used for packaging purposes

**PAMSA** – Paper Manufacturers' Association of South Africa

**PEFC** – the world's largest forest certification system, the PEFC is focused on promoting sustainable forest management. Using multi-stakeholder processes, the organisation develops forest management certification standards and schemes which have been signed by 37 nations in Europe and other inter-governmental processes for sustainable forestry management around the world

**plantation** – tree farms

**power** – the rate at which energy is used or produced

**pulpwood** – wood suitable for producing pulp – usually not of sufficient standard for saw-milling

**red data list** – a global index of endangered species published by the World Conservation Union

**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. The term also applies to backing paper for self-adhesive labels

**sackkraft** – kraft paper used to produce multiwall paper sacks

**Scope 1 and 2 GHG emissions** – The Green House 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
- indirect GHG emissions are emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity

**silviculture costs** – growing and tending costs of trees in forestry operations

**SMMEs** – small, medium and micro enterprises

**solid waste** – dry organic and inorganic waste materials

**Specialised Cellulose** – the business within Sappi which oversees the production and marketing of dissolving wood pulp

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

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

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

**TAPPI** – Technical Association of the Pulp and Paper Industry – for the worldwide pulp, paper, packaging, and converting industries

**thermo-mechanical pulp** – pulp produced by processing wood fibres using heat and mechanical grinding or refining wood or wood chips

**ton/tonne** – term used in this report to denote a metric tonne of 1,000 kg

**Total Chlorine-Free (TCF)** – refers to bleaching sequences in which no chlorine containing compounds such as chlorine dioxide are used

**Total Suspended Solids (TSS)** – refers to matter suspended or dissolved in effluent

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

**woodfree paper** – paper made from chemical pulp

**World Wide Fund for Nature (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 joint ventures and significant influence in associates commences

**associate** – an entity, other than a subsidiary or joint venture, over which the group has significant influence over financial and operating policies

**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

**control** – the ability, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefit from its activities. When assessing the ability to control an entity, the existence and effect of potential voting rights that are presently exercisable or convertible are taken into account

**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 control in joint ventures and significant influence in associates ceases

**fair value** – the value for which an asset could be exchanged or a liability settled in a market related transaction

**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

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

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

**group** – the group comprises Sappi Limited, its subsidiaries and its interest in joint ventures and associates

**joint venture** – an economic activity over which the group exercises joint control established under a contractual arrangement

**operation** – a component of the group:

- that represents a separate major line of business or geographical area of operation; and
- is distinguished separately for financial and operating purposes

**presentation currency** – the currency in which 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 amount that reflects the greater of the net selling price and the value in use that can be attributed to an asset as a result of its ongoing use by the entity. In determining the value in use, expected future cash flows are discounted to their 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** – the ability, directly or indirectly, to participate in, but not exercise control over, the financial and operating policy decisions of an entity so as to obtain economic benefit from its activities

## 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** – as envisaged in the Black Economic Empowerment (BEE) legislation in South Africa

**Black Economic Empowerment charge** – represents the IFRS 2 non-cash charge associated with the BEE transaction implemented in the 2010 financial year

**capital employed** – shareholders' equity plus net debt

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

**current asset ratio** – current assets divided by current liabilities

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

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

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

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

**headline earnings** – as defined in Circular 2/2013 issued by the South African Institute of Chartered Accountants, separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share

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

**net assets** – total assets less total liabilities

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

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

**net debt to total capitalisation** – net debt divided by capital employed

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

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

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

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

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

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

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

**SG&A** – selling, general and administrative expenses

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

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

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

# notice to shareholders

## Notice of Annual General Meeting

### THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

Sappi Limited  
(Registration number 1936/008963/06)  
(‘Sappi’ or ‘the company’)

The seventy-seventh Annual General Meeting of Sappi will be held in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg on Wednesday, 05 February 2014, 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 Annual General Meeting is Friday, 31 January 2014.

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

Ordinary resolution number 1 is proposed to present the annual financial statements of the company for the year ended September 2013, including the Directors’ Report, the report of the auditors and the report of the Audit Committee.

Abridged or summarised financial statements are contained on pages 84 to 96 of the Integrated Report. The complete group annual financial statements for the year ended September 2013 are available on the Sappi website: [www.sappi.com](http://www.sappi.com)

“Resolved that the annual financial statements for the year ended September 2013 of the company, including the Directors’ report, the report of the auditors and the report of the Audit Committee, be and are hereby received and accepted.”

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

#### 2. Ordinary resolution number 2:

Confirmation of appointment of directors appointed subsequent to the last Annual General Meeting and subsequent to the financial year-end, and re-election of those directors.

##### Ordinary resolution number 2.1:

“Resolved that the appointment of Mr Robert John DeKoch as a director of Sappi with effect from 01 March 2013 is confirmed and as, in terms of the Memorandum of Incorporation of Sappi, he retires from office at the conclusion of the Annual General Meeting at which this resolution is considered, he is re-elected as a director of Sappi.”

The board has evaluated the performance of Mr DeKoch since his appointment to the board, and recommends and supports the confirmation of his appointment and his re-election. For Mr DeKoch’s personal details, refer to Note 1 under Notes on page 103.

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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

#### 3. Ordinary resolution numbers 3.1 to 3.5:

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 personal details of these directors, refer to Note 2 under Notes on page 104.

It is intended that all the directors who retire by rotation will, if possible, attend the Annual General Meeting, either in person or by means of videoconferencing.

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 Annual General Meeting and entitled to exercise voting rights on the resolution is required:

##### Ordinary resolution number 3.1:

“Resolved that Mr Godefridus Peter Franciscus Beurskens is re-elected as a director of Sappi.”

##### Ordinary resolution number 3.2:

“Resolved that Mr Roeloff Jacobus Boëttger is re-elected as a director of Sappi.”

##### Ordinary resolution number 3.3:

“Resolved that Mr Michael Anthony Fallon is re-elected as a director of Sappi.”

##### Ordinary resolution number 3.4:

“Resolved that Dr Deenadayalen Konar is re-elected as a director of Sappi.”

##### Ordinary resolution number 3.5:

“Resolved that Mrs Bridgette Radebe is re-elected as a director of Sappi.”

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

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

Section 94 of the Companies Act requires that, at each Annual General Meeting, shareholders of the company must elect an Audit Committee comprising at least three members.

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

No changes are proposed to the membership of the committee as elected in 2013.

Brief biographical notes of each member of the Audit Committee are included in the biographies of all directors on pages 44 to 45 of the Integrated Report.



"Resolved that an Audit Committee be and is hereby elected, by separate election to the committee of the following independent directors:

4.1 Dr Deenadayalen Konar	Chairman*
4.2 Mr Godefridus Peter Franciscus Beurskens	Member*
4.3 Mr Michael Anthony Fallon	Member*
4.4 Mr Nkateko Peter Mageza	Member
4.5 Mrs Karen Rohn Osar	Member

in terms of the Companies Act, to hold office until the conclusion of the next Annual General Meeting and to perform the duties and responsibilities stipulated in section 94(7) of the Companies Act and in King III 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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

\* Subject to their re-election as directors pursuant to ordinary resolution numbers 3.1, 3.3 and 3.4.

## 5. Ordinary resolution number 5: Re-appointment of auditors

The board has evaluated the performance of Deloitte & Touche and recommends and supports their re-appointment as auditors of Sappi.

"Resolved to re-appoint Deloitte & Touche (with the designated registered auditor currently being Mr RC Campbell) as the auditors of Sappi Limited for the financial year ending September 2014 and to remain in office until the conclusion of the next Annual General Meeting."

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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

## 6. Ordinary resolution numbers 6.1 and 6.2: Provision of Sappi shares required by The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust

The passing of ordinary resolution numbers 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. The passing of ordinary resolution 6.2 will provide directors with the flexibility to utilise shares repurchased from time to time by a wholly-owned subsidiary of Sappi and held in treasury by the 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.

In terms of the Schemes, the combined maximum number of shares that can be issued pursuant to both the Schemes is 42,700,870 shares (being 7.89% of the issued ordinary share capital of Sappi at 30 September 2013) of which, 15,333,928 shares have already been issued to or transferred to the Schemes, leaving a balance of up to 27,366,942 shares which could still need to be issued or transferred to the Schemes.

As reported to shareholders in the 2013 notice of Annual General Meeting, with effect from the 2012 share-based award programme allocations, the company has ceased allocating share awards which are not subject to any performance criteria. Instead, only performance share plan awards are made to all participants eligible for awards in terms of the company's share-based incentive programmes. The company will, however, still need to meet its obligations to deliver any shares which might arise from the

vesting of share options which were made up until 2012 in terms of The Sappi Limited Share Incentive Scheme, hence the inclusion of reference to The Sappi Limited Share Incentive Trust in ordinary resolution number 6.2 (maximum 10,259,473 shares).

## 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 allot and 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 Limited 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 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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

## 7. Ordinary resolution number 7: Remuneration policy

"Resolved as an ordinary resolution, that the company's remuneration policy as contained in the Compensation report on pages 53 to 58, 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 III.

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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

## 8. Special resolution number 1: Non-executive directors' fees

"Resolved that, with effect from 01 October 2013 and until otherwise determined by Sappi in general meeting, the remuneration of the non-executive directors for their services shall be increased as follows:

	From	To
<b>1. Sappi board fees<sup>(1)</sup></b>		
<b>Chairman</b>	ZAR2,247,200 <sup>(2)</sup>	ZAR2,247,200 <sup>(3)</sup>
<b>Lead independent director</b>		
If South African resident	ZAR460,675	ZAR490,620
If European resident	GBP60,670	GBP62,795
If USA resident	US\$89,910	US\$91,710
<b>Other directors</b>		
If South African resident	ZAR307,865	ZAR327,875
If European resident	GBP40,430	GBP41,845
If USA resident	US\$59,885	US\$61,080

(1) Fees per annum unless indicated otherwise.

(2) Inclusive of all committee fees.

(3) The Chairman has elected not to accept an increase in fees for the year 01 October 2013 to 30 September 2014.

## 8. Special resolution number 1: Non-executive directors' fees continued

	From	To
<b>2. Audit committees<sup>(1)</sup></b>		
<b>Board committee</b>		
<b>Chairperson</b>		
If South African resident	ZAR319,665	ZAR340,445
If European resident	GBP41,020	GBP42,455
If USA resident	US\$62,065	US\$63,305
<b>Other members</b>		
If South African resident	ZAR159,835	ZAR170,225
If European resident	GBP20,620	GBP21,340
If USA resident	US\$30,240	US\$30,845
<b>Regional Audit Committees</b>		
<b>Chairperson</b>		
If South African resident	ZAR40,280 per meeting	ZAR42,900 per meeting
If European resident	GBP5,265 per meeting	GBP5,450 per meeting
If USA resident	US\$7,590 per meeting	US\$7,740 per meeting

	From	To
<b>3. Human Resources and Compensation Committee, Nomination and Governance Committee, Social, Ethics, Sustainability and Transformation Committee and any other committees<sup>(1)</sup></b>		
<b>Chairperson</b>		
If South African resident	ZAR192,135	ZAR204,625
If European resident	GBP24,375	GBP25,230
If USA resident	US\$35,430	US\$36,140
<b>Other members</b>		
If South African resident	ZAR100,000	ZAR106,500
If European resident	GBP17,080	GBP17,675
If USA resident	US\$21,640	US\$22,070

	From	To
<b>4. Additional meeting fees for board meetings in excess of five meetings per annum (whether attended in person or by teleconference/videoconference<sup>(1)</sup>)</b>		
If South African resident	ZAR30,845 per meeting	ZAR32,850 per meeting
If European resident	GBP3,995 per meeting	GBP4,135 per meeting
If USA resident	US\$5,985 per meeting	US\$6,105 per meeting

	From	To
<b>5. Travel compensation (increase of 3.23%)</b>		
For more than 10 flight hours return	US\$3,100 per meeting	US\$3,200 per meeting

<sup>(1)</sup> Fees per annum unless indicated otherwise.

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 2% and 6.5% per annum depending generally on the domicile of the directors and the currency in which they are paid, with

effect from 01 October 2013. The fees were last increased with effect from 01 October 2012 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 now 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 2013 onwards. Initially, the December 2013 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 2013 payment will be made up in the March 2014 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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

## 9. 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 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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

## 10. Ordinary resolution number 8: 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 Annual General Meeting held on 05 February 2014 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 Annual General Meeting and entitled to exercise voting rights on the resolution is required.

## 11. To receive a report from the Social, Ethics, Transformation and Sustainability Committee

Shareholders are referred to the Social, Ethics, Transformation and Sustainability Committee report on page 59.

## Proxies

A shareholder is entitled to appoint one or more proxies to attend, speak and on a poll to vote in his 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 the JSE's electronic settlement system (Strate Limited) and have recorded in the sub-register in 'own name' dematerialised form (ie are shareholders who have specifically instructed their Central Securities Depository Participant (CSDP) or brokers to hold their shares in their own names 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 Annual General Meeting must instruct their CSDPs or brokers to provide them with a letter of representation to enable them to attend such meeting, or
- vote but not to attend the Annual General Meeting, 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 shareholders 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 Annual General Meeting to be held on 05 February 2014 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 Annual General Meeting by way of electronic participation, that shareholder should make application in writing (including details as to how the shareholder or the shareholder's representative (including the shareholder's proxy) can be contacted) to so participate to the transfer secretaries, at their address as reflected on page 106, to be received by the transfer secretaries at least five business days prior to the Annual General Meeting 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) 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 annual general meeting 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 Annual General Meeting. 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 secretary by 17:00 on Monday, 03 February 2014 at:

7th Floor  
48 Ameshoff Street  
Braamfontein  
Johannesburg 2001

or

PO Box 31560  
Braamfontein  
2017

or

By e-Mail to Denis.OConnor@sappi.com

## Sappi Southern Africa Limited

Secretaries: per DJ O'Connor  
48 Ameshoff Street  
Braamfontein, Johannesburg 2001  
09 December 2013

## Notes

1. **Confirmation of appointment of directors appointed subsequent to the last Annual General Meeting and the re-election of these directors**

**Robert (Bob) John DeKoch**

(Independent)

**Age:** 61

**Qualifications:** BA (Chemistry), MBA

**Nationality:** USA

**Appointed:** March 2013

### Sappi board committee memberships

- Social, Ethics, Transformation and Sustainability Committee.

### Other board and organisation memberships

- The Boldt Company: President
- Palmer Johnson Power Systems
- New North, Inc: Chairman
- The Building for Kids

### Skills, expertise and experience

Mr DeKoch is the current President and Chief Operating Officer of The Boldt Company in Appleton, Wisconsin, USA. Prior to joining The Boldt Company, Mr DeKoch served as a production manager and mill manager, as well as Vice President of manufacturing for Appleton Papers (USA). He has co-authored two books on leadership thinking.

Notes continued

2. Directors retiring by rotation who are seeking re-election

**Godefridus Peter Franciscus Beurskens (Frits)**

(Independent)

**Age:** 66

**Qualifications:** BSc Mechanical Engineering, MSc Industrial Engineering and Management Science

**Nationality:** Dutch

**Appointed:** October 2011

**Sappi board committee memberships**

- Audit Committee

**Other board and organisation memberships**

- Smurfit Kappa Group
- A number of supervisory boards of companies

**Skills, expertise and experience**

The Smurfit Kappa Group is a leader in paper based packaging with annual sales of more than €7,000 million globally. As President and Chief Executive Officer of Kappa Packaging, prior to its merger with the Smurfit Group, he oversaw the establishment of Kappa Packaging as a top performer and one of Europe's largest companies operating in the production, development and sale of containerboard, corrugated board, solid board packaging, graphic board and speciality board. He is a past Chairman of CEPPI (the Confederation of European Print Industries) and of ICCA (the International Corrugated Case Association). In December 2007, he was appointed by the Dutch Queen as officer of the Order of Orange Nassau (Knighthood).

**Roeloff Jacobus Boëttger (Ralph)**

(Chief Executive Officer)

**Age:** 52

**Qualifications:** BAcc (Hons), CA(SA)

**Nationality:** South African

**Appointed:** July 2007

**Sappi board committee memberships**

- Social, Ethics, Transformation and Sustainability Committee
- Attends meetings of all other board committees by invitation

**Skills, expertise and experience**

At the age of 34 he was appointed Chief Executive Officer of Safair and the next year appointed to the Executive Committee of Safmarine Limited. From 1998 until July 2007, he was with Imperial Holdings when Imperial acquired Safair. From 2002, he was an Executive Director of Imperial Holdings with responsibility for their local and international logistics operations, the aviation division and the heavy commercial vehicle distribution operations. His field of responsibility encompassed business operations in Southern Africa, numerous European countries, the Middle East and Asia. He is well versed in managing an operation with diverse cultures.

**Michael (Mike) Anthony Fallon**

(Independent)

**Age:** 55

**Qualifications:** BSc (Hons) (First Class)

**Nationality:** British

**Appointed:** September 2011

**Sappi board committee memberships**

- Audit Committee
- Human Resources and Compensation Committee

**Skills, expertise and experience**

Prior to retirement in June 2012, Mr Fallon was President of Nippon Sheet Glass Company Limited's (NSG Group's) global automotive division. With annual sales of around €6,000 million, the NSG Group is one of the world's largest manufacturers of glass and glazing products for the building, automotive and speciality glass sectors. His management and leadership experience extend across a wide range of functions from plant management, sales and marketing and supply chain to general management, including mergers and acquisitions experience. He has been a Director and Chairman of companies in the United Kingdom, New Zealand and Finland.

**Dr Deenadayalen (Len) Konar**

(Independent)

**Age:** 59

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

**Nationality:** South African

**Appointed:** March 2002

**Sappi board committee memberships**

- Audit Committee (Chairman)
- Nomination and Governance Committee

**Other board and organisation memberships**

- Exxaro Resources Limited: Chairman
- Illovo Sugar Limited
- Lonmin plc
- JD Group Limited
- Mustek Limited: Chairman
- Steinhoff International Holdings Limited: Chairman

**Skills, expertise and experience**

Previously professor and head of the Department of Accountancy at the University of Durban-Westville, Dr Konar is a member of the King Committee on Corporate Governance in South Africa and the SA Institute of Directors, past member and Chairman of the external Audit Committee of the International Monetary Fund and member of the Safeguards Panel and Implementations Oversight Panel of the World Bank (Co-chairman).

**Bridgette Radebe**

(Independent)

**Age:** 53

**Qualifications:** BA (Pol Sc and Socio)

**Nationality:** South African

**Appointed:** May 2004

**Sappi board committee memberships**

Social, Ethics, Transformation and Sustainability Committee

**Other board and organisation memberships**

- Mmakau Mining (Pty) Limited (Executive Chairperson)
- South African Mining Development Association (President)
- New Africa Mining Fund (Founder and board trustee)

**Skills, expertise and experience**

Mrs Radebe was the first black South African deep level hard rock mining entrepreneur in the 1980s. She has more than a decade of experience in contract mining, mining construction and mining mergers and acquisitions. She is founder of Mmakau Mining which has investments in platinum, coal, chrome and gold mines. She participated in the design of the South African Mining Charter and present mining legislation.

Annual General Meeting	05 February 2014
First quarter results released	February 2014
Second quarter and half-year results released	May 2014
Third quarter results released	July 2014
Financial year-end	September 2014
Preliminary fourth quarter and year results	November 2014
Integrated report posted to shareholders and posted on website	December 2014



### Sappi Limited

Registration number 1936/008963/06  
JSE code: SAP  
ISIN code: ZAE 000006284

### Group secretary

Denis O'Connor

### Secretaries

Sappi Southern Africa Limited  
48 Ameshoff Street  
Braamfontein 2001  
South Africa  
PO Box 31560  
Braamfontein 2017  
South Africa

Telephone +27 (0)11 407 8111  
Fax +27 (0)11 339 1881  
e-Mail Denis.OConnor@sappi.com  
www.sappi.com

### Transfer secretaries

South Africa  
Computershare Investor Services (Pty) Limited  
70 Marshall Street  
Johannesburg 2001  
PO Box 61051  
Marshalltown 2107

Telephone +27 (0)11 370 5000  
Fax +27 (0)11 370 5217  
e-Mail registrar@computershare.co.za  
www.computershare.com

### Corporate affairs

André Oberholzer – Group Head Corporate Affairs  
Telephone +27 (0)11 407 8044  
e-Mail Andre.Oberholzer@sappi.com

### Investor relations

Graeme Wild – Group Head Investor Relations and Sustainability  
Telephone +27 (0)11 407 8391  
e-Mail Graeme.Wild@sappi.com

### United States ADR Depositary

The Bank of New York Mellon  
Investor Relations  
PO Box 11258  
Church Street Station  
New York, NY 10286-1258

Telephone (US only) 1 888 BNYADRS  
Telephone (outside the US) +1 201 680 6825  
e-Mail shrrelations@bnymellon.com  
www.bnymellon.com/shareowner

**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 depository 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 seventy-seventh Annual General Meeting of the shareholders to be held at 14:00 on Wednesday, 05 February 2014 in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, 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, 03 February 2014, to Sappi's transfer secretaries, Computershare Investor Services (Proprietary) Limited, by way of hand delivery to 70 Marshall Street, Johannesburg, 2001, Republic of South Africa or by way of postal delivery to PO Box 61051, Marshalltown, 2107, Republic of South Africa.

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 above mentioned

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, 05 February 2014 or at any adjournment thereof, as follows.

	Number of shares		
	For	Against	Abstain
Ordinary resolution number 1 – Receipt and acceptance of 2013 annual financial statements, including Directors' Report, Auditors' Report and Audit Committee Report			
Ordinary resolution number 2 – Confirmation of appointment and re-election of directors appointed since the last Annual General Meeting*			
Ordinary resolution 2.1 – Confirmation of appointment and re-election of Robert (Bob) John DeKoch as a director of Sappi			
Ordinary resolution number 3 – Re-election of directors retiring by rotation in terms of Sappi's Memorandum of Incorporation*			
Ordinary resolution number 3.1 – Re-election of Mr Godefridus (Frits) Peter Franciscus Beurskens as a director of Sappi			
Ordinary resolution number 3.2 – Re-election of Mr Roeloff (Ralph) Jacobus Boëttger as a director of Sappi			
Ordinary resolution number 3.3 – Re-election of Mr Michael (Mike) Anthony Fallon as a director of Sappi			
Ordinary resolution number 3.4 – Re-election of Dr Deenadayalen (Len) Konar as a director of Sappi			
Ordinary resolution number 3.5 – Re-election of Mrs Bridgette Radebe as a director of Sappi			
Ordinary resolution number 4 – Election of Audit Committee			
Ordinary resolution number 4.1 – Election of Dr Deenadayalen Len Konar as Chairman of the Audit Committee			
Ordinary resolution number 4.2 – Election of Mr Godefridus (Frits) Peter Franciscus Beurskens as a member of the Audit Committee			
Ordinary resolution number 4.3 – Election of Mr Michael (Mike) Anthony Fallon as a member of the Audit Committee			
Ordinary resolution number 4.4 – Election of Mr Nkateko Peter Mageza (Peter) as a member of the Audit Committee			
Ordinary resolution number 4.5 – Election of Mrs Karen Rohn Osar as a member of the Audit Committee			
Ordinary resolution number 5 – Re-appointment of Deloitte & Touche as auditors of Sappi for the year ending September 2014 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			
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			
Ordinary resolution number 8 – Authority for directors to sign all documents and do all such things necessary to implement the above resolutions			

Insert X in the appropriate block if you wish to vote all your shares in the same manner. If not, insert the number of votes in the appropriate block. If no indication is given, the proxy will vote as he/she thinks fit.

Signed at

on

Assisted by me (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be shareholders of Sappi) to attend, speak, and on a poll, vote in place of that shareholder at the Annual General Meeting or any adjournment thereof.

\* Refer to Notice to shareholders on page 100.

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, 70 Marshall Street, Johannesburg, 2001, 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, 70 Marshall Street, Johannesburg, 2001, 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, 03 February 2014.
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 South African Companies Act, 71 of 2008 (as amended) (the 'Companies Act')

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, which do not relate to historical matters, 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 cyclicity, 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 the global economic downturn
- 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 or strategic initiatives (including our announced dissolving wood pulp conversion projects), and achieving expected savings and synergies, and
- currency fluctuations.

We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.



**sappi**

[www.sappi.com](http://www.sappi.com)