

A full-page photograph of a cyclist wearing a white helmet and a dark jersey, riding a white mountain bike on a wooden dock. The dock is situated on a calm lake, with a dense forest of green trees on the opposite shore under a clear blue sky. The cyclist is in the foreground, leaning forward in a riding posture. The water reflects the sky and the surrounding greenery.

**sappi**

and  
sustainability  
2010

# There is no solution to climate change without responsible commercial forestry

Trees and plants are essential to a stable climate. They help remove heat-trapping carbon dioxide gas from the air by storing carbon in their leaves, wood, roots and soils.

During the process of photosynthesis, leaves use energy from the sun to convert carbon dioxide into organic compounds, especially sugars. The water absorbed through the roots 'transports' these nutrients throughout the tree. As the leaves store carbon, they give off oxygen.

In Sappi's plantations, logging is balanced with re-growth and twigs and stumps are left behind, leading to continuous enrichment of the soil.

Wood is produced in the trunk of a tree. Tree trunks are made up of 45% cellulose, 30% hemicellulose, 20% lignin and 5% extractives. The lignins are removed before making coated fine paper and resultant black liquor, a source of renewable energy in integrated pulp mills.

The roots also absorb water and minerals from the ground and send them up through the trunk and out through the branches. Approximately 50% of the weight of a tree is water and this is used in the manufacturing process.

Renewable • Recyclable • Biodegradable

# Contents

Who we are and 2010 highlights	2	Key issues	14
Message from the chief executive officer	4	Report-back on targets and Charter commitments	19
Sustainable organisation	6	– Prosperity	20
Sustainable fibre	7	– People	28
Sustainable manufacturing	10	– Planet	36
Sustainable products and marketplace	12	External accolades and benchmarks	44



## Our vision

To embed the **3Ps of Prosperity, People and Planet** into our everyday business processes to add value to all stakeholders, and to help achieve our goal to be, on a sustainable basis, the most profitable company in paper, pulp and chemical cellulose solutions.

## Our mission statement fulfils this aspiration

Delivering on sustainability by:

- **Focusing on ethical Performance** in keeping with our values of Excellence, Integrity and Respect
- **Generating Prosperity** as our ability to remain a sustainable player is founded on generating profits in the short- and long-term
- **Improving the lives of People** through products and services that enrich their lives and by providing an environment in which they can develop their full potential
- **Treading more lightly on the Planet** by balancing our needs with our impact on the Earth.

*An expanded version of this report, together with the GRI G3 indicators, can be found on our website [www.sappi.com](http://www.sappi.com)*

## Our Sustainability Charter

We define sustainable development as “development which meets the needs of the present without compromising the ability of future generations to meet their own needs”.<sup>\*</sup> We incorporate the principles of sustainable development into our everyday business practices by developing a culture of compliance. Sappi's people commit to the following goals:

### Prosperity

- Focus on long-term profitable growth
- Promote an ethical culture
- Drive customer satisfaction through technology and innovation
- Build on our competitive position in our core markets
- Maintain our licence to trade
- Create value for all stakeholders.

### People

- Provide training and development opportunities
- Cultivate an inclusive, diverse workplace
- Be a great place to work
- Prioritise wellbeing, safety and health
- Engage with stakeholders openly and constructively
- Partner with communities.

### Planet

- Safeguard biodiversity by promoting sustainable forestry
- Reduce greenhouse gas emissions and increase our use of renewable energy
- Continue our commitment to independent environmental, wood and fibre certification systems
- Reduce solid waste and improve water quality
- Promote the recovery and use of recycled fibre
- Conform with best environmental practice and legislation.

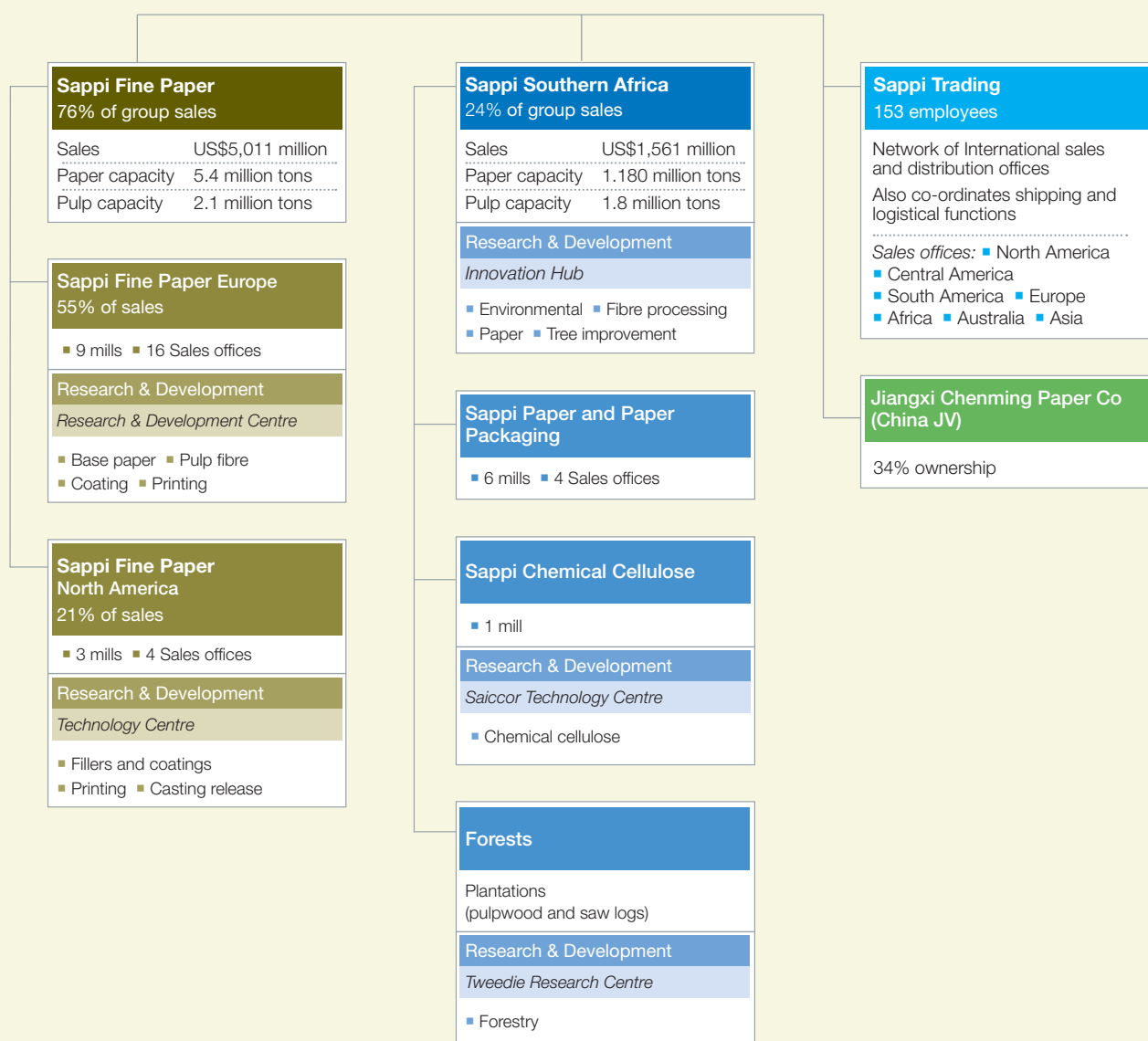
<sup>\*</sup> The Brundtland Report, Our Common Future

## Who we are

Founded and incorporated in South Africa in 1936, Sappi is today a global paper and pulp company. We are a leading producer of coated fine paper widely used in books, brochures, magazines, catalogues and many other print applications. We are also the world's largest producer of chemical cellulose, used primarily in the manufacture of viscose fibre, acetate tow and consumer and pharmaceutical products. In addition, we produce newsprint, uncoated graphic and business papers, premium quality packaging papers, a range of coated speciality papers and a range of paper grade pulp. Sappi works closely with customers, both direct and indirect, in over 100 countries to provide them with relevant and sustainable paper, paper pulp and chemical cellulose products and related services and innovations.

# sappi

Sales US\$6,572 million Employees 15,586



### Research & Development: Sappi Technology Centres

Research and development take place at our technology centres in North America, Europe and South Africa which all have their own specific areas of expertise. In focusing on innovation, our main objective is to ensure that our business stays relevant for stakeholders through appropriate technology, ongoing product development, as well as listening to our customers' needs.

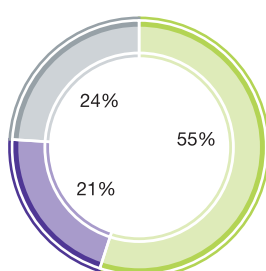


## 2010 highlights

- Each of our businesses generated positive profit for the year and in the final quarter, the group achieved its highest quarterly operating profit (excluding special items) since 2002.
- A Broad-based Black Economic Empowerment (BBBEE) transaction was concluded which saw 30% of Sappi's South African business becoming empowered.
- The interactive eQ tool launched by Sappi Fine Paper North America is aimed at educating our stakeholders on our North American business' environmental footprint.
- We significantly increased the procurement of our certified wood fibre from 51% to 61% in North America, from 70% to 82% in South Africa, while in Europe it remained unchanged at approximately 75%.
- Under the heading of "Code of Ethics: are we walking the walk?" we conducted a survey on the updated Sappi Code of Ethics. Over 90% of respondents from North America believed that the Code was being followed by their managers and colleagues versus 77% and 75% in Europe and South Africa respectively. Almost all employees correctly identified all three of Sappi's core values: Excellence, Integrity and Respect.

### Sales by source\*

2010: US\$6,572 million

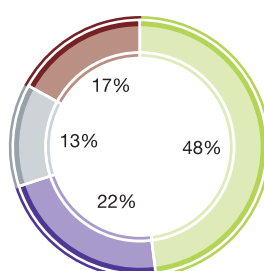


Europe  
North America  
Southern Africa

\* Where the product is manufactured.

### Sales by destination\*\*

2010: US\$6,572 million

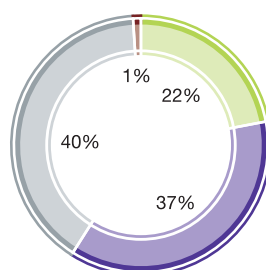


Europe  
North America  
Southern Africa  
Asia and other

\*\* Where the product is sold.

### Operating profit excluding special items

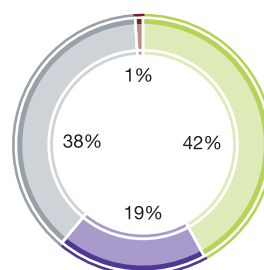
2010: US\$339 million



Europe  
North America  
Southern Africa  
Unallocated

### Share of group's net operating assets

2010: US\$4,996 million



Europe  
North America  
Southern Africa  
Unallocated



## Message from the chief executive officer

Ralph Boöttger



Sustainability has moved from the fringes of business into the mainstream and we are determined not to relegate sustainability to being a checklist exercise.

We believe that the essence of sustainability is to protect and to create stakeholder value over the long-term. This will be achieved by being responsive to the changing trends of dynamic marketplaces, considerate of the expectations and needs of our stakeholders and sensitive to the fact that we operate in an industry which has a high potential environmental impact.

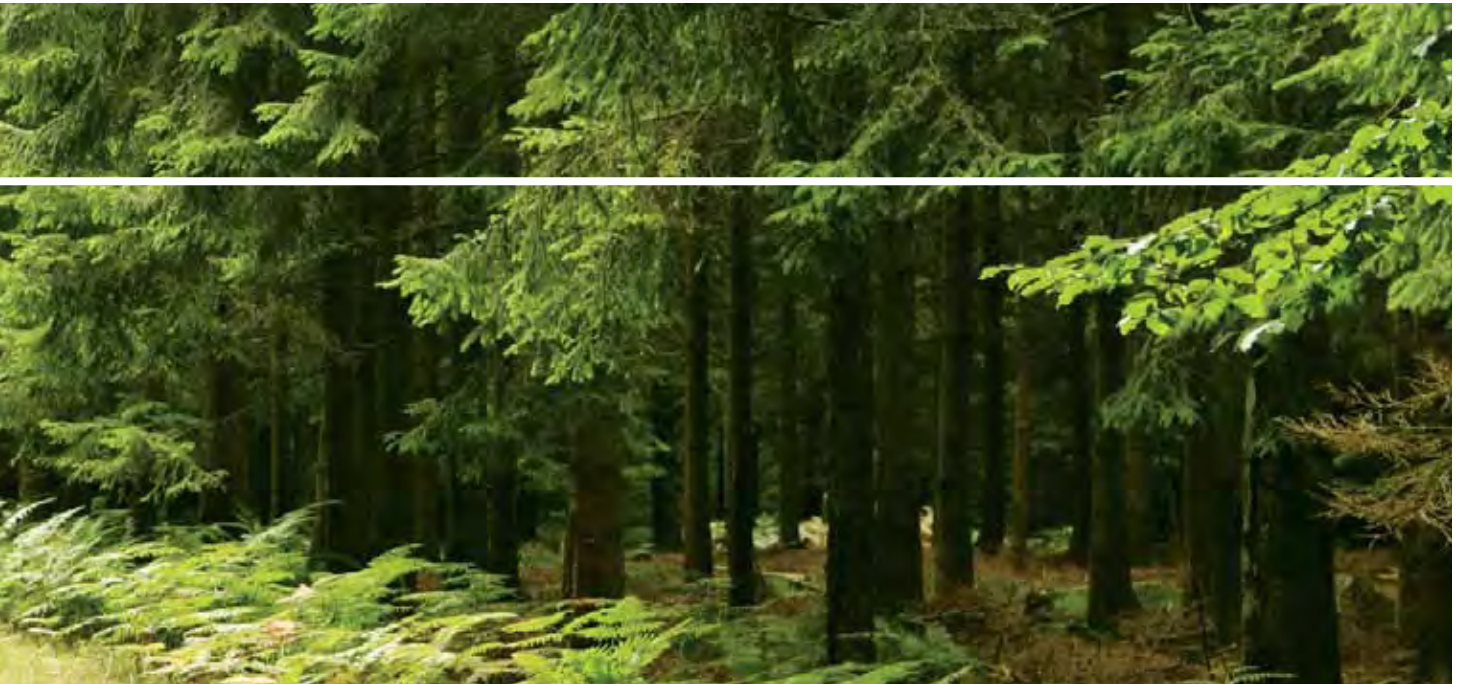
The further we integrate sustainability into our everyday business processes, the more we understand the interdependent nature of the 3Ps of Prosperity, People and Planet.

Energy is a case in point. Our operations are energy intensive. Our long-term strategic plan involves the reduction of greenhouse gases (GHGs) and a concerted focus on the use of renewable and self-generated energy. By reducing our carbon footprint we generate cost savings as well as achieving greater control on this key input in terms of self-sufficiency. Having the ability to generate our own energy is important economically and from an environmental perspective.

In terms of Prosperity, to drive our return to profitability, management actions over the last year have included closure of under performing operations (Kangas Mill in Finland and Usutu Mill in Swaziland), the consolidation of our paper division in South Africa into Sappi Paper and Paper Packaging South Africa, the re-engineering of our customer processes and service offerings in Europe and various well-received marketing campaigns dealing with new products and with the sustainable nature of our products. The structural changes in South Africa are aimed at meeting customer requirements and developing new business opportunities.

Globally we continue to explore technical innovation opportunities delivering variable cost reduction and improvement in procurement,

*We manage both financial and non-financial risks and impacts in order to achieve real business benefits and value add for our stakeholders.*



waste management and capital expenditure. We also concentrate on growth areas of our business, developing relationships at all levels with our customer base and launching a range of innovative products to meet their specific needs.

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

During the past financial year we concluded a BBBEE transaction which has enabled us to meet our BBBEE equity targets. Effectively, 30% of the equity in our South African business is now in the hands of all South African employees below middle-management level (62.5%), our black managers (15%), the communities in which our South African business is economically active (12.5%) and a strategic empowerment partner group (10%).

In terms of People, the abovementioned transaction was aimed at creating wealth on a broad basis for our employees and black managers who, in the majority, do not participate in other company share incentive schemes and at attracting and retaining core skills.

Communities, in particular those located near our operations, are key stakeholders and as such we believed it appropriate to include them in the equity package. We will continue to promote their advancement through our corporate social investment projects, particularly through educational and entrepreneurial initiatives.

The transaction has also elevated our South African business to a 'Level Three Contributor' which means that 110% of the value of all purchases from Sappi's South African business qualifies as preferential procurement spend by our South African customers and gives our products a competitive advantage in this region.

Safety is an ongoing challenge. We have worked very hard to create a culture which prioritises safety at all times and incorporates contractors into this culture. While our safety performance improved further in the year under review, I deeply regret having to report that there were four fatalities – one in Europe and three in our South African operations. We will continue to focus on entrenching a strong safety culture with the ultimate target of zero harm.

In working to achieve our goal of treading more lightly on the Planet, we are now producing the average sheet of fine paper with less fossil-based energy and water and with less impact on landfill than we did three years ago. Going forward we will focus on continuous improvement through our pursuit of best practice forest management standards, efficient manufacturing practices, renewable energy generation, fibre recovery and responsible use of all resources.

Shifting stakeholder expectations together with new knowledge and innovations in technology are constantly challenging us to make choices in the way our operations, products, services, and activities impact on our financial viability, on our stakeholders and on the earth.

I would like to thank those who have worked hard in the past year to leverage the opportunities and deal with the challenges of this dynamic environment. The sustainability journey is often unpredictable, sometimes difficult, but always stimulating and I look forward to taking on the challenges that await us in the year ahead.

#### **Ralph Boëttger**

Chief executive officer  
Sappi Limited

## Sustainable organisation

### Message from group head: legal and sustainability

Balancing the economic, social and environmental aspects of the business within a transparent, ethical corporate governance framework underpins our approach to sustainable development.

The Sappi Code of Ethics is the foundation of this approach. In the year under review, we rolled out a global survey to assess our employees awareness and understanding of the Code, including whether they see it as adding value to the organisation and the extent to which they abide by it.

The survey indicated a high awareness of Sappi's core values of Excellence, Integrity and Respect. The majority of employees would report fraud or unethical behaviour to their line managers, with the Sappi Hotlines being the second line of recourse.

### Key developments

A key development in the year under review was the elevation of the executive sustainability committee into a board committee which continues to be chaired by Jock McKenzie, an independent non-executive director. Rudolf Thummer, a non-executive director, was appointed during the year to the sustainability board committee. The committee agrees sustainability objectives and monitors targets quarterly. The latter are set out on page 19, with the annual data reflecting that we have achieved some, but not all, of our goals during the year.

Governance was strengthened further by formalising our approach to sustainability-related issues in the form of global group policies. This has given everyone within our geographically diverse group a common blueprint for engaging with stakeholders and has enhanced understanding of our stance on certain key issues.

Annually our mills in the European Union are certified under the Eco-Management Audit System (EMAS) which involves external auditing of

our environmental data from those mills. The issue of having our sustainability information assured in some way has been under consideration for a period of time. Our intention is therefore to involve our internal audit department in conducting an assessment of certain social and environmental performance indicators during 2011. We will report back on progress made in next year's report.

### Ria Sanz

Group head: legal and sustainability  
Sappi Limited



## Scope of this report

This report is aligned with our annual report and covers the period 28 September 2009 to 26 September 2010. In terms of joint ventures, we have a 34% stake in our joint venture in Jiangxi Chenming Mill in the People's Republic of China and only have an indirect influence. Hence this mill is not covered in our report. LignoTech South Africa, our 50:50 joint venture with Borregard at Saiccor Mill is also excluded as we do not manage the operation.<sup>(1)</sup> We report on a regional and global basis, wherever possible presenting data over five years to make the information relevant, accessible and comparable.

### About this report

As Sappi Limited is headquartered in South Africa and has its primary listing on the JSE, we abide by the King III Code on Corporate Governance (King III).<sup>(2)</sup>

We have once again reported in terms of our 16 Sustainability Charter commitments in terms of the performance against objectives grid

which we introduced last year – an approach which provides a very clear link between sustainability and strategy and meets King III's recommendation for integrated reporting. We report in accordance with the GRI G3 indicators and this year, have declared ourselves as a level A reporter.

The printed report is aimed at giving the reader a broad overview of our triple bottom line performance. Our online report ([http://sappi.investoreports.com/sappi\\_sdr\\_2010](http://sappi.investoreports.com/sappi_sdr_2010)) follows the same structure, but incorporates more details. Our compliance with the UN Global Compact, to which we are a signatory, is also detailed in the online report.

The information presented has been determined on the basis of our ongoing engagement – formal and informal – 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.

<sup>(1)</sup> LignoTech SA produces lignosulphanate, which is based on the binding agent of wood, and a co-product of pulp production. Lignin-based products are used as dispersing agents in concrete, textile dyes, pesticides and ceramics and as binding agents in briquetting, animal feed and dust suppression.

<sup>(2)</sup> The King Report on Corporate Governance for South Africa was published in 2009. It followed a 1994 report commonly known as King I, and a 2002 report commonly known as King II. From June 2010, companies listed on South Africa's JSE Limited must comply with King III.



## Sustainable fibre

One of the greatest benefits of paper and paper packaging and chemical cellulose is that the wood fibre they are derived from is a sustainable, renewable resource.

We use independent, internationally accredited forest certification systems like 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.

Globally, approximately 75% of the fibre we procure is certified, with the rest being procured from known and controlled sources. We do not source from old-growth or endangered forests anywhere in the world. Our wood fibre is a renewable resource, grown in sustainably managed forests (North America and Europe) and plantations (South Africa).

All manufacturing activities have some impact on the Planet and ours is no exception. However, we are treading increasingly lightly. We now produce the average sheet of fine paper with less energy and less water than we did three years ago. In addition, the solid waste we sent to landfill decreased. Globally, we use over 49% renewable energy to manufacture our papers – and we're working on increasing this percentage.

All of this, together with the fact that our papers are recyclable and biodegrade without leaving harmful residue in either the soil, the air or the water when they do degrade, offers a truly planet-friendly solution.

Our papers are produced using 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, are investing in the socio-economic development of the communities in which our workers live.



Sustainable fibre continued

### FIBRE ORIGIN AND SPECIES



#### South Africa

**Focus of Tweedie research centre:** Maximisation of pulp yield and modification of fibres to enhance characteristics for end products.

**Species grown:** All timber in SA is sourced from plantations (planted forests of exotic trees) of softwoods and hardwoods. The soft woods are all pine species including *Pinus patula*, *Pinus elliottii*, *Pinus taeda* and some hybrids. The hardwoods consist of eucalypts including *Eucalyptus grandis*, *Eucalyptus dunnii*, *Eucalyptus nitens*, *Eucalyptus smithii* and a range of hybrids, and the wattle, *Acacia mearnsii*.

**Propagation:** Seeds and cuttings come from Sappi's own seed orchards where the parent trees have been specially selected for their growth qualities and desirable timber characteristics.

Seedlings are grown in Sappi's own nurseries in the provinces of Mpumalanga and KwaZulu Natal.

All seedlings leaving the nurseries are assessed in terms of the Sappi Plant Quality Index (PQI). Developed in-house to assess the quality of seedlings and cuttings, thus ensures that they meet certain physical and physiological specifications and that acceptable survival and growth is achieved.



#### Europe

No owned plantations or land. Wood fibre sourced from forests close to each mill. Softwood and hardwood pulp is sourced from Europe and the Americas.

**Tree species used:** Spruce (used for mechanical pulp and softwood chemical pulp) and beech (used for hardwood pulp). Lanaken Mill can also process significant amounts of poplar.



#### North America

No owned forest plantations or land. Wood sourced from landowners and commercial loggers. Wood procured from temperate forests in Maine, New Hampshire, Michigan, Minnesota and Wisconsin and from the Canadian provinces of New Brunswick, Quebec and Ontario.

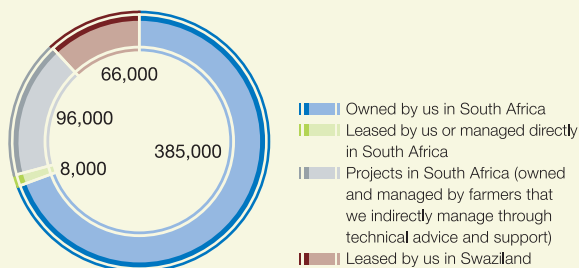
**Tree species used:** Maple, poplar, aspen, beech and birch (hardwoods) and spruce, pine and fir (softwoods).

## GROWING



### South Africa

Land owned, managed and leased (hectares)



#### Planting

- Softwood and hardwood planted in roughly equal proportions to a density average of 1,667 trees per hectare.
- Tree species are matched with the soil type and climatic conditions.
- Watercourses are carefully delineated to ensure our trees do not use water stored in these systems.

#### Water use

- The trees in our plantations are not irrigated. Commercial forestry plantations account for a little less than 3% of total water use in South Africa while irrigation for agriculture accounts for approximately 60% of all water used in the country.

#### Photosynthesis

During the process of photosynthesis, trees use energy from the sunlight to convert carbon dioxide (CO<sub>2</sub>) into organic compounds (foods) essential for their growth storing carbon and releasing oxygen in the process. Plantations and natural forests thus help to mitigate the impacts of global warming.



Many millions of tree seedlings are grown in Sappi's tree nurseries each year

#### Maintenance

- Silvicultural practices to maintain stands of trees include periodic weeding, as well as protection from fire, pests and diseases.
- Biocontrol methods used to combat infestation by wood wasp in the pine-growing regions of Mpumalanga.

#### Biodiversity

- Approximately 30% of land is managed for biodiversity conservation, 5% is used for infrastructure and 65% is forested.
- Over 450 bird species have been recorded on Sappi land (over half the species recorded in South Africa, including the critically

endangered species: the Cape Parrot, the Wattled Crane and the Blue Swallow). A wide range of rare and endangered animals and plants has been recorded and is conserved.

## HARVESTING

- Every tree that is harvested is replaced with new growing stock.
- The growth rate of trees in our plantations is approximately three times faster than that of similar trees in the northern hemisphere.
- Hardwood (eucalypts) harvested at ten years, softwood (pines) at 18 years.
- Harvesting: 58% mechanical, 42% manual.
- When biomass is harvested and used to generate energy, the carbon it contains is released as carbon dioxide (CO<sub>2</sub>) into the atmosphere. This process is considered to be 'carbon neutral' as the carbon dioxide generated is the same amount that was bound from the atmosphere by the process of photosynthesis during the growth of the trees. Forests only contribute to net carbon emissions when biomass is harvested faster than it grows back. A sustainably managed forest landscape is considered to be a net carbon sequester despite the removal of biomass during harvesting. At Sappi, logging is balanced with re-growth and twigs and stumps are left behind, leading to continuous enrichment of the soil.

#### Safety and forests

Forestry can be a hazardous activity which means safety management is a core commitment. Having most of our forestry operations contracted out makes safety management more complex and difficult. Over the last two years we have developed a Contractor Safety Management System which has now become fully operational and has resulted in significant improvements in the safety performance of our contractors, so much so that we have achieved record safety performance indices.

#### Employment

- The forestry industry is a significant employer in rural areas.
- Sappi employs about 12,000 contractor employees during planting, growing and harvesting, all of which are outsourced.
- We support approximately 10,000 emerging timber farmers under the Project Grow scheme.

## CERTIFICATION



### South Africa

Sappi's lands are 100% FSC certified and are also ISO 14001 certified. In this region, 82% of the fibre we procure is certified.



### Europe

■ 75% of fibre procured is third-party certified.



### North America

- 61% of fibre procured is third-party certified.
- Our involvement in initiatives to promote third party forest certification include:
  - A partnership with Time Inc, Hearst Corporation and two of our competitors to help small- and medium-sized landowners in Maine achieve third-party forest certification.
  - The Sustainable Forestry Programme. Operating from Skowhegan, Maine. The programme is comprised of a team of highly-trained forest professionals, including licenced foresters, dedicated to assisting woodlot owners in the state of Maine develop and manage their woodlots. Certified as an FSC group management scheme.

### Origin of non-certified fibre

*In terms of non-certified fibre, wood/pulp is sourced from known and trusted suppliers close to each mill, regularly visited by our buyers. FSC-controlled wood and PEFC non-controversial sources requirements are incorporated into our purchasing specifications and contracts and in line with our ISO 14001-accredited purchasing policy. Environmental- and forestry-related information (including wood sources) is obtained from every pulp supplier on a regular basis and this data is then evaluated by a team of experts.*

Main certification schemes:

- the Programme for the Endorsement of Forest Certification (PEFC)
- the Forest Stewardship Council (FSC)
- the Sustainable Forestry Initiative (SFI®)

## TRANSPORT



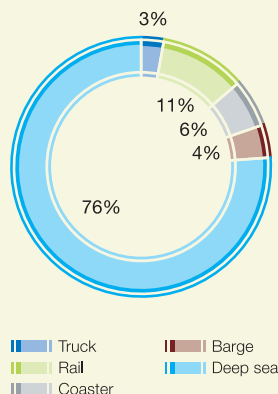
### South Africa

- Sappi's revolutionary timber trucks are 22% longer and permitted to carry 20% more load than their predecessors in the industry, and are 18% more fuel efficient per ton transported. Sappi was the first forestry company in South Africa to benefit from the use of these vehicles on a commercial basis.



### Europe

Kg CO<sub>2</sub>/ton pulp mode of transport



### North America

- In 2009, Sappi Fine Paper North America joined the US Environmental Protection Agency's (EPA) SmartWay<sup>SM</sup> Transport Partnership, an innovative collaboration between the EPA and companies that provide and hire freight delivery services, and is designed to increase energy efficiency while significantly reducing greenhouse gases and air pollution.

In FY2010, we continued to communicate the benefits of the SmartWay<sup>SM</sup> programme to our carriers and merchant partners, and built upon the trend of increasing the number of certified carriers in our network moving our products.

## ISSUES



### South Africa

#### Limits on land for planting

We aim to expand our landholdings to increase our wood fibre base. We achieved this in 2010 by purchasing the 14,500ha Sjonajona plantation in Mpumalanga.

#### Drought

We have permanent sample plots measured annually (eucalypts) or bi-annually (pines) to determine the effect of drought on current annual increment as an input to long-term planning. We have implemented extensive planting of more drought-tolerant eucalypt species.

#### Maximising fibre yield

Over 15 years, our research efforts have resulted in a 60% improvement in eucalypt plantation yield. We have implemented extensive planting of more drought-resistant eucalypt species.

#### Pest control

Ongoing research and collaboration with industry and tertiary institutions to develop biocontrol measures and breed genetically more resistant planting stock.

#### Fires

Extensive risk mitigation between planted stands of trees as well as in open areas and under the tree canopies in vulnerable areas.

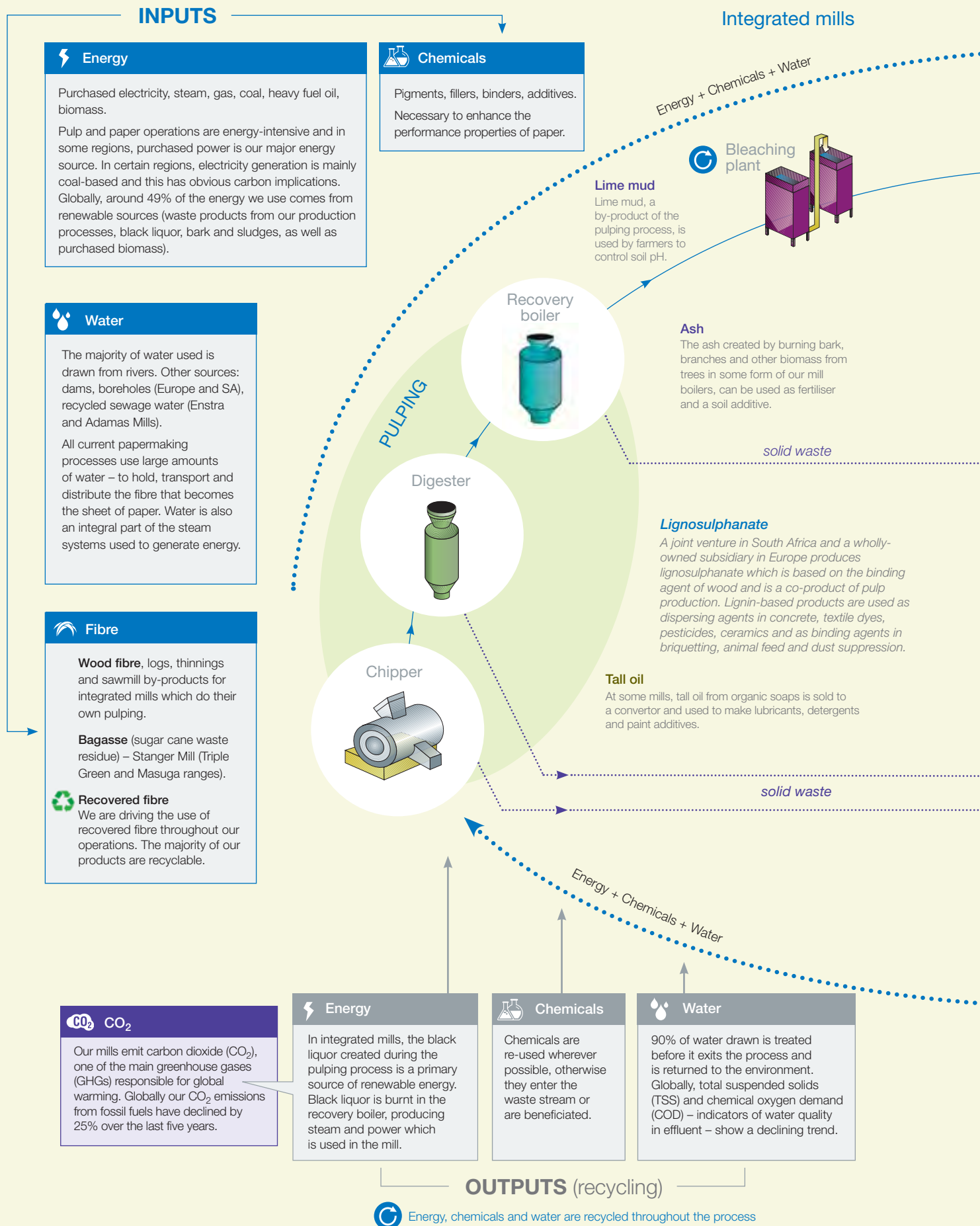


### Europe and North America

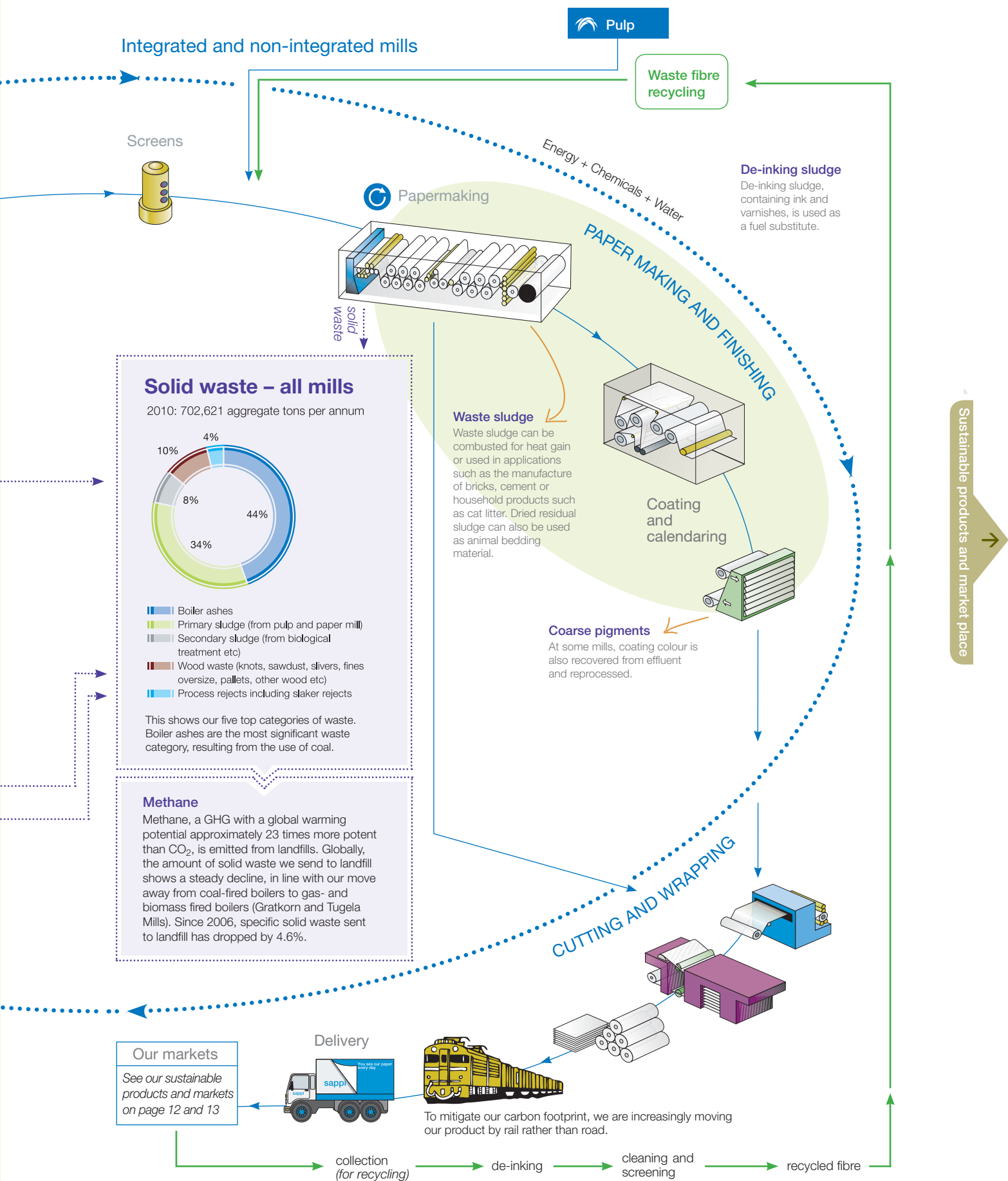
#### Fibre supply

In both Europe and North America, we are able to mitigate fibre supply risk through a combination of approaches which include both short- and long-term wood supply agreements and shareholdings in wood sourcing co-operatives.

# Sustainable manufacturing







# Sustainable products and marketplace

Description and typical uses		Demand trends	
<b>Woodfree paper made from pulp produced in a chemical process</b>	<b>Coated:</b> Higher level of smoothness than uncoated paper achieved by applying a coating 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.	Demand for coated woodfree paper is expected to continue to grow on a global level, but the impact of electronic media is likely to result in a gradual decline in paper consumption in developed economies over the long-term. Advertising, retail sales, and consumer demand for printed products are primary drivers of demand.	
	<b>Uncoated:</b> 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.	Over the last few years, strong demand in the cut-size business has helped the uncoated office markets. There is a growing trend to print some brochures and magazines on uncoated grades such as Tauro.	
	<b>Speciality:</b> 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.	<b>Flexible paper packaging</b> driven by steady consumption growth in the healthy food and drink markets. Paper based packaging is highly regarded as a sustainable solution. <b>Release paper</b> demand is expected to grow along with the textile and automotive industry, as well as in new and innovative applications.	
<b>Mechanical paper made from pulp produced in a mechanical process</b>	<b>Coated:</b> A coated mechanical fibre-based paper, primarily used for magazines, catalogues and advertising material.	Magazines, one of the main end-uses related to this product group, doing marginally better than last year mainly due to growing consumption in special interest magazines. As with CWF, advertising expenditure is a key demand driver.	
	<b>Uncoated:</b> Mechanical fibre-based printing paper used primarily for the printing of books, and advertising inserts.	As woodfree grades become more expensive, the demand for improved newsprint and mechanical uncoated grades increases.	
	<b>Newsprint:</b> Uses include advertising inserts and newspapers.	Demand is highly dependent on newspaper circulation and retail advertising. Electronic media has led to newsprint demand declines in most markets across the globe.	
<b>Packaging products</b>	<b>Packaging paper:</b> Heavy and lightweight grades of paper and board used for primary and secondary packaging of fast moving consumer goods, agricultural and industrial products. Products include containerboard (corrugated shipping containers), sack kraft (multi walled shipping sacks) and machine glazed kraft (grocery bags). Can be coated to enhance barrier and aesthetics properties.	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 an environmentally-conscious world.	
<b>Pulp</b>	<b>Paper pulp:</b> 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 paper products, demand for paper pulp is expected to continue to recover.	
	<b>Chemical cellulose:</b> Manufactured by a similar process to paper grade pulp, but purified further to leave virtually pure cellulose fibres. Chemical cellulose is used in the manufacture of a variety of cellulose textile and non-woven fibre products, including viscose staple fibre (rayon), solvent spun fibre (lyocell) and filament. It is also used in various other cellulose-based applications in the food, film, cigarette, chemical and pharmaceutical industries. These include the manufacture of acetate flake, microcrystalline cellulose, cellophane, ethers and moulding powders.	Chemical cellulose has a wide range of applications, demand for many of which is expected to continue growing at good rates. The textile uses in particular are predicted to show increasing levels of growth as the growth in the supply of cotton becomes increasingly constrained.	
<b>Timber products</b>	Sawn timber for construction and furniture manufacturing purposes.	As consumer and housing markets recover in South Africa, demand for timber products is expected to recover.	

## Share of sales

## Our market in 2010

51%	Demand is still recovering from the low levels of 2009 (as the economy improves), although at a slower pace than in 2010. Magazine advertising pages and increased mailing of catalogues have helped the demand recovery.
7%	After a slow start in the first few months, the uncoated market in Europe rebounded strongly throughout 2010.
7%	Strong recovery versus 2009 in the packaging and labelling markets. The release market also had a good recovery, particularly in terms of Asian demand.
13%	Demand still below 2008 levels, but a strong recovery from the low levels of 2009, particularly in the second half of financial 2010.
7%	<p>The changing school curriculum in South Africa is resulting in increased demand for book printing grades.</p> <p>Some recovery in demand in South Africa for newsprint, but pagination is still low.</p> <p>After a weak start to 2010, global packaging markets and our primary market in South Africa started to recover as economic conditions improved.</p>
14%	<p>The global pulp market was characterised by increasing demand, rapidly increasing prices and some supply shocks in 2010.</p> <p>The global chemical cellulose market remained strong throughout 2010 and demand in many cases exceeded supply.</p>
1%	The South African timber market was weak in 2010 with lower demand and an excess of supply.

## Examples of Sappi's product brands


**Magno™**

Magno is a highly trusted brand for professionals because it adds quality. Rich and vibrant in colour and detail, Magno is a promise proved. The world's most recognised paper brand.


**McCoy**

The best of the best, McCoy boasts a remarkably rich, tactile feel that captures fine details, cool crisp blue tones and provides unparalleled readability and clarity.


**sappi**  
**triple green™**  
sugar cane fibre. chlorine-free. sustainable afforestation.

Triple Green, produced from waste sugar cane fibre, is the responsible route to quality printing and provides assurance of an environmentally responsible manufacturing process.


**Flo**

Flo Digital's balance of cost and quality makes it the ideal house sheet for many printers. It is the dependable economy paper that helps you stretch your budget without compromising quality or environmental responsibility.


**sappi saiccor**

Saiccor's brand promise is to be the global leader in innovative and sustainable solutions inspired by the chemistry of trees.

## Key issues

The issues set out below are sustainability-related challenges that we believe may have a material impact on our viability as a business either by directly impacting our ability to operate profitably or by affecting our reputation and the trust stakeholders have in Sappi.

### The economy and demand for our products

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

While the plethora of devices such as e-readers has impacted on paper use in the developed world, paper use in the developing world, where electronic media is often inaccessible and unaffordable, is growing.

In addition, paper plays a key role in promoting literacy throughout the developing world and many researchers contend that printed materials are more conducive to an in-depth reading experience than electronic media.

#### Our position:

Going forward, we believe that digital media will not necessarily overtake print. This is highlighted by the fact that as the line between print and digital continues to blur, new technologies are underlining the relationship between the two. Quick Response (QR) codes are a good example – they're new technology that uses a cell phone to scan information from print – including magazines, billboards, even t-shirts. Once the QR code is scanned, it opens up a world of information, whether it's a discount or offer, a video, or even a direct link to a website. We are only just beginning to see the promise and synergistic opportunities of combining print with new mobile and web technologies.

Sappi is countering the trends away from 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.

For example, in South Africa, a leading grocery retailer now offers not only paper grocery bags, but also a variety of paper-based packaging throughout the store. All bakery products as well as all fresh produce are packaged in paper bags. The delicatessen will also make use of a range of paper-based packaging made from our innovative Resilio range of papers, which are not only strong and greaseproof, but also fully recyclable. The new paper grocery bags have been carefully engineered to ensure that the switch to more eco-friendly options does not compromise on convenience. The new bags, which are also being tested at other pilot sites, offer shoppers a fully-recyclable and fully-biodegradable option. In addition, they hold up to 10kgs in weight, and have reinforced handles and a square bottom to ensure excellent carrying capacity and convenience.

Our own and other industry campaigns educate consumers that paper is a natural, renewable, biodegradable resource. As these campaigns gather momentum, we believe that educated consumers will increasingly turn to paper and paper packaging, particularly in light of consumer concerns about the high use of fossil fuels and ocean debris that characterise many of the alternatives.

Similarly, chemical cellulose is a renewable resource with a multitude of uses, from textile fibres, cigarette filters, plastics alternatives, pharmaceutical binders, food thickeners and almost certainly more to come. Viscose fibre producers are our largest customers. Viscose fibres, either alone or in blends with oil-based fibres are important in the overall textile mix because they are absorbent and therefore comfortable to wear. Consequently, they are an excellent substitute for cotton, which has long-term supply limitations. Hence increasing use of viscose and cellulosic fibre is expected to drive growth in textile fibres.

### Fibre supply

*The implications of a constrained fibre source would have dramatic consequences for our business.*

Both South Africa and North America sell as much or a little more pulp than we need to buy, giving us a high degree of pulp self-sufficiency. Many of our mills in Europe source pulp from South America which, like South Africa, is expected to feel the impact of climatic changes and water shortage in the short- to medium-term.

#### Our position:

In **Southern Africa**, we own, manage and lease 555,000ha 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:

- Expanding our land holdings when an opportunity is presented – in 2010, we bought the 14,500 Sjonajona plantation in Mpumalanga from Mondi;
- Rehabilitating our 20,500 hectares of fire-damaged plantations in Swaziland;
- Getting more from each tree – over 15 years, we have increased the fibre yield of eucalyptus plantations by 60%;

- Breeding for specific pulping characteristics which reduces wastage;
- Breeding for disease resistance;
- Selecting eucalypt hybrid crosses for cold tolerance; and
- Ongoing research, including collaboration with industry and various research institutes to improve silvicultural practice, develop bio-control measures and breed genetically more resistant planting stock.

In **Europe** and **North America**, fibre is sourced from forest owners close to each operation, with whom we have long-standing 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 co-operatives.



## Energy

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

Energy costs as a percentage of operating costs have been rising for several years and currently account for just under 11% of operating costs. We mitigate this risk by focusing on increasing renewable energy, promoting cogeneration and investigating biofuel opportunities.

### ■ Renewable energy

We have a major advantage over other industrial companies in our high use 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 on fossil fuel use. In North America, more than 88% of all energy used is derived from renewable resources (black liquor, bark, sludges and purchased biomass). The percentage of energy derived from renewable resources for South Africa is 35% and for Europe is 34%, with Sappi's global figure standing at 49%.

In integrated mills, the black liquor created during the pulping process is a primary source of renewable energy. The reason for the much higher percentages of renewable energy in Sappi's mills in North America and South Africa than in Europe is that a much greater proportion of our product originates from kraft-type integrated pulp and paper mills which typically have a higher degree of energy self-sufficiency than non-integrated mills.

In Europe and North America, one of the key issues we face is competition for biomass as feedstock for energy. Regulations related to the promotion of biomass for energy in Europe and North America could have a negative impact on wood fibre supply. In both regions, it has been demonstrated that wood fibre delivers far more value to the economy when used for the pulp and paper industry than for energy. A CEPI study (*A bio-solution to climate change*) estimates that wood, when used for papermaking, delivers eight times more added value and creates 13 times more jobs than if used for energy.

### ■ Combined heat and power

Combined heat and power generation is a very efficient method to convert energy. Conventional (condensation) power plants generate just power and dispose of their 'waste' heat by means of river cooling water or cooling towers. The efficiency ratio of condensing power plants is well below 40%. In other words only 35 to 45% of the energy content of the primary fuel is converted into usable energy.

Combined heat and power generation converts a much higher share of the primary fuel at levels of 75 – 90% into usable energy. Heat and Power can be converted from any fuel type biogenic or fossil. In Europe we operate combined heat and power (CHP) plants at all of our mills.

When natural gas is used, the most attractive state of the art method is the combination with a gas turbine (a stationary jet-engine) that drives a power-generator. The hot off gases of the gas turbine are used as inlet air for a steam boiler and the subsequent steam produced is used to generate power again using a steam turbine and using the extracted steam in our production.

This technology of gas-steam combined heat and power generation plant is in operation at our Gratkorn, Lanaken, Maastricht and Nijmegen mills.

During the year in South Africa we entered into an agreement to supply renewable energy to the state power utility Eskom, from Saiccor Mill. We are in discussions to sell Eskom the additional power we are able to generate from our Ngodwana Mill. North America (mainly Westbrook Mill) exported and sold 13.3% of power used while Europe sold 16.9% of total power used (Alfeld, Ehingen, Gratkorn, Maastricht and Stockstadt Mills). Going forward, cogeneration opportunities will remain a key focus in all regions.

In addition to renewable energy from the production of black liquor in some of our European mills, we also use renewable energy which originates from the production of biogas in the anaerobic digestion of sludge. Since July 2007, Gratkorn Mill in Europe has operated a Combined Heat and Power Generation Plant (CHP). This arrangement has resulted in the exchange of over 50% of the coal used with natural gas. Because of the increase in efficiency in the arrangement, fossil-based CO<sub>2</sub> emissions have dropped by approximately 10%. The project also incorporates the option of switching between different fuels in the fluidised bed boiler. This means different fuels can be used according to variations in fuel prices.

### ■ Biorefining

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 position:

Our high use of renewable energy and high levels of energy self-sufficiency help cushion us from proposed carbon taxes as well as energy supply constraints such as those experienced in **South Africa** in 2006 because of inadequate supply by Eskom.

Our progress in becoming more energy efficient is highlighted by the fact that between 2005 and 2010, the amount of specific (ie per ton of pulp produced) purchased energy decreased by 32% and from 2000 – the year we started measuring GHG emissions – specific fossil-based carbon dioxide emissions reduced by 30%.

Competitive analysis of our environmental performance in **North America**, for example, has shown that Sappi Fine Paper North America has the lowest carbon footprint, based on energy use, of the major US coated free sheet suppliers. This would put us at a competitive cost advantage should a carbon tax or cap and trade system be implemented. In addition, print buyers need to purchase fewer carbon offsets for Sappi products versus our North American competitors' products.

We will continue to identify and evaluate renewable energy, co-generation and biorefining opportunities related to current and/or anticipated regulatory requirements. Opportunities are being reviewed for achieving the required payback hurdles as the electricity supply industry, electricity price, and regulatory environment change in each region where we operate.



*Fibre in Europe and North America is supplied by large and small scale tree owners*

## Environmental legislation

*Environmental legislation in the regions where we operate is potentially making compliance more burdensome and requiring increased capital expenditure.*

### South Africa

The primary South African environmental laws affecting our operations include the National Water Act, which govern our forestry operations and mills through water licences, and the National Environmental Management: Air Quality Act. Our mills are in the process of receiving air registration certificates from the authorities which will clarify the impact the latter will have on our business. The requirements under these statutes, predominantly with respect to air emissions from our mills, will result in additional capital and operating expenditures, some of which may be significant.

### Europe

Our European facilities are subject to extensive environmental regulation in the various countries in which we operate, including the Integrated Pollution Prevention and Control directive (IPPC) which regulates air emissions, water discharges and defines permit requirements and best available techniques ("BAT") for pollution control. While the EU Chemicals Regulation REACH (1907/2006/EC) is not directly applicable to pulp and paper, it does apply to a number of raw materials that we source.

The countries within which we operate in Europe have all ratified the Kyoto Protocol and we have developed a strategy to comply with applicable GHG restrictions and to manage emission reductions costs effectively. The EU is considering introducing specific carbon limits per mill for the pulp and paper industry. This could prove challenging.

### North America

Appi Fine Paper North America is subject to stringent environmental laws. Although the United States has not yet adopted a Federal programme for controlling GHG emissions, Congress is considering comprehensive Federal legislation regarding climate change. In addition,

the United States Environmental Protection Agency has enacted or proposed several rules relating to emissions reporting and reductions.

One such proposal, issued in June 2010 would require industrial, commercial and institutional boilers and heaters to use "maximum achievable control technology" to reduce harmful emissions that erode air quality and pose a public health risk. According to the Industrial Energy Consumers of America, (IECA), an industry group that represents companies with 750,000 employees and US\$800 billion in sales, the proposed Boiler MACT, standards are so stringent that not even the best performing sources could meet them. Significant capital expenditures could be required for emissions control equipment at our mills in order to comply with the Boiler MACT and/or other proposed rates regulating GHGs. We are currently awaiting issuance of the final rule in January 2011.

### Our position:

In **South Africa**, we are in frequent contact with regulatory authorities during the phasing in of new legislation, in an attempt to manage the transition period. As we are based in a developing country which has ratified the Kyoto Protocol, we are in a position to utilise the Clean Development Mechanism for energy-related projects and we are continuing to explore opportunities in this regard.

In **Europe**, we have long been subject to the EU Emissions Trading Scheme (EU ETS). Reductions in carbon limits for the third phase of the EU ETS are still being determined. Subject to the enactment of these limits, our expenditures related to GHG compliance in Europe are not expected to be material.

In **North America** the environmental laws will continue to engage with industry associations and regulators to reach agreement regarding various emissions control requirements. In terms of climate change legislation, the nature, scope and timing of such legislation is highly uncertain and, currently, we do not know what effect, if any, such legislation will have on our financial condition and operations.



*In our European mills we only use a small amount of permitted water abstraction limits*

## Water

*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.*

*Water shortages in the regions from which we source fibre could significantly affect fibre supply and our production processes. Trees require water in order to grow and water is essential in papermaking to produce the fibre that becomes the sheet of paper and is an integral part of the steam systems which generate energy.*

The World Resources Institute (WRI), classifies water stress as meaning that per capita water supply is less than 1,700 m<sup>3</sup>/year. In these terms, South Africa is a water-stressed country and is facing supply/demand shortages in the short- to medium-term.

Despite common perceptions that Europe has an abundance of water, the continent's use of water is unsustainable, the European Environment Agency (EEA), the European Union's environmental advisory body, has warned. (*Water resources across Europe – confronting water scarcity and drought*).

In North America, water is unevenly distributed, with the states in the south-west suffering from water shortages and states in the Great Lakes region having an abundance of water.

### South Africa

Abstraction of water, discharge of effluent and management of forests are all regulated under a licence system in which first allocations go to, among other things, human consumption, before allocations are made to agriculture, industry and forestry. All water use is subject to a charge.

The plantations from which we source fibre are not irrigated but use rainwater and groundwater. Contrary to popular belief, forestry only uses 3% of available water, while agriculture uses approximately 62%. In addition, agriculture impacts heavily on the quality of water resources, typically through the diffused runoff of salts and fertilizers (nutrient enrichment). In this we have a competitive advantage over other crops, in that we only use a small amount of fertilizer once in each rotation.

The majority of our mills are situated on rivers from which they draw water, the exceptions being Adamas and Enstra Mills which use 70% and 50% recycled sewage water respectively. While pulp and paper

manufacturing does use large quantities of water, we return approximately 90% of the water we draw back to the environment.

### Europe

In terms of quantity, the surface and ground water supply to our European mills has proven abundant even in very dry summers. We currently use only a small amount of permitted water abstraction limits.

Alfeld, Ehingen and Gratkorn Mills' waste water treatment plants have anaerobic reactors which reduce the chemical oxygen demand (COD) of the effluent and increase the production of biogas. During the anaerobic biological process, special micro-organisms transform the organic load in the wastewater into biogas. The process has both environmental and economic value, as the biogas is used for heat and power generation and sludge disposal costs are reduced.

### North America

None of our operations are situated in areas where water shortages might have an impact.

### Our position:

In **South Africa**, our businesses are already experiencing water problems following two years of below-average rainfall. The possibility of increased water tariffs in South Africa and **Europe** could have a negative impact on our profitability/pricing. Reducing water usage within our mills and improving water quality continues to be a key area of focus.

Between 2008 and 2010, globally specific water use decreased by 9.1%. Over the same period, total suspended solids (TSS) and chemical oxygen demand (COD) – a measure of effluent quality – dropped by 16.0% and 24.9% respectively.

As with energy, it makes economic sense to intensively manage our water usage. Each of our operations may be likened to a very large heat exchanger with the input water being heated in various ways and locations in each operation due to the combustion of fuels to produce steam and heat. If the effluent is simply allowed to run off (with appropriate treatment) then a huge amount of heat is lost. For this reason one of the most effective ways of retaining heat in an operation, and hence using less energy (fuels) and thus generating less fossil GHG emissions (for the fuels that are fossil based), is to maximise water recirculation and minimise effluent.

In 2009, the Confederation of European Paper Industries (CEPI), to which Sappi belongs, joined the European Water Partnership (EWP) as their first federation member. The EWP's aim is to put water on the mainstream political and media agenda and to develop an awareness of water challenges among policy makers and business. CEPI has also joined the Water Footprint Network which aims to develop a water footprint for the pulp and paper industry which will measure direct and indirect impacts.

### The Water Footprint Network has suggested the following ways of classifying water:



#### Blue footprint

The blue water footprint is the volume of freshwater that has evaporated from global blue water resources (surface water and ground water) to produce the goods and services consumed by the individual or community.



#### Green footprint

The green water footprint is the volume of water evaporated from global green water resources (rainwater stored in the soil as soil moisture).



#### Grey footprint

The grey water footprint is the volume of polluted water associated with the production of all goods and services. The latter can be estimated as the volume of water that is required to dilute pollutants to such an extent that the quality of the water remains at or above agreed water quality standards.

**The water footprint of a business consists of two components: the direct water use by the producer (for producing/manufacturing or for supporting activities) and the indirect water use (in the producer's supply chain).**





*In Europe and North America fibre is sourced from forest owners close to each of our operations*

## Climate change

*As our major raw material input, wood fibre, is a renewable natural resource, climate change could affect Sappi. The physical risks of climate change are similar to those for the agricultural sector.*

### South Africa

The Southern African landscape is prone to, and ecologically adapted to, frequent fires. Under normal conditions this risk can be managed through comprehensive fire prevention and protection plans. In 2007 and 2008, South Africa experienced a number of extreme weather events which resulted in disastrous plantation fires across vast areas of eastern South Africa and Swaziland, affecting 14,000 hectares and 26,000 hectares respectively, of our plantations.

The risk of plantation fires is always present during the dry winter months. Since the devastating fires of 2008, we have implemented an extensive fire protection strategy. This deals with increased community participation in fire prevention to reduce the incidents of fires through regional and district Fire Protection Associations. In addition, significant investment has improved detection, while fire crew training and improved equipment have significantly improved response times to fires that occur. Thirdly, fuel load management within plantations helps contain fires where they occur and has prevented major losses. Fire losses in 2009 and 2010 were minimal.

Our exposure to climate change related risk in Southern Africa is moderated by the diversity of commercial species and hybrids which we currently deploy across a wide range of climatic conditions. We anticipate that certain species or hybrids will become more dominant than others under changing climatic regimes. This will help to mitigate any increased threat from pests and disease or from drought.

### Europe

Climate change could well alter the suitability of whole regions in Europe for certain forest types, forcing a shift in natural species distribution and leading to changes in growth of existing stands. In addition, extreme events (storms, forest fires, droughts and heat waves) are expected to become much more common and/or severe. (CEPI: *Protecting Europe's forests against climate change*).

### North America

The mountain pine beetle is endemic to the western forests of North America. A decade of warmer temperatures has caused the beetle to proliferate at an unprecedented rate, devastating over 16 million hectares of Canadian pine forest between 2000 and 2009. As our operations in North America source some of their fibre from Canada. The impact of the pine beetle could affect long-term supply of softwood fibre if the dead wood is not harvested and the land reforested appropriately.

### Our position:

In **South Africa** we continue to mitigate risk associated with climate change through an intensive focus on species and hybrid development that will be adapted to changing climatic regimes and to minimise losses due to pest, disease or drought. In addition, we conduct extensive research into pest control and disease prevention and have a fire prevention strategy based on community co-operation, rapid response time and fuel load management.

In **North America** the risk is not as immediate as it is in South Africa and is more likely to affect us in the long-term. **Europe's** non-integrated mills which source fibre from South America could be affected by climatic change.



## Report back on targets and Charter commitments

Despite differing environments, assets and markets our businesses are faced with similar challenges. Consequently we have established overarching goals which are refined regionally to apply to local circumstances. Our goals are reported through the regional targets reflected below and through our performance grid based on our 18 Charter commitments which follow hereon.

Regional targets were established in 2008 and are internally reported on quarterly. In order to manage our sustainability profile we have chosen to concentrate on three global targets which are fundamental to all our businesses:

Improving the profitability of our business underpins the viability of our organisation. Financial success creates employment, stimulates

the growth of regional economies and allows for reinvestment into all stages of the business cycle.

In a world and in an industry where skills are in short supply, gaining competitive advantage through our people makes sound business sense and adding value to the communities in which our operations are situated further integrates Sappi into the life of these communities.

Reducing fossil fuel use/GHG emissions and water together with adding value to waste streams, has environmental as well as economic benefits. Given the highly energy intensive nature of our processes and concerns over global warming, improvements in these areas will continue to be investigated by our R&D centres.

### Prosperity – improving the profitability of our business



#### SA and NA – Generating revenue from new products/services (less than five years old)

- SA** slower than expected time-to-market for new fine paper products resulted in the target of 20% not being achieved.
- NA** target of generating 25% of revenue from new products and services was exceeded (41% achieved) although this target is becoming increasingly challenging for the core business. New products from the speciality business and product modifications from our core business will maintain customer satisfaction.

#### Europe – M-real integration

We achieved the successful integration of M-real's graphic paper business acquired at the end of December 2008. We exceeded the target set of €120 million in the three year timeframe. The synergies achieved include procurement benefits, sales and administration cost reductions, asset optimisation, product recipe changes and manufacturing efficiencies.

### People – gaining competitive advantage through our people and positively adding value to communities



#### SA, NA and Europe – Skills and leadership training

- SA** exceeded the 45 hours per employee target by achieving 85 training hours per employee, influenced by Saiccor training and specific regional initiatives.
- NA** records indicate that this region's training totalled 46 hours per employee thus exceeded the 40 hours per employee target.
- Europe** did not achieve the required 30 hours training per employee.

#### SA, NA and Europe – Corporate Social Responsibility

The group exceeded its target of spending 1% of its Net Profit After Tax (NPAT) during the year. A total of US\$2.1 million which represents 3.2% of the group's NPAT was allocated to educational, environmental and cultural projects.

### Planet – reducing fossil fuels/GHG emissions, water and waste



#### SA, Europe and NA – Fossil fuels/GHG emissions

- SA** the target of 15% reduction in the use of fossil fuels in our operation by 2015 was partially achieved by 6% this year through small reductions in each mill. This region exceeded the target in relation to purchased electricity by reducing this element by 16% versus a target of 10%.
- NA** achieved 50.3% reduction in GHG emissions across all sites versus a target of 40%.
- Europe** significantly exceeded its target of 1% reduction of specific direct fossil CO<sub>2</sub> emissions and purchased power, reducing these by 5.8% and 9.7% respectively.

#### SA and Europe – Water

- SA** the foundation for achieving the target of reducing its total specific fresh water use by the year 2015 of 10%, were well established with a reduction of 2.8% in the year under review.
- Europe** this region reduced specific water use (m<sup>3</sup>/t production and cooling water) by 6.7%.

#### NA – Waste

The target of reducing organic content of solid waste by 50% across all sites by 2012 was reached during this year (61%).

# WHAT'S NEXT

ISSUE ONE €6 / £5

birth

Print is dead  
*long live print...*



In 2010, Sappi Fine Paper Europe published "What's Next" magazine, aimed at educating and informing readers about issues shaping the print industry. The cover of the first edition is featured here



# Prosperity



## Focus on long-term profitable growth

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>ROCE</li> </ul>	<ul style="list-style-type: none"> <li>Progress towards net debt reduction of US\$800 million by 2012</li> </ul>	<ul style="list-style-type: none"> <li>Our net debt reduced to approximately US\$2.2 billion</li> </ul>	<ul style="list-style-type: none"> <li>Reduce net debt to total capitalisation to &lt;50%</li> </ul>
<ul style="list-style-type: none"> <li>Operational efficiencies</li> </ul>	<ul style="list-style-type: none"> <li>Achieve synergies from M-real transaction of €120 million by 2011</li> </ul>	<ul style="list-style-type: none"> <li>Successful integration of M-real mills and achievement of targeted synergies</li> </ul>	<ul style="list-style-type: none"> <li>Successful roll-out of Project Breakthrough in Europe</li> <li>Successful integration of Sappi Paper and Paper Packaging South Africa</li> </ul>

## Streamlining our operational efficiency

**Sappi Fine Paper Europe** launched an internal project, known as Project Breakthrough, with the objective of becoming more profitable and offering superior services to make Sappi the preferred supplier in the market. One major outcome of Breakthrough is the simplification of the sheet product range. This will mean less complexity, not only in production but also along the entire supply chain, with customers getting the same product quality, but much better service. A simplified pricing and ordering system together with good value propositions have also been developed. The result of all of this has been an organisational alignment and better resource allocation.

A dedicated team worked throughout the year in bringing to market the proposition to customers that "It's easier to do business with Sappi". The outcomes of Breakthrough are being implemented from October 2010.

In August 2010, **our South African operations** consolidated their paper divisions to strengthen the region's ability to meet customer requirements and develop new business opportunities. Sappi Fine Paper South Africa and Sappi Kraft have merged to become Sappi Paper and Paper Packaging South Africa.



## Promote an ethical culture

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Code of Ethics</li> </ul>	<ul style="list-style-type: none"> <li>Employee survey on Code of Ethics understanding and compliance</li> </ul>	<ul style="list-style-type: none"> <li>Survey carried out globally to assess employees' awareness of the Sappi Code of Ethics</li> </ul>	<ul style="list-style-type: none"> <li>Communicate outcomes from survey</li> <li>Refresh Code of Ethics and introduce on-line training</li> </ul>
<ul style="list-style-type: none"> <li>Governance</li> </ul>		<ul style="list-style-type: none"> <li>Sustainability executive committee elevated to board committee with two non-executive directors</li> <li>Europe's Regional Sustainability Council (RSC) was reorganised to incorporate manufacturing and commercial representatives</li> <li>SA's RSC was also reorganised to include a broader spectrum of functions</li> </ul>	<ul style="list-style-type: none"> <li>Progress internal assurance of key sustainability indicators and report outcomes</li> <li>Introduce on-line sustainability training in all regions</li> <li>Extend internal ambassador programme to all regions</li> </ul>

### Code of Ethics

A survey of the three-year old Sappi Code of Ethics under the heading of "Are we walking the walk?" was conducted in September 2010. Although more than 85% of respondents were familiar with the Code, the need for ongoing communication and strengthened visibility of the Code came across strongly from all regions.



## Drive customer satisfaction through technology and innovation

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>■ Margins and market share in the profitable and fast growing digital print sector in Europe</li> </ul>	<ul style="list-style-type: none"> <li>■ Secure a leading position in the emerging segments, while taking a profitable share in the already developed digital print segments. New product solutions will be launched in Europe in early 2010</li> </ul>	<ul style="list-style-type: none"> <li>■ Europe launched two new digital papers (see opposite)</li> </ul>	<ul style="list-style-type: none"> <li>■ Explore opportunities in digital and other fast growing market sectors</li> </ul>
<ul style="list-style-type: none"> <li>■ Investment in new products</li> </ul>	<ul style="list-style-type: none"> <li>■ Review current portfolio of brands and product selection</li> </ul>	<ul style="list-style-type: none"> <li>■ Europe introduced Parade Prima HP as its new high bulk label paper, offering costs savings due to unique bulk to substance ratio and continued the development of in-mould label paper in collaboration with an equipment manufacturer and of flexible packaging material with a manufacturer of bio-polymer film</li> <li>■ SA: good progress on super mechanical grades and bleached sack, and launched Masuga, bagasse-based text grade</li> <li>■ NA: Ultracast Bling release paper launch receives best of show award at the Asia Pacific Leather Fair</li> </ul>	<ul style="list-style-type: none"> <li>■ Continue to develop niche products in selected markets</li> <li>■ Explore new technologies and applications in partnership with customers</li> <li>■ Leverage Westbrook Mill's speciality technology into new markets</li> </ul>
<ul style="list-style-type: none"> <li>■ Investigate ROCE assessment of R&amp;D</li> </ul>	<ul style="list-style-type: none"> <li>■ Use of metrics and stage gate process lead to clearer management and focus on projects that reflect Sappi's long-term strategy</li> <li>■ Understanding customer/end-user needs and Sappi's performance in satisfying these</li> </ul>	<ul style="list-style-type: none"> <li>■ Annual assessment and selection of projects, new and in progress, against agreed parameters</li> <li>■ Inclusion of customer-centric objectives as part of Project Breakthrough deliverables</li> </ul>	<ul style="list-style-type: none"> <li>■ Maintain projects meeting agreed criteria and terminate those that do not</li> <li>■ Attain recognition as a strong customer-centric organisation in Europe</li> <li>■ Europe to achieve its goal of being easier to do business with</li> </ul>
<ul style="list-style-type: none"> <li>■ Technical Innovation Awards (TIA)</li> </ul>	<ul style="list-style-type: none"> <li>■ Continue to promote development of disruptive technology through TIA awards</li> </ul>	<ul style="list-style-type: none"> <li>■ NA winning team who jointly invented and commercialised a revolutionary process to manufacture laminate were the overall winners of this year's TIA Awards</li> <li>■ SA winning entry involved the fingerprinting of tree DNA</li> <li>■ EU winning team developed a new wet-end technology</li> </ul>	<ul style="list-style-type: none"> <li>■ Further promote development of new technologies and recognise key contributors</li> </ul>
<ul style="list-style-type: none"> <li>■ Invest in wood fibre genetics development</li> </ul>	<ul style="list-style-type: none"> <li>■ Continue collaborating in the enhancement of wood fibre in SA</li> </ul>	<ul style="list-style-type: none"> <li>■ Development of finger printing of tree DNA, so that the thousands of individual trees in SA's tree breeding programmes can be identified and monitored</li> </ul>	<ul style="list-style-type: none"> <li>■ SA forestry division to further its research into the areas of fibre genetics, pests and fire resistant wood fibres</li> </ul>





## parade

### Setting new benchmarks for standard wet-glue paper

Sappi Fine Paper Europe has set new benchmarks with the launch of an improved and of a new Parade Prima grade. Parade Prima Advanced is a one-sided coated label paper which allows for easier, faster runability and can be laminated for the perfect visual image. Sappi also developed Parade Prima High Performance which has 25% higher bulk and 50% more stiffness than a traditional, standard label paper. What this means in real terms is that a 70g/m<sup>2</sup> of Parade Prima High Performance can be used instead of a 80g/m<sup>2</sup> label paper resulting in higher yields of labels per ton of paper.



In South Africa, we launched Masuga, a text grade made from 90% bagasse (sugar cane waste) sourced from emerging farmers.

### Going digital

Personalised communication is one of the trump cards of modern marketing. Digital print is extremely flexible as it allows printers to personalise and update brochures, changing text and pictures for individual readers, while producing adequate quality at much lower cost for relatively small jobs. It is customisable with small stocks, fast changes and fast delivery. The market is showing rapid growth, particularly in the on-demand direct mail and book segments.

Sappi Fine Paper Europe launched TOP, a new digital toner paper range at the IPEX fair in Birmingham at the end of May 2010. The range combines the best image reproduction with the specific digital functionalities needed for optimum performance. The Sappi quality guarantee is backed by third party testing and the paper will be shortly approved for use on the HP Indigo, Kodak NexPress and Canon imagePress systems. It will also be thoroughly tested on Xerox systems.

A new product, Jaz, which forms the basis of Sappi Fine Paper Europe's inkjet product range, is currently in a trial phase.



### Bling wins award at Asia Pacific Leather Fair

In March 2010, the Sappi Fine Paper North America Release Papers business received the 'Best Man-Made Material Innovation Award' at the Asia Pacific Leather Fair (APLF) – Materials, Manufacturing & Technology Trade Show for our newest texture, 'Bling'. This eye-catching, geometric texture brings dynamic movement to any application. As one of the only five winners for this award category, this was a tremendous honour for Sappi given that there were over 1,000 exhibitors from 48 countries and regions.



### North America – global winners of the Technical Innovation Awards

Through a partnership with Kronospan, one of the world's largest laminate flooring manufacturers, the North American Release Papers business jointly invented and commercialised a revolutionary process to manufacture a new decorative flooring product. The companies are jointly patenting the invention. Together, they turned a six-step process into a two-step process that now features an Ultracast component to produce a printed surface with superior properties that is more environmentally-friendly at significantly lower costs. This innovation in turn led to a new technical innovation (which Sappi has also patented) that allows us to manufacture textured films. The substantial volume that we have secured with the flooring manufacturer is expected to result in an annual business improvement of US\$1.8 million. The Sappi team from manufacturing, R&D and sales were the global winners of the internal Technical Innovation (TIA) Awards, aimed at stimulating, recognising and rewarding innovation.



### Improving tree breeding efficiency

Sappi's tree improvement programmes in South Africa need to keep track of thousands of individual trees over long generation cycles of between 8 to 15 years and through the many steps of tree breeding activities. Mislabelling of individuals means that incorrect individuals are used for crosses, or are carried through into the next generation of breeding or are used in seed orchards for operational seed production. The impact of this mislabelling is dilution of genetic gain which can translate into less timber yield at harvest than predicted in original breeding trials. In collaboration with the University of Pretoria, Sappi's tree breeders at the Tweedie Research Centre developed a reliable DNA fingerprinting tool to improve breeding efficiency. This project was the regional winner of the annual TIA awards.



## Build on our competitive position in our core markets

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Promotion of the Sappi brand</li> </ul>	<ul style="list-style-type: none"> <li>Explore further initiatives with designers and printers</li> </ul>	<ul style="list-style-type: none"> <li>Continued reputational enhancement through initiatives such as Ideas that Matter and Life with Print</li> <li>NA modified their regional Printer of the Year contest to assist each winner with strategic marketing initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Bring to life the refreshed Sappi brand and review the marketing proposition</li> <li>Rebuild of Sappi website</li> </ul>
<ul style="list-style-type: none"> <li>SWOT analyses with respect of our main competitors</li> </ul>	<ul style="list-style-type: none"> <li>Set and measure against targets what we must improve, reduce, eliminate, create</li> <li>Monitor developments such as Walmart Sustainability Index and Newsweek's green rankings</li> <li>Understanding customer/end user needs and Sappi's performance in satisfying these</li> </ul>	<ul style="list-style-type: none"> <li>Concluded background work on our brand proposition in Europe and SA</li> <li>Public policy developments communicated to management and Sappi board sustainability committee</li> <li>NA customer survey shows 5% year-on-year growth in recognition of Sappi Fine Paper North America as a sustainability leader</li> <li>The 2010 SFPE customer satisfaction survey shows a growing appreciation of our sustainable profile in Europe</li> </ul>	<ul style="list-style-type: none"> <li>Consolidate brand lines to simplify product offering</li> <li>Consider requests from stakeholders regarding supply chain disclosures, including supplier evaluation criteria/matrix</li> <li>Sappi Fine Paper North America to conduct sustainability pilot study with select suppliers</li> <li>Carry out internal survey of certain sustainability indicators in relation to main competitors</li> <li>Conduct semi-annual or annual customer satisfaction surveys</li> </ul>

## Opus

### Opus – satisfying customers

*"Opus helps us deliver great results and still stay within budget. That's not an easy thing to do these days."*

*Leora Zuckerman  
Manager: marketing production at Ann Taylor*

Large scale would be a good word to describe the average print job that Leora Zuckerman manages every day. In fact, Leora managed the printing of over seven million inserts for national publications in 2009 for Ann Taylor Stores. As print production manager, Leora selects Opus for a variety of sheetfed and web jobs, including everything from direct mail and in-store collateral, to PR and other corporate projects. Leora trusts Opus because "it's always been a well-performing sheet that we can count on."

From a value perspective, Opus delivers a variety of choices without compromising quality:

- Opus PS – specifically engineered for the direct mail market;
- Opus Digital, which answers the need for customisation and quick runs; and
- Opus 30, which ensures print quality is not sacrificed when using an environmental paper offering 30% post consumer waste.





### Promoting the power of print

Sappi Fine Paper Europe's Print Media Efficiency Award recognises outstanding advertising campaigns that have innovatively integrated print media in the most efficient way, using a minimum of 40% print as a medium.

In 2010, Ogilvy Amsterdam won the prestigious award for its IBM Roi Rapido campaign, designed to change perceptions of IBM as an expensive and complex organisation. With a limited budget of €50,000, Ogilvy Amsterdam employed direct mail and created the character of Roi Rapido, the incarnation of result driven action.

The Roi Rapido concept proved to be a fantastic way to open a new market, achieving over 10% of new business leads from a mailing list of 400 IT managers. The original revenue target was exceeded by more than 100% – from €3,300,000 to €6,972,000 – and IBM's core message of cost efficiency was reinforced, demonstrating that a limited budget combined with a clever paper-based strategy can deliver exceptional results.



### i choose paper

The 'i choose paper' campaign was developed in South Africa in response to increasing consumer demand for safe, environmentally-sound and sustainable packaging, and for information about both its benefits and how it's produced. 'i choose paper' is designed to give consumers the information that they need when making purchasing decisions. [www.ichoosepaper.com](http://www.ichoosepaper.com)



### Demonstrating that interactive doesn't just happen on screen

Sappi Fine Paper North America released *The Standard No. 4, Scoring and Folding*, a Sappi guide to designing for print in 2010. Aside from offering technical tips to optimise printing results, *The Standard* is intended to show customers the advantages of printing on paper. Unlike online media, print allows designers to control how the message is delivered and received. It's tactile, dramatic, versatile... and even in the case of fascinating folds, interactive. *The Standard No. 4, Scoring and Folding*, is supported with print and online advertising, webinars and events across North America.



### Life with print

Despite all predictions that the 21st century would see print eclipsed by electronic media, it continues to play an essential role in our everyday lives and is more powerful than ever. To share our enthusiasm for the bright future of paper with our customers, Sappi Fine Paper Europe has created the highly regarded, informative series, *Life with Print*. Each edition of *Life with Print* is packed with qualitative examples of the value of print in the media mix. The series also highlights experts and companies throughout the world who share Sappi's passion for print.



## Maintain our licence to trade

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Compliance with legal frameworks</li> </ul>		<ul style="list-style-type: none"> <li>Group legal compliance programme reviewed by Internal Audit</li> <li>South African "Green Scorpions"* visits to Ngodwana and Enstra Mills. Ngodwana Mill queries responded to, Enstra Mill in discussions on preliminary matters</li> </ul>	<ul style="list-style-type: none"> <li>Implement the recommendations from internal audit report</li> <li>Continue and finalise discussions with Department of Environmental Affairs</li> </ul>
<ul style="list-style-type: none"> <li>In SA Broad-based Economic Empowerment (BBBEE) scorecard rating</li> </ul>	<ul style="list-style-type: none"> <li>Strategise BEE ownership options and execute to enhance ownership scorecard</li> <li>Achieve a "level five contributor" (BEE rating) and preferential procurement recognition level of 80% in 2010</li> </ul>	<ul style="list-style-type: none"> <li>Completion of BEE transaction resulting an effective 30% BEE shareholding interest in Sappi's South African business and elevation to "Level Three Contributor"</li> </ul>	<ul style="list-style-type: none"> <li>Continue to drive preferential procurement, particularly from SMMEs</li> </ul>
<ul style="list-style-type: none"> <li>Participation and inclusion in external indices</li> </ul>	<ul style="list-style-type: none"> <li>Continue making use of external benchmarks to assess sustainability performance</li> <li>Implement lessons learned from external assessments</li> <li>Report on level of GRI compliance and obtain assessment of sustainability reporting by GRI</li> </ul>	<ul style="list-style-type: none"> <li>Participated in the World Dow Jones Sustainability Index, Carbon Disclosure Project and the JSE Socially Responsible Investment Index</li> <li>Formalisation and disclosure of group strategies and policies</li> <li>GRI reporter status not available at time of printing</li> </ul>	<ul style="list-style-type: none"> <li>As external benchmarks help to drive progress, continue to participate in selected indices</li> <li>Continue to implement lessons learned, particularly in terms of People and Planet</li> <li>Confirm our 'A' level GRI rating</li> </ul>
<ul style="list-style-type: none"> <li>UN Global Compact</li> </ul>	<ul style="list-style-type: none"> <li>Continue reporting on compliance with UN Global compact principles</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing compliance</li> </ul>	<ul style="list-style-type: none"> <li>Continue to report on performance and compliance</li> </ul>
<ul style="list-style-type: none"> <li>Copenhagen Communiqué on climate change</li> </ul>	<ul style="list-style-type: none"> <li>Report back on progress in terms of Copenhagen climate change objectives</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly updates provided to board sustainability committee and monitoring of developments</li> </ul>	<ul style="list-style-type: none"> <li>Report back on any decisions made by the COP in Cancún that could have a material impact on our business</li> </ul>

\* Environmental Management Inspectorate, a network of environmental enforcement officials from different government departments (national, provincial and municipal).



As many of our employees were first-time share owners, we rolled out a communications campaign to educate them about the benefits of share ownership in general as well as the specific details of the Sappi scheme, known internally as 'Sefate' (meaning 'to grow'). The booklet was made available in English, Xhosa, Zulu, Siswati and Tswana.

### BBBEE transaction

Following South Africa's transition to democracy in 1994, legislation relating to Broad-based Black Economic Empowerment (BBBEE) was introduced to accelerate economic and social transformation. As a company headquartered in South Africa, with significant assets and people, BEE is an important component of our reputation and licence to trade.

In the first half of 2010, the shareholders of Sappi Limited approved a BBBEE equity transaction involving the issuing of approximately 4,5% (24,3 million shares) of the group's issued share capital, which translates into the empowerment of 30% of Sappi's South African business. The total value of the transaction was ZAR814 million.

The transaction recognises the contribution made to the company by our South African employees; will help attract and retain staff and in particular highly skilled black managers; and reinforces Sappi's position as a responsible corporate citizen within the communities where we operate. Furthermore, the transaction accommodates the key principles of BBBEE and maximises the ownership component in terms of the Forest Sector Charter with Sappi moving from a Level Six Contributor to a Level Three Contributor on the Charter scorecard. Sappi will continue to focus on improving performance with regard to the other scorecard criteria.





## Create value for all stakeholders

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Value add, direct and indirect, to parties with which Sappi engages</li> </ul>	<ul style="list-style-type: none"> <li>Value add, direct and indirect, to parties with which Sappi engages</li> </ul>	<ul style="list-style-type: none"> <li>Development of reporting criteria ongoing</li> </ul>	<ul style="list-style-type: none"> <li>Continue to assess value add of each mill</li> <li>Approach stakeholders from each stakeholder group to understand their view of Sappi's sustainability risks and opportunities</li> </ul>

### Adding value to people and to the economy

The pulp and paper industry contributes positively to increased wealth and well being particularly in rural areas, both by contributing to forest management and via its presence in the countryside. It directly supports vital employment in rural areas which indirectly leads to the establishment of infrastructure and services in these regions.

#### South Africa

The forestry sector directly employs 170,000 people and the pulp and paper subsector provides approximately 13,200 direct and 10,700 indirect employment opportunities. Taking a conservative view of the dependency ratio in rural areas, this means that the forestry sector supports over 860,000 people<sup>1</sup>. Annually, forestry and forest products contribute about 1.27% to GDP, with the value of forest products exports increasing from ZAR9.5 billion in 2001 to ZAR14.8 billion in 2008.<sup>2</sup>

#### Europe

The industry provides direct employment for about 245,000 people, and indirect employment to some 1.8 million people, 63% in rural areas. The European pulp and paper industry has an annual turnover of €79 billion and a value add of €25 billion. It invests €4.7 billion per year, with more than 10% specifically dedicated to direct environmental protection.<sup>3</sup>

#### North America

The industry accounts for approximately five percent of US manufacturing GDP; is among the top 10 manufacturing employers in 48 states; and employs nearly 900,000 people earning US\$50 billion annually. In addition, industry companies produce US\$175 billion in products annually.<sup>4</sup>

In the state of Maine, where our Westbrook and Somerset Mills are situated, the paper industry is the backbone of Maine's economy. In 2009, the industry contributed nearly US\$900 million to Maine's economy. In total, the pulp and paper industry accounts for 22 percent of all manufacturing wages in the state. In some communities, paper mills represent 60 – 80 percent of total tax revenues.<sup>5</sup>

### Value added statement

for the year ended September 2010

One measure of wealth created is the amount of value added to the cost of materials and services purchased. This value added statement sets out the value added by the Sappi group and how it was distributed among stakeholders.

US\$ million	2010	2009	2008
Sales	6,572	5,369	5,863
Income from investments	30	72	55
Profit on sale of non-current assets	4	–	–
Less: Paid to suppliers for materials and services	4,625	3,865	4,077
<b>Total value added</b>	<b>1,981</b>	1,576	1,841
<b>Distributed as follows:</b>			
To employees as salaries, wages and other benefits	1,129	1,002	965
To lenders of capital as interest	272	205	179
To shareholders as dividends	–	37	73
To governments as taxation	74	76	89
<b>Total value added distributed</b>	<b>1,475</b>	1,320	1,306
Portion of value added reinvested to sustain and expand the business	506	256	535
<b>Total value added distributed and reinvested</b>	<b>1,981</b>	1,576	1,841
<b>Taxation</b>			
Taxes paid to governments (Including US\$6 million direct taxes recoverable from governments as at September 2010; Payable direct taxes September 2009 US\$3 million; September 2008 US\$6 million)	74	76	89
– Employees' taxation deducted from remuneration paid	169	148	158
– Net value added taxation (VAT)	(120)	(149)	(47)
<b>Total</b>	<b>123</b>	75	200

#### Ngodwana Mill, South Africa

In the province of Mpumalanga, where Ngodwana Mill is situated, Sappi's economic contribution to the Mpumalanga province's GDP in 2009 was approximately ZAR2.9 billion per annum. The mill employs 1,100 own employees and 730 permanent contractors. Taking into account non-permanent contractors, this means that the mill supports over 33,000 people (including own employees, contractors and dependants).<sup>6</sup>

1. Forestry SA
2. *Agriculture, forestry and fisheries – integrated growth and development plan 2011 – 2031*, published by the National Department of Agriculture
3. CEPI website, [www.cepi.org](http://www.cepi.org)
4. Source: American Forests and Paper Association (AF & PA) Sustainability Report 2010
5. *Trade group sides with manufacturers of paper*, Morning Sentinel, 23/10/2010
6. *Mpumalanga Economic Development Review 2004 – 2009*, published by the Department of Economic Development and Planning






*Sappi's integrated mills use wood chips to make the pulp used in our papermaking*





## People

 Provide training and development opportunities			
Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Targets set on training hours and spend per employee</li> </ul>	<ul style="list-style-type: none"> <li>Classify and report on training in global categories</li> </ul>	<ul style="list-style-type: none"> <li>Each region has classified and reported its training spend in terms of the agreed training framework</li> <li>Increased safety training and Adult Basic Education and Training (ABET) in SA</li> </ul>	<ul style="list-style-type: none"> <li>Continue to report globally in terms of established framework</li> <li>Intensity focus on ABET</li> </ul>
<ul style="list-style-type: none"> <li>Sappi Leadership Academy</li> </ul>		<ul style="list-style-type: none"> <li>Sappi Fine Paper North America 250 managers participated in Leadership Excellence and Development at Sappi (LEADS) programme and the region also conducted extensive sustainability training of the sales force based on the new eQ tool</li> <li>Fifth SFPE 250 Leadership Academy management and manufacturing trainee programme started in April with 13 participants</li> <li>In SA, 'nine conversations' introduced as supplementary leadership tool</li> <li>We successfully continue to run a situational leadership training module across Europe, aimed at enabling managers to adjust their leadership style to the task</li> </ul>	<ul style="list-style-type: none"> <li>Support completion of 2-year LEADS programme in NA</li> <li>Roll out 'nine conversations' to lower level teams</li> </ul>
<ul style="list-style-type: none"> <li>Talent and succession planning review</li> </ul>	<ul style="list-style-type: none"> <li>Report on talent pipeline</li> </ul>	<ul style="list-style-type: none"> <li>Talent reviews co-ordinated annually and succession planning and talent reviews bi-annually to the board</li> </ul>	<ul style="list-style-type: none"> <li>Improve the quality of the talent review and succession planning process</li> </ul>

### Adding value to our people

**Global training spend in 2010 was US\$9.8 million (2009: US\$9.1 million), amounting to 12.7% of total employee costs.**

We recognise that there is a direct link between our people and our sustained business performance. Accordingly, our aim is to add value to our human capital base by developing our employees' skills and abilities and by providing them with opportunities to learn and develop.

To determine the annual training and development agenda, a needs analysis is undertaken, underpinned by the performance management process. Our approach to training and development is decentralised with each mill, function, business unit and region taking responsibility for training. Training is broad and includes:

#### Training spend (US\$) and hours by category per employee per region

	Management and leadership development		Knowledge and capacity building		Skills programmes and individual development		Sappi World of Work	
	Comprises all training that is associated with management, supervisory and leadership development		Comprises training that enhances individuals' skills for current or future positions for a best practice organisation		Comprises formal programmes/self-study that have both practical and theoretical components that may lead to educational qualifications		Comprises training that is mandatory for legal, safety, health, environment and quality compliance	
■ South Africa	3.7 hours	US\$90	27.3 hours	US\$164	41.8 hours	US\$346	12.4 hours	US\$147
■ Europe	3.2 hours	US\$85	14 hours	US\$339	2.5 hours	US\$55	5.5 hours	US\$95
■ North America	3.7 hours	US\$32	10.6 hours	US\$92	1.4 hours	US\$12	30.3 hours	US\$262



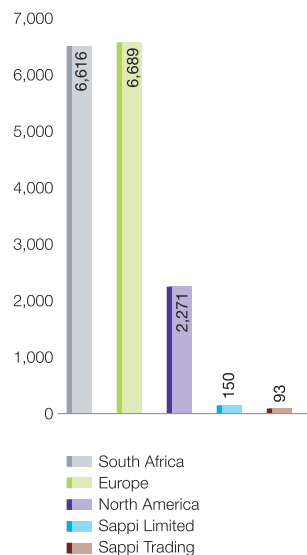
## Cultivate an inclusive diverse workplace

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Promotion of gender and race equality</li> </ul>	<ul style="list-style-type: none"> <li>Monitor employee diversity profile</li> </ul>	<ul style="list-style-type: none"> <li>Monitored quarterly by SA lead team and equity discussed monthly at every unit's equity forum</li> <li>In Europe, increased focus and openness to bringing different nationalities and senior managers (outside the traditional papermaking background) into mill management positions</li> <li>In NA, maintained our gender split at senior management levels</li> </ul>	<ul style="list-style-type: none"> <li>Continue monitoring progress quarterly</li> <li>Continue to attract, develop and promote female talent</li> <li>Increase the diversity of candidates for key positions</li> </ul>
<ul style="list-style-type: none"> <li>Achievement of South Africa's Employment Equity indicators</li> </ul>	<ul style="list-style-type: none"> <li>Review targets</li> </ul>	<ul style="list-style-type: none"> <li>Equity indicators communicated to SA lead team quarterly</li> <li>Discussions being held on the equity targets submitted to the Department of Labour in 2009</li> </ul>	<ul style="list-style-type: none"> <li>Intensify efforts to reach equity targets</li> </ul>

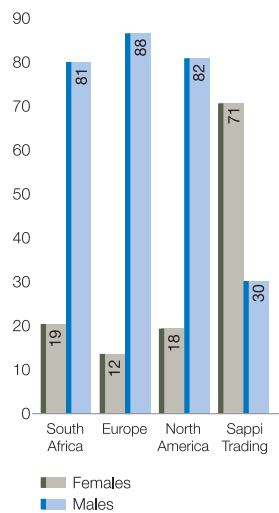
## Valuing diversity

As a global company, we employ a diverse workforce. We value this diversity, believing that it contributes to innovative thinking and our ability to service diverse global markets. We strive to create a workplace free from discrimination and harassment, acknowledging and accepting differences among our people with respect to age, class, ethnicity, gender, physical ability, race, sexual orientation, and spiritual practice. Although English is the primary language used throughout the group, key communication materials are disseminated in the prevailing languages of each region.

### Headcount by region



### Our diversity profile by region (%)







## Be a great place to work

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Global engagement survey</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of action plans flowing from results of global survey</li> </ul>	<ul style="list-style-type: none"> <li>Various initiatives were established in each region (see below)</li> </ul>	<ul style="list-style-type: none"> <li>Conduct new survey</li> <li>Analysis and communication of results</li> </ul>
<ul style="list-style-type: none"> <li>Regional recognition programmes</li> </ul>		<ul style="list-style-type: none"> <li>Continue with Employee Achievement Awards in SA and risk-taking and ingenuity programme in NA</li> </ul>	<ul style="list-style-type: none"> <li>Continue with regional recognition awards</li> </ul>
<ul style="list-style-type: none"> <li>Reward/remuneration based on merit</li> </ul>	<ul style="list-style-type: none"> <li>Identified as an issue in employee engagement survey</li> </ul>	<ul style="list-style-type: none"> <li>Global grading project which focused on job size was completed</li> </ul>	<ul style="list-style-type: none"> <li>Review bonus schemes as appropriate</li> </ul>
<ul style="list-style-type: none"> <li>Absenteeism and labour turnover statistics</li> </ul>	<ul style="list-style-type: none"> <li>Report on employee wellbeing programmes and outcomes</li> </ul>	<ul style="list-style-type: none"> <li>The results from Sappi Fine Paper North America's drive to promote health risk assessments used to establish Sappi-specific health risk programmes</li> </ul>	<ul style="list-style-type: none"> <li>Establish wellness programmes focused on Sappi specific health risks in NA</li> <li>Finalisation of project to improve employability of SFPE staff</li> </ul>
	<ul style="list-style-type: none"> <li>Overall absenteeism of &lt;5%</li> <li>Voluntary turnover of &lt;10%</li> </ul>	<ul style="list-style-type: none"> <li>Down in SA to 2.8%, NA to 4.3%, Sappi Trading to 1.3%, up in Europe to 5.1%</li> <li>Up in SA and Sappi Trading to 17.8% and 13.9% respectively. Down in Europe and NA to 7.4% and 12.1% respectively</li> </ul>	<ul style="list-style-type: none"> <li>Further reduce absenteeism</li> <li>Maintain voluntary turnover of 10% to allow for new thinking and younger employees to be brought into the company</li> </ul>

### Promoting wellbeing

Globally, the Employee Wellbeing Programme includes various initiatives and awareness programmes, eg substance abuse, cancer awareness days, weight-loss programmes and awareness programmes related to testing cholesterol, blood glucose, body mass index, blood pressure and, in South Africa, HIV/AIDS. Focused interventions differ in each region.

#### South Africa

Using the statistics from our in-house medical aid scheme, we are able to establish on an annual basis the health and wellbeing risks experienced by employees and this helps develop our annual agenda. In addition to fulfilling various awareness programmes, employee wellbeing practitioners provided focused attention on the financial upskilling of employees to address their financial wellbeing. Further effort was made in better managing the reintegration of temporary and permanently disabled employees in their return to work.

#### Europe

Employee wellbeing in Europe is decentralised with each mill determining their annual calendar activities based on their needs.

Activities range from flu vaccinations and counselling for employees whose wellbeing is affected by work or external factors, support of employee sports and social activities to consultations with a dietician.

#### North America

In 2010, the region rolled out a health risk assessment to obtain Sappi-specific health risk data that is critical to the development of a comprehensive wellness programme. Participation in wellness programmes is shown to control the trend of medical plan utilisation, thereby reducing the annual premium increases in the future. Survey results received to date identified several key wellness risk areas for Sappi employees and families. They are: weight, blood pressure, stress and lack of physical activity. The two areas that we will focus on in 2011 are weight loss and stress management initiatives.

### Initiatives flowing from global employee engagement survey

In 2009, we conducted our second employee engagement survey. The survey identified certain areas of concern which we addressed in the following ways:

#### South Africa

After analysing the data and focus group discussions, participants designed their own action plans to address their respective three top areas of concern. A dipstick survey was conducted to measure progress and impact of action plans. In addition, the region designed and launched 'My Sappi' attributes and behaviours in a branded employee value proposition followed by a book containing stories written by employees about their Sappi working experience.

#### North America

The region launched a two-year LEADS training programme and conducted targeted site and departmental engagement activities.

#### Europe

Europe continued to invest in a high performance culture through revitalisation of the performance management process and training for managers in performance management; leadership training for all levels; and core communication and feedback skills for first line managers. In addition, each of the mills defined three action steps they will take to especially address the relatively lower levels of discretionary effort for blue-collar workers. A toolkit was developed to explain in a 'simpler way the purpose of the survey to the HR team, as well as how to analyse the results, how to get to the root-cause as well as a library of recommended action steps.



## Prioritise wellbeing, safety and health

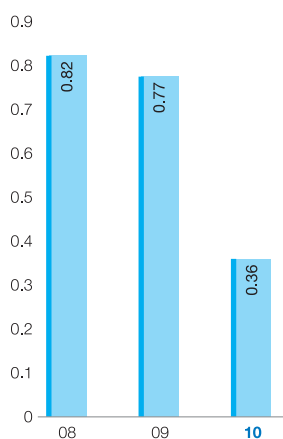
Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Measurement, monitoring and management of safety indicators in terms of employees and contractors with the aim of achieving zero harm</li> </ul>	<ul style="list-style-type: none"> <li>Reduce LTIFR and fatalities to zero</li> </ul>	<ul style="list-style-type: none"> <li>Reduced fatality rate from previous year to four, one in Europe and three in SA</li> </ul>	<ul style="list-style-type: none"> <li>Continue to aim to achieve zero fatalities</li> </ul>
	<ul style="list-style-type: none"> <li>Focus on executing safety strategies which include further training, visible senior leadership and improved contractor vetting, management and safety performance</li> </ul>	<ul style="list-style-type: none"> <li>Contractor safety management system developed with IRCA in Sappi Forests in SA, proved successful in reducing fatalities and injuries</li> </ul>	<ul style="list-style-type: none"> <li>Monitor and improve on safety performance</li> </ul>
<ul style="list-style-type: none"> <li>Mills' safety milestones</li> </ul>	<ul style="list-style-type: none"> <li>Increase number of mills achieving safety diamond status</li> </ul>	<ul style="list-style-type: none"> <li>Achieved by Enstra Mill</li> </ul>	<ul style="list-style-type: none"> <li>Improve mill safety performance in all regions</li> </ul>
<ul style="list-style-type: none"> <li>Internationally recognised certification standards, such as OHSAS and OSHA</li> </ul>		<ul style="list-style-type: none"> <li>Cloquet, Somerset and Westbrook Mills all attained OHSAS 18000: 2007 certification during the year.</li> </ul>	
<ul style="list-style-type: none"> <li>HIV testing and mortality rates</li> </ul>	<ul style="list-style-type: none"> <li>Identify the risks that influence the HIV prevalence within Sappi employees</li> </ul>	<ul style="list-style-type: none"> <li>In SA risk workshops on factors that influence HIV prevalence were held in various locations</li> </ul>	<ul style="list-style-type: none"> <li>Establish interventions to mitigate identified risks</li> </ul>

### Identifying HIV risk areas in South Africa

Of the predicted HIV-positive Sappi employees, 57.7% are registered on managed care programmes. The South African Department of Health (DoH) has launched Counselling and Testing (C&T) campaigns aimed at encouraging people to know their HIV status and linking to treatment, care and support. Through key HIV prevention messages, the DoH also encourages people to take proactive steps towards a healthy lifestyle, irrespective of their HIV (or TB) status. In 2010, Sappi participated in the campaign and partnerships were formed with the DoH to encourage employees, contractors and partners to ensure they know their HIV status.

At Sappi on average more than 50% of the employees participated in the campaigns with the participation at one mill being more than 90% for the third year in a row. Special focus is given to the identification of the external risks that could lead to an increase in the prevalence of HIV in the company. One of the key internal risks is non-compliance with medical protocols. In the past year, employee wellbeing layworkers helped to promote compliance with medication. The initiatives described here had a positive effect on the mortality rate of Sappi employees, which, at 0.36% is the lowest in 12 years.

**Mortality rate of known HIV/AIDS infected employees in South Africa (%)**





## Safety performance – at a glance

Improvements in reducing fatalities and lost time injuries are evident throughout the group. Nevertheless, we remain committed to the goals of eliminating fatalities and lost time injuries and achieving constant “front of mind” safety awareness for all employees and contractors. To that end we have reviewed and requested improvements to our safety management systems, including developing safety dashboards.

- **North America:** There were no fatalities reported in FY2010. The Lost Time Injury Frequency Rate (LTIFR) however, increased due mainly to minor strains and sprains. Renewed programmes have been put in place to reduce such incidents. The strict policy on contractor safety resulted in there being no contractor lost time injuries for the year.
- **South Africa:** The contractor LTIFR was the lowest ever recorded in South Africa. Unfortunately, there were two fatalities in Sappi Forests and one at Saiccor Mill.

In 2010 we instituted a web-based facility in Sappi Forests, the Hannington Quality Management Software (HQMS) solution for identifying and addressing the root causes of injuries. HQMS is an integrated web-based SHEQ management system which is inexpensive for contractors and has been well received and utilised, allowing the the region to identify areas for improvement.

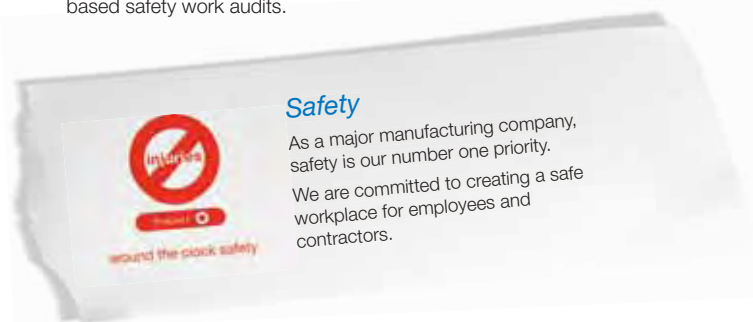
- **Europe:** Safety performance improved for both contractors and employees. Sadly, a Sappi Kirkniemi employee was fatally wounded.

Last year, we reported that our safety systems at Biberist, Kirkniemi and Stockstadt Mills needed re-energising and that we would engage with external consultants to strengthen safety programmes at these mills. We progressed this at each mill:

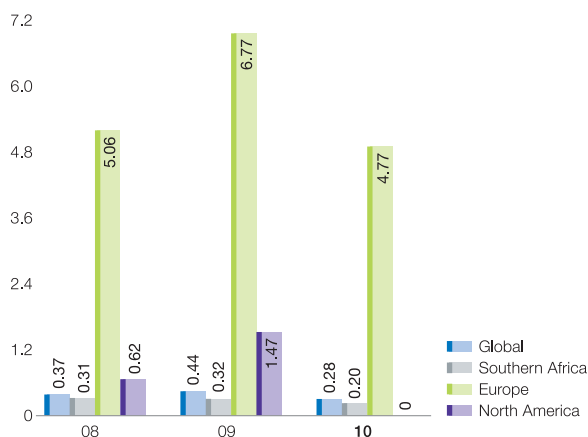
- **Biberist Mill:** external insurance consultants completed safety audit, people with managerial responsibility from top management

down to machine operators were trained by the insurance consultants on aspects such as safety understanding, risk analysis and responsibilities. These consultants are tracking the integrated safety programme on an ongoing basis.

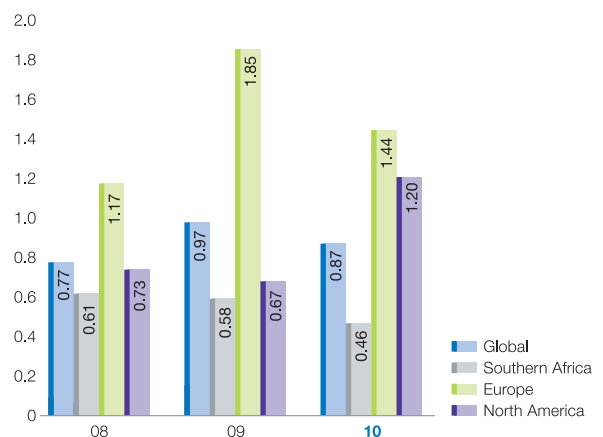
- **Kirkniemi Mill:** workplace risk assessments were conducted and a culture of zero accidents was reinforced through safety talks by supervisors, the Global Safety Awareness Day and initiatives conducted with the Finnish Zero Accident Forum. In the first quarter of FY2011, the mill will launch the safety analysis risk assessment (SARA) throughout the mill and will institute behaviour-based safety (BBS) programmes.
- **Stockstadt Mill:** in May this year, the mill re-focused its safety programme with the help of external consultants. First step was an in-depth safety analysis of all areas in the mill, achieved through both interviews and inspections. Second step was to implement a workgroup to define measurements to improve safety performance based on the results of the external safety analysis report. Going forward, the mill's main focus will be on the clear setting and communication of safety targets, reorganising function and work of safety experts in all departments and the start of behaviour-based safety work audits.



LTIFR contractor employees



LTIFR own employees





## Engage with stakeholders openly and constructively

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Regular contact with shareholders and customers</li> </ul>	<ul style="list-style-type: none"> <li>Chief executive officer and management to maintain high level of visibility and accessibility to all stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Achieved regular contact with customers and other stakeholders via roadshows and one-on-one interaction</li> </ul>	<ul style="list-style-type: none"> <li>Continue to further expand interaction with new and existing stakeholders</li> </ul>
<ul style="list-style-type: none"> <li>Internal and external communications</li> </ul>	<ul style="list-style-type: none"> <li>Focus communication to target audience via all channels</li> </ul>	<ul style="list-style-type: none"> <li>Sustainability website regularly updated with case studies and other news</li> <li>Launched eQ tool in NA (see below)</li> <li>Launch of 'i choose paper' campaign in SA</li> <li>Green ambassador programme in SA</li> <li>Customer sustainability training in Europe</li> </ul>	<ul style="list-style-type: none"> <li>Communicate results of life cycle analysis of printing and writing grades developed with American Forest and Paper Association</li> <li>Extend eQ tool format to other regions</li> </ul>
<ul style="list-style-type: none"> <li>Participation in industry association initiatives</li> </ul>		<ul style="list-style-type: none"> <li>TwoSides paper campaign in Europe</li> <li>Why Print Is Green campaign in NA</li> <li>Sappi Fine Paper North America co-sponsored the development of the paper lifecycle</li> </ul>	<ul style="list-style-type: none"> <li>Remain engaged and involved in regional industry associations and relevant initiatives</li> </ul>
<ul style="list-style-type: none"> <li>Feedback from communities surrounding our operations</li> </ul>		<ul style="list-style-type: none"> <li>Each NA mill has a community connection group that is focused on interacting with the local community</li> <li>SA: Environmental liaison committees are in place</li> </ul>	<ul style="list-style-type: none"> <li>SA: Stanger Environmental Liaison Forum to be converted to a broader forum</li> </ul>



### Sappi Fine Paper North America launches eQ Tool

In 2010, Sappi Fine Paper North America launched its eQ Tool – an interactive web-based tool that allows users to explore a full range of factors behind choosing a sustainable paper. The eQ Tool illustrates Sappi's industry-leading approach to carbon management, explores the best use of recycled fibre, and brings to life our progress in forest certification and waste reduction. The environmental performance of a paper supplier is an increasingly relevant and critical factor in choosing a product brand. The eQ Tool provides stakeholders with the foundation to engage with the broader environmental considerations when choosing a paper supplier. The eQ tool also provides users with the ability to generate a customised product statement that summarises the environmental benefits of choosing Sappi Fine Paper North America's papers for a print job. The region publishes the eQ journal which covers a broad range of sustainability topics.

### Green Ambassador programme extended in South Africa

Sappi ReFibre (previously Sappi Waste Paper), has extended its Green Ambassador programme, initiated in 2009, by awarding Green Ambassador Accreditation status to acknowledge companies, organisations and individuals who are truly making an effort to recycle. Participants have to actively implement recycling and a Sappi recycling agent has to be linked to the recycling initiative to service the project. The volume of recyclables collected must be measured and reported to determine the success and impact of the project while participants also have to undergo training on the basic principles of recycling. l'langa Mall in Mpumalanga was the first shopping complex in South Africa to be awarded Sappi's Green Ambassador Accreditation status.



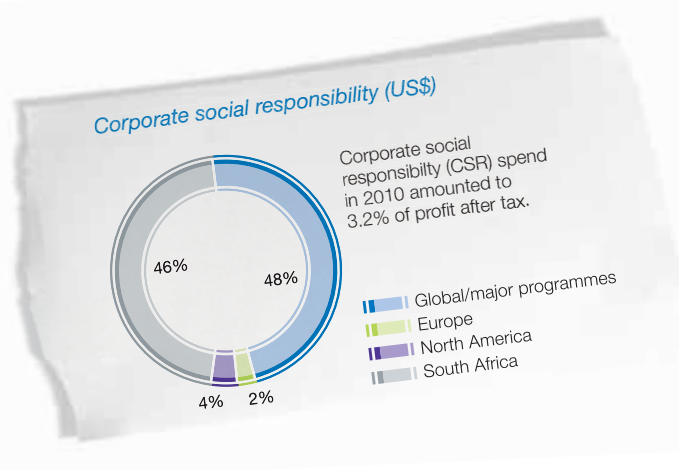




## Partner with communities

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Corporate Social Responsibility (CSR) spend on literacy, skills development, education, job creation, health, environment and HIV/AIDS</li> </ul>	<ul style="list-style-type: none"> <li>Review areas of spend</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed and maintained</li> </ul>	
	<ul style="list-style-type: none"> <li>Report on impact of projects</li> </ul>	<ul style="list-style-type: none"> <li>Methodology established</li> </ul>	<ul style="list-style-type: none"> <li>Roll out methodology to major projects</li> </ul>

We adopt a participatory approach to Corporate Social Responsibility (CSR) by identifying the needs of communities surrounding our operations, consulting with them and then tailoring specific programmes to meet their identified needs. Most of Sappi's CSR spend takes place in South Africa, given the development needs of the country.



### KwaDukuza Resource Centre – celebrating ten years

Established by Sappi in 2000, the KwaDukuza Resource Centre near Stanger Mill gives every member of the surrounding community the opportunity of using state-of-the-art information technology, regardless of personal means. The Centre comprises a digital village with computers, a dedicated study centre and reference library, as well as televideo and DVD sets.



Education outreach at the KwaDukuza Resource Centre

### Promoting reading

To support literacy in our communities and promote the reuse of books, the Community Connections committees at each site at Sappi Fine Paper North America held a book drive whereby local non-profit organisations in the community were identified. Employees were rallied to bring in specific types of used and new books. The aim of the campaign was to bring in more books than there are Sappi employees and this was achieved with over 4,000 new and used books being sent to nine non-profit organisations in the communities where our sites are located.



Sappi employees in North America donated books to local schools

### Helping Haiti

During June, Sappi Fine Paper Europe made a one Euro donation for every ton of paper sold to clients. The funds raised went towards building schools for the children of Haiti.



Haitian children benefited by the donation of funds by Sappi in Europe for school buildings, teachers, books etc at the Stichting Naar School





*One of the greatest benefits to Sappi's paper, paper packaging and chemical cellulose is that the wood fibre is derived from sustainable and renewable resources*



# Planet



## Safeguard biodiversity by promoting sustainable forestry

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Tree improvement programme to increase yields per hectare</li> </ul>	<ul style="list-style-type: none"> <li>Continue funding support and technical expertise to facilitate breakthrough in fibre molecular research programme</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing collaboration with tertiary and scientific institutions where needed</li> <li>Progress made in relation to targets for the year</li> </ul>	<ul style="list-style-type: none"> <li>Continued collaboration with tertiary and scientific institutions for molecular breeding</li> <li>Development of softwood and hardwood species to meet Sappi's requirements, including the construction of a new cuttings nursery in KZN to accommodate demand</li> </ul>
<ul style="list-style-type: none"> <li>Pest and disease resistance</li> </ul>	<ul style="list-style-type: none"> <li>Develop detection and quantification methods for control of wood wasp</li> <li>Establish an industry-wide task team to develop an understanding of the potential to control pitch canker fungus (PCF) in the nursery</li> </ul>	<ul style="list-style-type: none"> <li>The development of remote sensing tools by Sappi Forest SA enabled more effective targeted search for wood wasp</li> <li>Task team established with various industry and academic partners. Numerous projects initiated</li> </ul>	<ul style="list-style-type: none"> <li>Additional research into drought resistant hybrid trees will be conducted</li> <li>Continued implementation of trials into control of PCF</li> <li>Implement shift to commercial production of more PCF-resistant pine hybrid families</li> <li>Continued use of the successful biocontrol methods to combat wood wasp</li> </ul>
<ul style="list-style-type: none"> <li>Biocontrol</li> </ul>		<ul style="list-style-type: none"> <li>Continued to use biocontrol methods to combat wood wasp</li> </ul>	
<ul style="list-style-type: none"> <li>Management of riparian zones</li> </ul>		<ul style="list-style-type: none"> <li>The programme to delineate and remove commercial timber from all wetlands and riparian zones will be completed by December 2010</li> </ul>	<ul style="list-style-type: none"> <li>These areas will then be managed to re-establish natural vegetation</li> </ul>
<ul style="list-style-type: none"> <li>Involvement of communities in conservation/tourism initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Investigate the use of offset programmes</li> </ul>	<ul style="list-style-type: none"> <li>In EU we participated in tree planting in the Sonian Forest, in NA the Living Lands and Waters programme, and in SA the GreenforBlue initiative</li> </ul>	<ul style="list-style-type: none"> <li>Continue with long term offset established programmes and partnerships</li> </ul>

### Promoting biodiversity by planting trees

#### Europe

In 2010, over 40 staff at Sappi's office in Brussels, Belgium, participated in planting 1,250 trees in the Sonian Forest to celebrate World Forestry Day. The aim was to create wildlife corridors and enhance biodiversity locally.

#### South Africa

In 2008, Sappi Limited and car manufacturer Volvo South Africa established a joint initiative GreenForBlue, whereby Volvo drivers are encouraged to sponsor the planting of indigenous trees for each Volvo car bought to mitigate the emissions of harmful gas from engines.

GreenForBlue trees are planted on Sappi's lands, including land near roadsides and between plantations, ensuring that they will be properly looked after. GreenForBlue is linked to Sappi's Sandisa Imvelo (Growing Nature) campaign.

Sandisa Imvelo oversees the planting of trees which are sourced from the 'Trees for Fees' programme of the Wildlands Conservation Trust.

This operates a series of a social development projects that help communities. Disadvantaged children in rural communities grow the seedlings and then barter the trees for food, clothes, bicycles and other basic necessities.

#### North America

Over the past 150 years, there has been a sharp decline in native nut bearing hardwood trees in America's Midwest due to over harvesting, flooding and disease. As part of Sappi Fine Paper North America's continued commitment to the environment and sustainable forestry, in 2010 we provided free, two-year-old oak seedlings to our merchants located in Illinois, Indiana, Iowa, Ohio, Minnesota, Kentucky and Wisconsin.

The tree giveaway is part of The Million Trees Project, sponsored by Living Lands & Waters, a nonprofit environmental organisation that works to protect, preserve and restore America's major rivers and watersheds. The MillionTrees Project's goal is to grow one million trees in the Midwest within the next five to ten years.





## Reduce greenhouse gas emissions and increase our use of renewable energy

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
■ Energy consumption	■ Explore cogeneration and biofuel opportunities	■ Progress was made in relation to a number of projects (see below)	■ Monitor and report back
■ CO <sub>2</sub> emissions	■ Monitor regulatory developments following the Copenhagen Climate Change Summit	■ No clear direction following the Summit but we monitor regulatory developments and report back to board sustainability committee	■ Develop initiatives and measure commercialisation opportunities
	■ Report on carbon footprint methodology	■ SA and Europe have finalised their methodologies which cover scope 1, 2 and 3 ■ NA scope 1 and 2 concluded	■ Europe and SA engaging with customers ■ Engage with AF&PA on methodology for Scope 3 GHG emissions
■ Percentage of renewable energy	■ Increased during the year to over 50% for the group	■ Achieved 49% for the group	■ Assess further opportunities to capitalise on new and co-generation initiatives ■ Monitor regulatory developments
■ Percentage of self-generated power		■ SA's Saiccor Mill to sell power to Eskom, discussions under way to sell power from Ngodwana Mill ■ NA and Europe exported and sold 13.3% and 16.9% in terms of sold to used power respectively ■ Each year Cloquet Mill generates approximately 150,000 MWh of certified renewable energy	■ Monitor regulatory developments ■ Completion of US\$36 million recovery boiler upgrade at Somerset Mill

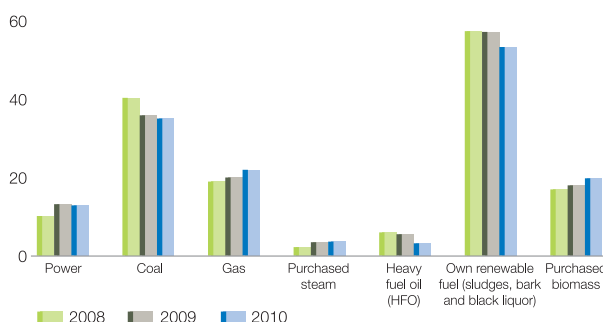
### Reporting on our carbon footprint

In the absence of a standard carbon footprint methodology for the forest products industry, our challenge to date has been on finding an internationally recognised, technologically-sound, transparent methodology in order to provide our stakeholders with credible information regarding the carbon footprint of our mills and products. In South Africa and Europe, we have decided to use the Forestry Industry Carbon Assessment Tool (FICAT). This comprehensive methodology was co-developed by the National Council for Air and Stream Improvement (NCASI) and the Confederation for European Paper Industries (CEPI) and uses the CEPI 'Ten Toes' approach to provide scope 1, 2 and 3 greenhouse gas (GHG) information. We have completed carbon footprints for our South African and European operations and will complete carbon footprints for products manufactured in these regions in 2011.

In North America, we report on direct and indirect (scope 1 and 2), but not scope 3 emissions. We are monitoring the development of two new standards from the development of two new standards from the World Resources Institute (WRI) and the World Business Council on Sustainable Development including the: Product Life Cycle Accounting and Reporting Standard and Scope 3 Accounting and Reporting Standards. Going forward, we will engage with the American Forest & Paper Association (AF & PA) and other resources to develop industry-specific guidance on Scope 3 emission.

*Note: Black liquor is the spent cooking liquor from the kraft process which results when pulpwood is digested into paper pulp by 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 process. Black liquor contains more than half of the energy content of the wood fed into the digester.*

EN-3 Direct energy consumption by primary energy source (million GJ/annum)



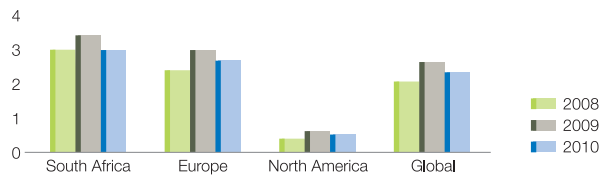
*The black liquor produced in is Sappi's integrated mills is all renewable and this is the dominant fuel for Sappi's operations (30.7%). 'Own renewable fuel' does not fall within the EN-3 definition for direct fuel, but is included here for its relevance to Sappi's energy self-sufficiency. As it is a biomass-derived fuel, it promotes reduced consumption of fossil fuels with a concomitant decrease in greenhouse gas emissions. The next most dominant fuel is coal, used extensively in SA. The decreasing trend in coal use is due to Gratkorn Mill which converted from coal use to gas. This is shown by a corresponding increase in gas usage.*

*The increase in purchased steam is due to its use in Biberist Mill which was acquired by Sappi in 2009 as well as Cape Kraft Mill, which converted from coal-fired boilers to purchased steam. The decrease in own renewable fuel in 2010 was due to the closure of Usutu Mill, responsible for approximately 4 million GJ/annum. The declining trend in purchased HFO is due to our NA mills replacing HFO with purchased biomass. 'Own renewable fuel' does not fall within the EN-3 definition for direct fuel, but is included here for its relevance to Sappi's sustainability. As this definition includes biomass-derived fuel, it indicates the extent to we are able to generate our own fuel and hence reduce our consumption of fossil fuels.*



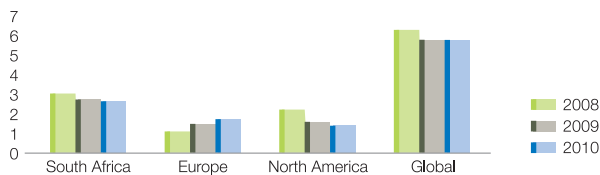


**EN-4 Indirect energy consumption by primary energy source**  
(specific purchased steam and power) (GJ/adt)

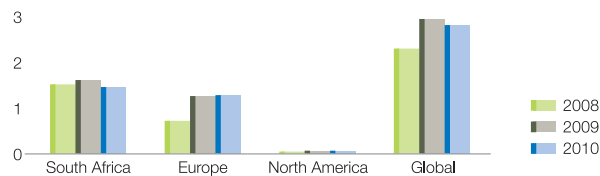


For Sappi, purchased power and steam are the only energy types that fall under the 'indirect energy' category. The values for North America are very low since they generate most of their power needs internally (85.1%), consequently requiring very little purchased power and no purchased steam.

**EN-16 Total direct greenhouse gas emissions by weight**  
(million ton CO<sub>2</sub>eq)



**EN-16 Total indirect greenhouse gas emissions by weight**  
(million ton CO<sub>2</sub>eq)



The negative figures for indirect emissions for Europe and North America are due to the fact that these mills sold more power to their respective grids than they purchased. The decline in global direct emissions is a measure of greater fuel efficiency.

## Co-generation in South Africa

Saiccor Mill has signed a Medium Term Power Purchase Programme (MTPPP) agreement with Eskom, the South African power utility, to sell 20MW of electrical power per annum into the grid. We are in discussions with Eskom to sell additional power from Ngodwana Mill.

Other cogeneration opportunities we are currently examining in the region include:

- A project at Lomati sawmill to use waste wood (currently 47,000 tons) for cogeneration and condensing power;
- A combined cycle gas turbine at Tugela Mill which would ultimately result in the mill being independent of Eskom;
- The utilisation of bark as a fuel for a new cogeneration project at Saiccor Mill to generate more steam and electrical power, making the mill less dependent on coal and more energy self-sufficient (current level of energy self-sufficiency: 44%). The prefeasibility study will be concluded by the end of December 2010.

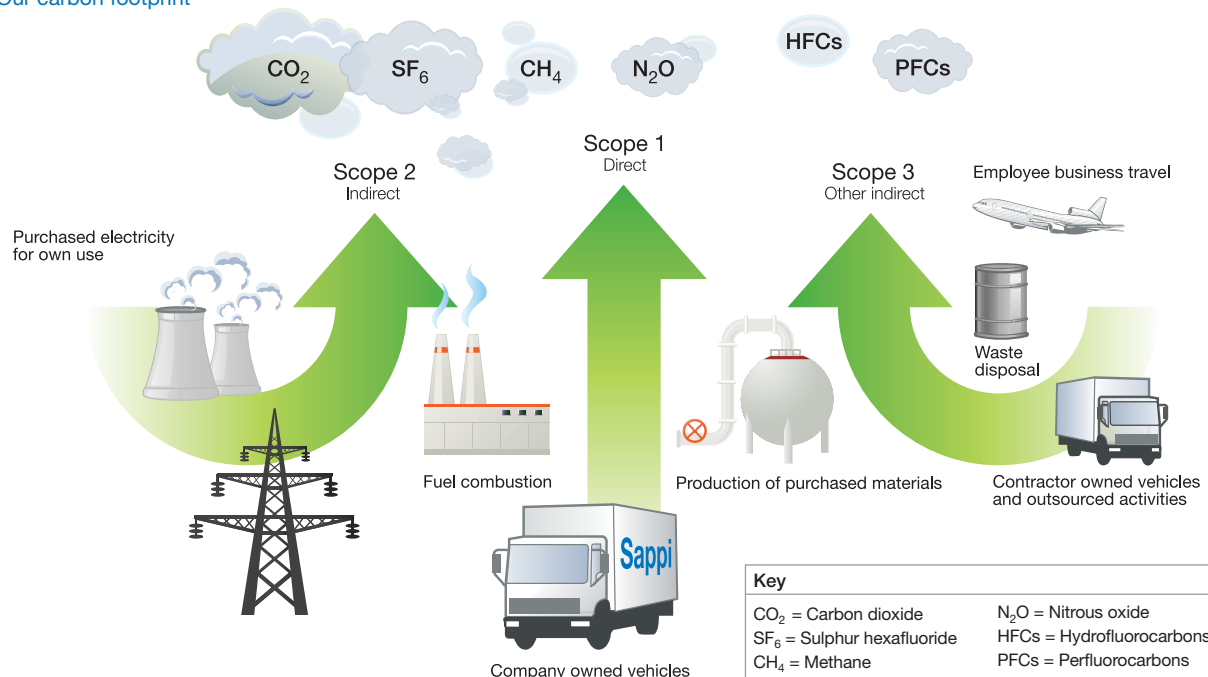
In South Africa we are looking at a number of biofuel projects, including the collection of biomass currently left in-field after harvesting for use as a fuel source and in the creation of wood pellets.

## Improving our energy efficiency and lowering our carbon footprint in North America

As part of our commitment to investing in our assets, continuous improvement and operating sustainably, Sappi Fine Paper North America's capex spend of US\$36.3 million on the recovery circuit enabled the Somerset Mill to increase the utilisation of black liquor, a renewable fuel generated as a by-product of the pulping process. This increase in black liquor utilisation is equivalent to the energy contained in 100,000 barrels of oil per year. In the process we will lower costs, improve energy efficiency and further reduce our carbon footprint as well as increase pulp production.

*Note: Unless otherwise indicated, all data is given in specific form. This means that the actual quantity 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, the parameter is air dry tons (adt) of product. (The term 'tons' is used in this report to denote a metric ton of 1,000 kg).*

### Our carbon footprint





## Continue our commitment to applying independent, environmental, wood and fibre management systems

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Use of FSC, PEFC and SFI® certification systems</li> </ul>	<ul style="list-style-type: none"> <li>Increase percentage of certified fibre in pulp and paper</li> </ul>	<ul style="list-style-type: none"> <li>On average 75% of the fibre used by Sappi is certified</li> </ul>	<ul style="list-style-type: none"> <li>Maintain the average percentage of certified fibre to above 75%</li> <li>Continue to support initiatives focused on establishing more certified forest land in North America</li> </ul>

## Promoting forest certification in North America

### Winning the SFI® President's Award

Third party forest certification has long been a challenge for about 10 million family forest owners who account for more than 60 percent of private forest lands. Many are not certified because they lack resources and certification is not economically feasible. Sappi, in collaboration with two of our key customers, Time Inc and Hearst Corporation, and two of our competitors, formed a partnership to help small- and medium-sized landowners in Maine achieve third-party forest certification the Sustainable Forestry Initiative® (SFI®) and the American Tree Farm System (ATFS).

In 2010, the partnership received the SFI® President's award for making forest certification more accessible.

### Sappi Fine Paper North America's sustainable forestry programme achieves FSC group certification



In June 2009, Sappi Fine Paper North America launched the Sustainable Forestry Programme. Operating from Skowhegan, Maine, the programme is comprised of a team of highly trained forest professionals, including licenced foresters, dedicated to assisting woodlot owners in the state of Maine to develop and manage their woodlots for the future. The programme offers a variety of services to help landowners statewide develop a forest management plan, determine the value of their woodlot, conduct timber harvests that plan for the future while maximising return, and also assist with wildlife management and aesthetics.

In the year under review, the programme was certified as Forest Stewardship Council (FSC) Group Managers in terms of the FSC's Small and Low Intensity Managed Forests certificate. This initiative is designed to help small and private landowners access and retain FSC forest management chain of custody certification on smaller tracts of land. Our programme can help landowners with the process of getting their woodlot certified to the Forest Stewardship Council standard.

### Group certification in South Africa

*In South Africa, our own owned, managed and leased plantations are 100% FSC-certified. However FSC certification for small growers such as those participating in Project Grow, our tree-farming scheme for subsistence farmers, is still a challenge. A group scheme developed by the FSC was tested by ourselves and other members of the industry but proved to be unworkable. As part of the process to develop a South African FSC standard currently underway, a separate small low intensity managed forests (SLIMF) initiative is being developed, but it is unclear when it will be ready to roll out.*

## Comparing PEFC and FSC – at a glance

	 <b>PEFC</b>	 <b>FSC</b>
Organisational focus	Open, in Europe: regional approach	Enterprise approach
Voting power in steering groups (simple voting)	<b>NGOs: 10%</b> <b>Woodland owners: 50%</b>	<b>NGOs: 20%</b> <b>Woodland owners: &lt;10%</b>
Use of pesticides	Used only as a last resort, no restriction of use on wood piles along forest roads	Use of pesticides only in plantations if ordered by authorities
Reference area	Explicit focus on integrated approach. No forest land has to be set aside. Expert groups define species	For forest land over 1,000ha in extent, 5% has to be left untouched as a reference area
Dead wood	Protection of nesting trees. Adequate amount of deadwood	Significant amount of deadwood – dead wood strategy required
Choice of species	Mixed stands with adapted species	Long-term focus on native species only
Chain of Custody	Physical separation, percentage method	Physical separation percentage method

## Certification systems



We use internationally recognised health and safety systems such as OHSAS 18000 to ensure the safety of our people as well as ISO 9000 and 14001 for quality and environmental management systems respectively.

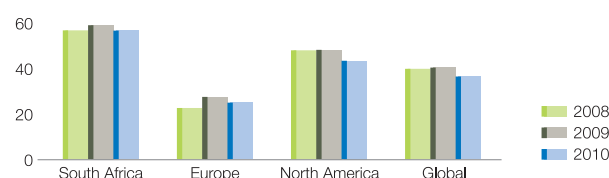


## Reduce solid waste and improve water quality

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Solid waste sent to landfill and solid waste combusted</li> </ul>	<ul style="list-style-type: none"> <li>Decrease waste to landfill and increase waste combusted</li> </ul>	<ul style="list-style-type: none"> <li>Waste sent to landfill dropped by 25.4%</li> </ul>	<ul style="list-style-type: none"> <li>As for F2010</li> </ul>
<ul style="list-style-type: none"> <li>Use of process water</li> </ul>	<ul style="list-style-type: none"> <li>Focus on decreasing total specific water use</li> </ul>	<ul style="list-style-type: none"> <li>Decreased by 9.4% globally</li> </ul>	
<ul style="list-style-type: none"> <li>Measurement of total suspended solids (TSS) and chemical oxygen demand (COD)</li> </ul>	<ul style="list-style-type: none"> <li>Improve the quality of effluent</li> </ul>	<ul style="list-style-type: none"> <li>TSS and COD dropped by 16% and 10.9% respectively*</li> </ul>	

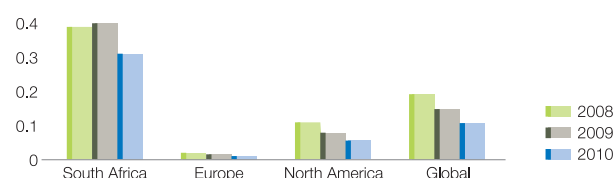
\* Saiccor Mill does not treat its effluent and is excluded from this data.

**EN-8 Total water withdrawal**  
(m<sup>3</sup>/adt)



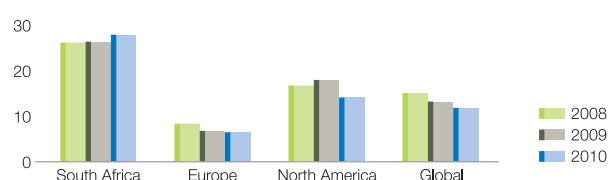
Increases in water consumption for 2009 were the result of decreased production – when production stops or slows, water still has to be consumed to keep machines running. In 2010, with production having increased, specific water consumption decreased and the reducing trend prior to 2009 continued. Note: Water consumption by source is detailed in our expanded sustainability report at [www.sappi.com](http://www.sappi.com)

**EN-22 Waste to landfill**  
(ton/adt)



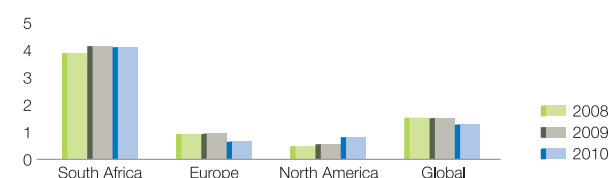
Sending solid waste to landfill is the least favourable method of disposal as landfills generate methane, a greenhouse gas with approximately 21 – 23 times the global warming potential of CO<sub>2</sub>. We have reduced the amount of solid waste to landfill over three years by 44%. We've achieved this by combusting solid waste for heat gain, sending boiler ashes for brick making and giving lime mud to farmers. In Europe, only inert material may be landfilled (ashes, sorted inorganic building rubble, etc).

**EN-21 Water quality – chemical oxygen demand (COD)**  
(kg/adt)



Southern African mills generally have high effluent COD as the legislation is not as stringent as in the other regions, particularly Europe. Saiccor Mill is a special case and does not treat its effluent. Its effluent COD levels are significantly higher, approaching the 1,000 kg/adt. Its data is excluded. Generally all regions except SA experienced a drop in COD levels.

**EN-21 Water quality – total suspended solids (TSS)**  
(kg/adt)



As with COD, SA mills generally have higher TSS in their effluent streams. The data for Saiccor Mill has been excluded. TSS in this region is 30 – 40 kg/adt. The increase for NA for 2010 resulted from larger than normal TSS levels for Somerset Mill. These resulted from excessive secondary sludge build up in the treatment pond. This has now been attended to.

### Innovative solutions for fibre sludge

In South Africa, we are examining the use of fibre sludge at Tugela Mill to produce a long-burning carbonised briquette capable of burning for up to eight hours. The briquettes could prove to be extremely beneficial to the informal market in particular. In this market, an estimated four million SA households still rely on unprocessed fuels such as coal and firewood and, in addition, a significant percentage of households rely on paraffin for cooking, heating and lighting. The benefits of this project include enhanced revenue, minimisation of a waste stream (fibre sludge) which otherwise goes to landfill (diverting the waste stream helps to minimise the methane emissions associated with landfill), reduced GHG emissions by lower income households and the health benefits associated with the elimination of GHGs and reduced use of paraffin.

### Helping farmers and reducing landfill

At our Cloquet Mill in North America, we identified an opportunity to beneficially use lime mud and boiler ash (byproducts from our production process). Through a collaboration with the University of Minnesota Carlton County Extension Agency, Sappi and the Agency assist local farmers to use these lime mud and boiler ash to improve the soil characteristics which in turn improve crop yields. Annually, we distribute 25,000 to 30,000 tons of these byproducts to local farmers in the Cloquet area, saving them over US\$1 million per year in soil amendments, while significantly reducing our landfill volumes.



## Promote the recovery and use of recycled fibre

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Use of post-consumer and post-industrial waste</li> </ul>	<ul style="list-style-type: none"> <li>Continue to meet customer needs for products containing post-consumer and post-industrial waste</li> </ul>	<ul style="list-style-type: none"> <li>Production of new Triple Green tissue and Masuga text grade at Stanger Mill in SA and Algo Nature in Europe</li> <li>Globally, use of recycled fibre increased by 9.2%</li> </ul>	<ul style="list-style-type: none"> <li>Review product offering in relation to customer needs</li> </ul>

### Sappi Waste Paper becomes Sappi ReFibre

In September 2010, Sappi Waste Paper was re-named and re-launched as Sappi ReFibre. Based on a business model that draws on and empowers an extensive network of independent agents around the country, the division is leading the development of innovative models to facilitate the recycling of paper and the minimisation of waste.

Sappi ReFibre procures board and paper for recycling from its agents, who source it directly from homes, offices, wholesalers and retailers, as well as from manufacturers in both the formal and informal sectors. Many of our papers contain recycled fibres, and Cape Kraft Mill uses only recovered paper and board in its manufacturing process.



### Triple Green tissue products launched

Stanger Mill in South Africa is one of only a few mills in the world that uses bagasse (sugar cane waste) as its primary source of pulp. The Triple Green range of fine paper has built up substantial brand equity amongst environmentally-conscious end-users. The mill, which is already a leading manufacturer of virgin tissue wadding products has entrenched the Triple Green brand further with its range of Triple Green tissue products launched in July 2010. The range offers all the desirable characteristics of good tissue products such as whiteness, softness and absorbency.

### Fully compostable coated paper launched in Europe

Sappi Fine Paper Europe recently launched Algo Nature, a one-side coated paper with fully renewable organic raw material content which is officially certified as compostable. Algo Nature is a one-side coated paper grade with much better on-shelf appearance compared to uncoated papers. The binding agents in the coating pigments used for Algo Nature originate from entirely vegetable sources.

Developing the product was challenging: One of the main advantages coated papers have over uncoated papers for packaging applications is their excellent gravure printability. This allows for high quality reproduction of photos and fine printing screens but requires a very smooth and flexible surface. As vegetable-based binding agents are normally very brittle, it took more than half a year of laboratory testing to achieve the good printing level that Algo Nature now offers.

The packaging is suitable for all kinds of flexible packaging application: high quality wrappers, sachets, inner liners and flexible pouches. A new avenue of use is in the catering business, for example at open-air events. The compostable packaging can be thrown away with the food remains. This is not only environmentally-friendly but also highly practical because the waste does not need to be separated. Similarly, with packaging in stores – if fruit or vegetables get too old, they can be composted together with their packaging. The paper is currently offered in grammages of 50, 60 and 70g/m<sup>2</sup>.

**Algo Nature**



*The logo on the packaging material shows end-users that they can compost the packaging.*





## Conform with best environmental practice and legislation

Performance indicators	Objectives FY2010	Actual performance FY2010	Objectives FY2011
<ul style="list-style-type: none"> <li>Local legislation</li> </ul>	<ul style="list-style-type: none"> <li>Leverage opportunities created by changes in carbon legislation</li> </ul>	<ul style="list-style-type: none"> <li>Close monitoring of developments</li> </ul>	<ul style="list-style-type: none"> <li>Prepare for anticipated changes</li> </ul>
	<ul style="list-style-type: none"> <li>Participate in industry groups to influence legislative changes</li> </ul>	<ul style="list-style-type: none"> <li>Engage with industry regulators to combat dumping of paper imports in relevant markets</li> <li>In SA engagement with NERSA to influence inclusion of black liquor as a renewable energy source</li> </ul>	<ul style="list-style-type: none"> <li>Remain active in industry engagements with regulators</li> </ul>

### Dumping of paper imports

#### Europe

The European Union's market is open while a number of other pulp and paper producing countries are protecting theirs, putting at risk the region's exports. Examples of these include: Vietnam's discriminatory tariffs in favour of ASEAN producers and Israel's anti-dumping investigations against recycled containerboard and fine papers produced in Europe. The European Commission imposed provisional anti-dumping duties with respect to imports of coated woodfree paper from China with effect from 18 November 2010. The duties range from 19.7% to 39.1%.

#### North America

In September 2009, Sappi, together with two of its competitors and the USW<sup>1</sup> filed unfair trade cases, with the Commerce Department and the US International Trade Commission (ITC), alleging that certain coated paper from China and Indonesia had been dumped and subsidised by considerable margins, resulting in injury to the domestic industry and its employees.

During October 2010 the ITC imposed anti-dumping and countervailing duties on imported coated sheet paper from Indonesia and China. The duties, which range from 25.2% to 313.8% are expected to re-establish a level playing field in the United States.

### Focusing on renewable energy

In South Africa, as around the world, there is increasing emphasis on renewable energy. In March 2009, the National Energy Regulator of South Africa (NERSA) announced and approved the landmark renewable-energy feed-in-tariff (REFIT<sup>2</sup>) guidelines, which included wind, small hydropower, landfill gas and concentrating solar power (CSP). Biomass was initially excluded, but solid biomass (ie 100% forest wood and solid fuel, ie pellets and bricks produced as a result of physical processing of municipal waste) was subsequently included in REFIT, published in 2010. Sappi engaged with NERSA with a view to broadening the definition of solid biomass to include black liquor, sugar bagasse, residue from mill waste and all forms of invader bush. This was not achieved which means that we are unable to use REFIT to capitalise on opportunities such as black liquor, on site renewable waste such as bark and fibre and new projects or investments such as upgrades to existing assets such as boilers.

We continue to engage with NERSA and await further developments.

1. The United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (United Steelworkers or USW) is the largest industrial labour union in North America, with over 700,000 members.

2. REFIT is a mechanism to promote the deployment of renewable energy that places an obligation on specific entities to purchase the output from qualifying renewable energy generators at pre-determined prices.

## Our external accolades

- Recognised as [one of the 20 most GRI-compliant companies in South Africa](#) in a survey assessing 399 companies conducted by Sustainability Services.
- [Included in the Gold Leadership Index of the South African Carbon Disclosure Project \(CDP\)](#) on the basis of our carbon disclosure and mitigation strategies.
- Cloquet Mill received one of the [2009-2010 Minnesota Governor's Awards for Pollution Prevention](#) for work in reducing the mill's impact on community odour.
- Sappi Fine Paper North America Release Papers Business received the [Best Man-Made Material Innovation Award](#) at the Asia Pacific Leather Fair (APLF) – Materials, Manufacturing & Technology Trade Show for our newest texture, 'Bling'.
- Recognised as a [top performer on the JSE's SRI \(Socially Responsible Investment\) Index](#) in 2009.
- A partnership in which Sappi Fine Paper North America is involved received the [SFI® President's Award](#) for making forest certification more accessible.

## Our benchmarks

In addition to internationally accredited, independently verified certification systems such as forest certification systems, OHSAS 18001 and OSHA health and safety standards, ISO 14001 environmental standard and ISO 9001 quality standards, we entrench sustainability governance further by using external indicators and benchmarks, set out below.

Benchmark (in alphabetical order)	Sappi's application of benchmark
<b>Carbon Disclosure Project (CDP)</b> Representing over 500 investors with US\$64 trillion under management, the CDP is the largest repository of greenhouse gas data anywhere in the world.	As our primary listing is in South Africa, we participate in the South African CDP. We have participated in the CDP since it was first launched in South Africa in 2007. In 2010 we were included in the Gold Leadership Index of the South African Carbon Disclosure Project (CDP) on the basis of our carbon disclosure and mitigation strategies.
<b>Dow Jones World Sustainability Index (DJSI World)</b> Tracks the financial performance of the leading sustainability companies to provide asset managers with reliable, objective benchmarks to manage sustainability-related investment portfolios.	We were invited to participate in this index in 2010. We improved our score to 71% compared with the sector average of 64%. We have considered key learning points from the exercise and are using some of these to drive our sustainability initiatives.
<b>GRI G3 indicators</b> The GRI guidelines are indicators that are used internationally to assess sustainability performance. Launched in 2006, the G3 guidelines are the so-called "Third Generation" of the GRI's reporting guidelines.	We began the process of formally reporting in terms of the G3 guidelines in 2007. In 2009 we declared ourselves as an 'A' level reporter and have done so again this year – in both years, our rating has been confirmed by the GRI.
<b>JSE Socially Responsible Investment (SRI) Index</b> Launched in May 2004, the JSE's SRI Index was the first of its kind in a developing market. It has been a driver for increased attention to responsible investment into emerging markets like South Africa.	We have been included in the index every year since inception. In 2008, we were recognised as one of the top performers on the Index.
<b>UN Declaration of Human Rights</b> The Universal Declaration of Human Rights (UDHR) is a milestone document in the history of human rights. Drafted by representatives with different legal and cultural backgrounds from all regions of the world, the Declaration was proclaimed by the United Nations General Assembly in Paris on 10 December 1948 as a common standard of achievements for all peoples and all nations.	Our commitment to the principles of this declaration has always been inherent in all our policies and practices, but in 2009 we formalised this commitment with the adoption of a policy on human rights. Commitment to the Declaration has also been established in our supplier policy, which also makes use of the following external reference points: <ul style="list-style-type: none"> <li>■ International Labour Organisation Core Labour Standards</li> <li>■ International Standards Organisation 9001 (ISO 9001)</li> <li>■ International Standards Organisation 14001 (ISO 14001)</li> <li>■ Occupational Health and Safety Assessment Series 18001 (OHSAS 18001)</li> <li>■ OECD Guidelines for Multinational Enterprises</li> <li>■ United Nations Global Compact</li> </ul>
<b>UN Global Compact</b> This is a chief executive officer-led strategic policy initiative which gives signatories a platform for advancing their commitment to sustainability and corporate actions. The Compact has two principal objectives: mainstream the ten principles which businesses commit to and catalyse actions in support of broader UN goals, including the Millennium Development goals.	We joined the UN Global Compact in 2008 and reported in accordance with the ten principles since then. Our report for 2010 can be found at <a href="http://www.sappi.com">www.sappi.com</a> .

## Paper specifications

This report is produced on Magno Satin, one of the world's most widely specified papers. We used Magno Satin 150g/m<sup>2</sup> produced at Gratkorn Mill in Austria for the text and Magno Satin 250g/m<sup>2</sup> produced at Maastricht Mill in The Netherlands for the cover.

As a group, one of Sappi's key strategic goals is to reduce our carbon footprint by improving energy efficiency levels and decreasing our reliance on fossil fuel. The combined heat and power (CHP) generation plant at Gratkorn Mill which came on stream in mid-2007 highlights the success of this approach. The plant has resulted in decreasing coal usage by 10% – 20%, reducing CO<sub>2</sub> emissions by 5% – 10% and increasing the use of biofuels by 5% – 10%. Excess electric power generated is sold to the public grid.

Maastricht Mill only operates on natural gas and its highly efficient gas-steam combined heat and power (CHP) plant sells surplus electricity to the local grid as well as heat for heating and cooling municipal and resident buildings and a local shopping centre. The mill minimises its carbon footprint further by shipping in raw materials, including market pulp, pigments and fillers, by barge.

The installation of an anaerobic reactor to Gratkorn Mill's waste water treatment plant in 2009 has reduced the chemical oxygen demand (COD) of the effluent and increased the production of biogas. During the anaerobic biological process, special micro-organisms transform the organic load in the wastewater into biogas. The process has economic value, as the biogas is used for heat and power generation and sludge disposal costs are reduced.

Sappi was the first paper company in Europe to hold chain-of-custody certification for its entire European operations under both the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC) schemes. Gratkorn and Maastricht Mills are also ISO 9001, ISO 14001 and EMAS (Eco Management and Audit system certified).



## Acronyms

AF & PA	American Forest and Paper Association
BBBEE	Broad-based Black Economic Empowerment
CEPI	Confederation of European Paper Industries
CSR	Corporate Social Responsibility
EMAS	Eco-management Audit System
EU	Europe
FSC	Forest Stewardship Council
GHG	Greenhouse Gases
ISO	International Standardisation Organisation
NA	North America
PEFC	Programme for the Endorsement of Forest Certification
SA	South Africa
SFI®	Sustainable Forestry Initiative
tons	used to denote a metre ton of 1,000kg

### Cover

Making Sappi's commercial and conservation land available to birders as well as recreational and competitive mountain bike riders is one example of our close engagement with and support for our local communities as well as special interest stakeholder groups.

Cover photo: ©Media and Kelvin | [kelvintrautman.com](http://kelvintrautman.com)

[www.sappi.com](http://www.sappi.com)

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## Inspired by life

"Look deep into nature, and then you will understand everything better" – *Albert Einstein*

This inspiration and the insights we gain informs our technical excellence, our innovations, our relationships and the use of our resources. It is the spark that ignites the passion in our people and makes the end solutions relevant and successful.

