

sappi



and sustainability

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Our report

'A' level reporter – GRI checked

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

This report sets out an overview of Sappi's sustainability performance in the last financial year and covers the issues that are most material to Sappi's sustainability at this time. We engage with those stakeholders who have the most impact on and interest in our business. 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. In preparing this report we have tracked environmental findings and research; public opinion; employee views and attitudes; the activities of environmental and social groups; as well as the activities, profiles and attitudes of investors, suppliers and customers.



A more detailed version of this report can be found at http://sappi.investoreports.com/sappi_sdr_2009/. In keeping with King III's recommendation to integrate sustainability reporting, we have included a comprehensive Global Reporting Initiative (GRI) index in the more detailed report which has links to relevant sections in the annual report, the annual report on form 20-F and previous sustainability reports.¹ This assists the reader in referencing our sustainability performance and also avoids some repetition of information.

Scope of this report

We report in accordance with the GRI G3 indicators and this year have declared ourselves as a level A reporter. This report is aligned with our annual report and covers the period 01 October 2008 to 30 September 2009. While the acquisition of M-real's coated graphic business was only completed at the end of December 2008, the acquired mills have been included in our People and Planet data with effect from the beginning of October 2008 in accordance with our financial year.

In terms of joint ventures, as we only have a 34% stake in our joint venture in Jiangxi Chenming Mill in the People's Republic of China and so only have an indirect influence, 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 operations.² We report on a regional and global basis, wherever possible presenting data over five years to make the information relevant, accessible and comparable. Exchange rates are detailed on page 36. We investigated external assurance in the year under review, but this was put on hold in view of the constrained economic circumstances.

¹ As Sappi's primary listing is in South Africa, the King III Code on Corporate Governance (King III) applies. King III was released for comment in September 2009 and will apply from early in 2010. King III replaces King II, issued in 2002.

² LignoTech SA produces lignosulphonate, 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, ceramics and as binding agents in briquetting, animal feed and dust suppression.

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Our vision and mission

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 the Sappi Limited goal of being, 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

Manufacturing operations on **4** continents

Sales in over **100** countries

800,000 tons
Annual chemical cellulose production

6.8 million tons
Annual paper production

3.3 million tons
Annual paper pulp production

16,400
Employees worldwide



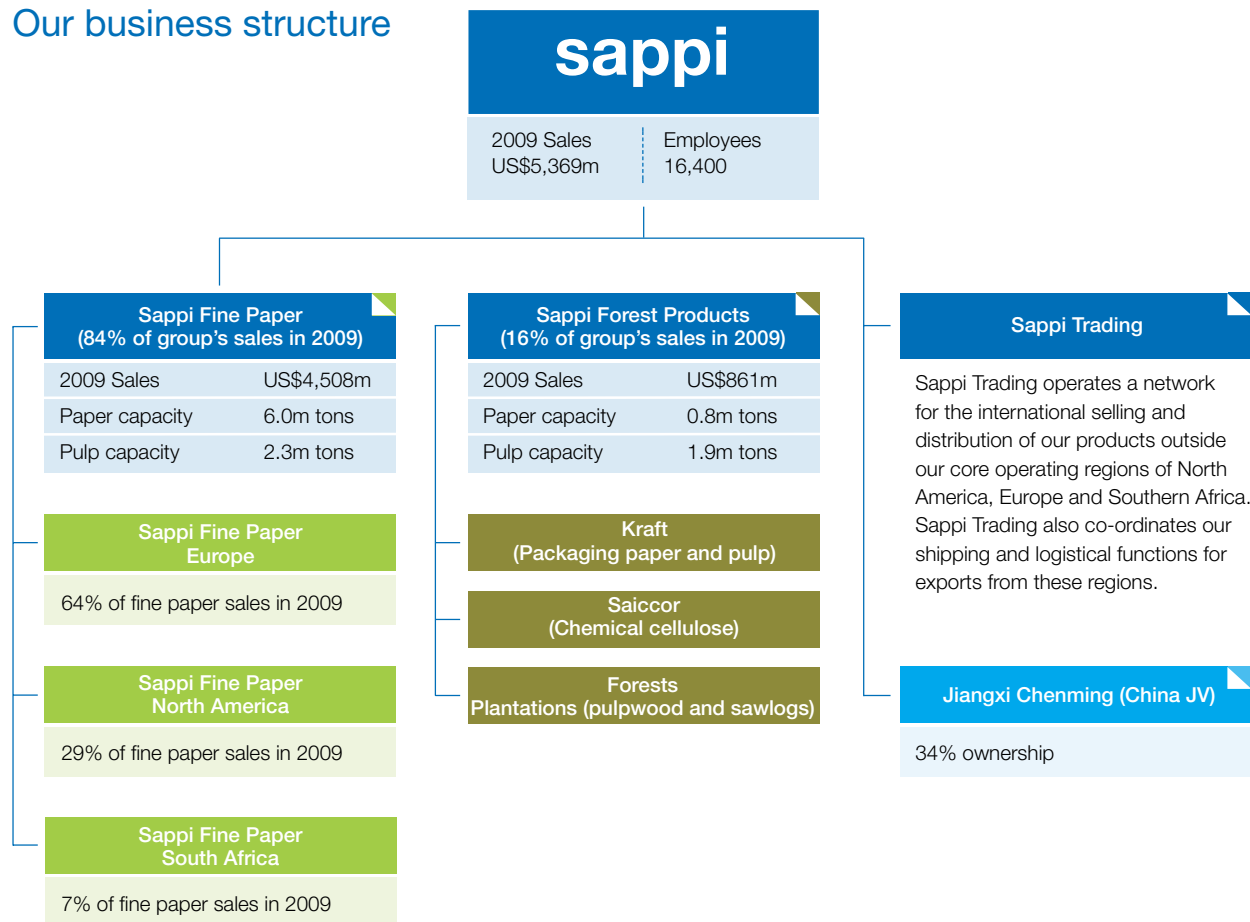
A global business

Operations that span the globe

We are a leading producer of coated fine paper and the world's largest producer of chemical cellulose.

Founded and incorporated in South Africa in 1936, Sappi is today, a global paper and pulp group. 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 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.

Our business structure





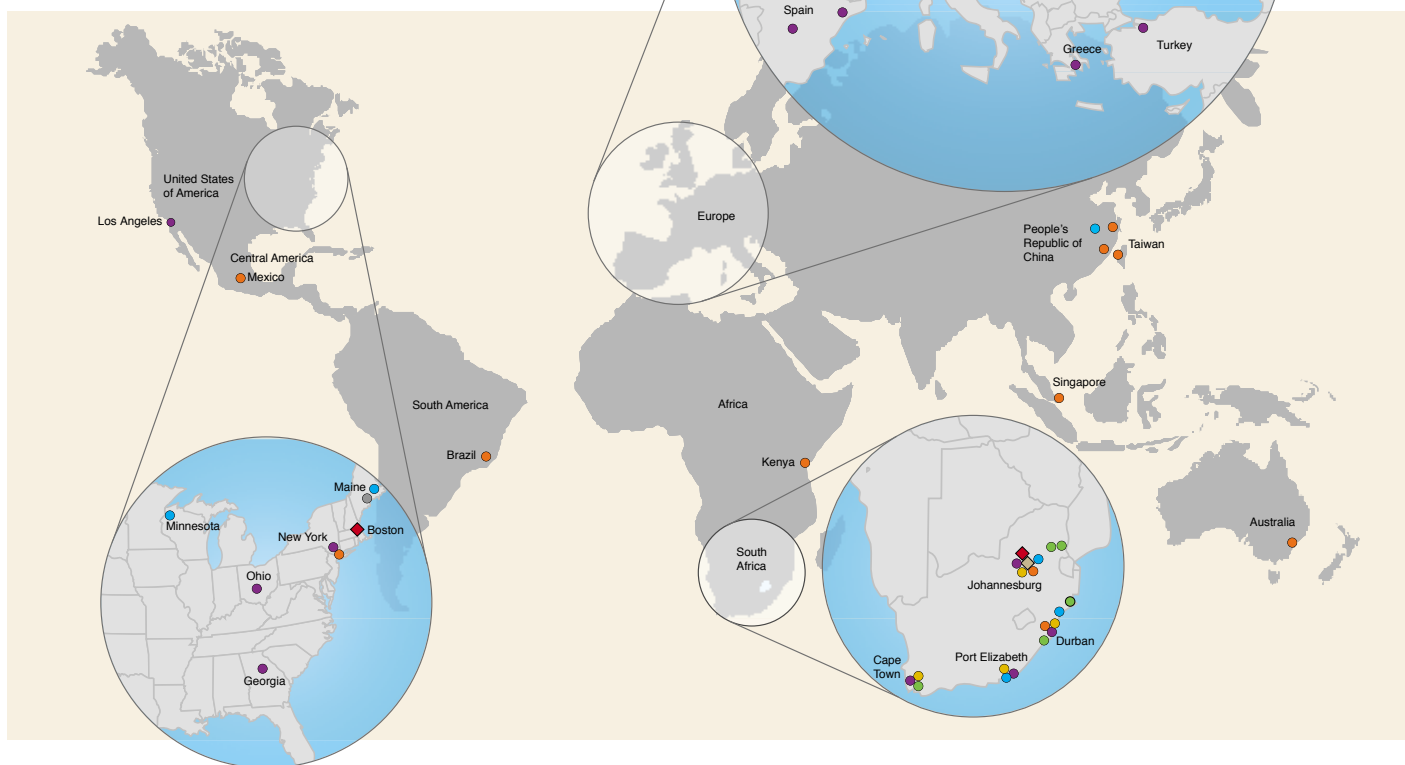
Our global reach

North America

- ◆ Regional head office
- 2 Fine Paper mills
- 1 Speciality mill
- 4 Fine Paper sales offices
- 1 Sappi Trading sales office

Europe

- ◆ Regional head office – Brussels
- 10 Fine Paper mills
- 16 Fine Paper sales offices
- 1 Sappi Trading sales offices



Central America

- 1 Sappi Trading sales office

South America

- 1 Sappi Trading sales office

Southern Africa

- ◆ Corporate head office
- ◆ Regional head office
- 3 Fine Paper mills
- 5 Forest Product mills
- 4 Fine Paper sales offices
- 4 Forest Product sales offices
- 2 Sappi Trading sales offices

East Africa

- 1 Sappi Trading sales office

Asia

- 4 Sappi Trading sales offices
- 1 Paper mill – joint venture

Australia

- 1 Sappi Trading sales office



Our sustainable business cycle

A comprehensive overview

This diagram brings together the inputs, outputs and impacts of our operations.



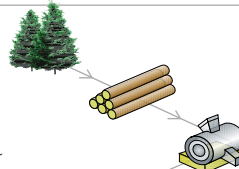


A percentage of water and chemicals is recycled.

Papermaking process

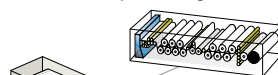
Pulping and chemical recovery process

In integrated pulp mills (mills which produce their own pulp), the black liquor created during the pulping process is a primary source of renewable energy. Black liquor is burnt in the recovery boiler, producing steam and energy which is used in the mill.

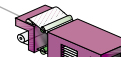
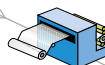


Pulping

Papermaking



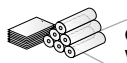
Coating



Cutting and wrapping

Paper in the marketplace

Despite the rise of electronic media, the use of paper is increasing throughout the world. Paper plays an important role in promoting growth and development. Wood products and the wood fibre in paper store carbon throughout their lifetime and can be recycled or burnt for renewable energy generation.



Despatch

To mitigate our carbon footprint, we are increasingly moving product by rail rather than road.



Recycling process

We are driving the use of recovered fibre throughout our operations. The majority of our products are recyclable. We offer many products that meet the needs of environmentally-conscious consumers including:

Royal™ Roto Recycled

Triple Green™

Typek Recycled™

Opus® Web

Tempo™

Effluent

Total suspended solids (TSS) and chemical oxygen demand (COD) are good indicators of water quality. Globally, the TSS and COD in the effluent we discharge shows a decline over five years.

CO₂

Our mills emit carbon dioxide (CO₂), one of the main greenhouse gases (GHGs) responsible for global warming. Globally, CO₂ emissions throughout our mills show a declining trend from 2005.

Waste to landfill

We add value to waste products in a number of different ways.

- The ash created by burning bark, branches and other biomass from trees in our mill boilers, can be used as fertiliser and a soil additive
- Lime mud, a by-product of the pulping process, is used by farmers to control soil pH
- Waste sludge can be used in applications such as the manufacture of bricks, cement or household products such as cat litter
- At Enstra Mill, lime produced as a by-product during the manufacturing process is sent to a wash plant on site. From here it is sold to the metallurgical industry and used to neutralise acid mine drainage in a process patented by the CSIR
- At Alfeld Mill, coarse pigments from re-pulping internal broke are recovered from paper machine effluent and reprocessed to substitute virgin material. In another process, coating colour is also recovered from effluent and reprocessed.

Methane emitted from landfill

Methane, a GHG with a global warming potential approximately 23 times more potent than CO₂, is emitted from landfills. Globally, the amount of solid waste to landfill shows a steady decline, in line with our move away from coal-fired boilers to gas- and biomass-fired boilers (Gratkorn and Tugela Mills).



Super calender, Gratkorn Mill, Austria



CEO's message

Ralph Boöttger

We are embedding sustainability into our business processes.

The 3Ps of Prosperity, People and Planet are the fundamentals on which our commitment to sustainability is based. Meeting our Charter commitments is essential to our sustainability as an organisation, but so, too, is balancing those commitments. The issues that affect us and our stakeholders are constantly evolving and shifting in importance. Being sensitive to these developments means balancing and adjusting our energies and capital expenditure in terms of the commitments while maintaining our core values of Excellence, Integrity and Respect. In light of the downturn in the global economy and reduced demand for our products, focusing on improved returns and our Charter commitment of long-term, profitable growth continued to be our most immediate priority in the year under review.

While we prioritised this Charter commitment, our other 17 commitments remained an integral part of honing our competitive advantage and ensuring our viability as a business in the short- and the long-term.

Focusing on long-term, profitable growth meant that we had to take difficult decisions in all our regions. In North America, we closed Muskegon Mill and substantially restructured the salaried organisation. In Europe, we reduced the number of employees and in South Africa, we also began consultations in August with trade unions regarding the reduction in workforce of approximately 300 workers at our kraft and fine paper mills. While these were extremely difficult decisions to make, they were necessary to ensure that we remain competitive in today's

global marketplace and were in line with our aim of substantially improving Sappi's profitability and returns. We will be providing separation benefits for our salaried employees and are engaging with union representatives regarding the terms of hourly employees' separation benefits.

At Sappi, we believe that one injury or one fatality is one too many. Consequently, the fact that nine of our contractors lost their lives in South Africa in 2009 was deeply disappointing. Fatalities are completely unacceptable – to us as an organisation, and to the colleagues, family and friends of those deceased. I extend my heartfelt condolences to all concerned. Disconcertingly, these fatalities took place in the context of a renewed focus on safety. I call on all our employees and contractors to join us in making safety an entrenched value and a fundamental way of doing things. Given that most of the fatalities occurred in transport-related activities and felling operations, we have instituted even more stringent measures in these areas which we hope will help to remediate the situation.

Our employees are the key to our success. To meet our employees' needs and aspirations, we need to know what is important to them and understand their connection to our business. Against this backdrop, I am pleased to report that our second employee engagement survey resulted in 65% improvement in participation, a significant increase over our 2007 survey, indicating improved levels of engagement. Training and developing our people is integral to our success as an organisation and we continued to invest in this area.

In the forest products industry, sustainability means striving to ensure that our resources will be as plentiful and available to future generations as they are to us today. Against this backdrop, I am pleased to report that our global environmental metrics have improved consistently, as detailed in the Planet Section on page 49 of this report. One of the highlights in 2009 was our fifth position in the Carbon Disclosure Project (CDP) Leadership Index which recognises good disclosure. We were also included in the top 16 companies in terms of CDP performance scores which recognise climate mitigation and adaptation actions (no ranking was provided in this regard). While this is welcome recognition of our efforts, we won't rest on our laurels. We are pushing forward with other initiatives, including the development of a credible carbon footprint methodology and efforts to respond to the challenge of responsible water utilisation.

Earlier this year I signed the Copenhagen Communiqué on Climate Change on behalf of Sappi. The Communiqué is a private sector call for “an ambitious, robust and equitable global deal on climate change that responds credibly to the scale and urgency of the crises facing the world today”. We look forward to working with our peers and other stakeholders in delivering on some of the challenges on the table at the Copenhagen Summit in December. Indications are that the Summit will propose different strategies for the developed and developing world and as our operations are situated in both regions, we expect business opportunities to arise from the Summit, given our high use of renewable energy and the carbon sequestration potential of our plantation forests.

Sustainability is a priority agenda item for Sappi and we strive to embed sustainability throughout the organisation and establish a strong sustainability governance structure. This structure was considerably strengthened in the year under review with the establishment of a board committee, the Executive Sustainability Committee which includes, amongst others, the regional CEOs and myself. We look forward to lively debate and positive interaction between this committee and the GSDC which deals with ‘on-the-ground’ sustainability issues.

The revised King III Code on Corporate Governance places even greater emphasis on sustainability and responsible corporate citizenship than King II did. Our sustainability journey, while ongoing, is well under way and I am confident that we

are already in a position where we comply with many of King III's recommendations as regards sustainability.

Our performance against targets established by the regional sustainability councils is set out on pages 15-18 of this report. The targets not only help us to prioritise key issues and give us very specific goals to work towards, but they are also benchmarks for assessing our sustainability performance. We have fully disclosed our performance – even where it has fallen short of expectation – in the interests of transparency and the understanding that analysing our performance will enable us to move forward.

In these challenging times, focusing on sustainability only makes business sense if doing so adds value. As our Charter commitments help us extract strategic value, we view them as a business imperative. The grid on pages 9-14 sets out very clearly how we are adding value to Sappi today and how we plan to do so tomorrow.

In the current economic circumstances there is a temptation to think of sustainability as ‘nice-to-have’ or as an add-on. This is not the case at Sappi. We see sustainability as a way of adding value and honing our competitive advantage and I urge all our stakeholders to join us on our sustainability journey.

Ralph Boëttger

chief executive officer
Sappi Limited



Our performance against Charter objectives

Performance and future targets

Our Sustainability Charter, which sets out specific Prosperity, People and Planet commitments, is the roadmap for embedding sustainability practices into our business.

Charter Commitments		Focus on long-term profitable growth	Promote an ethical culture	Drive customer satisfaction through technology and innovation			
Prosperity	Performance indicators	Return on Capital Employed (ROCE) Operational efficiencies Creation of Global Procurement function	Code of Ethics Governance	Investment in new products	Margins and market share in the profitable and fast growing digital print sector in Europe	Technical Innovation Awards (TIA)	Invest in wood fibre genetics development
	Actual performance	Acquisition of M-real coated graphic paper mills Successful integration of M-real mills and achievement €73 million in synergies Savings achieved through group purchasing	Post roll-out internal communications through posters Group and Regional Sustainability Councils operating well Formation of board/executive sustainability committee	Europe Launch of Identicate™ – security tracking paper using nanotechnology North America Launch of a range of digital papers and new Mokka pattern for casting release papers South Africa New passport paper to enhanced specifications and launch of wet strength label paper for beverage bottles	Our market share in the European digital print sector is not significant yet. Sappi is developing tailor-made solutions for digital print	Technology Centre in South Africa global winner of TIA awards in 2009 for development of new passport paper	South Africa participating in wood fibre molecular genetics programme
	Future targets	Net debt reduction of US\$800 million by 2012 Achieve synergies from M-real transaction of €120 million by 2011 <i>More detail about financial targets is available in our Annual Report.</i>	Conduct employee survey on Code of Ethics understanding and compliance	Review current portfolio of brands and product selection Investigate ROCE assessment of research and development Understand customer/end-user needs and Sappi's performance in satisfying these Increase amount of revenue/profit from 'new' business	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	Continue to promote development of disruptive technology through TIA awards	Continue collaborating in the enhancement of wood fibre in South Africa
	Value add	Increased shareholder value and financial viability will enhance Sappi's overall sustainability.	The basis of sound governance and stakeholder confidence; also enhances reputation and licence to trade.	Technological developments have resulted in competition from alternative forms of media and alternative products like plastic, thus meeting customers' needs through innovation is crucial.			



Build on our competitive position in our core markets	Maintain our licence to trade					Create value for all stakeholders
<p>Promotion of the Sappi brand</p> <p>SWOT analyses with respect to our main competitors</p>	<p>Compliance with regulatory frameworks</p>	<p>In South Africa, Broad-based Black Economic Empowerment (BBBEE) scorecard rating</p>	<p>Participation and inclusion in external indices</p>	<p>UN Global Compact</p>	<p>Copenhagen Communiqué on climate change</p>	<p>Value add, direct and indirect, to parties Sappi engages with</p>
<p>Continued reputational enhancement through initiatives aimed at the design and print industries, eg 'Ideas that Matter' and 'Life with Print'</p>	<p>Effective legal compliance programme</p>	<p>In 2009, we achieved a score of 54 points and an overall BBBEE status of a 'level six contributor' (BB rating) status and a preferential procurement recognition level of 60%. (Improvement from previous score of 41 points and level seven status.)</p>	<p>Assessed as one of the top performers on the JSE SRI Index in 2008 and 2009 and improved performance on the Dow Jones World Sustainability Index in 2009</p> <p>Rated as top 20 GRI compliant company by SustainabilityServices in evaluation of over 400 South African companies</p>	<p>UN Global Compact principles reported</p>	<p>Committed to meet the Copenhagen Communiqué goals</p>	<p>Direct economic value added to businesses and communities and multiplier effect related to each mill/operation</p>
<p>Explore further initiatives with designers and printers</p> <p>Set and measure against targets of what we must improve, reduce, eliminate, create</p> <p>Monitor developments such as Walmart's sustainability index and Newsweek's Green Rankings</p> <p>Establish customers' perception of Sappi's sustainable performance</p>		<p>Achieve a 'level five contributor' (BBBEE rating) status and preferential procurement recognition level of 80% in 2010</p> <p>Strategise BBBEE ownership options and execute to enhance ownership scorecard</p>	<p>Implement lessons learned from external assessments</p> <p>Report on level of GRI compliance and obtain assessment of sustainability reporting by GRI</p> <p>Continue making use of external benchmarks to assess sustainability performance</p>	<p>Continue reporting on compliance with UN Global Compact principles</p>	<p>Report back on progress in terms of Copenhagen climate change objectives</p>	<p>Assess value add of each mill</p> <p>We cannot do business in a failing society which ignores People and Planet. Issues such as climate change have not just an environmental, but a socio-economic impact.</p>
<p>Lost market share is difficult to regain, our strong sustainability platform will enhance the value of our brands.</p>	<p>Being a responsible corporate citizen and matching our words with our actions, Sappi will become the organisation of choice to partner with.</p>					



Our performance against Charter objectives

Performance and future targets

Our Sustainability Charter, which sets out specific Prosperity, People and Planet commitments, is the roadmap for embedding sustainability practices into our business.

Charter Commitments		Cultivate an inclusive, diverse workplace	Be a great place to work	Provide training and development opportunities
People	Performance indicators	<p>Promotion of gender and race equality</p> <p>Achievement of South Africa's Employment Equity indicators</p>	<p>Global engagement survey</p> <p>Regional recognition programmes</p> <p>Reward/remuneration based on merit</p> <p>Absenteeism and labour turnover statistics</p>	<p>Targets set on training hours and spend per employee</p> <p>Sappi Leadership Academy</p> <p>Talent and succession planning review</p>
	Actual performance	<p>Canvassed feedback from employees through employment engagement survey</p> <p>In South Africa, 4,766 employees participated in employment equity training, 1,042 in diversity management and discrimination awareness programmes</p> <p>Improvement on various criteria and review of BBBEE scorecard results</p>	<p>65% improvement in participation in survey since previous survey in 2007</p> <p>Results from survey show significant shift in employees' commitment to Sappi</p> <p>Absenteeism and turnover within industry averages</p>	<p>Training hours increased in South Africa: 109 hours per employee (target: 45); North America achieved 32 hours (target: 60) for employees and 15,683 for customers (target: 10,000); Europe achieved 21 hours (target: 40 per employee).</p> <p>Training and development spend as a percentage of payroll was 1.3% in 2009.</p> <p>Further wave of Sappi managers successfully completed Leadership Academy programme.</p> <p>Common and standardised talent management and succession planning progress embedded in the organisation.</p>
	Future targets	<p>Monitor employee diversity profile</p> <p>Review targets</p>	<p>Implementation of action plans flowing from results of global survey</p> <p>Report on employee wellbeing programmes and outcomes</p> <p>Overall absenteeism of <5% and voluntary turnover of <10%</p>	<p>Classify and report on training in global categories.</p> <p>Report on talent pipeline.</p>
	Value add	<p>Enhances Sappi's reputation internally and externally.</p>	<p>Valuing our employees through recognition; granting freedom with responsibility; allowing people to stretch and reach their full potential; safety at work and living the Sappi values. A fulfilled workforce is a committed and productive one.</p>	<p>Stimulates productivity and retention.</p>



Prioritise wellbeing, safety and health

Measurement, monitoring and management of safety indicators in terms of employees and contractors with the aim of achieving zero harm

Mills safety milestones

Internationally recognised certification standards, such as OHSAS and OSHA

In North America and South Africa, the Lost Time Injury Frequency Rate (LTIFR) improved for employees and contractors, but declined in Europe as a result of inclusion of the acquired mills. Their safety performance needed considerable attention and change in behaviour. Following intervention, noticeable improvement in last quarter

Technology Centre, Pretoria achieved safety diamond status (36 months without lost-time injuries), Cape Kraft and Enstra Mills achieved safety platinum status (24 months without lost-time injuries); Tugela and Usutu Mills achieve safety gold status (12 months without lost-time injuries)

Move from OSHA to OHSAS in North America

Safety audits performed

Employee wellbeing programmes focus on holistic health issues pertinent to each site

In South Africa, participation in voluntary counselling and testing (VCT) for HIV/AIDS up from 28% in 2008 to just over 40% in 2009

Reduce LTIFR and fatalities to zero

Focus on executing safety strategies which include further training, visible senior leadership and improved contractor vetting, management and safety performance

Improving the identification and reporting of all classifications of injuries to more fully identify the root causes and corrective actions

Report more fully on occupational injuries

Increase number of mills achieving safety 'diamond' status

Measure, monitor and report on occupational health risks

Identify the risks that influence the HIV prevalence within Sappi employees

Has a positive impact on morale, productivity and reputation.

Engage with stakeholders openly and constructively

Regular contact with shareholders and customers.

Internal and external communications

Participation in industry association initiatives

Feedback from communities surrounding our operations

Roadshows, mill visits and one-on-one discussions with shareholders and analysts

Increased contact of management with customers and suppliers

Regular updates from CEO and management on policies, strategies and key developments to employees

Regional CEOs actively involved in industry associations

Mill committee meetings held with communities on topics of mutual interest

CEO and management to maintain high level of visibility and accessibility to all stakeholders

Focus communication to target audience via all channels

Understanding what our stakeholders perceive as responsible behaviour, meeting these expectations and achieving recognition will deliver obvious value.

Partner with communities

Corporate Social Responsibility (CSR) spend on literacy, skills development, education, job creation, health, environment, HIV/Aids

Total CSR spend of US\$2 million

Majority of funding allocated to Southern Africa, with education, the environment and health and welfare receiving the most funding

Review areas of spend

Report on impact of projects

Facilitates the resolution of issues, enhances our licence to trade and brand reputation.



Our performance against Charter objectives

Performance and future targets

Our Sustainability Charter, which sets out specific Prosperity, People and Planet commitments, is the roadmap for embedding sustainability practices into our business.

Charter Commitments		Reduce greenhouse gas emissions and increase our use of renewable energy	Safeguard biodiversity by promoting sustainable forestry	Continue our commitment to applying independent, environmental, wood and fibre management systems
Planet	performance indicators	<p>Energy consumption</p> <p>CO₂ emissions</p> <p>Percentage of renewable energy</p> <p>Percentage of self-generated power</p>	<p>Tree improvement programme to increase yields per hectare</p> <p>Pest and disease resistance</p> <p>Biocontrol</p> <p>Management of riparian zones</p> <p>Involvement of communities in conservation/ tourism initiatives</p>	<p>Use of FSC, PEFC and SFI® certification systems</p>
	Actual performance	<p>Globally over five years, achieved a drop of 11% in specific* purchased energy per ton of pulp and specific CO₂ emissions dropped by 2%</p> <p>In 2009, in North America more than 83% of all energy used was derived from renewable resources, in South Africa 41%, and in Europe 30% with our global figure at 50%</p>	<p>Strong involvement in fibre research</p> <p>Commercialisation of certain hybrids to reduce risk of pests etc</p> <p>Carried out extensive research on effect of cossid moth on eucalyptus nitens</p> <p>Corporate Social Responsibility spend on ecotourism</p>	<p>Percentage of certified fibre used:</p> <p>Europe 61.6% PEFC and FSC 11.7%, North America 51% (SFI®) South Africa 70% (FSC)</p>
	Future targets	<p>Explore cogeneration and biofuel opportunities</p> <p>Monitor regulatory developments following the Copenhagen Climate Change Summit</p> <p>Report on carbon footprint methodology</p>	<p>Continue funding support and technical expertise to facilitate breakthrough in fibre molecular research programme</p> <p>Investigate the use of offset programmes</p>	<p>Increase percentage of certified fibre in pulp and paper</p>
	Value add	<p>Given the global focus on climate change, there are significant opportunities to leverage Sappi's high levels of renewable energy and low carbon footprint compared to other products, such as plastics. Reducing energy use also has economic benefits.</p>	<p>Entrenches our competitive advantage by reassuring stakeholders on issues such as deforestation and provides ecotourism opportunities in SA.</p>	<p>Supports our position on environmental concerns.</p>

*Data is given in specific form. This means that the actual quantity consumed, whether energy, water, emissions or solid waste is expressed in terms of a production parameter. For Sappi as with other pulp and paper industries, this parameter is air dry tons (ADT).



Reduce solid waste and improve water quality	Promote the recovery and use of recycled fibre	Conform with best environmental practice and legislation
<p>Recycling of materials for re-use</p> <p>Solid waste to landfill</p> <p>Combustible solid waste</p> <p>Use of EFC and TCF bleaching processes</p> <p>Measurement of total suspended solids and chemical oxygen demand</p>	<p>Environmental impact of cleaning and handling recovered fibres</p> <p>Use of post-consumer and post-industrial waste</p>	<p>Transfer of best practice within the group</p> <p>Benchmarks established by industry associations</p> <p>Local legislation</p>
<p>Globally, decrease in solid waste to landfill of 21% over five years</p> <p>Globally, over five years, specific water use per ton of pulp dropped by 10%</p> <p>Globally in 2009, total suspended solids and chemical oxygen demand in effluent decreased by 18% and 4% respectively</p>	<p>Increased product offering with Royal Roto™ Recycled and Triple Green™ Embossed</p>	<p>Training relating to North American Lacey Act</p>
<p>Increase use of solid waste</p> <p>Decrease waste to landfill</p> <p>Focus on decreasing total specific water use</p> <p>Improve the quality of effluent</p>	<p>Continue to meet customer needs for products containing post-consumer and post-industrial waste</p>	<p>Leverage opportunities created by changes in carbon legislation</p> <p>Participate in industry groups to influence legislative changes</p>
<p>Re-using and minimising waste has economic and environmental advantages. Improving water quality is important from an environmental point of view, especially with global pressure on water resources and in light of consumer concerns about bleaching processes.</p>	<p>Makes economic sense in view of global demand for recovered fibre and adds to our product offering.</p>	<p>Underpins our licence to trade and enhances our reputation.</p>



Report-back on targets

Prosperity People Planet

In 2008, we established targets to enhance transparency and benchmark ourselves. Due to the differing nature of mill processes in each region, as well as the different business contexts, the targets are regional, rather than global. Our progress toward these targets follows. Unless otherwise indicated, these are five-year targets.

2009
Highlights

North America

41 %
Of revenue from
products and services
less than 5 years old.

15,683
Hours of customer
training

24 %
Reduction in
greenhouse gas
emissions.

24 %
Decrease in
organic content
of solid waste.

51 %
Of third party fibre
is certified.

2009
Highlights

Europe

€ **73** Million
Synergies accrued
through M-Real
acquisition.

M-real acquisition
successfully
integrated:

- Existing business maintained.
- Product carouselling implemented.
- Sappi team built.

2009
Highlights

South Africa

4.6 %
Fine paper turnover
from products
launched in last
3 years.

54 BBEE
Score

Procurement recognition improved
from a level 7 to a level 6 contributor.

2.5 %
Reduction
in water usage.

Key: Report back on targets grid



Achieved



Exceeded



Not Achieved



Report-back on targets

		2009 Five-year targets	2009 Performance	Status	Comment	2010 Target
Prosperity	North America*	Generate 25% of revenue from products and services that are less than five years old	41%		New products and services will continue to be a priority for sales, marketing and R&D	25%
	Europe	The successful integration of M-real's graphic paper assets	Existing business maintained Product carouselling implemented Sappi team built Integration of IT systems in progress Achievement of synergies to September 2009 was €73 million (annualised rate of €97 million), which exceeded our nine month target of €60 million		Our integration plans in this region are ahead of schedule, some of savings achieved as a result of being able to detach from M-real supported functions	Maximise benefits of enlarged portfolio Match capacity and demand
	South Africa	Contribution from by-products to be improved by 10% of operating income within five years and 25% within ten years	-1.3%		The decline was due to lower primary production, which meant less by-product was produced. We are currently assessing ways to improve this parameter	0.65%
		20% of turnover must come from products that have been launched in the last three years within five years	Fine Paper 4.6%			8%
			Kraft 1.6%			2.5%
		95% uptime on pulp mills	89.8%		Instabilities at Ngodwana Mill's coal fired boilers prevented us from reaching the target	90%
		85% eco-efficiency on paper machines	75.2%		Eco-efficiency on paper machines for 2009 was affected by the increased number of start-ups and shut-downs for commercial downtime. Paper machine production was affected by negative product mix and deckle loss. The key factor was a 9.6% drop on PM1 at Ngodwana as a result of the decision to delay the drive replacement	79.7%

*North America revised their goals in 2009 to reflect the impact of the closure of the Muskegon operations. In addition, the goal for certified fibre was revised to be more consistent with competitors' tracking metrics and to offer more clarity to customers reviewing performance. Specifically, the goal was modified from using a credit system which applied fibre to paper production only, to one that reflects the overall input of certified fibre into the mills. In all cases, the goals are more aggressive. Return on capital invested is not reported on, as it was felt that this should be done at a group, rather than a regional level.



Report-back on targets

		2009 Five-year targets	2009 Performance	Status	Comment	2010 Target
People	North America	Provide training and education to all employees at a minimum of 60 hours/year per employee	31 hours		Rigorous cost containment during the economic downturn impacted training initiatives in North America	40 hours
		Implement 10,000 hours of training and education in 2008 to customers through Sappi Education, Training and Consulting (ETC®) our customer-focused training initiative and increase customer training by 10% per year to reach 15,000 hours by 2012	15,683 hours		Proactive training from our printer technical services group, mill visits and company specialists continues to be well accepted by our customers	12,500 hours
		Increase our community support through education and training initiatives in both contributions and volunteer hours by 10% year on year. Benchmark is 2007	1%		The downturn in the economy made it difficult to achieve this target	10%
	Europe and Sappi Trading	40 hours of training per employee per annum	21 hours		Not all training (eg on the job training) in Europe has been tracked, a new reporting system is currently being implemented that will help us to improve the reporting	2012 target
	South Africa	Increase training to 45 hours per employee	109 hours		Training was high due to project training related to the Amakhulu expansion project at Saiccor Mill. We also utilised commercial downtime to increase training at all operations	45 hours
		Build on the process, established in 2008, of determining the socio-economic impact of our corporate social responsibility initiatives in order to leverage these initiatives further			This was not implemented as a result of the severe economic downturn	Minimum of 1% net profit after tax
		Meet targets in terms of Broad-based Black Economic Empowerment (BBBEE), achieve score of 62 by 2012	54		Sappi's BBBEE progress is assessed by independent economic empowerment rating agency Empowerdex. In 2009, we improved our score in terms of procurement recognition from a level 7 to a level 6 contributor (50% and 60% procurement recognition respectively)	60



Report-back on targets

		2009 Five-year targets	2009 Performance	Status	Comment	2010 Target
Planet	North America *	Reduce greenhouse gas emissions by 40% across all sites by 2012	24%		Increased levels of renewable energy and the closure of Muskegon Mill contributed significantly to the reduction in greenhouse gas emissions for 2009	24%
		Decrease organic content of solid waste by 50% across all sites by 2012	24%		Ongoing work at the Cloquet Mill and closure of the Muskegon facility helped us to achieve this goal	24%
		Increase level of third party certified fibre to an average of 60% across all sites	51%		While the national level of certification has levelled out, we continue to drive toward higher levels of certified fibre	53%
	Europe **	Reduction of specific direct fossil CO ₂ emissions (ie tons of CO ₂ per tons of saleable paper), including purchased power emissions (calculated at 400g/KWh by 1% per year)	Specific direct CO ₂ emission increased by 1.6%		We will continue with our efforts to reduce the specific performance The base year for the new mills will be 2009	2012 target
		Reduction of specific water use (m ³ /ton) by 1% per annum (production and cooling water)	Specific water use increased by 9.0%			2012 target
	South Africa	Achieve: 15% reduction in specific purchased energy by 2015 (with 2000 as a base year)	-1.66%		The non-achievement of this target is related to the high number of start-ups and shut-downs for commercial downtime	6.8%
		Reduction of 10% in purchased electricity by 2010 in line with Government's goals	1.65%		As above	10%
		Reduction of 10% in specific water used by 2015 by all mills	2.5%		This was achieved due to improvements in specific water usage at Enstra and Saiccor Mills	3%
		Increase of 5% in recycled paper in Sappi product (Previous target: increase of 20% in fibre recycling by 2010)	-20.3%		The target was reduced from the previous target of 20% because of reduced Kraft paper making capacity by 76,000t at Tugela Mill (temporary closure of PM1) as well as reducing paper making output at Ngodwana Mill as a result of the closure of fibre line number one. This all happened in the second half of calendar 2009 in response to the global economic crisis	5%

*These goals were revised in 2009 to reflect the closure of the Muskegon operations.

**Benchmark is 2009 for Biberist, Kangas, Kirkniemi and Stockstadt Mills and 2008 for all other mills.



Key material issues for Sappi in 2009

Our response to sustainability challenges

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 or by affecting our reputation and the trust stakeholders have in Sappi.

Climate change

The challenge

The carbon regulatory environment is constantly evolving and the impact of future carbon legislation is unclear in the build up to the Copenhagen Climate Change Summit in December 2009 and new standards under the Kyoto Protocol in 2012.

Our response

In each region where we operate, there are different legislative and regulatory requirements related to energy and emission reductions. As far as an integrated global strategy to mitigate the impact of climate change is concerned, we expect a clearer picture to emerge following the Copenhagen Summit.

Our CEO has signalled Sappi's willingness to become involved in the transition to a low-carbon economy by signing the Copenhagen Communiqué on Climate Change.

The fact that globally, the renewable energy we use as a percentage of total usage stands at 50%, is expected to cushion us from the adverse impacts of carbon taxes and legislation. This could also present significant opportunities for us in the form of tax incentives and carbon trading credits and allow us to capitalise further on cogeneration and energy initiatives.



The challenge

Climate change holds physical risks in the form of the abnormally high spread of disease and pestilence into our plantations and fibre sources.

Current scientific belief is that Southern Africa will become dryer, not wetter, with climate change but this is still a very imprecise forecast. In global terms this region's water resources are extremely limited and climate change is expected to reduce water availability, leading to increased risk of drought and fire.

Our response

Climate change can stress forests through higher mean annual temperatures, altered precipitation patterns and more frequent and extreme weather conditions.

At Sappi, we continuously monitor and review forest best practices in the light of changing practices and environmental factors, including climate change. In the light of this, the potential for future rainfall changes, pathogen and pest infestations, alien invasive control, emergency responses and fire protection among others, are all being monitored.

Other avenues of risk mitigation include tree cloning and alternative fibre sources more resistant to pests and diseases.



Gratkorn Mill, Austria



Key material issues

Fibre supply

The challenge

Fibre shortages caused by alternate uses of wood and the lack of certified fibre due to cost of certification.

Our response

Fibre shortage

In North America and Europe, we secure fibre supply through a combination of approaches which include both short- and long-term wood supply agreements, shareholdings in wood sourcing co-operatives and various other types of agreements to ensure access to an acceptable fibre supply.

In the Southern African region our mills are supplied by our own plantations (371,000ha) and other indirectly managed plantations (156,000ha). Security of supply is underpinned by the advantageous growth rates which are up to three times faster than in the northern hemisphere, as well as our world-leading fibre gain programmes which have led to improved fibre yields as high as 65% (pine) and 30% (eucalypts). To secure our supply still further, subsequent to year-end we agreed to acquire 14,000 hectares of developed softwood plantations close to Ngodwana Mill. In addition, trial plantings of Eucalyptus at our feasibility project in Mozambique were successful and the project is making progress.

Lack of certified fibre

In North America, Sappi is working with multiple stakeholder groups to ensure that local small foresters can certify their output without the cost of certification making their business uncompetitive.

In South Africa, where our own plantations are 100% FSC-certified, FSC certification for small growers 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.

Water

The challenge

With modern development and industrialisation, the amount of water required and used per person is increasing and with the current rapid increase in world population the availability of water for development is rapidly running out. It is estimated that in the next 15 years the world population will increase to 8 billion people who, under current water use patterns, will require 40% more water.

Our response

There are three key issues:

Amount of water used

Globally, over five years, our specific use of water has dropped by 10%.

Water usage is particularly relevant for Sappi in Southern Africa, where water resources are extremely limited. While forestry in this region is often accused of being a major water user, commercial forestry in fact accounts for a little less than 3% of total use - plantations bind soil, reducing runoff into rivers and streams.

Recycling

All mills have closed loop water systems which recycle water continuously throughout the production process. At Enstra and Adamas Mills, we use 50% and 70% recycled sewage water respectively.

Quality

The quality of the effluent we discharge is constantly improving, as indicated by the fact that globally, over five years, total suspended solids (TSS) and chemical oxygen demand (COD) have decreased by 18.5% and 3.8% respectively in the effluent we discharge.



Key material issues

Paper as a communication medium

The challenge

Lightweight paper is becoming more important in the print and direct mail markets because it can reduce mailing and transport costs and also results in lower carbon footprint. In addition, on-demand book printers are increasingly moving to lightweight papers as they can achieve more pages per inch, so books with increased page counts are not as thick and require less storage space.

Our response

In the last quarter of financial 2008, we acquired the coated graphic paper business of M-real, including the well-known Galerie stable of brands. Galerie Lite provides reliable, high quality printability and runnability at light basis weights which facilitate substantial paper and postage cost efficiencies. Galerie Lite is designed for catalogues and magazines requiring economy combined with high-quality image reproduction and has been specifically engineered to provide minimal show-through at lower basis weights.

Somerset® and Flo® are other brands that offer an outstanding opacity and bulk to weight ratio, based on Sappi's ongoing commitment to technological differentiation. (Sappi invented the hot soft calendaring process that enables us to produce a paper with Somerset's® unique properties.)



The challenge

Technology has changed the printing landscape by turning mass-produced communications into more targeted, personalised ones.

Our response

We have launched a range of digital papers in North America which allow our customers to produce mailings on demand, while facilitating personalised mailings and publications. A range of digital papers will be launched in Europe in 2010.

We work constantly with original equipment manufacturers (OEMs) to ensure that our paper is compatible with the newest digital presses, so ensuring that our paper remains the first choice for quality and ease of print for digital presses.



The challenge

There is a risk of consumers perceiving paper as a commodity.

Our response

We are focusing on offering customers a value-differentiated product which addresses their particular needs, whether it's fast turnaround (Tempo™), security paper (Identicate™) and passport papers), extreme runnability at a reasonable price or the best value money can buy (Magno and Somerset®).



Checking print quality on coated fine paper



Key material issues

The challenge

Digital media have revolutionised the advertising world, with digital ad spend showing steady increases as newspaper and magazine ad spend decline.

Our response

Sappi views e-Media as a huge opportunity for some of our businesses (cellulose acetate – made from dissolving cellulose is used to make cell phone display screens), and a challenge for others. Digital media has been shown to be most effective when combined in a marketing campaign with targeted direct mail and print ads. This means that while in the short-term, the increase in digital advertising spend has impacted negatively on magazines, we believe that balanced media campaigns will improve the efficiency (as measured by sales) of marketing campaigns and that print on paper will remain a key component of such advertising in the future.

Sappi is working on developing paper applications that interact directly with e-Media. An example is the latest

Life with Print book 'Engaging New Generations in the Media Mix' which also contains audio, video and graphics files which can be downloaded for free via a QR code printed on the bookmark inside the book. Instant access is possible by simply taking a photograph of the code with a mobile phone.

Purchase intention with printed material is shown to be three times better than television and six times better than internet-based advertising. However, it is really when one combines media that one gets the best response from an audience which has seen the number of ads they see jump from 2,000 thirty years ago to 5,000 today (Yankelovich Research).

Cumulative effects of different media combinations (Aggregate of 10 studies) (Source Marketing evolution 2006)

	Brand Awareness	Brand Familiarity	Purchase Intention
Television only	100	100	100
Television + Online	138	104	101
Television + Magazines	153	135	144
Television+ Magazines + Online	182	161	151

The challenge

In the book space e-Readers have taken the world by storm. More e-Readers (Kindles) than i-Phones were sold in the first year of release.

Our response

The advent of e-Books has caused much concern for the future of books, however numbers to date suggest that e-Readers are the saviour not the nemesis of books. Amazon reports that people who buy e-Books have increased the number of books they read by up

to five times, and their orders of printed material by up to three times. It appears that the advent of e-Readers is promoting reading as a pastime, which is bringing with it an increased usage of all forms of printed word, whether hard copy or electronic.

The challenge

Global drop in demand of 25%.

Our response

Despite the global drop in demand, paper is still an indispensable part of daily life and plays a key role in promoting literacy in the developing world. We believe paper will stay relevant because it is versatile and effective and because its environmental credentials continue to improve. In South Africa, for example, we are engaging with major supermarket chains to offer more environmentally benign paper bags as an alternative

to plastic bags and expect this initiative to be launched early in 2010.

We are committed to ensuring that supply and demand remain in balance, and have taken the painful steps of curtailing production where necessary, and even shutting down inefficient capacity where we do not believe it can supply the market profitably.



Key material issues

Marketing and reputation

The challenge

Consumers who are striving to make environmentally sound choices are bombarded by 'greenwashing'.

Our response

As an organisation focused on upholding our core values of Excellence, Integrity and Respect, we have a responsibility not to make unsubstantiated claims. In the absence of a globally recognised reporting standard for greenhouse gas (GHG) emissions, we have delayed in reporting GHG emissions beyond our use of fuels or purchased power. We will continue to report direct emissions from combustion of fuels at our facilities as well as emissions associated with purchased power. We have identified a carbon footprint methodology which we think is suitable, and will now seek input from our stakeholders regarding this methodology.

Rehabilitated Mvuya wetland, South Africa



The challenge

Consumer misconceptions about the paper industry's role in contributing to the loss of tropical forests:

Between 1990 and 2005, it's estimated that the earth lost 3% of its forest cover. Deforestation not only removes these 'carbon sinks' but also pumps out carbon dioxide (CO₂) and methane, greenhouse gases (GHGs) which play a major role in accelerating climate change and global warming. Deforestation, forest degradation and other changes in forests contribute over 17% to GHG emissions, mostly in tropical developing countries.

Our response

We have a key competitive advantage in that we do not use wood fibre from endangered forests anywhere in the world and have achieved certification for much of our fibre by the three most internationally recognised forest products certification programmes, those of the Forest Stewardship Council (FSC), the Sustainable Forestry Initiative (SFI®) and the Programme for the Endorsement of Forest Certification (PEFC). We also work with our suppliers to obtain certification, where the cost of certification makes it prohibitive for them to pursue this route. Certification gives consumers the assurance that the products they are buying have been legally logged in accordance with sound environmental practices.

What's more, sustainably managed forestry offers one of the few proven ways to sequester carbon, and is 60% more efficient at sequestering carbon than unmanaged forestry (BCC Climate Exchange).





Key material issues

The challenge

Increasing focus on sustainability issues by consumers, customers and retailers. Wal-Mart, for example, has recently introduced a sustainability index of suppliers.

Our response

Reporting annually on our sustainability performance in terms of the Global Reporting Initiative (GRI), is a useful internal and external benchmark.

So too, is reporting on our carbon emissions in terms of the Carbon Disclosure Project (CDP), representing 475 institutional investors with assets of over US\$55 trillion.

In 2009, Sappi was listed in the Leadership Index of the South African CDP in terms of mitigation strategies and performance and was assessed as one of the top five companies in terms of disclosure.

Sappi forests, South Africa



The challenge

Paper's environmental image is under attack. One of our reputational challenges is to communicate correctly the environmental story of paper.

Our response

Sappi's pulp, paper and board are renewable, recyclable products that are processed from wood using a high percentage of bio-based energy. Once used, they can be recycled up to six times. We source our wood fibre from forests that are constantly replanted and sustainably managed without leaving an environmental legacy of pollution, indestructible litter, ocean pollution and high use of fossil fuel energy that characterise many of the alternatives.

We have embarked on a groupwide initiative to educate our employees about our environmental impacts and mitigation measures in the context of a groupwide focus on sustainability.

There is also a concerted drive by the paper industry to educate the public, as with the Two Sides campaign in the UK (www.twosides.info) and 'Why Print is Green' produced by the Print Council in North America.

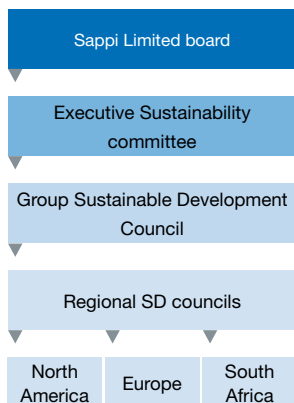




Sustainability governance

A focused, transparent framework throughout the group

The executive sustainability committee determines the priorities for the group's efforts. A strong communications campaign, underpinned by the roll-out of a re-launched Code of Ethics in 2008 ensures stakeholder support.



Our governance structure

Our Regional Sustainable Development councils report to a Group Sustainable Development Council (GSDC) chaired by Group Legal Counsel. The members of this Council include Regional Sustainable Development and/or Environmental Managers, Group Head Human Resources, Group Head Technology, Group Head Corporate Affairs and Group Risk Manager. Ultimate responsibility for sustainability rests with the Executive Sustainability Committee. Chaired by an independent non-executive director, this committee determines the priorities for the group's efforts.

Code of Ethics

Our Code of Ethics, relaunched at the beginning of 2008, underpins our governance structure and our broader responsibility to society. The Code was rolled out to all employees and suppliers across the group in 2008, and to M-real employees in 2009. Employees and suppliers were trained on all aspects of the Code, ranging from conflicts of interest to outside activities and transparency and disclosure. For details of calls to our externally operated Hotlines and follow up of tip-offs, please refer to page 81 of our 2009 Annual Report.

Our sustainability communication

We broadened our strategic approach from reporting and external benchmarks to educating every Sappi employee on sustainability in 2009. Our focus was on 'unpacking' the term 'sustainability' to understand what it means to Sappi as an organisation and what every employee can do to help make us a more sustainable organisation. This was achieved through a global roll-out and the release of various internal communications such as:

- The revised Sustainability Charter;
- A booklet entitled 'Unpacking the 3Ps' which examines the strategy behind each Charter commitment;
- A series of FAQ publications focused on educating Sappi staff about issues such as climate change;
- Regular features in Sappi News;
- World Days of environmental and social significance such as World Youth Day and World Biodiversity Day; http://sappi.investoreports.com/sappi_sdr_2009/world-days/
- A video on the Sappi and Sustainability journey to date; http://sappi.investoreports.com/sappi_sdr_2009/sappi-and-sustainability-journey/
- A power point presentation on the key components of Sappi and Sustainability; http://sappi.investoreports.com/sappi_sdr_2009/downloads/sappi%202009%20power%20point%2026%20March.ppt
- The creation of a Group Sustainability section in the Group Intranet;
- In North America, we piloted an internet-based training module based on the Sustainability Charter and on 'Unpacking the 3Ps'. We plan to roll this out to the rest of the group.



External accolades in 2009

5th
Place

South African Carbon Disclosure
Project (CDP) Leadership Index



Achieved fifth position on the South African Carbon Disclosure Project (CDP) Leadership Index on the basis of our **disclosure** and were also included in a further CDP Leadership Index on the basis of our adaptation and **mitigation** strategies.

aTop 20 GRI compliant
company



Rated as a top 20 GRI-compliant company by SustainabilityServices in an evaluation of over 400 South African companies.

tempoTM

TempoTM named as the **Innovation of the Year** by Pulp and Paper International.

CEO 2009

Sappi Fine Paper North America chief executive officer named **Chief Executive Officer of the Year** by the Paper Industry Management Association of North America.

Cogeneration

Amakhulu expansion project at Saiccor Mill awarded The **Most Innovative** Cogeneration project by Africa Energy.

Pollution prevention

Cloquet Mill given an Honourable Mention for the 2008-2009 **Governor's Awards** for Pollution Prevention.

Top Performer JSE SRI Index

Recognised as one of the top performers on the JSE Limited **Socially Responsible Investment** (SRI) Index in 2008 and 2009.



Our benchmarks

External benchmarks entrench sustainability governance

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.

In alphabetical order

Carbon Disclosure Project (CDP)

Benchmark

The CDP is a global climate change reporting system which operates in most of the world's major economies and acts on behalf of 475 institutional investors, holding US\$55 trillion in assets under management across a broad spectrum of purchasing organisations. As our primary listing is in South Africa, we participate in the South African CDP.

Benchmark application

We have participated in the CDP since it was first launched in South Africa in 2007. In 2009, we achieved fifth position on the South African CDP Leadership Index on the basis of our disclosure and we were also included in a further CDP Leadership Index on the basis of our climate adaptation and mitigation strategies (no ranking was provided in this regard).



Dow Jones World Sustainability Index

Benchmark

DJSI World tracks the financial performance of the leading sustainability companies to provide asset managers with reliable, objective benchmarks to manage sustainability-related investment portfolios.

Benchmark application

We were invited to participate in this index in 2008 and again in 2009. We were not successful in either year, although this must be seen in the context of the fact that of the 11 companies in our sector which participated in the assessment, only one was included. We did however, marginally improve our score and our performance was assessed, once again, as slightly above average. We have considered key learning

points from the exercise and are using some of these to drive our sustainability initiatives.

Strategic Asset Management (SAM) which conducts the assessment for the DJSI indices is currently reviewing the assessment criteria for inclusion and we are participating in the process.

GRI G3 Indicators

Benchmark

The GRI guidelines are indicators that are used internationally to assess sustainability performance. It's reported that as at January 2009, more than 1,500 organisations from 60 countries use the guidelines to produce their sustainability reports. Launched in 2006, the G3 guidelines are the so-called 'Third Generation' of the GRI's reporting guidelines.

Benchmark application

We began the process of formally reporting in terms of the G3 guidelines in 2007. In 2008, we aligned our environmental data capturing process more closely with the guidelines.

The revised King III Code on Corporate Governance, due to come into effect in 2010, recommends moving from a 'comply or explain' to an 'apply or explain' approach in terms of

sustainability reporting and we have followed this approach in the GRI table included in the detailed version of the sustainability report.

We have declared our application level at 'A'.

An interactive GRI index is available at http://sappi.investoreports.com/sappi_sdr_2009/measurement/reporting-elements-of-gr3-guidelines/



Our benchmarks

JSE SRI Index

Benchmark

Launched in May 2004, the JSE's SRI (Sustainability Reporting Index) 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.

Benchmark application

We have been included in the index every year since inception. In 2008 and 2009, we were recognised as one of the top performers on the Index.

Learning about the environment



UN Declaration of Human Rights

Benchmark

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 for all peoples and all nations.

Benchmark application

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. http://sappi.investoreports.com/sappi-sdr-2009-downloads/sappi_human_rights_policy.pdf

Commitment to the Declaration has also been established in our supplier policy, which also makes use of the following external reference points:

- International Labour Organisation Core Labour Standards
- International Standards Organisation 9001 (ISO 9001)
- International Standards Organisation 14001 (ISO 14001)
- Occupational Health and Safety Assessment Series 18001 (OHSAS 18001)
- OECD Guidelines for Multinational Enterprises
- United Nations Global Compact

To see our supplier policy, go to http://sappi.investoreports.com/sappi-sdr-2009-downloads/sappi_group_supplier_policy.pdf.

UN Global Compact (UNGC)

Benchmark

This is a CEO-led strategic policy initiative which gives signatories a platform for advancing their commitment to sustainability and corporate actions. The UNGC 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. In 2009, we signed the Copenhagen Communiqué, a UNGC initiative.

Benchmark application

We joined the UN Global Compact in 2008 and reported in accordance with the ten principles in Sappi and Sustainability 2008. Our report for 2009 can be found at http://sappi.investoreports.com/sappi_sdr_2009/downloads/sappi_sdr_2009.pdf.





Generating Prosperity

As our ability to remain a sustainable player is founded on generating profits in the short and long term

Through continued strong economic performance and by supporting the needs and aspirations of the communities in which we live and work, we contribute to their short- and long-term economic, societal and environmental wellbeing and to the wellbeing of the customers and consumers we serve.

Our Charter commitments

This report covers three of our six Prosperity Charter commitments in detail and gives a brief overview of the other three. An expanded section of this report can be found on our website.



Focusing on long-term profitable growth



Driving customer satisfaction through technology and innovation



Building on our competitive position in our core markets



Maintaining our licence to trade



Promoting an ethical culture



Creating value for all stakeholders

Key features

tempo™

Tempo™ named as the
Innovation of the Year
by Pulp and Paper International

Identicate

Launch of **Identicate™**, intelligent packaging paper

Mokka

Launch of new **Mokka** pattern for casting release paper



Development of new
passport paper
for the South African government

BBBEE

Improved Broad-based Black Economic Empowerment performance in South Africa

Procurement

Realignment of procurement initiatives



Focusing on long-term profitable growth

Our goal is to be, on a sustainable basis, the most profitable company in paper, pulp and chemical cellulose solutions.

Lean manufacturing, which focuses on more effective utilisation of assets, cost saving and improved efficiency, is core to achieving this goal. The principles of Lean manufacturing range from overall machine efficiency, re-examining the use of raw materials, eliminating waste and realigning procurement initiatives. Details of our financial performance in 2009, can be found in our annual report available at www.sappi.com.

Our aim is to decrease the time between a customer order and shipment, and radically improve profitability, customer satisfaction, throughput time, and employee morale.

Case study

Winning awards - Tempo™

Subsequent to year end, Sappi was awarded 'Innovative Product of the Year' for Tempo™ in the 2009 Pulp & Paper International (PPI) Awards. The PPI Awards are the only global awards dedicated to recognising achievements in this sector.

Tempo™ is a revolutionary coated wood-free, sheetfed paper with unique fast ink setting and drying properties, superior ink scuff resistance and reduction of anti-offset powder usage. Sappi developed Tempo™ after conducting a major 12 month study into printers' needs, which revealed their top concerns were ink setting and ink drying times. Following extensive trials, Tempo™ was created to provide a super smooth silk surface that behaves like a gloss when it comes to ink setting and drying properties.

Printers can expect to print the reverse side of a Tempo™ sheet after 15 minutes and move most jobs to converting after 30 minutes without the need of a protective varnish. As soon as the first sheets come out of the press, results can be checked immediately, without having to wait for ink to dry.

Tempo™ enables printers to reduce the use of anti set-off powder by 50% to 100%, resulting in fewer wash-ups and increased press availability as waiting times and machine interruptions decrease.

Winning this award highlights the impact Tempo™ has had on the paper industry.

Procurement initiatives

We have focused on realigning our procurement initiatives by:

- Streamlined sourcing
- Better management of inventory
- Centralisation of vendor and material master records
- Realising benefits from integrated and aligned business processes and IT solutions
- Aligning our business with some of the supply agreements already in place in other parts of the world.



Driving customer satisfaction through technology and innovation

Innovation is a fundamental driver of competitive advantage at Sappi

We focus on extracting value from existing and new technology to develop new products, markets and processes; and generate greater returns in all aspects of our business.

Research and development (R&D) takes place at technology centres in each region. Owing to the tough economic conditions in 2009, we narrowed our R&D efforts to concentrate on key technology differentiators, and sought to maintain capacity in areas of high value research to enable growth when the business climate improves.

Expenditure was US\$31 million, reduced from the average over the previous two years of US\$34 million. We will broaden our R&D initiatives once we are back to profitability.

North America

In light of the dramatic changes in our markets in 2009, we retooled our entire web line to insure that we met the changing needs of our customers.

We launched Opus® PS, a popular grade that is used for everything from sales cards in the mail to magazine covers, book marks, and annual reports. We provided FSC certification on all our Opus® Web products, including product that is stocked in our regional distribution centres. This is a unique stocking position and has provided a competitive advantage based on our ability to service those customers requesting FSC-certified web products. In addition, we increased the paper gloss on Flo® Web by ten points and added three new basis weights. We also increased the brightness of Somerset® lightweight to match the heavyweight grade.

In response to growing demand for digital papers, we expanded our range of digital papers in this region from Opus® Digital to include Indigo, McCoy® Digital and Flo® Digital. Each paper is matched to its folio counterpart - premium (McCoy®), performance (Opus®) and economy (Flo®).

The range is available as Forest Stewardship Council (FSC) and Sustainable Forestry Initiative® (SFI®) Chain of Custody certified, contains 10% post-consumer waste content and is manufactured with Green-e certified renewable energy.

Our specialities Release Business launched new products and patterns. The new Mokka pattern will produce a suede finish to the cast product and is expected to be a quality and commercial leader.



Casting release paper is used to impart patterns on a wide variety of products

Europe

We extended our research and development capacity by incorporating the Technology Centre at Kirkniemi Mill fully into our operations. In the process of integrating of the new M-real mills, we also completed the re-design of a number of grades which facilitated a seamless switch of grades between mills. New products in this region include:

ALGRO

Algro™ Nature A one-sided coated packaging paper which offers excellent printing and converting properties. The fact that this paper's binding agents are completely vegetable in origin enhances its appeal to the environmentally-conscious consumer.

Identicate™ Each year losses and damage to world trade due to counterfeiting and piracy reach more than US\$600 billion. Packaging is also faked on a large scale, making it difficult for consumers to tell the difference between a high quality product and its inexpensive imitation. Sappi's response to this problem was to launch Identicate™, a system is based on a random distribution of invisible marker particles on the surface of Sappi's packaging materials, giving each item a unique, encrypted fingerprint or identification code.

Leine Nature An uncoated paper which is suitable for packaging applications such as high quality wrappers, sachets, inner liners and carrier bags.

royal™

Royal Roto™ Recycled Developed at Sappi's Nijmegen Mill, this paper feels and performs exactly like a virgin fibre paper but contains a minimum of 50% post consumer waste and 20% FSC-certified pulp. The remaining fibres come from controlled sources.

South Africa

In South Africa, we continued our ongoing research into biofuels. In addition, at our forest research centre in Tweedie, we intensified our focus on understanding and breeding for pest resistance, and continued our efforts to increase yield per hectare through sustainable tree breeding.

New products launched in this region included a new passport paper for the South African government, the re-engineering of Platinum Aqua, a premium wet strength label to suit the for the end use application more precisely and the launch of Triple Green™ Embossed to expand the popular Triple Green™ range.

sappi | technical innovation awards

In 2000, we launched the Sappi Technical Innovation Awards (TIA), a platform from which technical advances and those who create them, are acknowledged and rewarded for their contribution to Sappi's prosperity and long-term sustainability. The focus of the awards is to create new technologies which will result in noticeable improvements for the customer.



Case study

Creating distinctive packaging

In the last quarter of 2008, Lausanne-based skin-care cosmetics specialist, Institut Dr Scheller, chose Sappi's high white Algro Design board for the boxes for its innovative new Phyto Solutions premium range of phyto cosmetics offering premium products, visible results and natural ingredients.

According to Astrid Kohler, Brand Director Skin Care, at Dr Scheller Cosmetics, the Algro Design board's whiteness and superior appearance to competitive packaging in the phyto market was its main attraction. "Algro Design's fresh look and very smooth surface helps create highly distinctive packaging that supports Phyto Solutions' brand benefits – individual formulations for each age group, measurable results, overall customer wellbeing, and natural ingredients."

"Before taking a final decision, however, our design agency created mock-ups to put on the shelves and test with consumers. We evaluated the boxes based on three criteria – their design, their whiteness, and how they compared with competitive products. All those interviewed confirmed that the Algro Design boxes came top in each category. They created better shelf impact, conveyed the premium nature of the Phyto Solutions brand, and the board's brightness and soft touch provided the best match to the benefits provided by our products, such as clean, fresh, smooth skin".



Building on our competitive position in our core markets

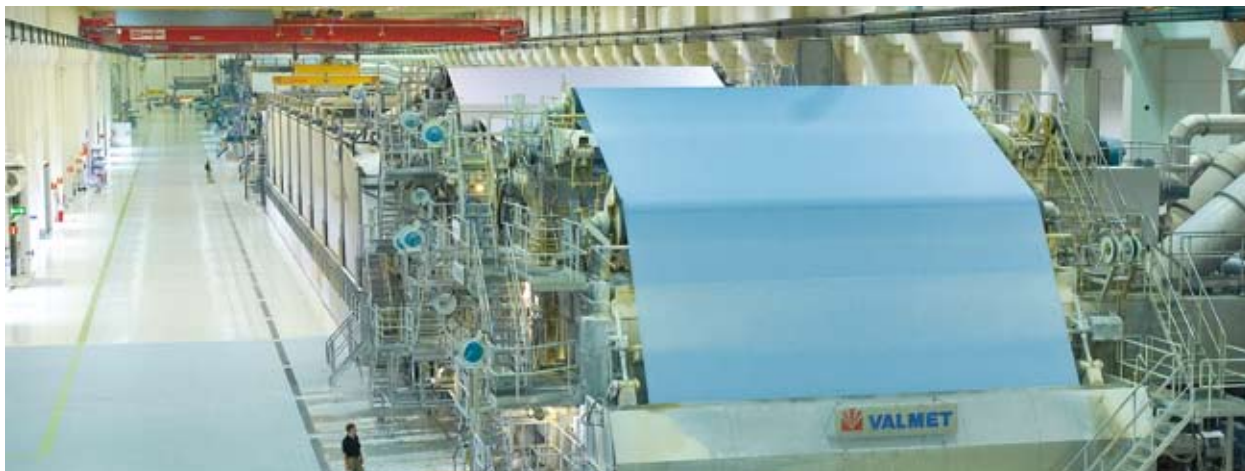
As part of our commitment to 'Building on our competitive position in our core markets', we have established several initiatives aimed at the print and design industries which promote the Sappi brand.

More information can be found at http://sappi.investoreports.com/sappi_sdr_2009/prosperity/build-on-our-competitive-position-in-our-core-markets/.

Foremost among these initiatives is the world's most prestigious printing competition, the biennial Printers of the Year competition. To add weight to our sustainability drive, we have added a new award category to the competition. The 'BlueGreen' award recognises and applauds creative excellence in promoting a good cause, whether it be humanitarian, environmental or social. The award is aimed at inspiring printers to integrate the principles of sustainable development into their businesses. Similarly in Europe, our global corporate responsibility programme, Ideas that Matter has incorporated the 3Ps of Prosperity, People and Planet into the competition.

This initiative celebrated its tenth anniversary and to celebrate this occasion, Sappi Fine Paper Europe published a commemorative book. Sappi Fine Paper North America also created a book to celebrate the occasion. The book is titled 10-40-1. **Ten** Ideas that Matter, **Forty** designers who saw a way to change the world, **One** paper company who believed in their vision.

For details, refer to www.sappi.com/SappiWeb/Initiatives.



Papermaking machine, Kirkniemi Mill, Finland

Maintaining our licence to trade

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.

BBBEE is focused on redressing the inequalities of apartheid by opening up economic opportunities to previously disadvantaged groups (Blacks, Coloureds, Indians and Chinese).

Legislation covers areas such as employment equity, skills development, ownership, management, preferential procurement, social development and enterprise development.

As a company headquartered in South Africa, with significant assets and people, BBBEE is an important component of our licence to trade. Like other major corporations, our BBBEE progress is externally verified and scored in terms of scorecards established by government.

The South African businesses' BBBEE performance was rated by independent BBBEE certification agency Empowerdex in December 2007. At this time we achieved a score of 41 points with an overall BBBEE status of a 'level seven contributor' (B rating) and a preferential procurement recognition level of 50% (see table below for an explanation of the values). In July 2009, we achieved a score of 54 points and an overall BBBEE status of a 'level six contributor'

(BB rating) and a preferential procurement recognition level of 60%. As our aim was to obtain a level 6 contribution by 2010, we were pleased to have exceeded this target. Our new target is to achieve a 'level five contributor' (BBB rating) and a preferential procurement recognition level of 80% in 2010.

We expect to finalise a BBBEE equity transaction that seeks to broaden the base of shareholders in the foreseeable future.

Empowerdex criteria

	Contribution level	Procurement recognition level
AAA+	Level One	135%
AAA	Level Two	125%
AA	Level Three	110%
A	Level Four	100%
BBB	Level Five	80%
BB	Level Six	60%
B	Level Seven	50%
C	Level Eight	10%
D	Non compliant	0%

Promoting an ethical culture

The Sappi Code of Ethics clearly sets out guidelines for employees, suppliers and contractors related to our core values of Excellence, Integrity and Respect. The Code is reinforced by Sappi hotlines, externally operated whistleblowing lines in each region. Further details about calls to the lines and follow-up actions can be found in our annual report available at www.sappi.com.

Following an extensive roll-out of the Code to employees, suppliers and contractors across the world in 2008, in 2009, we focused on keeping the Code alive with ongoing articles in global and regional newsletters and a series of posters.





Creating value for all stakeholders

Generating prosperity through beneficiating renewable resources into products that are core to modern society's way of life has direct and indirect socio-economic benefits accruing to all.

A measure of wealth created is the monetary value added during manufacturing and the servicing of our customers' needs. Contributing to the economic prosperity of the communities within which we operate is a central tenet of our approach to sustainable development. The direct monetary value we add to renewable resources enables us to pay salaries, wages and other benefits, taxes, suppliers as well as provide a return to lenders and investors whose capital we deploy. It also provides us with the wherewithal to reinvest into our business.

Value added statement			
for year ended September 2009			
US\$ Million	2009	2008	2007
Sales	5,369	5,863	5,304
Income from investments	61	38	21
Less: Paid to suppliers for material and services	3,865	4,077	3,631
Total value added	1,565	1,824	1,694
Distributed as follows:			
To employees as Salaries, wages and other benefits	1,002	965	867
To leaders of capital as interest	205	179	169
To shareholders as dividends	37	73	68
To governments as taxation	76	89	111
Total value added distributed	1,320	1,306	1,215
Portion of value added reinvested to sustain and expand the business *	245	518	479
Total value added distributed and reinvested	1,565	1,824	1,694
Taxation			
Paid in taxes to governments**	76	89	111
Collected on behalf of, and paid over to governments:			
Employee's taxation deducted from remuneration paid	148	158	148
Net value added taxation (VAT)	(149)	(47)	39
Total	75	200	298

* Excludes the acquisition of the coated graphic business of M-real

** Including US\$3 million (September 2008: US\$6 million, September 2007: US\$38 million) direct taxes on income.

Source: The Maine Paper Industry: Facts about the Industry, Policy Recommendations for Competitiveness. Compiled by the Maine Pulp & Paper Association, 31 March 2009.

Case study Urban development

As a business, Sappi plays positive roles in many communities through our forestry activities and mills. The value-add of the pulp and paper industry in the state of Maine where our Somerset and Westbrook Mills are situated, highlights this:

➤ 7,800 people are directly employed in pulp and paper manufacturing (December 2008) in the state of Maine.

➤ For each paper manufacturing job in Maine, 3.28 direct jobs are created for suppliers and contractors.

➤ The paper industry indirectly supports tens of thousands of other jobs in the logging, transportation, retail and other fields – an estimated five to seven jobs are created for every direct job in a paper mill.

➤ The Maine Paper Association conducted a study in response to suggestions that Maine convert its paper manufacturing industry to the production of wood pellets. Using the current number of workers employed per ton of pellets produced, the study found that if all the wood used in Maine's pulp mills were used instead for pellet manufacturing, employment would drop from 7,800 to 1,250 jobs and the current payroll of approximately US\$500 million would drop to US\$42.5 million dollars.

➤ Maine paper mills pay a significant portion of the local property tax. Most mills pay 60 to 80% of the municipal property tax in their town.

Direct contribution of our industry to the economy

North America

Annually, the US forest products industry accounts for approximately 6 percent of the total US manufacturing GDP, placing it on par with the automotive and plastics industries. The industry generates more than US\$200 billion a year in sales and employs more than 1 million people earning US\$54 billion in annual payroll.*

Europe

The pulp and paper industry in Europe employs 260,000 people, turns over €80 billion a year and €18 billion in value and wealth creation.**

South Africa

According to Forestry South Africa, in this region the forestry, timber, pulp and paper industries generate direct employment of 170,000 people in South Africa. The paper industry directly employs 13,500 people, with a further 10,700 people employed in the recovery of paper for recycling. Taking a conservative view of the dependency ratio in rural areas, the forests and forests products sector supports over 860,000 dependants. Wages in 2007 amounted to R4.136 million. In the same year, the sector contributed just under R6 billion to South Africa's gross domestic product (GDP) and generated foreign exchange earnings of R6,960 million.

* AF & PA

** A manifesto for competitiveness and employment, June 2009, published by CEPI



Biberist Mill, Switzerland

Indirect contribution

The indirect economic benefits to other sectors are detailed on page 28 of Sappi and Sustainability 2008. Refer to http://sappi.investoreports.com/sappi_sdr_2009/downloads/sappi_sdr_2008.pdf.

What cannot be overemphasised is that paper is core to our civilisation. In the developing world, paper helps to promote literacy and is a driver of change and development. In the developed world, paper is also used as a packaging material, in household applications and in industrial and construction processes. Despite the rise of electronic media, it is also still widely used for communication purposes. The challenge for our industry is to ensure that our products remain relevant in a changing world – the fact that the chemical cellulose produced at Saiccor Mill is a key component of computer screens highlights the fact that this can be achieved.

Exploring new avenues of operational beneficiation is another area where the industry can play a key role going forward and continue to contribute to local and global economies. The following statement sets it out very

clearly: “Public recognition is needed of the fact that harvesting trees does not add to CO₂ emissions – that the carbon remains stored in harvested wood products. Investments, environmental values, public opinion, new business opportunities – all these will help society survive today's perfect storm. The forest industries are in a better position than most. The sector already focuses on the sustainability dimension and on enabling climate change mitigation. The economics of sustainability as a key asset of the sector must be proved at a large scale as reliance on renewable energy increases and carbon neutrality becomes more important.”*

Rising oil prices, ongoing political instability in the world's oil-producing regions and the possibility of increased green and carbon taxes around the world present real, positive opportunities for Sappi. Thinking outside the box of our core business, we see significant opportunities in maintaining our core business model of producing pulp, paper and board while optimising derivatives like biofuels. (Described in further detail on page 52 of this report.)

Exchange rates	2009		2008		2007	
	Average	Close	Average	Close	Average	Close
US\$/ZAR	9.0135	7.4112	7.4294	8.0751	7.1741	6.8713
€/US\$	1.3657	1.4688	1.5064	1.4615	1.3336	1.4272
£/US\$	1.5578	1.5955	1.9804	1.8448	1.9715	2.0471

*Financial meltdown and the future of the forest products industry, Teresa Presas, Managing Director of the Confederation of European Paper Industries (CEPI), and President of the International Council of Forest and Paper Associations (ICFPA). From a presentation to the special event 'Impacts of Global Economic Turbulence on the Forest Sector' at the nineteenth session of the Food and Agriculture Organisation (FAO) Committee on Forestry, Rome, 20 March 2009.



People underpin our success

Without our people, we would not have a sustainable business

Our 16,427 dedicated employees around the world underpin our business success. Our focus is on equipping our people and the communities in which we operate with the life and career skills, knowledge and confidence that allow them to build on their own capabilities and further their development. And when it comes to people outside our business, our products play a vital role in promoting development and helping people across the world to communicate.

Our Charter commitments

This report covers three of our six People Charter commitments in detail and gives a brief overview of the other three. An expanded section of this report can be found on our website.



Cultivating an inclusive, diverse workplace



Being a great place to work



Providing training and development opportunities



Prioritising health, safety and wellbeing



Partnering with communities



Engaging with stakeholders openly and constructively

Key features

65% Increase

More of our people participated in the 2009 Employee Engagement survey than in 2007

9.1 Million US\$

Global training spend in 2009 was US\$9.1 million, amounting to 1.34% of total payroll

LTIFR

Lost Time Injury Frequency Rate improved in North America and South Africa, but safety performance declined in Europe

9

Contractor fatalities in South Africa

92 Trainees

There were 92 trainees in 2009, compared to 60 in 2008

40%

Voluntary counselling and testing (VCT) improved to just over 40% of workforce in Southern Africa



Cultivating an inclusive, diverse workplace

Inclusive diversity, our strength

In the year under review, we integrated over 2,100 M-real employees into our business following the M-real acquisition. We also had to review positions across our regional businesses in light of the economic downturn and reduced demand for pulp and paper products. During 2009, we eliminated 4.65% of jobs across our global businesses to help maintain our viability as a business. In 2009, our staff numbered 16,427 — 1,271 higher than in 2008.

North America

In March 2009, North America announced the suspension of operations at the Muskegon Mill. This suspension affected approximately 190 salaried and hourly employees. In August, the decision was taken to close the mill permanently. Employees impacted by the closure of the mill are eligible for unemployment benefits and other federal government mandated benefits.

In addition, 70 salaried positions across the North American regional business were eliminated. All salaried employees whose jobs were eliminated at Muskegon and across North America received separation benefits, while hourly employees whose jobs were eliminated at Muskegon were offered separation benefits as part of the negotiation process.

Europe

Project Kilimanjaro, which comprised benchmarking our newly acquired mills against best practice at our old mills, identified a potential 140 positions to be eliminated over the next one to two years. Discussions with the relevant union organisations are on-going and in some instances, eg Biberist Mill, agreement has been reached on the phasing out of jobs.

Subsequent to year end, we announced the possible closure of Kangas Mill in Finland.

Southern Africa

In this region we have embarked on a process to reduce approximately 300 positions, partly as a result of the moth-balling of a 60,000 ton containerboard machine Tugela Mill and of parts of Ngodwana Pulp Mill which will result in a small net reduction in its pulp output.

Subsequent to year end, in October 2009, we announced that we were in discussions with labour representatives about the intention to cease operations at the Usutu Pulp Mill in Swaziland in January 2010.



Teacher training through Penreach, in Mpumalanga, South Africa



Being a great place to work

A key differentiator to attract and retain talent

Employee engagement is fundamental to organisational effectiveness.

No company, small or large, can win over the long run without energised employees who believe in the company's mission and understand how to achieve it. It is clearly in our interests to have a committed, engaged workforce. In January/February 2009, we conducted our second employee engagement survey. This was rolled out to the four new mills acquired from M-real in April 2009.

Apart from providing a structured mechanism whereby we gain valuable insights into what employees are thinking and feeling about the company and their specific jobs, the survey provides us with an opportunity to enter into a dialogue with employees about what we can do to enhance the work environment and create a more committed workforce.

There was an increase of 65% in the uptake of the 2009 survey when compared with the 2007 survey – a positive development as it translates into greater accuracy when measuring engagement. The results, set out below, indicate that we have improved in all areas:

Strongly committed 10% (2007: 8%) high performers with low retention risk, who exhibit very strong emotional and rational commitment to their jobs, teams, managers and organisations;

Moderately committed 71% (2007: 66%) these employees exhibit moderate commitment to their work, teams, managers and organisations; and

Uncommitted 22% (2007: 26%) poor performers, putting in minimal effort and exhibit strong non-commitment to their organisation, jobs, managers and teams.

The results of the survey provided good insight into employees' levels of commitment and also helped to set the agenda for the next steps in building an engaged workforce. As the value add of an employee survey is the way in which the survey feedback is managed, we have outlined strategies for each region going forward, based on the findings.

Being a great place to work is a key differentiator in attracting and retaining people. Ongoing employee engagement surveys are just one of the ways in which we are achieving this. Other strategies include:



Our culture of **freedom with responsibility** whereby employees are encouraged to be innovative and inventive.



Our emphasis on **high performance** and the provision of training and development opportunities provide employees with the skills and knowledge to improve and advance their careers.



The **recognition** and **rewarding** of high performers with above average percentage bonuses.

To further enhance the quality of the objectives set in the performance management process and support our high performance philosophy, in 2009 we piloted a 'line of sight' methodology within Sappi Kraft. This methodology audits the objectives set as compared with actual practice, and closes any gaps through engagement and shared understanding. The aim is to continuously improve our performance management system through a focus on performance improvement and employees' input. The methodology will be rolled out to other regions in financial 2010.



Apprentices at Enstra Mill, South Africa



Providing training and development opportunities

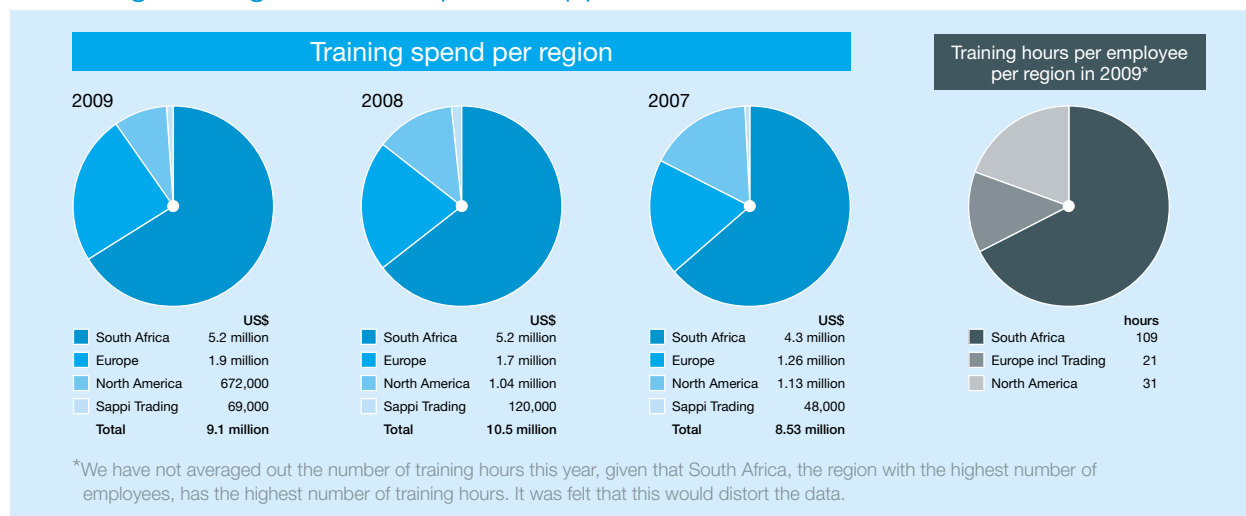
There is a direct link between our people and our sustained business performance

Skills development

We recognise that there is a direct link between our people and our sustained business performance. 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 gain new experiences.

Global training spend in 2009 was US\$9.1 million, amounting to 1.34% of total payroll. While this reflected a drop from 2008 (US\$10.5 million: 1.7% of total payroll), the decrease in spend took place against a backdrop of constrained economic conditions.

Providing training and development opportunities



Training and development framework

To determine the annual training and development agenda, a rigorous 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 framework	Management and leadership development	Knowledge and capacity building	Skills programme 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.



Providing training and development opportunities continued

Our global and regional training initiatives sustain our highly skilled workforce whilst our leadership bench is strengthened through dedicated programmes.

Leadership skills

As the establishment of a strong leadership bench is integral to sustainability, we operate a global management development programme whereby employees with potential receive management training through recognised business schools and regional Sappi Leadership Academies. We also use a 360 degree multi-rater feedback tool in developing leadership competencies.

Performance management

All job functions and training and development needs are benchmarked, cross-referenced and appraised accordingly on a continual basis. The performance of every employee within the group is measured annually against objectives and competencies to ensure career goals are maintained. However, employees in the bargaining units in South Africa and North America do not participate in the company performance appraisal process.

220 Apprentices

In Europe during 2009

39 USA

Employees engaged in future academic study

92 Trainees

South Africa 45
Europe 7
North America 40

360°

A multi-rater feedback tool develops competencies

CEPI

Sappi Fine Paper Europe is involved in the Confederation of European Paper Industries' training initiatives

AF & PA

The American Forest and Paper Association's industry training is supported by Sappi Fine Paper North America



Stockstadt Mill apprentices, Germany



Control room Saiccor Mill, South Africa

Global training initiatives

We operate a number of schemes including graduate-in-training programmes, management/manufacturing trainee programmes, internships and co-op programmes, as well as sales development programmes whereby new graduates are employed as trainees for a fixed period of time and usually spend some of that time working in a number of different functions. There were 92 trainees in 2009 (2008: 60) South Africa – 45, Europe – 7 and North America – 40.



Stockstadt Mill, Germany

Regional training initiatives

Southern Africa

The bulk of our training spend is allocated to this region, given the country's legacy of inequity in training and development. Initiatives include:

Basic life skills for employees with little or no education. This involves helping our illiterate employees and contractors to read and write and to learn basic financial skills.

Apprenticeship and learnership programmes which focus on providing school leavers as well as current employees with opportunities to become process operators, engineering artisans and technicians through a combination of formal learning and practical on the job experience.

Support to employees in continuing their education and obtaining further professional qualifications through our tuition reimbursement and study assistance programmes.

To drive transformation and succession planning, we have established coaching and mentorship relationships, utilising trained managers to support performance improvement in both personal and professional growth as well as emotional support across all areas of our business.

Equity and learning forums are operational at all operating units and are coordinated at head office level.

External training initiatives include the Sappi Pulp and Paper College in Pretoria which has been accredited by FIETA (Forest Industries Education and Training Authority) as a training provider.

The Paper Manufacturers Association of South Africa (PAMSA) to which we belong, provides a full ladder of learning from school leaver to post-doctorate studies in the pulp, paper and pulp, paper and tissue qualifications.

Europe and North America

Europe had 220 apprentices in 2009 in various levels of their trade certification.

In North America 39 employees were engaged in advancing their academic qualifications.

Through our membership of industry associations in these regions (CEPI and AF&PA), we are involved in industry training initiatives.



Prioritising health, safety and wellbeing

An entrenched value

Our aim is that safety should be an entrenched value and 'way of life' for all our employees and contractors worldwide.

Safety

Health and safety committees are in place at all of our operations. In addition to work-specific safety training, broader safety education and awareness covers areas such as oil spills, chemical safety, transport and driving, gas leaks and actions required, as well as a broad range of health related issues including cholera, meningitis, hygiene and other related topics.

In terms of safety procedures, dedicated risk and safety management teams ensure that safety management systems are integrated into everyday operational procedures in a real, measurable way.

The ratio of safety representatives to employees is 1:50.

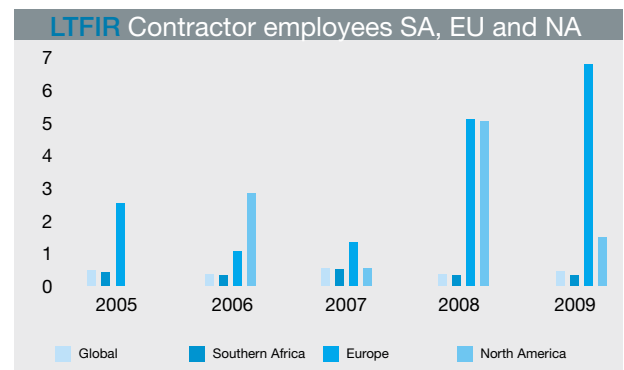
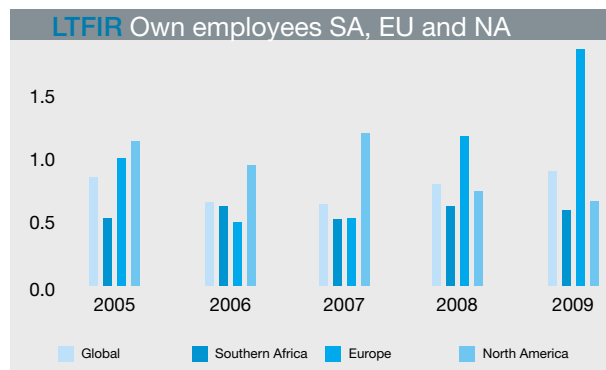
Training related to health and safety hazards and safe work practices is reinforced by educational pamphlets, posters, videos and a Global Safety Awareness Day.

Our behaviour-based safety approach is reinforced by health and safety risk audits which are conducted annually. Once again, a key component of the audits is the analysis of trends and the development of corrective action.

In **North America**, we are fully compliant with the Occupational Health and Safety Administration (OSHA) regulations, but are preparing to implement the Occupational Health and Safety Advisory Services (OH-SAS) 18001 management system.

All mills in **Europe** are certified to OHSAS 18001, as are all mills in Southern Africa, with the exception of Usutu Mill in Swaziland.

While some aspects of our safety performance showed improvement, these were overshadowed by nine contractor employee fatalities in **South Africa**. We deeply regret these fatalities and view them in a very serious light. We remain committed to achieving the goals of our formal safety campaign, Project Zero, and are as concerned about the safety of our contractors as we are about that of our own employees. Our aim is that safety should be an entrenched value and 'way of life' for all our employees and contractors worldwide.



LTIFR is the lost time injury frequency rate, and is calculated by dividing the product of lost time injuries and a groupwide standard for man hours by the unit's man hours, ie $LTIFR = LTI \times 200,000 / \text{man hours}$.

In a similar manner to the frequency rate, LTISR is calculated by dividing the product of the number of days lost to the injury and the groupwide standard hours by the unit's man hours, ie $LTISR = \text{No of days lost} \times 200,000 / \text{man hours}$.

The injury index is a product of the LTIFR and the LTISR and provides an overall sense of safety within the measured unit.

Going forward

Our behaviour-based safety (BBS) systems and regional safety platforms are generally entrenched across the company but require further re-energizing, particularly in Europe and South Africa. Sappi Fine Paper North America is continuing to prepare for OSHAS 18001 certification. In Europe, insufficient safety audits have been identified as a weakness at Biberist, Kirkniemi and Stockstadt Mills. These mills also have the region's highest LTIFR. Negotiations with external companies are underway to strengthen safety programmes to these mills.

Analysis of the contractor fatalities in Sappi Forests between 2003 to 2009 shows that 13 of the 28 fatalities were attributable to vehicles used in timber production and nine were due to trees falling during harvesting. Sappi Forests will renew its focus on management, training and entrenching root cause analyses, visible senior leadership in the field, improving contractor management and performance and re-energizing the behaviour-based safety programme. Other risk mitigation measures include enforcing a one-kilometre no-go area for active felling areas, machinery pre-start checks and introducing critical occupation license cards. All of these actions are complicated by the high labour turnover in forestry, particularly among contractors.

Sappi promotes HIV/AIDS awareness

Exhibitions and campaigns linked to World AIDS Day, National Condom Week and AIDS Memorial Day. Communication materials in various languages are made available at all sites.

Peer educators (nominated Sappi employees who have been trained) present education programmes focused on changing behavioural patterns in the workplace and surrounding communities.

Health workers also play an important role in promoting awareness, encouraging a healthy lifestyle and helping infected and affected employees to understand the disease through intensive counselling and support.

In 2008 and 2009, we promoted participation in the Right to Know competition, launched by Discovery Health and the Sunday Times in July 2008.

Occupational health and wellbeing

Occupational diseases are managed very similarly to any other risk in Sappi. Occupational health risks are measured and monitored on an ongoing basis. Occupational health programmes are complemented by comprehensive general health and wellbeing programmes around the world, aimed at the specific needs of each operating unit.

Wellbeing programmes include alcohol awareness, stress management and trauma counselling. In the case of the latter, we ensure our employees receive holistic treatment. For example, in a case where an employee and their family were hi-jacked, we would ensure that the entire family receive counselling by the appropriate specialists and we act as a bridge between the outside consultant and the workplace for the employee.

HIV/AIDS

Overview

It's estimated that 35% of all persons living with HIV globally are concentrated in sub-Saharan Africa. Against this background, Sappi's efforts to combat the pandemic are focused in our Southern Africa operations. In 1992 Sappi Limited established an HIV/AIDS programme in South Africa to measure, monitor and manage the disease in order to mitigate the risks posed to employees, the organisation and the communities in which we operate. To see our HIV/AIDS policy, go to http://sappi.investoreports.com/sappi_sdr_2009/downloads/Sappi_HIV_Policy_Draft_4.pdf.

Prevalence

We conduct HIV/AIDS surveillance studies on a 3-year cycle to determine HIV prevalence as well as conducting cost impact studies and impact studies on the benefit funds. As 83% of our employees have participated in an HIV survey, we have a very accurate idea of the HIV/ prevalence of the workforce – currently 14.7%. This is less than the South African average – UNAIDS estimates indicate that the current HIV/AIDS prevalence of those aged between 15 and 49 in South Africa is 18.1%.



Partnering with communities

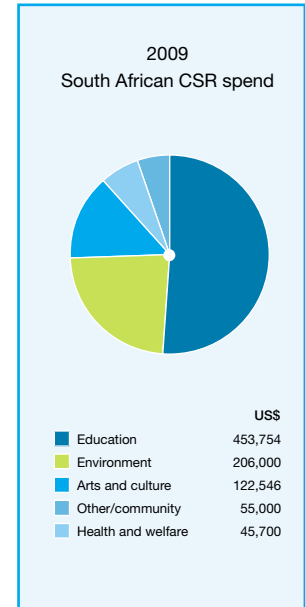
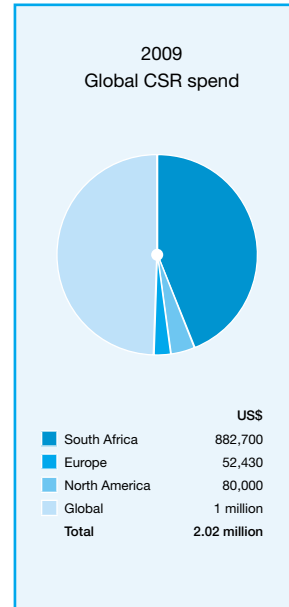
Suppi's approach to Corporate Social Responsibility

We invested US\$2.02 million as part of our Corporate Social Responsibility (CSR) programme to support the developmental aspirations of the communities within which we operate.

Good business practice includes support for the social and developmental aspirations of the societies and communities in which we operate. Our funding objective is to effect meaningful change by providing equitable access to resources and opportunities in response to identified needs in areas where we operate. We adopt an involved, participatory approach firstly identifying the needs of individual communities, secondly consulting extensively with the community, its leaders and with local government and then tailoring appropriate programmes to meet the specific needs of the people and the environment. In this way, projects become more sustainable and self-sufficient.

Our support of the communities where we have an impact has prioritised educational, environmental and cultural projects. Our charitable donations are geared towards issues of importance to our staff such as cancer, HIV/AIDS and tuberculosis. The majority of Suppi's CSR spend takes place in South Africa, given the development needs of the country.

In 2009, we spent US\$2.02 million on CSR projects, despite our operating loss.



Currently, we address the majority of our funding to:



Literacy Addressing illiteracy; helping create a culture of reading; encouraging the use of libraries.



Education Primary and high school, focused on mathematics, science, technical skills and English; and support for teacher training.



Environment Environmental and wildlife conservation, education, preservation and rehabilitation programmes.



Arts and culture Programmes and activities which provide opportunity for talent to be developed, in particular when in conjunction with public events in natural surroundings (such as botanical gardens).



Health and welfare Community programmes, with a particular focus on HIV/Aids in South Africa.



Engaging with stakeholders openly and constructively

Our focus is on understanding our customers' needs and building trust by engaging with them and other stakeholders on the basis of transparency and integrity. Our stakeholders and the ways in which we engage with them are set out below.

	Specific needs	Our approach
Employees	Organisational developments	<p>Sappi conducted employee engagement surveys in 2007 and again in 2009. Results were communicated to employees (discussed on page 39). In addition, the following channels ensure effective communications:</p> <ul style="list-style-type: none"> • Global and regional newsletters. • Global intranet • Letters and presentations by the group CEO as well as regional CEOs • Ongoing consultation with trade unions
	Channels through which concerns and grievances can be discussed	In addition to grievance mechanisms, the Sappi Hotlines in each region allow employees to report breaches of the Code of Ethics in full confidentiality.
	Information about health and safety	In addition to ongoing safety training is conducted at all operations, there are comprehensive general health and wellbeing programmes in place modified to suit the needs of each particular unit
	Information about sustainability	<p>In 2009, we focused on educating every Sappi employee about sustainability. This was achieved through a global roll out and the release of various internal communications (detailed on page 25 of this report)</p> <p>In North America the region has developed a group of Sustainability Ambassadors with personnel at each location to help exchange information on sustainability goals and various key sustainability initiatives</p>
Government and regulatory authorities	Join forces to deal with matters of mutual concern.	<p>In South Africa, Sappi engaged extensively with government in the development of a Broad-based Black Economic Empowerment (BBBEE) Forestry Sector Charter which was finalised in 2008.</p> <p>Consultations take place on an ongoing basis with environmental licensing authorities.</p>
Industry	Join forces to deal with matters of mutual concern.	<p>In each region where we operate, we are active members of industry association such as AF & PA (American Forests and Paper Association), CEPI (Confederation of European Paper Industries) and PAMSA (Paper Manufacturers Association of South Africa). These organisations engage with other industry members and, where necessary, engage with governments and regulatory authorities on the industry's behalf.</p> <p>In South Africa we are a founder member of the NBI (National Business Initiative). The NBI is the local champion of the UN Global Compact, which we signed in 2008.</p> <p>Sappi Limited is a member of WWF.</p> <p>Our technology centres work with universities and other industry members to overcome specific challenges.</p>



Engaging with stakeholders openly and constructively continued

	Specific needs	Our approach
Communities	Information and issues relating to specific communities in which our operations are situated.	<p>Environmental issues: In South Africa, there are environmental liaison committees at many of the mills and forestry operations. These committees include members from various regulatory authorities, residents' associations, conservancies, municipal representatives and non-governmental organisations (NGOs). Members of the public and other parties participate in the environmental impact assessments (EIAs) conducted before the start of any project.</p> <p>Social issues: Engagement takes place in South Africa as regards the social needs in the communities in which the Company's operations are situated.</p>
Customers	A partnership approach, whereby customers feel that their needs and concerns are heard and reacted upon.	<p>Externally appointed consultants conduct regular customer surveys, but the results are considered highly confidential and are not externally communicated. In addition to customer satisfaction targets related to price, service and quality, Sappi has established complaints targets per mill and paper type. Product specialists in the mills deal with complaints and provide feedback to the production units. Regular meetings are held with customers to determine their product needs as well as their needs in relation to emerging trends.</p> <p>In North America, a Sustainability Customer Council has been established as part of the regional corporate governance for sustainability.</p>
	Initiatives to promote design and print.	Life with Print series and technical brochures, available on our website www.sappi.com/Initiatives .
	Information about print generally and more specifically, the fibre sourcing and production processes behind our brands.	In Europe and South Africa we publish Paper Profiles and information sheets for our papers. These give details regarding the composition of our papers, as well as key environmental parameters related to our pulp and paper production processes and information on environmental management systems and wood fibre sourcing policies. In North America, we use Metafore's Environmental Performance Assessment Tool (EPAT) which enables buyers to evaluate our performance on a mill by mill basis.



	Specific needs	Our approach
Investors	Timeous, relevant communication that facilitates informed decisions.	<ul style="list-style-type: none"> • Mill visits • Road shows • Quarterly results presentations and other ongoing presentations • One-on-one presentations • Annual report, sustainability report, 20-F report for US investors • Stock Exchange News Wire Services (SENS) • Media release and the internet
Suppliers	General: Understanding what is required to establish a mutually beneficial relationship.	In 2009, we established a supplier policy and questionnaire. http://sappi.investoreports.com/sappi_sdr_2009/downloads/Sappi_group_supplier_policy.pdf
	Specific: Both customers and suppliers had questions related to the integration of the M-real mills acquired in 2008.	We responded by setting up a web-based question and answer facility whereby customers and suppliers could raise questions, concerns and issues about the integration process platform.
Other	General questions about our Sustainability Report.	We set up a report-back mechanism on our website.

Support of global policy for climate mitigation

In 2009, we signed the **Copenhagen Communique on Climate Change**.



Sappi employees at work



Treading more lightly on the Planet

by balancing our needs with our impact on the Earth

While making products that support society's needs, we strive to achieve the highest standards of environmental performance. Forests are essential to a healthy environment, sustaining vital plants and wildlife, filtering our water and air, and reducing greenhouse gases by removing carbon dioxide from the atmosphere. Forests are also an economic resource, providing a plentiful, renewable natural material that we use responsibly to produce our products, many of them recyclable.

Our Charter commitments

This report covers three of our six Planet Charter commitments in detail and gives a brief overview of the other three. An expanded section of this report can be found on our website.



Reducing greenhouse gas emissions and increasing our use of renewable energy



Safeguarding biodiversity by promoting sustainable forestry



Continuing our commitment to independent environmental, wood and fibre certification systems



Reducing solid waste and improving water quality

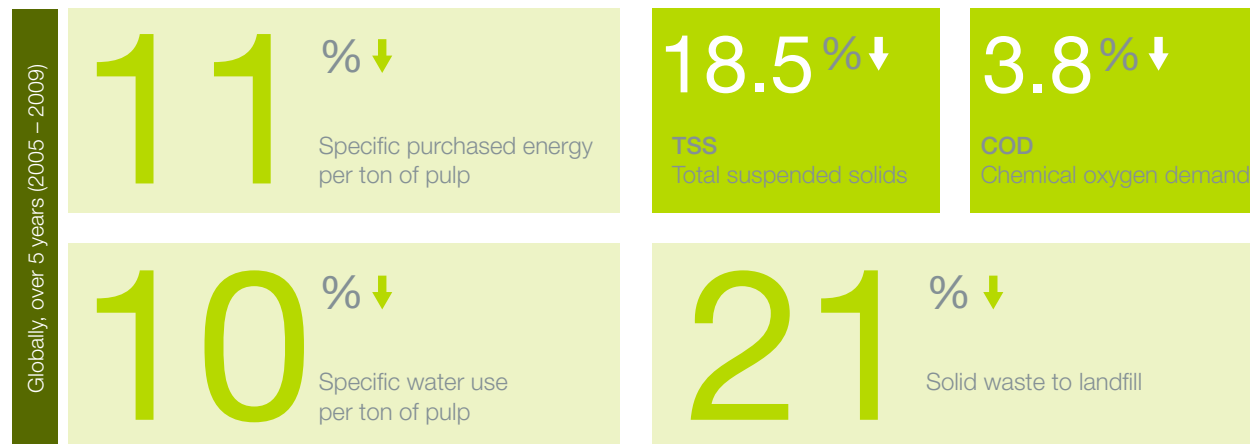


Promoting the recovery and use of recycled fibre



Conforming with best environmental practice and legislation

Key features



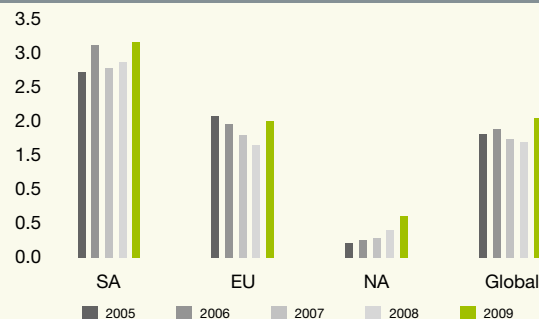
Unless otherwise indicated, all data is given in specific form. This means that the actual quality consumed during the year indicated, whether energy, water, emissions or solid waste, is expressed in terms of a production parameter. For Sappi, as with other pulp and paper companies, this parameter is air dry tons of product. (The term 'tons' is used in this report to denote a metric ton of 1,000kg).



Reducing greenhouse gas emissions and increasing our use of renewable energy

In the last few years, climate change has become a key agenda item for consumers and businesses around the world.

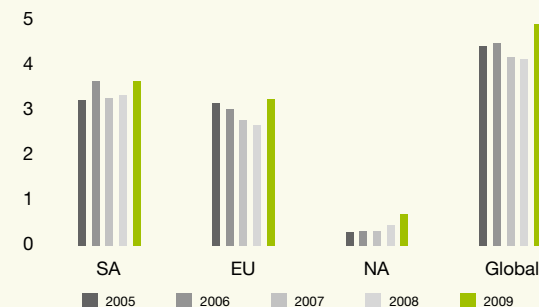
EN-3 Direct energy - specific purchased power (GJ/adt)



Purchased power for Sappi's mills in North America is low as they generate approximately 83% of their own power on site. All regions experienced very similar increases in purchased power in 2009, due to reduced production. Generally, in such circumstances, energy consumption does not reduce at the same rate as production as energy is still required to keep mills on standby during periods of reduced or zero production.

Sappi's focus on reducing its carbon footprint pre-dates this current focus by many years. As far back as 2000, Sappi instituted a system for measuring greenhouse gases (GHGs), based on the premise of 'measure, monitor, manage and mitigate'. Since that time, one of our key strategic goals has been to reduce our carbon footprint by improving energy-use efficiency and decreasing our reliance on fossil fuels. This has been achieved through numerous actions which include reducing purchased energy (electricity and fossil fuel) and by increasing the use of renewable energy – an approach which ultimately results in a reduction in GHG emissions.

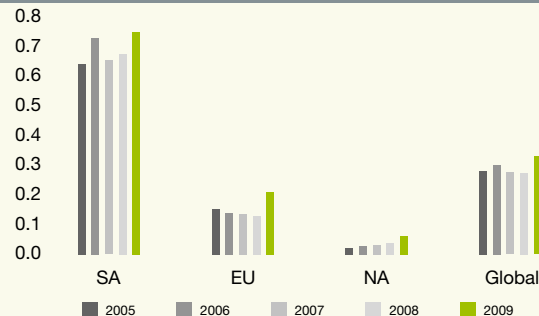
EN-4 Specific indirect energy (purchased power and steam)



For Sappi, purchased power and steam are the only energy types that fall under the indirect energy category. As the quantity of purchased power is much greater than purchased steam, this graph is very similar to the EN3 graph – purchased power and the explanations for this figure apply to EN4.

To entrench this approach, mill management have energy reduction targets (which in themselves result in GHG reductions) and achievement of those targets is linked to remuneration. At group level executives having responsibility for the mills also derive financial rewards associated with GHG reductions.

EN-16 CO₂ emitted from production of purchased power (ton/adt)



The soundness of our long-standing strategy was recognised when we were ranked fifth in the South African Carbon Disclosure Project 2009 Leadership Index, based on the quality of our disclosure. We were also included in the first-ever Leadership Index of 16 companies in terms of actual performance for climate mitigation and adaptation actions. (No ranking was provided in this regard.)

The carbon sequestration of our tree plantations, high percentage of renewable energy we generate, cogeneration and energy initiatives, together with the biofuel potential inherent in our processes present significant opportunities for us in meeting these goals.



Reducing greenhouse gas emissions and increasing use of renewable energy continued

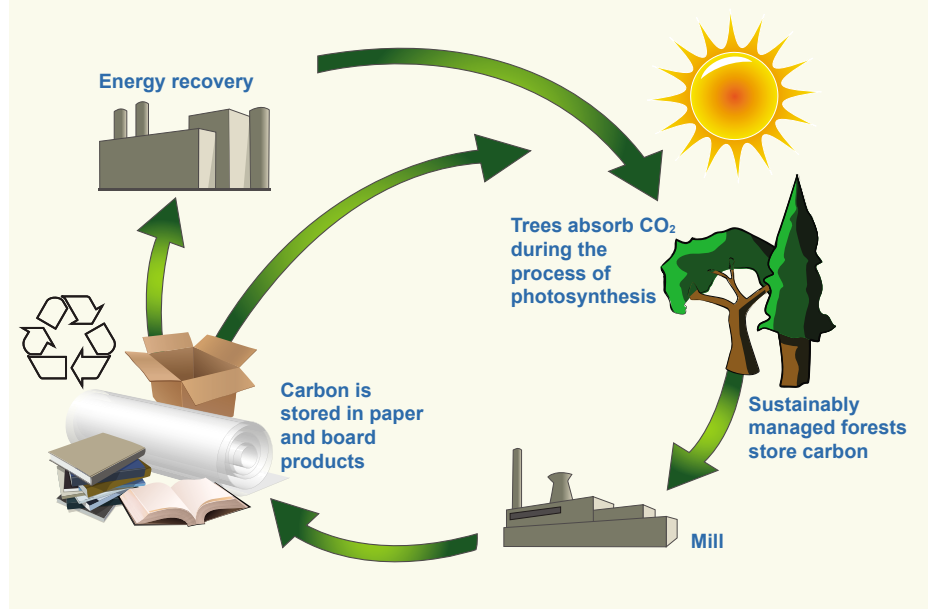
Carbon sequestration

According to the Intergovernmental Panel on Climate Change 2007 (IPCC), Fourth Assessment Report, "In the long term, a sustainable forest management strategy aimed at maintaining or increasing forest carbon stocks, while producing an annual sustained yield of timber, fibre or energy from the forest, will generate the largest sustained mitigation benefit".

At Sappi, we use internationally recognised certification systems (PEFC, SFI®, FSC and EMAS) to ensure that the land we own and lease as well as the land from which we procure wood is certified as being sustainably managed.

As the world looks for fossil-free alternatives and materials, the fact that we manufacture recyclable products produced from renewable resources grown in sustainably managed forests gives us a competitive advantage. There are many different methods of calculating the carbon sequestration of plantation forests. As with carbon footprinting, there are various methodologies and we are currently reviewing these.

Paper industry carbon cycle



How do forests and paper products mitigate climate change?

Paper is not only renewable, but forests, be they natural or plantations, mitigate climate change by sequestering carbon from the atmosphere and storing it as biomass. This is recycled to the atmosphere when the biomass is harvested or burnt – a process 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.

Wood products and the wood fibre in paper also store carbon throughout their lifetime. Forests only contribute to net carbon emissions when they are logged, converted or burned at a faster rate than they grow back. Incineration of wood based fuels (eg biomass and black liquor) from a sustainably managed forest landscape can be considered carbon neutral if, as with Sappi, logging is balanced with re-growth.

Assessing our carbon footprint

In Sappi and Sustainability 2008, we reported that we were assessing several methodologies for ascertaining carbon footprint in the absence of a global standard for the industry. Our focus has been on finding a technologically sound, transparent methodology in order to provide our stakeholders with credible information.

This is becoming increasingly important in view of the world-wide trend to basing product choice on carbon footprint – even in instances where the methodology used is not credible. Our products are inherently renewable and sustainable and assessing our carbon footprint across the supply chain will help to entrench this fact with all our stakeholders.

It still remains unclear what global standard will emerge as most relevant to our customers world-wide. In 2010, we will continue to assess standards such as: the PAS 2050 from the British Standards Institute, The Carbon Footprint Framework for paper and board products developed by the Confederation of European Paper Industries (CEPI) and the Greenhouse Gas Protocol developed by the World Resources Institute and the World Business Council for Sustainable Development. Our intention is to seek input from our stakeholders regarding these various standards.

Renewable energy

During the pulp and paper manufacturing process, carbon dioxide (CO_2) is produced from the consumption of coal, gas and oil, as well as a range of renewable fuels such as black liquor and combustible sludges, whether this results in the production of steam, heat or electricity.

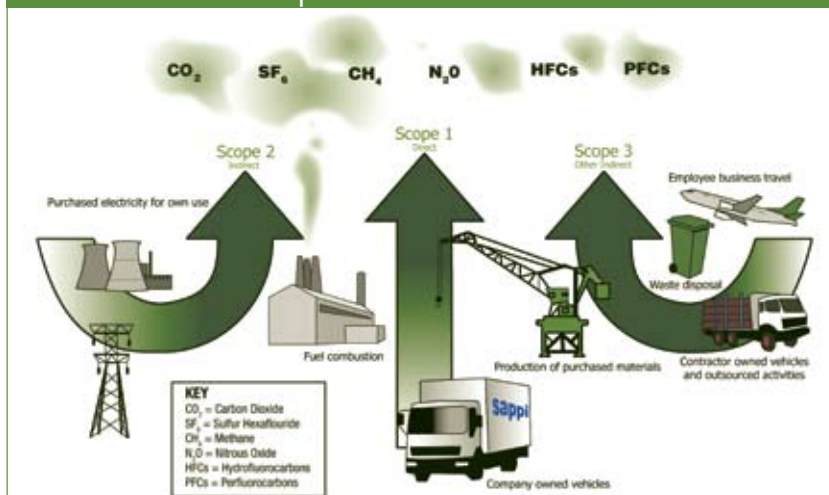
As previously noted, incineration of wood fuels can be considered carbon neutral as long as the wood is derived from sustainably managed forests. In the countries where Sappi operates, electricity generation is partially based on the consumption of fossil fuel and this has obvious carbon implications. However, this is balanced by the high percentage of renewable energy used in Sappi's mills.

In North America, more than 83% (industry average: 64%) 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 41% (in this region, Sappi sets the industry average) and for Europe is 30% (industry average: 52%), with Sappi's global figure standing at 50%. The figure for South Africa will increase in 2010, due to the fact that the Amakhulu expansion project at Saiccor Mill is now fully on stream.

The reason for the much higher percentages of renewable energy in Sappi's mills in North American and South Africa than in Europe is that a much greater proportion of our product originates from Kraft type integrated pulp

and paper mills. These mills typically have a higher degree of energy self-sufficiency than mills with different processes or those that only produce paper, as the black liquor (dissolved organic compounds from wood) created during the manufacture of pulp is a biofuel and a primary source of renewable fuel for steam and power production. However, in Europe we operate combined heat and power (CHP) plants at some of our European mills, a process which is more efficient than conventional electricity and heat generation systems. 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.

Our carbon footprint





Safeguarding biodiversity by promoting sustainable forestry

Climate change is exacerbating the challenges inherent in sustainable forestry.

Our efforts to achieve this Charter commitment were extensively detailed in Sappi and Sustainability 2008. The information had not changed materially at the time of writing Sappi and Sustainability 2009. Please go to page 47 of Sappi and Sustainability 2008 for further details.

A significant issue, not detailed to any great extent in last year's report, is the impact of climate change on sustainable forestry and this is discussed below. Our efforts to safeguard biodiversity by working with the South African National Biodiversity Institute (SANBI) are also discussed opposite.

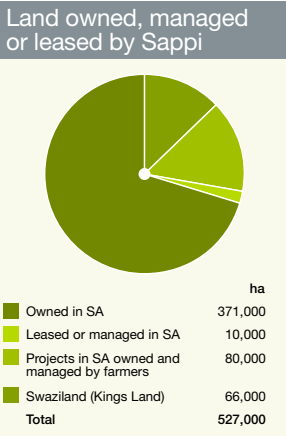
Promoting sustainable forestry

Climate change is exacerbating the challenges inherent in sustainable forestry. We have become proactively involved in risk mitigation measures, described in further detail at http://sappi.investoreports.com/sappi_sdr_2009/planet/safeguard-biodiversity-by-promoting-sustainable-forestry/.

Working with SANBI

In 2004, South Africa's grasslands biome was identified in the National Spatial Biodiversity Assessment as a biodiversity priority area in need of urgent conservation action. In response, the South African National Biodiversity Institute (SANBI) launched its National Grasslands Programme to mainstream biodiversity best practices into sectors to avoid losing remaining grasslands. Commercial forestry was identified as one of the sectors that could assist SANBI in these efforts. A task team of conservation agencies, government departments, environmental non-governmental organisations (NGOs) and representatives of forestry companies – including Sappi – are looking at ways to design projects and proactively conserve, improve and avoid transformation of the 500,000 hectares of grassland that occur on forestry land throughout South Africa.

We are working with SANBI to make seven (at this stage) of our grassland areas available for conservation through SANBI's grasslands programme. Each area will be thoroughly assessed before any final decisions are taken.



Pest attacks and disease:

- Hardwoods** We are addressing eucalypt disease issues through our membership of the Eucalyptus Genome Network (EUCAGEN) which is aimed at decoding the Eucalyptus genome. We have also conducted extensive research in to the Cossid Moth which was found to be extensively damaging mature Eucalyptus nitens in the province of Mpumalanga, and implemented mitigation measures.
- Softwoods** Pinus patula occupies about 65% of Sappi's softwood landholdings, yet the sustainability of this species is being threatened by disease caused by the fungal pathogen, Fusarium circinatum. Further details can be found on pages 35 of Sappi and Sustainability 2008.
- Drought** We have been conducting research over 15-20 years into the effect of reduced rainfall on the annual increment yield of sample eucalyptus plants to facilitate our long-term planning. We are looking at alternative species which are more drought resistant.
- Maximising fibre yield** We are investing significant research efforts to maximize yield from our raw materials both in energy and in fibre for papermaking. These efforts include tree breeding to maximize fibre yield to improve pulping processes to increase yield from our digesters, and papermaking innovations to reduce the amount of fibre required for our sustainable products.



Continuing our commitment to independent environmental, wood and fibre certification systems

In every region where we operate, we have strict procurement policies.

Our procurement policies cover a wide variety of issues, including the management of plantation forests and harvesting. We do not procure wood fibre from endangered forests anywhere in the world. In Southern Africa, wood is sourced from our own plantations and other growers in the region. Sappi does not use indigenous wood in this region. Sappi does not own plantations in North America or Europe but procures wood from both certified and controlled sources.

Sappi has achieved certification by the three internationally recognised forest products certification programmes, those of the Forest Stewardship Council (FSC), the Sustainable Forestry Initiative (SFI®) and the Programme for the Endorsement of Forest Certification (PEFC).

We do not endorse one certification as 'better' than another. Rather, our goal is to use as much independently certified wood as possible. To accomplish this, we have pursued certification by the FSC, SFI® and PEFC and have achieved certification from each of these independent, third party organisations at our manufacturing sites. (See also key material issues on page 19-24 of this report.)

In terms of sales, ISO 14001 certification covered 98% of the company for the year ended September 2009 (2008: 96%). Go to http://sappi.investoreports.com/sappi_sdr_2009/planet/continue-our-commitment-to-independent-environmental-wood-and-fibre-certification-systems/ for details of our ISO14001 and forest systems certification.



Why is forest certification important?

Forest certification gives the consumer the assurance that the products they are buying have been legally logged in accordance with sound environmental practices and that social aspects such as indigenous rights have been taken into consideration.

Certification is applicable to fibre and manufacturing sites. There are two types of certification: The first is forest certification which assures that forests and plantations producing wood products are managed according to a set of criteria aimed at responsible management. The second is Chain of Custody (CoC) certification which tracks and assures process wood products originate from certified forests and plantations.



Forestland, Europe



Reducing solid waste and improving water quality

Globally, over five years, we have reduced the amount of solid waste we send to landfill by 21% and reduced specific water use by 10%.

Every ton of pulp produced results in 0.30 tons of solid waste, comprising biomass, lime mud from the pulping process, residuals in wastewater such as plant matter and pigments, as well as boiler ash. Globally, over five years, we have reduced the amount of solid waste we send to landfill by 21% and reduced specific water use by 10%.

Our focus is on minimising end-of-pipe waste and adding value to by-products. This not only helps to mitigate environmental impact, but also generates additional revenue.

The least desirable method of solid waste disposal from an environmental perspective is to discharge organic waste to a landfill site which can emit

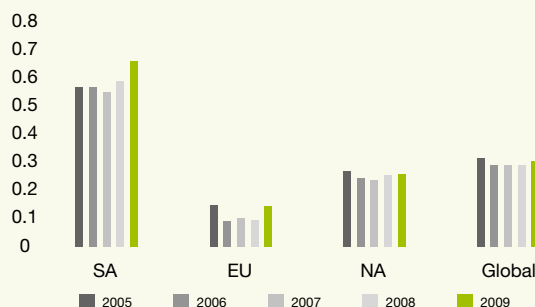
methane, a greenhouse gas with approximately 21 times the global warming potential of CO₂. A more favourable method is for biomass-based waste to be used as a fuel for onsite heat recovery. However, as can be seen from the pie chart below, most of the solid waste generated is in the form of boiler ash which has a direct correlation with the type and quality of fuel used. For example, if the coal used is of a poor quality, a higher amount of boiler ash will be produced. This is a problem from time to time in South Africa, due to variable quality of coal.

Research

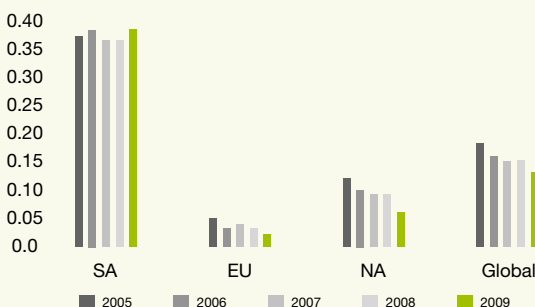
Our research centres and technology experts are looking into ways to increase revenue through by-products. One such avenue is further stripping of the effluent at Saiccor Mill and use of the recovered sugars in the effluent to produce ethanol and furfural which is used as a solvent and as a fungicide and weed killer, as well as xylose which is used in sweeteners and also for dyeing and tanning. A comprehensive study has already been completed for the furfural extraction.



EN-22 Specific total solid waste (ton/adt)



EN-22 Specific total landfilled solid waste (ton/adt)



Improving water quality

Referring to the world's mounting water stress, the UNDP Development Report 2006 states, "Put bluntly, the world is running down one of its most precious natural resources and running up an unsustainable ecological debt that will be inherited by future generations". (<http://hdr.undp.org/en/media/HR2006>)

In the regions where we operate, water is of concern in South Africa, where water resources are extremely limited. However, concerns about water are not confined to this region. In Europe, for example, in 2009 CEPI has joined the European Water Partnership (EWP) as their first federation member.

The EWP's mission is to give water one common voice in Europe and to provide an open, independent forum to discuss innovative management, technological and financial solutions. Another 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.

Water is essential in papermaking to produce the fibre that becomes the sheet of paper. It's also an integral part of the steam systems which generate energy. Recognising the pressure on a finite resource that is core to our processes, we focus on reducing consumption, recycling extensively within the manufacturing process and improving the quality of the effluent we discharge.

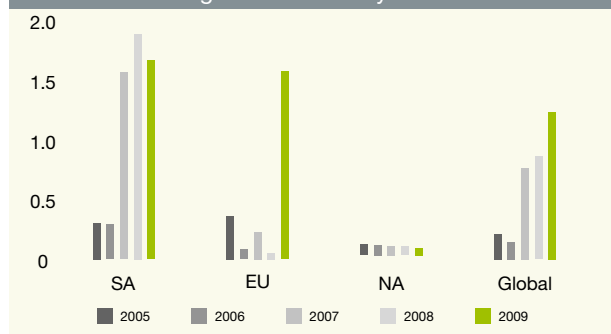
Water use in forests

In South Africa, the National Water Act (Act No 34 of 1998) declared timber plantations to be stream flow reduction activities (SRAs). As SRAs, all existing plantations must be registered as water users and licensed. All our owned, managed and leased plantations in this region are licensed. The general perception is that timber plantations use vast amounts of water. However, commercial forestry plantations account for a little less than 3% of total water use in South Africa by reducing runoff into rivers and streams while irrigation for agriculture accounts for approximately 62% of water used. Unlike other agricultural activities, we do not irrigate but pay what essentially amounts to a 'rainfall' tax.

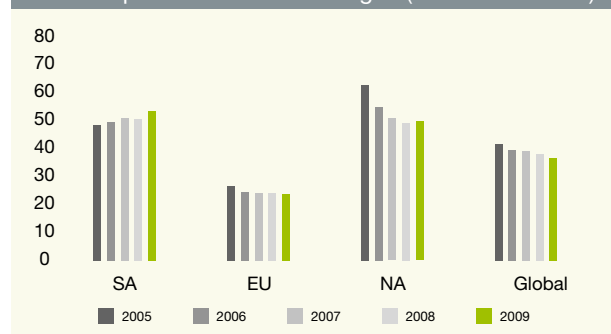


Sappi forests, South Africa

EN-10 Percentage of effluent recycled



EN-21 Specific effluent discharged (cubic metres/adt)





Reducing solid waste and improving water quality continued

Water use in mills

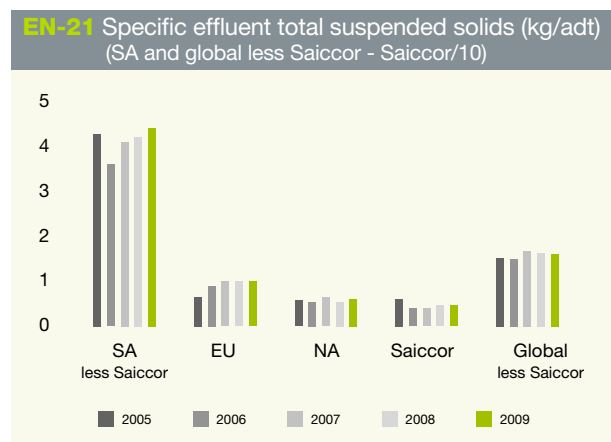
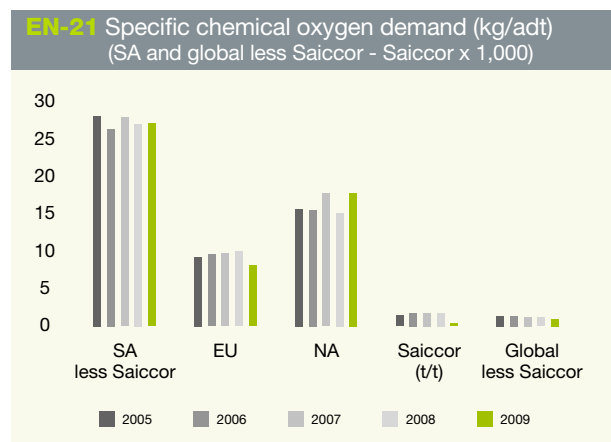
As with pulp and paper mills generally, our mills are situated in the vicinity of rivers, from which we extract water. In North America and Europe, withdrawal and discharge of water is monitored by legislation. In Southern Africa, only Adamas and Enstra Mills, which use 70% and 50% recycled sewage water respectively, pay for water.

At all mills we use sophisticated measures such as temperature controls, oxygen level controls and other metrics to ensure that we comply with statutory regulations and that we minimise our environmental impact. Non-integrated mills which rely on purchased pulp use far less water than integrated pulp and paper mills. Consequently, our total water use is lower in Europe than in North America and South Africa, where we operate more integrated mills. As with water use, effluent discharge is closely linked to the degree of pulp integration. We return approximately 90% of the water that we extract to the environment mostly to rivers from whence it was extracted or for agricultural irrigation purposes.

The quality of the effluent we discharge is measured in terms of oxygen demand (either BOD or COD) and total suspended solids (TSS). We are constantly looking at ways of improving the quality of

our effluent. At Gratkorn Mill, for example, the installation of an anaerobic reactor to the waste water treatment plant in 2009 has reduced the chemical oxygen demand (COD) of the water and increased the production of biogas. In addition, all our South African mills have embarked on 'at source' water reduction projects. These aim to reduce water consumption where it is actually used, rather than to accept the effluent as discharged and trying to improve its quality.

We are making steady progress in reducing the amount of water we use and improving its discharge quality. Globally over five years, total specific (ie per ton of pulp and paper produced), water use has declined by 10% and the quality of our effluent has improved – indicated by a decrease in total suspended solids (TSS) and chemical oxygen demand (COD) by 18.5% and 3.8% respectively.





Promoting the recovery and use of recycled fibre

Despite our focus on coated fine paper, we use a significant percentage of recycled fibre.

Westbrook Mill Re-using cores

Westbrook Mill produces specialised casting release paper, which is used to provide the surface aesthetics found in coated fabrics and decorative laminates. In May 2009, the mill identified a way to reduce its waste by re-using five inch cores, which are used for in-mill processing and finished rolls. The cores have historically been replaced and disposed of after a single use. Instead, the mill took on an innovative approach and worked closely with its recycling partner, Land Reclamation Inc. (LRI), to identify ways to recover the remaining paper on the processed cores and evaluate the potential for re-using each core. Cores that were deemed reusable were put back into circulation at the mill.

During the first month of this programme, the approximately 750 cores were saved and re-used at an average price of US\$20 per core. As a result, these efforts have continued with an annualized savings of approximately US\$180,000 and illustrate how environmental responsibility and prosperity can work in tandem.

Cape Kraft Mill runs on 100% recycled fibre, while Adamas, Ngodwana, Tugela and Cloquet Mills use 68.3%, 5.2%, 18.46% and 4.9 % respectively. Use of recycled fibre increased from 19.1% to 20.3% in 2009.

In 2009, we geared up to use additional recycled fibre at Tugela Mill, but did not use this extra capacity as demand dropped. We offer customers a wide range of products containing recycled fibre.

North America

All Sappi Fine Paper North America's fine paper sheet fed products can be manufactured with at least 10% post-consumer waste (PCW).

Opus® sheet and web products are available in a variety of finishes with up to 30% PCW content.

Flo and Somerset Web can be manufactured with 10% PCW upon request.

Europe

Royal Roto™ Recycled feels and performs exactly like a virgin fibre paper but contains a minimum of 50% post-consumer waste and 20% FSC-certified pulp.



Casting release papermaking, Westbrook Mill, United States of America

South Africa

Cape Kraft Mill uses 100% recycled fibre (35% post-industrial and 65% post-consumer waste paper), producing linerboard and corrugating medium, which is sold principally to the corrugating industry;

Board, text and cover grades include: Reviva, 100% recycled non de-inked text and cover grade Uniqa, a blend of recycled (pre- and post-consumer waste) and bagasse (sugar cane waste) text and cover grade;

Express Mail, Fluting, Microfluting and Jason Natural;

Typek® Recycled is a standard office paper incorporating 30% post-consumer waste and 20% post-industrial waste; and

Triple Green™, a range of high quality coated fine paper and tissue wadding products produced from bagasse and wood fibre at Stanger Mill.



In-store display of Typek® Recycled, South Africa



Conforming with best environmental practice and legislation

Our approach to environmental management

A technical manager and an environmental manager at each operation monitor legal compliance (emissions, solid waste and effluent). In addition, there are a number of internal 'clusters' comprised of experts in various fields. These clusters, which are tasked with establishing best practice across a broad variety of disciplines, as well as driving and monitoring performance.

In addition to internal standards, Sappi uses external benchmarks to monitor environmental performance and ensure compliance with best practice. In terms of energy, for example, we use best practice energy consumptions indicated by the Technical Association of Pulp and Paper Industries (TAPPI) in the United States of America, Pulp and Paper Technical Association of Canada (PAPTAC) and CEPI. The Swedish Kretsloppsanpassad Massafabrik (KAM) organisation has indicated what the best practice energy consumption for an entire mill should be for various mill types.

While performance against these parameters is not externally audited, a dedicated energy and emissions specialist monitors the accuracy, reliability and consistency of the data provided by the operations. Targets are monitored on a quarterly basis.

Not only our production processes, but also our products, are strictly regulated by legislation and external standards. Details are given in Sappi and Sustainability 2008 (Prioritising wellbeing, safety and health), page 38.

Key performance indices include the following:

	Specific purchased power
	Specific purchased fuel
	Specific total power consumed
	Specific total fuel consumed
	Percentage power generated from renewable fuel
	Percentage energy used originating from renewable fuel
	Percentage of waste that can be combusted for heat gain compared with that which can potentially be combusted for heat gain
	Percentage of usable energy to total energy (the energy in its final form that it is used in processes compared with the purchased and generated energy entering the operation)
	Specific CO ₂ emissions from fossil fuels combusted in operations
	Specific CO ₂ emissions from renewable fuels combusted in operations
	Specific CO ₂ emissions from purchased fossil based energy

Environmental legislation

Details of the environmental legislation with which we comply can be found in our annual report on Form 20-F 2009, pages 45 – 47.

In 2008, we reported that Ngodwana Mill had been audited by a government environmental management inspection team (also known as the Green Scorpions) as well as other officials and an expert from the United Kingdom Environmental Agency. At year end, we were still awaiting the results of this inspection. The Green Scorpions also audited Enstra Mill in 2009. We will report on these outcomes in our next report.

Last year we also reported on amendments to the Lacey Act which bans commerce in illegally sourced plants and their products. The law requires importers to declare the country of origin of harvest and species of all plant material in products entering the USA, in the form of declarations to US Customs. Non-compliance

carries heavy penalties. On or after 01 September 2010, importers will be required to submit declarations for imported coated paper and other paper products. Penalties may be imposed for non-compliance.

Sappi Fine Paper North America is conducting appropriate due diligence to ensure that the importers of wood and pulp that supply our mills comply with the Act. In addition, our forest management certification systems (detailed on page 13) offer assurance that domestic wood sources are legally harvested. We are also the importer of record for products from Sappi Fine Paper Europe and are working with our sister company to ensure that electronic declarations are timeously filed. Papers imported through Sappi Fine Paper Europe include Galerie Publishing Paper, Galerie Art XP and Galerie Art Web, HannoArt, Magno and EuroArt Plus.



Sappi forests, South Africa



Glossary of terms

ABET – adult basic education and training

AF & PA – American Forest and Paper Association

air dry tons (ADT) – the industry standard is 90% fibre and 10% moisture

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

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

CEPI – Confederation of European Paper Industries

chemical cellulose (dissolving pulp) – highly purified chemical pulp intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament

chemical oxygen demand (COD) – untreated effluent is generally high in organic matter. COD is the amount of oxygen required to break down the organic compounds in the effluent

chemical pulp – a generic term for pulp made from wood fibre that has been produced in a chemical process

CHP – combined heat and power

coated fine paper – coated paper made from chemical pulp. Also referred to as coated free sheet

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

contractor – refers to an independent employer of self-employed person performing work for Sappi, excludes temporary or fixed-term employees

CSI and CSR – corporate social investment and corporate social responsibility

elemental chlorine free (ECF) – refers to bleaching sequences in which no chlorine is used

EIRIS – is a leading global provider of independent research into the ethical governance of companies, as well as their social and environmental performance

EMAS – a voluntary clean citizenship initiative of the European Union, constituting the highest environmental standards in Europe and requiring environmental stewardship, determined continuous improvement and detailed public reporting

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

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

Forest Stewardship Council (FSC) – in terms of the FSC scheme, there are two types of certification. In order for land to achieve FSC endorsement, its forest management practices must meet the FSC’s ten principles and other assorted criteria. For manufacturers of forest products, including paper manufacturers like Sappi, Chain-of-Custody (CoC) certification involves independent verification of the supply chain, which identifies and tracks the timber through all stages of the production process from source to end product

Green-e – an independent consumer protection programme created by the Centre for Resource Solutions for the sale of renewable energy and greenhouse gas reduction (www.green-e.org)

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

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

IUCN – the World Conservation Union

kraft paper – packaging paper (bleached or unbleached) made from kraft pulp

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

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

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

Lost-Time Injury Frequency Rate (LTIFR) –

$$\text{LTIFR} = \frac{\text{number of lost time injuries} \times 200,000}{\text{manhours}}$$

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

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

mechanical pulp – pulp produced by means of the mechanical grinding or refining of wood or wood chips

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

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

OHSA – occupational health and safety association

packaging paper – paper used for packaging purposes

PAMSA – Paper Manufacturers Association of South Africa

PEFC – the world's largest forest certification system, the PEFC is focused on promoting sustainable forest management. Using multi-stakeholder processes, the organisation develops forest management certification standards and schemes which have been signed by 37 nations in Europe and other inter-governmental processes for sustainable forestry management around the world

pulpwood – wood suitable for producing pulp – usually not of sufficient standard for saw-milling

red data list – a global index of endangered species published by the World Conservation Union

release paper – backing paper for self-adhesives and/or paper used to impart designs on or to polymers, eg artificial leather

sackkraft – kraft paper used to produce multiwall paper sacks

SMMEs – small, medium and micro enterprises

solid waste – dry organic and inorganic waste materials

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

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

tons – term used in this report to denote a metric ton of 1,000kg

total chlorine-free (TCF) – refers to bleaching sequences in which no chlorine containing compounds such as chlorine dioxide are used

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

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

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