

Remuneration Report continued

Section A: Voting, focus and compliance statement

Statement of voting at AGM

The AGM of Sappi Limited was held on 05 February 2020 and the requisite resolutions endorsing the remuneration policy and the implementation report were passed as follows:

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

For	Against	Shares voted	Abstain
382,840,772	94,397,852	477,238,624	1,113,018
80.22%	19.78%	100.00%	

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

For	Against	Shares voted	Abstain
396,648,844	80,595,780	477,244,624	1,107,018
83.11%	16.89%	100.00%	

At the February 2019 AGM, the results for the requisite ordinary resolutions endorsing the remuneration policy and the implementation report were 95.94% and 93.43% respectively.

Human Resources and Compensation Committee

The purpose of the committee is to oversee remuneration matters for all controlled subsidiaries of Sappi Limited. Its key objectives are to:

- Make recommendations on remuneration policies and practices, including Sappi's employee share schemes
- Ensure effective executive succession planning
- Review compliance with all statutory and best practice requirements on labour and industrial relations management

The committee consisted of four independent non-executive directors:

- Mr MA Fallon – Chairman
- Mr B Beamish
- Mr NP Mageza
- Mr RJ Renders

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

Mrs A Mahendranath, Company Secretary, attends the meeting as secretary to the committee.

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

Attendance at meetings by individual members is detailed on page 125.

None of the committee members has any significant personal financial interest, or conflict of interest, or any form of cross directorship, or day-to-day involvement in the running of the business.

Executive directors and managers are not present during committee discussions relating to their own compensation.

The Human Resources and Compensation Committee ensures that the compensation practices and structures within the group support the group's strategy and performance goals. The policy also enables the attraction, retention and motivation of executives and all employees.

The key activities of the committee during 2020 are summarised as follows:

Recommended and approved

- The malus and clawback provisions to be included in the long- and short-term incentive for prescribed officers
- The allocation of 2020 performance share awards to executive directors and all other eligible participants
- Salary increases and bonus payments for executive directors and other key senior managers for 2020
- Fee levels for non-executive directors of the Sappi Limited board for consideration and recommendation to shareholders for approval
- The allocation model and the comparator peer group for the 2020 performance share plan
- The 2021 Management Incentive Scheme rules
- Recommendation to shareholders for the re-set of the number of shares under the PSP, which the shareholders approved in February 2020

Reviewed

- The Remuneration Report, including the content of the company compensation policy and practices, which was put to shareholders for a non-binding vote at the Annual General Meeting in February 2020
- Development of the 2020 Remuneration Report for shareholder approval in February 2021
- The succession, retirement and development plans for key management positions
- The group's Industrial Relations Policy and implementation.
- The group's Training and Development Policy and implementation
- The HR2025 plan
- The investor feedback on the 2019 Remuneration Report
- Sappi's Covid-19 response and the impact on employees

Independent advice

Management engaged the services from the following organisations to assist in compensation work during the course of the year:

- Mercer Kepler, United Kingdom
- Korn Ferry, South Africa
- KPMG Inc, South Africa
- Bowmans, South Africa
- PricewaterhouseCoopers Tax Services, South Africa
- Herbert Smith Freehills South Africa LLP

Compliance statement

The Human Resources and Compensation Committee is committed to maintaining high standards of corporate governance and supports and applies the principles of good governance advocated by King IV Report on Corporate Governance for South Africa 2016 (King IV). Our remuneration approach and disclosures fully comply with regulatory and statutory provisions relating to reward governance in all the countries in which we operate. The committee ensures compliance with legal and regulatory requirements as they pertain to compensation.

The Human Resources and Compensation Committee is of the view that the objectives stated in the Remuneration Policy have been achieved for the period under review. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference and with the status of remuneration and incentives in the group.

Areas of focus for 2021

Key activities for the committee in 2021 will be, *inter alia*, the approval of the remuneration and bonuses for executive directors and senior management.

In addition to the annual work plan as approved by the committee, the chairman of the committee and senior executives from Sappi will, if required, also be visiting key shareholders to discuss issues of mutual concern.

Section B: Overview of the remuneration policy

Compensation strategy and policy

Our compensation packages:

- Are designed to attract, retain and motivate executives and all employees to deliver on performance goals and strategy
- Are simple, transparent and aligned with the interests of shareholders
- Reflect the views of our investors, shareholder bodies and stakeholders
- Are structured in a way that substantial rewards are only paid for exceptional performance and that poor performance does not earn an incentive award
- Encourage behaviour consistent with the group's risk and reward philosophy
- Have an appropriate and balanced reward mix for executive directors and other executive managers based on base pay, benefits and short and long-term incentives within the context of the industry sector
- Are applied consistently across the group to promote alignment and fairness
- Through the deferred shares bonus plan, provide for a voluntary deferral of 40% of the Chief Executive Officer's annual bonus, and 30% of the executive managers' annual bonuses (to purchase Sappi shares), to ensure a long-term focus on the company's performance by the individual concerned and establish a personal stake in the company
- Are designed to pay at the market median for all components of pay, except for short-term incentives, which are targeted at the 75th percentile.

Remuneration Report continued

Summary of reward components of executive directors and other members of the group executive committee

The compensation of executive directors and other executive committee members comprises fixed and variable components.

Purpose	Structure	Opportunity
Fixed		
Component – Base salary		
<ul style="list-style-type: none"> To reflect market value of the role, individuals' skills, contribution, experience and performance To attract and retain key talent 	<ul style="list-style-type: none"> Paid monthly in cash Reviewed annually with any increases to be effective from 01 January each year Base salary reviews take into account prevailing market practices, economic conditions and the levels of base salary increase mandates provided to the general employee population 	<ul style="list-style-type: none"> Increases are applied in line with outcomes of performance discussions with the individuals concerned and market conditions
Component – Benefits		
<ul style="list-style-type: none"> To provide protection and market competitive benefits to aid recruitment and retention 	<ul style="list-style-type: none"> Private medical insurance Income in the event of death or disability <p>These are:</p> <ul style="list-style-type: none"> Appropriate in terms of level of seniority Market related Death benefit is a multiple of base salary Non-pensionable 	<ul style="list-style-type: none"> None
Component – Pension		
<ul style="list-style-type: none"> To provide market related benefits Facilitate the accumulation of savings for post-retirement years 	<ul style="list-style-type: none"> Comprises defined benefit and defined contribution plans A large number of defined benefit plans are closed to new hires Employees in legacy defined benefit plans continue to accrue benefits in such plans for both past and future service Retirement plans differ by region 	<ul style="list-style-type: none"> Executive members of defined contribution plans receive a company contribution of up to 18.47% of salary Executive members of defined benefit plans receive company contributions of up to 31.24% of salary. This applies to only one executive committee member. The contribution varies based on the actuarial valuation of the reserves of the relevant schemes

Purpose	Structure	Opportunity
Variable		
Component – Annual cash incentive		
<ul style="list-style-type: none"> Focus participants on targets relevant to the group's strategic goals Drive performance Motivate executives to achieve specific and stretching short-term goals Reward individuals for their personal contribution and performance Deferred share proportion of the annual bonus aligns interests with shareholders 	<ul style="list-style-type: none"> All measures and objectives are reviewed and set at the beginning of the financial year Payments are reviewed and approved at year end by the committee based on performance against the targets Threshold is required to be met for any bonus payment to occur Target level of bonuses varies from 65-85% of base salary Weightings for 2020 were: EBITDA – 50%; working capital – 20% and safety – 10%; individual – 20% If the agreed target for EBITDA is achieved, a bonus award percentage of 100% will be paid for that component. A bonus award percentage of up to 150% can be earned if 110% or more of the agreed target is achieved. If less than 85% of the target is achieved, no bonus award will be paid If the agreed target % for working capital is achieved, a bonus award percentage of 100% will be paid for that component. A bonus award percentage of up to 150% can be earned if 90% or less than the target is achieved. If the working capital target is exceeded by more than 10% then no bonus award will be paid for working capital Bonuses are paid in cash. The group CEO and executive committee members have volunteered to purchase shares with 40% and 30% of their after-tax cash bonus respectively. The right to sell the shares is deferred for up to three years, subject to individual members not being terminated for cause Non-pensionable Malus and clawback may be applied in the following circumstances: <ol style="list-style-type: none"> Financial results of the group or a company/business unit in the Sappi group have been materially misstated A participant has ceased to be a director or employee by reason of gross misconduct and has resulted in significant losses to the business There has been material breach of Code of Ethics/Law There has been an erroneous assessment of the extent to which any performance conditions has been satisfied resulting in a higher vesting outcome 	<ul style="list-style-type: none"> The maximum bonus for executive directors is 116% of base salary Executive committee members and other senior managers may earn a maximum bonus of up to 95% of base salary The number of shares arising from the deferred executive Management Incentive Scheme – will be increased by 20% of the original number of shares purchased provided the employee holds all the shares for a period of three years

Remuneration Report continued

Purpose	Structure	Opportunity
Variable		
Component – Long-term share incentive plans		
<ul style="list-style-type: none"> Align the interests of the executive members with those of the shareholder Reward the execution of the strategy and long-term outperformance of our competitors Encourage long-term commitment to the company Is a wealth creation mechanism for executive members if the company outperforms the peer group 	<ul style="list-style-type: none"> Conditional grants awarded annually to executive directors, executive committee members and other key senior managers of the company Straight-line vesting after four years Performance is measured relative to a peer group of 16 other industry-related companies The number of conditional shares allocated varies between the CEO and each of the executive committee members Measures for 2020 awards were relative total shareholder return (TSR) – 50% and relative CFRONA – 50% Malus and clawback may be applied in the following circumstances: <ul style="list-style-type: none"> (i) financial results of the group or a company/business unit in the Sappi group have been materially misstated (ii) a participant has ceased to be a director or employee by reason of gross misconduct and has resulted in significant losses to the business (iii) there has been material breach of Code of Ethics/Law (iv) there has been an erroneous assessment of the extent to which any performance conditions has been satisfied resulting in a higher vesting outcome 	<ul style="list-style-type: none"> None.
Component – Service contracts		
<ul style="list-style-type: none"> Provide an appropriate level of protection to both the executive and to Sappi 	<ul style="list-style-type: none"> Executive committee members have notice periods by the company of 12 months or less Separation agreements, when appropriate, are negotiated with the individual concerned with prior approval being obtained in terms of our governance structures 	<ul style="list-style-type: none"> In circumstances where there is a significant likelihood of a transaction involving the Sappi group or a business unit, limited change in control protections may be agreed and implemented if deemed necessary for retention purposes

Service contracts

Mr Binnie and Mr Pearce have an ongoing employment contract which requires six months' notice of termination by the employee and 12 months' notice of termination by the company.

Depending on their location, executive committee members have ongoing employment contracts which require between three to six months' notice of termination by the employee and six to 12 months' notice of termination by the company.

Other than in the case of termination for cause, the company may terminate the executive directors' service contracts by making payment in lieu of notice equal to the value of the base salary plus benefits which they would have received during the notice period.

Executive directors are required to retire from the company at the age of 63 years. The retirement age of executive committee members is generally between the ages of 63 years and 65 years and differs by region.

Choice of performance measures and approach to target setting

Short-term incentive: MIS

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

Metric	Percentage (%)	Relevance	How do we set the targets?
EBITDA	50	A key indicator of the underlying profit performance of the group, reflecting both revenues and costs. Aligns closely with our strategic goals of achieving cost advantages and growth. More efficient water, energy and raw material usage is also encouraged.	Targets and ranges are set each year by the board taking account of required progress towards strategic goals, and the prevailing market conditions.
Working capital	20	A key indicator of accounts payable, accounts receivable, cash management and stock levels. Achieving optimum working capital levels in the business requires efficient use of resources throughout the supply chain and influences cash management, a key pillar of our strategy.	Targets and ranges are set each year by the board taking account of the required progress towards strategic goals, and the prevailing market conditions.
Safety	10	A core value of the company and one of the key indicators of whether the business is meeting its sustainability goal of zero harm.	The committee considers input from the SETS Committee and sets appropriate standards and goals. Measure will be LTIFR
Individual performance	20	An indicator of the contribution of each executive director, individual performance for relevant managers. Includes several key non-financial targets in relation to sustainability, living the Sappi values, major capital projects and BBBEE in the case of South Africa.	Priorities are set for the CEO by the Chairman of the board in line with the business plan for the applicable year. Targets and ranges are then cascaded to the rest of the business teams. These are reviewed as part of an annual review with the Chairman.

The bonus payment opportunity available to executive directors and executive committee members is as follows:

	On-target bonus	Stretch target
Executive director	85% of base salary	116% of base salary
Regional CEO	70% of base salary	95% of base salary
Other prescribed officers (i.e. executive committee members)	65% of base salary	88.5% of base salary

Remuneration Report continued

Performance Share Plan (PSP)

The Sappi PSP for annual awards of conditional performance shares which are subject to meeting performance targets measured over a four-year period. These awards will only vest if Sappi's performance, relative to a peer group of 16 other industry related companies is ranked at median or above the median.

The performance criteria are relative total shareholder return (TSR) and relative CFRONA.

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

Metric	Relevance	How do we set the targets?
Total shareholder return (TSR)	TSR measures the total returns to Sappi's shareholders, providing close alignment with shareholder interests.	The committee sets the performance requirements for each grant. A peer group of packaging and paper sector companies is used. Nothing vests in positions 10 – 17 of the peer group. Vesting increases from 25% at position 9 to 100% for positions 1 – 5.
Cash flow return on net assets	A key indicator of the effective use of capital CFRONA is calculated as cash generated by operations after working capital movements (before interest, tax and dividends) divided by average total assets (excluding cash) less interest-free liabilities. This measure is calculated using a simple annual average over the previous four-year period.	The committee sets the performance requirements for each grant. A peer group of packaging and paper sector companies is used. No vesting occurs in positions 10 – 17 of the peer group. Vesting increases from 25% at position 9 to 100% for positions 1 – 5.

The peer group for the PSP award consisted of the following 16 industry-related companies:

Stora Enso	Lenzing	Domtar	UPM-Kymmene
Rayonier Advance Materials	Borregaard	Sun Paper	Metsá Board
Ahlstrom-Munksjo	Holmen	Mondi PLC	International Paper
West Rock	Verso	Suzano	Resolute Forest Products

Vesting schedule

The vesting schedule for 2016 allocation for both TSR and CFRONA is as follows:

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

Malus and clawback

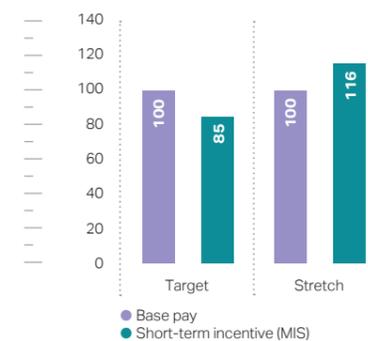
Awards made to the CEO, CFO and prescribed officers under Sappi's MIS and PSP are subject to both malus and clawback provisions which may be applied during the period of two years after the date of vesting or granting. Clawback refers to the recovery of paid or vested amounts and malus refers to the reduction, including to nil, of unvested or unpaid amounts. Malus and clawback may be applied in the following circumstances:

- Financial results of the group or a company/business unit in the Sappi group have been materially misstated
- A participant has ceased to be a director or employee by reason of gross misconduct and has resulted in significant losses to the business
- There has been material breach of Code of Ethics/Law
- There has been an erroneous assessment of the extent to which any performance conditions has been satisfied resulting in a higher vesting outcome

Remuneration scenarios at different performance levels

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

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



PSPs are excluded from these scenarios as their vesting depends on performance conditions being met. Vesting is based on a linear vesting schedule over a four-year period.

Statement of fair and responsible remuneration

The group's compensation policy for the remuneration of executive directors and other senior executives is set taking appropriate account of remuneration and employment conditions of other employees in the group.

The committee annually receives a report from management on pay practices across the group, including salary levels and trends, collective bargaining outcomes and bonus participation. At the time that salary increases are considered the committee additionally receives a report on the approach management proposes to adopt for general staff increases. Both these reports are taken into account in the committee's decisions regarding the remuneration of executive directors and other senior executives.

In some countries where the group operates, more formal consultation arrangements with employee representatives are in place relating to employment terms and conditions, in accordance with local legislation and practice. The group also conducts employee engagement surveys every two years which gauge employees' satisfaction with their working conditions. The Sappi board is given feedback on these survey results.

Approach to remuneration benchmarks

Executive compensation is benchmarked on data provided in national executive compensation surveys, for countries in which executives are domiciled, as well as information disclosed in the annual reports of listed companies of the Johannesburg Stock Exchange. Sappi participates in global remuneration surveys and uses data from global remuneration survey, i.e. PWC, Mercer, et al to determine appropriate remuneration levels.

Ensuring an appropriate peer group to retain the integrity and appropriateness of the benchmark data is a key task of the Human Resources and Compensation Committee. Executive pay is benchmarked every alternate year.

The remuneration package for a newly appointed executive director is set in accordance with the terms of the group's approved Remuneration Policy in force at the time of appointment. The variable remuneration for a new executive director is determined in the same way as for existing executive directors. For internal and external appointments, the group may meet certain relocation expenses, as appropriate.

Remuneration Report continued

Remuneration policy for non-executive directors (fees)

Element	Purpose	How it works?	Fees
Non-executive Chairman (fees)	<ul style="list-style-type: none"> To attract and retain high-calibre chairman, with the necessary experience and skills To provide fees which take account of the time commitment and responsibilities of the role 	<ul style="list-style-type: none"> The Chairman receives an all-inclusive fee 	<ul style="list-style-type: none"> The Chairman's fees are reviewed periodically by the committee Fees are set by reference to market median data for companies of similar size and complexity to Sappi
Other non-executive directors (fees)	<ul style="list-style-type: none"> To attract and retain high-calibre non-executives, with the necessary experience and skills To provide fees which take account of the time commitment and responsibilities of the role 	<ul style="list-style-type: none"> The non-executives are paid a basic fee Attendance fees are also paid to reflect the requirement for non-executive directors to attend meetings in various international locations The chairmen of the main board committees and the lead independent director are paid additional fees to reflect their extra responsibilities 	<ul style="list-style-type: none"> Non-executive directors' fees are reviewed periodically by the Chairman and Human Resources and Compensation Committee Fees are set by reference to market median data for companies of similar size and complexity to Sappi

Sappi may reimburse the reasonable expenses of board directors that relate to their duties on behalf of Sappi. Sappi may also provide advice and assistance with board directors' tax returns where these are impacted by the duties they undertake on behalf of Sappi.

All non-executive directors have letters of appointment with Sappi Limited for an initial period of three years. In accordance with best practice, non-executive directors are subject to re-election at the AGM after the three-year period. Appointments may be terminated by Sappi with six months' notice. No compensation is payable on termination, other than accrued fees and expenses.

Voting on remuneration

As required by King IV, Sappi's Remuneration Policy and implementation report as detailed in this Remuneration Report, need to

be tabled for separate non-binding advisory votes by shareholders at the upcoming AGM. In the event that either the remuneration policy or the implementation report, or both, are voted against by 25% or more of the voting rights entitled to be exercised by shareholders at such AGM, then the committee will ensure that the following measures are taken in good faith and with best reasonable efforts:

- an engagement process to ascertain the reasons for the dissenting votes, and
- appropriately addressing legitimate and reasonable objections and concerns raised which may include amending the Remuneration Policy or clarifying or adjusting remuneration governance and/or processes.

You can also view the full **Remuneration Policy** on www.sappi.com.

Section C : Remuneration implementation report

Compensation structure

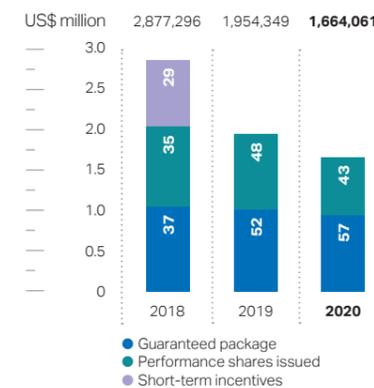
Total compensation comprises fixed pay (i.e. base salary and benefits) and variable performance related pay, which is divided further into short-term incentives with a one-year performance period and long-term incentives which have a four-year performance period.

Compensation mix

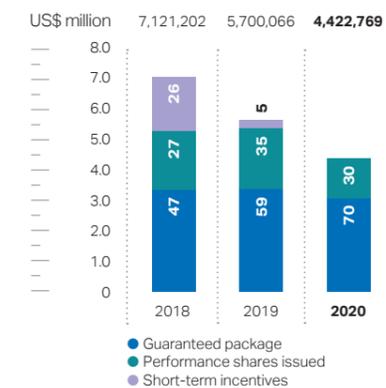
The compensation mix for executive directors and executive committee members is shown in the schematics below.

The long-term incentive awards are based on the face value of the performance plan shares issued on 18 November 2020 (share price at date of allocation: ZAR27.55). Details of the **executive directors' remuneration** can be found on [153](#).

Executive directors (number of employees at 30 September 2020 = 2)



Executive committee (number of employees at 30 September 2020 = 7)



Our compensation policy aims to have a balance between base salary, short- and long-term incentives.

Base salary

The Human Resources and Compensation Committee approved the level of base salary for each executive director, executive committee member and other key senior managers.

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

In January 2020, Mr Binnie and Mr Pearce received a salary increase of 4.6% on the South African portion of their salaries and 1.0% on the offshore portion of their salaries. Their salaries were US\$504,410 per annum and US\$291,478 per annum, respectively.

As a result of the Covid-19 pandemic, both Mr Binnie and Mr Pearce voluntary took a salary reduction of 10% for a three-month period (April to June 2020).

The same salary increase percentages were applied in determining the salary increases for executive committee members' and general staff, dependent on location.

Retirement benefits

Retirement benefits are largely in the form of defined contribution schemes. In some instances, legacy defined benefit schemes exist. Almost all the defined benefit schemes are closed to new hires.

Mr Binnie and Mr Pearce are both members of defined contribution funds and the total employee and company contribution is ZAR350,000 each.

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

Short-term incentive

A performance threshold of 85% of budgeted EBITDA for the group is required before any bonus can be paid to participants in the group scheme. Furthermore, if a region does not achieve the 85% bonus threshold target, no bonus is paid to participants in the region irrespective of overall group performance.