

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainable Finance Framework

Sappi Group

9 September 2022

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	Sustainability-linked Finance Instruments
Relevant standard(s)	Sustainability-Linked Bond Principles, as administered by the ICMA (June 2020) Sustainability-Linked Loan Principles, as administered by the LMA (March 2022)
Scope of verification	Sappi's Sustainable Finance Framework (27.07.2022)
Lifecycle	Pre-issuance verification
Validity	As long as Sappi's Sustainable Finance Framework and benchmarks for the Sustainability Performance target(s) remain unchanged.

CONTENTS

SCOPE OF WORK	3
SAPPI BUSINESS OVERVIEW	3
ASSESSMENT SUMMARY	4
ICS SPO ASSESSMENT.....	8
PART 1: ALIGNMENT WITH ICMA SUSTAINABILITY-LINKED BOND PRINCIPLES AND LMA SUSTAINABILITY-LINKED LOAN PRINCIPLES	8
PART 2: KPI SELECTION & SPT CALIBRATION	9
PART 3: LINK TO SAPPI'S SUSTAINABILITY STRATEGY	35
ANNEX 1: ISS ESG Corporate Rating.....	38
ANNEX 2: Methodology	40
ANNEX 3: Quality management processes	41
About this SPO	42

SCOPE OF WORK

Sappi Group (“Sappi” or “the issuer” or “the company”) commissioned ICS to assist with its Sustainability-linked Finance Instruments by assessing three core elements to determine the sustainability quality of the instrument:

1. Sappi’s Sustainable Finance Framework (27.07.2022 version) and structural components of the transaction – benchmarked against the Sustainability-Linked Bond Principles (SLBP), as administered by the International Capital Market Association (ICMA) and the Sustainability-Linked Loan Principles (SLLP), as administered by the Loan Market Association (LMA).
2. The sustainability credibility of the KPIs selected and Sustainability Performance Targets (SPT) calibrated – whether the KPIs selected are core, relevant and material to the issuer’s business model and industry, and whether the associated targets are ambitious.
3. Sustainability-linked Finance Instruments link to Sappi’s sustainability strategy – drawing on Sappi’s overall sustainability profile and related objectives.

SAPPI BUSINESS OVERVIEW

Sappi Ltd. operates as a holding company, which engages in the provision of wood-fiber based solutions. The firm operates through the following geographical segments: Europe, North America, and Southern Africa. Its products include dissolving wood pulp, printing papers, packaging and specialty papers, casting and release papers, biomaterials, and forestry. The company was founded on December 17, 1936 and is headquartered in Johannesburg, South Africa. It is classified in the Paper & Forest product industry, as per ISS ESG’s sector classification.

ASSESSMENT SUMMARY

SECTION	EVALUATION SUMMARY ¹
Part 1: Alignment with the SLBP and the SLLP	<p>Aligned with ICMA Sustainability-Linked Bond Principles and the LMA Sustainability-Linked Loan Principles, except for limited evidence to assess the level of ambition of SPTs 2, 3 and 4</p> <p>The issuer has defined a formal framework for its sustainability-linked instruments regarding the selection of KPI, calibration of Sustainability Performance Target (SPT), sustainability-linked instrument characteristics, reporting and verification. The framework is in line with the Sustainability-Linked Bond Principles (SLBP) administered by the ICMA and the Sustainability-Linked Loan Principles (SLLP) administered by the LMA. However, there is limited evidence to assess the level of ambition of SPTs 2, 3 and 4.</p> <p>The financial characteristics of any security issued under this Framework, including a description of the selected KPI(s), SPTs, step-up margin amount or the premium payment amount, as applicable, will be specified in the relevant documentation of the specific transaction. The final terms of the instruments may include coupon step-ups, coupon step-downs and/or higher repayment amounts. The frequency of SPTs measurement will depend on the Sustainability-linked Financing Instrument but will be conducted at least once a year.</p>
Part 2A: KPI 1: Specific GHG (Scope 1 + 2) emissions SPT 1: Decrease specific emissions by 18% by 2025	<p>KPI selection: Relevant, Core, and Material to issuer's business model and sustainability profile</p> <p>Sustainability Performance Target (SPT) calibration:</p> <ul style="list-style-type: none"> • Ambitious against issuer's past performance • Ambitious against issuer's industry peer group • Committed to be in line with the Paris Agreement <p>We find that the KPI selected is relevant and core to the issuer's business model and consistent with its sustainability strategy. It is material to Sappi from an ESG perspective, since it covers 100% of Scopes 1 and 2 emissions², which themselves represent more than 60% of the Corporate Value Chain. Scope 3 is excluded from the scope of the KPI. It is appropriately measurable, quantifiable, externally verifiable, externally verified and benchmarkable. It covers 100% of direct operations and activities of Sappi.</p> <p>The SPT calibrated by Sappi is ambitious against the company's past performance because it sets out a steeper reduction path than was achieved historically by the issuer. Compared to target setting of Scope 1 and 2 emissions reduction targets by industry peers, SPT 1 scores in the top 10.9% tier. Hence, we conclude that SPT 1 set by Sappi is ambitious against peers. SPT 1 represents a commitment to be in line with the Paris agreement, as it is a stepping stone towards Sappi's longer term 2030 target (which has been approved by the SBTi). The SPT is set in a clear timeline and supported by a strategy and action plan disclosed in the company's framework.</p>

¹ ISS ESG's evaluation is based on the engagement conducted for KPIs 1-4 between January and June and for KPI 5 between August and September 2022, on Sappi's Sustainable Finance Framework (27.07.2022 version).

² ISS ESG bases this analysis on the issuer's own emissions reporting and makes no comment on the quality or consistency of the issuer's Scope 1, 2 or 3 emissions reporting, either in relation to GHG Protocol, or to established norms for the issuer's sector. ISS ESG notes that Scope 3 reporting may be different between companies in the same sector and does not undertake any benchmarking of an issuer's reporting.

Part 2B:	<p>KPI selection: Relevant, Core, and Material to the issuer's business model and sustainability profile</p> <p>Sustainability Performance Target (SPT) calibration:</p> <ul style="list-style-type: none"> • Limited information to assess the level of ambition against issuer's past performance • Ambitious against issuer's industry peer group • Limited information to assess level of ambition against international targets
KPI 2³: Sourcing of certified fibre	<p>We find that the KPI selected is relevant, core and material to the issuer's business model and consistent with its sustainability strategy. To manufacture paper products, wood fibre is reduced to pulp, and it is used as the primary ingredient of Sappi's products. The KPI is appropriately measurable, quantifiable, externally verifiable, externally verified and benchmarkable. It covers 100% of the Sappi Group's operations worldwide.</p>
SPT 2: at least 75% of certified fibre sourced in 2025	<p>We find that there is limited information to assess the ambition of SPT 2 against the company's past performance. While Sappi has already reached the target of 75% certified fibre in previous years, the issuer explains that the effort will come from maintaining this high level of certification of their most important input material. SPT 2 is ambitious compared to industry peers, as the majority of peers do not set such a target or set a target that is not comparable to the SPT. In the absence of international targets on the sourcing of wood or fibre, we cannot conclude the level of ambition of SPT 2. The target is set in a clear timeline and supported by a strategy and action plan disclosed in the company's framework.</p>
Part 2C:	<p>KPI selection: Relevant, Core, and Moderately material to the issuer's business model and sustainability profile</p> <p>Sustainability Performance Target (SPT) calibration:</p> <ul style="list-style-type: none"> • Limited information to assess the level of ambition against issuer's past performance • Ambitious against issuer's industry peer group • Limited information to assess level of ambition against international targets
KPI 3: Landfill waste	<p>We find that the KPI selected is relevant, core and moderately material to the issuer's business model and consistent with its sustainability strategy. Solid waste is only one type of waste generated in the production process. It is appropriately measurable, quantifiable, externally verifiable, externally verified and benchmarkable. It covers 100% of the Sappi Group's operations worldwide.</p>
SPT 3: Reduce landfill waste by 15% in 2025	<p>We find that the SPT calibrated by Sappi is not ambitious against past performance, because the issuer achieved a large reduction in the past than is set out by the SPT, but ambitious against peer companies. In the absence of international targets on landfill waste, we cannot conclude the level of ambition of SPT 3. The target is set in a clear timeline and supported by a strategy and action plan disclosed in the company's framework.</p>

³ The assessment of KPI and SPT 2 also applies to the regional KPI 6 for the issuer's South Africa branch.

Part 2D:	<p>KPI selection: Relevant, Core, and Moderately material to the issuer's business model and sustainability profile</p> <p>Sustainability Performance Target (SPT) calibration:</p> <ul style="list-style-type: none"> • Ambitious against issuer's past performance • Limited information to assess the level of ambition against issuer's industry peer group • Limited information to assess level of ambition against international targets
KPI 4: Work place injuries LTIFR: own employees	<p>We find that the KPI selected is relevant, core and moderately material to the issuer's business model and consistent with its sustainability strategy. The KPI only includes Sappi's own employees and excludes approximately 9250 contractors (approximately 40% of its workforce). It is appropriately measurable, quantifiable, externally verifiable, externally verified and benchmarkable. It covers 100% of the Sappi Group's operations worldwide.</p>
SPT 4: Zero work place injuries LTIFR: own employees	<p>We find that the SPT calibrated by Sappi's is ambitious against the company's past performance. Compared to Paper & Forest products industry practices, Sappi is part of the 50% of companies that define a target, and one of three that sets a zero-injury target. Yet, it lacks ambition with regards to scope, as its target only includes own employees and excludes contractors. In the absence of international targets on LTIFR, we cannot conclude the level of ambition of SPT 4. The target is set in a clear timeline and is supported by a strategy and action plan disclosed in the company's framework.</p>

Part 2E:	<p>KPI selection: Relevant, Core, and Material to Sappi's business in South Africa, but partially material to the company's overall operations</p> <p>Sustainability Performance Target (SPT) calibration:</p> <ul style="list-style-type: none"> • Ambitious against issuer's past performance, based on limited evidence • Ambitious against industry peers • Limited information to assess level of ambition against international targets
KPI 5: Specific process water usage in South Africa (m3/adt)	<p>We find that the KPI selected is relevant, core and consistent with its sustainability strategy. The KPI is material to Sappi's business in South Africa and partially material to the company's overall operations. The KPI focuses on process water, which is all the water directly required to manufacture Sappi's products, which accounts for 77% of total water usage by Sappi in South Africa. It is appropriately measurable, quantifiable, externally verifiable, externally verified and benchmarkable with limitations. This KPI has a national focus on Sappi South Africa only, where specific process water accounted for 32% of global figures in 2021.</p>
SPT 5: Reduction of 23% by 2025	<p>We find that the SPT calibrated by Sappi is ambitious against past performance, based on limited evidence since the historical data has not been externally verified. The SPT is in line with peers, because it ranks in the top 50% of the industrial peer group in terms of setting a target on water usage reduction. In the absence of international targets on specific water usage, we cannot conclude the level of ambition of SPT 5. The target is set in a clear timeline, is supported by a strategy and action plan disclosed in the company's framework.</p>

Part 3:	Consistent with issuer's sustainability strategy
Link to issuer's	<p>The KPIs selected by the issuer are related to climate change, environmental impacts of production and worker safety. These issues have been defined as key priorities of the issuer in terms of sustainability strategy and we find that these are material sustainability topics for the</p>

**sustainability
strategy**

issuer. We find that this issuance contributes to the issuer's sustainability strategy thanks to the KPI's clear link to one of the key sustainability priorities of the issuer. However, the level of ambition of the SPTs differs.

ICS SPO ASSESSMENT

PART 1: ALIGNMENT WITH ICMA SUSTAINABILITY-LINKED BOND PRINCIPLES AND LMA SUSTAINABILITY-LINKED LOAN PRINCIPLES

This section describes our assessment of the alignment of Sappi's Sustainable Finance Framework (dated 27.07.2022) with the Sustainability-linked Bond Principles and the Sustainability-linked Loan Principles.

SLB/SLL PRINCIPLES	ASSESSMENT	OUR OPINION
1. Selection of KPIs		We conducted a detailed analysis of the sustainability credibility of the KPI selection, which is available in Part 2 of this report.
2. Calibration of SPTs		We conducted a detailed analysis of the sustainability credibility of the SPT calibration, which is available in Part 2 of this report.
3. Bond/Loan Characteristics	✓	We consider the Sustainability-Linked Securities Characteristics description provided by Sappi as aligned with the SLBP and SLLP. The issuer does describes the potential variation of the financial characteristics of the securities.
4. Reporting	✓	We consider the Reporting description provided by Sappi as aligned with the SLBP and SLLP. The reporting will be made publicly available annually and include valuable information.
5. External verification	✓	We consider the Verification description provided by Sappi as aligned with the SLBP and SLLP. The issuer plans on having all annual values of the SPT published and verified. This will outline the performance against the SPT, the related impact and timing of such impact on the securities financial characteristics.

PART 2: KPI SELECTION & SPT CALIBRATION

2A.1 Selection of KPI 1

KPI 1: Specific GHG (Scope 1 + 2) emissions

FROM ISSUER'S FRAMEWORK

KPI 1: Specific (intensity of) GHG (Scope 1 + 2) emissions

SPT 1: Decrease specific GHG (Scope 1 + 2) emissions by 18% in 2025 compared to 2019 baseline

Definition: ratio of absolute Scope 1 + 2 GHG emissions (kg of CO₂e) divided by saleable production in air dry tons (ADT)

Long-term goal: Consistency with a well-below 2°C scenario

Rationale: Sappi states that taking urgent and appropriate actions to combat climate change impacts is a shared responsibility of the company, and as such are focused on the continued reduction of their greenhouse gas emissions.

Baseline: 883.4 kg CO₂ e/ADT

Baseline year: 2019

Scope: Sappi Group

Materiality and relevance

Climate change mitigation is considered as a key ESG issue faced by the Paper & Forest products industry according to key ESG standards⁴ for reporting and ISS ESG assessment. Companies of this industry are highly energy-intense, namely in the process of producing paper from pulp, and thus a highly GHG-emitting industry. Furthermore, the industry is exposed to forest products management and related climate change mitigation challenges such as maintenance of forest carbon stocks and sinks and increase of sequestration potential.

We find that climate change mitigation and the GHG emissions reduction KPI selected by the issuer are:

- **Relevant** to Sappi's business as its industry is responsible for exposed to risks related to this KPI, as mitigating the environmental impacts of wood processing is one of the key ESG issues for the sector.
- **Core** to the issuer's business as it will impact the company's key processes and operations. Specifically, Sappi will invest in several projects to decarbonize their operational impacts, including the modernization of boilers and of cooking lines.
- **Material** to Sappi from an ESG perspective as Scope 1 and 2 emissions cover 61.8% of the issuer's overall emissions. Hence, the issuer is targeting the most significant scopes of their total emissions.

Consistency with overall company's sustainability strategy

Sappi has identified climate change mitigation as one of its priority long-term goals. As such, the company has developed a focus on issues such as decarbonization and the responsible management

⁴ Key ESG Standards include SASB and TCFD, among others.

of natural resources. More notably, Sappi claims to support the global drive to achieve net zero by 2050, and that their focus on this topic has intensified in the past year.

The core approach that Sappi is leveraging relates to their energy consumption, where they have set targets for both the decrease in total energy consumption (-8% by 2025) and the increase in share of renewable and clean energy (+8% by 2025). This means that the KPI defined for this transaction is simultaneously an intermediate step to reach this longer-term GHG reduction target but also depends on the company achieving more specific operational targets.

As such, we find that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Scope and perimeter:** The KPI covers 100% of the company's direct operations and activities. However, the KPI does not cover scope 3, which represents approximately 38.2% of the company's total GHG emissions in the fiscal year of 2021.
- **Quantifiable/Externally verifiable:** The KPI selected is quantifiable and externally verifiable. GHG emission intensity per ton of pulp and paper produced KPI is widely disclosed and standardized in the market. The issuer is referring to key reporting and accounting protocols for GHG emissions such as The Greenhouse Gas Protocol (GHG Protocol).
- **Externally verified:** The KPI is externally verified by KPMG and the issuer commits to having the performance verified annually.
- **Benchmarkable:** By referring to the commonly acknowledged GHG protocol, the KPI is easily comparable with the data reported by other companies and with international targets such as the ones set out by the Science Based Target Initiative (SBTi).

Opinion on KPI 1: We find that the KPI selected is relevant and core to the issuer's business model and consistent with its sustainability strategy. It is material to Sappi from an ESG perspective, since it covers 100% of Scopes 1 and 2 emissions, which themselves represent 61.8% of the Corporate Value Chain. Scope 3 is excluded from the scope of the KPI. It is appropriately measurable, quantifiable, externally verifiable, externally verified and benchmarkable. It covers 100% of direct operations and activities of Sappi.

2A.2 Calibration of SPT 1

SPT 1: Decrease specific GHG (Scope 1 + 2) emissions by 18% by 2025

FROM ISSUER'S FRAMEWORK⁵

Sustainability Performance Target (SPT) 1: Decrease specific GHG (Scope 1 + 2) emissions by 18% by 2025

Sustainability Performance Target Trigger: If the KPI performance in 2025 exceeds the SPT.

Sustainability Performance Target Observation Date: 30th of September 2025

Historical performance:

year	Absolute GHG emissions kg CO2 e	Saleable production (ADT)	kg co2 e /ADT
2017	5,872,508,538	6,406,140	916.70
2018	5,935,167,359	6,473,857	916.79
2019	5,907,671,672	6,687,047	883.45
2020	5,235,493,428	5,776,650	906.32
2021	5,295,553,455	6,297,483	840.90

Factors that support the achievement of the target: In order to develop its climate strategy, Sappi has identified projects that will contribute to the decarbonization of their operational impacts over the next 5 years. Amongst others, these projects include:

- Modernization of a boiler: Approved in 2020, investments in new technology for boiler 11 of Sappi's Gratkorn Mill makes the shift to a multi-fuel boiler in two phases, with the end goal exclusively relying on sustainable and renewable fuels. As of August 2021, no coal is burned on site anymore. Running from August 2021 through early 2022, the project aims to refurbish the rest of the boiler, as well as equipping it with systems and installations to handle new fuel types and meet certain environmental standards. This will enable the mill to eventually reduce carbon emissions by 30%. In addition, the chosen technology for the project will allow the reduction of dust and nitrous oxide (NOx) emissions.
- Modernization of a cooking line: By relying on magnesium bisulphite technology rather than calcium, this will allow the Saiccor Mill to reduce the need for coal-based power generation at the mill, thus reducing its carbon footprint and facilitate variable cost savings.

Risks to the target:

- The targets are based on a long-term capex plan. Capital allocation could be different if the underlying results differ from the current assumptions. This could change the timetable to achieve the targets (both positively and negatively).
- Corporate action could impact the targets. Sappi will grow the specialty paper business and DP business while the structurally declining graphic paper business will shrink. The current capex plan is based on the existing operations. If assets are bought or sold over the next few years the targets will have to be reviewed based on changes to manufacturing operations.
- The issuer's assumptions also include the increasing availability of green energy from the regional grids. To the extent that this availability is better or worse will impact the timetable for achieving its targets.

⁵ This table is displayed by the issuer in its Sustainability-Linked Bond Framework and have been copied over in this report by ISS ESG for clarity.

- The cyclicity of the pulp and paper business. These cycles are not predictable and often depend on external factors (e.g. unplanned pandemics, invasion of countries, extreme weather). The cyclicity impacts Sappi's operating rates with the knock-on effect for energy usage and emissions.
- Evolving technologies, particularly green energy.

Ambition

Against company's past performance

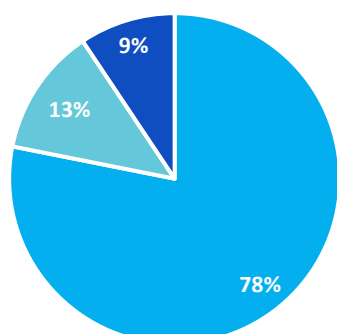
Sappi sets an SPT to reduce its intensity Scope 1 and 2 emissions across by 18% in a 6-year timeframe (2019-2025). Table 1 reflects the reduction pathways, in absolute terms and relative to the baseline, and the Compound Annual Growth Rate (CAGR).

TABLE 1.	2017	2018	2019 – BASELINE	2020	2021	2025 – SPT 1
Scope 1 and 2 emissions (in kg CO₂e/Saleable production ADT)	916.7	916.79	883.45	906.32	840.9	724.429
Year-on-Year change		0.01%	-3.64%	2.59%	-7.22%	
CAGR from 2017 - 2019			-1.83%			
CAGR from 2017 - 2021					-2.13%	
CAGR from 2019 - 2025						-3.25%

As displayed above, by 2025, Sappi is expected to reduce its relative Scope 1 and 2 emissions by on average 3.25% annually to reach its SPT 1 compared to the baseline year. For reference, between 2017 and 2021, the company's Scope 1 and 2 emissions decreased on average by 2.13% annually. Hence, SPT 1 sets out a steeper reduction path than was achieved historically by the company.

It is worth noting that the Sappi's emission reduction targets are intensity targets rather than absolute targets. The issuer has chosen this metric because it does not depend on yearly production volumes.

Figure 1: Scope 1 and 2 emissions target setting amongst industry peer group



- Companies without Scope 1 and 2 emissions targets
- Companies with absolute Scope 1 and 2 emissions targets

In fact, Sappi identifies itself as a cyclical business, meaning that annual production volumes are prone to fluctuations.

Therefore, we consider SPT 1 set by Sappi as ambitious against past performance.

Against company's industry peers

We conducted a benchmarking of the SPT set by Sappi against the Paper and Forest Products peer group of 64 listed companies (including the issuer) as per the ISS ESG Universe.

Aside from Sappi, 13 other peers also set a target covering Scope 1 and 2 emissions. From this subgroup, eight companies set an absolute emissions reduction target and six (including Sappi) set an intensity target.

Sappi has obtained SBTi-validation for their Scope 1 and 2 intensity reduction target of -41.5% by 2030 (compared to the 2019 baseline), and SPT 1 should put the issuer on a reduction pathway in order to meet this SBTi-target. Six peers have also set GHG emission reduction targets that have been

approved by the Science-Based Target initiative (SBTi), out of which three companies align with a well-below 2°C scenario and three align with the objective of limiting average global temperature increases below 1.5°. Two other peers have committed to set SBTi-approved targets in the near future.

Since setting targets in line with the Paris Agreement, as verified by the SBTi, can be regarded as more ambitious than when not having such assurance, Sappi belongs in the top 7 companies or top 10.9% tier of the industry peer group.

Therefore, we conclude that SPT 1 set by Sappi is ambitious compared to the group practices in terms of setting Scope 1 and 2 emissions reduction targets.

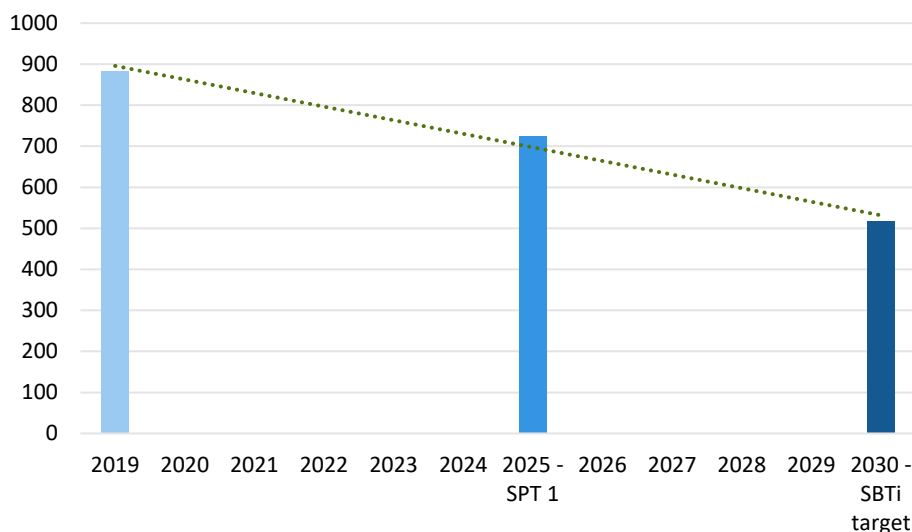
Against international targets

The SBTi has approved Sappi's 2030 GHG emission reduction target, confirming that it aligns with the objective of limiting average global temperature increases well-below 2 degrees Celsius. Figure 2 shows the trajectories of Scope 1 and 2 emissions intensity for 2025 (SPT 1) and 2030 (the SBTi-approved target).

SPT 1 is slightly above the trendline for the SBTi-target. The issuer explains that SPT 1 is a stepping stone to achieving the 2030 target, and that Sappi's CAPEX plan from 2025 to 2030 will be set to ensure meeting the SBTi-verified target.

Therefore, we find that SPT 1 represents a commitment to be in line with the Paris agreement.

Figure 2. SPT 1 trajectory
towards SBTi-approved 2030 target



Measurability & comparability

- **Historical data:** The issuer set the baseline year of its SPT to 2019 and provided relevant historical data by disclosing all yearly GHG emissions intensity and absolute data available since 2017.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

Supporting strategy and action plan

Sappi has identified projects that will contribute to the decarbonization of their operational impacts over the next 5 years. Amongst others, these projects include:

- **Modernization of a boiler:** Approved in 2020, investments in new technology for boiler 11 of Sappi's Gratkorn Mill makes the shift to a multi-fuel boiler in two phases, with the end goal exclusively relying on sustainable and renewable fuels. As of August 2021, no coal is burned on site anymore. Running from August 2021 through early 2022, the project aims to refurbish the rest of the boiler, as well as equipping it with systems and installations to handle new fuel types and meet certain environmental standards. This will enable the mill to eventually reduce carbon emissions by 30%. In addition, the chosen technology for the project will allow the reduction of dust and nitrous oxide (NOx) emissions.
- **Modernization of a cooking line:** By relying on magnesium bisulphite technology rather than calcium, this will allow the Saiccor Mill to reduce the need for coal-based power generation at the mill, thus reducing its carbon footprint and facilitate variable cost savings.

Opinion on SPT 1: *The SPT calibrated by Sappi is ambitious against the company's past performance because it sets out a steeper reduction path than was achieved historically by the issuer. Compared to target setting of Scope 1 and 2 emissions reduction targets by industry peers, SPT 1 scores in the top 10.9% tier. Hence, we conclude that SPT 1 set by Sappi is ambitious against peers. SPT 1 represents a commitment to be in line with the Paris agreement, as it is a stepping stone towards Sappi's longer term 2030 target (which has been approved by the SBTi). The SPT is set in a clear timeline and supported by a strategy and action plan disclosed in the company's framework.*

2B.1 Selection of KPI 2

KPI 2: Sourcing of certified fibre

FROM ISSUER'S FRAMEWORK

KPI 2: Sourcing of certified fibre (share of certified fibre supplied to Sappi's mills)

SPT 2: At least 75% certified fibre sourced supplied to Sappi's mills every year until 2025

Definition: The KPI includes woodfibre only.

Long-term goal: n/a

Rationale: With Sappi's sustainable forest management and commitment to stewardship, the issuer aims to continue to increase its positive contribution to healthy landscapes. Sappi practises sustainable forestry because it provides clean air and water, protects biodiversity and defends against climate change, among many other critical benefits. Forest certification validates its forest management practices and those of its suppliers in the well-managed forests and plantations from which Sappi sources woodfibre. The issuer strives to increase the share of certified woodfibre supplied to its mills.

Baseline: 75%

Baseline year: 2019

Scope: Sappi Group level worldwide

Materiality and relevance

Sustainable sourcing of (wood)fibre is considered as a key ESG issue faced by the Paper & Forest Products industry according to key ESG standards⁶ for reporting and ISS ESG assessment. Moreover, the importance of sustainable forest management is a mission shared by all United Nations member states through the UN Forum on Forests (UNFF). Forests are important because they "offer nature-friendly solutions to many global challenges, from combatting climate change, land degradation and biodiversity loss, to building resilience against future crises"⁷. Moreover, under the UNFF Global Forest Goals, goal 3.3 specifically targets the forest area under an independently verified forest management certification scheme. Certification systems, such as the Forest Stewardship Council (FSC) are designed to ensure the environmental and social sustainability of these natural resources.

We find that the sourcing of certified fibre KPI selected by the issuer is:

- **Relevant** to Sappi's business as its industry responsible for and exposed to the risks related to sustainable sourcing of fibre.
- **Core** to the issuer's business as accessing a steady supply of certified fibre is a global challenge, as only 13% of the world's forests are certified. Woodfibre is at the heart of the issuer's production process, as it is used to create pulp, paper and dissolving pulp solutions. Sappi puts in significant effort to ensure a steady, certified supply of wood pulp in its locations. Sappi has its own plantations in South Africa, which are vertically integrated and largely certified. In Europe and the US, the issuer sources fibre from third parties. Sappi will focus key actions on increasing the supply of certified fibre in North America, because the issuer notes that the availability of certified fibre is lowest in that region⁸. Such efforts include putting additional

⁶ Key ESG Standards include SASB and TCFD, among others.

⁷ UNFF, 2021, 'Global Forest Goals Report 2021', <https://www.un.org/esa/forests/wp-content/uploads/2021/04/Global-Forest-Goals-Report-2021.pdf>

⁸ As stated in Sappi's Sustainability Report 2021 (p. 17), the breakdown of certified fibre per region is: 85% in South-Africa, 86.8% in Europe, 57% in North America.

control measures in place to avoid controversial sources and working closely with local growers to pursue sustainable, responsible and certified plantation management.

- **Material** to Sappi from an ESG perspective as the KPI covers one of the key ESG issues faced by the Paper & Forest products industry and hence Sappi can have material impact on the issue. To manufacture paper products, wood fibre is reduced to pulp, and is used as the primary ingredient of Sappi's products (approximately 60-70% of paper consists of pulp). In order to ensure more sustainable sourcing of fibre, it is important for companies to disclose the origin of their wood supply and have measures and strategies in place to increase the use of certified⁹ wood. Since Sappi is addressing all these points with this KPI, it can be deemed fully material.

Consistency with overall company's sustainability strategy

Sappi identified four material key issues in their sustainability strategy report 2021: Principles, Prosperity, People and Planet. In the latter, the company addresses the environmental, climate and biodiversity impacts of their operations. The company strives for a precautionary approach to anticipate and prevent such harm by focusing on the following:

- Minimising the environmental impact of their operations in terms of raw materials and energy use;
- Developing new production methods and products and finding innovative ways of benefiting waste;
- Saving water and energy at every step in the production processes;
- Ongoing investment in research and development.

Moreover, Sappi has also defined regional sustainability strategies. The global strategy comprises regional strategies in Southern Africa, North America and Europe. For Southern Africa, Sappi defines the same amount of sustainability targets for 2025, each with a regionally calibrated quantified target. Specifically, Sappi has a regional target for sourcing certified fibre in South Africa.

We find that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Scope and perimeter:** The KPI covers 100% of the Sappi Group's operations worldwide.
- **Quantifiable/Externally verifiable:** The KPI selected is quantifiable and externally verifiable.
- **Externally verified:** The baseline data of the KPI has been externally verified by KPMG and the issuer commits to having the future performance of the KPI verified and published.
- **Benchmarkable:** The Paper and Forest Products industry ensures sustainable sourcing by selecting fibre that has been certified by external parties, such as FSC and PEFC. The KPI is benchmarkable as some peers report on the same metric.

⁹ ISS ESG notes that in the public domain, there are some known inconsistencies with the existing forestry certification schemes, which may lead to the certified sources of fibre being not completely free from negative environmental impacts.

Opinion on KPI 2: We find that the KPI selected is relevant, core and material to the issuer's business model and consistent with its sustainability strategy. To manufacture paper products, wood fibre is reduced to pulp, and it is used as the primary ingredient of Sappi's products. The KPI is appropriately measurable, quantifiable, externally verifiable, externally verified and benchmarkable. It covers 100% of the Sappi Group's operations worldwide.

2B.2 Calibration of SPT 2

SPT 2: At least 75% certified fibre supplied to Sappi's mills by 2025

FROM ISSUER'S FRAMEWORK¹⁰

Sustainability Performance Target (SPT) 2: At least 75% of certified fibre supplied to Sappi's mills by 2025

Sustainability Performance Target Trigger: is calculated as follows: the share of fibre sourced that has a certification¹¹ over the total share of fibre sourced by 2025

Sustainability Performance Target Observation Date: 2025

Historical performance:

Year	Share of certified fibre supplied to Sappi's mills
2017	73%
2018	75%
2019	75%
2020	73%
2021	77%

Risks to the target:

- No control over the certification ambitions of individual growers
- Sappi's manufacturing mix could change which may require more or less procurement of fibre
- Corporate action
- Supply chain disruptions
- Climate change, extreme weather
- Sustainability expectations of customers

Ambition

Against company's past performance

Sappi sets the SPT to achieve a share of at least 75% of certified fibre supplied to Sappi's mills by 2025. The historical data from 2017 to 2021 shows that the issuer has already largely achieved this target in 2021, when the share of certified fibre was 77%.

The issuer states that the SPT has been calibrated to reflect the efforts it will make in the North American region, where the share of certified fibre is lagging at 57% in 2021. However, the fact that

¹⁰ This table is displayed by the issuer in its Sustainable Finance Framework and have been copied over in this report by ISS ESG for clarity.

¹¹ Certifications include the Forest Stewardship Council (FSC), the Programme for the Endorsement of Forest Certification (PEFC) and the Sustainable Forestry Initiative® (SFI®), as well as ISO 9001, ISO 14001, OHSAS 18001 and, in Europe the Eco Management and Audit System (EMAS) and ISO 50001 in Europe and South Africa.

in the other regions where Sappi operates, Europe and South-Africa, the share was higher (86.6% and 85%, respectively), creates the average share of 77% in 2021.

The issuer explains that sourcing of certified fibre remains a difficult issue, due to the fact that only 13% of the world's forests are currently certified. Sappi ensures that 100% of its own forests are certified, however, they cannot ensure the same for wood sourced from third parties. Moreover, ensuring a stable supply of certified wood fibre on an annual basis knows some difficulties, for example due to administrative burden of certification in certain geographic regions. Hence, they have chosen for a target that reflects their ongoing efforts to maintain a high share of certified fibre.

We conclude that there is limited information to conclude whether SPT 2 is ambitious against past performance.

Against company's industry peers

We conducted a benchmarking of the SPT set by Sappi against a Paper & Forest Products peer group of 11 companies, as identified by the issuer.

From this peer group, four companies also set specific targets for the share of certified fibre sourced. Specifically, three of those companies set targets to source only (100%) certified wood fibre for their production and one peer set a target of 70%. That leaves seven peers who did not set a target similar to SPT 2. However, one of the peers who did not set a specific target, already sources 100% certified fibre. Therefore, Sappi places 4th in the peer group in terms of target setting. These results are displayed in Figure 3.

The comparability of these targets is complicated by several factors. The first is the geographic spread, as some peers only operate in regions where certification of woodlands is widespread. The second is the type of supply, as some peers only supply their production with the wood from their own forests and thus have direct control over the certification of their supply. Sappi sets a target to maintain a high level of certified fibre in their worldwide operations, including supply for third parties.

Therefore, we conclude that the SPT set by the issuer is ambitious compared to industry peers.

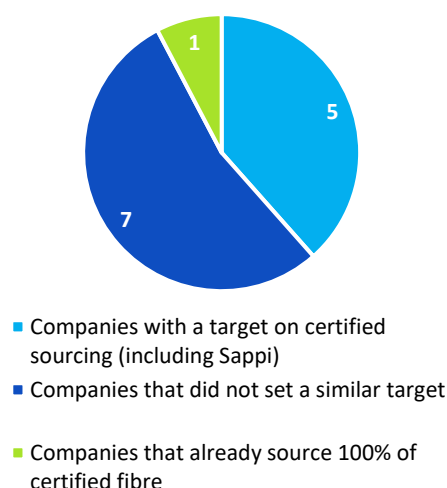
Against international targets

In the absence of international targets on the sourcing of wood or fibre, we cannot conclude the level of ambition of SPT 2.

Measurability & comparability

- **Historical data:** The issuer provided relevant historical data by setting the baseline year of its SPT to 2019 and provided historical data since 2017, going beyond the SLBP recommendation of providing historical data for previous 3 years.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement.

Figure 3: Target setting on certified fibre sourcing by the industry peer group (including Sappi)



Supporting strategy and action plan

While Sappi's own mills and tree plantations are certified, for this KPI the key actions focus on increasing the supply of certified fibre in the US. Sappi identifies the North American market as most important, as suppliers in the US have been slow to pursue formal certification.

Moreover, in order to maintain the share of certified supply, Sappi undertakes the following actions:

- In South Africa, Sappi operates a FSC group scheme for 42 private members with 41,000 ha of land (as at the end of FY2021). Growers in this scheme are offered a premium for certified timber to encourage them to invest in sustainable management practices.
- In the United States, Sappi runs two programmes to assist forest. Sappi's foresters support in developing a forest management plan geared to the interests of the landowner including wildlife management and aesthetics, marketing of timber to generate maximum return and providing an extensive network of environmental and marketing resources.

Opinion on SPT 2: *We find that there is limited information to assess the ambition of SPT 2 against the company's past performance. While Sappi has already reached the target of 75% certified fibre in previous years, the issuer explains that the effort will come from maintaining this high level of certification of their most important input material. SPT 2 is ambitious compared to industry peers, as the majority of peers do not set such a target or set a target that is not comparable to the SPT. In the absence of international targets on the sourcing of wood or fibre, we cannot conclude the level of ambition of SPT 2. The target is set in a clear timeline and supported by a strategy and action plan disclosed in the company's framework.*

2C.1 Selection of KPI 3

KPI 3: Landfill waste

FROM ISSUER'S FRAMEWORK

KPI 3: Landfill waste intensity in tons/ADT

SPT 3: Reduce landfill waste by 15% by 2025

Definition: Reduction of landfill solid waste disposal in tons/ADT by 15% with 2019 as base year

Rationale: Circular thinking, as practiced by Sappi, goes beyond mere waste beneficiation. The issuer approaches its environmental impact from a holistic perspective grounded in life-cycle thinking, from procurement of raw materials and energy through to manufacturing, design and the next life of our products. The benefits of this approach align with its purpose of contributing to a thriving world, one with less waste, lower costs and reduced environmental impact.

Long-term goal: n/a

Baseline: 0.066 t/ADT

Baseline year: 2019

Scope: Sappi Group level worldwide

Methodology: Specific Landfilled solid waste (tons/ADT) refers to the tons of waste sent to landfill onsite and off-site per ADT of saleable production. Waste quantities are input in tons, with moisture content included (as is). In the case of landfilling, "on site" refers to a Sappi owned site whereas "off-site" refers to a non-Sappi owned site. The amount of waste being sent to landfill (on- and off site) is then calculated and reported with the following equation:

$$\begin{aligned} \text{Specific landfilled solid waste (on\&off site)} \left(\frac{\text{t}}{\text{adt}} \right) \\ = \frac{\left(\text{Landfilled on site} \left(\frac{\text{t}}{\text{a}} \right) \right) + \left(\text{Landfilled off site} \left(\frac{\text{t}}{\text{a}} \right) \right)}{\text{Saleable Production} \left(\frac{\text{adt}}{\text{a}} \right)} \end{aligned}$$

With the amount of waste then being landfilled calculated with:

$$\begin{aligned}
 & \text{Landfilled on site } \left(\frac{t}{a}\right) \\
 &= \left(1. \text{Bark from own operation landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(2. \text{Primary sludge from pulp and paper mill landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(3. \text{Secondary sludge from biological treatment landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(4. \text{Wood waste, sawdust, slivers landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(5. \text{Paper, board, packaging waste landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(6. \text{Other combustible waste landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(7. \text{Sodium sulphate rejects landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(8. \text{Slaker rejects landfilled on site } \left(\frac{t}{a}\right)\right) + \left(9. \text{Lime mud landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(10. \text{Wires \& felts landfilled on site } \left(\frac{t}{a}\right)\right) + \left(11. \text{Domestic waste landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(12. \text{Plastics \& Polystyrene landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(13. \text{Boiler ashes landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(14. \text{Hazardous waste landfilled on site } \left(\frac{t}{a}\right)\right) + \left(15. \text{Used oil landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(16. \text{Other metals, iron, cans landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(17. \text{Oil contaminated waste landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(18. \text{All other waste, rolls, small chemicals landfilled on site } \left(\frac{t}{a}\right)\right) \\
 &+ \left(19. \text{Other waste, specify } \left(\frac{t}{a}\right)\right) + \left(20. \text{Other waste, specify } \left(\frac{t}{a}\right)\right) \\
 &- \left(\text{Waste reclaimed from landfill for beneficiation } \left(\frac{t}{a}\right)\right) \\
 &- \left(\text{Waste used for capping purposes } \left(\frac{t}{a}\right)\right)
 \end{aligned}$$

$$\text{Landfilled off site } \left(\frac{t}{a}\right)$$

= same calculation as Landfilled on site, but all parameters just change to OFF site

Materiality and relevance

Environmental impacts of wood processing is considered as a key ESG issue faced by the Paper & Forest products industry according to key ESG standards¹² for reporting and ISS ESG assessment. The industry emits different types of industrial pollution, which include water contamination and air pollution. Waste generated in wood processing can also have environmental impacts. Specifically, two types of waste are generated: solid waste and liquid waste. These can consist of bark, ash, pulp mill sludge, etcetera.

Landfilling waste generates a large negative impact¹³ on the environment. Open dumpsites produce methane as organic waste decomposes. Closed landfills are no solution, as they are often deeper and can hold more waste, where less oxygen is present and anaerobic decomposition accelerates. Methane is a greenhouse gas that is 28 times more polluting than carbon dioxide and therefore accelerates climate changes.

We find that the landfill KPI selected by the issuer is:

¹² Key ESG Standards include SASB and TCFD, among others.

¹³ United Nations Environment Programme, 7 September 2020, 'Waste not: the heavy toll of our trash', <https://www.unep.org/news-and-stories/story/waste-not-heavy-toll-our-trash>

- **Relevant** to Sappi's business as its industry is responsible for large amounts of waste and managing the end-of-life of resources in the production process can have important implications for the environment in general and for greenhouse gas emissions in particular. However, landfilling is not a key issue for the Paper and Forest Products industry according to ISS ESG proprietary methodology.
- **Core** to the issuer's business as it will affect all of Sappi's production processes. Waste is generated throughout the production process and finding alternatives for landfilling the solid waste will require changing the waste management system in several locations.
- **Moderately material** to Sappi from an ESG perspective as waste management of production outputs is an environmental issue that affects the entirety of the company's operations. To minimize waste, Sappi combusts more than 33% of their solid waste at the manufacturing sites to generate electricity. The challenge that remains is finding different sustainable solutions for the remaining solid waste to avoid landfilling. Still, solid waste is only one type of waste generated in the production process. Reducing water usage and waste is an important topic to the Paper and Forest Products industry, which is not included here. Sappi measures and sets targets on water related indicators separately in their sustainability reporting.

Consistency with overall company's sustainability strategy

Sappi identified four material key issues in their sustainability strategy report 2021: Principles, Prosperity, People and Planet. In the latter, the company addresses the environmental, climate and biodiversity impacts of their operations. The company strives for a precautionary approach to anticipate and prevent such harm by focusing on the following:

- Minimising the environmental impact of their operations in terms of raw materials and energy use;
- Developing new production methods and products and finding innovative ways of beneficiating waste;
- Saving water and energy at every step in the production processes;
- Ongoing investment in research and development.

We find that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Scope and perimeter:** The KPI covers 100% of the Sappi Group's operations worldwide.
- **Quantifiable/Externally verifiable:** The KPI selected is quantifiable and externally verifiable.
- **Externally verified:** The baseline data of the KPI has been externally verified by KPMG and the issuer commits to having the future performance of the KPI verified and published.
- **Benchmarkable:** The Paper and Forest Products industry is responsible for waste management of their production process. Some peers report on the same metric, making the KPI benchmarkable.

Opinion on KPI 3: We find that the KPI selected is relevant, core and moderately material to the issuer's business model and consistent with its sustainability strategy. Solid waste is only one type of waste generated in the production process. It is appropriately measurable, quantifiable, externally verifiable, externally verified and benchmarkable. It covers 100% of the Sappi Group's operations worldwide.

2C.2 Calibration of SPT 3

SPT 3: Reduce landfill waste by 15%

FROM ISSUER'S FRAMEWORK

Sustainability Performance Target (SPT) 3: Reduce landfill waste intensity by 15% by 2025 compared to the 2019 baseline

Sustainability Performance Target Trigger: is calculated as follows: tons of waste sent to landfill onsite and off-site per ADT of saleable production by 2025

Sustainability Performance Target Observation Date: 2025

Historical performance:

Year	Sappi Group Landfill waste
2017	0.079 t/ADT
2018	0.064 t/ADT
2019	0.066 t/ADT
2020	0.061 t/ADT
2021	0.053 t/ADT

Risks to the target:

- Dependence on technology: As R&D and technology develop, Sappi expects that it will be able to increase the recovery, recycling, and re-usage of materials in the waste streams. As such, faster technological developments imply lower landfill waste, but also that a slower than expected pace of development could negatively impact the company's objective.

Ambition

Against company's past performance

Sappi sets the SPT to reduce landfill waste by 15% by 2025 as compared to 2019. The historical data from 2017 to 2021 shows that the issuer already achieved large year-on-year reduction rates ranging from -18.99% in 2018, followed by a slight increase in landfilling by 3.13% in 2019, to two more large reductions in 2020 and 2021 of -7.58% and -13.11% respectively. This results in a compound annual growth rate (CAGR) for the period 2017-2019 is -8.60%.

It is worth noting that in 2020 and 2021, reductions were achieved in the context of the covid-19 pandemic. However, since the target is an intensity target, the metric should remain unaffected by a parallel decrease in production and landfilled waste.

The trajectory of SPT 3 for the reduction of landfilled waste by 2025 is on average -2.67% per year compared to the baseline. Since SPT 3 sets a lower reduction path than has been achieved in the past, We conclude that SPT 3 is quantitatively not ambitious compared to historical performance.

TABLE 2.	2017	2018	2019 BASELINE	2020	2021	2025 SPT 3
Landfilled waste t/ADT	0.079	0.064	0.066	0.061	0.053	0.0561
YoY		-18.99%	3.13%	-7.58%	-13.11%	
CAGR 2017-2019			-8.60%			
CAGR 2019-2025 (Baseline vs. SPT 3)						-2.67%

Against company's industry peers

We conducted a benchmarking of the SPT set by Sappi against a Paper & Forest Products peer group of 11 companies, as identified by the issuer.

From this peer group, three companies also set specific targets for the share of waste landfilled. Specifically, one of those companies sets a target to send 0% waste to landfill by 2030. That leaves eight peers who did not set a target similar to SPT 3.

Compared to industry peers, Sappi is one of four out of 12 companies who set a similar target and therefore scores in the top 33% in terms of target setting.

Therefore, we conclude that the SPT set by the issuer is ambitious compared to industry peers.

Against international targets

In the absence of international targets on landfill waste, we cannot conclude the level of ambition of SPT 3.

Measurability & comparability

- **Historical data:** The issuer provided relevant historical data by setting the baseline year of its SPT to 2019 and provided historical data since 2017, going beyond the SLBP recommendation of providing historical data for previous 3 years.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement.

Supporting strategy and action plan

Sappi is working on the following projects to reduce landfill waste:

- In the Somerset Mill (USA), wastewater treatment sludge contributes majorly to specific landfilled solid waste. While it is usually combusted as fuel, it is sent to landfill when the mill is not running at optimal capacity. A Lean Six Sigma (LSS) project team at the mill was tasked with minimising sludge sent to landfill and maximising sludge fuel value. As a result, the team was able to isolate the factors contributing to the stoppage and improve the uptime of our sludge feed from a baseline of 90% to over 98%.
- The South African government introduced an Extended Producer Responsibility (EPR) programme during 2021, outlining a new approach to waste management for paper, packaging and some single use products, lighting and electrical and electronic equipment. The aim is to divert waste from landfills and increase recovery, recycling and reuse of materials.

Sappi is a member of the Fibre Circle, the producer responsibility organisation created for the South Africa paper and paper packaging sector.

Opinion on SPT 3: We find that the SPT calibrated by Sappi is not ambitious against past performance, because the issuer achieved a larger reduction in the past than is set out by the SPT, but it is ambitious against peer companies. In the absence of international targets on landfill waste, we cannot conclude the level of ambition of SPT 3. The target is set in a clear timeline, is supported by a strategy and action plan disclosed in the company's framework.

2D.1 Selection of KPI 4

KPI 4: Zero workplace injuries LTIFR: own employees

FROM ISSUER'S FRAMEWORK

KPI 4: Lost-time injury frequency rate (LTIFR)

SPT 4: Zero workplace injuries (LTIFR: own employees) by 2025

Definition: LTIFR is the lost-time injury frequency rate and is calculated by dividing the product of lost-time injuries and a group-wide standard for man hours by the unit's man hours, i.e. $LTIFR = LTI * 200\,000 / \text{unit's actual man hours}$.

Own employees include Sappi employees from all the company's premises, including forests, mills, factories and offices.

Long-term goal: n/a

Rationale: Sappi considers safety as a moral imperative, but also as an issue that affects productivity and hence the value added to Sappi's stakeholders. Its approach to safety is based on the principles of Project Zero – zero fatalities and zero injuries. In addition to addressing hazards in the workplace by means of the OHSAS 18001 and ISO 45001 related systems in place at all its pulp and paper mills, the company also addresses 'at risk behaviour' of its employees through a behavior-based safety (BBS) system.

Baseline: LTIFR of 0.71

Baseline year: 2019

Scope: Sappi Group level worldwide

Materiality and relevance

Worker safety and accident prevention are considered key ESG issues faced by the Paper & Forest Products industry according to key ESG standards¹⁴ for reporting and ISS ESG assessment. Major health and safety issues in manufacturing include noise and chemical hazards in paper plants. Moreover, as with most manufacturing industries, workers there are exposed to the risks associated with heavy loads and/or mechanical equipment.

We find that the workplace injury KPI selected by the issuer is:

- **Relevant** to Sappi's business as its industry carries major health and safety risks to employees, specifically in the manufacturing of paper.
- **Core** to the issuer's business as safety measures affect key processes and operations. Sappi claims that reaching zero workplace injuries will require significant effort in all of its premises

¹⁴ Key ESG Standards include SASB and TCFD, among others.

(including forests, mills, factories and offices) worldwide. The main tools that Sappi expects to leverage for this include HR processes such as its behavior-based safety systems, but also other (regional) initiatives such as sharing and logging near misses, and establishing a standardized audit system, but also introducing a recognition initiative for safety.

- **Moderately material** to Sappi from an ESG perspective as it is one of the key ESG issues faced by the Paper & Forest Products industry and hence Sappi can have material impact on the issue. However, the KPI only includes Sappi's own employees and excludes approximately 9250 contractors (approximately 40% of its workforce).

Consistency with overall company's sustainability strategy

According to Sappi's sustainability strategy, safety is core value and moral imperative, but also an issue that affects productivity and value for all its stakeholders. The company's approach to safety is based on the principles of Project Zero – zero fatalities and zero injuries. Notably, Sappi addresses 'at risk behavior' for their employees through a behavior-based safety (BBS) system. Furthermore, hazards in the workplace are addressed by means of OHSAS 18001 and ISO 45001-related systems, which have been implemented in all the company's pulp and paper mills.

We find that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Scope and perimeter:** The KPI covers 100% of Sappi Group's operations worldwide, but only direct employees. As such, injuries of contractors working on Sappi's forestry operations in South Africa (approximately 40% of its workforce) are not included in this specific KPI, but a separate KPI is in place for those forestry contractors.
- **Quantifiable/Externally verifiable:** The KPI selected is quantifiable and externally verifiable. By tracking the number of injuries causing lost time and dividing the product these 'lost-time injuries' and a group-wide standard for man hours (i.e. 200,000 hours) by the unit's actual man hours, Sappi can calculate its LTIFR.
- **Externally verified:** Annually, this KPI will be included in Sappi Group's sustainability report while KPMG, Sappi's external auditor, will provide a limited assurance regarding such SPT performance information.
- **Benchmarkable:** The KPI is comparable with data provided by other companies in their annual reporting. Initially developed in Australia, LTIFR is one of the most commonly accepted metrics for tracking work-injuries and their impact. It is officially used by multiple workplace safety bodies such as the Occupational Safety and Health Administration (OSHA).

Opinion on KPI 4: We find that the KPI selected is relevant, core and moderately material to the issuer's business model and consistent with its sustainability strategy. The KPI only includes Sappi's own employees and excludes approximately 9250 contractors (approximately 40% of its workforce). It is appropriately measurable, quantifiable, externally verifiable, externally verified and benchmarkable. It covers 100% of the Sappi Group's operations worldwide.

2D.2 Calibration of SPT 4

SPT 4: Zero work place injuries LTIFR: own employees

FROM ISSUER'S FRAMEWORK

Sustainability Performance Target (SPT) 3: Zero work place injuries (LTIFR: own employees) by 2025

Sustainability Performance Target Trigger: is calculated as follows: the number of work place injuries (LTIFR: own employees) in 2025

Sustainability Performance Target Observation Date: 2025

Historical performance:

Year	Sappi Group LTIFR
2017	0.58
2018	0.55
2019	0.71
2020	0.44
2021	0.48

Risks to the target:

- Zero-rate target: it assumes full commitment to all initiatives and programs, meaning that deviations will impact the LTIFR immediately.
- Cyclicity of the business: during the up-cycle with 100% operating rates, mills have no spare capacity, which can reduce the attention spent on avoiding injuries.
- Corporate action, particularly acquisitions: Sappi's safety culture is not always mirrored in new companies joining the group through acquisitions. It can take time to improve the LTIFRs at newly acquired businesses.

Ambition

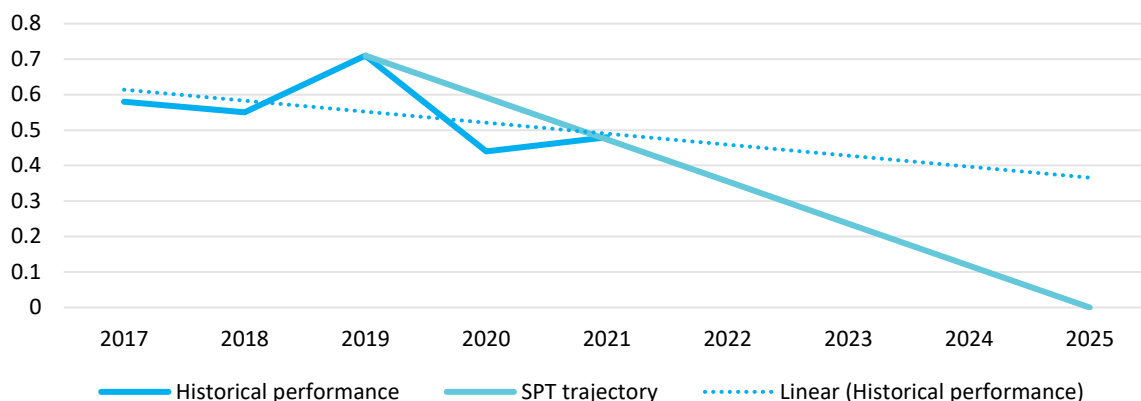
Against company's past performance

Sappi calibrates SPT 4 to reduce the work place injuries (LTIFR) of its own employees to zero. As shown in Table 3, the year-on-year (YoY) changes to the LTIFR fluctuated greatly between 2017 and 2021. The general trend, as displayed in Figure 4, is downward sloping. The trajectory for SPT 4, i.e. to reach zero LTIFR in 2025 with 2019 as the baseline year, is steeper than the historical performance.

TABLE 3.	2017	2018	2019 BASELINE	2020	2021	2025 TARGET YEAR
LTIFR	0.58	0.55	0.71	0.44	0.48	0
YoY		-5.17%	29.09%	-38.03%	9.09%	
CAGR 2019-2021					-18%	
CAGR 2019-2025						-100%

Therefore, we conclude that SPT 4 is quantitatively ambitious against historical performance.

Figure 4: Sappi Group LTIFR trajectories



Against company's industry peers

We conducted a benchmarking of the SPT set by Sappi against a Paper & Forest Products peer group of 11 companies, as identified by the issuer.

From this peer group, five companies also set specific targets for the injury rate of their employees. Specifically, two of those companies also set a zero injuries target. Beyond Sappi's target, these two peers set their zero-injury target to not only include their own employees but contractors too. That leaves six peers who did not set a target similar to SPT 4. These results are displayed in Figure 5.

Compared to industry peers, Sappi scores in the top 50% in terms of target setting. In terms of magnitude of the target, Sappi is one of three companies in the peer group of 12 that sets a zero-injury target. However, the scope of the SPT calibrated by the issuer is limited compared to peers, since the latter include contractors in their targets while Sappi only includes own employees.

Therefore, we conclude that the SPT set by the issuer is not ambitious compared to industry peers.

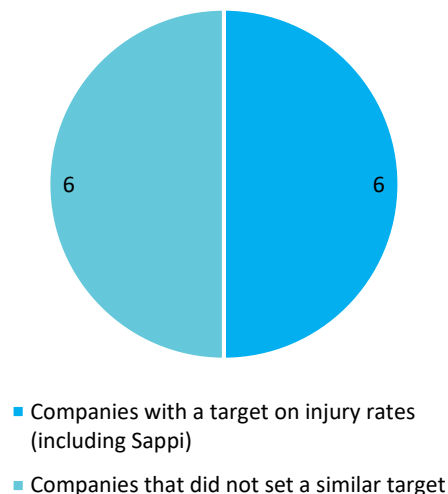
Against international targets

In the absence of international targets on LTIFR, we cannot conclude the level of ambition of SPT 4.

Measurability & comparability

- **Historical data:** The issuer set the baseline year of its SPT to 2019 and provided relevant historical data by disclosing all yearly LTIFR data available since 2017.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

Figure 5: Target setting on injury rates by the industry peer group (including Sappi)



Supporting strategy and action plan

As part of its 'project zero' initiative, which thrives for zero injuries across the company, Sappi has introduced a series of safety campaigns and messaging. This includes the overarching 'I Value Life' campaign, but also more specific ones such 'Stop, Think before you Act' which was designed for work in Sappi's forests. Other and regional initiatives have also been implemented, examples of which include:

- Establishing a standardized audit system and completing audits at Gratkorn and Alfeld Mills. This process will also be rolled out in other operations going forward.
- Introducing a new recognition initiative – 'Safety Star of the Week'
- Sharing of potential near misses ('Lesson Learnt High'), which are logged and captured on a deviation system
- Engaging regularly with employees, labor unions, contractors and communities and joint Safety Leadership Councils

Opinion on SPT 4: *We find that the SPT calibrated by Sappi's is ambitious against the company's past performance. Compared to Paper & Forest products industry practices, Sappi is part of the 50% of companies that define a target, and one of three that sets a zero-injury target. Yet, it lacks ambition with regards to scope, as its target only includes own employees and excludes contractors. In the absence of international targets on LTIFR, we cannot conclude the level of ambition of SPT 4. The target is set in a clear timeline, is supported by a strategy and action plan disclosed in the company's framework.*

2E.1 Selection of KPI 5

KPI 5 (SSA): Specific process water usage in South Africa

FROM ISSUER'S FRAMEWORK

KPI 5: Specific process water usage in South Africa

SPT 5: Reduce specific process water usage in South Africa (m³/adt) by 23% in 2025 with 2019 as the base year

Definition: Specific process water is the water used in production processes.

Rationale: Water is essential for the health of the forests and plantations from which Sappi sources wood fibre. In addition, pulp and paper operations are highly dependent on the use and responsible management of water resources. Water is used in all major process stages of Sappi's production, as well as in the processes of cooling, materials transport, equipment cleaning, and various other purposes.

South Africa is classified as a water-stressed country with uneven distribution of rainfall across the country. This creates varying challenges around access to clean water and sanitation and it is against this backdrop that responsible water stewardship is essential for Sappi.

Long-term goal: n/a

Baseline: 44.51 m³/adt

Baseline year: 2019

Scope: Sappi South Africa (SSA)

Methodology: Specific process water is measured as an intensity metric in m³ per air dry ton (adt).

Materiality and relevance

Environmental impacts of wood processing, including the impact of water usage, is considered as a key ESG issue faced by the Paper & Forest products industry according to key ESG standards¹⁵ for reporting and ISS ESG assessment. In addition to this global issue, the issue is even more relevant in the local South-African context. South Africa is a water-scarce country. Moreover, it is also located in a region where projected temperature increases are expected to exceed the global average, including expectations of droughts and increased rainfall variability¹⁶.

We find that the water usage KPI selected by the issuer is:

- **Relevant** to Sappi's business as its industry is responsible for large amounts of water withdrawal and usage. Water usage intensity and waste water management are key issues for the Paper and Forest Products industry according to ISS ESG methodology. Since paper production requires water as a primary ingredient, the KPI captures an important physical risk.
- **Core** to the issuer's business in South Africa as it will affect the issuer's production processes. The reduction of specific water usage in its manufacturing process will require the issuer to invest in, for example, efficiency measures. A large part of the action plan focuses on the Saiccor mill expansion project, which includes a water-saving capital investment to improve Saiccor's water efficiency by 17%. Moreover, the issuer will implement several smaller capital investments, which

¹⁵ Key ESG Standards include SASB and TCFD, among others.

¹⁶ World Resource Institute, July 2021, 'Water Resilience in a Changing Urban Context: Africa's Challenge and Pathways for Action', <https://www.wri.org/research/urban-water-resilience-africa>

aim to reduce steam usage and improve water efficiency at each of Sappi's South-African manufacturing sites.

- **Material** to Sappi's business in South Africa and partially material to the company's overall operations from an ESG perspective as water is one of the most important ingredients in the production process of paper products. Indeed, water is used in all major process stages, including raw materials preparation, pulp cooking, washing and screening, and paper machines (pulp slurry dilution and fabric showers). The KPI focuses on process water, which is all the water directly required to manufacture Sappi's products. Specifically, it includes all water drawn and used in production. The difference between total water usage and specific process water usage is the water that is used outside of the production process, e.g., water Sappi provides to communities (a voluntary action focused on water-scarce target populations around its production sites, especially in times of need such as after a flood) and water usage in warehouses and offices. The KPI includes 77% of total water used by Sappi in South Africa and accounted for 32% of total specific process water used worldwide by the company (based on 2021 data).

Consistency with overall company's sustainability strategy

Sappi has both a global and regional sustainability strategy. The regional strategy is divided between Southern Africa, North America and Europe. For Southern Africa, Sappi defines the same amount of sustainability targets for 2025, each with a regionally calibrated quantified target. Overall, the company addresses the environmental, climate and biodiversity impacts of their operations by focusing on the following:

- Minimising the environmental impact of their operations in terms of raw materials and energy use;
- Developing new production methods and products and finding innovative ways of beneficiating waste;
- Saving water and energy at every step in the production processes;
- Ongoing investment in research and development.

The fact that water makes up an important part of Sappi's sustainability strategy can be demonstrated with the recent finalization of a Water Stewardship agreement with the World Wide Fund for Nature South Africa (WWF-SA). This project aims to improve water security in the uMkhomazi catchment area, where a significant part of manufacturing (the Saiccor Mill) and forestry land (42,000 ha) of the issuer is located.

We find that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Scope and perimeter:** While Sappi is a global company, this KPI has a national focus on Sappi South Africa only. The KPI accounted for 32% of global specific process water in 2021.
- **Quantifiable/Externally verifiable:** The KPI selected is quantifiable and externally verifiable. The KPI is defined as an intensity metric of water usage per ton of product, defined as air dry ton, a standard definition of product weight for pulp and paper.

- **Externally verified:** The baseline and historical data of the KPI have not been externally verified. The issuer commits to having the future performance of the KPI verified and published.
- **Benchmarkable:** The Paper and Forest Products industry relies heavily on water in its production process. Some peers also report on water usage, however, it is not a standard KPI in the sector. Peers' targets differ in terms of definition, magnitude and timeline. For example, some peers focus on reducing wastewater, while others target water use intensity. Therefore, the KPI is benchmarkable with limitations.

Opinion on KPI 5: We find that the KPI selected is relevant, core and consistent with its sustainability strategy. The KPI is material to Sappi's business in South Africa and partially material to the company's overall operations. The KPI focuses on process water, which is all the water directly required to manufacture Sappi's products, which accounts for 77% of total water usage by Sappi in South Africa. It is appropriately measurable, quantifiable, externally verifiable, externally verified and benchmarkable with limitations. This KPI has a national focus on Sappi South Africa only, where specific process water accounted for 32% of global figures in 2021.

2E.2 Calibration of SPT 5

SPT 5: Reduce specific process water usage in South Africa (m³/adt) by 23%

FROM ISSUER'S FRAMEWORK

Sustainability Performance Target (SPT) 5: Reduce specific process water usage in South Africa (m³/adt) by 23% in 2025 with 2019 as the base year

Sustainability Performance Target Trigger: is calculated as follows: specific process water usage in South Africa in m³/adt by 2025

Sustainability Performance Target Observation Date: 2025

Historical performance:

Year	SSA Process Water (m ³ /adt)
2017	46.19
2018	45.13
2019	44.51
2020	45.01
2021	46.17

Risks to the target: the impacts of climate change (especially extremes of droughts and floods)

Ambition

Against company's past performance

Sappi sets the SPT to reduce specific process water usage in South Africa by 23% by 2025 as compared to 2019. The historical data from 2017 to 2021 shows that the issuer has not been able to reduce the intensity of water usage significantly. The year-on-year percentage changes range from -2.29% to +2.58%. Moreover, the compound annual growth rate (CAGR) for the period 2017-2019 is -1.84%. Further, the issuer explains that the water usage increase in 2020 and 2021 due to an expansion

project at the Saiccor mill. Water usage increased given the long construction period, the commissioning process and some difficulties during the start-up process of the mill.

TABLE 4.	2017	2018	2019 BASELINE	2020	2021	2025 SPT 5
Specific process water usage (in m3/adt)	46.19	45.13	44.51	45.01	46.17	34.27
YoY		-2.29%	-1.37%	1.12%	2.58%	
CAGR 2017 - 2019			-1.84%			
CAGR 2019 - 2025						-4.26%

The trajectory of SPT 5 for the reduction of specific water usage by 2025 is on average -4.26% per year compared to the baseline. Since SPT 5 sets a steeper reduction path than has been achieved in the past, we conclude that SPT 3 is ambitious compared to historical performance. The historical data has not been externally verified. Therefore, this conclusion is based on limited evidence.

Against company's industry peers

We conducted a benchmarking of the SPT set by Sappi against a Paper & Forest Products peer group of 11 companies, as identified by the issuer.

From this peer group, five companies set a quantified target to reduce water usage. These targets differ in definition, magnitude and timeline. For example, some peers focus on reducing wastewater, while others target water use intensity. Moreover, only one other peer also has operations in South Africa.

Compared to industry peers, Sappi is one of six out of 12 companies who set a target to reduce water usage and therefore scores in the top 50% in terms of target setting.

Therefore, we conclude that the SPT set by the issuer is in line with industry peers.

Against international targets

The United Nations Sustainable Development Goal 6 "Clean Water and Sanitation" defines the following targets that are related to this SPT:

- 6.4 "By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity";
- 6.5 "By 2030, implement integrated water resources management at all levels, including through transboundary cooperation as appropriate".

According to the issuer, no international target exists on this specific topic beyond the UN SDGs, which do not provide for comparable quantified target applicable for comparison with Sappi's target.

Given the absence of quantified international targets for the industry on reducing industrial water withdrawal, there is limited information to conclude the level of ambition of SPT 5 against international targets.

Measurability & comparability

- **Historical data:** The issuer provided relevant historical data by setting the baseline year of its SPT to 2019 and provided historical data since 2017.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement.

Supporting strategy and action plan

Sappi is working on the following projects to reduce process water usage:

- Concluding the Saiccor mill expansion project will include a water saving capital investment to improve Saiccor's water efficiency by 17%;
- Sappi has set up a Water Stewardship agreement with the World-Wide Fund for Nature South Africa (WWF-SA), aimed at improving water security in the uMkhomazi catchment area;
- Various smaller capital projects are part of the action plan, which aim to reduce steam usage and improve water efficiency at each of Sappi's South-African manufacturing sites.

Opinion on SPT 5: *We find that the SPT calibrated by Sappi is ambitious against past performance, based on limited evidence since the historical data has not been externally verified. The SPT is in line with peers, because it ranks in the top 50% of the industrial peer group in terms of setting a target on water usage reduction. In the absence of international targets on specific water usage, we cannot conclude the level of ambition of SPT 5. The target is set in a clear timeline, is supported by a strategy and action plan disclosed in the company's framework.*

PART 3: LINK TO SAPPI'S SUSTAINABILITY STRATEGY

This section aims to provide an overall level of information on the ESG risks to which the issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

ESG risks associated with the Issuer's industry

The issuer is classified in the Paper & Forest Products, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
Sustainability standards of forests and plantations
Sustainable wood/fibre sourcing
Environmental impacts of wood processing
Protection of human rights and livelihoods
Worker safety and accident prevention


ESG performance of the Issuer



Leveraging ISS ESG's Corporate Rating research, further information about the issuer's ESG performance can be found on ISS ESG Gateway at: <https://www.issgovernance.com/esg/iss-esg-gateway/>.

Please note that the consistency between the issuance subject to this report and the issuer's sustainability strategy is further detailed in Part 3.B of this report.

Sustainability impact of products and services portfolio

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, we assessed the contribution of the issuer's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the issuer's production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
Products from relevant certified sustainable forestry	75%	CONTRIBUTION	

Products made from recycled materials	5%	CONTRIBUTION	
Basic medical equipment	1%	CONTRIBUTION	
Others	N/A	NO NET IMPACT	N/A

Breaches of international norms and ESG controversies

At issuer level

At the date of publication, we have not identified any severe controversy in which the issuer would be involved.

At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Paper and Forest products industry are as follows: failure to prevent deforestation / illegal logging, failure to respect the right to just and favourable conditions of work and failure to respect the right to safe and healthy working conditions.

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

DISCLAIMER

- Validity of the SPO: For Sappi's Sustainability-linked Finance Instruments issuances as long as the Sustainable Finance Framework (27.07.2022), SPT benchmarks and structural securities characteristics described in this document do not change.
- ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to standardized procedures to ensure consistent quality of responsibility research worldwide. In addition, we provide Second Party Opinion (SPO) on bonds based on data provided by the issuer.
- We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them, and the use thereof shall be excluded.
- All statements of opinion and value judgments given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and creditworthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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ANNEX 1: ISS ESG Corporate Rating

The following pages contain extracts from Sappi's 2022 ISS ESG Corporate Rating.

Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

ESG Corporate Rating - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

1. Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
2. Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
3. Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Norm-Based Research - Severity Indicator - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).

Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the Corporate Rating universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Performance Score - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

Transparency Level - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

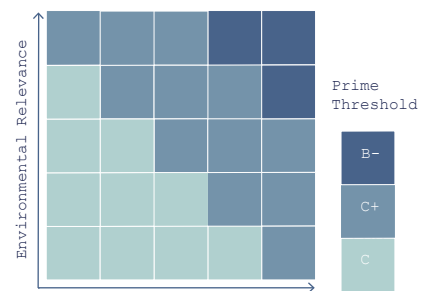
20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.



ANNEX 2: Methodology

Alignment of the concept set for transactions against the Sustainability-Linked Bond Principles, as administered by ICMA

ISS ESG reviewed the Sustainable Finance Framework of Sappi, as well as the concept and processes for issuance against the Sustainability-Linked Bond Principles administered by the ICMA and the Sustainability-Linked Loan Principles administered by the LMA. Those principles are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Bond and Loan markets by clarifying the approach for issuance.

ISS ESG reviewed the alignment of the concept of the Sappi's issuance with mandatory and necessary requirements as per the Appendix II - SLB Disclosure Data Checklist of those principles, and with encouraged practices as suggested by the core content of the Principles.

Analysis of the KPI selection and associated SPT

In line with the voluntary guidance provided by the Sustainability-Linked Bond Principles, ISS ESG conducted an in-depth analysis of the sustainability credibility of the KPI selected and associated SPT. ISS ESG analysed if the KPI selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy thanks to its long-standing expertise in evaluating corporate sustainability performance and strategy. ISS ESG also reviewed if the KPI is appropriately measurable by referring to key GHG reporting protocols and against acknowledged benchmarks.

ISS ESG analysed the ambition of the SPT against Sappi's own past performance (according to Sappi's reported data), against Sappi's Paper & Forestry Products peers (as per ISS ESG Peer Universe and public data), and against international benchmarks such as the Paris agreement. Finally, ISS ESG evaluated the measurability & comparability of the SPT, and the supporting strategy and action plan of Sappi.

ANNEX 3: Quality management processes

SCOPE

Sappi commissioned ICS to compile a Sustainability-linked Finance Instruments SPO. The Second Party Opinion process includes verifying whether the Sustainability-linked Finance Framework aligns with the ICMA Sustainability-Linked Bond Principles and the LMA Sustainability-Linked Loan Principles and to assess the sustainability credentials of its Sustainability-linked Finance Instruments, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Sustainability-Linked Bond Principles
- LMA Sustainability-Linked Loan Principles

ISSUER'S RESPONSIBILITY

Sappi's responsibility was to provide information and documentation on:

- Framework

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Sustainability-linked Finance Instruments to be issued by Sappi based on ISS ESG methodology and in line with the ICMA Sustainability-Linked Bond Principles and the LMA Sustainability-Linked Loan Principles.

The engagement with Sappi took place between January and September 2022.

ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About this SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For information about SPO services, please contact: SPOsales@isscorporatesolutions.com

For information about this specific Sustainability-linked Finance Instruments SPO, please contact: SPOOperations@iss-esg.com

Project team

Project lead

Leontine Schijf
Associate
ESG Consultant

Project support

Louis Cottin
Analyst
ESG Consultant

Project supervision

Marie-Bénédicte Beaudoin
Associate Director
Head of SPO Operations