

May 14, 2020

Today Sappi Limited is making publicly available the following information:

### USE OF TERMS AND CONVENTIONS

Unless otherwise specified or the context requires otherwise in this document:

- References to “Sappi”, “Sappi Group”, “Sappi group”, “Group”, “we”, “us” and “our” are to Sappi Limited together with its consolidated subsidiaries;
- References to the “2016 Refinancing” are to the refinancing that we implemented in March 2016, which comprised the following transactions: (a) the issuance of the 2023 Notes and (b) the redemption of the 2021 Notes;
- References to the “2019 Refinancing” are to the refinancing that we implemented in March 2019, which comprised the following transactions: (a) the issuance of the 2026 Notes and (b) the redemption of the 2022 Notes;
- References to the “2017 Notes” are to our US\$400 million 7.75% senior secured notes due 2017, issued pursuant to an indenture dated as of July 5, 2012;
- References to the “2021 Notes” are to our US\$350 million 6.625% senior secured notes due 2021, issued pursuant to an indenture dated as of April 14, 2011;
- References to the “2022 Notes” are to our €450 million 3.375% senior notes due 2022, issued pursuant to an indenture dated as of March 23, 2015. On August 31, 2016, having fulfilled certain requirements for the release of collateral, all collateral securing the 2022 Notes was released;
- References to the “2023 Notes” are to our €350 million 4.00% senior notes due 2023, issued pursuant to an indenture dated as of March 31, 2016 in connection with the 2016 Refinancing. On August 31, 2016, having fulfilled certain requirements for the release of collateral, all collateral securing the 2023 Notes was released;
- References to the “2026 Notes” are to our €450 million 3.125% senior notes due 2026, issued pursuant to an indenture dated as of March 26, 2019 in connection with the 2019 Refinancing;
- References to the “2032 Notes” are to our US\$250 million 7.50% unsecured guaranteed notes due 2032, of which US\$221 million were outstanding as at March 2020;
- References to “B-BBEE” are to Broad-Based Black Economic Empowerment, or Black Economic Empowerment, which arises as a result of the following South African legislation: the Employment Equity Act (No. 55 of 1998); the Skills Development Act (No. 97 of 1998); the Preferential Procurement Policy Framework Act (No. 5 of 2000); and the Broad Based Black Economic Empowerment Act (No. 53 of 2003);
- References to “bleached chemi-thermo mechanical wood pulp” are to pulp manufactured using a mechanical process used primarily in the paper and packaging industry;
- References to “capital expenditure” are to the total of “investment to maintain operations” and “investment to expand operations” for the relevant period, as presented in the statement of cash flows in our Group annual financial statements included elsewhere in this document;
- References to the “Cham Acquisition” are to the acquisition of the specialty papers business of Cham Paper Group by Sappi, for US\$132 million, which closed in February 2018. As part of the Cham Acquisition, we acquired Cham Paper Group’s Carmignano and Condino Mills located in Italy and its digital imaging business located in Cham, Switzerland, as well as all of Cham Paper Group’s brands and know-how;
- References to “Cham Paper Group” are to Cham Paper Group Holding AG, a stock corporation incorporated under the laws of the Swiss Confederation, and its consolidated subsidiaries;
- References to “COVID-19” are to the infectious disease caused by severe acute respiratory syndrome coronavirus 2, the pandemic resulting therefrom, which was continuing as of the date of this document, and public health events related thereto;
- References to “Delivery Costs Revenue Adjustment” are to shipping and delivery costs incurred in connection with the sale of our products, which in accordance with IFRS 15 *Revenue from Contracts with Customers* are set off against revenue based on agent accounting principles;

- References to the “FRSC Financial Reporting Pronouncements” are to the Financial Reporting Pronouncements, as issued by the Financial Reporting Standards Council;
- References to “IFRS” are to the International Financial Reporting Standards, as issued by the International Accounting Standards Board (“IASB”);
- References to “Latin America” are to the countries located on the continent of South America and Mexico;
- References to “m<sup>2</sup>” are to square meters and references to “hectares” or “ha” are to a land area of 10,000 square meters or approximately 2.47 acres;
- References to “market pulp” are to pulp produced for sale on the open market, as opposed to pulp produced for own consumption in an integrated mill;
- References to “market share” are based on our sales volumes and market demand or, where indicated, production capacity in a specified geographic region as of and for the fiscal year ended September 29, 2019;
- References to the “Matane Acquisition” are to the acquisition of the Matane hardwood pulp mill from Rayonier Advanced Materials Inc. by Sappi for US\$158 million, which closed in November 2019;
- References to “mechanical” are to pulp manufactured using a mechanical process, or, where applicable to paper, made using a high proportion of such pulp;
- References to “North America” are to the United States, Canada and the Caribbean;
- References to “OeKB” are to Oesterreichische Kontrollbank Aktiengesellschaft, an Austrian development bank;
- References to the “OeKB Term Loan Facilities” are to the OeKB Term Loan Facility I, the OeKB Term Loan Facility II and the OeKB Term Loan Facility III, collectively;
- References to the “OeKB Term Loan Facility I” are to the €81.6 million term loan facility entered into with, *inter alios*, OeKB on July 5, 2012, as amended and restated on September 18, 2013 and on March 16, 2015 and replaced by a new agreement dated as of June 20, 2017, as amended and restated on February 28, 2018, as amended on October 10, 2019, April 9, 2020 and May 12, 2020;
- References to the “OeKB Term Loan Facility II” are to the €50 million term loan facility entered into with, *inter alios*, OeKB on June 20, 2017 in connection with the conversion project at the Somerset Mill, as amended and restated on February 28, 2018, as amended on October 10, 2019, April 9, 2020 and May 12, 2020;
- References to the “OeKB Term Loan Facility III” are to the €74 million and CAD129 million term loan facilities entered into with, *inter alios*, OeKB on October 31, 2019 in connection with the Matane Acquisition, as amended on April 9, 2020 and May 12, 2020;
- References to “PM” are to individual paper machines;
- References to “pulp integration” are to the amount of pulp that we have the capacity to produce at our facilities, expressed as a percentage of the amount of pulp we require to operate our paper production facilities at capacity, either globally or by region;
- References to the “Revolving Credit Facility” are to the facility described in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Summary of Certain Debt Arrangements” included elsewhere herein;
- References to “Rockwell Solutions” are to Rockwell Solutions Limited, a limited liability company organized under the laws of Scotland;
- References to “SAICA Financial Reporting Guides” are to the South African Institute of Chartered Accountants (“SAICA”) Financial Reporting Guides, as issued by the SAICA Accounting Practices Committee;
- References to “Southern Africa” are to the Republic of South Africa, the Kingdom of Swaziland, the Kingdom of Lesotho, the Republic of Namibia and the Republic of Botswana;
- References to “tons” are to metric tons (approximately 2,204.6 pounds or 1.1 short tons);
- References to the “Trade Receivables Securitization Program” are to the agreement related to the securitization of certain trade receivables of the Sappi Group through Elektra Purchase No. 29 DAC, arranged by UniCredit Bank AG, dated as of August 12, 2011, as amended on December 19, 2011, February 1, 2013, June 26, 2013, May 23, 2014, March 12, 2015, May 13, 2016, as further amended and restated on June 22, 2017 and December 30, 2018, and as further amended on or about October 4, 2019, April 17, 2020, May 7, 2020 and May 13, 2020;

- References to “woodfree paper” are to paper made from chemical pulp, which is pulp made from woodfiber that has been produced in a chemical process;
- References to “CAD” and “Canadian cents” are to the Canadian dollar and cents, the currency of Canada;
- References to “euro”, “EUR” and “€” are to the currency of those countries in the European Union that form part of the common currency of the euro;
- References to “Rand”, “ZAR” and “R” are to South African Rand, the currency of South Africa, and references to “SA cents” are to South African cents;
- References to “RMB” or “renminbi” are to Chinese renminbi, the currency of the People’s Republic of China;
- References to “UK pounds sterling”, “GBP” and “£” are to United Kingdom pounds sterling, the currency of the United Kingdom; and
- References to “US dollar(s)”, “dollar(s)”, “US\$”, “\$” and “US cents” are to United States dollars and cents, the currency of the United States.

Except as otherwise indicated, in this document, the amounts of “capacity” or “production capacity” of our facilities or machines are based upon our best estimates of production capacity at the date of this document. Actual production by machines may differ from production capacity as a result of products produced, variations in product mix and other factors.

Certain market share information and other statements presented herein regarding our position relative to our competitors with respect to the manufacture or distribution of particular products are not based on published statistical data or information obtained from independent third parties, but reflect our best estimates. We have based these estimates on information obtained from our customers, trade and business organizations and associations and other contacts in our industries. Such internal estimates with respect to our industry, while believed by us to be reliable, have not been verified by any independent sources, and we do not make any representation as to the accuracy of such information.

Unless otherwise provided in this document, trademarks identified by ® are registered trademarks of Sappi Limited or our subsidiaries. We own or have rights to such trademarks and certain trade names that we use in conjunction with the operation of our business. Each trademark, trade name or service mark of any other company appearing in this document belongs to its holder. Solely for convenience, trademarks, trade names and copyrights referred to in this document may be listed without the ®, ® and ™ symbols, but we will assert, to the fullest extent under applicable law, our rights to these trademarks, trade names and copyrights.

### **FORWARD-LOOKING STATEMENTS**

Except for historical information contained herein, statements contained in this document may constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995.

Forward-looking statements provide our current expectations, intentions or forecasts of future events. Forward-looking statements include statements about expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not statements of historical fact. Words or phrases such as “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “assume”, “positioned”, “will”, “may”, “should”, “risk” and other similar expressions, or the negatives of those words or phrases, which are predictions of or indicate future events and future trends and which do not relate to historical matters, identify forward-looking statements. However, the absence of these words, expressions or phrases does not necessarily mean that a statement is not forward-looking.

In addition, this document includes forward-looking statements relating to our potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include, but are not limited to:

- the highly cyclical nature of the pulp and paper industry (and the factors that contribute to cyclicity, such as levels of demand, production capacity, actual production, pricing and input costs including raw material costs, energy costs and employee costs) and the potential substantial fluctuations in our results;
- the COVID-19 pandemic;
- the highly competitive environment in the markets for pulp and paper products;
- a lower demand for our products due to increased popularity of digital media and changes in consumer preferences;

- the impact on our business of adverse changes in global economic conditions;
- the potential incurrence of liabilities that are not covered by insurance, the unavailability or increase in the cost of insurance coverage;
- technological developments that may affect our ability to compete successfully;
- liabilities under environmental, health and safety laws and regulations and the cost of compliance with such laws and regulations;
- consequences of our leverage, including as a result of adverse changes in credit markets that may affect our ability to raise capital when needed;
- our ability to generate sufficient cash flows to fund our business and service our debt;
- risks related to our strategic initiatives and our ability to successfully implement our strategy;
- our ability to carry out capital projects in a timely manner and to manage, complete within budget and realize the expected benefits of any investment;
- risks related to the impact of volatility in the equity markets or default in the bond markets on our ability to fund our post-employment liabilities;
- currency fluctuations;
- adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;
- uncertainties relating to international trade policies, new tariffs and other trade measures;
- our inability to recover increasing input costs through increased prices;
- fluctuations in the price and availability of energy and raw materials;
- our exposure to a limited number of customers;
- our dependence on, and our ability to hire and retain, key staff and highly skilled individuals;
- disruption in our workforce and risks related to work stoppages;
- risks related to the prevalence of HIV/AIDS in certain regions in which we operate;
- risks related to natural catastrophes and climate change;
- risks related to taxation;
- our inherently dangerous manufacturing and forestry operations and risks related to the health and safety of our employees;
- unanticipated production, information technology or supply chain disruptions (including as a result of planned or unexpected power outages);
- changes in environmental, tax and other laws and regulations; and
- the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructurings or other strategic initiatives, and achieving expected savings and synergies.

These factors are fully discussed in this document. See “Risk Factors”. The risks described in the “Risk Factors” section of this document are not exhaustive. For further discussion on these factors, see “Our Business”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and note 31 to our Group annual financial statements for the year ended September 2019.

Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any factor, or combination of factors, may cause future results to differ materially from those contained in any forward-looking statements. Therefore, you are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this document and are not intended to give any assurance as to future results. We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

## PRESENTATION OF FINANCIAL INFORMATION

With regard to Sappi, unless otherwise specified, all references in this document to a “fiscal year” and “year ended” of Sappi Limited refer to a twelve-month financial period. All references in this document to fiscal 2019, fiscal 2018 or fiscal 2017, or the years ended September 2019, 2018 or 2017 refer to Sappi Limited’s twelve-month financial periods ended on September 29, 2019, September 30, 2018 and October 1, 2017, respectively. References to amounts as at September 2019, September 2018 or September 2017 represent amounts as at, respectively, September 29, 2019, September 30, 2018 and October 1, 2017. References to the “six months” and the “six-month period” ended March 2020 or March 2019 refer to the periods from September 30, 2019 to March 29, 2020 and October 1, 2018 to March 31, 2019, respectively. References to the “twelve months” and the “twelve-month period” ended March 2020 refer to the period from April 1, 2019 to March 29, 2020. References to amounts as at March 2020 and March 2019 represent amounts as at March 29, 2020 and March 31, 2019, respectively.

During the three months ended December 2017, the Group changed the financial information by major product category that is regularly reviewed by our Executive Committee, which is our chief operating decision maker. As a consequence of this change, we restated the financial information by major product category for fiscal 2017 in the comparative column of the Group’s audited consolidated financial statements as of and for the year ended September 2018 to reflect a retrospective application of the change in product category reporting.

Beginning with the Group’s unaudited condensed consolidated financial information as of and for the six-month period ended March 2020, the Group adopted IFRS 16 *Leases* applying the modified retrospective transition approach. The Group has not restated comparative amounts as of and for the six-month period ended March 2019 or as of and for the year ended September 2019, 2018 or 2017.

Certain numerical figures set out in this document, including financial data presented in millions or thousands, have been subject to rounding adjustments and, as a result, the totals of the data in this document may vary from the actual arithmetic totals of such information.

## CURRENCY OF PRESENTATION AND EXCHANGE RATES

We publish our Group annual financial statements and present all financial data in this document in US dollars on a nominal (non-inflation adjusted) basis. The following table sets forth the average and closing exchange rates used in the preparation of our financial statements for the Rand and euro against the US dollar:

Exchange rates	Average rates					Closing rates				
	Six months ended March 2020	Six months ended March 2019	For fiscal year			As of fiscal year-end				
			2019	2018	2017	March 2020	March 2019	2019	2018	2017
ZAR to one US\$ .....	14.992	14.167	14.346	13.052	13.381	17.630	14.498	15.156	14.147	13.556
EUR to one US\$ .....	0.905	0.878	0.914	0.840	0.904	0.898	0.891	0.914	0.861	0.847
US\$ to one EUR .....	1.105	1.138	1.128	1.190	1.106	1.114	1.122	1.094	1.161	1.181

The closing exchange rate of the Rand against the US dollar (as shown on Thomson Reuters) on May 11, 2020 was US\$1.00 = ZAR18.381. The closing exchange rate of the US dollar against the euro (as shown on Thomson Reuters) on May 11, 2020 was €1.00 = US\$1.081.

For further information regarding the conversion to US dollars, see note 2 to our Group annual financial statements for the year ended September 2019 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Impacting on Group Results—Currency Fluctuations”.

## RECENT DEVELOPMENTS

The COVID-19 pandemic and associated governmental responses continue to have a significant adverse impact on our business and the duration and full extent of such impact cannot be estimated reliably at this point in time due to uncertainty regarding the duration and magnitude of the effects on the global economy arising from the pandemic and associated governmental responses.

We expect significantly lower demand for dissolving pulp and graphic paper in the short term. The various lockdown and social distancing regulations and actions taken in different countries across the globe have severely impacted clothing retailers and many have been forced to shut stores for an extended duration. In conjunction with reduced consumer confidence and spending as a result of the pandemic, this has led to significantly reduced textile demand throughout the supply chain and ultimately resulted in our major dissolving pulp customers notifying us of their intention to reduce orders, which is likely to materially reduce sales volumes in the fiscal quarter ending June 28, 2020. In April 2020 our dissolving pulp sales volumes were approximately 35% lower than our budget. As a result, we have reduced dissolving pulp production at each of our mills in order to lower costs and maximize the opportunity to produce paper pulp at the Cloquet and Ngodwana Mills to mitigate the adverse profitability impacts of the fall in dissolving pulp demand. Some additional dissolving pulp sales volumes have been placed in China, as domestic supply has been limited in China due to swing producers switching production to paper pulp. The paper pulp market has in recent months been supported by increased demand for tissue papers, as well as a shortage of waste paper typically used in producing pulp for certain packaging and specialty papers (including tissue papers and packaging papers). In April 2020, sales volumes for graphic paper were also materially weaker than in April 2019 and were adversely affected by the COVID-19 pandemic and governmental responses (including government-mandated lockdowns and social distancing measures and reductions in marketing and advertising spending and print media circulation), with sales volumes in Europe and North America approximately 27% lower than our budget, while newsprint and office paper volumes in Southern Africa were also severely adversely affected. Such declines in demand for dissolving pulp and graphic paper have necessitated extensive downtime on various machines in all regions (including the temporary shutdown of PM7 at our Lanaken Mill), resulting in lower capacity utilization and profitability; we have placed a number of employees in Europe and North America on temporary unemployment in order to reduce fixed costs.

To date, our packaging and specialties business has demonstrated resilience during the COVID-19 pandemic, as the food and hygiene sector accounts for much of our sales volumes in this product category. We expect to continue to increase production of packaging and specialty papers on the paper machines we have converted in recent fiscal years. However, testing for new customers has been and may in future be delayed by ongoing lockdown and social distancing measures.

All our production, warehousing and distribution facilities have been designated as “essential” throughout our operating geographies and are operational (other than the temporary closing of our Condino Mill in Italy for 10 days commencing in the week ended March 27, 2020) despite lockdown and social distancing guidelines. To date, we have also not experienced any meaningful disruption to our inbound or outbound logistics, nor shortage of key raw materials, and as of May 13, 2020, there had been 15 reported cases of COVID-19 within our global workforce. Nevertheless, in response to the pandemic we have implemented various cost saving measures across our operations (including variable cost cuts and placing a number of employees in Europe and North America on temporary unemployment), curtailed excess production (including temporarily shutting PM7 at our Lanaken Mill), applied measures to optimize working capital and, where possible, deferred non-essential capital expenditure totaling approximately US\$80 million, including as a result of the suspension of construction work at our Saiccor Mill expansion project due to the force majeure declaration we issued in March 2020, the postponement of all remaining material discretionary projects, and shifting annual maintenance shutdowns as late as possible. As a result, we now expect capital expenditure for fiscal 2020 to be approximately US\$380 million. In April 2020 we also entered into amendments with respect to our Revolving Credit Facility and OeKB Term Loan Facilities suspending the testing of the financial maintenance covenants applicable to those facilities and our Trade Receivables Securitization Program for four quarters from June 2020 to March 2021. During the suspension period we are required to comply with additional covenants, including restrictions on dividend payments, maximum capital expenditure spending limits, a minimum liquidity requirement, limitations on the incurrence of indebtedness, and restrictions on acquisitions. As at March 2020 we had cash and cash equivalents of US\$268 million. As of the date of this document, both the €525 million Revolving Credit Facility (US\$585 million) and the ZAR1,000 million (US\$57 million) revolving credit facility of Sappi Southern Africa Limited were undrawn.

## RISK FACTORS

### Risks Related to Our Industry

*We operate in a cyclical industry, which has in the past resulted in substantial fluctuations in our results.*

The markets for our pulp and paper products are commodity markets and are affected by changes in industry capacity and output levels as well as by cyclical changes in the world economy. As a result of periodic supply and demand imbalances in the pulp and paper industry, these markets historically have been highly cyclical, with volatile pulp and paper prices.

In recent years, turmoil in the capital and credit markets, coupled with uncertainty created by economic and geopolitical developments such as those resulting from the COVID-19 pandemic (see “—Risks Related to Our Industry—We face risks related to the COVID-19 pandemic, which may have material adverse effects on our business, financial position, results of operations and cash flows”), Brexit and changing trade practices in the United States, have had a continued adverse effect on the world economy, which has consequently affected, and may continue to adversely affect, the markets for our products insofar as it causes decreases in demand for our products and/or decreases in achievable selling prices. The timing and magnitude of demand and price fluctuations in the pulp and paper market have generally varied by region and by type of pulp and paper. Prolonged or significant imbalances between supply of and demand for our core products may require us to impair operating assets and implement capacity reduction measures.

A significant increase in the prices for pulp or pulpwood could adversely affect our non-integrated and partially integrated operations if they are unable to raise paper prices sufficiently to offset the effects of increased input costs. Increases in other input costs including (but not limited to) those for energy and chemicals may affect our operations if we are unable to raise paper prices sufficiently. For example, purchased paper pulp prices increased significantly in fiscal 2018 and reached historical highs in late fiscal 2018 and early fiscal 2019, which contributed to lower operating profit and Adjusted EBITDA margins in fiscal 2018 and fiscal 2019.

Most of our dissolving pulp sales contracts are multi-year contracts. The price terms under most of those contracts are reset on a quarterly basis. Because of the short-term duration of paper and dissolving pulp pricing arrangements, we are subject to cyclical decreases in market prices for these products, such as the cyclical decrease that has affected dissolving pulp prices in recent years. In fiscal 2019, dissolving pulp market prices decreased by US\$279/ton to historic lows at the end of 2019, and such decreases continued during the six months ended March 2020, with prices reaching as low as US\$632/ton during such period. This decrease was primarily due to the combined impact of (i) the ongoing United States/China trade dispute and related imposition of tariffs on Chinese exports to the United States, which reduced demand for textiles produced in China, (ii) excess viscose staple fibre capacity and increased competition in the viscose staple fibre market adversely affecting pricing in that market, (iii) a weaker US\$/RMB exchange rate impacting the US\$ prices Chinese customers are willing to pay, and (iv) the absence of an attractive alternative market for swing producers due to weakness in paper pulp prices. Moreover, uncertainty regarding COVID-19 may exacerbate the adverse impact of depressed dissolving pulp prices on our profitability; in April 2020 our dissolving pulp sales volumes were approximately 35% lower than our budget. In response to uncertainty regarding COVID-19, some major customers have notified us of their intention to reduce dissolving pulp purchase volumes below their contractual volume commitments, which is likely to materially reduce sales volumes in the fiscal quarter ending June 28, 2020, and may also adversely affect sales in future periods. We have received in the past, and may in future receive, other customer requests to reduce contracted dissolving pulp volumes. These requests have adversely affected our profitability and could continue to do so in the future.

A downturn in paper or dissolving pulp prices or a prolonged period of depressed market prices for these products, including any continuation or further deterioration of current market prices for dissolving pulp, could have a material adverse effect on our business, results of operations and financial condition.

*We face risks related to the COVID-19 pandemic, which may have material adverse effects on our business, financial position, results of operations and cash flows.*

Beginning in December 2019, a new strain of the coronavirus (COVID-19) has spread rapidly throughout the world, including in North America and Europe (where, respectively, 25% and 50% of our Group sales in fiscal 2019 (excluding the impact of the Delivery Costs Revenue Adjustment) were produced). This pandemic and associated governmental responses have adversely affected workforces, consumer sentiment, economies and financial markets, and, along with decreased consumer spending, have led to an economic downturn in many of our markets.

The COVID-19 pandemic and actions taken by governments across the world to reduce the spread of the virus have created significant uncertainty in the markets in which we operate. The pandemic and such actions have had, and are likely to continue to have, negative impacts on our business, such as causing significant declines in demand for our products, changes in consumer behavior and preferences, disruptions in our manufacturing and supply chain operations, lower capacity utilization and/or unscheduled downtime or shutdowns at some or all of our facilities, disruptions to our capital expenditure



initiatives, limitations on our employees' ability to work and travel, significant changes in the economic or political conditions in markets in which we operate and related currency and commodity volatility, restrictions on our access to sources of liquidity, reductions or withdrawals of credit insurance coverage, and unfavorable working capital movements. For example, the closure of many clothing retailers, print media and printing businesses and corporate and business offices due to lockdowns and social distancing directives implemented in various forms across the world, as well as reductions in marketing and advertising spending and print media circulation, have had and are expected to continue to have a substantial impact on demand for textiles and print media, and consequently on graphic paper and dissolving pulp (which constituted, respectively, 59% and 19% of our sales in fiscal 2019). Towards the end of the six-month period ended March 2020, we began to receive significant cancellations of dissolving pulp and graphic paper orders scheduled to be delivered in the fiscal quarter ending June 28, 2020 and new orders for both product categories slowed considerably. We expect significantly lower demand for dissolving pulp and graphic paper in the short term. In addition, order activity for graphic paper has slowed markedly. In April 2020, sales volumes for graphic paper were materially weaker than in April 2019, with sales volumes in Europe and North America approximately 27% lower than our budget, while newsprint and office paper volumes in Southern Africa were also severely adversely affected. Some major customers have notified Sappi of their intention to reduce dissolving pulp purchase volumes relative to contractual volume commitments, which is likely to materially reduce sales volumes in the fiscal quarter ending June 28, 2020, and may further reduce sales volumes in future periods. In April 2020, our dissolving pulp sales volumes were approximately 35% lower than our budget. Such declines in demand for dissolving pulp and graphic paper have necessitated, and are likely to continue to require, extensive downtime on various machines in all regions (including the temporary shutdown of PM7 at our Lanaken Mill), resulting in lower capacity utilization and profitability. Such declines in demand for our dissolving pulp and graphic paper products have had, and may continue to have, an adverse impact on our business, results of operations and financial condition.

As shutdowns spread across different countries and industries, supply of key raw materials may become affected. In addition, our customers, service providers or suppliers may experience financial distress, file for bankruptcy protection or insolvency, go out of business, or suffer disruptions in their businesses due to the outbreak of COVID-19, and we expect an increase in bad debt provisions, which in each case could have a negative impact on our business, results of operations and financial condition. Elevated inventory levels throughout our supply chain through to end markets as a result of the COVID-19 pandemic may also adversely affect our business and the businesses of our customers, including by delaying the impact of any recovery in economic conditions following any easing of lockdown and social distancing measures by governments in the markets in which we operate as existing inventories are sold off. Many of our customers have also been unable to take delivery of ordered products during the pandemic and have requested us to retain such products, which has placed additional demands on our warehousing capacity. An outbreak of COVID-19 within our workforce could result in disruptions in our operations and unscheduled downtime or shutdowns at some or all of our facilities; as of May 13, 2020, there had been 15 reported cases of COVID-19 within our global workforce. Due to the pandemic, certain of our capital expenditure projects have been disrupted, including the suspension of construction work at our Saiccor Mill expansion project due to the force majeure declaration we issued in March 2020, the postponement of all remaining material discretionary projects, and the shifting of annual maintenance shutdowns as late as possible. Although the duration of such disruptions is uncertain, such disruptions are likely to result in delays to the realization of expected benefits from such projects, and may result in increased costs to complete such projects. In addition, the additional covenants we have agreed to comply with for the duration of the suspension of testing of the financial maintenance covenants applicable to our Revolving Credit Facility, OeKB Term Loan Facilities and Trade Receivables Securitization Program in response to the pandemic and associated economic downturn, including restrictions on dividend payments, maximum capital expenditure spending limits, a minimum liquidity requirement, limitations on the incurrence of indebtedness, and restrictions on acquisitions, may restrict our operational flexibility and our ability to take actions that may be in our interest. See “—Restrictions imposed by the Revolving Credit Facility, the OeKB Term Loan Facilities, the indenture governing the 2023 Notes, the indenture governing the 2026 Notes, the indenture governing the 2032 Notes, and certain of our other credit facilities limit our ability to take certain actions”.

Given the dynamic nature of this outbreak (including its impact on the global economy and the applicable governmental responses), the extent to which COVID-19 impacts the Company's business, results of operations and financial condition will depend on future developments, which remain highly uncertain and cannot be accurately predicted at this time.

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

We compete against many pulp and paper producers located around the world. A trend towards consolidation in the pulp and paper industry has created larger, more focused pulp and paper companies. Some of these companies benefit from greater financial resources or operate mills that produce pulp and paper products at a lower cost than our mills, or benefit from government subsidies. Some of our competitors also have advantages over us, including lower raw material, energy and labor costs and fewer environmental and other governmental regulations with which to comply. As a result, we cannot assure you that each of our mills will remain competitive. Furthermore, we cannot assure you that we will be able to take advantage

of consolidation opportunities which may arise, or that any failure to exploit opportunities for growth would not make us less competitive. Increased competition, including as a result of a decrease in import duties in accordance with the terms of free trade agreements or any potential revocation or non-renewal of the imposition of anti-dumping duties on Chinese and Indonesian coated paper imports into the United States by the U.S. International Trade Commission, could cause us to lose market share, increase expenditures or reduce pricing, any of which could have a material adverse effect on the results of our operations. In addition, competition may result from our inability to increase the selling prices of our products sufficiently or in time to offset the effects of increased costs, which could lead to a loss in market share, and aggressive pricing by competitors may force us to decrease prices in an attempt to maintain market share. See “Our Business—Competition”.

***Developments in digitalization, including media alternatives to newsprint and paper advertising, the declining use of graphic papers and related changes in consumer preferences may affect the demand for our products.***

Consumer preferences may change as a result of the availability of alternative products or services, including less expensive product grades, or as a result of pressure from consumers for more environmentally friendly solutions. In addition, trends in advertising, electronic data transmission and storage, mobile devices and the internet could have adverse effects on traditional print media and other paper applications, including our products and those of our customers. Over the last 10 to 15 years, the pulp and paper industry has encountered a growing transformation in consumer preferences. During this time, readership and circulation of newspapers and magazines have been declining; meanwhile, accessibility to, and use of, the internet has increased and mobile devices, including digital tablets, have become commonplace. As a result, digital alternatives to many traditional paper applications are now readily available and have begun to adversely affect demand for certain paper products. For example, advertising expenditure has gradually shifted away from the more traditional forms of advertising, such as newspapers, magazines, radio and television, which tend to be more expensive, towards greater use of electronic and digital forms of advertising on the internet via mobile phones and other electronic devices, which tend to be less expensive. While the extent of these trends cannot be predicted with certainty, competition from electronic media, for example, has led and may continue to lead to weaker demand for certain of our products, including coated woodfree and mechanical paper historically used in print publishing and advertising. More generally, demand for graphic papers, which product category represented 59% of our sales and 25% of our Operating Profit Excluding Special Items in fiscal 2019, continues to exhibit long-term structural decline in Europe and North America, which we expect to continue; this decline has adversely affected the profitability of our graphic papers activities, including due to increased production downtimes impacting operating rates and machine efficiency, and there is no guarantee that we will be able to make, or retain, market share gains to partially offset such decline. We have recently experienced a faster decline in demand for graphic papers than in prior periods, and demand decline rates in the six months ended March 2020 exceeded those of recent years by a significant margin. The trend of digitalization may further accelerate in response to the COVID-19 pandemic, with significant proportions of the populations in our markets working remotely and consuming less print media for the duration of governmental lockdown and social distancing measures implemented in response to the pandemic, and any such trend may persist following the COVID-19 pandemic. In the face of such structurally declining demand for graphic papers, any failure to grow our packaging and specialty papers and dissolving pulp businesses could have a material adverse effect on our results of operations, prospects and financial condition.

***Global economic conditions could adversely affect our business, results of operations and financial condition.***

In the past, demand for our paper products declined and pulp prices and demand decreased during times of global economic recession. Economic recession, sovereign debt crises and other macroeconomic events (including in response to the COVID-19 pandemic, see “—Risks Related to Our Industry—We face risks related to the COVID-19 pandemic, which may have material adverse effects on our business, financial position, results of operations and cash flows.”) have in the past led, and may in future lead, to slower economic activity, inflation and deflation concerns, reduced corporate profits, reduced or canceled capital spending, adverse business conditions and liquidity concerns resulting in significant recessionary pressures, increased unemployment and lower business and consumer confidence.

The outlook for the world economy is currently subject to significant uncertainty, particularly in light of the impact of the ongoing COVID-19 pandemic, which may lead to prolonged periods of economic uncertainty, downturn, recession or depression in many of the countries in which we and our customers operate. The International Monetary Fund predicts negative global growth in 2020 and many national governments have instituted rescue policies intended to mitigate the effects of a recession. Certain countries have already fallen into recession and a significant risk remains that measures taken by governments and central banks may not prevent the global economy from declining. Any such downturn, recession or depression could have a material adverse effect on our business, results of operations and financial condition.

Finally, we cannot predict the timing, duration or effect of any other downturn in the economy that may occur in the future. These economic risks and others that we may not anticipate could adversely affect the Group’s business, results of operations, financial condition or prospects.

***New technologies may affect our ability to compete successfully.***

We believe that new technologies or novel processes may emerge and that existing technologies may be further developed in the fields in which we operate. These technologies or processes could have an impact on production methods or on product quality in these fields. Unexpected rapid changes in employed technologies or the development of novel processes that affect our operations and product range could render the technologies we utilize or the products we produce obsolete or less competitive in the future. Difficulties in assessing new technologies may impede us from implementing them and competitive pressures may force us to implement these new technologies at a substantial cost. Any such development could materially and adversely affect our results of operations.

Innovation and the development of new products to meet customer expectations play an important role in our industry, in particular in growing segments such as packaging and specialty papers. Failure to invest in research and development or to proactively develop new products or processes may negatively affect our ability to compete successfully. In particular, the packaging and specialty papers business is characterized by a high level of customization and specialization to meet specific customer requirements. Further, our competitors may have greater financial or other resources that allow them to develop or otherwise access new products or processes before we do. In order to compete successfully, we must continually develop and introduce new products and services in a timely manner to keep pace with technological and regulatory developments and achieve customer acceptance. We may not be able to respond to these competitive pressures or acquire or develop new technologies on a timely basis or at an acceptable cost. In addition, the services and products that we provide to customers may not meet the needs or preferences of our customers. If we do not timely assess and respond to changing customer expectations, preferences and needs, our financial condition, results of operations or cash flows could be adversely affected.

In addition, we are exposed to risks that are inherent to innovation and new technologies, such as those related to customer acceptance of new products. Therefore, we may incur certain costs relating to developing and marketing new products and we cannot guarantee that the profitability of or demand for such products will meet our expectations.

***The cost of complying with or addressing liabilities under environmental, health and safety laws may be significant.***

Our operations are subject to a wide range of requirements, including conditions contained in our permits, arising from environmental, health and safety laws and regulations in the various jurisdictions in which we operate. Such laws and regulations govern, among other things, water supply and consumption, the use of renewable and other fuels, the control of air emissions (including greenhouse gases) and water discharges, the management, reduction and disposal of hazardous and solid wastes, the clean-up of contamination, the protection of fisheries and other natural resources, the purchase and use of safety equipment, workplace safety training and the monitoring of workplace hazards.

Although we strive to ensure that our facilities comply with all applicable environmental requirements, including any permits required for our operations, we have in the past been, and may in the future be, subject to governmental enforcement actions or other claims or sanctions for failure to comply with environmental requirements. Impacts from historical or current operations, including the land disposal of waste materials or unpermitted releases of hazardous materials, may require costly investigation and clean-up. In addition, we could become subject to liabilities resulting from personal injury, property damage or natural resources damage. Expenditures to comply with future environmental, health and safety requirements and the costs related to addressing any potential environmental, health and safety liabilities, sanctions and claims could have a material adverse effect on our business and financial condition.

We expect to continue to incur significant expenditures to maintain compliance with applicable environmental laws, to install or upgrade pollution control equipment at our mills and to meet any new regulatory requirements, including those related to mandatory waste reduction targets or potential stricter air emissions standards in the United States, Canada, Southern Africa and Europe. We may also face constraints or restrictions on our production, or our ability to expand production, as the result of these requirements.

In addition, we may not have identified or addressed all sources of environmental, health and safety risks, and there can be no assurances that we will not incur losses related to any such environmental, health and safety risks, that the capital and operating costs of compliance with existing and future environmental, health and safety laws and regulations will not continue to increase or that any such losses or costs incurred will not have a material adverse impact on our results of operations, financial condition or prospects.

***The availability and cost of insurance cover can vary considerably from year to year as a result of events beyond our control, and this can result in us paying higher premiums and periodically being unable to maintain appropriate levels or types of insurance.***

The insurance market remains cyclical and catastrophic events can change the state of the insurance market, leading to sudden and unexpected increases in premiums and deductibles and inadequacy or unavailability of coverage due to reasons

unconnected with our business. In addition, the ongoing COVID-19 pandemic may result in changes in the structure and practices of the insurance market, result in an increasing frequency of disputes with insurers or otherwise result in an inability to recover from our insurance providers. Furthermore, volatility in the global financial markets can adversely affect the insurance market and could result in some of our insurers failing and being unable to pay their share of claims.

We have renewed our 2020 asset and business interruption insurance cover at less favorable rates to those of 2019. The maximum self-insured retention for any one property damage occurrence is US\$22.4 million (€20.5 million), with an annual aggregate of US\$36.1 million (€33.0 million). We are unable to predict whether past or future events will result in more or less favorable terms for 2021. For property damage and business interruption insurance, cost effective cover is not generally available to full replacement value. As at September 2019, the annual limit for claims under our property damage and business interruption insurance policy was US\$820.4 million (€750.0 million). If we were to experience property damage or business interruption losses in excess of any such policy limits, this could have a material adverse effect on our Group's business, results of operations, financial condition or prospects.

Since fiscal 2011, our property damage insurance policy has been euro-denominated as most of our assets are based in euro-denominated jurisdictions. We place the insurance for our plantations on a stand-alone basis into international insurance markets. Fires had a significant adverse impact on our plantations in fiscal 2007 through 2010, and similarly significant adverse effects may occur in the future, which may not be covered by our insurance. See “—Abnormal or severe events affecting our plantations, such as fires and droughts, may adversely impact our ability to supply our Southern African mills with timber from the region.”

Furthermore, we may incur liabilities that are not covered by insurance. Given the diversity of our operations, we may not always be able to predict all risks to which we are exposed and as a result, we may not be covered by insurance in specific instances, including the ongoing COVID-19 pandemic. We are unable to assure you that actual losses will not exceed our insurance coverage or that such excess will not be material.

## **Risks Related to Our Business**

### ***Our significant indebtedness may impair our financial and operating flexibility.***

Our significant level of indebtedness and the terms of our indebtedness could negatively affect our business and liquidity. While reduction of our indebtedness is one of our priorities, opportunities to grow our businesses will continue to be evaluated, and the financing of any future acquisition or capital investment may include the incurrence of additional indebtedness.

The level of our debt may have significant consequences for our business, including:

- making it more difficult for us to satisfy our obligations;
- limiting our ability to obtain additional financing, which could restrict, among other things, our ability to exploit growth opportunities;
- diverting a substantial portion of our cash flow from operations to meet debt service obligations;
- exposing us to increases in interest rates because a portion of our debt bears interest at variable rates;
- placing us at a competitive disadvantage to certain of our competitors with lower levels of indebtedness;
- increasing our vulnerability to economic downturns and adverse changes in our business;
- limiting our ability to withstand competitive pressure; and
- restricting the activities of certain Group companies under the covenants and conditions contained in certain of our financing arrangements.

Our ability to refinance our debt or incur additional debt, the terms of our existing and additional debt and our liquidity could be affected by a number of adverse developments, including as a result of turmoil in debt and other financial markets, which could result in tight credit restrictions and credit being available at higher cost.

Since 2006, the Group's credit ratings have been downgraded to sub-investment grade by Standard & Poor's (S&P) and Moody's Investor Service. Most recently, Moody's Investor Service downgraded our credit rating in February 2020 from "Ba1" to "Ba2," citing declining operating profitability in recent periods. Adverse developments in our credit ratings or in financial markets, including as a result of the impacts of the ongoing COVID-19 pandemic or renewed turmoil in the European sovereign debt markets, any further downgrades in South African government bonds or deterioration of general economic conditions, may affect our credit ratings or negatively impact our ability to incur additional debt as well as the amount and terms of the debt we are able to issue. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—South African Economic and Political Environment".

Our liquidity will be adversely affected if we must repay all or a portion of our maturing debt from available cash or through use of our existing liquidity facilities. In addition, our results of operations will be adversely impacted to the extent the terms of the debt we are able to issue are less favorable than the terms of the debt being refinanced. We may also need to agree to stricter covenants that place additional restrictions on our business. For example, in connection with the COVID-19 pandemic, we have agreed to comply with additional covenants for the duration of the suspension of testing of the financial maintenance covenants applicable to our Revolving Credit Facility, OeKB Term Loan Facilities and Trade Receivables Securitization Program, including restrictions on dividend payments, maximum capital expenditure spending limits, a minimum liquidity requirement, limitations on the incurrence of indebtedness, and restrictions on acquisitions. See “—We face risks related to the COVID-19 pandemic, which may have material adverse effects on our business, financial position, results of operations and cash flows” and “Description of Other Financing Arrangements—Revolving Credit Facility—Undertakings.” In addition, a portion of our debt bears interest at a variable rate. Fluctuations in the applicable rates may increase our overall interest expenses and have a material adverse effect on our ability to service our debt obligations.

We are subject to South African exchange controls, which may restrict the transfer of funds directly or indirectly between our subsidiaries or between the parent company and our subsidiaries and can restrict activities of our subsidiaries. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—South African Exchange Controls”. We may also incur tax costs in connection with these transfers of funds. These exchange controls have affected the geographic distribution of our debt. As a result, acquisitions in North America and Europe have typically been financed with indebtedness incurred by our subsidiaries in those regions. As a consequence, our ability or the ability of any of our subsidiaries to make scheduled payments on debt will depend on financial and operating performance, which will depend on various factors beyond our control, such as prevailing economic and competitive conditions. If we, or any of our subsidiaries, are unable to achieve operating results or otherwise obtain access to funds sufficient to enable us to meet our debt service obligations, we could face substantial liquidity problems. As a result, we might need to delay investments or dispose of material assets or operations. The timing of and the proceeds to be realized from any such disposition would depend upon the circumstances at the time.

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

Our ability to fund our working capital, capital expenditure and research and development requirements, to engage in future acquisitions, to make payments on our debt, to fund post-retirement benefit programs and to pay dividends depends upon our future operating performance. Our principal sources of liquidity are cash generated from operations and availability under our credit facilities and other debt arrangements. Our ability to generate cash depends, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. Our cash flow from operations may be adversely impacted by a downturn in worldwide economic conditions (including as a result of the effects of the COVID-19 pandemic), which would result in a decline in global demand for our products, such as the current decline in demand for graphic papers in Europe and North America, and a softening of prices for some of our products. See “—Risks Related to our Industry” and “—We face risks related to the COVID-19 pandemic, which may have material adverse effects on our business, financial position, results of operations and cash flows.”

Our business may not generate sufficient cash flow from operations and additional debt and equity financing may not be available to us in a sufficient amount to enable us to meet our liquidity needs. If our future cash flows from operations and other capital resources are insufficient to fund our liquidity needs, we may be required to obtain additional debt or equity financing, refinance our indebtedness or reduce or delay our capital expenditures and research and development investments. We may not be able to secure such alternative funding resources on a timely basis or on satisfactory terms. The failure to do so could have a material adverse effect on our business, results of operations and financial condition.

***We may not be successful in implementing, or may not realize all the expected benefits from, our strategic initiatives.***

As part of our overall business strategy, we are implementing strategic initiatives to improve profitability, including high-cost capacity reductions and other cost-saving projects, measures to increase production capacity and enhance productivity and investment in our dissolving pulp business and higher margin packaging and specialty papers business. For example, in November 2019 we acquired the Matane hardwood pulp mill from Rayonier Advanced Materials Inc. for US\$158 million. Other strategic initiatives we incurred significant capital expenditure on in fiscal 2019 include the pending project to increase the capacity of our Saiccor Mill (in South Africa), the conversion of our PM8 paper machine at our Lanaken Mill (in Belgium) to enable it to make both coated mechanical and woodfree paper production, upgrading the Gratkorn Mill (in Austria) and investments at our Ehingen Mill to enhance its packaging and specialty papers. During fiscal 2018, we acquired the specialty paper business of Cham Paper Group for US\$132 million; we also significantly increased capital expenditure related to various strategic initiatives, including conversions of our paper machines at our Somerset Mill (in Maine/United States) and our Maastricht Mill (in the Netherlands) and projects to optimize production processes at our dissolving pulp plants in our Saiccor and Ngodwana Mills (in South Africa). In the area of biomaterials sourced from

dissolving pulp, we have made investments in additional biorefinery capacity, for example with the construction in fiscal 2018 of a demonstration plant at Ngodwana Mill for the production of xylitol, a low-calorie sweetener, and furfural, a green industrial chemical derived from C5 sugars. This follows investments we made in fiscal 2017 in a sugar extraction pilot plant at Ngodwana Mill and the acquisition of sugar extraction technology from Plaxica (together with certain other technologies, for a total amount of £7.7 million) in the same year. Any future growth, cost savings or productivity enhancements that we realize from such efforts may differ materially from our estimates, or we may not be able to implement successfully part or all of our initiatives. The benefit of cost savings or productivity enhancements that we realize may be offset, in whole or in part, by reductions in pricing or volume, or through increases in other expenses, including raw material, energy or personnel, or the demand for our products may decline.

With respect to our recent investments in additional dissolving pulp capacity, including the capacity expansion project at our Saiccor Mill which we commenced in fiscal 2019, a number of our competitors have announced or implemented additional production capabilities, and total supply capacity currently outstrips demand for dissolving pulp. In addition, there is significant overcapacity and competition (and therefore pricing pressure) in the key downstream market of viscose staple fibre production, the Chinese textile market has been adversely affected by the ongoing United States/China trade dispute and related imposition of tariffs on Chinese exports to the United States, which has reduced demand for textiles produced in China, and a weaker Renminbi/US dollar exchange rate, and the paper pulp market has not recently been an attractive alternative market for swing producers due to weak paper pulp prices. These factors have adversely affected, and may continue to adversely affect, the price of dissolving pulp. As we increase production capacity and enhance productivity and investment in the dissolving pulp segment, our exposure to the dissolving pulp market may grow. In fiscal 2019 and in the six months ended March 2020, our dissolving pulp activities accounted for 19% and 17% of our sales, respectively, and 44% and 15% of our Adjusted EBITDA Excluding Special Items, respectively.

There can be no assurance that any of these initiatives will be completed as anticipated or that the benefits we expect from any strategic initiative will be achieved on a timely basis or at all.

***We carry out a number of capital expenditure projects, which, if delivered late, over budget or without achieving the projected quality improvements, capacity increases or cost reductions, could materially adversely affect our results of operations, competitiveness and financial position.***

In executing our strategy, we carry out a number of capital expenditure projects. During fiscal 2019, capital expenditure amounted to US\$471 million. There is a risk that capital expenditure projects may not be completed on time, may not deliver the expected quality improvements, capacity increases or cost reductions or may exceed the allocated capital budget. Such effects may result from factors such as supplier performance and skill levels, ineffective project management and controls or delays in achieving customer acceptance. Any such delays, cost overruns or failures to deliver expected performance could impact our projects' financial return metrics, hamper our normal operations, delay our products' path to market or cause us to lose market share. For example, in fiscal 2018, the project to convert PM1 at our Somerset Mill overran in terms of both cost and time, leading to US\$10 million in lost production from the mill and an additional US\$35-50 million capital expenditure above budget; in fiscal 2019, extended customer qualification runs for new paperboard products on this machine resulted in a slower-than-expected increase in production and adverse cost impacts. Also in fiscal 2018, delayed startups of our Saiccor and Ngodwana Mills resulted in lower production and reduced sales volumes in our dissolving pulp product category for the year. The declaration by Sappi of force majeure with respect to the Saiccor Mill expansion and upgrade project due to the COVID-19 pandemic in the six months ended March 2020 is likely to result in delays in completion of this project. Such delays, unexpected costs, production interruptions and any other problems experienced in connection with the implementation of any capital project may adversely affect our results of operations, competitiveness and financial position.

***Continued volatility in equity markets and continuing low yields or increased rates of default in the bond markets could adversely affect the funded status and funding needs of our post-employment defined benefit funds.***

Several global economic factors (including the ongoing COVID-19 outbreak) currently make the general outlook for the forthcoming fiscal years uncertain. The equity and bond markets (including sovereign debt markets) have been volatile in the current fiscal year and may remain volatile and move in uncertain and unusual ways in the forthcoming fiscal years leading to significant swings in the value of the assets and liabilities of our funded and unfunded defined benefit schemes.

Generally, but not always, rising corporate bond yields reduce our net balance sheet liabilities, whereas falling bond yields increase our net balance sheet liabilities. Equity markets have deteriorated in recent months and bond yields are, and may remain, relatively low in North America and Europe, which could negatively affect the funded status of our post-employment defined benefit arrangements. In addition, volatility in our net balance sheet liabilities resulting from the relative change in the value of assets and liabilities may be further enhanced by investment strategies, resulting in exposure to various classes of assets.

Existing and potential changes in statutory minimum requirements may also affect the amount and timing of funding to be paid by us. Most funding requirements consider yields on assets such as government bonds or interbank interest rate swap curves, depending on the basis. Although statutory easements in the pace of funding on these bases have provided some contribution relief to us, as long as yields on these asset classes remain low we expect to have to pay additional contributions to meet onerous minimum funding targets, which could adversely affect our financial position and results of operations.

In addition, our pension and post-retirement funds hold various bonds as part of their fund assets, including sovereign bonds issued by Austria, Belgium, France, Germany, Italy, Switzerland, South Africa, the United Kingdom and the United States of America. Any significant decline in value or default of such securities, including in the context of a renewed local or regional sovereign debt crisis or as a result of the economic impacts of the COVID-19 pandemic and associated governmental responses, could negatively affect the funded status of our post-employment defined benefit arrangements.

***Fluctuations in the value of currencies, particularly the Rand and the euro in relation to the US dollar, have in the past had, and could in the future have, a significant impact on our results of operations.***

Exchange rate fluctuations have in the past, and may, in the future, affect the competitiveness of our products in relation to the products of pulp and paper companies based in other countries.

Fluctuations in the exchange rate between currencies, particularly the Rand and euro and, to a lesser extent, the Chinese renminbi, in relation to the US dollar, have in the past had, and could in the future have, a significant impact on our earnings, the competitiveness of our exports, the prices of imported competitors' products and the costs of our raw materials. For example, weaker euro/US dollar exchange rates, as in fiscal 2019, place pressure on our European business, which purchases approximately half of its pulp requirements from non-local suppliers. In addition, a weaker euro/US dollar exchange rate places pressure on our North American business by increasing the levels of imports into the United States and making our exports from the United States less competitive. Further, as was the case during fiscal 2018, a stronger Rand/US dollar exchange rate may place margins under pressure in our Southern Africa segment, as this lowers the effective Rand pricing for dissolving pulp (which is priced in US dollars). A weaker Renminbi/US dollar exchange rate, as in fiscal 2019 and the six months ended March 2020, has in the past had, and may in the future have, an adverse impact on US dollar dissolving pulp prices due to the role of the Chinese textile industry as the major global purchaser of dissolving pulp.

Since the adoption of the euro by the European Union on January 1, 1999 (when the euro was trading at approximately US\$1.18 per euro), it has fluctuated against the US dollar, reaching a low of approximately US\$0.83 per euro in October 2000 before trading at approximately US\$1.09, US\$1.16 and US\$1.18 per euro at the end of fiscal 2019, 2018 and 2017, respectively. At the end of March 2020, the euro was trading at US\$1.11 per euro. On May 11, 2020, it was trading at approximately US\$1.08 per euro.

The value of the Rand against the US dollar has fluctuated considerably, moving against the US dollar from a low of approximately R5.66 per US dollar in December 1998 to approximately ZAR15.14, ZAR14.15 and ZAR13.56 per US dollar at the end of fiscal 2019, 2018 and 2017, respectively. At the end of March 2020, the Rand was trading at ZAR17.83 per US dollar. The Rand was trading at approximately ZAR18.38 per US dollar on May 11, 2020.

For further information, see notes 2 and 31 to our Group annual financial statements for the year ended September 2019 and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Currency Fluctuations".

***There are risks relating to the countries in which we operate that could adversely affect our business, results of operations and financial condition.***

We own manufacturing operations in seven countries in Europe, two states in the United States, Canada and in South Africa and own plantations in South Africa. We also sell our products to customers in various countries worldwide. As a result, our operations are subject to various economic, fiscal, monetary, regulatory, operational and political conditions. Our presence in these countries exposes us to risks such as material changes in laws and regulations, political, financial and social changes and instabilities, exchange controls, risks related to relationships with local partners and potential inconsistencies between commercial practices, regulations and business models in different countries. The occurrence of such events could adversely affect our business, results of operations and financial condition.

Our business may be impacted by reputational risks relating to our local partners. For example, in 2017, we reported that our auditors, KPMG South Africa, had been implicated in allegations related to patronage and corruption at other clients, which caused us to reassess their provision of services to Sappi due to reputational concerns arising from such reports, which we continue to monitor. Any such reputational risks or negative media coverage could adversely impact our business.

In South Africa, where we own and lease significant amounts of land (379,000 ha) that supply our Sappi Forests operations, we are subject to claims for restitution of land under certain land reform initiatives, such as the Restitution of

Land Rights Act, 1994. More recently, there has been a debate in South Africa surrounding proposals for expropriation of land without compensation, such as an amended draft Expropriation Bill that was published for public comment on December 6, 2019, and the support from the governing party and Parliament in favor of a Constitutional amendment in this regard. Any change in such land reform policies or delays in processing land claims and approving settlements by the South African authorities may increase our costs and adversely affect our business, results of operations and financial condition.

For further information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—South African Economic and Political Environment” and “Our Business—Legal Proceedings—Southern Africa”.

***Uncertainties relating to international trade policies, new tariffs and other trade measures may adversely affect our business, results of operations and financial condition.***

A substantial proportion of the products we manufacture in our European, North American and Southern African operations are destined for export to other countries worldwide, in particular in Asia. As a result, our business may be impacted by uncertainties related to international trade policies, such as the recent tariffs dispute between the United States and China. For example, in 2018, the U.S. government imposed tariffs on a broad range of products imported into the United States from China and the European Union. In response to the tariffs imposed by the United States, the European Union and China announced tariffs on U.S. goods and services. China has increased tariffs on the casting release paper made at our Westbrook Mill in the United States. As a result, our customers in China must pay such tariffs. Similarly, the products our customers make with our casting release paper are subject to tariffs upon entry into the United States. The Chinese textile industry, the main purchaser of dissolving pulp globally, has also been adversely affected by the ongoing trade dispute between the United States and China, contributing to declines in the market prices for dissolving pulp in fiscal 2019 and the six months ended March 2020 that have had an adverse impact on our profitability. Any escalation of the trade dispute between the United States and China or the European Union and any corresponding tariffs, additional tariffs or other trade restrictions may adversely affect the price competitiveness of either our or our customers’ products, increase costs or lead to reduced activity and investment levels in our or our customers’ industries in general, which could adversely affect our business, results of operations and financial condition.

***The inability to recover increasing input costs through increased prices of our products has had, and may continue to have, an adverse impact on our profitability.***

The selling prices of the majority of the products we manufacture and the purchase prices of many of the raw materials we use generally fluctuate in correlation with global commodity cycles. We have in the past experienced, and may in the future experience, increasing costs of a number of raw materials due to global trends beyond our control. For example, during both fiscal 2019 and fiscal 2018, we faced increasing prices for certain raw materials such as paper pulp and, in fiscal 2018, various process chemicals.

In some countries, electricity generation companies are competing for the same raw materials, namely wood and wood chips, in the same markets as us, driving prices upwards, especially during winter in the Northern hemisphere. Although oil prices have significantly decreased from the historical highs of 2008, they could return to high levels in the future because of, among other things, political instability in the oil-producing regions of the world. This impacts the oil-based commodities required by our business in the areas of energy (including electricity), transport and chemicals.

As has occurred in previous years, a major potential consequence of the increase in the price of input commodities is our inability to counter this effect through increased selling prices, resulting in reduced operating profit and negatively affecting business planning.

While we continue to implement procedures to reduce our cost of commodity inputs, the hedging techniques we apply on our raw materials and products are on a small scale and short-term in nature, other than our maintenance of a high level of economic pulp integration. Moreover, in the event of significant increases in the prices of pulp, our non-integrated and partially integrated operations could be adversely affected if they are unable to raise paper prices by amounts sufficient to maintain margins, or if they are only able to implement such price increases with a certain lag time relative to input cost increases.

***If we are unable to obtain energy or raw materials at reasonable prices, or at all, it could adversely affect our operations.***

We require substantial amounts of oil-based chemicals, fuels, water and other raw materials for our production activities and transportation of our timber and other products. We rely partly upon third parties for our supply of the energy resources and, to a certain extent, timber and pulp, which are consumed in our operations. In addition, our operations are dependent on access to electricity generated by local utilities and power plants, which can at times be unpredictable. For example, Eskom, the state-owned electricity company in South Africa, has in recent years struggled to meet demand and in some cases has requested that we reduce our demand, leading to temporary shutdowns of certain of our South African



production facilities. In February 2019, Eskom imposed a series of rolling blackouts on the national power grid, cutting 4,000 megawatts of power supply after it unexpectedly lost six additional generating units to breakdowns, despite seasonally low summer demand. Eskom has warned that electricity shortages and conditions of intermittent supply could persist for some time and the South African government has announced a plan to restructure Eskom into three separate businesses (encompassing generation, transmission and distribution, respectively) in response to the recent power generation problems and a substantial debt burden. In addition, in order to address its substantial debt burden, Eskom implemented a tariff increase in 2019. Further tariff increases in 2020 and 2021 have been approved by the National Energy Regulator of South Africa (“Nersa”) and could result in a substantial increase in the cost of electricity to consumers over the three-year period. Eskom has challenged these approved increases and, in March 2020, was successful in having Nersa’s approval decision set aside; there is therefore a possibility of an even greater increase in tariffs. The prices for and availability of these energy supplies, water and raw materials may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, worldwide price levels, drought or other severe weather and market conditions.

Environmental litigation aimed at protecting forests and species habitats as well as regulatory restrictions on cutting or harvesting may cause significant reductions in the amount of timber available for commercial harvest in the future. In addition, future legal challenges and regulations concerning the promotion of forest health and the response to and prevention of wildfires could affect timber supplies in the jurisdictions in which we operate. In Canada, affected Indigenous communities and other stakeholders are required to be consulted, and potentially accommodated, in connection with the grant of timber rights in public forests. The availability of harvested timber may further be limited by factors such as fire, insect infestation, disease, ice and wind storms, droughts, floods and other nature and man-made causes, thereby reducing supply and increasing prices.

The prices of various sources of energy supplies and raw materials have significantly increased in the past, and may further increase significantly from current levels in the future. An increase in energy and raw material prices could materially adversely affect our results of operations, plantation valuation and financial condition.

***A limited number of customers account for a significant amount of our revenues.***

We sell a significant portion of our products to several significant customers, including Antalis, Birla, Igepa, Lenzing, Lindenmeyr, Papyrus and Veritiv. During fiscal 2019, 2018 and 2017, no single customer individually represented more than 10% of our total revenue. As a significant portion of our sales revenue is generated through sales to a limited number of customers, any adverse development affecting our significant customers or our relationships with such customers could have an adverse effect on our credit risk profile, our business and results of operations. In addition, we rely globally on credit insurance for our arrangements with certain customers. In fiscal 2019 and the six months ended March 2020, 74% and 72%, respectively, of the Group’s receivables were insured or covered by letters of credit and bank guarantees. Our credit insurer has reduced cover on certain of our customers following the outbreak of COVID-19, and such customers have requested extended payment terms. The withdrawal or unavailability of such credit insurance may impact our ability to engage with such customers.

In response to uncertainty regarding COVID-19, some major customers have notified us of their intention to reduce dissolving pulp purchase volumes below their contractual volume commitments, which is likely to materially reduce sales volumes in the fiscal quarter ending June 28, 2020, and may further reduce sales volumes in future periods. We have received in the past, and may in future receive, other customer requests to reduce contracted dissolving pulp volumes. These requests have adversely affected our profitability and could continue to do so in the future.

***Adverse changes to economic or market conditions could have a negative impact on our significant customers, which in turn could materially adversely affect our results of operations and financial position.***

Adverse changes in economic conditions have had and may continue to have a negative impact on our significant customers. Such changes cannot be predicted and their impacts may be severe, including such customers experiencing financial distress, filing for bankruptcy protection or insolvency, going out of business, or otherwise suffering disruptions in their businesses, which could in turn have a negative impact on our business. A disruption in the ability of our significant customers to access sources of liquidity could also cause serious disruptions or an overall deterioration of their businesses, which could lead to a significant reduction in their future orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and financial position. Similarly, sustained adverse changes in market conditions for our significant customers’ products, such as lower demand, lower prices or increased competition, could also reduce future orders of our products and have a material adverse effect on our results of operations and financial position. For example, in fiscal 2019 we wrote off bad debts totaling €5.5 million as a result of several of our customers in the European printing industry filing for bankruptcy or insolvency. In addition, our customers may experience financial distress, file for bankruptcy protection or insolvency, go out of business or

suffer disruptions in their businesses due to the outbreak of COVID-19 and associated government responses, and we expect an increase in bad debt provisions, which in each case could have a negative impact on our business, results of operations and financial condition. In dissolving pulp, sustained significant overcapacity of viscose staple fibre, the primary product produced by our dissolving pulp customers, combined with a weak textile market, the primary market for viscose staple fibre sales, and the effects of a weaker Chinese RMB, has contributed to dissolving pulp prices declining to historic lows in fiscal 2019 and into the beginning of fiscal 2020. If low prices and weak margins prevail in the market for viscose staple fiber, or if prices for competing fibers in the textile industry such as cotton and polyester were to decrease significantly, our dissolving pulp business could continue to be adversely affected. Similarly, the closure of many clothing retailers due to lockdowns and social distancing measures implemented in response to the COVID-19 outbreak have led to negative pressure on textile demand and, in turn, dissolving pulp which is used in the production of viscose textiles; order activity for graphic papers has also slowed markedly since the beginning of the outbreak.

Such adverse changes could also lead to consolidation in the industries in which our significant customers participate, as evidenced by the current trend towards consolidation in the North American print, publishing and distribution industries. Such consolidation could increase our dependence on a few key customers, which could lead to less favorable terms and lower sales prices for our products.

***Because of the nature of our business and workforce, we may face challenges in the retention of staff and the employment of skilled people that could adversely affect our business.***

We are facing an aging demographic work profile among our staff due to the mature nature of our industry and the rural and often remote location of our mills, together with the generally long tenure of employees at the mills. As a result, we are likely to experience groups of employees leaving the company within a relatively short space of time of one another and may have difficulty attracting qualified replacements. The potential risks we face are a loss of institutional memory, skills, experience and management capabilities. We may be unable to attract and retain sufficient qualified replacements when and where necessary to avoid an adverse impact on our business. In certain regions, low unemployment rates also make it more difficult to find local resources and skills.

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

A large percentage of our employees are represented by labor unions under collective bargaining agreements, which need to be renewed from time to time. In addition, we have in the past sought and may in the future seek, or be obligated to seek, agreements with our employees regarding workforce reductions, closures and other restructurings. For example, as a result of our review of our European production assets, we initiated consultations, which are ongoing, with employee representatives at our Stockstadt Mill with a view to relocating the entire production output of PM2 to our other paper machines in Europe in response to the continuing decline in demand in the graphic paper market. We may not be able to negotiate acceptable new collective bargaining agreements or future restructuring agreements, which could result in labor disputes. Also, we may become subject to material cost increases or additional work rules imposed by agreements with labor unions. This could increase expenses in absolute terms and/or as a percentage of sales.

Although we believe we have good relations with our employees, work stoppages or other labor disturbances have occurred in the past, and may occur in the future, which could adversely impact our business. In recent years, certain of our unionized employees in Southern Africa have participated in strike actions that have resulted in interruptions in our business operations. In addition, during the six months ended March 2020 there was an industry-wide strike in Finland which affected our Kirkniemi Mill, and which lasted 15 days for blue-collar employees and 24 days for white-collar employees. In order to resolve this strike, an industry-wide collective bargaining agreement was entered into, requiring us to increase the salary-based hourly pay rate of the relevant employees by 12 euro cents, effective April 1, 2020, and by a further 17 euro cents effective March 1, 2021. Any strike actions or other labor disruptions, or any related negotiations that result in onerous terms for us, may have an adverse effect on our business and profitability.

***The prevalence of HIV/AIDS, specifically in Africa, exposes us to certain risks, which may have an adverse effect on our Southern African operations.***

The Southern African region has one of the highest infection rates of HIV/AIDS in the world. Although we initiated in the early 1990s a comprehensive HIV/AIDS management program to address the effects of the disease and its impact on our employees and our business, our operations, and in particular our Southern African operations, continue to be exposed to certain risks related to the HIV/AIDS pandemic. We incur and will continue to incur costs related to the prevention, detection and treatment of the disease. However, we cannot guarantee that any current or future management program will be successful in preventing or reducing the infection rate among our employees and any potential effect thereof on the mortality

rate. We may be exposed to lost workers' time associated with the disease and a potential loss of skill, which may adversely affect our operations.

***Abnormal or severe events affecting our plantations, such as fires and droughts, may adversely impact our ability to supply our Southern African mills with timber from the region.***

The Southern African landscape is prone to, and ecologically adapted to, frequent fires. The risk of uncontrolled fires entering and burning significant areas of plantation is high. In 2007 and 2008, Southern Africa experienced a number of abnormal weather events (hot, dry conditions fanned by extremely strong winds), which resulted in disastrous plantation fires across vast areas of eastern South Africa affecting 14,000 hectares of our plantations. These abnormal weather conditions might be more frequent in the future as the result of climate change. In addition, because the transformation of land ownership and management in Southern Africa has been moving ownership and management of plantations to independent growers, we have less ability to manage directly fire risk, as well as risks of other abnormal or severe events, such as pathogen and pest infestations. As a consequence, the risk of plantation fires or other abnormal or severe events remains high and may be increasing. For example, in the six months ended March 2020 we have experienced an increased incidence of plantation fires, resulting in a charge of US\$6 million for fire damaged timber in Southern Africa during such period, compared to a charge of US\$4 million for fire damaged timber in Southern Africa for fiscal 2019. The availability of harvested timber may also be limited by other abnormal weather conditions, such as droughts. For example, in the three months ended December 2015, a severe drought in South Africa slowed production at the Saiccor Mill for several weeks, which reduced the Operating Profit Excluding Special Items of our Southern Africa business by US\$6 million. Continued or increased losses of our wood sources from drought conditions or fire could jeopardize our ability to supply our mills with timber from the region.

***Concerns about the effects of climate change may have an impact on our operations or our business.***

Concerns about global warming and efforts to reduce carbon emissions footprints, as well as legal and financial incentives favoring alternative fuels, are leading to the increased use of sustainable, non-fossil fuel sources for electricity generation. Sappi faces operational risks related to climate change in all three geographic regions where it operates. We may also incur additional costs for electricity supplies and/or to purchase emissions allowances or pay carbon taxes applicable to our operations in certain jurisdictions, including Europe and South Africa.

In addition, climate change leading to different weather patterns, such as higher rainfall, drought and increased temperatures, could cause the spread of disease and pestilence into our plantations and fiber sources far beyond their traditional geographic spreads, increasing the risk that wood supply necessary to our operations may be negatively impacted. A preliminary climate change investigation conducted by Sappi Forests' scientists in fiscal 2019 has indicated that climate change is likely to be more significant in Southern Africa compared to the world average, including decreased spring rainfall and higher temperatures, the combined effect of which is likely to increase tree stress and adversely impact our South African forests and plantations.

The effects of climate change may also impact our business to the extent they result in reduced availability of woodfiber or demand for our products. Wildfires in Europe and North America over the past few years have been among the most destructive and expensive on record, and the risks of plantations fires in South Africa is increasing. See “—Abnormal or severe events affecting our plantations, such as fires and droughts, may adversely impact our ability to supply our Southern African mills with timber from the region.” In addition, during fiscal 2019, drought conditions in South Africa resulted in reduced orders from packaging customers and, consequently, a reduction of US\$4.9 million in the sales of our Southern Africa business. Should our strategy to mitigate the related risks, including of raw materials shortages, not be successful, our business may be adversely impacted.

Additionally, the increased emphasis on water footprint in Southern Africa is causing increased focus on the location of forestry plantations, which could affect the quality and quantity of ground water, the use of water by our operational units, the quality of water released back into natural water systems and the control of effluent discharges. The cost, availability and use of our water supply also have a direct impact on our input costs and operating profit.

***Our manufacturing and forestry operations are inherently dangerous, and we may be subject to risks related to the health and safety of our employees.***

We operate a number of manufacturing facilities and conduct various forestry operations, each of which is inherently dangerous. Although we employ safety procedures in the design and operation of our manufacturing facilities and forestry operations, accidents resulting in injury or death have occurred at our facilities in the past and could occur in the future. For example, during the fiscal years 2014 through 2019, we experienced 15 safety-related incidents resulting in workplace fatalities in our Southern African operations (including four contractor fatalities in fiscal 2019) and two safety-related incidents resulting in workplace fatalities in our European operations. Additionally, in fiscal 2019 the lost-time injury

frequency rates for our own employees and contractors increased to their highest levels in the past six fiscal years. Any such accidents or incidents could also result in environmental impacts, equipment damage and/or production delays, which could harm our business and our results of operations. The potential liability resulting from any such incident, to the extent not covered by insurance, and any negative publicity associated therewith could harm our business, reputation, financial condition or results of operations. Whether or not a claim against us succeeds, its defense may be costly and the existence of any claim may adversely impact our reputation, financial condition or results of operations.

***Unforeseen shutdowns, disruptions or malfunctions at our production facilities or affecting our information technology systems or supply chain may adversely impact our business.***

Our pulp and paper mills and our production facilities are central to our business and are subject to operational risks. These risks include, but are not limited to, fire or explosions, accidents, severe weather and natural disasters, mechanical, operational or structural failures, unplanned production or power disruptions, political turmoil, pandemics and related governmental responses (including COVID-19) or social unrest (the frequency of which has been increasing recently in South Africa). For example, in the six months ended March 2020 we experienced quality control issues due to production deficiencies at our Saiccor Mill. Shutdowns, outages or deficiencies resulting from such events could have a material adverse effect on our business and financial condition if such shutdowns, outages or deficiencies continued for an extended period of time or if we were unable to restart or remedy production in a timely manner.

We also use information technologies to securely manage our operations and various business functions. We rely on various technologies to process, store and report on our business and interact with customers, vendors and employees. Despite our security design and controls, and those of our third-party providers, we or our third-party providers have in the past been, and in the future could become, subject to cyberattacks, which could result in operational disruptions or the misappropriation of sensitive data. There can be no assurance that such disruptions or misappropriations and the resulting repercussions will not adversely impact our reputation, financial condition or results of operations.

We depend on a reliable and efficient supply chain to deliver products to our customers within a time frame that meets their expectations. A number of factors, many of which are beyond our control, could disrupt the operation of our supply chain and jeopardize our ability to fulfil our customers' orders, including inclement weather, natural disasters, transportation interruptions or inefficiencies, port or traffic congestion, labor shortages or disruptions, oil price increases, unrest or pandemics (including COVID-19) could impair our ability to supply our customers or maintain an appropriate logistics chain and levels of production and inventory, all of which could adversely affect our reputation, business, results of operations and financial condition. For example, in the six months ended March 2020, ongoing logistical challenges, including road congestion, rail network issues, vessel delays, equipment unavailability and labor disruptions, at the Durban port in South Africa adversely affected the dissolving pulp sales volumes, and therefore profitability, of our Southern Africa business, and there can be no assurance that such challenges will be satisfactorily resolved in a timely manner or at all. Disruptions of this nature could have a material adverse effect on our business, financial condition or results of operation, particularly if the disruptions continued for an extended period of time.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis together with our Group annual financial statements, including the notes thereto. Certain information contained in the discussion and analysis set forth below and elsewhere in this document includes forward-looking statements that involve risk and uncertainties. See "Forward-Looking Statements", "Risk Factors", "Our Business" and the notes to our Group annual financial statements for a discussion of important factors that could cause actual results to differ materially from the results described in, or implied by, the forward-looking statements contained in this document.*

The annual financial statements of the Sappi Group, including the applicable notes thereto, and the consolidated financial information of the Sappi Group contained herein have been prepared in accordance with IFRS, the SAICA Financial Reporting Guides, the FRSC Financial Reporting Pronouncements and the Companies Act of South Africa. The unaudited condensed consolidated financial information of the Sappi Group as of March 2020 and for the six-month periods ended March 2020 and March 2019 has been prepared in accordance with IAS 34: *Interim Financial Reporting*, the SAICA Financial Reporting Guides, the FRSC Financial Reporting Pronouncements and the Companies Act of South Africa.

The unaudited condensed consolidated financial information as of March 2020 and for the six months ended March 2020 and 2019 presented below has been derived from the Group's unaudited condensed consolidated financial statements and related notes as of March 2020 and for the six months ended March 2020 and 2019, respectively.

The Group's financial year-end is on the Sunday closest to the last day of September. Our fiscal years operate on a 52 accounting week cycle, except every sixth fiscal year, which includes an additional accounting week. Fiscal 2019 and 2018 each operated on a 52 accounting week cycle and fiscal 2017 operated on a 53 accounting week cycle. The six-month periods ended March 2020 and March 2019 each consisted of 26 weeks.

### Company and Business Overview

Sappi is a global diversified woodfibre company with operations in North America, Europe and Southern Africa and is focused on providing dissolving pulp, packaging and specialty papers, graphic papers, as well as biomaterials and biochemicals to its direct and indirect customer base. The Group's dissolving pulp products are used worldwide by converters to create viscose staple fiber for clothing and textiles and acetate tow, pharmaceutical products, as well as a wide range of consumer and household products. The Group's range of packaging and specialty paper products includes premium quality packaging papers such as flexible sachets, pouches and wrappers, containerboard used in various consumer, industrial and transport applications and paperboard used for luxury packaging applications in the perfume, confectionary and premium beverages industries. In addition, packaging and specialty paper products include casting and release papers used by suppliers to the fashion, textiles, automobile and household industries, functional papers that build upon our expertise in paper coating to incorporate sealing properties and barriers against mineral oils, various other substances, as well as label papers, tissue papers, flexible packaging, containerboard, paperboard, release liner, technical papers, dye sublimation papers and digital imaging papers. The Group's range of graphic papers includes coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications, uncoated graphic and business papers and, in the Southern African region, newsprint. Finally, we are also exploring adjacent markets in order to extract maximum value from our woodfiber. Our products for such markets include hemicellulose sugars, lignin-based dispersants, furfural, dry redispersable nanocellulose, cellulose fiber plastic composites (such as those sold under our Symbio brand) and bio-energy (including our biomass energy projects and fuel rods). With the development of new processes and biomaterials, we aim to extract more value from each tree. During fiscal 2019, we had revenue, profit for the year and Adjusted EBITDA Excluding Special Items of US\$5,746 million, US\$211 million and US\$687 million, respectively. During the six months ended March 2020, we had revenue, profit for the period and Adjusted EBITDA Excluding Special Items of US\$2,610 million, US\$26 million and US\$270 million, respectively.

Our revenue, profit for the period and Adjusted EBITDA Excluding Special Items during the twelve months ended March 2020 were US\$5,435 million, US\$84 million and US\$573 million, respectively.

Sappi Limited was founded and incorporated in 1936 in South Africa. While we primarily expanded our operations within Southern Africa until 1990, we have since grown through acquisitions outside of Southern Africa. During the twelve months ended March 2020, 77% of our revenue and 61% of our Adjusted EBITDA Excluding Special Items were generated, and, as of March 2020, 67% of our Net Operating Assets were located, outside Southern Africa, principally in Europe (36%) and North America (31%). During fiscal 2019, 75% of our revenue and 50% of our Adjusted EBITDA Excluding Special Items were generated, and, as of September 2019, 65% of our Net Operating Assets were located, outside Southern Africa.

The Group's three reportable segments comprise the geographic regions of Europe, North America and Southern Africa. We operate 18 pulp and paper mills in 10 countries, with an aggregate production capacity of approximately 5.7 million tons of paper, 2.6 million tons of paper pulp and 1.4 million tons of dissolving pulp.

Sales by source and destination for the six months ended March 2020 and each of fiscal 2019, fiscal 2018 and fiscal 2017 were as follows:

	Sales by Source				Sales by Destination			
	Six Months Ended March 2020 <sup>(1)</sup>	Year Ended September			Six Months Ended March 2020 <sup>(1)</sup>	Year Ended September		
		2019 <sup>(1)</sup>	2018	2017		2019 <sup>(1)</sup>	2018	2017
								%
Europe.....	51	50	51	48	45	44	45	41
North America .....	29	25	25	26	28	24	23	23
Southern Africa.....	20	25	24	26	9	10	10	10
Asia and others .....	—	—	—	—	18	22	22	26
<b>Total .....</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

<sup>(1)</sup> Excludes the impact of the Delivery Costs Revenue Adjustment resulting from the adoption of IFRS 15 *Revenue from Contracts with Customers*.

### Principal Factors Impacting our Group Results

Our results of operations are affected by numerous factors. Given the high fixed cost base of pulp and paper manufacturers, industry profitability is highly sensitive to changes in sales volumes and prices. Sales volumes and prices are significantly affected by demand for our products, changes in industry capacity and output levels and customer inventory levels. Demand levels are highly dependent on cyclical and structural changes in the world economy and changes in technology and consumer preferences. Industry profitability is also influenced by factors such as the level of raw material inventory, energy, chemicals, wood and other input costs, currency exchange rates, and operational efficiency.

The principal factors that have impacted the business during the fiscal and interim periods presented in the following discussion and analysis and that are likely to continue to impact the business are:

- (a) Cyclical nature of the pulp and paper industry and movement in market prices, availability and prices of raw materials and input costs;
- (b) Emergence of new technologies, increased preference for digital media and declining demand for graphic paper products;
- (c) Growth in the packaging and specialty papers sector;
- (d) Sensitivity to currency movements;
- (e) Expansions, restructurings, acquisitions, strategic and cost-reduction initiatives, capacity closures, our ability to maintain and improve operational efficiencies and performance and other significant factors impacting costs; and
- (f) The widespread global health emergency resulting from COVID-19.

Because many of these factors are beyond our control and certain of these factors have historically been volatile, past performance is not necessarily indicative of future performance and it is difficult to predict future performance with any degree of certainty.

### *Cyclical Nature of the Pulp and Paper Industry and Movement in Market Prices, Availability and Prices of Raw Materials and Input Costs*

The markets for pulp and paper products are cyclical, with sales prices significantly affected by factors such as changes in industry capacity and output levels, customer inventory levels and changes in the world economy. The pulp and paper industry has often been characterized by periods of imbalances between supply and demand, causing prices to be volatile. Prices also vary significantly by geographic region and product. Coated woodfree paper, our core paper product used for many types of publications, is susceptible to the highly cyclical advertising market, a major driver in our business, and other factors such as growing consumer preference for digital media over print media. Dissolving pulp is primarily used in the textile market, and thus is highly susceptible to changes in textile industry capacity and output levels, cyclical changes in the market for competing commodities such as cotton and synthetic fibers, as well as other factors affecting the textile market,

including general economic conditions and geopolitical developments. In addition, the purchase prices of many of the raw materials we use generally fluctuate in correlation with global commodity cycles. Other input costs, such as energy and fuel costs, vary depending on various factors, including local and global demand and seasonality. Despite the aggressive measures taken by governments and central banks following the economic downturn and successive sovereign debt crises since 2008, the economic recovery in certain of our markets has been slow and marked by further periods of decline, volatility and uncertainty, which, together with other market factors, caused demand for many of our major products to decline during fiscal 2017, 2018 and 2019. The outlook for the world economy is currently subject to significant uncertainty, particularly in light of the impact of the ongoing COVID-19 pandemic, which has had a significant adverse impact on demand for many of our products towards the end of the six months ended March 2020 and may lead to prolonged periods of economic uncertainty, downturn, recession or depression in many of the countries in which we and our customers operate; the International Monetary Fund predicts negative global growth in 2020. In addition, uncertainty relating to trade relations between the United States and China, among others, continues to put pressure on demand and sales prices, particularly for our graphic paper products and, more recently, for dissolving pulp. In contrast to the high and relatively stable prices for dissolving pulp that we experienced in fiscal 2018, during fiscal 2019 market prices for dissolving pulp decreased by US\$279/ton to reach historic lows by fiscal year end, and such decreases continued during the six months ended March 2020, with prices reaching as low as US\$632/ton during such period. These price declines were largely due to a combination of (i) the ongoing United States/China trade dispute and related imposition of tariffs on Chinese exports to the United States, which reduced demand for textiles produced in China, (ii) excess viscose staple fibre capacity and increased competition in the viscose staple fibre market adversely affecting pricing in that market, (iii) a weaker Renminbi/US dollar exchange rate impacting the US\$ prices Chinese customers are willing to pay, (iv) the absence of an attractive alternative market for swing producers due to weakness in paper pulp prices, and (v) the COVID-19 pandemic, resulting in oversupply to the dissolving pulp market.

### ***Emergence of New Technologies, Increased Preference for Digital Media and Declining Demand for Graphic Paper Products***

Graphic paper demand in Europe and North America has been in decline since 2009. While some of the decline can be attributed to weak economic conditions, increased substitution for digital media has been, and will continue to be, a significant driver of this trend. Over the last 15 years, the pulp and paper industry has encountered a growing transformation in consumer preferences. During this time, readership and circulation of newspapers and magazines has been declining, while accessibility to, and use of, the internet has increased and mobile devices, including digital tablets, have become commonplace. As a result, digital alternatives to many traditional paper applications, including print publishing and advertising, and the storage, duplication, transmission and consumption of written information more generally, are now readily available. We expect competition from digital media to continue to adversely affect demand for graphic paper products across the industry, leading to oversupply, declining revenues from paper businesses and reductions in high cost paper manufacturing capacity to balance declining demand. We have recently experienced a faster decline in demand for graphic papers than in prior periods, and demand decline rates in the six months ended March 2020 exceeded those of recent years by a significant margin. The trend of digitalization may further accelerate in response to the COVID-19 pandemic, with significant proportions of the populations in our markets working remotely and consuming less print media for the duration of governmental lockdown and social distancing measures implemented in response to the pandemic, and any such trend may persist following the COVID-19 pandemic. Globally, we presently expect annual demand declines for coated woodfree papers for the next several years, and we are responding by cutting costs, completing conversion and upgrade projects and maintaining operating rates in graphic papers to maximize the cash generation potential of these businesses, while simultaneously investing in higher growth businesses not impacted by the secular shift to digital media, such as our packaging and specialties business.

### ***Growth in the Packaging and Specialty Papers Sector***

Consumers and manufacturers are increasingly demanding more sustainable and environmentally friendly packaging solutions. Such trends in consumer preferences, together with legislative and regulatory changes introducing new rules for less polluting packaging alternatives, are driving growth in demand for packaging and specialty papers. We have identified promising opportunities for growth in this product category, which offers attractive margins, and we have made a number of investments to take advantage of such opportunities, including in a number of conversion projects at our paper mills aimed at shifting capacity toward packaging and specialty papers.

Our operations in South Africa mainly focus on the local containerboard market. In North America, our operations currently make functional packaging papers, label papers and paperboard for folding cartons. In Europe, the focus of our operations is diverse and niche, with higher levels of specialization and customization than most other specialty paper producers. In addition, in this product category, where innovation is a key success factor, research and development centers in each geographic region actively seek to create new products and propose new solutions to our customers.

## Currency Fluctuations

The principal currencies in which our subsidiaries conduct business are the US dollar (US\$), the euro (€) and the South African Rand (ZAR). Although our reporting currency is the US dollar, a significant portion of the Group's sales and purchases are made in currencies other than the US dollar. In Europe and North America, sales and expenses are generally denominated in euro and US dollars, respectively; however, pulp purchases in Europe are primarily denominated in US dollars. In Southern Africa, costs incurred are generally denominated in Rand, as are local sales.

Exports from the Southern African businesses to other regions are primarily denominated in US dollars. Such exports represented, in local currency terms, 60% and 63% of sales of our Southern African operations in the six months ended March 2020 and 2019, respectively and 61% of sales of our Southern African operations in each of fiscal 2019 and fiscal 2018.

The appreciation of the Rand or the euro against the US dollar diminishes the value of exports from Southern Africa and Europe in local currencies, while depreciation of these currencies against the US dollar has the opposite impact. Since expenses are generally denominated in local currencies, the depreciation of the US dollar has a negative effect on gross margins of exports sales as well as those domestic sales, which are priced relative to international US dollar prices. The appreciation of the US dollar has the opposite impact. In North America, the depreciation of the US dollar against the euro or Asian currencies has a positive effect on sales volumes and margins, due to high levels of imports of coated woodfree paper in the market, which are adversely affected by such depreciation, and the favorable impact on exports of coated woodfree paper and release paper. The Group's consolidated financial position, results of operations and cash flows may be materially affected by movements in the exchange rate between the US dollar and the respective local currencies to which our subsidiaries are exposed. The following table depicts the average and year-end exchange rates for the Rand and euro against the US dollar used in the preparation of our financial statements in the six months ended March 2020 and 2019 and in fiscal 2019, fiscal 2018 and fiscal 2017:

Exchange rates	Average rates					Closing rates				
	Six Months Ended March 2020	Six Months Ended March 2019	2019	2018	2017	March 2020	March 2019	2019	2018	2017
	ZAR to one US\$.....	14.992	14.167	14.346	13.052	13.381	17.630	14.498	15.156	14.147
US\$ to one EUR.....	1.105	1.138	1.128	1.190	1.106	1.114	1.122	1.094	1.161	1.181

The profitability of certain of our Southern African operations is directly dependent on the Rand proceeds of their US dollar exports. Selling prices in the local Southern African market are significantly influenced by the pricing of competing imported products. The appreciation of the Rand against the US dollar leads to increased pressure from imports.

The translation of our annual results into our reporting currency (US dollar) from local currencies tends to distort comparisons between fiscal periods due to the volatility of currency exchange rates. In the six months ended March 2020, the euro was weaker against the US dollar with an average exchange rate of US\$1.105/euro as compared to an average exchange rate of US\$1.138/euro in the six months ended March 2019, and the Rand was weaker against the US dollar with an average exchange rate of ZAR14.992/US\$ as compared to an average of ZAR14.167/US\$ in the six months ended March 2019. The impact of these currency movements decreased reported revenue in US dollars by US\$47 million for the six months ended March 2020 compared to the six months ended March 2019. Subsequent to March 2020 the Rand has weakened further against the US dollar and as of May 11, 2020 was trading at ZAR18.38/US\$.

On average, the euro weakened 5% against the US dollar in fiscal 2019 compared to fiscal 2018, and strengthened 8% against the US dollar in fiscal 2018 compared to fiscal 2017. The Rand weakened in fiscal 2019 to an average level against the US dollar of ZAR14.346, or 10% weaker than fiscal 2018 average levels, and ended fiscal 2019 at a closing rate of ZAR15.156/US\$, 7% weaker than the closing rate of fiscal 2018. The Rand strengthened in fiscal 2018 to an average level against the US dollar of ZAR13.052, or 3% stronger than fiscal 2017 average levels, and ended fiscal 2018 at a closing rate of ZAR14.147/US\$, 4% weaker than the closing rate of fiscal 2017. The impact of these currency movements decreased reported revenue in US dollars by US\$188 million in fiscal 2019, but increased reported revenue in US dollars by US\$246 million for fiscal 2018 and by US\$119 million for fiscal 2017.

The Group has a current policy of not hedging translation risks. The Southern African and European operations use the Rand and the euro as their respective functional currencies. Any translation of the value of these operations into US dollars results in foreign exchange translation differences as the Rand and the euro exchange rates move against the US dollar. These changes are booked to the foreign currency translation reserve via other comprehensive income. Borrowings taken up in a



currency other than the functional currency of the borrowing entity are typically hedged with financial instruments, such as currency swaps and forward exchange contracts.

### ***Expansions, Restructurings, Acquisitions and Strategic Initiatives***

We continually evaluate the performance of our assets by maintaining a focus on profitability and we actively manage our asset base on a regional basis, including closing non-performing assets, converting paper machines and mills to shift capacity toward higher-margin and growing product categories and improve our ability to react to demand shifts in traditional graphic paper products, as well as pursuing an investment policy that is focused on high-return projects. Some of these recent developments include the following:

*Review of European production assets:* During fiscal 2019 and the six months ended March 2020, we conducted a review of our European production assets to determine whether we need to close paper machines if the supply/demand imbalance in the graphic paper industry remains. In February 2020, we concluded that the continuing and accelerating structural drop in demand for coated papers, particularly in Europe, has made it impossible for our European production assets to fill their capacities adequately and to be sufficiently profitable in their current form, and that the least disruptive way to adjust our capacity in line with market demand would be to operate fewer machines. We have determined that the preferred option to achieve this adjustment would be to close PM2 at our Stockstadt Mill and relocate its entire production to our other paper machines in Europe in order to match capacity to demand. We have therefore commenced a closure consultation process with relevant employee representatives at our Stockstadt Mill.

*Matane Acquisition:* In the six months ended March 2020, we acquired the Matane hardwood pulp mill from Rayonier Advanced Materials Inc. for US\$158 million in order to increase our pulp integration for both our North American and European packaging businesses. The Matane Mill has added 270,000 tons of bleached chemi-thermo mechanical wood pulp production capacity to our production capabilities. Going forward, we believe that the increased pulp integration resulting from the Matane Acquisition will lower our costs of pulp, reduce the volatility of earnings throughout the pulp cycle and provide additional certainty of supply.

*Conversion of PM8 at Lanaken Mill.* During fiscal 2019, we converted PM8 at our Lanaken Mill in order to give it the flexibility to produce coated woodfree paper in addition to lightweight coated paper, enhancing our ability to meet market demand. This project, while successful, required an extended shutdown of 8 days, following which operational issues led to a slower than anticipated recommencement of production on PM8. As a result, in fiscal 2019 we experienced lost production of US\$8 million, as well as an adverse cost impact of US\$9 million resulting from production inefficiencies, which negatively impacted our sales volumes and results of operations in fiscal 2019.

*Expansion of dissolving pulp and packaging and specialty papers capacity and conversion of existing production capacity:* We are currently engaged in several projects to expand our dissolving pulp and packaging and specialty papers production capacity, including through the conversion of existing paper machines that previously produced graphic papers. During the fiscal periods presented in this document, such projects have included, among others, investments at Ehingen Mill to enhance its packaging and specialty papers offering, the conversions of paper machines at our Somerset and Maastricht Mills, which increased our production capacity in the packaging and specialty papers categories while simultaneously reducing our exposure to the coated woodfree paper market, and projects to upgrade and expand, and optimize production processes at, our Saiccor and Ngodwana Mills aimed at increasing our dissolving pulp capacity; construction work at our current Saiccor Mill expansion project is, however, presently suspended due to the force majeure declaration we issued in connection with the COVID-19 pandemic in March 2020. Our total packaging and specialty papers sales have grown from 854,000 tons per annum in fiscal 2017 to 1.1 million tons per annum during the twelve months ended March 2020, and our total production capacity in this product category is now almost 1.6 million tons.

*Cham Acquisition:* In fiscal 2018, we acquired the specialty paper business of Cham Paper Group for US\$132 million. In this transaction, we acquired all brands and know-how of Cham Paper Group, the Carmignano and Condino Mills in Italy and a digital imaging business and facility situated in Cham, Switzerland. In total, the Cham Acquisition has added 160,000 tons of packaging and specialty papers production capacity to our operations. The Cham Acquisition has increased our capabilities and relevance in the packaging and specialty papers category by expanding and complementing our existing product portfolio, opening up new customers and markets to our existing product portfolio and generating economies of scale and synergies.

*Conversion of PM1 at Somerset Mill:* During fiscal 2018, we converted PM1 at the Somerset Mill in order to expand its production capacity and give it the flexibility to produce both coated woodfree paper and packaging paper used in the folding carton and food service markets. The rebuild has enabled the launch of new paperboard grades that are used in luxury packaging and folding carton applications, and which complement our existing packaging and specialty papers products. This project, while successfully completed, overran in terms of both costs and time, leading to US\$10 million in lost production in excess of what we originally projected, as well as an additional US\$35 million to US\$50 million of capital expenditure,

which negatively impacted our sales volumes and results of operations in fiscal 2018; in fiscal 2019 our results of operations were also adversely impacted by extended qualification runs for new paperboard products from PM1.

*Optimization of production processes at Saiccor and Ngodwana Mills:* During fiscal 2018, we completed projects to optimize production processes at our Saiccor and Ngodwana Mills, adding a total of 60,000 tons of dissolving pulp capacity. Such projects form part of our planned expansion of dissolving pulp capacity to increase sales volumes and meet growing demand in this product category. While adding additional production capacity toward the end of fiscal 2018 after completion of the projects, we experienced delayed start-ups at both Saiccor and Ngodwana Mills, negatively impacting dissolving pulp production and sales volumes during the 2019 fiscal year.

*Conversion of Maastricht Mill:* During fiscal 2018, we converted the Maastricht Mill so that its production capacity will be focused predominantly on paperboard, in order to support our existing packaging and specialty papers business in Europe. Prior to the conversion, the paper machine at the Maastricht Mill had a capacity of approximately 280,000 tons of coated woodfree paper per year. As a result of the conversion, we currently expect the Maastricht Mill to have a production capacity of 150,000 tons of folding boxboard in the medium term, with the balance of capacity at the mill dedicated to coated woodfree paper.

*Acquisition of Rockwell Solutions:* In fiscal 2017, we completed the acquisition of Rockwell Solutions, a firm specializing in film coatings for the packaging industry, for US\$23 million. This acquisition complemented our growing packaging and specialty papers business, giving us access to innovative barrier coating technologies used in paper-based packaging alternatives to plastic packaging.

### **COVID-19 Pandemic**

Widespread health emergencies (or concerns over the possibility of such an emergency), such as the COVID-19 pandemic and the actions taken in response to it, can cause significant volatility in demand for our products, changes in consumer behavior and preferences, disruptions in our manufacturing and supply chain operations, lower capacity utilization and/or unscheduled downtime or shutdowns at some or all of our facilities, disruptions to our capital expenditure initiatives, limitations on our employees' ability to work and travel, significant changes in the economic or political conditions in markets in which we operate and related currency and commodity volatility, restrictions on our access to sources of liquidity or unfavorable working capital movements. Towards the end of the six-month period ended March 2020, we began to receive significant cancellations of dissolving pulp and graphic paper orders scheduled to be delivered in the fiscal quarter ending June 28, 2020 and new orders for both product categories slowed considerably. We expect significantly lower demand for dissolving pulp and graphic paper in the short term. Order activity for graphic paper has slowed markedly. In April 2020, sales volumes for graphic paper were materially weaker than in April 2019, with sales volumes in Europe and North America approximately 27% lower than our budget, while newsprint and office paper volumes in Southern Africa were also severely adversely affected. Some major customers have notified Sappi of their intention to reduce dissolving pulp purchase volumes relative to contractual volume commitments, which is likely to materially reduce sales volumes in the fiscal quarter ending June 28, 2020, and may further reduce sales volumes in future periods. In April 2020, our dissolving pulp sales volumes were approximately 35% lower than our budget. Such declines in demand for dissolving pulp and graphic paper have necessitated, and are likely to continue to require, extensive downtime on various machines in all regions (including the temporary shutdown of PM7 at our Lanaken Mill), resulting in lower capacity utilization and profitability. Given the dynamic nature of the outbreak, the extent to which COVID-19 will in the future impact the Company's business, results of operations and financial condition will depend on future developments, which remain highly uncertain and cannot be accurately predicted at this time.

### **Southern African Operations**

Sappi Limited is a public company incorporated in South Africa. We have significant operations in Southern Africa, which accounted for 20% and 24% of our sales in the six months ended March 2020 and 2019, respectively (excluding the impact of Delivery Costs Revenue Adjustment resulting from the adoption of IFRS 15), and 25%, 24% and 26% of our sales in fiscal 2019, 2018 and 2017, respectively. See “—Operating Results, Financial Condition and Results of Operations” for the proportion of Southern African operating profit to total profit and “—South African Economic and Political Environment” for a description of the South African economic and political environment.

### **Environmental Matters**

We operate in an industry subject to extensive environmental laws and regulations. Typically, we do not separately account for environmental operating expenses but do not anticipate any material expenditures related to such matters in fiscal 2020. We do separately account for environmental capital expenditures. For further information, see “Our Business—Environmental Matters”.

## Operating Results, Financial Condition and Results of Operations

The operations of the Group are organized into the following three reportable segments comprising the corresponding geographic areas:

- Europe;
- North America; and
- Southern Africa.

The Southern Africa reportable segment includes the following divisions: Sappi Paper and Paper Packaging, Sappi Dissolving Pulp, and Sappi Forests. Sappi Paper and Paper Packaging consists of one sawmill, one fine paper mill, two packaging paper mills and the Sappi ReFibre operation. The volume, revenue and cost relationship within the Sappi Forests business is substantially different to that of the paper and dissolving pulp businesses.

Costs related to our corporate head office, the Group's treasury operations, insurance captive and non-manufacturing entities that are part of the Sappi Group are not included in the reportable segments mentioned above, and are disclosed as Unallocated and eliminations in the segmental reporting.

The financial results and position of our trading network, Sappi Trading, are allocated to our reportable segments.

The analysis and discussion that follows should be read in conjunction with our Group annual financial statements and our unaudited condensed consolidated financial statements as of and for the six-month period ended March 2020 and March 2019.

The key indicators of the Group's operating performance include revenue, operating profit and Operating Profit Excluding Special Items. Operating profit represents revenue after operating expenses, which comprise cost of sales, selling, general and administrative expenses, other operating expenses or income and share of profit or loss from equity accounted investees. As described in more detail in the discussion and analysis which follows, the key components of the Group's operating expenses can be characterized as variable costs (primarily variable manufacturing costs) or fixed costs (the fixed cost components of cost of sales and selling, general and administrative expenses).

### *Cost of sales comprises:*

- variable costs, which include raw materials and other direct input costs, including:
  - wood (which includes growth and felling adjustments);
  - energy;
  - chemicals;
  - pulp;
  - delivery charges; and
  - other variable costs;
- fixed costs, which include:
  - employment costs allocated to cost of sales;
  - depreciation expense allocated to cost of sales; and
  - maintenance;
- fair value adjustment on plantations, representing an accounting fair value adjustment of the timber assets of the Sappi Forests operations, which is mainly impacted by timber selling prices, costs of harvesting and delivery, the estimated growth rate or annual volume changes in the plantations and discount rates applied; and
- other overheads.

### *Selling, general and administrative expenses comprise:*

- employment costs not allocated to cost of sales;
- depreciation expense not allocated to cost of sales;
- marketing and selling expenses; and

- administrative and general expenses.

*Other operating expenses (income) comprise:*

- net asset impairment (reversal);
- (profit) loss on sale and write-off of property, plant and equipment; and
- restructuring provisions raised (released) and closure costs.

## Comparison of the Six Months ended March 2020 and 2019

### Overview

This overview of the Group's operating results is intended to provide context to the discussion and analysis that follow. General trends are being highlighted here, with a detailed discussion and analysis in separate sections below.

The key indicators of the Group's operating performance are:

Key figures	Six Months Ended March	
	2020	2019
	(US\$ million)	
Revenue .....	2,610	2,921
Operating profit .....	78	240
Special items—(gains) losses .....	36	5
Operating Profit Excluding Special Items .....	114	245

The following table reconciles Operating Profit Excluding Special Items to profit for the period.

	Six Months Ended March	
	2020	2019
	(US\$ million)	
<b>Profit for the period</b> .....	<b>26</b>	<b>153</b>
Taxation charge.....	9	50
Net finance costs <sup>(1)</sup> .....	43	37
<b>Operating profit</b> .....	<b>78</b>	<b>240</b>
Special items—(gains) losses.....	36	5
<b>Operating Profit Excluding Special Items</b> .....	<b>114</b>	<b>245</b>
Plantation price fair value adjustment.....	(9)	(13)
Acquisition costs.....	5	—
Net restructuring provisions.....	13	—
(Profit) loss on disposal and written off assets.....	—	3
Asset impairments (reversals).....	11	3
Fire, flood, storm and other events.....	16	12
<b>Total special items</b> .....	<b>36</b>	<b>5</b>

<sup>(1)</sup> Beginning with the Group's unaudited condensed consolidated financial information as of and for the six-month period ended March 2020, we adopted IFRS 16 *Leases* applying the modified retrospective transition approach. We have not restated comparative amounts as of and for the six-month period ended March 2019 or as of and for the years ended September 2019, 2018 or 2017.

Movements in operating profit and Operating Profit Excluding Special Items are explained below.

Segment contributions to operating profit (loss), special items and Operating Profit (Loss) Excluding Special Items were as follows:

Operating Profit (Loss)	Six Months Ended March 2020	March 2020 vs. March 2019	Six Months Ended March 2019
		(US\$ million)	
Europe.....	35	(21)	56
North America .....	(1)	(7)	6
Southern Africa.....	46	(136)	182
Unallocated and eliminations.....	(2)	2	(4)
<b>Total .....</b>	<b>78</b>	<b>(162)</b>	<b>240</b>

Special items Loss (Gain)	Six Months Ended March	
	2020	2019
	(US\$ million)	
Europe.....	29	5
North America .....	6	13
Southern Africa.....	(3)	(17)
Unallocated and eliminations.....	4	4
<b>Total .....</b>	<b>36</b>	<b>5</b>

Operating Profit (Loss) Excluding Special Items	Six Months Ended March 2020	March 2020 vs. March 2019	Six Months Ended March 2019
		(US\$ million)	
Europe.....	64	3	61
North America .....	5	(14)	19
Southern Africa.....	43	(122)	165
Unallocated and eliminations.....	2	2	—
<b>Total .....</b>	<b>114</b>	<b>(131)</b>	<b>245</b>

Special items for the Group in the six months ended March 2020 and the six months ended March 2019 are generally summarized below:

**Plantation price fair value adjustment:** This relates to an accounting fair value adjustment of the timber assets of Sappi Forests. This fair value adjustment is mainly impacted by estimated timber selling prices, cost associated with harvesting and delivery and discount rates applied. The parameters applied are all derived from market information. A positive US\$9 million adjustment was recognized in the six-month period ended March 2020 and a positive US\$13 million adjustment was recognized in the six-month period ended March 2019.

**Acquisition costs:** In the six months ended March 2020, operating profit was negatively impacted by US\$5 million of acquisition costs, mostly relating to the Matane Acquisition.

**Net restructuring provisions:** In the six months ended March 2020, operating profit was negatively impacted by a US\$13 million charge relating to the provision recorded for the proposed closure of PM2 at Stockstadt Mill.

**(Profit) loss on disposal and written off assets:** In the six months ended March 2019, a US\$3 million loss was realized as a result of a loss of US\$4 million on the write-off of assets at the Ngodwana Mill, partially offset by a US\$1 million gain on the disposal of various assets.

**Asset (reversals) impairments:** In the six months ended March 2020, asset impairments of US\$11 million were recorded, mainly related to the proposed closure of PM2 at Stockstadt Mill. In the six months ended March 2019, asset impairments of US\$11 million were recorded, mainly relating to the Westbrook Mill, partially offset by impairment reversals of US\$8 million at our Tugela and Stanger Mills.

**Fire, flood and storm and other events:** A charge of US\$16 million was recorded in the six-month period ended March 2020, mainly relating to fire damaged timber in Southern Africa of US\$6 million and business interruption and strike-related costs in Europe of US\$6 million. A charge of US\$12 million was recorded in the six-month period ended

March 2019, mainly relating to turbine damage at the Stockstadt Mill of US\$8 million, a breakdown of the energy plant at the Maastricht Mill, leading to damages of US\$1 million, and a litigation settlement provision of US\$2 million in North America, partially offset by a contingent consideration release of US\$1 million.

### **Group**

The operating profit of US\$240 million in the six months ended March 2019 decreased to an operating profit of US\$78 million in the six-month period ended March 2020.

Operating profit in the six months ended March 2020 was negatively affected by special items of US\$36 million compared to a negative impact of special items of US\$5 million in the six months ended March 2019. Special items in the six months ended March 2020 primarily included a restructuring charge of US\$13 million and a net asset impairment of US\$11 million relating to the proposed closure of PM2 at the Stockstadt Mill, total costs from fire, flood, storm and other events of US\$16 million primarily related to fire damaged timber and business interruption costs, and acquisition costs of US\$5 million primarily related to the Matane Acquisition, partially offset by a positive non-cash plantation price fair value adjustment of US\$9 million.

Operating Profit Excluding Special Items decreased in the six months ended March 2020 to US\$114 million from US\$245 million in the six months ended March 2019. This decrease was primarily due to lower sales prices and sales volumes for dissolving pulp (not including external paper pulp sales), with prices reaching historic lows. Sales volumes for graphic paper were also lower, decreasing by 4% in the six months ended March 2020 when compared to the six months ended March 2019. However, demand for packaging and specialty paper was strong, with sales volumes increasing more than 2% in the six months ended March 2020 when compared to the six months ended March 2019, and profitability improved due to an improved sales mix and machine efficiencies, lower input costs and reduced downtime.

### **Europe**

<b>Key figures</b>	<b>Six Months Ended March</b>	
	<b>2020</b>	<b>2019</b>
	<b>(US\$ million)</b>	
Operating profit .....	35	56
Special items—(gains) losses .....	29	5
<b>Operating Profit Excluding Special Items .....</b>	<b>64</b>	<b>61</b>

Operating profit in the six months ended March 2020 was US\$35 million as compared to an operating profit of US\$56 million for the comparative period in 2019.

The operating profit in the six months ended March 2020 included unfavorable special items of US\$29 million mainly due to a restructuring charge of US\$13 million and a net asset impairment of US\$11 million relating to the proposed closure of PM2 at the Stockstadt Mill. The operating profit in the six months ended March 2019 included unfavorable special items of US\$5 million mainly relating to turbine damage at the Stockstadt Mill.

Operating Profit Excluding Special Items increased to US\$64 million in the six months ended March 2020 compared to an Operating Profit Excluding Special Items in the six-month period ended March 2019 of US\$61 million. The increase was mainly due to lower variable costs, including purchased pulp and chemical prices, increased sales volumes of packaging and specialty paper products, and market share gains in coated woodfree papers, partially offset by reduced sales volumes of coated mechanical papers due to an industry-wide strike in Finland, reduced sales prices, a marked slowdown in orders and deliveries for coated woodfree paper towards the end of the period as the economic and social impacts of the COVID-19 pandemic started to take effect, and reduced capacity utilization (including 20,000 tons of commercial downtime).

## North America

Key figures	Six Months Ended March	
	2020	2019
	(US\$ million)	
Operating profit (loss).....	(1)	6
Special items—(gains) losses .....	6	13
<b>Operating Profit (Loss) Excluding Special Items.....</b>	<b>5</b>	<b>19</b>

Operating loss in the six months ended March 2020 was US\$1 million as compared to an operating profit of US\$6 million for the comparative period in 2019.

The operating loss in the six months ended March 2020 included unfavorable special items of US\$6 million mainly due to acquisition costs of US\$5 million relating to the Matane Acquisition. The operating profit in the six months ended March 2019 included unfavorable special items of US\$13 million, mainly due to an asset impairment relating to the Westbrook Mill.

Operating Profit Excluding Special Items decreased to US\$5 million in the six months ended March 2020 compared to an Operating Profit Excluding Special Items in the six-month period ended March 2019 of US\$19 million. The decrease was mainly due to lower sales prices and lower sales volumes for dissolving pulp (not including external paper pulp sales) and a 6% decrease in graphic paper sales prices compared to the six month period ended March 2019, partially offset by increased sales volumes of graphic papers (sales volumes of which increased 10% compared to the six-month period ended March 2019) and packaging and specialty papers, improved product mix and production efficiencies, lower variable costs, and increased production of paper pulp instead of dissolving pulp at the Cloquet Mill.

## Southern Africa

Key figures	Six Months Ended March	
	2020	2019
	(US\$ million)	
Operating profit .....	46	182
Special items—(gains) losses .....	(3)	(17)
<b>Operating Profit Excluding Special Items.....</b>	<b>43</b>	<b>165</b>

Operating profit for the six months ended March 2020 was US\$46 million as compared to an operating profit of US\$182 million for the comparative period in 2019.

The operating profit for the six months ended March 2020 included favorable special items of US\$3 million, mainly relating to a positive non-cash plantation price fair value adjustment of US\$9 million, partially offset by fire damaged timber of US\$6 million. The operating profit in the six months ended March 2019 included favorable special items of US\$17 million, mainly comprising a positive non-cash plantation price fair value adjustment of US\$13 million and impairment reversals of US\$8 million at our Tugela and Stanger Mills, partially offset by a US\$4 million write-off of assets at the Ngodwana Mill.

Operating Profit Excluding Special Items was US\$43 million in the six months ended March 2020 as compared to an Operating Profit Excluding Special Items in the six-month period ended March 2019 of US\$165 million. The decrease was mainly due to lower sales prices and volumes for all product categories, particularly dissolving pulp and, to a lesser extent, containerboard (sales volumes of which were 4% lower than the six-month period ended March 2019), and higher energy prices, partially offset by lower variable costs, including chemical prices.

## Sales

An analysis of sales movements in the six months ended March 2020 and in the six months ended March 2019 is presented below:

Sales Volume	Six Months Ended March 2020	March 2020 vs. March 2019	Six Months Ended March 2019
		('000 tons)	
<b>Europe</b> .....	1,588	(63)	1,651
<b>North America</b> .....	793	122	671
<b>Southern Africa</b> .....	1,352	(85)	1,437
Pulp and paper.....	727	(87)	814
Forestry.....	625	2	623
<b>Total</b> .....	<b>3,733</b>	<b>(26)</b>	<b>3,759</b>
Dissolving pulp <sup>(1)</sup> .....	685	38	647
Packaging and specialties.....	534	9	525
Graphics.....	1,889	(75)	1,964
Forestry.....	625	2	623

<sup>(1)</sup> Includes dissolving pulp sales and, for the six months ended March 2020, external paper pulp sales from the Matane Mill.

Sales	Six Months Ended March 2020	March 2020 vs. March 2019	Six Months Ended March 2019
		(US\$ million)	
Europe.....	<b>1,354</b>	<b>(145)</b>	<b>1,499</b>
North America.....	<b>757</b>	<b>28</b>	<b>729</b>
Southern Africa.....	<b>538</b>	<b>(183)</b>	<b>721</b>
Pulp and paper.....	<b>502</b>	<b>(182)</b>	684
<b>Forestry</b> .....	36	(1)	37
Delivery Costs Revenue Adjustment <sup>(1)</sup> .....	<b>(39)</b>	<b>(11)</b>	<b>(28)</b>
<b>Total</b> .....	<b>2,610</b>	<b>(339)</b>	<b>2,921</b>

<sup>(1)</sup> The Delivery Costs Revenue Adjustment consists of shipping and delivery costs incurred in connection with the sale of our products. In accordance with IFRS 15 *Revenue from Contracts with Customers*, the related costs are set off against revenue based on agent accounting principles. Refer to note 2 of our audited consolidated financial statements and related notes for fiscal 2019 for more information on the adoption of IFRS 15 Revenue from Contracts with Customers.

The main factors impacting sales are volume, price, product sales mix and currency exchange rate movements. The South African and European businesses transact in Rand and euro, respectively, but the results of their operations are translated into US dollars for reporting purposes. The movement in the exchange rates between local currency and the US dollar during periods of high volatility significantly impacts results reported in US dollars from one period to the next. Changes in average exchange rates for the six months ended March 2020 compared to the six months ended March 2019 impacted sales negatively by US\$47 million in the six months ended March 2020.

Sales for the six months ended March 2020 were US\$2,610 million, a decrease of 11% compared to the six months ended March 2019 mainly due to lower sales prices and volumes for dissolving pulp (not including external paper pulp sales) and graphic papers, partially offset by increased volumes in packaging and specialty papers.

Average selling prices realized by the Group in the six months ended March 2020 were approximately 10% lower in US dollar terms than the average selling prices realized in the six months ended March 2019, mainly as a result of lower sales prices for dissolving pulp.

In the six months ended March 2020, sales volume for the Group was approximately 1% lower than in the six-month period ended March 2019. This was mainly due to lower demand for graphic papers and dissolving pulp (not including external paper pulp sales), partially offset by increased sales volumes in packaging and specialty papers and the inclusion of external paper pulp sales volumes following the acquisition of the Matane Mill in the six months ended March 2020.



## Operating expenses

In the analyses that follow, cost per ton has been based on sales tons. An analysis of the Group operating expenses is as follows:

Operating Expenses <sup>(1)</sup>	Six Months Ended March 2020	March 2020 vs. March 2019	Six Months Ended March 2019
		(US\$ million)	
<b>Variable Costs</b>			
Delivery .....	219	—	219
Manufacturing .....	1,384	(183)	1,567
<b>Total Variable Costs .....</b>	<b>1,603</b>	<b>(183)</b>	<b>1,786</b>
Fixed costs .....	873	(3)	876
Special items—(gains) losses .....	36	31	5
Other operating expenses (income) .....	20	6	14
<b>Total .....</b>	<b>2,532</b>	<b>(149)</b>	<b>2,681</b>

<sup>(1)</sup> Operating expenses consists of cost of sales, selling, general and administrative expenses, other operating expenses (income) and share of profit from joint ventures.

See “—Operating Results, Financial Condition and Results of Operations” for a discussion on special items.

Variable and fixed costs are analyzed in further detail below.

### Variable costs

The table below sets out the major components of the Group’s variable costs.

Variable Costs	Six Months Ended March 2020		Change in Costs 2020 vs. 2019 (US\$ million)	Six Months Ended March 2019	
	Costs (US\$ million)	US\$/Ton		Costs (US\$ million)	US\$/Ton
Wood .....	318	85	17	301	80
Energy .....	197	53	(22)	219	58
Chemicals .....	391	105	(28)	419	112
Pulp and other <sup>(1)</sup> .....	478	128	(150)	628	167
Delivery .....	219	59	—	219	58
<b>Total .....</b>	<b>1,603</b>	<b>430</b>	<b>(183)</b>	<b>1,786</b>	<b>475</b>

<sup>(1)</sup> Pulp includes only bought-in fully bleached hardwood and softwood. Other costs relates to input and raw materials costs such as water, fillers, bought-in pulp (other than fully bleached hardwood and softwood) and consumables.

Variable costs, mainly composed of manufacturing costs and delivery charges, relate to costs of inputs, which vary directly with output. The Group’s variable costs are impacted by sales volume, exchange rate impacts on translation of our European and South African operations into US dollars and the underlying costs of inputs. The major contributors to variable cost movements at a Group level have been actual input cost changes, in particular changes in paper pulp and chemical prices. See “—Principal Factors Impacting our Group Results—Currency Fluctuations” for a discussion of exchange rate movements. Cost changes are driven by changes in international commodity prices.

We have engaged in a number of cost reduction initiatives. These initiatives are aimed at improved logistics and procurement strategies and product re-engineering initiatives to reduce raw material input costs through substitution. We review product design and raw material inputs to ensure product attributes and quality meet market specifications.

Variable costs decreased by US\$183 million, or 11%, in the six months ended March 2020 compared to the six months ended March 2019. This decrease was mainly due to decreases in sales volumes and in purchased pulp and chemical prices.

In Europe, overall variable costs per ton decreased by 9% in US dollar terms in the six months ended March 2020 compared to the six months ended March 2019, mainly due to declines in purchased pulp, wood, energy, delivery and

chemical prices. In North America, variable costs per ton decreased by 12% in the six months ended March 2020 compared to the six months ended March 2019, primarily due to declines in purchased pulp, chemical and energy prices. In Southern Africa, overall variable costs per ton decreased by 1% in US dollar terms in the six months ended March 2020 compared to the six months ended March 2019 mainly due to lower chemical prices and a weaker average Rand exchange rate against the US dollar, partially offset by higher energy prices.

### Fixed costs

A summary of the Group's major fixed cost components is as follows:

Fixed Costs	Six Months Ended March 2020	Variance	Six Months Ended March 2019
	Costs	Value	Costs
		(US\$ million)	
Personnel .....	521	6	515
Maintenance.....	116	(4)	120
Depreciation.....	153	19	134
Other .....	83	(24)	107
<b>Total .....</b>	<b>873</b>	<b>(3)</b>	<b>876</b>

Fixed costs in the six months ended March 2020 decreased by US\$3 million, or 0.3%, compared to the six months ended March 2019. In our European operations fixed costs decreased by 3% during the six months ended March 2020 compared to the six months ended March 2019, mainly due to effective cost control measures. Fixed costs in the Southern African region decreased by 5% in US dollar terms mainly due to a weaker average Rand exchange rate against the US dollar, partially offset by increases in personnel and maintenance costs. Fixed costs increased by 8% in the North American region in the six months ended March 2020 compared to the corresponding period in 2019 mainly due to the acquisition of the Matane Mill. Group depreciation charges increased by US\$19 million, or 14%, mainly due to the completion of various expansion and conversion projects and the acquisition of the Matane Mill.

### Net Finance Costs

Net finance costs for the six-month periods ended March 2020 and March 2019 may be analyzed as follows:

Net Finance Costs	Six Months Ended March	
	2020	2019
	(US\$ million)	
Finance costs.....	46	48
Finance income.....	(3)	(8)
<b>Net interest<sup>(1)</sup> .....</b>	<b>43</b>	<b>40</b>
Net foreign exchange (gains) losses .....	—	(3)
<b>Net finance costs<sup>(2)</sup> .....</b>	<b>43</b>	<b>37</b>

<sup>(1)</sup> Net interest represents finance costs less finance income.

<sup>(2)</sup> Beginning with the Group's unaudited condensed consolidated financial information as of and for the six-month period ended March 2020, we adopted IFRS 16 *Leases* applying the modified retrospective transition approach. We have not restated comparative amounts as of and for the six-month period ended March 2019 or as of and for the years ended September 2019, 2018 and 2017.

Net interest (finance costs less finance income) for the six months ended March 2020 was US\$43 million compared to US\$40 million for the six months ended March 2019. The increase in net interest was primarily a result of the incurrence of additional indebtedness under the OeKB Term Loan Facilities in connection with the Matane Acquisition and in connection with increased capital expenditure.

Net foreign exchange gains for the six months ended March 2020 were nil compared to US\$3 million of gains for the six months ended March 2019. The net foreign exchange gains that accrued in the six months ended March 2019 were due to foreign exchange hedges entered into to hedge transactional foreign exchange exposures across the Group, and represent foreign exchange transaction timing differences. The Group's policy is to identify foreign exchange risks when they arise and

to cover these risks to the functional currency of the operation where the risk lies. The majority of the Group's foreign exchange exposures are covered centrally by the Group Treasury, which nets the internal exposures and hedges the residual exposure with third-party banks. External hedging techniques consist primarily of foreign currency forward exchange contracts and zero cost foreign exchange collars. Foreign currency capital expenditure on projects is covered as soon as practicable (subject to regulatory approval).

### *Taxation*

	Six Months Ended March	
	2020	2019
	(US\$ million)	
<b>Profit before taxation</b> .....	<b>35</b>	<b>203</b>
Taxation at the average statutory tax rates.....	9	54
No tax relief on losses.....	7	6
No tax charge on profits.....	(10)	(10)
Non-tax deductible expenses / (Non-taxable income) .....	1	—
Prior year adjustments .....	(1)	(2)
Other taxes .....	3	2
<b>Taxation charge</b> .....	<b>9</b>	<b>50</b>
<b>Effective tax rate</b> .....	<b>26%</b>	<b>25%</b>

Our effective tax rate for the six months ended March 2020 and the six months ended March 2019 was positive 26% and positive 25%, respectively. The increase in the effective tax rate was mainly due to higher positive prior year adjustments and a lower impact of non-valued losses in the six months ended March 2019.

The European tax rate of 133% is higher than the average statutory tax rate of 67% due to a tax charge for prior years pursuant to a settlement agreement entered into with the Italian tax authorities in the six months ended March 2020. In North America, the effective tax rate of 29% is higher than the average statutory tax rate of 24% for the six months ended March 2020, due to the impact of non-deductible expenses, other tax provisions and prior year adjustments. The Southern African effective tax rate of 28% for the six months ended March 2020 is equal to the statutory tax rate.

### *Profit*

Profit for the six months ended March 2020 was US\$26 million compared to a profit for the six months ended March 2019 of US\$153 million. The main reasons for the change were a US\$131 million fall in Operating Profit Excluding Special Items, a net increase of US\$31 million in special items, and a US\$6 million increase in net finance costs, partially offset by a US\$41 million decrease in the taxation charge.

### **Liquidity and Capital Resources**

Our principal sources of liquidity are cash holdings, cash generated from operations and availability under our committed credit facilities and other debt arrangements. Our liquidity requirements arise primarily from the need to fund capital expenditures in order to maintain our assets, to expand our business whether organically or through acquisitions, to fund our working capital requirements, to service our debt and to make dividend payments. Current debt as of March 2020 was US\$217 million. Current debt as of March 2020 consisted of current portions of non-current debt (US\$108 million), lease liabilities (US\$22 million), current trade finance facilities which we expect to be able to refinance on a quarterly basis (US\$65 million) and other bank loans and overdrafts (US\$22 million). Based on our current level of operations, we believe our cash flow from operations, available borrowings under our credit facilities, and cash and cash equivalents will be adequate to meet our liquidity needs for the next 12 months.

Our liquidity resources are subject to change as market and general economic conditions evolve. Decreases in liquidity could result from a lower than expected cash flow from operations, including decreases caused by lower demand for our products, weaker selling prices for our products, or higher input costs. Our liquidity may also be adversely affected by the ongoing COVID-19 pandemic and associated governmental responses. In addition, any potential acquisitions in which all or a portion of the consideration would be payable in cash, could have a significant effect on our liquidity resources. Our liquidity could also be adversely impacted by any limitations on the availability of our existing debt and our ability to refinance existing debt or raise additional debt and the terms of such debt. At the end of the six-month period ended March

2020, we had cash and cash equivalents of US\$268 million. In addition, both the €25 million Revolving Credit Facility (US\$585 million) and the ZAR1,000 million (US\$57 million) revolving credit facility of Sappi Southern Africa Limited were undrawn as of March 2020.

One of our liquidity requirements is the payment of annual dividends to shareholders when applicable. However, due to market conditions the Board of Directors did not declare a dividend for fiscal 2019, and a requirement of the financial maintenance covenant suspensions agreed with our lenders under the Revolving Credit Facility and OeKB Term Loan Facilities in April 2020 is that we will not declare or pay any dividends to shareholders during the suspension period.

### Cash Flow

In fiscal 2019 and the six months ended March 2020, we retained our emphasis on cash generation despite our capital expenditure of US\$471 million and the Matane Acquisition for consideration of US\$158 million, generating net cash for fiscal 2019 of US\$1 million and thereby managing to remain as close as possible to our leverage target of two times Net Debt to Adjusted EBITDA (2.20x as at September 2019). Though we have continued to emphasize cash generation in the six months ended March 2020, Net Debt to Adjusted EBITDA increased to 3.28x as at March 2020, taking into account the continued decline in profitability of our business since fiscal 2019, the incurrence of additional debt in connection with the Matane Acquisition and a large and committed capital expenditure pipeline (including our Saiccor Mill expansion project, construction work on which is currently suspended due to the force majeure we declared in March 2020 in connection with the COVID-19 pandemic). We also focus on managing working capital, particularly in relation to inventory levels and receivables, with the goal of keeping our level of working capital in line with the level of trading activity.

Cash Flow Summary	Six Months Ended March		Year Ended September		
	2020	2019	2019	2018	2017
	(US\$ million)				
<b>Cash generated from operations<sup>(1)</sup></b> .....	<b>252</b>	<b>379</b>	<b>673</b>	<b>709</b>	<b>748</b>
Movement in working capital .....	(90)	(167)	(15)	(79)	(27)
Net finance costs paid <sup>(2)</sup> .....	(50)	(25)	(42)	(66)	(81)
Taxation paid .....	(43)	(46)	(51)	(73)	(100)
Dividend paid .....	—	(92)	(92)	(81)	(59)
<b>Cash retained (utilized) from operating activities</b> .....	<b>69</b>	<b>49</b>	<b>473</b>	<b>410</b>	<b>481</b>
Cash utilized in investing activities .....	(347)	(204)	(472)	(664)	(373)
<b>Net cash generated (utilized) from operating and investing activities</b> .....	<b>(278)</b>	<b>(155)</b>	<b>1</b>	<b>(254)</b>	<b>108</b>

<sup>(1)</sup> Cash generated from operations is calculated by adding to the profit for the period, net finance costs, taxation and various non-cash items as set out in the table below. For further information on the years ended September 2019, 2018 and 2017, see note 24 to our Group annual financial statements for the year ended September 2019.

<sup>(2)</sup> Net finance costs paid represents the sum of finance income received to finance costs paid.

### Cash generated from operations

In the six months ended March 2020, we generated cash from operations of US\$252 million compared to US\$379 million in the same period in 2019.

Cash generated from operations decreased to US\$673 million in fiscal 2019 compared to US\$709 million in fiscal 2018, mainly due to the US\$78 million decrease in Operating Profit Excluding Special Items.

Cash generated from operations decreased to US\$709 million in fiscal 2018 compared to US\$748 million in fiscal 2017, mainly due to the US\$46 million decrease in Operating Profit Excluding Special Items.

### Net cash generated (utilized) from operating and investing activities

Net cash utilized in the six months ended March 2020 was US\$278 million compared to net cash utilized in the six-month period ended March 2019 of US\$155 million. The increase was due to the acquisition of the Matane Mill on November 3, 2019 for US\$158 million, partially offset by the suspension of our dividend for fiscal 2019 during the period.

Net cash generated in fiscal 2019 was US\$1 million compared to net cash utilized of US\$254 million in fiscal 2018. The increase in cash generation was mainly due to reduced capital expenditure of US\$471 million as compared to US\$541 million in fiscal 2018, lower working capital movements, reduced finance costs due to the timing of the fiscal 2019 year-end date, reduced cash taxes, and the Cham Acquisition of US\$132 million made in 2018, partly offset by lower cash generated from operations and an increased dividend paid in fiscal 2019 with respect to fiscal 2018.

Net cash utilized in fiscal 2018 was US\$254 million compared to net cash generated of US\$108 million in fiscal 2017. The decrease in cash generation was mainly due to higher working capital movements, increased dividends paid, the Cham Acquisition of US\$132 million and increased capital expenditure of US\$541 million, which were partly offset by a decrease in finance costs and taxation payments as compared to the prior year.

#### Non-cash items

Non-cash Items	Six Months Ended March		Year Ended September		
	2020	2019	2019	2018	2017
			(US\$ million)		
Depreciation and amortization.....	156	139	285	282	259
Fellings .....	35	35	71	66	63
Impairments (reversals) of property, plant and equipment, net <sup>(1)</sup> .....	11	3	10	(3)	—
Plantation fair value—gains arising from fair value price change.....	(9)	(13)	(19)	(27)	(21)
Plantation fair value—gains arising from growth.....	(38)	(36)	(73)	(69)	(58)
Restructuring provisions and closure costs raised .....	13	—	—	1	1
Defined post-employment benefits paid .....	(16)	(22)	(41)	(45)	(43)
(Profit) loss on disposal and written off assets .....	—	3	11	(4)	2
Share-based payment charges .....	5	6	12	13	10
Other non-cash items <sup>(1)</sup> .....	17	24	34	6	9
<b>Total .....</b>	<b>174</b>	<b>139</b>	<b>290</b>	<b>220</b>	<b>222</b>

<sup>(1)</sup> Impairments (reversals) of property, plant and equipment, net represents the sum of PPE impairments and PPE impairment reversals.

<sup>(2)</sup> Other non-cash items for the fiscal year ended September 2019 mainly relate to defined benefit liabilities and plan assets of US\$33 million (2018: US\$18 million) offset by a release of contingent consideration of US\$7 million (2018: US\$6 million).

Total non-cash items in the six months ended March 2020 amounted to US\$174 million, compared to US\$139 million in the six months ended March 2019. In fiscal 2019, total non-cash items amounted to US\$290 million, compared to US\$220 million in fiscal 2018 and US\$222 million in fiscal 2017.

#### Working capital

The movement in components of net working capital is as shown in the table below.

Working capital movement	Six Months Ended March		Year Ended September		
	2020	2019	2019	2018	2017
			(US\$ million)		
Inventories .....	765	804	709	741	636
% revenue <sup>(1)</sup> .....	14.7%	13.8%	12.3%	12.8%	12.0%
Receivables .....	688	737	718	767	668
% revenue <sup>(1)</sup> .....	13.2%	12.6%	12.5%	13.2%	12.6%
Payables <sup>(2)</sup> .....	(885)	(877)	(975)	(1,015)	(868)
% Cost of sales <sup>(1)</sup> .....	19.2%	17.6%	19.6%	20.6%	19.6%
<b>Net working capital<sup>(3)</sup> .....</b>	<b>568</b>	<b>664</b>	<b>452</b>	<b>493</b>	<b>436</b>
Ratio of net working capital to revenue .....	10.9%	11.4%	7.9%	8.5%	8.2%

<sup>(1)</sup> Percentages for the six-month periods ended March 2020 and March 2019 are calculated based on revenue or cost of sales, as applicable, for the six-month periods ended March 2020 and March 2019 annualized by multiplying such revenue or cost of sales, as applicable, by two.

<sup>(2)</sup> For annual periods, this represents the sum of “trade and other payables” and “provisions” as presented in the balance sheet.

<sup>(3)</sup> Net working capital represents the sum of inventories, receivables and payables.

Optimizing the levels of our working capital remained a key management focus area during fiscal 2019 and the six months ended March 2020. Managing the average monthly level of net working capital is a large element of the management incentive scheme for all our businesses. The working capital investment is seasonal and typically peaks during the third quarter of each financial year.

Net working capital expressed as a percentage of revenue was lower at the end of March 2020 than at the end of March 2019. Net working capital decreased to US\$568 million at the end of March 2020 from US\$664 million at the end of March 2019. Inventories decreased by US\$39 million at the end of March 2020 compared to the end of March 2019, mainly due to a favorable currency translation impact of US\$35 million. Receivables decreased by US\$49 million at the end of March 2020 compared to the end of March 2019, mainly due to a favorable currency translation impact of US\$10 million and lower sales prices and volumes. The increase in payables by US\$8 million at the end of March 2020 compared to the end of March 2019 is largely due to increased raw material prices, partially offset by an unfavorable currency translation impact of US\$40 million.

Net working capital expressed as a percentage of revenue was lower at the end of fiscal 2019 than at the end of fiscal 2018. Net working capital decreased to US\$452 million at the end of fiscal 2019 from US\$493 million at the end of fiscal 2018. Inventories decreased by US\$32 million at the end of fiscal 2019 compared to the end of fiscal 2018, mainly due to a favorable currency translation impact of US\$31 million. Receivables decreased by US\$49 million at the end of fiscal 2019 compared to the end of fiscal 2018, mainly due to a favorable currency translation impact of US\$27 million and lower net selling prices and decreased volumes in the three-month period ended September 2019. The decrease in payables by US\$40 million at the end of fiscal 2019 compared to the end of fiscal 2018 is largely due to an unfavorable currency translation impact of US\$49 million, decreased raw material prices and decreases in bonus accruals, partially offset by higher accruals for capital expenditure.

Net working capital expressed as a percentage of revenue was higher at the end of fiscal 2018 than at the end of fiscal 2017. Net working capital increased from US\$436 million at the end of fiscal 2017 to US\$493 million at the end of fiscal 2018. Inventories increased by US\$105 million at the end of fiscal 2018 compared to the end of fiscal 2017, mainly due to higher purchased pulp prices, which were partially offset by a favorable currency translation impact of US\$13 million. Receivables increased by US\$99 million at the end of fiscal 2018 compared to the end of fiscal 2017, mainly due to higher net selling prices and increased volumes in the fourth quarter, which were partially offset by a favorable currency translation impact of US\$9 million. Payables increased by US\$147 million at the end of fiscal 2018 compared to the end of fiscal 2017, which was largely due to increased raw material prices and higher accruals for capital expenditure, partially offset by a favorable currency translation impact of US\$21 million.

### Capital expenditure

Cash utilized in investing activities for the six months ended March 2020 and 2019 and the period from fiscal 2017 to fiscal 2019 is as set out in the table below:

Investing Activities	Six Months Ended March		Year Ended September		
	2020	2019	2019	2018	2017
	(US\$ million)				
Capital expenditure <sup>(1)</sup> .....	182	201	471	541	357
Proceeds on disposal of property, plant and equipment <sup>(2)</sup> .....	—	(1)	(3)	(11)	(4)
Acquisition of subsidiary .....	158	—	—	132	11
Other movements .....	7	4	4	2	9
<b>Total</b> .....	<b>347</b>	<b>204</b>	<b>472</b>	<b>664</b>	<b>373</b>

<sup>(1)</sup> For annual periods, this represents the sum of “investment to maintain operations” and “investment to expand operations” as presented in the statement of cash flows. For the six-month periods ending March 2020 and March 2019, this represents “capital expenditure” as presented in the condensed consolidated statement of cash flows.

<sup>(2)</sup> For annual periods, this represents “proceeds on disposal of property, plant and equipment” as presented in the statement of cash flows. For the six-month periods ending March 2020 and March 2019, this represents “proceeds on disposal of assets” as presented in the condensed consolidated statement of cash flows.

Our capital expenditure program varies from year to year, and expenditure in one year is not necessarily indicative of future capital expenditure. We operate in an industry that requires high capital expenditures and, as a result, we need to devote a significant part of our cash flow to capital expenditure programs, including investments relating to maintaining operations. Capital spending for investment relating to maintaining operations during the six-month periods ended March

2020 and March 2019 and fiscal 2019, fiscal 2018 and fiscal 2017 amounted to US\$119 million, US\$100 million, US\$148 million, US\$167 million and US\$140 million, respectively. Capital spending for expanding or improving our operations during the six-month periods ended March 2020 and March 2019 and fiscal 2019, fiscal 2018 and fiscal 2017 amounted to US\$63 million, US\$101 million, US\$323 million, US\$374 million and US\$217 million, respectively.

During the six months ended March 2020, our capital expenditure was US\$182 million, compared to US\$201 million for the six months ended March 2019. Our capital expenditure during the six months ended March 2020 mainly related to the ongoing Saiccor expansion and upgrade project.

During fiscal 2019, our capital expenditure was US\$471 million, compared to US\$541 million during fiscal 2018. The decrease in capital expenditure was mainly due to the completion of conversions of paper machines in Europe and North America, partially offset by capital expenditures for various upgrade and conversion projects throughout the group, including the ongoing Saiccor expansion and upgrade project.

During fiscal 2018, our capital expenditure was US\$541 million, compared to US\$357 million during fiscal 2017. The increase in capital expenditure was mainly due to increased capital expenditure in growth projects, including the conversions of paper machines in Europe and North America as well as projects to optimize production processes at our dissolving pulp plants in Southern Africa, as well as cost overruns related to the conversion of PM1 at our Somerset Mill.

During the six months ended March 2020, we acquired the Matane Mill for US\$158 million. During fiscal 2018, we also acquired the specialties printing business of Cham Paper Group for US\$132 million, while in fiscal 2017 we acquired the flexible packaging company Rockwell Solutions for US\$23 million, of which US\$11 million was paid in cash.

We expect that our aggregate capital expenditures for fiscal 2020 will be approximately US\$380 million, which will include capital projects to improve and increase production capacity in Europe and Southern Africa. Capital spending is expected to be funded primarily through internally generated funds, drawings under current debt facilities and additional non-current debt. For further details about our capital commitments, see note 26 to our Group annual financial statements for the year ended September 2019.

### *Financing cash flows*

Net financing cash inflows and outflows relate mainly to both planned and additional voluntary debt repayments and refinancing transactions. During the six months ended March 2020, net financing cash inflows were US\$151 million. During fiscal 2019, net financing cash inflows were US\$56 million. During fiscal 2018, net financing cash inflows were US\$68 million. During fiscal 2017, net financing cash outflows were US\$279 million. See “—Financing” for a more detailed discussion on financing transactions, other cash inflows and cash outflows and the application of funds received from these transactions.

### *Financing*

#### *General*

Debt is a major source of funding for the Group.

	As of March		As of September		
	2020	2019	2019	2018	2016
<b>Total debt</b>					
			(US\$ million)		
Non-current lease liabilities and interest-bearing borrowings <sup>(1)</sup> .....	1,930	1,759	1,713	1,818	1,739
Current lease liabilities and interest-bearing borrowings <sup>(1)</sup> .....	217	641	181	97	133
Overdrafts .....	—	—	—	16	—
<b>Total debt.....</b>	<b>2,147</b>	<b>2,400</b>	<b>1,894</b>	<b>1,931</b>	<b>1,872</b>

<sup>(1)</sup> Beginning with the Group’s unaudited condensed consolidated financial information as of and for the six-month period ended March 2020, we adopted IFRS 16 *Leases* applying the modified retrospective transition approach. We have not restated comparative amounts as of and for the six-month period ended March 2019 or as of and for the years ended September 2019, 2018 or 2017.

	As of March		As of September		
	2020	2019	2019	2018	2017
<b>Cash Position</b>					
			(US\$ million)		
Cash and cash equivalents .....	268	720	393	363	550

40% of total assets excluding cash and cash equivalents as of March 2020 was funded by total debt as is shown in the table below:

<b>Total Assets Excluding Cash and Cash Equivalents</b>	<b>As of March</b>		<b>As of September</b>		
	<b>2020</b>	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(US\$ million)				
Total debt <sup>(1)</sup> .....	2,147	2,400	1,894	1,931	1,872
Shareholder's equity .....	1,827	1,987	1,948	1,947	1,747
Other current and non-current liabilities.....	1,614	1,638	1,781	1,792	1,628
Cash and cash equivalents .....	(268)	(720)	(393)	(363)	(550)
<b>Total assets excluding cash and cash equivalents.....</b>	<b>5,320</b>	<b>5,305</b>	<b>5,230</b>	<b>5,307</b>	<b>4,697</b>
	%				
Total debt <sup>(1)</sup> .....	40	45	36	36	40
Shareholder's equity .....	34	38	37	37	37
Other current and non-current liabilities.....	31	31	34	34	35
Cash and cash equivalents .....	(5)	(14)	(7)	(7)	(12)
<b>Total assets excluding cash and cash equivalents.....</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

<sup>(1)</sup> Beginning with the Group's unaudited condensed consolidated financial information as of and for the six-month period ended March 2020, we adopted IFRS 16 *Leases* applying the modified retrospective transition approach. We have not restated comparative amounts as of and for the six-month period ended March 2019 or as of and for the years ended September 2019, 2018 or 2017.

#### Debt profile

Our debt comprises a variety of debt instruments, including committed credit facilities, local bank overdraft facilities and lines of credit, debt securities issued in the global and South African capital markets, a commercial paper program, receivables securitization programs and lease liabilities. See note 21 to our Group annual financial statements for the year ended September 2019 contained elsewhere in this document for a more detailed discussion on our debt instruments.

The make-up of our total debt as of the end of the various periods is set out in the table below:

<b>Debt Profile</b>	<b>As of March</b>		<b>As of September</b>		
	<b>2020</b>	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(US\$ million)				
Non-current debt.....	1,930	1,759	1,713	1,818	1,739
Current debt .....	217	641	181	97	133
Overdrafts .....	—	—	—	16	—
<b>Total debt<sup>(1)</sup>.....</b>	<b>2,147</b>	<b>2,400</b>	<b>1,894</b>	<b>1,931</b>	<b>1,872</b>

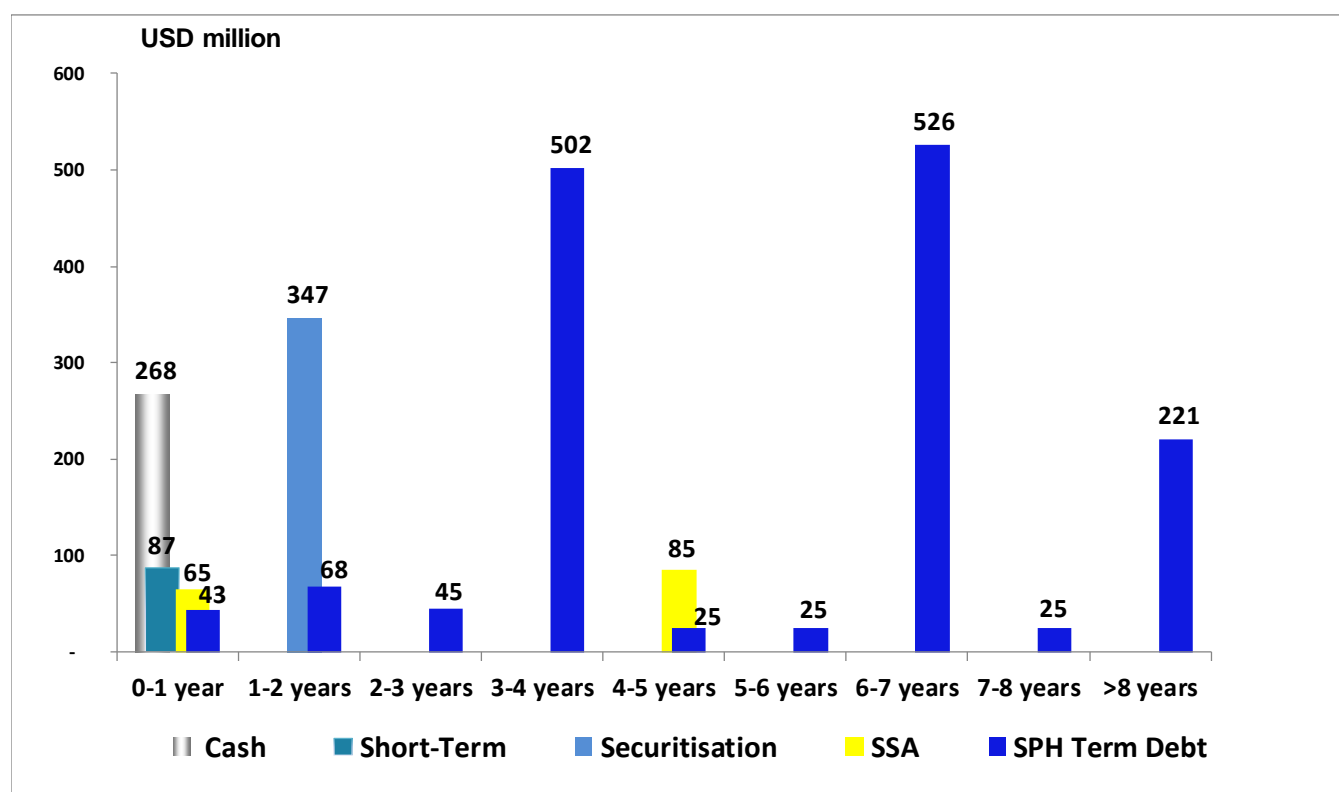
<sup>(1)</sup> Beginning with the Group's unaudited condensed consolidated financial information as of and for the six-month period ended March 2020, we adopted IFRS 16 *Leases* applying the modified retrospective transition approach. We have not restated comparative amounts as of and for the six-month period ended March 2019 or as of and for the years ended September 2019, 2018 or 2017.

As at March 2020, current debt of US\$217 million includes €38 million (US\$43 million) corresponding to amortization payments related to the OeKB Term Loan Facilities amounting to €20 million (US\$23 million) due June 2020 and €18 million (US\$20 million) due September 2020. The remainder of current borrowings consists of the current portion of non-current debt, lease liabilities, current trade finance facilities and other bank debt and overdrafts, which are refinanced quarterly.



The average maturity of our non-current debt (excluding US\$97 million of lease liabilities recognized under IFRS 16 *Leases*, with an average maturity of approximately 4 years) as at March 2020 was 5.0 years with the profile as shown below:

### Total debt maturity profile (US\$ million)



As at March 2020 and September 2019, current debt was US\$217 million and US\$181 million, respectively, and cash and cash equivalents were US\$268 million and US\$393 million, respectively.

At March 2020 and September 2019, the Group had unutilized committed borrowing facilities of US\$642 million and US\$640 million, respectively, including €25 million (US\$585 million) under the Revolving Credit Facility, and available cash and cash equivalents of US\$268 million and US\$393 million, respectively. At September 2018, the Group had unutilized committed borrowing facilities of US\$680 million, including the €25 million (US\$609 million) Revolving Credit Facility, and available cash and cash equivalents of US\$363 million. A portion of these committed facilities includes the unutilized portion of the long-term securitized trade receivables funding program established in August 2011 and extended in June 2013, June 2015, June 2017 and December 2018. The unutilized portion is the difference between the total €380 million committed facility and the funded amount and is subject to additional eligible receivables being available for sale. As at March 2020 and September 2019, the unutilized portion was US\$76 million and US\$50 million, respectively.

US\$347 million of the non-current debt at March 2020 was in the form of securitized trade receivables funding under the extended three year program. For further information on Group borrowing facilities secured by trade receivables, refer to notes 17 and 21 to our Group annual financial statements for the year ended September 2019 contained elsewhere in this document.

In the six months ended March 2020 and fiscal 2019, our financing activities concentrated on improving our debt maturity profile and enhancing our liquidity position. During the six months ended March 2020, we arranged new €74 million and CAD129 million OeKB term loans, which were used to finance the Matane Acquisition. In addition, the €330 million Trade Receivables Securitization Program was increased to €380 million and its maturity was extended to January 2022.

In fiscal 2019, we repaid the €450 million of 2022 Notes with the proceeds of the 2026 Notes. We also raised a ZAR1.5 billion term loan in May 2019 to partially finance the Saiccor expansion project. In April 2020 we arranged a new bank loan provided by a syndicate of South African banks, which will mature in April 2021, the proceeds of a ZAR745 million (US\$42 million) drawing under which were used to refinance US\$42 million of public bonds that matured on

April 16, 2020. In May 2020, we priced an issuance of ZAR300 million of public bonds under our Domestic Medium Term Note Program in a private placement; this issuance is expected to close on or about May 15, 2020.

During fiscal 2018, we repaid the ZAR500 million bond in South Africa from local cash resources and renewed the previous €465 million revolving credit facility maturing in 2020 with our new €525 million Revolving Credit Facility maturing in 2023. We also arranged project financing for our new ZAR1.8 billion project at the Ngodwana Mill from two South African banks and various equity partners. Sappi has a 30% equity participation in the project and the corresponding debt is ring-fenced at the level of the project company and does not appear on Sappi's balance sheet.

In fiscal 2017, our financing activities concentrated on reducing total debt by utilizing our cash resources to repay certain current debt and enhancing our liquidity position. During fiscal 2017, we repaid the US\$400 million of 2017 Notes from cash on hand, renewed the €30 million Trade Receivables Securitization Program, with an extended maturity date of August 2020, and arranged a new €150 million OeKB term loan, which was used to finance the conversion project of PM1 at our Somerset Mill.

The make-up of our gross interest-bearing liabilities by currency is shown in the following table:

Debt by currency ratio	March 2020	2019	September 2018	2017
US\$ .....	18.1			
	%	18.4%	18.4%	18.4%
EUR .....	68.5			
	%	72.4%	77.4%	75.1%
ZAR .....	9.1%	9.2%	4.2%	6.5%
CAD .....	4.3%	—	—	—

#### *Interest on Borrowings*

Interest payable on borrowings decreased in fiscal 2019 when compared to fiscal 2018 as a result of the repayment of the 2022 Notes in fiscal 2019, partially offset by the incurrence of the 2026 Notes at a lower interest rate than that payable on the 2022 Notes.

Interest payable on borrowings decreased in fiscal 2018 when compared to fiscal 2017 as a result of the repayment of the 2017 Notes in fiscal 2017 and the repayment of ZAR500 million (US\$38 million, based on the average exchange rate for fiscal 2018 used in the preparation of our annual consolidated financial statements) of our South African bonds in April 2018, despite net debt increasing as a result of the Cham Acquisition in February 2018 for US\$132 million and the incurrence of additional indebtedness to finance increasing capital expenditures.

#### *Interest Rate Risk*

The Group has a policy of maintaining a balance between fixed and variable rate loans that enables it to minimize the impact of borrowing costs on reported earnings. Exceptions are made when fixed rates can be obtained at attractive rates, as this strategy locks in acceptable interest rates for the life of the borrowing instrument. Hedging activities in relation to borrowings are restricted to interest rate swaps and cross-currency swaps.

Upon issuing the US\$400 million 2017 Notes in fiscal 2012, such notes were swapped from fixed USD interest rates into fixed euro interest rates using an interest rate and currency swap. The US\$400 million senior notes due 2017 and the corresponding interest rate currency swaps were repaid in April 2017. Only one remaining interest rate currency swap is in place as at March 2020. Upon the incurrence of ZAR1,500 million in floating rate South African debt in fiscal 2019, such debt was swapped into fixed rates using interest rate swaps. At the end of fiscal 2019, the ratio of total debt at fixed and floating interest rates, after the impact of the interest rate swaps, was 76:24.

#### *Current borrowings*

The Group's current borrowings position was materially unchanged during the six months ended March 2020. The Group's current borrowings position was also materially unchanged during fiscal 2019. The Group issued no commercial paper during the six months ended March 2020, fiscal 2019, fiscal 2018 or fiscal 2017. The Group relies mainly on the Revolving Credit Facility, the securitization programs and cash on hand for short-term liquidity requirements.

## ***Summary of Certain Debt Arrangements***

Set forth below is a summary of certain key terms of some of our significant debt arrangements. For further details on our debt arrangements, see also note 21 to our Group annual financial statements for the year ended September 2019 and “—Off-Balance Sheet Arrangements”.

***Revolving Credit Facility.*** On February 28, 2018, we entered into a revolving credit facility agreement, which was amended on June 21, 2018, October 7, 2019, April 14, 2020 and May 12, 2020. The revolving credit facility agreement provides for up to €525 million of borrowing availability in euro, US dollars and certain other currencies (the “Revolving Credit Facility”). As of the date of this document, the Revolving Credit Facility was undrawn. The commitments under the Revolving Credit Facility terminate on February 28, 2023 and the annual interest rate on borrowings is calculated based on LIBOR or Euribor plus a funding margin varying between 0.90% and 2.25% per annum depending on the credit rating assigned to the senior debt of Sappi Limited and the long-term rating assigned to the Group, plus certain costs. Borrowings may be made by certain subsidiaries of Sappi Limited and the Revolving Credit Facility is jointly and severally guaranteed on a senior basis by Sappi Limited, Sappi Papier Holding GmbH and certain other subsidiaries of Sappi Limited. The Revolving Credit Facility contains an interest coverage covenant and a leverage covenant, in each case measured at the Sappi Limited consolidated level and set at levels in line with the long-term forecast of Sappi’s results. The financial maintenance covenants applicable to the Revolving Credit Facility are suspended for each quarter ending on or around June 2020, September 2020, December 2020 and March 2021. The Revolving Credit Facility contains certain customary negative covenants and restrictions, including (among others) restrictions on the granting of security, incurrence of indebtedness, the provision of loans and guarantees, a change of business of the Group, acquisitions or participations in joint ventures and mergers and disposals. Over the period that the financial maintenance covenants under the Revolving Credit Facility are suspended (as described under “—Financial Covenants”), additional affirmative covenants apply including additional reporting of financial and other information and maintenance of minimum liquidity levels. Additional negative covenants also apply during this period such as restrictions on acquisitions, the incurrence of financial indebtedness, shareholder distributions and capital expenditure, subject to exceptions and materiality thresholds.

***2023 Notes.*** On March 15, 2016, Sappi Papier Holding GmbH issued €350 million 4.00% Senior Notes due 2023 (the “2023 Notes”). The interest on the 2023 Notes is payable semi-annually in arrears on April 1 and October 1 of each year. The 2023 Notes mature on April 1, 2023. The 2023 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and certain other subsidiaries of Sappi Limited. At issuance, the 2023 Notes were secured by first-priority security interests, subject to permitted collateral liens, over certain assets of Sappi Limited, Sappi Papier Holding GmbH and the other subsidiary guarantors. On August 31, 2016, having fulfilled certain requirements for the release of collateral, all collateral securing the 2023 Notes and certain other secured financing arrangements of the Group was released. Sappi has agreed to observe certain covenants with respect to the 2023 Notes, including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations.

***2026 Notes.*** On March 26, 2019 Sappi Papier Holding GmbH issued €450 million 3.125% Senior Notes due 2026 (the “2026 Notes”). The interest on the 2026 Notes is payable semi-annually in arrears on April 15 and October 15 of each year. The 2026 Notes mature on April 15, 2026. The 2026 Notes are jointly and severally guaranteed on a senior basis by Sappi Limited and certain other subsidiaries of Sappi Limited. Sappi has agreed to observe certain covenants with respect to the 2026 Notes, including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations.

***OeKB Term Loan Facilities.*** On June 20, 2017, Sappi Papier Holding GmbH entered into a new agreement to replace its existing term loan facility with OeKB dated July 10, 2012, as previously amended and restated on September 18, 2013 and March 16, 2015 (as amended and restated on February 28, 2018, and as further amended on October 10, 2019, April 9, 2020 and May 12, 2020, the “OeKB Term Loan Facility I”). The commitments under the OeKB Term Loan Facility I are for €1.6 million. At March 2020, the outstanding balance under the OeKB Term Loan Facility I was €40.8 million. The annual interest rate on borrowings under the OeKB Term Loan Facility I is calculated based on the OeKB financing rate plus a margin varying between 0.85% and 2.10%, depending on the credit rating assigned to the Sappi Group, plus certain costs. The margin at the date of this document was 1.35% per annum. Further, on June 20, 2017, we entered into another term loan facility with OeKB (as amended and restated on February 28, 2018, and as further amended on October 10, 2019, April 9, 2020 and May 12, 2020, the “OeKB Term Loan Facility II” and together with OeKB Term Loan Facility I, the “OeKB Term Loan Facilities”). The commitments under the OeKB Term Loan Facility II are for €150 million. At March 2020, the outstanding balance under the OeKB Term Loan Facility II was €132 million. The annual interest rate on borrowings under the OeKB Term Loan Facility II is calculated based on the OeKB financing rate plus a margin varying between 1.20% and 2.60% depending on the credit rating assigned to the Sappi Group, plus certain costs. The margin at the date of this document was 1.85% per annum. Further, on October 31, 2019, we entered into another term loan facility with OeKB (as amended on April 9, 2020 and May 12, 2020, “OeKB Term Loan Facility III” and together with OeKB Term Loan Facility I and the OeKB Term Loan Facility II, the “OeKB Term Loan Facilities”). The commitments under the OeKB Term Loan Facility III

are for €74 million and CAD129 million, respectively. At March 2020, the outstanding balance under the OeKB Term Loan Facility III was €74 million and CAD 129 million. The annual interest rate on borrowings under the OeKB Term Loan Facility III is calculated based on the OeKB financing rate plus a margin varying between 0.80% and 2.00%, depending on the currency of the loan and the credit rating assigned to the Sappi Group, plus certain costs. The margin at the date of this document was 1.40% per annum. The OeKB Term Loan Facilities are guaranteed by Sappi Limited and the same subsidiaries that are guarantors (other than Sappi Papier Holding GmbH) under the Revolving Credit Facility. The obligations under the OeKB Term Loan Facilities are unsecured. The other material terms of the OeKB Term Loan Facilities, including the financial covenants (and the suspension thereof as described under “—Financial Covenants”), the undertakings and the events of default, are substantially the same as the terms of the Revolving Credit Facility.

*Domestic Medium Term Note Program.* In June 2009, Sappi Southern Africa Limited (previously Sappi Manufacturing (Pty) Ltd and Sappi Southern Africa Proprietary Limited) combined its ZAR3 billion Domestic Medium Term Note Program established in June 2006 (the “Initial Program”) with its commercial paper program established in November 2003 (“Initial CP Program”), into a new ZAR5 billion Domestic Medium Term Note Program (the “DMTN Program”) which superseded and replaced the Initial Program and the Initial CP Program in their entirety without affecting any notes issued under the Initial Program and Initial CP Program. The DMTN Program was amended and restated first on September 13, 2013 and subsequently on November 23, 2018. This new 2018 program memorandum applies to all notes issued under the DMTN Program and supersedes and replaces any previous program memoranda. As of the date of this document, there are no securities currently issued and outstanding under the DMTN Program. On May 13, 2020, Sappi Southern Africa Limited priced a ZAR300 million issuance of three-year senior unsecured floating rate notes (“Series 7”) under the DMTN Program in a private placement at a per annum rate equal to 3-month ZAR-JIBAR plus 2.50% per year, payable quarterly on February 15, May 15, August 15 and November 15 of each year commencing August 15, 2020. Series 7 is expected to be issued on or about May 15, 2020. The proceeds of Series 7 are to be used for general corporate purposes. Sappi Southern Africa Limited has agreed to observe certain undertakings with respect to the securities including limitations on encumbrances (other than permitted encumbrances) over its assets.

*Trade Receivables Securitization Program.* In August 2011, Sappi Trading, Sappi Europe and Sappi North America entered a new, three-year, €360 million trade receivables securitization program (the “Trade Receivables Securitization Program”) to replace their prior trade receivables securitization program. The program was renewed and extended to August 2016 at a lower level of €330 million in June 2013, further renewed and extended to August 2018 in June 2015, further renewed and extended to August 2020 in June 2017, further renewed and extended to January 2022 at a higher level of €380 million in December 2018, and further amended in October 2019, April 2020 and May 2020. Under the renewed and extended program, eligible receivables initially originated by several Sappi entities and transferred to Sappi Papier Holding GmbH and Sappi NA Finance LLC are sold on a non-recourse basis by Sappi Papier Holding GmbH and Sappi NA Finance LLC to Elektra Purchase No. 29 DAC (the “Purchaser”) and Sappi entities act as servicers to administer, collect and enforce the receivables purchased. The sellers have agreed to observe certain covenants, including a limitation on creating liens on any receivables. Sappi Papier Holding GmbH has guaranteed the performance by the sellers of their respective obligations under the receivables purchase agreements (excluding the credit risk associated with the receivables purchased) and the performance by the Sappi entities acting as servicers of their respective obligations under the servicing agreements pursuant to a performance guarantee with the Purchaser. The Trade Receivables Securitization Program matures in January 2022, unless it is terminated earlier. The program could be terminated, amongst other things, in the event of certain change of control events, certain credit rating downgrades occur for Sappi Limited or if Sappi Limited fails to maintain certain financial ratios, including ratios for consolidated net debt to EBITDA and EBITDA to consolidated net interest expense (as such financial metrics are defined in the relevant agreement). During the period that the financial maintenance covenants under the Revolving Credit Facility are suspended (as described under “—Financial Covenants”), the corresponding financial covenants have been suspended, and the same additional covenants apply, with respect to the Trade Receivables Securitization Program, including additional reporting of financial and other information, maintenance of minimum liquidity levels, and restrictions on acquisitions, the incurrence of financial indebtedness, shareholder distributions and capital expenditure, subject to exceptions and materiality thresholds. As of March 2020, the external securitization funding under the Trade Receivables Securitization Program was US\$347 million.

*2032 Guaranteed Notes.* In June 2002, Sappi Papier Holding GmbH (then organized as an AG) issued US\$250 million 7.50% unsecured guaranteed notes due 2032 (the “2032 Notes”), guaranteed by Sappi Limited and Sappi International SA. Interest on the 2032 Notes is payable semi-annually. The indenture governing the 2032 Notes provides for an optional redemption of the 2032 Notes, in whole or in part, at any time at a redemption price of the greater of (i) the principal amount of the notes to be redeemed and (ii) the sum of the present values of the applicable remaining scheduled payments discounted at a rate as determined under the indenture, together with, in each case, accrued interest. The indenture governing the 2032 Notes contains events of default customary for investment grade debt, including failure to pay principal or interest, a default in any other indebtedness, certain enforcement actions against our property and certain bankruptcy

events. The indenture also contains certain customary covenants, which restrict our ability to create liens, to enter into sale and leaseback transactions and to undertake mergers or consolidations. US\$29 million of the 2032 Notes became available for repurchase during fiscal 2010 and were repurchased by the Group at a discount.

### Financial Covenants

Financial covenants apply to the outstanding balance under the OeKB Term Loan Facilities, the €525 million Revolving Credit Facility and our Trade Receivables Securitization Program.

Separate covenants apply to certain debt in our Southern African businesses.

With regards to our financial covenants, EBITDA, net interest expense and net debt are defined in the agreements governing the OeKB Term Loan Facilities, the €525 million Revolving Credit Facility and our Trade Receivables Securitization Program. Our financial covenants require (on the basis of the measures so defined), *inter alia*, that:

- (i) At the end of each quarter, the ratio of EBITDA to consolidated net interest expense (on a rolling last four quarter basis) be not less than 2.50:1;
- (ii) The ratio of Net Debt to EBITDA (on a rolling last four quarter basis) be not greater than 3.75:1 for all quarters ending from March 2018 to September 2019, not greater than 4.25:1 for the quarter ending December 2019, not greater than 4.50:1 for all quarters ending from March 2020 to June 2021, not greater than 4.25:1 for all quarters ending from September 2021 to September 2022, not greater than 4.00:1 for the quarter ending December 2022, and not greater than 3.75:1 for the quarter ending March 2023; and
- (iii) With regard to Sappi Southern Africa Limited and its subsidiaries only, the percentage of net debt to equity must not exceed 65%, and the ratio of EBITDA (before special items) to net interest paid, calculated on a last 12 months basis, must not be less than 2.00:1, both of which are calculated semi-annually in March and September.

The financial maintenance covenants applicable to the Revolving Credit Facility, OeKB Term Loan Facilities and Trade Receivables Securitization Program described above in paragraphs (i) and (ii) are suspended for each quarter ending on or around June 2020, September 2020, December 2020 and March 2021. Over the period that such financial maintenance covenants are suspended, additional covenants shall apply, including maintenance of minimum liquidity levels (comprising cash and cash equivalents and unutilised commitments under certain revolving credit facilities) of at least \$250 million at all times.

The table below shows that as at March 2020 and September 2019 we were in compliance with these covenants. Net debt is calculated using average exchange rates for the four quarters ended March 2020 and September 2019, respectively.

	March 2020	September 2019	Covenants
<i>Group Covenants</i> <sup>(1)</sup>			
Net Debt to EBITDA .....	3.11	2.20	< 4.50; < 3.75
EBITDA to Net Interest.....	7.69	9.49	> 2.50x
<i>Sappi Southern Africa Covenants</i> <sup>(1)</sup>			
Net Debt to Equity .....	13.57%	3.41%	< 65%
EBITDA to Net Interest.....	15.07	42.95	> 2.00x

<sup>(2)</sup> Group Covenants calculated based on EBITDA, net interest expense and net debt as defined in the agreements governing the OeKB Term Loan Facilities, the Revolving Credit Facility and the Trade Receivables Securitization Program.

<sup>(1)</sup> Sappi Southern Africa Covenants calculated semi-annually in March and September based on net debt and equity as defined in the applicable transaction documentation.

The Group financial covenants also apply to our Trade Receivables Securitization Program, with an outstanding balance of US\$347 million at the end of March 2020. No Sappi Limited guarantee has been provided for the facilities under the Trade Receivables Securitization Program.

### Off-Balance Sheet Arrangements

*Letters of credit discounting.* To improve the Group working capital, the Group sells certain letters of credit every fiscal month-end on a non-recourse basis to Citibank (Hong Kong) and KBC Bank (Hong Kong) and, similarly, discounts certain trade receivables with Union Bancaire Privée (Switzerland), Erste Group Bank AG (Austria), HSBC (Mexico), Bancolumbia and Citibank (New York) by utilizing the customers' credit facilities with the discounting bank.

*Sappi Southern Africa securitization facility.* Sappi sells the majority of its ZAR receivables to Rand Merchant Bank Limited, a division of FirstRand Bank Limited. Sappi does not guarantee the recoverability of any amounts, but bears 15% of the credit risk (with Rand Merchant Bank Limited bearing the remainder) of each underlying receivable after all recoveries, including insurance recoveries. Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is the Johannesburg Inter-bank Agreed Rate (JIBAR) plus a spread. This structure is treated as an off-balance sheet arrangement.

If this securitization facility were to be terminated, we would discontinue further sales of trade receivables under the relevant facility and would not incur any losses in respect of receivables previously sold in excess of the 15% credit risk described above. There are a number of events that may trigger termination of the facility, including, amongst others, an amount of defaults above a specified level; terms and conditions of the agreement not being met; or breaches of various credit insurance ratios. The impact of any such termination on liquidity varies according to the terms of the agreement; generally, however, future trade receivables would be recorded on-balance sheet until a replacement agreement was entered into.

The total value of trade receivables sold as at March 2020 amounted to US\$63 million (March 2019: US\$63 million). The total value of trade receivables sold as at September 2019 amounted to US\$114 million (September 2018: US\$71 million). Details of the securitization program at the end of the six-month periods ended March 2020 and 2019 and fiscal 2019 and 2018 are set out below:

<b>Bank</b>	<b>Currency</b>	<b>Value</b>	<b>Facility</b>	<b>Discount charges</b>
<b>March 2020</b>				
Rand Merchant Bank .....	ZAR	ZAR1,106 million	Unlimited*	Linked to 3 month JIBAR
<b>March 2019</b>				
Rand Merchant Bank .....	ZAR	ZAR908 million	Unlimited*	Linked to 3 month JIBAR
<b>September 2019</b>				
Rand Merchant Bank .....	ZAR	ZAR1,723 million	Unlimited*	Linked to 3 month JIBAR
<b>September 2018</b>				
Rand Merchant Bank .....	ZAR	ZAR1,004 million	Unlimited*	Linked to 3 month JIBAR

\* The facility in respect of the securitization facility is unlimited, but subject to the sale of qualifying receivables to the bank.

Details of the on-balance sheet securitization facilities that are applicable to our non-Southern African businesses, being Sappi Trading and our North American and European operations, are described in notes 17 and 21 of our Group annual financial statements for the year ended September 2019 contained elsewhere in this document.

For details of operating lease commitments prior to our adoption of IFRS 16 *Leases*, refer to note 26 of our Group annual financial statements for the year ended September 2019 contained elsewhere in this document.

## Contractual Obligations

We have various obligations and commitments to make future cash payments under contracts, such as debt instruments, lease arrangements, supply agreements and other contracts. The following table includes information contained within the Group annual financial statements, as well as information regarding purchase obligations. The table reflects those contractual obligations at the end of fiscal 2019.

	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
	(US\$ millions)				
<b>On-Balance Sheet</b>					
Non-current debt obligations <sup>(1)</sup> .....	3,107	1,021	529	573	984
Defined benefit and other non-current borrowings reflected on the balance sheet <sup>(2)</sup> .....	418	—	—	—	—
<b>Off-Balance Sheet</b>					
Operating lease obligations <sup>(3)</sup> .....	110	28	41	25	16
Purchase obligations <sup>(4)</sup> .....	102	19	54	16	13
Capital commitments <sup>(5)</sup> .....	194	190	4	—	—
<b>Group Total</b> .....	<b>3,931</b>	<b>1,258</b>	<b>628</b>	<b>614</b>	<b>1,013</b>

- (1) Includes interest obligations to maturity to service the debt using interest rates prevailing at September 2019. The principal debt is US\$1,894 million.
- (2) Defined benefit and other non-current liabilities reflected on the balance sheet of US\$418 million (fiscal 2018: US\$397 million) relate mainly to post-employment benefits, post-retirement benefits other than pension obligations, workmen's compensation, and other items which do not have a payment profile. Refer to note 22 of our Group annual financial statements for the year ended September 2019.
- (3) Operating leases are future minimum obligations under operating leases. Refer to note 26 of our Group annual financial statements for the year ended September 2019. We have implemented IFRS 16 Leases from September 30, 2019, applying the modified retrospective approach. The effect of applying the standard was recognized in our opening balance sheet as of September 30, 2019 resulting in an increase in right of use assets of US\$91 million and lease liabilities of US\$92 million, and a decrease in property, plant and equipment of US\$1 million and other non-current liabilities of US\$2 million. There is no corresponding impact to the opening retained earnings position. Refer to note 1 of our unaudited condensed consolidated financial statements and related notes as of and for the six months ended March 2020 for more information on the adoption of IFRS 16 *Leases*.
- (4) Purchase obligations are unconditional obligations to transfer funds in the future for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices (for example, as in take-or-pay contracts or throughput contracts, relating to, among others, timber and power).
- (5) Capital commitments are commitments for which contracts have been entered into. Refer to note 26 of our Group annual financial statements for the year ended September 2019.

## Share Buy Backs

Through a wholly-owned subsidiary, the Sappi group has in previous fiscal years acquired approximately 21.4 million Sappi Limited ordinary shares (treasury shares) on the open market of the JSE Limited. As at September 2019, the Group held 5.3 million treasury shares on its balance sheet (composed of 5.3 million ordinary shares and nil "A" ordinary shares issued to the B-BBEE trusts). No shares were acquired during the six months ended March 2020 or during fiscal 2018 or 2017. In fiscal 2019, 20.0 million "A" ordinary shares were repurchased by the Group and canceled in connection with the vesting of the B-BBEE transaction. Some of these treasury shares have been, and will continue to be, utilized to meet the requirements of the Sappi Limited Performance Share Incentive Trust from time to time. See notes 18 and 29 to our Group annual financial statements for the year ended September 2019 for additional details relating to treasury shares.

## Dividends

Our policy is to consider dividends on an annual basis and to declare cash dividends in US dollars. However, due to market conditions the Board of Directors did not declare a dividend for fiscal 2019, and a requirement of the financial maintenance covenant suspension agreed with our lenders under the Revolving Credit Facility and the OeKB Term Loan Facilities in April 2020 is that we will not declare or pay any dividends to shareholders during the suspension period.

Our ability to pay dividends to our shareholders is subject to certain restrictive covenants.

## Pensions and Post-Retirement Benefits Other than Pensions

The Group provides various defined benefit post-retirement benefits to its active and retired employees worldwide, including pension, post-retirement health and other employee benefits. The Group also provides various defined contribution schemes to its active employees worldwide.

For defined contribution schemes, the Group is only obligated to pay contributions according to contribution scales applicable in each scheme. Contributions are expensed for the period in which they fall due. No actuarial risk exists for the company with respect to these schemes.

Our funded defined benefit pension schemes generally hold a broad range of assets including a significant portion of bonds, in line with an investment strategy to preserve funded status and balance risk and return.

The interaction of various factors (*e.g.*, discount rates, inflation rates, equity returns), by way of assumptions, determines the extent to which pension schemes balance sheet liabilities will change. Listed below are examples of situations and how they could affect the balance sheet position of our pension schemes:

- Falls in equity markets coupled with corresponding falls in bond markets (rising bond yields) will most likely have a broadly neutral effect on balance sheet liability.
- Deflationary economic scenarios coupled with very low discount rates would increase liabilities in our schemes, particularly due to the fact that pensions cannot reduce.
- Recoveries in equity markets coupled with falling bond markets (rising bond yields) (*e.g.*, "risk on" investor sentiment) will most likely result in reductions in balance sheet deficits.
- Rising bond markets (falling bond yields), possibly as a result of increased investor demand coupled with underperforming equities (*e.g.*, "risk off" investor sentiment), will increase balance sheet deficits.

- Rising inflation rates will, in isolation, increase benefit costs and liabilities (such as post-retirement pension increases or rate of salary increase).
- Rising inflation coupled with rising nominal bond yields will most likely cut liabilities in schemes providing fixed (*i.e.*, no cost of living adjustment) benefits.
- Statutory minimum funding requirements affect the pace of funding our defined benefit schemes. Most take account of yields on assets such as government bonds. While yields on these asset classes in some markets remain low, we expect the prospect of paying additional contributions to meet onerous minimum funding targets.
- Increases in post-retirement longevity (commonly found in updated published mortality tables) increase the expected duration that pensions will be paid from our schemes. This in turn increases the provision necessary to fund these longer-term payments.

Defined benefit schemes remain open to mill employees in Belgium and the Netherlands. Defined benefit schemes in North America, South Africa, Austria and some in Germany are closed to new members. Plans in the United Kingdom, Switzerland and Italy, and one plan in North America, are closed to future accrual.

During fiscal 2019, the liabilities of our funded defined benefit plans increased by US\$81 million, from US\$1,151 million at September 2018 to US\$1,232 million at September 2019. Liabilities of our unfunded defined benefit plans increased by US\$7 million, from US\$176 million at September 2018 to US\$183 million at September 2019. Separately, the liabilities of our post-retirement healthcare subsidy commitments increased by US\$6 million, from US\$104 million at September 2018 to US\$110 million at September 2019. Combined, total liabilities increased by US\$94 million during fiscal 2019. The overall increase was primarily a result of the unfavorable impact of lower discount rates due to falling bond yields in the United States and Europe.

Defined benefit plan assets increased by US\$57 million over the course of fiscal 2019, from US\$1,170 million at September 2018 to US\$1,227 million at September 2019. The overall increase in plan assets was mainly a result of company contributions paid in during fiscal 2019 and an overall net positive return on assets.

Overall, the increase in liabilities exceeded the increase in assets, which contributed to an increase in the overall net balance sheet liability by US\$37 million, from a deficit of US\$261 million at September 2018 to a deficit of US\$298 million as at September 2019. For a reconciliation of the movement in the balance sheet liability over the course of fiscal 2019, see note 28 of our Group annual financial statements for the year ended September 2019 contained elsewhere in this document.

## Insurance

The Group has an active program of risk management in each of its geographical operating regions to address and to reduce exposure to property damage and business interruption incidents. All production units are subjected to regular risk assessments by external risk engineering consultants, the results of which receive the attention of senior management. The risk assessment and mitigation programs are coordinated at Group level in order to achieve a harmonization of methodology and standardization of approach. Enterprise risk management is under ongoing review, which aims at lowering the risk of incurring losses from incidents.

Sappi follows a practice of insuring its assets against losses arising from catastrophic events. These events include fire, flood, explosion, earthquake and machinery breakdown. Our insurance also covers the business interruption costs that may result from such events. This insurance cover excludes insurance for our plantations, which is placed separately. Specific environmental risks are also insured. In line with previous years, the Board decided not to take separate cover for losses from acts of terrorism, which is consistent with current practice in the paper manufacturing industry.

Sappi has a global insurance structure and the bulk of its insurance is placed with its own captive insurance company, Sappisire Försäkrings AB, domiciled in Stockholm, Sweden, which re-insures most of the risks in the insurance market.

Asset insurance is renewed on a calendar-year basis. Maximum self-insured retention for any one property damage occurrence is €20.5 million (US\$22.4 million), with an annual aggregate of €33 million (US\$36.1 million). For property damage and business interruption insurance, cost-effective cover to full capacity replacement value is not readily available. However, we believe that the loss limit cover of €750 million (US\$820.4 million) should be adequate for what we have determined as the maximum reasonably foreseeable loss for any single claim. Since fiscal 2011, our property damage insurance policy has been euro-denominated as most of our assets are based in euro-denominated jurisdictions.

## South African Economic and Political Environment

Sappi Limited is a public company incorporated in South Africa. We have significant operations in South Africa, which accounted for 25% of our sales in fiscal 2019 (excluding the impact of Delivery Costs Revenue Adjustment resulting from the adoption of IFRS 15), 24% of our sales in fiscal 2018 and 26% of our sales in fiscal 2017. In the six months ended



March 2020 and 2019, South Africa accounted for 20% and 24%, respectively, of our sales (excluding the impact of Delivery Costs Revenue Adjustment resulting from the adoption of IFRS 15). See note 3 to our Group annual financial statements for the year ended September 2019 and “—Operating Results, Financial Condition and Results of Operations” for the proportion of Southern African operating profit to total profit.

South Africa features a highly developed, sophisticated “first world” infrastructure at the core of its economy. The International Monetary Fund (IMF) estimates that the South African economy grew by 0.2% in 2019. The IMF forecasts the South African gross domestic product to contract by 5.8% in calendar year 2020.

Currently, Standard and Poor’s (S&P) maintains a credit rating on South African government bonds of “BB” with a “negative” outlook, which places the rating in the sub-investment grade category. Fitch downgraded its credit rating on South African government bonds to “BB+” in April 2017, which also corresponds to a sub-investment grade rating, and further downgraded South African government bonds to “BB” in April 2020. The outlook of the Fitch credit rating is “negative”. South African government bonds are currently rated “Ba1” with a “negative” outlook by Moody’s, a sub-investment grade rating according to the Moody’s scale. Accordingly, as of the date of this document, South Africa’s government bonds are rated as sub-investment grade by all three major credit rating agencies. We believe continued prospects of anemic growth or recession of the South African economy, the ongoing COVID-19 pandemic and sizeable contingent liabilities will continue to exert downward pressure on the credit ratings of South Africa’s government bonds; credit rating agencies have highlighted the risks of such contingent liabilities, in particular the risks to the creditworthiness of South African government bonds arising from the financial support provided to Eskom by the South African government. Any further downgrades could lead to a further deterioration of the sub-investment grade ratings given by each major credit rating agency.

In the event that one or more credit rating agencies further downgrade their credit rating on South African government bonds in the future, South African government bonds may no longer be included in key emerging market bond benchmark indices, which may result in a sharp increase in the disposal of South African government bonds by foreign investors. Further downgrades may increase the cost of debt in South Africa and may have adverse effects on government spending.

South Africa continues to face challenges in overcoming substantial differences in levels of economic and social development among its people. In order to address South Africa’s high unemployment, poverty and inequality, the government set out recommendations in its National Development Plan 2030. Such recommendations include, for example, improving education and skills, encouraging job creation in the labor market environment, and nurturing and increasing entrepreneurship and small business activity.

The Restitution of Land Rights Act (No. 22 of 1994), as amended, provides for the restoration of rights in land or other equitable redress to persons or communities dispossessed of their land rights after June 19, 1913 as a result of old laws or practices discriminating on the basis of race. The legislation empowers the Minister of Land Affairs to expropriate land in order to restore it to a successful claimant, provided that there is just and equitable compensation to the owner of the land. Initially, claims were required to be lodged by December 31, 1998. This date has been extended by the Restitution of Land Rights Amendment Act (No. 15 of 2014) which extends the cut-off period for instituting land claims to June 30, 2019; however, such Amendment Act has been sent back to Parliament for reconsideration by the Constitutional Court and further amendments to the regime are expected in the future. The claims that were lodged by the initial cut-off date are presently being processed by the Commission on Restitution of Land Rights and adjudicated upon by the Land Court. The process of land claims is expected to continue for many years. As one of the largest landowners in South Africa, we anticipate that a substantial number of claims may affect land we own. The process of determining the extent of claims filed in respect of our land and the potential impact of these claims on our Southern African operations continues. See “Our Business—Legal Proceedings—Southern Africa”.

In 2018, the South African Parliament initiated a process to explore amending the Constitution of the Republic of South Africa (the “Constitution”) to allow for expropriation of land in the public interest without compensation. Various public consultation forums have been held and ongoing dialogue continues. We remain in close contact with Business Leadership South Africa, the organization representing South African businesses in the discussions surrounding the proposed changes. On November 15, 2018, the Constitutional Review Committee (the “CRC”) issued a report recommending that Section 25 of the Constitution be amended to establish expropriation of land without compensation as a legitimate option for land reform, so as to ensure equitable access to land and further empower the majority of South Africans to be productive participants in ownership, food security and agricultural reform programs. Furthermore, the CRC recommended in its report that the South African Parliament urgently establish a mechanism to amend the Constitution and that it must table, process and pass a bill to that effect before the end of the current legislature. The CRC report was adopted by both Houses of Parliament in early December 2018. On December 6, 2018, the National Assembly resolved to establish an ad hoc committee to initiate and produce a constitutional amendment before the end of the current Parliament. The ad hoc committee reported back to the National Assembly on March 31, 2019. In December 2019, a draft bill was released for public comment and consideration by the South African Parliament in May 2020. We are still in the process of examining the potential impact of this bill on our operations.

The Southern African region has one of the highest infection rates of HIV/AIDS in the world. In 1992, we started a program to address the effects of HIV/AIDS and its impact on our employees and our business. Our aim is to ensure that our program prevents new infections and to treat the HIV/AIDS positive employees. The program places special emphasis on testing and counseling to ensure that staff are informed with regard to their HIV/AIDS status to enable them to make informed decisions as to their life choices. Since August 2002, our medical care for employees has included treatment to prevent mother to child transmission. Anti-retroviral treatment has been offered to HIV-infected permanent employees from the beginning of 2003. We have also extended our HIV testing and counseling (HCT) programs, and are offering an HIV test to every employee who visits the clinics for a medical examination.

Our Health and Wellness Programme includes health risk assessments, counseling services, a comprehensive HIV/AIDS program, medical aid and strategic business alliances. The HIV/AIDS program has now advanced to a position where more than 78% of employees presented themselves for HIV testing and counseling (HCT) in 2019, ensuring that we achieve early diagnosis of HIV infection and timely access to care. The 2018 voluntary study was conducted in our Southern African operations and the results indicated that the infection rate is approximately 16% versus the South African workforce prevalence rate of 18.8%. Interventions in place are proving to be effective and there has been a recorded reduction of mortality rate from 0.49% in 2017 to 0.41% in 2019.

Each Sappi operation in Southern Africa has also identified the relevant role players in their geographical area and is working with them on the implementation of a comprehensive HIV/AIDS program, eliminating duplication and making optimum use of relevant resources through private-public partnerships. The government and organized business have taken a number of steps in recent years to increase the participation of people from designated groups (*i.e.*, Black people, women and people with disabilities) in the South African economy. To this end, the Employment Equity Act (No. 55 of 1998), the Skills Development Act (No. 97 of 1998) and the Preferential Procurement Policy Framework Act (No. 5 of 2000) were promulgated. The Broad-Based Black Economic Empowerment Act (No. 53 of 2003) has formalized the country's approach to distributing skills, employment and wealth more equitably between races and genders. B-BBEE focuses on increasing equity ownership, management and control of businesses by Black people, and improving Black representation in all levels of employment. It also promotes the development of skills in the country, the nurturing of Black entrepreneurship through preferential procurement and enterprise development, and the uplifting of communities through social investment. South African companies are incentivized to buy goods and services from suppliers with good B-BBEE ratings and high levels of Black representation in ownership, as these are factors on which their own B-BBEE scores are based. Although there is no statutory requirement for Sappi to maintain a particular B-BBEE level and no sanction for failing to do so, it is important for Sappi Southern Africa Limited, as the operating entity in South Africa, to achieve and maintain high levels of B-BBEE both to be a good corporate citizen and to maintain its competitive position given that South African corporate customers are cognizant of B-BBEE ratings when making purchasing decisions.

The old Forest Sector Code (the "Old Code") was published in the Government Gazette in June 2009 as the "Forest Sector Code". The Old Code applied to all enterprises involved with commercial forestry and the first level processing of wood products. Our South African businesses were signatories to the Old Code via their membership of both Forestry South Africa (FSA) and the Paper Making Association of South Africa (PAMSA). The Old Code set the objectives and principles for B-BBEE, and included the scorecard and targets to be applied within the industry, as well as certain undertakings by the government and the private sector (or South African forestry companies) to assist the forestry industry to achieve its B-BBEE targets. With effect from calendar year 2010, our South African businesses were evaluated against the B-BBEE scorecard in the Old Code and not against the Codes of Good Practice that apply to businesses in sectors for which no sector-specific code has been published.

On October 11, 2013, the government issued amended Codes of Good Practice, which were implemented in April 2015 and which required alignment of the existing B-BBEE Codes and sector codes, such as the Old Code. An amended Forest Sector Code was published on April 21, 2017 (the "Amended Forest Sector Code"). The Amended Forest Sector Code contains, among other provisions, a new B-BBEE scorecard and targets that apply to measured enterprises operating within the Forest Sector; undertakings by government, industry and labor to perform a series of actions aimed at enabling the forest sector and individual businesses to achieve their B-BBEE targets; an agreement to establish a Forest Sector Charter Council to oversee and facilitate the implementation of the Amended Forest Sector Code; as well as procedures for progress reporting and review. The new B-BBEE scorecard and targets of the Amended Forest Sector Code increase the requirements on measured entities and, in particular, require us to achieve a much higher score and attain "sub-minimum" scores to meet the same B-BBEE Contributor Status recognition level we previously attained.

Empowerdex has been our verification agent under the Old Code, and later under the Amended Forest Sector Code, since 2006. While the standards of the Old Code were in effect, we improved our Contributor Level Status, as verified by Empowerdex, from "level 8 contributor" status (with a score of 37.32) in 2006 to "level 3 contributor" status (with a score of 80.65) in 2016. Despite the stricter standards imposed under the Amended Forest Sector Code, our scores for Sappi Southern Africa Limited as verified by Empowerdex have continued to improve since its implementation, rising from "level 3

contributor” status (with a score of 91.60) in 2017 to “level 2 contributor” status (with a score of 95.04 and 95.81) in 2018 and 2019, respectively. An overview of the historical development of our Contributor Level Status ratings is shown in Tables 1 and 2 below.

Table 1: Historical B-BBEE ratings of Sappi Southern Africa Limited

Certificate Issued	Certificate Valid till	Ownership	Management	Employment Equity	Skills Develop	Preferential Procurement	Supplier Development	Enterprise Development	Socio-Economic Development	Total Score	Level
2006	Jan-07										8
Jan-07	Jan-08	-	2.82	1.91	5.48	7.44		15.00	4.67	37.32	8
Feb-08	Feb-09	-	2.82	1.91	6.83	7.56		15.00	4.67	38.79	8
Apr-08	Apr-09										7
Aug-09	Aug-10	-	4.15	2.58	10.31	17.22		15.00	4.71	53.97	6
Oct-10	Oct-11	15.74	4.49	3.69	9.55	18.76		14.96	8.00	75.19	3
Nov-11	Nov-12	15.30	6.21	2.40	9.15	18.47		15.00	8.00	74.53	4
Dec-12	Dec-13	15.10	5.25	2.49	8.10	19.26		15.00	8.00	73.20	4
Nov-13	Nov-14	15.28	5.13	2.54	9.55	17.29		15.00	8.00	72.79	4
Nov-14	Nov-15	24.50	4.94	2.63	9.00	19.54		15.00	8.00	83.61	3
Nov-15	Nov-16	24.33	2.29	2.25	9.43	18.94		15.00	8.00	80.24	3
Nov-16	Nov-17	24.34	2.08	1.99	10.18	19.06		15.00	8.00	80.65	3
*The Amended new Forestry Sector Code published on 21 April 2017											
Dec-17	Nov-18	26.18	6.48	4.08	12.51	16.18	6.68	11.93	7.56	91.60	3
Dec-18	Dec-19	27.00	6.48	4.12	12.63	16.05	9.76	11.93	8.00	95.04	2

Table 2: Current B-BBEE rating for Sappi Southern Africa Limited

Certificate Issued	Certificate Valid till	Ownership	Management	Employment Equity	Skills Develop	Preferential Procurement	Supplier Development	Enterprise Development	Socio-Economic Development	Total Score	Level
Dec-19	Dec-20	22.37	6.67	4.99	12.24	21.85	8.69	11.00	8.00	95.81	2

We recognize ownership by Black people in Sappi Southern Africa Limited on a “flow-through” basis and in line with the principles in the Amended Forest Sector Code through the shares held in the company by an employee share ownership programme that acquired its ownership interest as part of the B-BBEE Transaction in 2010, shareholders of strategic partners who acquired shares pursuant to the B-BBEE Transaction in 2010, and institutional investors. The representation of people from designated groups, particularly Black women, in management and all levels of employment within the company is a focus within the organization, driven by employment equity targets set in each occupational level and category. Skills development initiatives, particularly programs aimed at improving management and leadership skills, are geared to meet these targets. Where practical, we purchase goods and services from Black-owned businesses and seek opportunities to develop future Black vendors. We are committed to the support of our Project Khulisa, which is an initiative with local communities using their land for plantations while training them in the core principles of forestry management. This is achieved through financial and technical input, as well as by providing a secure market during the start-up phase of these small tree-farming enterprises. This initiative has been extended to encourage aspirant tree farmers who wish to undertake forestry activities on a larger scale consistent with the government’s strategy of promoting forestry as a means of sustainable livelihood in rural areas. We have a number of enterprise development initiatives and have established programs to train new entrepreneurs. These initiatives involve the transfer of business skills, technical assistance, financial support and preferential payment terms to assist new enterprises to enter the market. We have a history of investment in the communities in which we operate. Initiatives to promote education, health and welfare, arts and culture, and rural and community development, amongst others, are regularly undertaken.

### South African Exchange Controls

#### Introduction

The information below is not intended as legal advice and it does not purport to describe all of the considerations that may be relevant to a prospective purchaser of notes. Prospective purchasers of notes who are non-South African residents or emigrants from the Common Monetary Area (defined below) are urged to seek further professional advice concerning the purchase of notes.

South African residents are subject to exchange controls in terms of the Exchange Control Regulations, issued under the Currency and Exchanges Act, 1933 (the “Regulations”).

The Financial Surveillance Department of the South African Reserve Bank (“SARB”) (previously known as the Exchange Control Department) is responsible for the day-to-day administration of exchange controls.

Most South African commercial banks have been appointed to act as authorized dealers in foreign exchange (“Authorized Dealers”). Authorized Dealers may buy and sell foreign exchange, subject to conditions and within limits prescribed by the SARB. From time to time, the SARB updates the Currency and Exchanges Manual for Authorized Dealers (the “Manual”), which sets out the conditions, permissions and limits applicable to the transactions in foreign exchange which may be undertaken by Authorized Dealers.

The SARB from time to time also issues Circulars to provide further guidelines regarding the implementation of exchange controls. The Regulations, Manual and Circulars are hereinafter collectively referred to as “Excon Rules”.

The South African government remains committed to the gradual relaxation of exchange controls, but the existing exchange controls are strictly enforced, particularly in the current uncertain financial environment. Steps to liberalize exchange controls are announced from time to time in Budget Speeches and Medium-Term Budget Policy Statements issued by the Minister of Finance.

The purpose of exchange controls is, *inter alia*, to regulate inflows and outflows of capital from South Africa. South African residents are not permitted to export capital from South Africa except as provided for in the Excon Rules. No South African resident is thus entitled to enter into any transaction in terms of which capital (whether in the form of funds or otherwise) or any right to capital is directly or indirectly exported from South Africa without the approval of either the SARB or, in certain cases, by an Authorized Dealer.

Exchange controls do not apply to non-residents, but non-residents may be impacted indirectly as acquisitions of South African assets and transactions with a resident may require Excon approval.

Transactions between residents (including corporations) of the Common Monetary Area (“CMA”) (comprising the Republic of South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland) on the one hand and non-residents of the CMA on the other hand, are subject to exchange controls.

Controls on current account transactions, with the exception of certain discretionary expenses and transfer pricing between related parties, are dealt with by Authorized Dealers in terms of the Manual.

Authorized dealers in foreign exchange may, against the production of suitable documentary evidence, provide forward cover to South African residents to manage their exposure to foreign exchange commitments and accruals.

Although the stated intention of the South African Government is to relax gradually exchange controls, there are currently no indications that exchange controls will be abolished by the South African Government in the near future.

### **Quantitative and Qualitative Disclosures about Market Risk**

The principal quantitative and qualitative disclosures about market risks (which are the risk of loss arising from adverse changes in market rates and prices) to which Sappi is exposed are:

#### ***Market Risk***

*Interest rate risk.* We are exposed to interest rate risk as we borrow funds at both fixed and floating interest rates. We monitor interest rate risk and may utilize derivative financial instruments to manage the balance between fixed and variable interest rates in response to changes in the interest rate environment.

*Currency risk.* We are exposed to economic, transaction and translation currency risks. We primarily manage currency risk using internal hedging mechanisms with external hedging, such as foreign currency forward exchange contracts and zero cost foreign exchange collars, being applied thereafter.

See note 31 to our Group annual financial statements for the year ended September 2019.

#### ***Credit Risk***

We are exposed to credit risk in relation to trade receivables, cash deposits and financial investments.

See note 31 to our Group annual financial statements for the year ended September 2019.

#### ***Liquidity Risk***

We are exposed to liquidity risk in that we may be unable to meet our current and future financial obligations as they fall due.

See note 31 to our Group annual financial statements for the year ended September 2019.

### ***Other Risks***

*Plantation risk.* We are exposed to fair value fluctuations on plantations, as well as to fire, hazardous weather, disease and other damages to our plantations.

*Discount rates.* We are exposed to the discount rate fluctuations in the calculation of post-employment benefit liabilities.

For additional descriptions of these risks, see notes 2, 11 and 28 to our Group annual financial statements for the year ended September 2019.

### ***Commodity Price Risk***

The selling prices of the majority of products manufactured and purchase prices of many raw materials used generally fluctuate in line with commodity cycles. There are differences between the types of pulp required for our paper making operations and the grades of pulp we produce, as well as regional differences. We are therefore a buyer as well as a seller of pulp. For a description of our level of pulp integration, see “Our Business—Supply Requirements”. Despite our present relatively high level of pulp integration on a Group-wide basis, in the event of significant increases in the prices of pulp on a Group-wide basis, our non-integrated and partially integrated operations could be adversely affected if they are unable to raise paper prices by amounts sufficient to maintain margins.

We are exposed to commodity price risk from price volatility and threats to security of supply of our raw materials and other inputs to the production process. A combination of contract and spot deals are used to manage price volatility and contain supply costs. Contracts are limited to the Group’s own use requirements. For details on commodity price deals see note 31 to our Group annual financial statements for the year ended September 2019 and for a description of our supply requirements see “Our Business—Supply Requirements”.

## OUR BUSINESS

### Our Strengths

#### *Leading market positions*

We believe that we are one of the world's largest manufacturers of dissolving pulp by sales and volume, with an estimated global market share of approximately 18% and further believe that we operate some of the lowest-cost and most efficient dissolving pulp assets globally. Dissolving pulp is sold to end markets such as the textiles, consumer goods, foodstuffs and pharmaceutical industries, and we believe the business benefits from supportive longer-term drivers including global textile demand growth and increasing adoption of more environmentally friendly solutions, such as viscose derived from dissolving pulp, in that industry, and that dissolving pulp also benefits from being more cost-effective for textile production than other materials such as cotton.

We are also one of the largest producers of coated woodfree paper in the world with an estimated global market share of 11% (based on production capacity). On a regional basis, we have an estimated market share in coated woodfree paper of 28% and 34% in Europe and North America, respectively (based on production capacity). We have achieved leading positions in our traditional core products, in particular in the coated woodfree paper business, by building a portfolio of premium international brands. As demand shifts away from graphic paper markets and increasingly toward packaging and specialty papers, we believe we can leverage the position we have achieved in products such as coated woodfree paper, for example by converting our existing paper machines to produce packaging and specialty paper.

#### *Global presence*

As a global diversified woodfibre company, we believe that our 18 pulp and paper mills across Europe, North America and Southern Africa enable us to take greater advantage of opportunities where markets are strong and reduce risk where they are weak. Our geographic diversity assists us in offsetting the effects of volatile movements of major currencies as we can benefit from imbalances in demand and relative strengths of currencies. In addition, Sappi Trading allows us to reach customers and explore growth opportunities outside our core operating regions, and coordinates our shipping and logistical functions for exports.

In fiscal 2019, our operations in Europe, North America and Southern Africa accounted for 50%, 25% and 25% of our sales excluding the impact of the Delivery Costs Revenue Adjustment resulting from the adoption of IFRS 15, respectively. In the six months ended March 2020, our operations in Europe, North America and Southern Africa accounted for 51%, 29% and 20% of our sales excluding the impact of Delivery Costs Revenue Adjustment resulting from the adoption of IFRS 15, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Comparison of the Six Months ended March 2020 and 2019—Sales".

#### *Long-standing customer relationships supported by product innovation and customer service*

We sell our paper products to a large number of customers—including merchants such as Antalis, IGEP, Lindenmeyr, Papyrus and Veritiv, converters such as Amcor Flexibles and Novelis, and other direct consumers such as The CTP Group—many of whom have long-standing relationships with us. We sell dissolving pulp to a variety of customers, including Lenzing and Birla and other Asian customers operating particularly in Europe, Indonesia, Thailand, India and China, some of which use our products in the manufacturing of viscose staple fiber. We support these customer relationships through our portfolio of premium international operating brands under which we produce and market our products, as well as through the quality of our products, our customer service and our reliability. We are continually aiming to improve service and reliability through innovation, and we believe that our research and development centers in Europe, North America and South Africa enhance our ability to anticipate customers' needs, to design and improve value-added products and services and to bring them to market with increased efficiency.

#### *Diversified sales structure*

We benefit from a diversified product offering and revenue streams, with graphic papers (including coated and uncoated printing and writing papers) generating 59% of our sales in fiscal 2019 (including 41% generated by coated woodfree paper sales and 10% generated by coated mechanical paper sales), packaging and specialty papers generating 22% of our sales in fiscal 2019 and dissolving pulp generating 19% of our sales in fiscal 2019. In packaging and specialty papers we maintain a broad product offering, producing flexible packaging, label, topliner, SBS, CCK, barrier and pulp paper. The secular industry-wide shift from graphic paper to packaging and specialty papers and the growing demand for packaging and specialty paper drives our strategic objective to shift our graphic paper capacity to packaging and specialty papers.

### ***High level of economic pulp integration***

Our Group, as a whole, sells slightly less pulp (including dissolving pulp) than it purchases and is therefore generally neutral to pulp prices, other factors remaining neutral. During the fiscal year ended September 2019, our Southern African business was a net seller of pulp with a pulp integration of approximately 266%, while our European and North American businesses were net buyers of pulp with a pulp integration of approximately 56% and approximately 89%, respectively. Our acquisition of the Matane Mill in Canada in November 2019 has added 270,000 tons of bleached chemi-thermo mechanical wood pulp production capacity, further increasing our pulp integration in North America and Europe.

### ***Efficient asset base***

We own and operate what we believe are some of the lowest cost and most efficient assets in the coated woodfree paper, coated mechanical paper and dissolving pulp sectors in the world. A significant portion of our past capital expenditure was used to increase production capacity at efficient facilities and of higher margin products, balance supply and demand in the graphic paper markets, reduce costs and improve product quality. We continually evaluate the performance of our assets by maintaining a focus on profitability, and we actively manage our asset base by divesting or closing non-performing assets, by converting paper machines to increase capacity and for use in higher margin businesses, and by pursuing an investment policy that is focused on high-return projects. By rationalizing capacity we also seek to keep utilization at high levels, supporting our profitability. We have strict criteria for the profitability and cash flow generation of our assets, and we constantly review our portfolio.

In line with our strategic objective of improving operational and machine efficiencies and in order to lower costs, we undertook a number of large capital projects during fiscal 2019. For example, in fiscal 2019 we continued our investment program at the Saiccor Mill, commencing work on a project to expand production capacity at the Saiccor Mill by 110,000 tons. Although construction work on this project has been suspended as we have declared force majeure due to the COVID-19 outbreak, once completed this project is expected to improve our energy and water efficiency and result in increased energy and chemical recovery, leading to lower operating costs. We have also invested in upgrades at our Gratkorn Mill, resulting in improved production efficiency and lower costs.

Accelerating growth in higher margin products and rationalizing declining businesses has also been a focus during fiscal 2019. For example, in Europe we converted PM8 at our Lanaken Mill in order to give it the flexibility to produce coated woodfree paper in addition to lightweight coated paper, enhancing our ability to meet market demand. We also made investments at Ehingen Mill to enhance its packaging and specialty papers offering, in order to increase our production capacity for packaging and specialty grades. In North America, we increased our production of paperboard products on PM1 at our Somerset Mill following the conversion of that paper machine in fiscal 2018.

We will continue to align our production capacity with market demand, which may require us to financially impair operating assets, sell assets or initiate further capacity reductions.

### ***Experienced management team and strong track record of business realignment***

Our management team has substantial experience in the global paper industry and a strong track record of successfully realigning the Group's business in response to emerging industry trends, particularly in diversifying our product offering in response to secular trends in the graphic paper market. Major initiatives in this regard have included consolidating Sappi's position as a global leader in dissolving pulp production, the significant expansion of the Group's dissolving pulp capacity through two pulp conversion projects at the Ngodwana and Cloquet Mills and, more recently, the successful conversion of graphic papers capacity at our Somerset and Maastricht Mills to specialty paper grades capacity. We have also succeeded in shifting graphic paper production to lower cost mills and exiting high cost production capacity without compromising market share, all while maintaining a strong focus on cost management. In fiscal 2019, one conversion project was completed with the aim of matching supply and demand in the graphic paper markets, building on the two conversion projects and machine upgrade completed in fiscal 2018 with the aim of matching supply and demand in both the graphic paper and packaging and specialty papers markets. Further, in line with our strategy to expand and grow our packaging and specialty papers segment, in February 2018, Sappi management successfully completed the acquisition of the Cham Paper Group, a Swiss-based specialty paper producer that owns our Carmignano and Condino Mills (the "Cham Acquisition").

## **Our Objectives**

### ***Maintain focus on cost base and profitability***

We intend to focus on maintaining or improving our profitability and ensure the sustainability of our operations by further reducing fixed and variable costs, increasing cost efficiencies and investing in cost advantages where possible. During

fiscal 2019, we achieved third-party expenditure savings of US\$88 million compared to the prior year through efficiency and raw material usage improvements, as well as various procurement initiatives, which were in addition to the US\$81 million in such savings we achieved in fiscal 2018 and, for the second successive fiscal year, were above our target of US\$60 million. Among other projects, in fiscal 2019 we commenced an upgrade of our Saiccor Mill to expand Saiccor Mill's capacity by a further 110,000 tons, which we expect to lower operating costs by improving energy and water efficiency and energy and chemical recovery once completed. We also invested US\$30 million for upgrades to the Gratkorn Mill, resulting in improved efficiency and lower costs. In the six months ended March 2020 we also acquired the Matane pulp mill and we believe that this acquisition, along with some small pulp mill efficiency improvement projects in Europe in fiscal 2020, will help improve the paper pulp integration of our packaging and specialty papers business, lowering our cost base and reducing the volatility of earnings through the pulp cycle. In response to the COVID-19 pandemic we have implemented various cost saving measures across our operations, curtailed excess production, applied measures to optimize working capital and, where possible, deferred non-essential capital expenditure totaling approximately US\$80 million, including as a result of the suspension of construction work at our Saiccor Mill expansion project due to the force majeure declaration we issued in March 2020, the postponement of all remaining material discretionary projects, and shifting annual maintenance shutdowns as late as possible. We intend to pursue these and other initiatives to reduce costs and improve operational performance.

### ***Rationalize declining businesses***

Against the backdrop of decreasing demand for graphic paper in our core markets, we intend to manage our capacity to strengthen our leadership position in those markets, realizing their strategic importance to the Group and maximizing their cash flow generation. To this end, we will strive to maintain operating rates and to lower costs, while continuously balancing graphic paper supply and demand in all regions.

In North America, our cost-competitive manufacturing facilities, high level of customer service and excellent paper quality, along with closures or conversions of some of our competitors' mills and machines have allowed us to increase market share, despite decreasing demand in the overall market. During fiscal 2018, we converted PM1 at the Somerset Mill to increase its capacity and give it the flexibility to produce both coated woodfree paper and packaging paper, which we believe will help us achieve our goal of balancing graphic paper supply and demand in North America while transitioning more production to packaging and specialty papers. During fiscal 2019, we increased production of paperboard grades on this machine as we qualified various paperboard products with a range of customers.

In Europe, we have focused on shifting our paper production to more efficient paper mills, thereby reducing fixed costs and lowering the average production cost. We have also focused on the implementation of our go-to-market strategy, Sappi&You. Sappi&You has supported our efforts to be a preferred supplier in coated woodfree paper grades in particular and has allowed us to increase both direct sales and, supported by industry capacity closures, market share in Europe despite the general market decline in this region. As we anticipate future demand declines for graphic paper in this market, we will continue to pursue cost reductions and, where possible, convert PMs to higher margin businesses. During fiscal 2018, we converted the Maastricht Mill to focus predominantly on paperboard in support of our existing packaging and specialty papers business in Europe. In addition, our coating expertise and the growing specialty packaging market has allowed us to reallocate some of our coated woodfree production in both Europe and North America to various grades of specialty packaging paper, without significant capital investment required. In 2019, we converted PM8 at the Lanaken Mill to enable the machine to make either coated woodfree or coated mechanical paper, to allow us to transition production on that machine to coated woodfree paper over the next three years and align our coated mechanical paper capacity with demand. We also made investments at the Ehingen Mill to enhance its packaging and specialty papers offering, in order to increase our production capacity for packaging and specialty grades. We are evaluating further potential opportunities to grow our capacity through additional conversions of existing paper machines in both North America and Europe. We also intend to close PM2 at our Stockstadt Mill and relocate its entire production to our other paper machines in Europe in order to match capacity to demand.

In South Africa, our exposure to declining graphic paper markets is limited to newsprint, where we believe we are the last remaining local producer, and office paper, in which we have become more cost-competitive following the transfer of production from the Enstra Mill, which we sold in December 2015, to our Stanger Mill.

### ***Maintain a healthy balance sheet***

We intend to continue to focus on cash flow generation and managing the cost of our debt in order to maintain a healthy balance sheet, which we believe forms the foundation required in order for us to make the necessary investments in our higher margin and growing businesses. In fiscal 2017, we achieved our target leverage ratio of two times Net Debt to Adjusted EBITDA, while in fiscal 2018, our Net Debt to Adjusted EBITDA leverage ratio stood at 2.07 times, during a year that included capital expenditure of US\$541 million.



The decline in the profitability of our business during both fiscal 2019 and the six months ended March 2020, together with our large committed capital expenditure pipeline during the year, resulted in our Net Debt to Adjusted EBITDA leverage ratio increasing to 2.20 times as of September 2019 and to 3.28 times as of March 2020. Consequently, we have reduced discretionary capital expenditure in the current fiscal year to limit the rise in debt levels as far as possible. In addition, we did not declare a dividend with respect to fiscal 2019. We have also proactively amended the leverage covenant on our Revolving Credit Facility, OeKB Term Loan Facilities and Trade Receivables Securitization Program to provide more headroom in the coming years, including a suspension of covenant measurements for four quarters from June 2020 to March 2021 to support our response to the COVID-19 pandemic, in exchange for compliance with certain additional covenants during the suspension period, including restrictions on dividend payments, maximum capital expenditure spending limits, a minimum liquidity requirement, limitations on the incurrence of indebtedness, and restrictions on acquisitions. We intend to continue to manage carefully the Group's level of indebtedness, including repaying and refinancing debt to improve our debt maturity profile, and to maintain our focus on optimizing working capital management.

### ***Accelerate growth in higher margin and growing products and adjacent businesses***

We aim to expand production capacity and volumes in our dissolving pulp product category and higher margin and growing packaging and specialty papers product category.

In the dissolving pulp product category, we launched our new Verve brand in 2018 to bundle our activities relating to sustainable viscose and lyocell staple fibers and further strengthen our leading position in the dissolving pulp market that provides the raw materials for such textile fibers. During fiscal 2018, we also completed a number of capital projects, including the projects to optimize production processes at our Saiccor and Ngodwana Mills, which added 10,000 and 35,000 tons of dissolving pulp production capacity, respectively. In fiscal 2019, we completed a project to optimize production processes at our Cloquet Mill, adding a further 30,000 tons of production capacity, and started the expansion project of our Saiccor Mill to add an additional 110,000 tons of production capacity, as described above. Despite challenging price dynamics in the dissolving pulp market since fiscal 2018, we continue to evaluate various expansion options, as pressure on the textile industry for more sustainable solutions increases.

In the packaging and specialty papers product category, we intend to focus on continuing to increase our production and sales volumes to capitalize on the additional capacity we have acquired and invested in in recent years. In order to gain packaging and specialty papers production capacity, we increased capital expenditure in growth projects during fiscal 2018, such as the conversion of PM1 at our Somerset Mill and the conversion of our Maastricht Mill to increase our paperboard production capacity; we expect that with increasing sales volumes on the converted machines and the related improvement in sales mix and production efficiencies, profitability of this segment will improve, aided by increased pulp integration due to the Matane Acquisition. In addition to such capital projects, we completed two acquisitions in recent years that we believe position us well for growth in the packaging and specialty papers market by complementing our existing product portfolio. During fiscal 2018, we purchased the paper mill assets of Cham Paper Group for US\$132 million. The Cham Acquisition has added new paper grades to our packaging and specialty papers portfolio, including Transjet dye sublimation transfer papers used primarily for printing images onto textiles and wide format inkjet papers used, among other applications, in the production of posters for indoor and outdoor settings. In fiscal 2017, we acquired Rockwell Solutions, a firm specializing in innovative barrier packaging solutions, which gives us access to new technology and allows us to accelerate the development of new solutions for the growing packaging and specialty papers market, where we believe demand is accelerating for alternative packaging solutions that are more renewable, recyclable and reusable; we expect to implement this technology in additional paper machines in future years. In addition to increasing our specialty paper production capacity, we believe these acquisitions will support our aim of gaining a greater share-of-wallet with valued brand owners and generate economies of scale and synergies with our existing products.

We also intend to seek new opportunities for growth in fields close to our current businesses, such as the markets for sugars, furfural, lignin, nanocellulose and other innovative performance materials produced from renewable resources. We have identified several areas for investment where we believe we have a favorable competitive position and intend to undertake research and development projects, work closely with existing customers and collaborate with research and commercial partners. In 2016, we established our Sappi Biotech business unit in order to drive innovation in adjacent fields and commercialize products resulting from our biomaterials and biochemicals research. In Europe, we completed construction of our nanocellulose pilot plant in the Netherlands during the first half of fiscal 2016 and are currently undertaking co-developments with firms in the motor manufacturing, coatings and cosmetics industries relating to applications for cellulose nanofibril and cellulose microfibrils. In Southern Africa, we have increased the beneficiation of our by-products by investing in increased lignosulphonate capacity at both our Saiccor and Tugela Mills, and are exploring the extraction of sugars from our pulping processes, with a view to entering higher-value lignin markets in the near term. Since 2017, we have been operating a sugar extraction pilot plant at our Ngodwana Mill to demonstrate technology for sugar extraction from our dissolving pulp waste streams. Our demonstration plant at Ngodwana Mill has allowed us to test and

optimize xylose sugars extraction technology on an industrial scale for markets such as furfural, xylose and xylitol, a low-calorie sweetener that is suitable for diabetics. We are pursuing various options to develop projects in these markets, which may result in final product technology scale-up and the construction of commercial xylose or furfural plants at our mills in the United States or South Africa. We also intend to continue exploring cogeneration and renewable biomass energy projects.

## **Customers**

We sell our products to a large number of customers, many of whom have long-standing relationships with Sappi. In the case of our paper and packaging paper products, these customers include merchants, converters and other direct consumers. In the case of dissolving pulp, these customers include producers of viscose staple fiber and other products. We have recently moved to a single customer relationship management system across all regions, which allows us to leverage customer data and sales processes across the globe. During fiscal 2019, no single customer individually represented more than 10% of our total revenue.

Converter customers for our paper products include both multinational and regional converters. The most significant converter customers, based on sales during fiscal 2019 and the six months ended March 2020, include: Mpact, Corruseal, APL, CTP group, Houers, Orafol, Constantia, Vaassen and Amcor. These customers use our products in the production of pressure-sensitive products, flexible packaging, packaging for the agricultural and industrial markets, as well as non-wet strength labels. No converter customer, however, represented more than 10% of our total revenue during fiscal 2019.

A significant portion of dissolving pulp sales are to customers with long-term supply agreements, with pricing set by the use of an index-based pricing mechanism. A smaller portion of dissolving pulp sales are sold on the spot market, with pricing set by monthly negotiations. The Aditya Birla group and Lenzing Group are our two largest customers for dissolving pulp, together representing approximately 16% of our total revenue during fiscal 2019.

Merchant sales constitute the majority of our coated woodfree and mechanical paper sales in North America. Pricing of coated paper products is generally subject to negotiation with our customers from time to time. Sales to converters may be subject to longer notice periods, which would generally not exceed 12 months. We have entered into longer-term fixed-price agreements, generally of 12 months duration, primarily for packaging paper and newsprint sales in Southern Africa; such agreements accounted for approximately 6% of consolidated Group sales during fiscal 2019. We have long-standing relationships with most of our customers, with volume and pricing generally agreed on a quarterly basis. No merchant customer represented more than 10% of our total sales during fiscal 2019.

Sales to dissolving pulp customers are based on a combination of long-term contractual and spot arrangements, with various pricing mechanisms employed.

### *Europe*

In Europe, our most significant merchant customers, based on sales during fiscal 2019 and the six months ended March 2020, include Igepa Group, Antalis (owned by Sequana Capital), Papyrus, Elliott Baxter, Zing, Europapier and Berberich. One of these merchants, Igepa Group, represented 9% of our total European revenue during fiscal 2019.

### *North America*

In North America, our most significant merchant customers, based on sales during fiscal 2019 and the six months ended March 2020, include Veritiv, Lindenmeyr (owned by Central National Gottesman Inc.), Midland and a select number of regionally strong merchants. Lenzing and Birla, which are both large producers of viscose staple fiber and are partially integrated with their own dissolving pulp production, are two of our most important customers for the dissolving pulp produced at our Cloquet Mill. Our most significant customers for paperboard, coated one-side label papers and grease resistant bag papers are Huhtamaki, Connemara Converting and Gateway Packaging Company.

### *Southern Africa*

Our South African uncoated cut-size paper products are distributed in Southern Africa to copier manufacturers, retailers and merchants. Our most significant regional cut-size paper customers include the Massmart Group and Peters Papers.

Our most significant South African packaging paper and newsprint customers, based on sales in fiscal 2019 and the six months ended March 2020, include The CTP Group, which uses Sappi's newsprint. The most significant converter customers include Mpact, APL and Corruseal.

A significant number of the cellulosic fiber manufacturers around the world purchase dissolving pulp from Sappi Dissolving Pulp. This includes large groups such as the Aditya Birla Group and the Lenzing Group (which are both large producers of cellulosic fibers and are partially integrated with their own dissolving pulp production). Most of our dissolving pulp sales contracts are multi-year contracts.

During both fiscal 2019 and the six months ended March 2020, approximately 61% of the total sales value of our Southern African operations was destined for the export market.

## **Competition**

### *Overview*

Although the markets for pulp and paper products have regional characteristics, they are highly competitive international markets involving many producers located around the world.

Historically, pulp and paper products were subject to relatively low tariff protection in major markets, with existing tariff protections being further reduced under the World Trade Organization. However, with ever-increasing amounts of low-cost substitutes emerging from Asia, particularly from China, both the United States and Europe imposed import duties and tariffs on certain coated paper products during the 2011 calendar year. As a result of these duties and tariffs, imports of coated woodfree paper into North America and Europe from Asia, and particularly China, declined. These anti-dumping duties for imports into North America were reviewed in 2016 and extended for an additional five-year period, such that they are now due to expire, subject to further review and extension, in 2021. Any potential revocation or non-renewal of such duties could cause us to lose market share, increase expenditure or reduce pricing with respect to our coated paper in North America and could have a material and adverse impact on our results of operations. In 2014, the Chinese Ministry of Commerce (MOFCOM) imposed anti-dumping duties on imported dissolving pulp originating in Canada, the United States and Brazil, though following recent trade negotiations between the US and China the duties on North American pulp producers were lifted. Because our exposure to the dissolving pulp market in China is through our Southern African operations, our organization was unaffected by these duties. More recently, China has increased tariffs on the casting release paper made at our Westbrook Mill in the United States. As a result, our customers in China must pay such tariffs. Similarly, the products our customers make with our casting release paper are subject to tariffs upon entry into the United States. In line with our strategy of reducing costs, we have begun seeking alternative customers for our casting release paper in other countries in South East Asia as well as other parts of the world.

Competition in markets for our products is primarily based on price, quality, service, breadth of product line, product innovation and sales and distribution support. The specialty paper market, however, places greater emphasis on product innovation, quality and the consistency with which a given level of quality is achieved, as well as more specific technical considerations.

The graphic paper sector, comprising coated and uncoated woodfree and mechanical products, reduced annual production capacity by 7.9 million tons in Western Europe and 6.6 million tons in North America between 2012 and 2019.

### *Europe*

The market leaders in coated woodfree paper production in Europe are Sappi, UPM-Kymmene, Stora Enso, Lecta and Burgo Group. The market leaders for both packaging and specialty papers in Europe include, among others, Sappi, Mondi, UPM, Delfort, Felix Schöller and Iggesund.

### *North America*

The market leaders in coated woodfree paper production in North America are Verso, Sappi and Nine Dragons. In late 2017, two U.S.-based producers of coated woodfree paper, WestLinn Paper and Appleton Coated, ceased production. Taken together, these two closures amounted to approximately 14% of North American coated freesheet capacity at the time. In June 2018, Nine Dragons purchased the U.S. assets of Catalist Paper.

In respect of dissolving pulp, our competitors based in North America include Georgia Pacific, Cosmo Specialty Fibres, Birla and Rayonier Advanced Materials. In November 2017, Rayonier Advanced Materials purchased Tembec Inc., a Montreal-based producer of paper and dissolving pulp. Global competitors include April (Indonesia), PT Toba (Indonesia), Sun Paper (China), Rayonier Advanced Materials (USA), Borregard (Norway), Hunan Juntai (China), Fujian Nanping (China), Nippon Paper Industries (Japan), Fortress Specialty Cellulose (Canada), Sodra Morrum (Sweden), Stora Enso (Finland), Hallein (Austria) and various cotton linter pulp producers in China.

Our North American competitors in packaging and specialty paper grades include, among others, WestRock, Georgia Pacific, Graphic Packaging and Clearwater. Our competitors in specialty paper grades in the United States are Verso and Nine Dragons.

## *Southern Africa*

The Mondi Paper Company Limited and Mpack Limited are significant competitors in the Southern African market, specifically in the uncoated cut-size and packaging paper sectors. We believe we are currently the only local producer of newsprint.

In respect of dissolving pulp, Sappi is the only producer in South Africa. Global competitors include April (Indonesia), PT Toba (Indonesia), Sun Paper (China), Rayonier Advanced Materials (USA), Borregard (Norway), Hunan Juntai (China), Fujian Nanping (China), Nippon Paper Industries (Japan), Fortress Specialty Cellulose (Canada), Sodra Morrum (Sweden), Stora Enso (Finland), Hallein (Austria) and various cotton linter pulp producers in China.

## **Supply Requirements**

### *Europe*

#### *Wood*

Our European business purchases approximately 3.5 million cubic meters of pulpwood per annum for its pulp mills. The pulpwood is purchased both on contract and in the open market. Wood supply contracts are typically fixed for one year in terms of volumes. Price agreements range from three months for wood chips to one year for logwood.

Logwood and wood chips used in the Gratkorn TCF pulp mill are purchased through the Papierholz Austria GmbH joint venture arrangement amongst Sappi, the Norske Skog Bruck mill Heinzl Zellstoff Pöls and the Mondi Frantschach Group. We hold a 42.5% ownership interest in Papierholz Austria.

The wood chips and logs used in the Lanaken CTMP plant are purchased through Sapin S.A. (“Sapin”), a wholly owned subsidiary of Sappi.

The wood requirements for our German mills are sourced via proNARO, a 50% joint venture company with Essity Hygiene Products GmbH, established January 2013. proNARO purchases wood for our three German mills as well as for Essity’s operations in Mannheim.

Under a wood supply agreement, Metsä Board Corporation’s parent company (Metsäliitto Group) is required to supply us with up to 704,000 cubic meters of wood annually, substantially all of which is sourced in southern Finland, to the Kirkniemi Mill for an indefinite period (terminable upon three years’ notice) at market rates.

#### *Pulp*

Our European operations produce approximately 50% of our paper pulp requirements in the region. The remainder is mostly supplied through open market contracts, the biggest supplier being CMPC Celulosa, which supplies up to 160,000 tons of pulp per annum.

#### *Energy Requirements*

Our European energy requirements are generally met by the internal generation of energy and external purchases of electricity, natural gas, biomass and, to a lesser extent, hard coal and oil. The delivery of electricity, natural gas, oil, coal and biomass is covered by various short- and mid-term supply agreements.

Since July 2007, Gratkorn has operated a combined heat and power plant (“CHP plant”) on site and has become an exporter of approximately 10 MW of electricity. The mill’s additional energy requirements are met through the usage of biomass, natural gas and mineral coal fuels.

Substantially all of the electricity requirements of the Maastricht Mill are satisfied by a 60 MW CHP plant owned and operated by Sappi. The plant utilizes natural gas, which is procured from an Italian supplier at market prices. All surplus electrical energy generated is supplied to the national grid.

The Lanaken Mill’s energy requirements are generally met by purchases of natural gas and electricity. Certain of the energy requirements of the mill are furnished by a CHP plant, constructed and operated pursuant to a cooperation agreement between Sappi and the Belgian power company Electrabel. We are a 50% co-owner of the gas turbine and hold 100% ownership in the heat recovery steam generator (“HRSG”). Both parties own 50% of the power and heat production. In addition, we are obligated to purchase steam from ENGIE Electrabel under long-term supply agreements. The facility commenced operations in April 1997 and was equipped with a new gas turbine at the end of 2014. Lanaken Mill’s remaining electricity requirements are satisfied by a supply contract with the national utility company Electrabel.

Alfeld and Ehingen generate approximately 51% of their power needs on-site, with the remainder purchased from an Austrian power company. Both mills' steam requirements are met through biomass and natural gas, the latter of which is supplied by a German gas supplier.

The total steam requirements and approximately 25% of the electricity requirements of the Kirkniemi Mill are met by on-site production of a 95 MW multi-fuel boiler and biomass boiler, both owned and operated by Sappi. The multi-fuel boiler became operational in the summer of 2015 and uses solid fuels, such as bark from the mill's debarking process, other wood based fuels, asphaltenes and coal. Any additional biomass is purchased from local suppliers. The mill's electricity requirements are met through purchases from a Finnish power company and delivered via the public grid, with the existing 75 MW gas turbine and HRSG serving as backup sources.

Stockstadt generates approximately 60% of its power needs on-site with the remainder purchased from an Austrian power company. The mill's steam requirements are met through the usage of biomass and mineral coal as fuels.

Substantially all of the steam and approximately 80% of the electricity requirements of the Carmignano Mill are satisfied by a 10 MW CHP plant, owned and operated by Sappi. The plant utilizes natural gas, which is procured from an Italian supplier at market prices. Carmignano Mill's remaining electricity requirements of approximately 20 GWh are satisfied by a supply contract with Axpo.

Substantially all of the steam and electricity requirements of the Condino Mill are satisfied by a 10 MW CHP plant, owned and operated by Sappi. The plant utilizes natural gas, which is procured from an Italian supplier at market prices. A surplus of about 20 GWh electrical energy generated is supplied to the local grid.

### *Chemicals*

Major chemicals used by our European operations include calcium carbonate, kaolin, latex, starch and base chemicals. We purchase these chemicals from a portfolio of suppliers, and we have multiple sources of supply for each of the major chemicals we use in Europe. There are generally adequate sources of supply in the market. Most of these chemicals are subject to price fluctuations based upon several factors, including energy and crude oil prices, the availability of feed stocks, transportation costs and the specific market supply and demand dynamics.

### *North America*

#### *Wood*

In connection with the 1998 sale of our U.S. timberlands to Plum Creek Timber Company L.P., we are a party to a fiber supply agreement with Plum Creek (which was purchased by Weyerhaeuser in 2016) with an initial term expiring in December 2023 and with three five-year renewal options. Under the supply agreement, our North American business is required to purchase from Plum Creek, and Plum Creek is required to sell to us, a guaranteed annual minimum of 318,000 metric tons of hardwood pulpwood, or approximately 9% of our annual pulpwood requirements in North America, at prices calculated based on a formula linked to market prices. We have the option to purchase additional quantities of hardwood pulpwood, harvested from these timberlands, at prices generally higher than the ones paid for the guaranteed quantities. The remainder of our North American pulpwood requirements is met through market purchases. Our Matane Mill, acquired in November 2019, sources residual wood chips from regional sawmills. These sources are supplemented by on-purpose chipping of Roundwood from local governmental and privately owned lands.

#### *Pulp*

Two of our three North American paper mills have integrated pulp mills, namely Somerset and Cloquet. The Somerset pulp mill produces approximately 80% of its pulp requirements, with the balance coming from market purchases of both softwood and hardwood paper pulps. Our Cloquet pulp mill can produce all the required paper pulp for its two paper machines. However, in 2013, and in line with our strategy to grow into higher margin segments, we converted the pulp mill to enable the production of dissolving pulp. We operate the pulp mill to fulfill customer requirements for dissolving pulp, as well as optimizing profitability for our paper business by utilizing paper pulps from this mill rather than making market purchases, when possible. When necessary, our Cloquet Mill purchases both softwood and hardwood paper pulps to cover any pulp supply requirements in excess of the amounts we produce. Somerset and Cloquet also utilize recovered fiber and offer products containing up to 10% recycled fiber in accordance with EPA definitions and processes. The recently acquired Matane Mill, which only makes pulp and has a capacity of 270,000 tons per annum of bleached chemi-thermo mechanical pulp, has increased our pulp integration and reduced our cost of pulp. Our Westbrook Mill is unintegrated and buys pulp either from Somerset or on the open market.

All of Sappi North America's coated and packaging paper and pulp mills are certified in accordance with leading sustainable forestry certification systems. Additionally, our Cloquet and Somerset Mills are certified under applicable wood procurement operations standards.

### *Energy Requirements*

Our North American energy requirements are satisfied through wood and by-products derived from the pulping process, natural gas, biomass, fuel oils, coal, purchased electricity, steam, low-cost alternative fuels and other sources.

A substantial portion of our North American electricity requirements are satisfied through our own onsite electricity generation or co-generation agreements. In October 2014, the company entered into a two-year contract for Retail Electricity Supply of Net Load with NextEra Energy Services Maine, LLC for the retail supply of net load for the Somerset Mill. Under this contract, NextEra provides 100% of Somerset's purchased electrical requirements. This contract was extended and is currently due to expire in October 2022. In November 2014, we completed a series of natural gas upgrades at Somerset Mill. These upgrades provide us with the ability to operate using several major fuel alternatives, thereby reducing overall energy costs and improving the Somerset Mill's carbon footprint.

The Westbrook Mill sells excess electricity, which is co-generated through a number of Federal Energy Regulatory Commission-licensed hydroelectric facilities, in addition to its power boiler.

The Cloquet Mill is partly supplied with internally generated electricity. The facility includes a hydroelectric plant that is licensed by the Federal Energy Regulatory Commission. In addition to generating a portion of its own power, the Cloquet Mill has entered into a take-or-pay agreement to purchase a portion of its power from Minnesota Power. We may terminate this agreement at any time subject to a four-year notice period.

The Matane Mill purchases the majority of its electrical power needs from Hydro-Quebec under published Tariff L regulations.

Our procurement team develops and implements certain fuel purchasing strategies aimed at mitigating the impact of volatility in fuel prices.

### *Chemicals*

Major chemicals used by our North American operations include clays, carbonates, lattices and plastic pigments, starches, titanium dioxide, caustic soda, other pulping and bleaching chemicals and chemicals for the specialty business. We purchase these chemicals from a variety of suppliers. Most of these chemicals are subject to price fluctuations based on a number of factors, including energy and crude oil prices, the availability of feedstocks, transportation costs and the specific market supply and demand dynamics.

Our procurement team negotiates supply agreements aimed at ensuring continuity of supply at competitive prices for these materials and mitigating the impact of market price fluctuations.

### *Southern Africa*

#### *Wood*

Through its direct ownership of plantations and contractual agreements with independent commercial growers, Sappi Forests is able to meet the annual fiber requirements of the Southern African region of approximately 5.1 million tons per annum.

#### *Pulp*

Our Southern African operations, in aggregate, manufacture all of the unbleached pulp required for our own paper production in the region and supply small quantities to the local market. Bleached pulp is purchased from local and international suppliers that have several grades of pulp suitable for use on our paper machines. All dissolving pulp production is sold internationally.

### *Energy Requirements*

Our energy requirements in Southern Africa are principally met through a combination of internally generated renewable energy derived from our production processes (accounting for 44% of our total electricity requirements), supported by purchases of coal and electricity (37% of which is purchased from Eskom, and the rest of which is internally generated). Fuel, oil and natural gas are purchased on an as-needed basis.

Energy costs for our Southern African operations, particularly electricity costs, have risen sharply in recent years, which has had a significant adverse impact on costs in the region. In fiscal 2019, electricity purchased from Eskom amounted to approximately 7% of the total variable costs of our Southern African operations. Eskom has also recently struggled to meet demand, for example in February 2019, when Eskom imposed a series of rolling blackouts on the national power grid, cutting 4,000 megawatts of power supply after it unexpectedly lost six additional generating units to breakdowns, despite seasonally low summer demand. Eskom has warned that electricity shortages and conditions of intermittent supply could persist for some time and the South African government has announced a plan to restructure Eskom into three separate businesses (encompassing generation, transmission and distribution, respectively) in response to the recent power generation problems and a substantial debt burden. In addition, in order to address its substantial debt burden, Eskom implemented a tariff increase in 2019. Further tariff increases in 2020 and 2021 have been approved by the National Energy Regulator of South Africa (“Nersa”) and could result in a substantial increase in the cost of electricity to consumers over the three-year period. Eskom has challenged these approved increases and, in March 2020, was successful in having Nersa’s approval decision set aside; there is therefore a possibility of an even greater increase in tariffs. We have sought to mitigate our electricity supply risk by working closely with Eskom during times of marginal supply to reduce demand by curtailing non-critical loads and by increasing self-generation of electricity without materially adversely impacting our production or cost of production.

Sappi is currently investigating several renewable and co-generation energy projects aimed at further increasing our electricity self-sufficiency in the region and thus reducing the impact of higher than inflation electricity increases and unreliable supply that are expected over the forthcoming years.

### *Chemicals*

Major chemicals used by our Southern African operations include caustic soda, sodium chlorate, magnesium oxide, calcium carbonates, specialty chemicals, starches, sulphur and sulphuric acid. We purchase these chemicals from a variety of South African and overseas suppliers, and there are generally adequate sources of supply with multiple sources suitable for our mills. Most of these chemicals are subject to commodity price and foreign currency fluctuations based upon several factors, including energy and crude oil prices, the availability of feedstock, transportation costs and the specific market supply and demand dynamics.

### **Environmental Matters**

We are subject to a wide range of environmental laws and regulations in each of the various jurisdictions in which we operate, and these have tended to become more stringent over time. Some of our operations require permits, and these may be subject to modification, renewal and revocation. Violations of environmental requirements could lead to substantial costs and liabilities, including remedial costs, damage claims and administrative, civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration for our business, and we expect to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs to reduce air emissions such as carbon dioxide (CO<sub>2</sub>) and other greenhouse gases (“GHG”) and/or to purchase emissions allowances or pay carbon taxes applicable to certain of our operations, water supply, treatment of wastewater discharges and disposal of solid and hazardous wastes. We have incurred, and could in the future incur, costs to investigate and cleanup environmental impacts resulting from our historical or current operations, including the land disposal of waste materials and the unpermitted release of hazardous materials. We closely monitor potential changes in pollution control laws and take actions with respect to our operations accordingly.

### *Europe*

Our European facilities are subject to extensive environmental regulation in the European Union and the various member states in which we operate. For example, the air emissions, water discharge and pollution control standards required by the Integrated Pollution Prevention and Control Directive (“IPPC”) and contained in the permits for our mill operations in the European Union are based on Best Available Techniques (“BAT”). On September 30, 2014, minimum criteria for BAT applicable to the production of pulp, paper and board were published in the European Union. The deadline for implementation was September 2018. To date, not all member states have met the implementation deadline regarding BAT. Member states may, however, issue stricter limits than established, or choose whether to recognize exemptions authorized, by the European Union, and the national standards applicable to our facilities and operations have not been formalized. Currently, the responsible authorities in the member states in which we operate are in the process of reviewing environmental permits in order to ensure compliance with the new BAT Reference Documents.

Other laws and regulations that apply to all our facilities in the European Union include:

- The national European laws that regulate waste disposal and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, re-use and recycling (material or thermal) are the

preferred waste management methods. Consequently, most of the waste material generated at our facilities is recycled. The small share of waste material that is still placed in landfills is inert material (ash or building rubble).

- The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonize existing European and national regulations to provide better protection of human health and the environment through the registration and evaluation of certain chemicals is not directly applicable to the pulp and paper industry. It does, however, apply to a number of raw materials that we source. We also registered some intermediate substances in our pulp production processes.
- The European Union Timber Regulation (“EUTR”), a timber and timber product regulation adopted by the European Commission, contains obligations that apply to our European operations. We believe that we meet these requirements as we have an effective certification and risk assessment system in place.
- The European Emission Trading System (“ETS”), in which all our European mills participate for the trading of allowances, which are known as European Union Allowances (“EUAs”) to emit carbon.

Previously, we had a surplus of emission rights due to our efforts to reduce our energy needs and to increase the share of renewable fuel use, together with a high amount of freely allocable EUAs. These were either traded between mills or sold onto the market. In the current phase, 2013-2020, the EU has significantly reduced the amount of freely allocable EUAs, which led us to have a substantial shortfall of emissions rights by 2020. Our efforts to reduce energy consumption, combined with the surplus of EUAs we were allowed to carry over from the previous phase, have largely mitigated the financial impact of the shortage thus far. We also purchased EUAs in accordance with our hedging strategy. We believe that such EUA purchases will be sufficient to cover our energy requirements through 2020, and as a result we believe that we are well-positioned to fulfill our compliance obligation in the current Phase 3 of ETS. Phase 4 of ETS will cover the period from 2021 to 2030, and includes a number of new principles and provisions to protect the industry against the risk of carbon leakage and the risk of application of a cross-sectoral correction factor as well as to increase the pace of emission reductions. The overall number of emission allowances will decline at an annual rate of 2.2% from 2021 onwards, compared to 1.74% currently. As a result, the price of EUAs has recently increased and, beginning in 2021, we could incur additional costs to purchase emissions rights to cover our energy requirements in excess of any emissions reductions we achieve, the cost of which could be material.

The countries within which Sappi operates in Europe have all ratified the Kyoto Protocol and we have developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reduction costs effectively.

### *North America*

Our North American operations are subject to stringent environmental laws in both the United States and Canada. In the United States, these laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation, and Liability Act and their respective state counterparts and implementing regulations. In Canada, these laws include the Environmental Quality Act, the Fisheries Act and the Canadian Environmental Protection Act of 1999, as well as various regulations adopted thereunder.

On June 29, 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the “Commissioner”), issued a decision requiring us to install a fish passage at the Cumberland Mills dam associated with the Westbrook Mill, the most downriver dam on the Presumpscot River. Pursuant to a final order issued by the Commissioner, construction of the fish passage was substantially completed in 2013 and overall costs were approximately US\$5 million. In 2014, we entered into an agreement with the City of Westbrook, two non-governmental organizations, and state and federal regulators, to extend the deadline for installation of the fish passage at the next dam upstream, the Saccarappa hydrofacility, to evaluate alternative designs. Pursuant to the agreement, the fish passage at the Saccarappa hydrofacility was to be operational during the third quarter of 2017, but state and federal regulators subsequently approved an extension of that deadline to May 2019. The deadline has been extended another two years, to May 2021, pursuant to an order dated April 18, 2019 issued by the Federal Energy Regulatory Commission (the “FERC Order”). The FERC Order approved Sappi North America’s application to surrender the Saccarappa hydrofacility license, remove the Saccarappa hydrofacility and construct two fish passages. Construction commenced in 2019 and is on-going. The total estimated construction cost of Sappi North America’s proposed design is approximately US\$6 million. Installation of the Cumberland Mills dam fish passage may also trigger, over several decades, the obligation to install fish passages for at least some of our other upstream hydrofacilities in order to allow natural fish migration and thus promote the restoration of native species to the river. As the construction of additional fish passages depends on several future contingencies, including the results of data gathering on fish populations in the river, we do not have cost estimates for all such potential obligations or know the precise timing for incurrence of the related future costs, assuming such obligations are triggered. For example, the current estimate for fish passages associated with the next upstream dams (Mallison Falls and Little Falls) is approximately \$8 million but, as any obligation to conduct such work would not be triggered until 2026 at the earliest and is contingent on the fish counts at Saccarappa, such estimates may be subject to change in the future. The further upstream dams (Gambo and Dundee) are also contingent liabilities which,



under the agreement, will not be triggered before 2053. At this time, any future obligations for Gambo and Dundee are not estimable.

The Province of Quebec has recently adopted a policy favoring the recycling and reclamation of organic waste. In accordance with this policy, the Province is imposing targets for the reduction of landfilled organic waste for facilities operating in its jurisdiction which will be implemented in connection with the renewal of each facility's environmental permits. These new targets apply to the Matane Mill and will, as phased in, require compliance by 2025 and 2030. The targets currently being negotiated for 2025 are not expected to require significant capital expenditures. However, meeting the 2030 targets may require construction of a biodigester at the Matane Mill beginning in 2028, the cost of which could be material. Additional costs associated with land spreading of diverted sludge is also anticipated.

We closely monitor state, provincial, regional and federal GHG initiatives and other regulatory developments in the United States and Canada in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol, the U.S. Congress has considered comprehensive Federal legislation, such as carbon credits or taxes, to address or mitigate the effects of climate change and various regional initiatives regarding emissions associated with climate change are either in effect or have been proposed. In addition, the U.S. Environmental Protection Agency ("USEPA") promulgated a rule in 2010 mandating that sources considered to be large emitters of GHGs report those emissions. All three of our mills file annual reports of their GHG emissions in accordance with the USEPA reporting rule. The USEPA also has issued a GHG emissions permitting rule, referred to as the "Tailoring Rule", which required some industrial facilities to obtain permits for GHG emissions under the U.S. Clean Air Act's Prevention of Significant Deterioration ("PSD") and Title V operating permit programs. The U.S. Supreme Court ruled in June 2014 that the USEPA exceeded its statutory authority in issuing the Tailoring Rule but upheld the Best Available Control Technology ("BACT") requirements for GHGs emitted by sources already subject to PSD or Title V permitting requirements for other pollutant. Our mills hold Title V permits and each is also subject to PSD requirements. It is not known whether the USEPA will revise its rules in response to the Court's decision or what the USEPA would require as best available control technology. In fact, no technologies or methods of operation for reducing or capturing GHGs have been proven successful in large scale applications, other than improvements in fuel efficiency. Thus, if future modifications to our facilities require PSD review for other pollutants, GHG BACT requirements could be triggered and may require significant additional costs. The nature, scope and timing of any proposed environmental legislation, including climate change requirements and other proposed rules regulating GHGs is highly uncertain and, currently, we do not know precisely the effect, if any, of such legislation on our financial results and our operations.

In the Province of Quebec, the Greenhouse Gas Pollution Pricing Act, which came into force in 2018, imposes a federal carbon emissions pricing system in provinces that either have not enacted their own carbon emissions pricing systems or where those systems do not meet federal benchmark requirements. The Province of Quebec has established a GHG cap and trade program with reduction targets which currently meets the federal requirements. The Matane Mill is not currently required to participate in the cap and trade program as its annual GHG emissions levels currently fall below the threshold for compliance. The Matane Mill files annual reports of its GHG emissions in accordance with provincial and federal requirements.

#### *Southern Africa*

In South Africa, our operations are regulated by various environmental laws and regulations as well as norms and standards. The primary statutes affecting our operations are:

- The National Water Act, which recognizes that water is a scarce resource and ensures allocation is first for human consumption and then to agriculture, industry and forestry. It affects both the Group's manufacturing and forestry operations. Abstraction of water, discharge of effluent and the growing and management of forests are all regulated through a licensing system administered in terms of this Act.
- The National Environmental Management Act, which establishes the procedures and institutions to facilitate and promote cooperative government and inter-governmental relations with regard to the environment, as well as establishes the procedures and institutions to facilitate and promote public participation in environmental governance. It provides for the issuance of environmental authorizations and imposes a duty of care regarding environmental harm.

- The National Environmental Management: Air Quality Act, which imposed more stringent emissions compliance limits on plants, including our South African mills in 2015 and then again in 2020. The stricter standards as per the Air Quality Act that came into effect on 1 April 2020 will not have a material impact on our mills.
- The National Environmental Management: Waste Act, which regulates the use, re-use, recycling and disposal of waste as well as waste management by way of a licensing system or, alternatively, compliance with the applicable norms and standards.

Under the United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol, South Africa committed to contributing its fair share to global GHG mitigation efforts. In support of that commitment, Sappi SA submitted a voluntary carbon budget as well as the compulsory pollution prevention plan, which has been approved by the South African Department of Environment, Forestry and Fisheries (“DEFF”). Sappi SA’s performance in respect of its budget and pollution prevention plan is required to be reported on an annual basis. Beginning in 2022, it is mandatory to achieve the carbon budget requirements.

A carbon tax has commenced with effect from June 1, 2019. However, the due date for first payment has been delayed until October 2020 because of disruptions caused by the COVID-19 pandemic. We have been engaged with the Department of National Treasury and DEFF via our industry representative, the Paper Manufacturers Association of South Africa (“PAMSA”), to include offsets for carbon sequestration into the carbon tax design, which has been accepted in principle and will be formalized later in 2020. Approved carbon sequestration projects which are registered in terms of the Carbon Offset Regulations allow companies, including Sappi, to qualify for a carbon offset allowance under the Carbon Tax Act. We believe this will mitigate the financial impact of the carbon tax on our South African operations to a significant extent.

## Employees

The following table sets forth the number of employees as at March 2020 and the close of each fiscal year ended September 2019, 2018 and 2017.

	<b>March 2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Europe.....	5,838	5,763	5,747	5,211
North America.....	2,176	2,061	2,041	2,079
Southern Africa.....	4,772	4,746	4,726	4,701
Sappi Trading.....	112	109	111	109
Other.....	142	142	123	58
<b>Total.....</b>	<b>13,040</b>	<b>12,821</b>	<b>12,748</b>	<b>12,158</b>

## Europe

Approximately 66% of our European employees are members of a trade union and are represented through Works Councils.

Our European operations are subject to industry-wide collective agreements that are in place with trade unions in Germany, Finland, Austria, Italy and Belgium and which relate to its employees in each of the relevant mills. At our mills in the Netherlands, we have entered into shop-floor agreements with the respective trade unions. Although we have in the past, and may in the future, experience work stoppages and other labor conflicts, overall labor relations have been stable in Europe.

In addition to trade unions, we also consult with various local, national and European works councils. These works councils primarily serve in an advisory role. We are required, under certain circumstances, to keep the works councils informed of activities that affect the workforce and to consult with one or more of the works councils before proceeding with a course of action. This is especially relevant for any major reorganization.

There were no work stoppages across our European organization during fiscal 2019. During the six months ended March 2020, there was an industry-wide strike in Finland which affected our Kirknemi Mill. The strike started on January 26, 2020 and lasted 15 days for blue-collar employees and 24 days for white-collar employees. A collective bargaining agreement was entered into whereby the relevant unions agreed to waive the extra 24 hours of annual unpaid working time per employee, implemented in 2016 to boost the competitiveness of the Finnish industry, in exchange for the shortening of the summer shutdown of mills by one day and reducing other benefits prescribed by the previous collective labor agreement. Pursuant to this agreement, which will be in force until December 31, 2021, we were required to increase the salary-based

hourly pay rate of the relevant employees by 12 euro cents, effective April 1, 2020, and are required to implement a further 17 euro cent increase effective March 1, 2021.

### ***North America***

Approximately 65% of employees are represented by 12 collective bargaining agreements with seven different unions. The majority of our North American hourly employees are represented by the United Steelworkers (USW) union. In fiscal 2019, we settled labor agreements with all four unions at Somerset Mill, the unions at Westbrook Mill, and two unions representing railroad workers at the Cloquet Mill railroad. The labor contracts are automatically extended until either party terminates on 10 days' notice.

We have experienced no work stoppages in North America for more than 20 years and believe our relationship with our employees is satisfactory. In maintaining this relationship, we hope to reach agreements with our unions as contracts expire. In the event that an agreement cannot be reached with any of the unions and a prolonged work stoppage ensues, curtailment of output could negatively impact our business.

### ***Southern Africa***

Approximately 51% of our Southern African permanent employees are represented by trade unions.

Our annual negotiations in the Sawmilling Industry were concluded on August 30, 2019, with a 6% increase in basic wages, while the Pulp and Paper Chamber negotiations were concluded on August 23, 2019, with a company-level agreement to a 7% increase in basic wages. The effective increase was 6.5% due to a later implementation date. Forestry workers earning the minimum wage received a 4.5% additional increase, and those earning above the minimum wage received a 6.5% increase, in each case effective July 1, 2019. Following consultations with the union and the employees, we agreed to back pay an additional 2 months' salary to forestry workers earning the minimum wage and to those earning above the minimum wage. The collective bargaining structure for forestry workers is also now in place and will allow for annual engagement on wages and conditions of employment for forestry workers, similar to the collective bargaining structure in place in the pulp and paper and sawmilling segments of Sappi Southern Africa operations. Wage negotiations for 2020 are currently scheduled to commence during the second week of May. However, discussions regarding potential alternative arrangements are ongoing with the relevant trade unions due to restrictions related to COVID-19 and the economic impact thereof.

With the exception of the National Union of Metal Workers Union ("NUMSA")'s one-day strike at our Ngodwana Mill in 2018, we have experienced no major strike action in our Southern African operations since 2011. NUMSA demanded full organizational rights and the process is now being managed at the bargaining council level. However, NUMSA's admission to the council is likely to be delayed due to contradictory judgments between the Labour Court and the Constitutional Court regarding unions seeking organizational rights. Notwithstanding this, our engagement with NUMSA remains constructive. We believe that our proactive engagement strategy and initiatives have allowed us to maintain a stable industrial relations environment across our operations. We have worked diligently to develop constructive and beneficial relationships with our recognized trade unions and our internal engagement forum, the National Partnership Forum, which is attended by senior Sappi management and trade union representatives, is functioning effectively. The recently launched "Ask Alex roadshow" has also allowed our Southern Africa CEO to directly interact with employees across all operations on business related issues and general issues affecting our employees. The first phase was completed in March 2020, with the second phase planned for the second part of the year.

The Employment Equity Act (No. 55 of 1998) (the "Act") requires certain employers to implement affirmative action measures designed to ensure that suitably qualified persons from designated groups (*i.e.*, Black people, women and people with disabilities) have equal opportunities and are equitably represented in all occupational categories and levels in the workforce. In complying with the Act, we have developed the Transformation Charter, which is a strategy document aimed at driving transformation and supports the Employment Equity initiatives. Sappi Southern Africa has in place an Employment Equity Plan as required by the Act. The current plan covers the period from July 1, 2015 through June 30, 2020 (the "2020 Employment Equity Successive Plan"). We believe Sappi Southern Africa is currently on track to achieve its 2020 Employment Equity Successive Plan targets. We submitted the latest progress report on such plan to the Department of Employment and Labour on November 22, 2019, ahead of the January 2020 deadline. Sappi Southern Africa is required to develop a further Employment Equity Successive Plan covering the period from July 1, 2020 through June 30, 2025. This plan has been finalized and approved by the Sappi Southern Africa Executive Committee and will be shared with the National Employment Equity and Learning Committee for final adoption prior to taking effect on July 1, 2020.

The Skills Development Act (No. 97 of 1998), Skills Development Levies Act (No. 9 of 1999) and the National Qualifications Framework Act (67 of 2008), have continued to receive significant attention during fiscal 2019. Employment Equity Committees established under the Employment Equity Act are mandated to serve as Learning Forums, and their constitutions, roles and responsibilities continue to be encouraged. This process has been integrated into our transformation

strategy. A skills levy of 1%, specified in accordance with the Skills Development Levies Act, was paid via Internal Revenue to the Fibre Processing and Manufacturing Sectoral Education Authority (“FPM SETA”) in 2018 and we continue to utilize opportunities to apply for special discretionary grants to drive learning and development.

Our Health and Wellness Programme includes health risk assessments, counseling services, a comprehensive HIV/AIDS program, medical aid and strategic business alliances. The HIV/AIDS program has now advanced to a position where more than 78% of employees presented themselves for HIV testing and counseling (HCT) in 2019, ensuring that we achieve early diagnosis of HIV infection and timely access to care. The 2018 voluntary study was conducted in our Southern African operations and the results indicated that the infection rate is approximately 16% versus the South African workforce prevalence rate of 18.8%. Interventions in place are proving to be effective and there has been a recorded reduction of mortality rate from 0.49% in 2017 to 0.41% in 2019. Each Sappi operation in Southern Africa has also identified the relevant stakeholders in their geographical area and is working with them on the implementation of a comprehensive HIV/AIDS program, eliminating duplication and making optimal use of relevant resources through private-public partnerships.

In circumstances where headcount reductions are being considered, the legal consultation process has been followed with employees and their representatives.

## **Legal Proceedings**

We become involved from time to time in various claims and lawsuits incidental to the ordinary course of our business. We are not currently involved in legal proceedings that, either individually or taken together, are expected to have a material adverse effect on our business, assets or properties.

### ***North America***

On June 29, 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the “Commissioner”), issued a decision requiring us to install a fish passage at the Cumberland Mills dam associated with the Westbrook Mill, the most downriver dam on the Presumpscot River. Pursuant to a final order issued by the Commissioner, construction of the fish passage was substantially completed in 2013 and overall costs were approximately US\$5 million. In 2014, we entered into an agreement with the City of Westbrook, two non-governmental organizations, and state and federal regulators, to extend the deadline for installation of the fish passage at the next dam upstream, the Saccarappa hydrofacility, to evaluate alternative designs. Pursuant to the agreement, the fish passage at the Saccarappa hydrofacility was to be operational during the third quarter of 2017, but state and federal regulators have approved an extension of that deadline to May 2019. The deadline has been extended another two years, to May 2021, pursuant to an order dated April 18, 2019 issued by the Federal Energy Regulatory Commission (the “FERC Order”). The FERC Order approved Sappi North America’s application to surrender the Saccarappa hydrofacility license, remove of the Saccarappa hydrofacility and construct two fish passages. Construction commenced in 2019 and is on-going. The total estimated construction cost of Sappi North America’s proposed design is approximately US\$6 million. Installation of the Cumberland Mills dam fish passage may also trigger, over several decades, the obligation to install fish passages for at least some of our other upstream hydrofacilities in order to allow natural fish migration and thus promote the restoration of native species to the river. As the construction of additional fish passages depends on several future contingencies, including the results of data gathering on fish populations in the river, we do not have cost estimates for all such potential obligations or know the precise timing for incurrence of the related future costs, assuming such obligations are triggered. For example, the current estimate for fish passages associated with the next upstream dams (Mallison Falls and Little Falls) is approximately \$8 million but, as any obligation to conduct such work would not be triggered until 2026 at the earliest and is contingent on the fish counts at Saccarappa, such estimates may be subject to change in the future. The further upstream dams (Gambo and Dundee) are also contingent liabilities which, under the agreement, will not be triggered before 2053. At this time, any future obligations for Gambo and Dundee are not estimable.

In fiscal 2018, a dispute arose with the general contractor and construction manager for the conversion project of PM1 at our Somerset Mill, Boldt Construction (“Boldt”). Boldt claimed that it was owed amounts billed of US\$28 million for work performed on the project, which we disputed. Following arbitration proceedings with Boldt, the arbitration panel issued a final award of US\$27.5 million in favor of Boldt on April 27, 2020. The amount of this award was US\$1.8 million greater than the provision of US\$25.7 million that we had previously recognized in respect of this dispute.

### ***Southern Africa***

The Restitution of Land Rights Act (No. 22 of 1994), as amended, provides for the restoration of rights in land or other equitable redress to persons or communities dispossessed of their land rights after June 19, 1913 as a result of old laws or practices discriminating on the basis of race. The legislation empowers the Minister of Land Affairs to expropriate land in order to restore it to a successful claimant, provided that there is just and equitable compensation to the owner of the land. Initially, claims were required to be lodged by December 31, 1998. This date has been extended by the Restitution of Land

Rights Amendment Act (No. 15 of 2014) which extends the cut-off period for instituting land claims to June 30, 2019; however, such Amendment Act has been sent back to Parliament for reconsideration by the Constitutional Court and further amendments to the regime are expected in the future. The claims that were lodged by the initial cut-off date are presently being processed by the Commission on Restitution of Land Rights and adjudicated upon by the Land Court. The process of land claims is expected to continue for many years. As one of the largest landowners in South Africa, we anticipate that a substantial number of claims may affect land we own. The process of determining the extent of claims filed in respect of our land and the potential impact of these claims on our Southern African operations continues.

In 2018, the South African Parliament initiated a process to explore amending the Constitution of the Republic of South Africa (the “Constitution”) to allow for expropriation of land in the public interest without compensation. Various public consultation forums have been held and ongoing dialogue continues. We remain in close contact with Business Leadership South Africa, the organization representing South African businesses in the discussions surrounding the proposed changes. On November 15, 2018, the Constitutional Review Committee (the “CRC”) issued a report recommending that Section 25 of the Constitution be amended to establish expropriation of land without compensation as a legitimate option for land reform, so as to ensure equitable access to land and further empower the majority of South Africans to be productive participants in ownership, food security and agricultural reform programs. Furthermore, the CRC recommended in its report that the South African Parliament urgently establish a mechanism to amend the Constitution and that it must table, process and pass a bill to that effect before the end of the current legislature. The CRC report was adopted by both Houses of Parliament in early December 2018. On December 6, 2018, the National Assembly resolved to establish an ad hoc committee to initiate and produce a constitutional amendment before the end of the current Parliament. The ad hoc committee has reported back to the National Assembly on March 11, 2019 and a draft bill was introduced in December 2019. We are still in the process of examining the potential impact of this bill on our operations.

There are currently 78 open land claims in South Africa against Sappi. At the end of April 2020, the status of these claims was as follows: 3 claims (covering 2,599 hectares) have been settled and the extent of the land agreed, 15 claims (covering 40,555 hectares) have been agreed while the extent of the land still has to be finalized with regional commissioners and claimants, 23 claims (covering 44,528 hectares) have been referred to Court and 4 claims (covering 1,707 hectares) are unresolved or invalid, and 33 claims (covering 38,432 hectares) are under investigation and subject to further discussion with the Commission. 41 claims (covering 50,470 hectares) have been withdrawn by the Commission. Sappi is actively managing the open claims.

The South African Revenue Services (“SARS”) conducted a transfer pricing audit of Sappi Southern Africa Limited (“SSA”) regarding the 2011 to 2014 fiscal years and, on February 26, 2018, SARS issued assessments of additional taxable income, interest and penalties. Despite the objections that SSA made at the time to the assessments, SSA made a payment without prejudice to SARS of ZAR268 million (US\$19 million) in fiscal 2018, in order to prevent any further interest from accruing if SSA were unsuccessful in its objection and subsequent appeal. We also recorded a provision in the same amount in our financial statements. In fiscal 2019, SSA also received a dividend tax assessment from SARS in a total amount of ZAR68 million (US\$4 million, based on the closing exchange rate for fiscal 2019 used in the preparation of our annual consolidated financial statements); although SSA objected and subsequently sought to have this assessment suspended, SSA agreed to a down payment arrangement with SARS under which SSA would pay SARS 10% of the assessed amount every quarter from March 2019 onwards. In its Notice of Appeal to SARS on August 21, 2019, SARS proposed to make use of the Alternative Dispute Resolution (“ADR”) process to resolve the foregoing matters. This ADR process ultimately resulted in SSA entering into a settlement agreement with SARS on May 12, 2020, under which the parties agreed to settle the dispute in exchange for the payment by SSA of ZAR95 million (US\$5 million) to SARS. Accordingly, SSA expects to receive revised tax assessments for the relevant fiscal years, and a reversal of the dividend tax assessment from SARS during the fiscal quarter ending June 28, 2020 and, in light of the payments SSA has previously made to SARS in connection with these matters, SSA expects to receive a cash refund from SARS on such overpaid taxes, plus interest, during the current fiscal year.