Sappi Group
(Sappi Limited)
INTEGRATED REPORT FOR FISCAL YEAR 2019
FINANCIAL RESULTS
29 SEPTEMBER 2019

17 December 2019

This report is being furnished to The Bank of New York Mellon as trustee for the Senior Secured Notes of Sappi Papier Holding GmbH due 2022 issued pursuant to the indentures dated as of March 12, 2015; and the Senior Secured Notes of Sappi Papier Holding GmbH due 2023 issued pursuant to the indentures dated as of March 31, 2016; in each case pursuant to Section 4.03 of the indentures governing such Senior Notes.

On 31 August 2016, Sappi has released all existing security previously granted to secure certain indebtedness, including these Senior Notes.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this release that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “assume”, “positioned”, “will”, “may”, “should”, “risk” and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, may be used to identify forward-looking statements. 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 such cyclicality, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);
- the impact on our business of adverse changes in global economic conditions;
- unanticipated production disruptions (including as a result of planned or unexpected power outages);
- changes in environmental, tax and other laws and regulations;
- adverse changes in the markets for our products;
- the emergence of new technologies and changes in consumer trends including increased preferences for digital media;
- consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;
- 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;
- 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 restructuring and other strategic initiatives and achieving expected savings and synergies; and
- currency fluctuations.

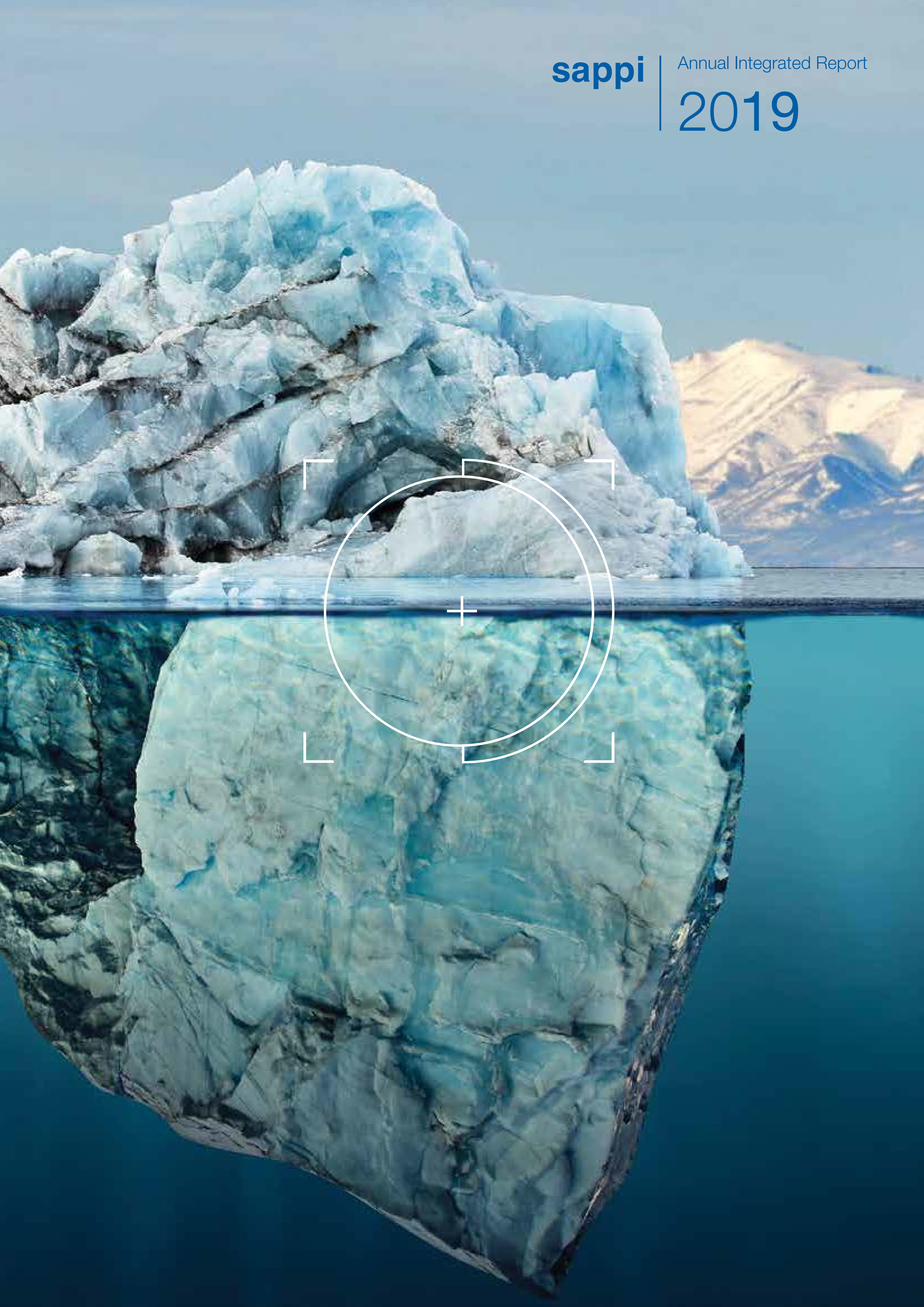
For a discussion of the above factors and certain additional factors, refer to the document entitled “Risk Report” attached to this integrated annual report. These factors are not necessarily all of the important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results.

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 report or as of the date specified therein 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.

sappi

Annual Integrated Report

2019



CONTENTS

FOCUS

Our theme for this year's annual integrated report is 'focus'. It highlights our commitment to our 2020Vision and strategy in the face of a challenging global macro-economic environment, as well as our belief that our vision and strategy will ultimately provide enhanced returns to all our stakeholders.

See our inside back cover for more information on this year's reporting theme.

How to navigate our report

Throughout our annual integrated report, the following icons are used to show the connectivity between sections:

Sappi's 3Ps
- Prosperity
- People
- Planet

Referencing
- Page
- Online
- Risk

Strategy
- Achieve cost advantages
- Rationalise declining businesses
- Maintain a healthy balance sheet
- Accelerate growth in higher margin growth segments

Our capitals
- Human capital
- Intellectual capital
- Finance capital
- Natural capital
- Social and relationship capital
- Manufactured capital

Sappi and the Sustainable Development Goals (SDGs)

6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
15 LIFE ON LAND
17 PARTNERSHIPS FOR THE GOALS

Please refer to pages 56 and 57 for more information about how we integrate the SDGs into our business.

This report is printed on GaleriaArt silk 135 and 250 g/m²

ABOUT THIS REPORT

Our **annual integrated report** for the year ended September 2019 provides an overview of how we create value in terms of our strategy, mission and vision. The report deals with key opportunities and risks in our markets as well as our performance against financial and non-financial objectives, along with our priorities and expectations for the year ahead. While the report addresses issues pertinent to a wide group of stakeholders, the primary audience is our shareholders. Our global and regional sustainability reports address the wider audience in more detail on key material issues. In addition to our annual integrated report (pages 1 to 143), we have included supporting annexures (pages 144 to 166).

Integrated thinking and the 3Ps

We believe in taking an integrated approach to value creation. We understand that the long-term sustainability of our business will only be ensured by delivering sustained value for our stakeholders. In understanding our value-creation process, we take an integrated approach, considering **Prosperity, People** and **Planet** (the 3Ps) – an approach that is aligned with the International Integrated Reporting Council's (IIRC) six capitals model.

The resources and relationships we rely on:

Planet

Natural capital

Recognising that our business depends on natural capital, we focus on understanding, managing and mitigating our impacts.

Prosperity

Intellectual capital

Our technology centres and research and development (R&D) initiatives promote a culture of innovation to support the development of commercially and environmentally sustainable solutions for the company.

Financial capital

We manage our financial capital, including shareholders' equity, debt and reinvested capital to maintain a solid balance between growth, profitability and liquidity.

Manufactured capital

Our operations require significant investments in manufactured capital. Investing in building, maintaining, operating and improving this infrastructure requires financial, human and intellectual capitals.

People

Human capital

We require engaged and productive employees to create value. By creating a safe and healthy workplace for our people in which diversity is encouraged and valued, and providing them with ongoing development opportunities, we enhance productivity and our ability to service global markets.

Social and relationship capital

Building relationships with our key stakeholders in a spirit of trust and mutual respect enhances both our licence to trade and our competitive advantage, thereby enabling shared value creation.

ABOUT THIS REPORT continued

Ensuring holistic value creation

At Sappi, we take a holistic view of value creation.

Value for Sappi is not only about delivering returns to our shareholders, it is about maximising the value of every resource along our value chain to ensure those returns are sustainable. We recognise that our sphere of influence and impact extends beyond our mill gates.

Through this lifecycle approach that harnesses the power of the circular economy, we strive to minimise our negative impacts and increase our positive impacts on People and the Planet, while securing sustainable profit margins.

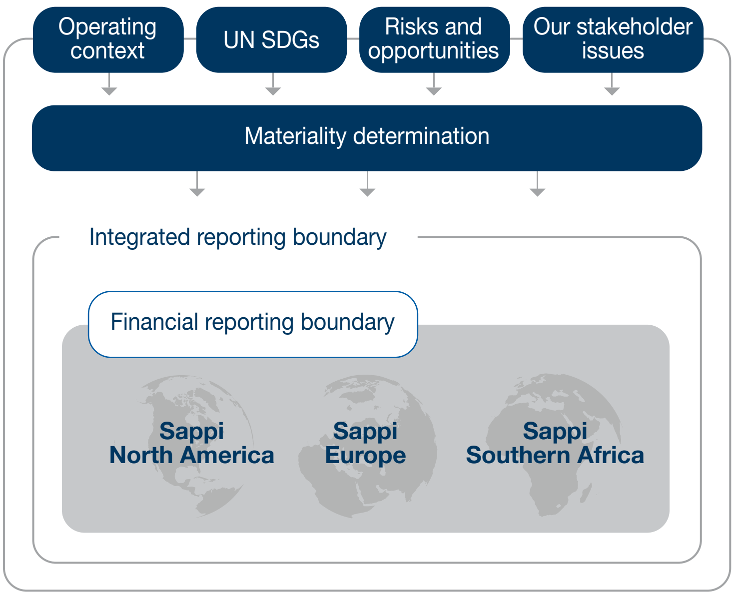
We then measure our value creation in terms of our defined, holistic targets, as outlined on pages 30 to 33.

Scope and boundary

The scope of this report includes all our operations (see **Where we operate** on page 8). We aim to present information that is material, comparable, relevant and complete. The issues and indicators we cover reflect our significant economic, environmental and social impacts, and those we believe would substantively influence the assessments and decisions of investors.

The materiality of the information presented has been determined on the basis of extensive ongoing engagement with our stakeholders and has been assessed against the backdrop of current business operations, as well as prevailing trends in our industry and the global economy (see **Materiality** on page 58).

In preparing this report, we have tracked environmental findings and research, public opinion, employee views and attitudes, the interests and priorities of environmental and social groups, as well as the activities, profiles and interests of investors, employees, suppliers and customers, communities, governments and regulatory authorities.



Forward-looking statements

For important information relating to forward-looking statements, refer to the **inside back cover**.

Our reporting suite

	Report	Frameworks
AIR	**Annual Integrated Report** www.sappi.com/annual-reports	• IIRC's Framework • Companies Act, No 71 of 2008, as amended • JSE Listings Requirements • King IV Code on Corporate Governance (King IV™[1])
AFS	**Group Annual Financial Statements** www.sappi.com/annual-reports	• IFRS • Companies Act, No 71 of 2008, as amended • JSE Listings Requirements • King IV
SR	**Group Sustainability Report** www.sappi.com/sustainability	• GRI Standards • United Nations Global Compact (UNGC) • United Nations SDGs

For up-to-date information, please refer to our quarterly results announcements and analyst presentations (www.sappi.com/quarterly-reports)

Assurance

We obtained external assurance on selected sustainability key performance indicators in our 2019 Sappi Group Sustainability Report. The independent practitioner's limited assurance report is included in the 2019 Sappi Group Sustainability Report.

Our sustainability information is also verified by our internal audit team. Their verification process includes reviewing the procedures applied for collecting and/or measuring, calculating and validating non-financial data, as well as reviewing reported information and supporting documentation. In addition, most of our key operations undergo external verification including the Eco-Management Audit System (EMAS) in Europe, ISO 50001 energy certification in Europe and South Africa and globally, ISO 14001 environmental certification, ISO 9001 quality certification and OHSAS 18001 health and safety certification.

We are also assessed in terms of the forest certification systems we use and, in South Africa, our broad-based black economic empowerment (BBBEE) performance is assessed by an external ratings agency.

In 2019 Sappi Limited was a constituent of the FTSE/JSE Responsible Investment Index and the FTSE/JSE Responsible Investment Top 30 Index. Being included in these indexes means that our sustainability performance has been externally assessed.

Collectively, these external assessments and certifications as well as interaction with our stakeholders give us confidence that our performance indicators are reliable, accurate and pertinent. The Social, Ethics, Transformation and Sustainability (SETS) Committee is satisfied that the sustainability information presented in this report has been provided with a reasonable degree of accuracy.

For information on the combined assurance framework relevant to the disclosure in this report, and for the independent auditors' report, see **Group Annual Financial Statements** on www.sappi.com/annual-reports. This year's report does not include summarised financials. However, the full 2019 Annual Integrated Report with financials is available on www.sappi.com/annual-reports in interactive and PDF format.

Board approval

The Sappi Limited board acknowledges its responsibility for ensuring the integrity of the annual integrated report and, to the best of its knowledge and belief, the 2019 Sappi Annual Integrated Report addresses all issues material to the group's ability to create value in the short, medium and long term, and fairly presents the integrated performance of the organisation and its impact.

We believe that this report has been prepared in accordance with the IIRC Framework.

The report has been prepared in line with best practice and the board confirms that it has approved the 2019 Annual Integrated Report and authorised it for release on 13 December 2019.

Sir Nigel Rudd
Chairman

Steve Binnie
Chief Executive Officer

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Persistent change, challenged assumptions, and disruption are now the norm, rather than the exception, in business and society.

Within this landscape, we have seen the demise or the value destruction of many businesses the world over.

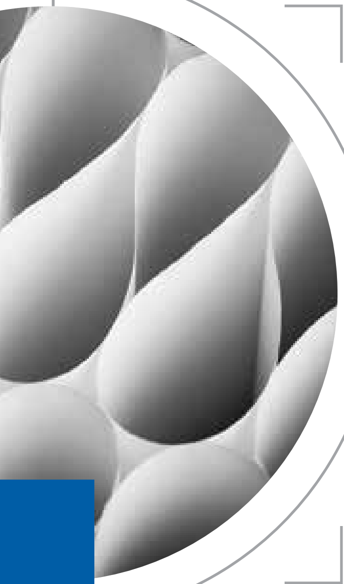
As Sappi, just over five years ago we recognised that we would have to adapt to this changing context – intensified by the fact that our industry was undergoing profound transformation – and so we embarked on a journey of intentional evolution.

We focused not just on how to serve our customers, but on the bigger picture, based on our understanding that by capitalising on change and by being agile we would be able to contribute to a better tomorrow. This involved redefining our strategy to draw on the power of sustainable woodfibre for a sustainable world, focused on dissolving wood pulp, paper and products in adjacent fields.

For us, it is not about being the biggest or the most visible. Rather, it is about being able to weather all storms, about being able to map out a clear path for ourselves in an uncertain landscape. That way, we will continue to ensure that we are well-matched to our environment and that we are agile and adaptive as that changes – which it invariably will.

In a globalised market that is continually changing, we continue to view adaptation to context as a strategic advantage and our key to realising our group strategy.

WHO WE ARE



> How we do business is as important as what we do, highlighted by our value statement.

Our values

At Sappi we do business with integrity and courage; making smart decisions which we execute with speed. Our values are underpinned by an unrelenting focus on and commitment to safety.

Our mission

Through the power of One Sappi – committed to collaborating and partnering with stakeholders – we aim to be a trusted and sustainable organisation with an exciting future in woodfibre.

Our 2020Vision

Sappi will be a diversified woodfibre group targeting a substantial increase in EBITDA through an expanded product portfolio with increased margins, providing enhanced rewards to all its stakeholders.

Reward

We will ensure that the economies, regions and environments in which we operate benefit from our presence. We will provide enhanced rewards for our shareholders, our employees and our other stakeholders.

People

We will create opportunities and make resources available to enable our people to grow intellectually and bring new ideas to fruition. We will also continue to invest in and support our communities.

Leadership

We will support our existing leadership teams and individuals who show promise to be tomorrow's leaders in developing agile and adaptive mindsets that enable us to meet and embrace change to be responsive to the future demands in all our roles. We will work to obtain enhanced margins across all businesses.

Manufacturing

We will continue to improve operational and machine efficiencies, and to increase the knowledge-based value of our products to use raw materials more efficiently and reduce our energy needs.

Research and development

We will focus our R&D on developing for commercialisation: speciality paper products, enhancing our dissolving wood pulp business, exploring the micro and nanoscale potential of woodfibre and biorefining—extracting biochemicals locked up in wood.

Environment

Shrinking our environmental footprint by reducing energy and raw material consumption will continue to be key to how we produce our products.

Our strategy

Through intentional evolution we will continue to grow Sappi into a profitable and cash generative, diversified woodfibre group—focused on dissolving wood pulp, paper and products in adjacent fields.

> Sappi is a global diversified woodfibre company focused on providing dissolving wood pulp, packaging and speciality papers, graphic papers, as well as biomaterials and biochemicals to our direct and indirect customer base across more than 150 countries.

Paper production per year
5.7 million tons

Paper pulp production per year
2.2 million tons

Dissolving wood pulp production per year
1.4 million tons

Globally we have
12,821 employees[1]

390,000ha
Owned and leased sustainably managed forests in South Africa

The wood and pulp needed for our products are either produced within Sappi or bought from accredited suppliers. Sappi sells almost as much as it buys.

[1] Includes Corporate and Sappi Trading employees

WHERE WE OPERATE

Sappi Trading

Sappi Trading operates a network for the sale and distribution of our products outside our core operating regions of North America, Europe and South Africa. Sappi Trading also coordinates our shipping and logistical functions for exports from these regions.

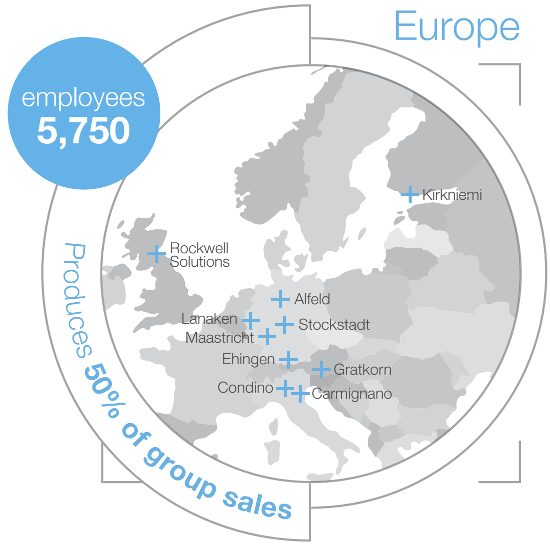
Logistics offices

Durban, New York

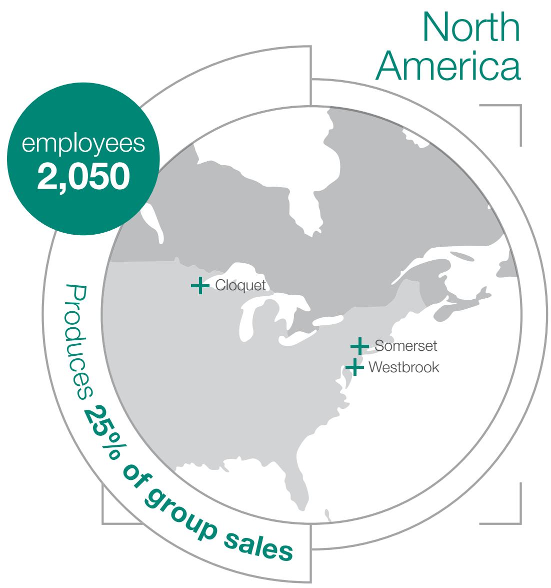
Sales offices

Bogotá, Buenos Aires, Hong Kong, Johannesburg, México City, Nairobi, São Paulo, Singapore, Shanghai, Sydney, Vienna

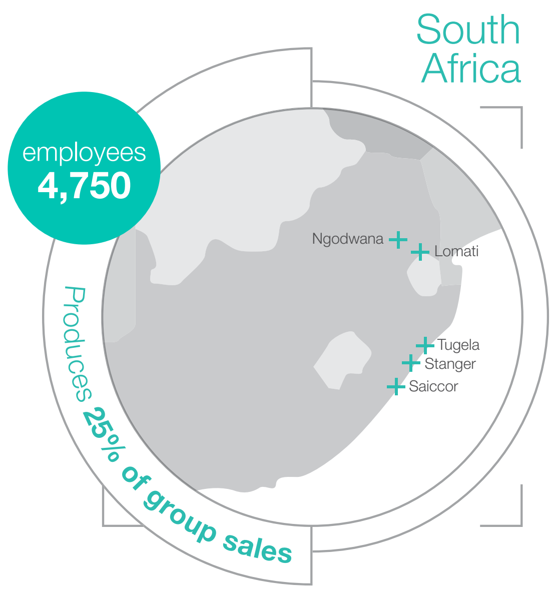
paper mills	5
speciality paper mills	3
paper and speciality paper mill	1
other operation	1
sales offices	14



paper mill	1
speciality paper mill	1
paper and dissolving wood pulp mill	1
sales offices	6



paper mills	2
dissolving wood pulp mill	1
paper and dissolving wood pulp mill	1
sawmill	1
sales offices	6



Group overview

Capacity(1) ('000 tons)

Mills	Products produced	Paper	Pulp
Alfeld Mill	Bleached chemical pulp for own consumption		120
	Speciality paper; flexible packaging paper, paperboard, containerboard, release liner, label paper, functional papers	275	
Carmignano Mill	Speciality paper; dye sublimation paper, flexible packaging paper, inkjet paper and label paper	100	
Condino Mill	Speciality paper; dye sublimation paper, flexible packaging paper, inkjet paper and silicone base paper	60	
Ehingen Mill	Bleached chemical pulp for own consumption and market pulp		140
	Coated woodfree paper and containerboard	280	
Gratkorn Mill	Bleached chemical pulp for own consumption		250
	Coated woodfree paper	980	
Kirkniemi Mill	Bleached mechanical pulp for own consumption		300
	Coated mechanical paper	750	
Lanaken Mill	Bleached chemi-thermo mechanical pulp for own consumption		165
	Coated mechanical paper and coated woodfree paper	530	
Maastricht Mill	Coated woodfree paper and paperboard	280	
Stockstadt Mill	Bleached chemical pulp for own consumption and market pulp		145
	Coated woodfree paper and uncoated woodfree paper	445	
	Total	**3,700**	**1,120**
Other operation			**Capacity(1) (million m²)**
Rockwell Solutions	Coated barrier film and paper		100

(1) Capacity at maximum continuous run rate per annum.

Capacity(1) ('000 tons)

Mills	Products produced	Paper	Pulp
Cloquet Mill	Dissolving wood pulp		370
	Coated woodfree paper	340	
Somerset Mill	Bleached chemical pulp for own consumption and market pulp		525
	Coated woodfree paper and packaging paper	970	
Westbrook Mill	Speciality papers; casting and release paper	40	
	Total	**1,350**	**895**

(1) Capacity at maximum continuous run rate per annum.

Capacity ('000)

Plantations*	Products produced	Ha	Standing tons
KwaZulu-Natal	Plantations (pulpwood and sawlogs)**	257	11,056
Mpumalanga	Plantations (pulpwood and sawlogs)**	272	16,536
	Total Sappi Forests (owned, leased and contracted supply)	**529**	**27,592**

Capacity(1) ('000)

Mills	Products produced	Timber m³	Paper tons	Pulp tons
Lomati Sawmill	Sawn timber	102		
Ngodwana Mill	Unbleached chemical pulp for own consumption			210
	Mechanical pulp for own consumption			110
	Kraft linerboard		240	
	Newsprint		140	
Stanger Mill	Bleached bagasse pulp for own consumption			60
	Office paper and tissue paper		110	
Tugela Mill	Neutral sulfite semi-chemical pulp for own consumption			150
	Corrugating medium		200	
Sappi ReFibre* **	Waste paper collection and recycling for own consumption			135
	Total Sappi Paper and Paper Packaging		**690**	**665**
Ngodwana Mill	Dissolving wood pulp			255
Saiccor Mill	Dissolving wood pulp			800
	Total dissolving wood pulp			**1,055**
	Total	**102**	**690**	**1,720**

(1) Capacity at maximum continuous run rate per annum.
* Approximately 135,000 hectares of our land is set aside and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there.
** Plantations include owned and leased areas as well as projects.
*** Sappi ReFibre collects waste paper in the South African market which is used to produce packaging paper.

HOW WE CREATE VALUE

Forests

Our 100% Forest Stewardship Council™ (FSC™)[1]-certified plantations in South Africa give us a low-cost woodfibre base on which our business depends and are thus a key pillar of competitive advantage. Our leading-edge tree improvement programmes aim to grow better trees faster, thereby ensuring this advantage is maintained and enhanced.

[1] Sappi licence number: FSC-N003159

SA plantations 100% FSC certified

Manufacturing excellence

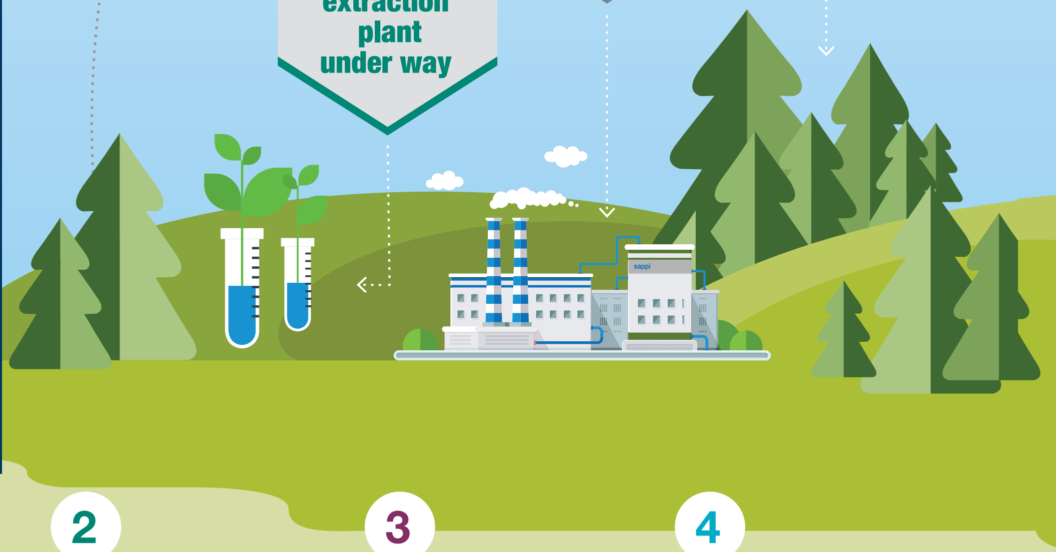
We focus on enhancing machine efficiencies, digitising our processes to make the smart factory a reality, reducing variable costs through new practices in logistics and procurement, as well as implementing go-to-market strategies, which lower the cost of serving our customers and increase customer satisfaction.

Acquisition of Matane Mill improved pulp integration

Bioproducts

We are unlocking the chemistry of trees and meeting the challenges of a carbon-constrained world by establishing a strong position in adjacent businesses including: nanocellulose, sugars and furfural, lignosulphonates, biocomposites and bio-energy. Extracting more value from each tree is strengthening our core business model.

Phase 2 of our sugar extraction plant under way



We take an integrated approach to value creation. Guided by our values, our **six value streams** enable the delivery of our mission.

1 Our values

Act with integrity
We strive to consistently deliver goods and services of the highest standards; doing the right thing the right way.

Be courageous
We take full responsibility for all our decisions and actions; operating with conviction and without hesitation.

Make smart decisions
We strive to be easy to do business with and have a 'can-do' attitude, always looking for the better, faster route to create value for all.

Execute with speed
If something is worth doing it is worth doing quickly, right the first time and never cutting corners.

See page 6.

2 Our inputs

Our integrated approach to sustainable development acknowledges that we depend on Prosperity, People and the Planet to thrive. We rely on certain inputs to create value.

See page 13.

3 Our value streams

The value streams set out above indicate the manner in which we create value and serve our customers, meeting their needs today, tomorrow and well into the future.

See above.

4 Our strategy

Our ability to deliver sustained value depends on the successful execution of our strategy.

See page 30.

Dissolving wood pulp

Dissolving wood pulp (DWP) is a truly sustainable raw material. Our customers transform our DWP into products which meet the needs of people around the globe every day. Products which enable fashion, household comfort, personal beauty and hygiene, as well as a healthy lifestyle.

110,000 tpa expansion at Saiccor Mill 40% complete

Packaging and speciality papers

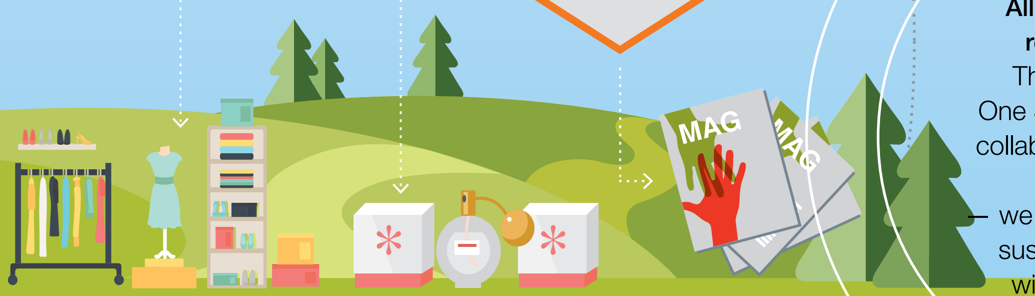
Our customers use our packaging and speciality papers to add value to niche markets, enable product differentiation and offer environmentally conscious consumers an alternative to fossil-fuel based packaging. Our focus on innovation helps our customers to meet and anticipate the challenges of changing market dynamics.

Sales volumes increased 12% year-on-year

Graphic papers

While the digital age has impacted on the use of paper, our graphic papers continue to meet the needs of consumers and marketers around the world. They rely on paper for a tactile, emotional experience no other communication medium can replicate.

Paper's haptic qualities enhance marketing and branding



Our mission

All our activities aim to realise our mission:

Through the power of One Sappi — committed to collaborating and partnering with stakeholders — we aim to be a trusted and sustainable organisation with an exciting future in woodfibre.

5 Our outcomes

While we acknowledge that our business activities have both positive and negative outcomes, we strive to maximise the positive consequences of our value streams in terms of Prosperity, People and Planet.

See pages 14 and 15.

6 Our key relationships

Ongoing engagement with our stakeholders conducted in a spirit of trust and mutual respect enables more tangible business value creation.

See page 42.

7 Our global sustainability goals

Monitoring and reporting transparently on our ambitious Prosperity, People and Planet targets aligns with our 2020Vision and One Sappi strategic approach.

See our **Group Sustainability Report**.

UNDERSTANDING OUR BUSINESS MODEL

In an **increasingly interdependent society,** the way we operate must reflect the **connected nature of Prosperity, People and Planet.**

There is a growing recognition of the necessity for a more circular global economy, as we move away from a 'take, make, dispose' model of production to a more regenerative economic system aimed at minimising waste and making the most of scarce resources.

At its heart, our business model is circular and interconnected. And we continue to find ways to maximise the circular nature of our activities.

While we have laid out our value creation process in two dimensions, we understand that the overarching reality is circular.

See pages 10 and 11, and 13 to 15.

Value for Sappi is not only about delivering returns to our shareholders, it is about maximising the value of every resource along our value chain to ensure those returns are sustainable.

We are also committed to positively impacting the communities we rely on and support the principles of the UNGC and the UN SDGs, which are focused on reshaping the world around us to create a more sustainable one.

+ Inputs 1 The resources and relationships we rely on

PROSPERITY

Financial, intellectual and manufactured capitals

- **18 production facilities:**
  - Eight paper mills
  - Four speciality paper mills and one other operation
  - One paper and speciality paper mill
  - Two dissolving wood pulp and paper mills
  - One dissolving wood pulp mill, and
  - One sawmill
- **Biomass plant under construction**
- **Fuel rod demonstration plant**
- **Nanocellulose demonstration plant**
- **Sugar demonstration plant – now in its second phase**
- **Acquisition of Matane Mill in Canada**
- Total assets: **US$5.6 billion**
- EBITDA: **US$687 million, a decline of 10% year-on-year**
- Cash and cash equivalents: **US$393 million**
- R&D spend: **US$42 million**

PEOPLE

Human and social and relationship capitals

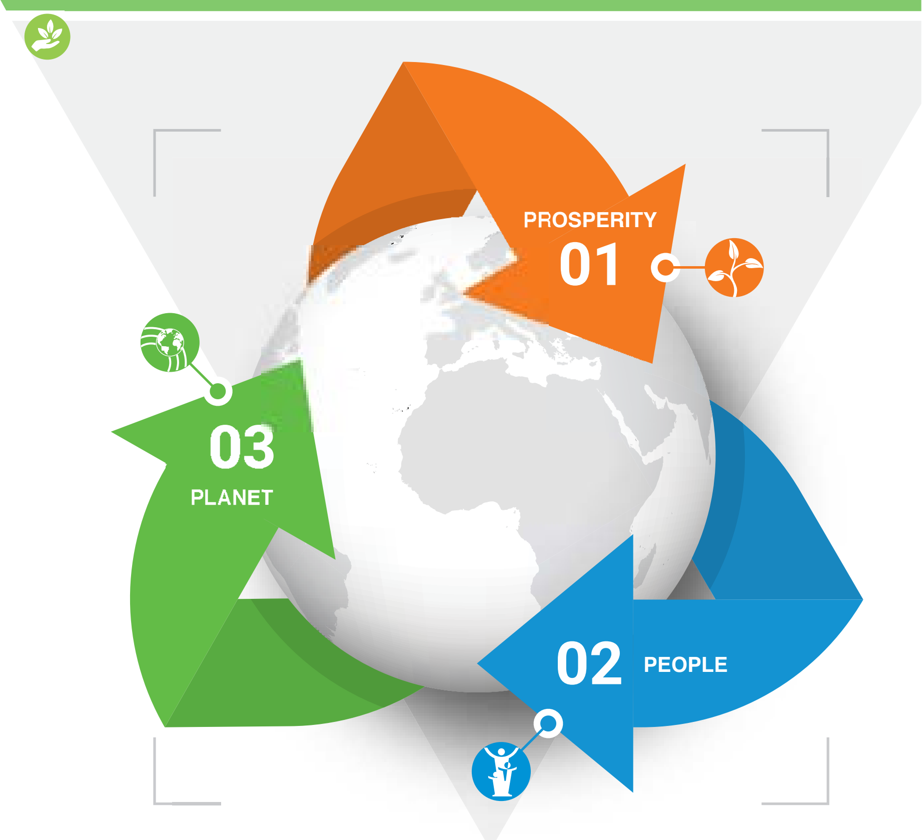
- **12,821 employees**
- **US$525 average training spend per employee**
- **Ongoing stakeholder engagement**
- **US$4.1 million invested in corporate social responsibility**

PLANET

Natural capital

- **Access to 529,000 ha plantations, of which approximately:**
  - 255,000 ha are owned or leased, and
  - 139,000 ha are contracted supply
  - 135,000 ha is set aside and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there.
- **2,621 MW energy purchased**
- **2,011 MW energy generated on site**
- Energy intensity: **22.84 GJ/adt**
- **289 million litres of water** extracted for all purposes
- **34.17 m³/adt specific** process water extracted

+ OUR BUSINESS MODEL



Group overview

Outputs 2

What we produce

- 7.6 million tons of saleable production
- Profit down by 15%
- Net debt down by 4%
- New products to meet changing customer expectations and market trends

PROSPERITY

Matane Mill acquisition = high yield pulp at lower costs

- **Productivity: 4.00 hours worked/adt** saleable production (2018: 3.63 hours)
- **Internal global awards** (Technical Innovation Awards and CEO Award for Excellence), together with **regional awards, drive excellence and innovation**

PEOPLE

US$525 average training spend per employee

- **Waste: 1.5 million tons of waste,** of which 377,422 tons sent to landfill
- **Emissions: 4.4 million tCO_2e absolute direct (Scope 1) GHG**

PLANET

High levels of wood certification = competitive advantage

Outcomes 3

The impacts of our operations

Prosperity:

- ✓ Our investors received US$92 million in dividends
- ✓ Our high levels of innovation give our customers a competitive edge in global markets – we collaborated closely with specialist packaging converter and a global FMCG company to support the launch of a new confectionery snack bar wrapped in recycled paper

People:

- ✗ Four fatalities
- ✓ We play an active role in South Africa's transformation agenda and are classified as a Level 2 BBBEE contributor
- ✓ In South Africa our operations provide employment for approximately 9,250 contractor employees

Planet:

- – 52.9% renewable energy, of which 66.4% own black liquor
- ✓ Training of smallholders to educate them on more sustainable forestry practices
- – 95% of water drawn returned to the environment
- ✓ Impact on GHG emissions offset by carbon sequestration
- ✓ 74.8% of fibre used certified
- ✓ World-leading tree improvement programmes have led to shorter growth times and enhanced fibre gain

Positive ✓

Negative ✗

Neutral –

Earth kind

+ Actions to enhance outcomes 4

The impacts of our operations

- Tight management of working capital and postponement of discretionary capital expenditure to mitigate the impact of uncertain market conditions
- Investment in R&D to ensure cutting-edge solutions for customers
- Ongoing diversification of our product portfolio into higher margin segments

- Continued investment in embedding a safety culture across the group
- Focus on entrenching transformation in our South African operations to support inclusive growth
- Investment in training and development of our employees
- Strong governance; Code of Ethics training
- Group Supplier Code of Conduct rolled out to suppliers and review process initiated

- Increased energy self-sufficiency by 5.4% over five years due to focus on reducing purchased energy
- Participated in initiatives to enable certification for small growers
- Adjusted our tree breeding strategy to mitigate the impacts of climate change
- Participated in industry consortium to test blockchain technology
- Together with other forestry companies, initiated a detailed climate change mapping project with the Global Change Institute (GCI) at the University of the Witwatersrand

- ✓ Globally, we contributed US$131 million to government taxation
- ✓ We paid US$989 million to employees as salaries, wages and other benefits
- ✓ Lenders of capital received US$95 million as interest
- ✓ We invested US$438 million to grow the business
- ✗ Downtime at certain mills

- ✓ Our specialised sustainable packaging solutions: preserve and protect, convey information and offer convenience
- ✓ Acquisition of Matane Mill – opens up opportunities as part of a global organisation

- ✓ One-third of owned and leased plantations set aside for biodiversity conservation
- ✗ Negative impact on plantation biodiversity at stand level (not plantation level)
- ✓ DWP used for clothing and household textiles, baby wipes and wet wipes – reducing environmental impact
- ✓ Lighter-weight packaging products – reduction of carbon footprint
- ✓ Expanded packaging portfolio offers customers and consumers more sustainable alternatives to fossil-fuel based packaging (plastics)
- ✓ Ecosystem services benefit various stakeholders

LETTER TO STAKEHOLDERS

from the Chairman and Chief Executive Officer

Steve Binnie
Chief Executive Officer

Sir Nigel Rudd
Chairman

Operating review

Market conditions across Sappi's major product categories were challenging throughout the year. Dissolving wood pulp (DWP) market prices in China fell US$273/ton and reached historical lows by year-end, despite global demand growth of more than 6%. We experienced prolonged weakness in global graphic paper markets, while demand for some of our packaging and speciality grades was also under pressure. Uncertainty as a result of the ongoing trade wars and slower economic growth in various geographies were the major drivers of the volatility encountered during the year.

The company continued the strategy of recent years to diversify its product portfolio into higher margin segments and position it for future growth. The recent projects to increase capacity at each of the DWP mills and convert capacity at Somerset and Maastricht Mills towards packaging boosted sales volumes in each of these segments during the year, thereby lessening the impact of weak graphic paper markets. Early in the fourth quarter we announced the acquisition of the Matane pulp mill, which will increase the pulp integration of our packaging businesses, and lower costs. The acquisition was subsequently completed on 03 November 2019.

As market conditions weakened, working capital was tightly managed and discretionary capital expenditure was postponed or reduced to decrease debt levels.

The group's earnings before interest, tax, depreciation and amortisation (EBITDA) excluding special items was US$687 million, declining 10% year-on-year as a result of weak graphic paper demand and declining DWP prices. Operating profit excluding special items for the year was US$402 million compared to US$480 million in the prior year.

We continued our efforts to improve safety across all our operations in the past year. All three regions have safety programmes aimed at creating an environment where there are no injuries. We do not accept that injuries and accidents are inevitable and remain committed to Project Zero with improved personal behaviour and making safe choices, enforcing compliance and leadership engagement. We are pleased to report that our North American operations achieved their best own-employee lost-time injury frequency rate (LTIFR), while being disappointed with an increase in that metric in both Europe and South Africa. Regrettably we must report four contractor fatalities in South Africa during the year. Our target is zero injuries, and we believe we can achieve this with enhanced procedures, training and most importantly, behaviour.

> The company continued the strategy of recent years to diversify its product portfolio into higher margin segments and position it for future growth.

We built on our commitment to be an ethical corporate citizen with an ongoing communication and training campaign following our roll out of the revised Code of Ethics in 2016. This code recognises that we are a global company, operating in many different countries and jurisdictions. Presenting a coherent and consistent culture of the highest integrity is a core value of the group. We must ensure we interact ethically and honestly with our staff, customers and other stakeholders. How we do business is never a short-term consideration but should rather contribute to our long-term sustainability. For our code to be effective, we must live our core values of doing business with integrity and courage; making smart decisions which we execute with speed.

The year started strongly for DWP markets, with pricing above long-term averages for the first six months. Thereafter, the combination of the impact from global trade wars on Chinese textile markets, excess viscose staple fibre (VSF) capacity and a weaker Renminbi exchange rate drove DWP prices to historical lows, impacting profitability in this segment. The weak paper pulp prices and demand dynamics kept many swing producers in the DWP market, further exacerbating the situation.

The packaging and speciality papers segment had a mixed year. The trend towards paper based packaging in consumer segments was positive. Stable South African containerboard demand was offset by higher paper pulp prices at the start of the year which negatively impacted margins, as well as the slower-than-expected ramp-up of newly converted machines at Somerset and Maastricht Mills. The slower European economy also adversely impacted the market for certain consumer speciality grades.

Global graphic paper demand declined by nearly 7% in the past nine months. In European and United States markets, demand declines exceeded 10%, impacted by a general weakening in economic activity, high inventory levels, secular demand trends and the rapid series of price increases in 2018. This necessitated 268,000 tons of production downtime during the year. However, in the second half of the year, the segment started to benefit from a reduction in input costs, particularly paper pulp, helping to mitigate the impact of lower volumes.

Strategic review

Calendar 2019 was the fourth year of our strategic 2020Vision and was one in which we expected to make further progress in improving profitability and cash generation via the shift into faster growing and more profitable segments. This was supported by our investments to convert Somerset PM1 and the Maastricht Mill to paperboard, and the DWP debottlenecking projects at Cloquet, Saiccor and Ngodwana Mills. As described above, however, market conditions for each of our major segments deteriorated in 2019 and attaining our 2020 financial goals became more challenging.

Our strategy encompasses the following four main objectives:

Achieve cost advantages – We will work to improve operational and machine efficiencies, maximise procurement benefits and optimise business processes to lower costs

Rationalise declining businesses – Recognising the decreasing demand for graphic papers, we continuously balance paper supply and demand in all regions to strengthen our leadership position in these markets, realising their strategic importance to the group and maximising their significant cash flow generation. Where possible we will convert paper machines to higher margin businesses

Maintain a healthy balance sheet – This will reduce risk and improve our strategic flexibility

LETTER TO STAKEHOLDERS continued

Accelerate growth in higher margin growth segments – We will invest in expanding our paper packaging grades, enhancing our DWP portfolio and extracting value from our biorefinery stream.

The strategic objectives are supported by our value statement: At Sappi we do business with integrity and courage; making smart decisions which we execute with speed. Our values are underpinned by an unrelenting focus on and commitment to safety.

Initiatives and actions undertaken to support our strategic objectives are outlined below.

Achieve cost advantages

Reducing both variable and fixed costs throughout the business is integral to maintaining or improving margins and the sustainability of our operations. This is especially true in commodity businesses where we face declining demand, such as graphic papers. In the past year, we set ourselves the target of a US$60 million reduction in third-party expenditure compared to 2018 through efficiency and raw material use improvements as well as delivering savings through various procurement initiatives. We are pleased to report that savings of US$87 million were realised, which helped offset declining paper volumes and DWP prices. In 2020 we are targeting a further US$54 million in savings. In 2019 we began the Saiccor Mill 110,000 ton expansion. This project, due to be completed towards the end of 2020, will improve our energy and chemical recovery, lowering variable costs for the full mill by an estimated ZAR300/ton. We also invested US$30 million for upgrades to the Gratkorn Mill, resulting in improved efficiency and lower costs. As mentioned above, we acquired the Matane high-yield pulp mill post-year-end and this acquisition, along with some small pulp mill debottlenecking projects in Europe during 2020, will help improve the paper pulp integration of our packaging and speciality papers business, lowering our cost base and reducing the volatility of earnings through the pulp cycle.

Rationalise declining businesses

Graphic paper demand in Europe and North America remains in long-term structural decline. This was exacerbated in 2019 by general economic conditions and as a consequence of a rapid series of price rises in 2018 as a result of then record high paper pulp prices and the impact that had on input costs. Maintaining operating rates and lowering costs are key to our strategy to maximise cash generation in these markets. As noted we had to take 268,000 tons of production downtime in the last nine months of the year which negatively impacted the profitability of the graphic paper business.

In 2018, we converted PM1 at the Somerset Mill. The capacity of the machine was expanded, and it now has the flexibility to produce both coated graphics paper and paperboard products used in the folding carton and food service markets. During 2019, we ramped up production of paperboard grades on this machine as we qualified the various products with a range of customers. In 2020 we expect to continue increasing paperboard volumes, gradually filling the machine as graphic paper sales volumes decline.

In Europe we focused on cost reduction and our go-to-market strategy – Sappi&You – which has enabled us to be a preferred supplier in coated woodfree grades in particular and has seen us increase both direct sales and market share in a declining market. In 2018, we converted the Maastricht Mill to focus predominantly on paperboard packaging grades in support of our existing packaging and speciality papers business in Europe. In 2019, we began the conversion of PM8 at Lanaken to enable the machine to make either coated woodfree (CWF) or coated mechanical (CM) paper. This will allow the transition from CM to CWF production on that machine over the next three years and align our CM capacity with demand. We also made investments at Ehingen Mill to enhance its packaging and speciality papers offering and will be doing the same at Alfeld Mill in 2020. In combination, these projects will replace 200,000 tons per annum of graphic paper with a similar volume of packaging and speciality grades.

In South Africa, our exposure to declining markets is limited to newsprint, where we are the last local producer, and office paper.

Maintain a healthy balance sheet

The decline in profitability of the business in 2019 due to factors noted above, along with a large and committed capital expenditure pipeline during the year has resulted in the net debt to EBITDA leverage ratio increasing from 2.1 to 2.2 times over the course of the year, below our target leverage ratio of 2.0 times. With the completion of the Saiccor expansion project in 2020, capital expenditure levels will remain elevated, but we have reduced discretionary capital expenditure in 2020 to limit the rise in debt levels as far as possible.

In 2019, we refinanced the 2022 Euro bonds with a new seven-year Euro bond at a rate of 3.125%, our lowest ever rate. We now have no significant maturities due before 2023 and we are comfortable with the maturity profile of our debt. Net finance costs may rise slightly to between US$70 million and US$80 million as the net debt increases in the coming year. We proactively amended the leverage covenant on our European revolving credit facility in the fourth quarter at no additional cost to give us more headroom in the coming two years, and allow us to complete current capital projects without putting the business at unnecessary risk.

Accelerate growth in higher margin growth segments

After debottlenecking the Saiccor and Ngodwana DWP Mills in 2018, in the second half of 2019 we completed the upgrades to the Cloquet Mill, adding a further 30,000 tons of DWP production capacity. As mentioned above, we initiated the 110,000 ton expansion project at Saiccor during the year. Apart from additional sales volumes, this will decrease unit production costs for the mill's entire output, introduce new technology, reduce the environmental footprint and future-proof manufacturing systems. Current market conditions, with record low prices, viscose customers under significant pressure and an excess of DWP capacity make a further significant expansion difficult to justify in the near term. We continue to evaluate various options, however, as robust demand growth from our major customers and pressure on the textile industry for more sustainable solutions increases.

Following the acquisition of the paper mill assets of the Cham Paper Group and the completion of the Somerset PM1 and Maastricht Mill conversions in 2018, the packaging and speciality segment volumes grew by 12% in 2019. With increasing sales volumes on the converted machines and the related improvement in sales mix and production efficiencies, profitability of the segment will improve, aided by lower purchased paper pulp prices and the increased pulp integration as a result of initiatives noted above. The pressure on fast-moving consumer goods companies to embrace alternative packaging solutions that are more renewable, recyclable and reusable is encouraging joint R&D efforts to provide these solutions. Many of our packaging products are ideally placed to take advantage of this accelerating demand and we have made good progress in the last year in launching new products and solutions for our customers. The technology acquired through Rockwell Solutions in 2017 is now ready to be rolled out to additional machines in the group in future years, allowing us to capture more of this market.

Sappi Biotech continues to make progress in developing new and innovative products, ideally suited to a world looking for more sustainable chemical and material solutions. We continue to grow our lignin business and have made significant progress to enter higher-value lignin markets in the near term. The demonstration plant adjacent to our Ngodwana Mill has allowed us to test and optimise xylose sugars extraction technology on an industrial scale for markets such as xylitol and furfural. We are pursuing various options to develop projects in these markets. Pending successful commercial arrangements, this may result in final product technology scale-up and ultimate construction of commercial xylose or furfural plants at our mills in the United States or South Africa. Our cellulose nanofibrils and cellulose microfibrils development is ongoing, with exciting co-development and product acceptance progress made in our paper business as well as with firms in the coatings and cosmetics industries. We are furthermore running development trials with our fibre composite product alongside automotive producers.

Sustainability

Since developing our 2020Vision, sustainability has become increasingly more prominent in our strategic thinking as climate change, governmental, societal and brand owner pressure mount and technological change brings new opportunities and risks. Sappi has always focused on the sustainable management of our operations, focused on increasing efficiency and maximising value from our sustainable natural resources. We have also recognised that we need to be more proactive in our dealings with various stakeholder groups and become a trusted partner to these groups to pursue growth opportunities, while managing the risks inherent in this more complex operating environment. Sustainability will become a key component of our 2025 strategy, more deeply integrated into the overall business strategy.

Looking forward

The markets we operate in are expected to remain challenging in the coming year, and profitability is likely to be negatively impacted as a result. DWP pricing in particular will have a significant impact on earnings as this segment is a major contributor to our profit and cash flow generation. We have responded by reducing our capital expenditure in the past year and for the next; and other than the 110,000 ton expansion of Saiccor Mill which is currently under way, we have not committed capital to any material project. We have reduced working capital, amended debt covenants, targeted further cost reductions and are evaluating various options for our paper machines in Europe to lower fixed costs and match capacity to demand.

DWP pricing remains under significant pressure, having declined to historical lows of US$638/ton at the time of

LETTER TO STAKEHOLDERS continued

writing this report, US$306/ton lower than a year ago. We believe that current pricing is below the cash cost of production for a significant proportion of global supply and is therefore unsustainable over any prolonged period. Underlying demand for DWP is still growing at rates consistent with our long-term forecasts. A recovery in DWP prices is likely to be prompted by a recovery in VSF prices, which have been depressed by excess VSF capacity and a weak Chinese textile market.

In the packaging and speciality papers segment, we are making good progress with customer acceptance in the United States and European markets and the ramp-up of volumes continues, aided by the shift from plastic to paper in many packaging categories. However, the slowing South African economy will probably impact domestic demand for containerboard in the coming year.

Global graphic paper markets continue to show weakness from a combination of economic factors and ongoing shift to digital media. Pricing has declined only marginally over the past quarter, and as paper pulp prices in Europe and North America approach those prevalent in China, margins should be maintained.

Capital expenditure in 2020 is expected to decrease to US$460 million as we complete the Saiccor 110,000 ton expansion project and some smaller European pulp mill debottlenecking projects. Payment of the adjusted Matane net acquisition price of approximately US$158 million will be made in the first quarter of the coming financial year, funded via a new term loan.

Due to current very weak pricing in the DWP market and with paper markets yet to show signs of a sustained recovery in demand, we expect EBITDA in the first quarter of fiscal 2020 to be below that of 2019.

Appreciation

Our wide groupings of stakeholders contributed in many ways to our business in the past year. We appreciate their ideas, constructive criticism and support, which guided our thinking and actions. This support and guidance are invaluable in these difficult market conditions.

To our customers who have supported us in all our different markets, and with whom we increasingly collaborate to provide relevant products and services that generate sustainable value for all parties, we thank you.

Our employees have continued to demonstrate belief in our strategy and a commitment to the business in these challenging markets. Their initiative, resourcefulness and drive towards our One Sappi vision make it clear that our values and ethics are embedded in the organisation. We also thank them for their hard work.

Our gratitude goes to our board for their continued commitment to the group, sharing their valuable insights and encouragement while holding us to the highest ethical standards to enable us to execute our strategy.

We welcomed Mr Brian Beamish, Mr James Lopez and Ms Janice Stipp to the board as independent non-executive directors during the year.

Earlier this month we announced the retirement of Mr John McKenzie (Jock), lead independent non-executive director, and Ms Karen Osar, independent non-executive director effective from the end of December 2019. Jock McKenzie was appointed to the board in September 2007. He was a member of the HR and Compensation Committee from 2007, and chaired the Social, Ethics, Transformation and Sustainability Committee until his appointment as lead independent director in 2016 and then member of the Nomination and Governance Committee. Karen Osar was appointed to the board in May 2007 and has been a member of the Audit and Risk Committee. She also served as Chairman of the North American Audit Committee from 2007 to 2016. We thank them both for their significant contributions over many years.

In conclusion, we value the support of our shareholders as we work to enhance our sustainable long-term shareholder returns. We look forward to their participation at the annual general meeting (AGM) on 05 February 2020.

Group overview

Q&A WITH THE CEO

Steve Binnie

"The need to develop more environmentally friendly solutions, derived from renewable materials, will drive increasing market share for viscose, which is derived from dissolving wood pulp."

Q Debt levels increased last year while profitability declined, resulting in higher leverage – what is Sappi doing about this?

As market conditions worsened and the outlook for a recovery faded, we took decisive action on a number of fronts to minimise the rise in debt levels and lessen the impact of the increased leverage. At the start of the year, capital expenditure in 2019 was expected to be US$590 million. Through a careful process of re-evaluating the priority and timing of various projects, total spend for the year was reduced to US$471 million. We have also adjusted down our expansionary capital spending plans for 2020, effectively reducing this to projects under way or already committed. Maintenance, safety and environmental spend were unaffected as we seek to ensure the sustainability of the company. Production downtime was taken as required in the graphics paper segment in order to minimise inventory levels and working capital, resulting in strong cash generation in the latter part of the year.

We continuously evaluate opportunities to extend debt maturities and lower finance costs. We refinanced the 2022 Euro bond early in the year, lowering the interest charge and extending maturities. This has meant we have a comfortable liquidity position, with no major maturities due before 2023, a low average interest rate and flexible liquidity from cash on hand and undrawn revolving credit facilities. In the fourth quarter, we renegotiated the leverage covenant for our European revolving credit facility and some of our bank term debt, due to current market uncertainty and particularly with regards DWP pricing, to provide further headroom. This renegotiation resulted in increased headroom over the expected peak leverage periods, moving the maximum leverage level from 3.75 times net debt:EBITDA to 4.5 times.

Q&A WITH THE CEO continued

Q You acquired the Matane Mill just after year-end while deliberately reducing capital expenditure levels – what was the rationale?

Our packaging and speciality operations in the United States and Europe are typically less in integrated pulp than our graphic paper business, and this brings higher pulp cost and volatility in earnings through a pulp cycle. Additionally, our paperboard machines benefit from using high-yield pulp, where supply is more constrained than for kraft hardwood or softwood pulps. We thus had a medium-term strategy to build our own high-yield pulp mill at Somerset to lower costs for our packaging businesses, reduce volatility in earnings and secure this key raw material. Matane Mill was a major supplier of high-yield pulp – when it came onto the market, we weighed up the benefits of purchasing a mill at significantly less than replacement cost and securing a key raw material against the desire to reduce leverage. We believe we purchased the mill at an attractive valuation, and the acquisition will benefit our growing packaging and speciality business.
Our internal consumption of pulp from the mill will increase as we ramp up paperboard production at both Somerset and Maastricht Mills in coming years. However, we will continue to supply the high-yield market.

Q Dissolving wood pulp prices, a key determinant of Sappi's profitability, declined by almost a third since the end of last year. Does this change your outlook for this critical key segment of the business?

We believe the fundamental attractiveness of the DWP market remains intact. As global textile demand grows, driven by population growth, fashion and rising wealth in developing economies, the need to develop more environmentally friendly solutions, derived from renewable materials that do not threaten food security or aquatic systems, will drive increasing market share for viscose, which is derived from dissolving wood pulp. Despite the challenges in the past year, VSF demand still grew by 6%, with pricing influenced by a confluence of factors largely external to the dissolving wood supply and demand dynamics. Weakening economies in various parts of the world, the impact of United States/China trade tariffs on textile production and sales and the rapid increase in VSF capacity over the past two years have led to a situation where VSF mills are running at very low operating rates and depressed VSF selling prices are forcing DWP prices lower. With no alternative outlet due to the concurrently weak paper pulp market, DWP swing producers have now become price takers. We believe that these circumstances will steadily change as the current situation is unsustainable as a large proportion of VSF mills and a significant proportion of DWP mills are generating cash losses at prevailing pricing levels.

Q Global graphic paper demand has declined at a pace not seen since 2009 – how has this impacted the business?

The decline in global graphic paper demand has been driven by a number of factors, including an economic slowdown in various parts of the world, the rapid series of price rises implemented in 2018 as a result of high paper pulp prices, and continuation of the secular impact of a shift from paper to digital. Additionally, in contrast to prior years when industry closures of higher-cost machines matched demand declines and kept operating rates high, in 2019 the pace of closure slowed. Further closures are only likely to occur in the second half of 2020.
In response to the more than 10% reduction in demand for our major graphic paper products in the past year, we took 268,000 tons of production curtailment on our paper machines across the United States and Europe. The conversion of Somerset PM1 and Maastricht Mills in 2018 to paperboard grades helped lessen the impact of weak demand as we effectively reduced our graphic paper capacity by some 130,000 tons in the past year. As we ramp up in the coming year, this will further alleviate the impact from potential further declines in graphic paper markets. Market share gains in some grades helped our operating rates in the past year relative to the industry. Additionally, we started the review of our paper machines in Europe to determine whether and which paper machine we may need to close if the supply/demand imbalance in the industry remains. In North America, we plan to ramp up packaging volumes at Somerset Mill to relieve pressure from soft graphic paper demand.

Q Governments and civil society are increasingly calling on business to do more to limit emissions and energy use to minimise climate change. What is Sappi doing in this regard?

Climate change, water scarcity, resource efficiency, minimising waste or pollution and job creation are key environmental, social and corporate governance (ESG) priorities for Sappi, albeit with different emphasis in different parts of the world. As a company that uses a renewable natural resource as raw material, we are faced with both opportunity and a duty of care in how we manage our operations and how we maximise the benefit or value we can derive from this resource while minimising the related costs or trade-offs. Although much of our energy generation and consumption is renewable, we still directly or indirectly depend on fossil fuels, particularly in South Africa. The investment at Saiccor Mill to expand capacity includes a change in technology that will allow us to recover more energy from our process and improve our water use efficiency. We are also investigating opportunities to improve energy efficiency at all our mills globally to improve our specific energy use and emissions. Unfortunately, in the last year, many of these metrics increased as lower graphic paper demand and downtime taken translated into a loss of efficiency as energy consumption does not decline linearly in these situations. The only solution to this challenge is to increase machine utilisation. Without a recovery in demand or significant market share gains, we may have to close a paper machine, which we are currently investigating as described above. In the coming year, we will be undertaking work in line with the global initiatives, Task Force on Climate-related Financial Disclosures (TCFD) and Science Based Targets (SBT) to better understand and quantify the risks and opportunities of climate change and what will be required to bring our long-term emissions profile in line.

Q The strategic shift in capacity from graphic paper to packaging and speciality papers in the past year seems to have resulted in lower margins than previously indicated for that segment. Why is this?

The conversion from graphic papers to paperboard grades at Somerset and Maastricht Mills was technically successful, but the customer qualification and acceptance process took longer than originally envisaged. This has impacted the ramp-up of volumes and the mix of products sold. Lower operating rates and downtime related to the weaker graphic paper market also impacted negatively on raw material use and machine efficiency with related cost impacts. Lastly, high paper pulp prices at the start of the year and the low pulp integration levels of our packaging mills affected margins for much of the year. However, as pulp prices declined, we recorded a good improvement in segmental margins for the fourth quarter and the outlook in 2020 is for a sustained recovery in margins.

As the world's population grows and becomes increasingly urbanised, so challenges related to inequality, resource scarcity and climate change have raised expectations to promote greater social equity, make more and better with less; extract more value from resources and continuously reduce environmental footprint.

We are making strides: In 2016, Japanese researchers discovered a type of bacteria, *Ideonella sakaiensis*, that eats non-biodegradable plastic. Now researchers have engineered a mutant version of the plastic-munching bacteria that is 20% more efficient.

Initially they hoped to get a clearer picture of how the new mechanism evolved by tweaking the enzyme in the lab. What they got instead was a mutant enzyme that degrades plastic even faster than the naturally occurring one. The researchers have said that they will continue to improve it through protein engineering and evolution.

At Sappi, innovation is hard-wired into our DNA. While a key focus is on innovative products that help to mitigate the global challenges described above, for us it is not just about products or services.

Our culture of innovation promotes the evolution of old ideas, exploration of new ones, as well as the readiness to collaborate and ability to commercialise new ideas quickly. It informs our approach to commerce, consumption and community. It is apparent in our marketing initiatives, in understanding our stakeholders' needs and expectations, in our training and development initiatives, ongoing drive to tread more lightly on the Planet and in the pioneering socio-economic upliftment programmes we have established across communities.

OUR OPERATING CONTEXT

Our external operating environment presents risks and opportunities, impacts our ability to generate value and informs our response to our stakeholders as well as our approach to material matters. Below we set out the key developments in our operating context in 2019 and our response.

Slowing global growth and trade tensions

Developments	Our response
The global economy in 2019 is on course for its **weakest year of growth** since the financial crisis. The International Monetary Fund is expecting global growth to slow to 3.0% this year, down from 3.2% in July 2019.	In South Africa, shortly after year-end we announced our intention to make investments totalling up to ZAR14 billion over the next six years in our South African operations. We took commercial downtime at certain mills in 2019 and began a review of our assets in Europe and North America.
Slow global growth has been exacerbated by the ongoing **trade wars** between the United States of America on the one side and Europe and China on the other, which have impacted the global economy.	We have DWP sites in the United States of America and South Africa. Asia is the biggest market for our DWP and one of our major customers has a production site in China. However, we can supply this customer and others in the same country from our Saiccor and Ngodwana Mills in South Africa which currently have respective capacity of 800,000 and 250,000 tons per annum.

Regulatory and environmental issues

Developments	Our response
Belgium, Germany, Latvia, Poland and the United Kingdom impose fees on manufacturers that place packaging in the market to promote **recyclability**. More countries are considering introducing similar fees.	Sappi Europe has formed an internal recyclability task force with representatives across R&D, new business development, sustainability as well as innovation and marketing. Sappi North America initiated similar work focused on increasing packaging recyclability.
The European Union's climate and energy framework promotes **decarbonisation** by setting 2030 targets for greenhouse gas emissions to decline by at least 40% below 1990 levels, renewables to deliver 32% of our energy and efficiency to improve by 32.5%.	Sappi Europe is leading the process of developing decarbonisation plans for each mill in Europe, while Sappi North America and Sappi Southern Africa are focusing on mills in their respective regions.
In South Africa, **carbon tax** was introduced on 01 June 2019. Our liability from implementation to the end of September is estimated at around ZAR20 million (some ZAR60 million per annum).	We, together with other industry members, are working with consultants appointed by the Department of Environmental Affairs on the rules for recognition of carbon in harvested wood products.
Parts of South Africa are still suffering from the effects of a devastating **drought**.	We achieved our specific water use target in South Africa and have funded the rehabilitation of water infrastructure in villages close to our areas of operation.

The rise of populism, social disruption and Generation Z

Developments	Our response
Globally, there have been mass protests about climate change. In South Africa, there have been marches to protest **gender-based violence** (GBV) which has now come under the national spotlight. Close to many of our operations in South Africa, sporadic protests and incidents of violence took place, the result of a disaffected population protesting about lack of **service delivery and job opportunities** – the official unemployment rate is 29%, with the unofficial rate significantly higher and youth being most affected.	The Sustainability Council is reviewing how to integrate the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) into our climate change response. A target for gender equity will form part of our 2025 sustainability goals. We continue to raise awareness about gender-based violence across the organisation through our employee wellbeing programme. Our ZAR14 billion investment commitment (described earlier) will help to create direct and indirect jobs. In addition, we continue to promote participation in the forestry value chain through our Sappi Khulisa enterprise development programme which encompasses community tree farming. The total area managed currently is 34,139 hectares. In 2019, under this programme, 425,001 tons of timber (2018: 483,359 tons) worth some ZAR382 million (2018: ZAR387 million) was delivered to our operations. Since 1995, a total volume of 4,221,941 tons to the value of ZAR4.2 billion has been purchased from small growers under this programme. We have intensified our enterprise and supplier development (ESD) drive by establishing a separate ESD department that identifies procurement opportunities and oversees mentoring programmes and capability training. A total of 129 small, medium and micro-enterprises (SMMEs) have been assessed and trained by our partners and 28 SMMEs have been integrated into the value chain across the business. We have established skills centres at Ngodwana and Saiccor Mills that provide training for our own employees and also target unemployed youth with the overarching aim of stimulating SMME growth.
According to Bloomberg, **Generation Z-ers** account for 32% of the global population in 2019. This generation want companies to have a positive purpose that improves the world in some way. They are also more digitally connected than any previous generation.	The fact that our business is based on woodfibre, a renewable resource sourced from sustainably managed forests and plantations that help to mitigate the impacts of global warming, is widely communicated across social media. So too is our shared-value approach to doing business.

OUR OPERATING CONTEXT continued

Increasing consumer and brand owner concerns about sustainability-related issues

Developments	Our response
According to the United Nations Environment Programme (UNEP), every year an estimated **8 million tons of plastic** land up in the oceans and between 60% to 90% of the litter that accumulates on shorelines, the surface and the seabed comprises plastic. The most common items are cigarette butts, bags, and food and beverage containers.	We are taking advantage of anti-plastic sentiment by increasing capacity in packaging papers, particularly recyclable packaging. (See page 61 for details of our collaborative work to support the launch of a new confectionary snack bar wrapped in recyclable paper.) Sappi North America solicits direct brand owner feedback through the Sustainability Customer Council, strengthening positioning against plastic end use.
Concerns about the impact of fast fashion on natural resources, particularly deforestation, are driving a move to **ethical fashion**.	Forest certification systems with third-party verified forest management and chain-of-custody processes ensure that responsible forest management practices are implemented in the forest and that woodfibre from certified forests can be identified throughout the supply chain. Globally, in 2019, 74.8% of fibre supplied to our mills was certified.
In terms of global warming, scientists officially pronounced July 2019 the warmest month the world has experienced since record-keeping began over a century ago. Alaska's sea ice melted for the first time in recorded history. **Climate change** activism around the world has accelerated.	Trees and forests play an integral role in the global carbon cycle. By sequestering carbon dioxide from the atmosphere and storing it in forest biomass and soils, forests store vast amounts of carbon and release oxygen back into the atmosphere. Harvesting managed semi-natural forests in a sustainable manner in line with internationally recognised forest certification systems as Sappi does, promotes growth and carbon uptake. So too does balancing harvesting with continual replanting and regrowth, as in our plantations in South Africa. Sappi North America highlights its superior carbon footprint compared to other key players in graphics and packaging through the EQ tool which resides on our e-commerce platform.
Biodiversity loss is unprecedented: The Intergovernmental Science Policy Platform on Biodiversity and Ecosystem Services (IPBES), the first intergovernmental report of its kind, finds that around 1 million animal and plant species are now threatened with extinction, many within decades, more than ever before in human history.	It is in our own interests to promote biodiversity in the forests and plantations from which we source woodfibre, discussed in more detail in Key material issues on page 71. Sappi North America has invested in Forest in Focus, a platform using United States Department of Agriculture (USDA) forest inventory data to assess and promote forest health, including biodiversity.

OUR STRATEGY AND PERFORMANCE

Our strategy

Through intentional evolution we will continue to grow Sappi into a profitable and cash generative, diversified woodfibre group – focused on dissolving wood pulp, paper and products in adjacent fields.

Achieve cost advantages

What this means

- Continuously improve **cost position**
- Continue to maximise **global benefits**
- Best-in-class **production efficiencies**

How we performed

- Continuous improvements in all regions to reduce cost per ton
- Maximised the benefits of One Sappi to achieve further savings
- US$88 million savings achieved

2020 objectives

- Advance with continuous improvement projects in all regions – US$54 million target
- Maximise operating rates on all machines
- Integrate Matane pulp mill into Sappi and achieve cost advantages

Rationalise declining businesses

What this means

- **Maximise production** at low-cost mills
- Continuously **balance paper supply** and **demand** in all regions
- Continue to **transition** graphic papers capacity to **higher margin** and **growing** packaging and speciality papers

How we performed

- Carouselled production to the lowest cost mills
- Balanced supply and demand on graphic paper with good capacity management and growing market share in coated woodfree paper (CWF)
- Ramped up production significantly on packaging and speciality papers

2020 objectives

- Balance graphic paper supply and demand
- Continue to transition from graphic paper capacity to packaging and speciality papers
- Investigate paper machine options in Europe

Maintain a healthy balance sheet

What this means

- Maintain net **debt/EBITDA ~2x**
- Continuously improve **working capital**
- Continue to **monitor** bond market for **opportunities**

How we performed

- Net debt/EBITDA at 2.2x
- Effective working capital management, resulting in improved cash flow
- Refinanced the 2022 bond by raising EUR450 million at 3.125% maturing in 2026

2020 objectives

- Optimise capex and working capital
- Manage net debt to contain leverage ratio

Accelerate growth in higher margin growth segments

What this means

- Grow dissolving wood pulp (DWP) capacity, matching **market demand**
- Continue to expand and grow packaging and speciality papers in all regions, **targeting 25%** of **group EBITDA** by 2020
- Commence commercialisation of **biotech opportunities**

How we performed

- Invested to grow DWP capacity at Saiccor, Cloquet and Ngodwana Mills
- Speciality conversions in Europe and North America completed and strongly ramping up to target, currently 18.3%
- Growth in lignin sales and advancing other biotech opportunities to commercialisation

2020 objectives

- Further advance packaging and speciality papers to target 25% of group EBITDA
- Conclude Saiccor Mill DWP expansion in 2020
- Commercialise biotech opportunities

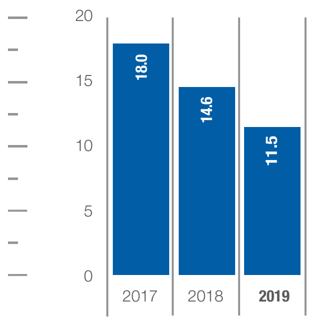
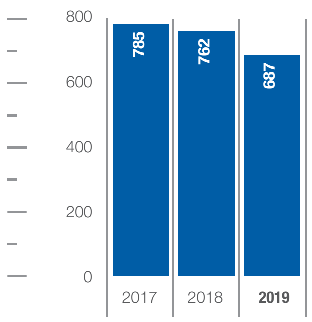
OUR STRATEGY AND PERFORMANCE continued

Measuring our progress

Guided by our strategy, we measure our progress holistically against our mission, collaborating and partnering with stakeholders as we strive to be a trusted and sustainable organisation with an exciting future in woodfibre.

Key strategic objectives

- **Achieve** cost advantages
- **Rationalise** declining businesses
- **Maintain** a healthy balance sheet
- **Accelerate** growth in higher margin growth segments

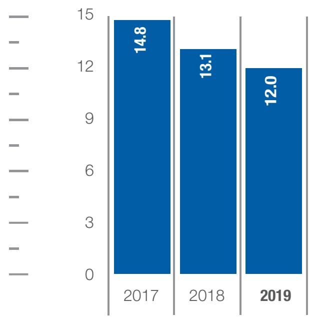
Our strategic performance indicators	Why is this important?	Self-assessment of 2019 performance	Link to strategic objectives
ROCE (%) 	Return on average capital employed, or ROCE, is an important measure that assesses long-term profitability by comparing how effectively assets are performing with how these assets are financed	Progress to be made/ongoing	Achieve cost advantages; Maintain a healthy balance sheet
		2020 objectives	**Link to 3Ps**
	Ⓡ Linked to executive remuneration.	Complete Saiccor Mill expansion on time and on budget	Prosperity
EBITDA (US$ million) 	EBITDA measures how we performed operationally by excluding the impact of financing, accounting treatments or tax implications	Progress to be made/ongoing	Achieve cost advantages
		2020 objectives	**Link to 3Ps**
	Ⓡ Linked to executive remuneration.	Focus on maximising cash generation through efficient capex and working capital management	Prosperity

Key:

- Satisfactory
- Unsatisfactory performance
- Progress to be made/ongoing

Our strategic performance indicators	Why is this important?	Self-assessment of 2019 performance	Link to strategic objectives

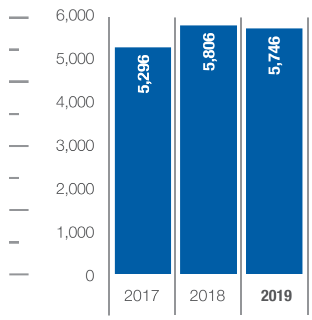
EBITDA margin (%)



EBITDA margin is an important and comparable measure of our profitability (excluding the impact of financing, accounting treatments or tax implications) against our revenue

2020 objectives	Link to 3Ps
Focus on reducing fixed and variable costs	Prosperity

Sales (US$ million)



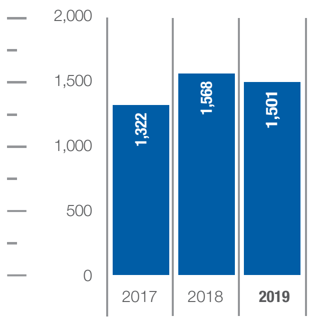
While not the only determinant of financial success, sales is a key measure of demand, customer loyalty and a critical contributor to profit

Self-assessment of 2019 performance

Link to strategic objectives

2020 objectives	Link to 3Ps
Continue to grow packaging and speciality papers post conversions	Prosperity

Net debt (US$ million)



Given the capital-intensive nature of our operations, we need to raise debt to complete significant projects that enable our long-term success. Net debt comprises current and non-current interest-bearing borrowings and bank overdrafts (net of cash, cash equivalents and short-term deposits)

Self-assessment of 2019 performance

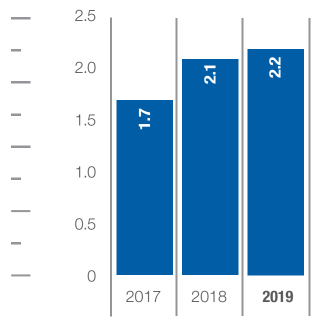
Link to strategic objectives

2020 objectives	Link to 3Ps
While net debt is expected to increase in 2020, due to the finalisation of strategic capital projects, we will continue to carefully manage debt levels	Prosperity

OUR STRATEGY AND PERFORMANCE continued

Our strategic performance indicators	Why is this important?	Self-assessment of 2019 performance	Link to strategic objectives

Net debt/EBITDA



The net debt to EBITDA ratio measures our ability to pay off our debt should net debt and EBITDA remain consistent. EBITDA focuses on the operating decisions of a business, as it looks at profitability from core operations before the impact of capital structure

Ⓡ Linked to executive remuneration.

Self-assessment of 2019 performance: Satisfactory

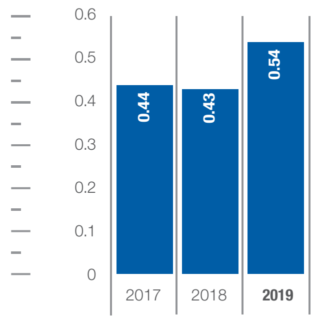
2020 objectives

Manage leverage ratio well within covenants

Link to 3Ps

Prosperity

LTIFR



LTIFR is an important measure of our business's safety. We target zero harm and aim to improve LTIFR by at least 10% year-on-year

Ⓡ Linked to executive remuneration.

△ Identified sustainability goal[1].

Self-assessment of 2019 performance

Unsatisfactory performance

Link to strategic objectives

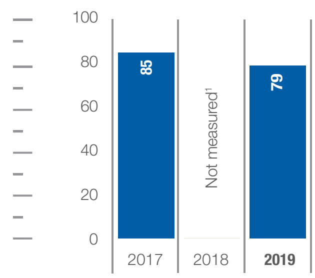
2020 objectives

Reduce LTIFR and zero fatalities

Link to 3Ps

People

Sustainable engagement (%)



We rely on a productive and engaged workforce. Employee engagement has been linked to higher safety performance, lower staff turnover, improve productivity and efficiency. We aim to maintain or improve from our 2015 base of 74%

△ Identified sustainability goal[2].

Self-assessment of 2019 performance

Satisfactory

Link to strategic objectives

2020 objectives

Sustain and/or improve engagement

Link to 3Ps

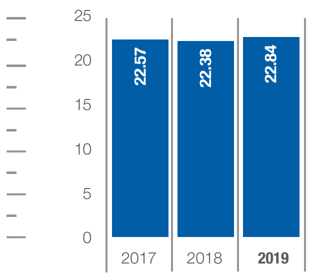
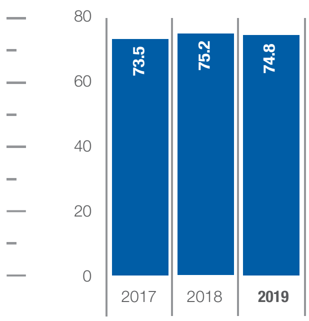
People

[1] For this indicator, we have clear targets for 2020 that we are working towards. See our **Group Sustainability Report** for more information.

[2] Not measured; survey takes place every second year.

Key:

- Satisfactory
- Unsatisfactory performance
- Progress to be made/ongoing

Our strategic performance indicators	Why is this important?	Self-assessment of 2019 performance	Link to strategic objectives
Energy intensity (GJ/adt) 	Energy intensity is a measure of how efficiently we are operating. By continually improving this metric, we manage costs and lower our impact		
		2020 objectives	**Link to 3Ps**
	△ Identified sustainability goal[1].	5% improvement from 2014 base year	Planet
Certified fibre (%) 	We are committed to sourcing woodfibre from forests and timber plantations in a manner that promotes their health and supports community wellbeing		
		2020 objectives	**Link to 3Ps**
	△ Identified sustainability goal[1].	Maintain or improve percentage certified fibre	Planet

[1] For this indicator, we have clear targets for 2020 that we are working towards. See our **Group Sustainability Report** for more information.

RISK MANAGEMENT

Risks

Our risk management philosophy

The Sappi group has an established culture of managing key risks. We have a significant number of embedded processes, resources and structures in place to address risk management requirements. These include our safety programmes, internal audit systems, insurance, IT security, compliance and governance processes, quality management and a range of line management interventions.

In the broadest sense, effective risk management ensures continuity of operations, service delivery, achieving objectives (strategic and otherwise), and protecting the interests of the group.

To achieve our objectives, the risk management process is aligned and compatible with Sappi's strategy, taking into account recommendations set out in ISO 31000 standard (for guidance only) – 'Risk management – Principles and guidelines', as well as King IV.

Sappi Limited board of directors	Overall responsibility for the governance of risk
Sappi Limited Audit and Risk Committee	Tasked with assisting the board in carrying out its risk management responsibilities at the group level
Line management in each region, business unit and operation	Responsibility for implementing regional risk management processes
Group Internal Audit	Provides independent assurance on the risk management process

For an analysis of the principal financial risks to which Sappi is exposed, please see note 31 in the **Group Annual Financial Statements** on www.sappi.com/annual-reports

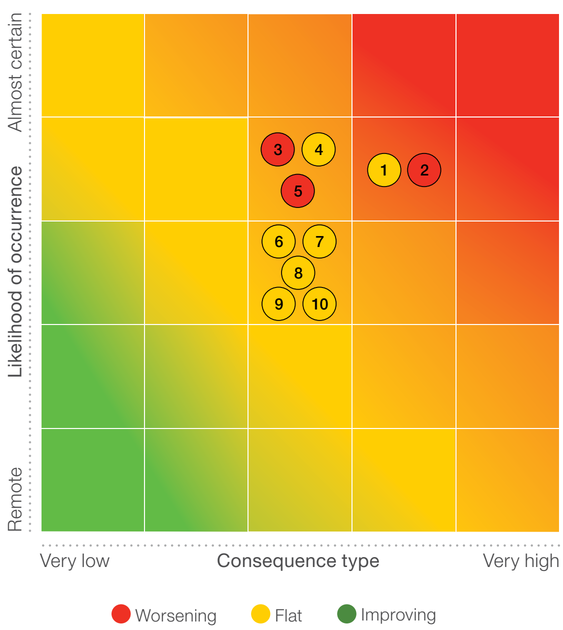
For a detailed discussion of the group's risk factors, please see **Risk Management Report** on www.sappi.com/annual-reports

Risk appetite and tolerance

Sappi has a board-approved framework for risk appetite and tolerance. Risk appetite is the total quantum that Sappi wishes to be exposed to on the basis of risk/return trade-offs for one or more desired and expected outcomes. This is the quantum of risk that the board believes will provide an adequate margin of safety within the group's risk capacity while enabling the achievement of strategic objectives.

Risk tolerance is the amount of uncertainty Sappi is prepared to accept. This is the maximum level of loss or reduced earnings that can be absorbed without compromising key objectives, eg return on investment.

Residual risk ratings



Residual risk ranking	
1	Safety
2	Cyclical macro-economic context
3	Evolving technologies and consumer preferences
4	Highly competitive industry
5	Natural resource constraints
6	Project implementation and execution
7	Uncertain and evolving regulatory landscape
8	Market share and customer concentration
9	Employee relations
10	Failure to attract and retain key skills

1 Safety

Trend: ⟷

Root cause

- We operate a number of manufacturing facilities and forestry operations. The environment at these facilities is inherently dangerous. The health and safety of our employees and contractors remain a top priority.

3Ps impact

Related material issues

- Safety

How we mitigate this risk

- Perform root cause analyses of all major incidents and fatalities, which are reviewed at all levels of the business including the board.
- Group and industry-wide sharing of all incidents and associated mitigating steps, to ensure continuous improvement in safety performance.
- Enforce compliance with behaviour-based safety (BBS) principles.
- Provide continuous education.
- Disciplined approach to all transgressions of our safety policies.
- Encourage reporting of near-miss incidents.
- External safety review commissioned, with detailed action plans implemented.

Strategic and 2020Vision objectives

- Achieve cost advantages
- Rationalise declining businesses
- Accelerate growth in higher margin growth segments
- Maintain a healthy balance sheet.

2 Cyclical macro-economic context

Trend: ↑

Root cause

- We operate in a cyclical industry subject to global economic conditions (such as exchange rate fluctuations) that may cause substantial fluctuations in our results
- Our products are affected by cyclical changes in supply (industry capacity and output levels) as well as demand changes
- Due to supply and demand imbalances in the industry, markets have historically been cyclical with volatile prices
- Turmoil in the world economy leads to sharp reductions in volume and pressure on prices in many of our markets.

3Ps impact

Related material issue

- Cost containment and capital allocation

How we mitigate this risk

- We continue to monitor the supply/demand balance, which might require us to impair operating assets and/or implement further capacity closures.
- We are continuously taking action to improve efficiencies and reduce costs in all aspects of our business.

Strategic and 2020Vision objectives

- Achieve cost advantages
- Rationalise declining businesses
- Accelerate growth in higher margin growth segments
- Maintain a healthy balance sheet.

Legend:

↑ Worsening ⟷ Flat ↓ Improving

RISK MANAGEMENT continued

3 Evolving technologies and consumer preferences

Trend: ↑

Root cause
- New technologies or changes in consumer preferences may have a material impact on our business
- Trends in advertising, electronic data transmission and storage, the internet and mobile devices continue to have an adverse impact on traditional print media and other paper applications
- Digital alternatives to many traditional paper applications are now readily available and have begun to adversely affect demand for certain paper products.

3Ps impact

Related material issues
- Product and process innovation
- Circular economy and adjacent markets
- Long-term demand growth for cellulosic-based fibres

How we mitigate this risk
- We continue to implement strategic initiatives to improve profitability, including:
  - Restructuring and other cost-saving projects
  - Implementing measures to enhance productivity
  - Expanding our higher-margin packaging and speciality paper businesses, and
  - Accelerating growth in higher margin growth segments.
- Our entrenched market share and low production cost position us well to take advantage of growth in the dissolving wood pulp market.
- In 2019, we signed an agreement to acquire the Canadian Matane high-yield hardwood pulp mill. The acquisition will support our growth in higher margin segments, reduce cost of pulp, reduce earnings volatility and ensure supply.

Strategic and 2020Vision objectives
- Achieve cost advantages
- Rationalise declining businesses
- Accelerate growth in higher margin growth segments
- Reduce our environmental footprint
- Provide greater opportunities for local communities.

4 Highly competitive industry

Trend: ↔

Root cause
- The markets for pulp and paper products remain highly competitive, with an increasing trend towards consolidation in the pulp and paper industry – creating larger, more focused companies.

3Ps impact

Related material issues
- Cost containment and capital allocation
- Circular economy and adjacent markets

How we mitigate this risk
- We continue to drive customer service, innovation and efficient manufacturing and logistics as competitive differentiators.
- We are focused on improving the performance and competitiveness of our businesses.
- We continue to drive down costs across all our businesses.
- Our recently announced acquisition of the Matane Mill will increase our pulp integration and reduce our cost of pulp.

Strategic and 2020Vision objectives
- Achieve cost advantages
- Rationalise declining businesses
- Reduce our environmental footprint
- Accelerate growth in higher margin growth segments.

5 Natural resource constraints

Trend: ↑

Root cause

- We require substantial amounts of wood, chemicals, energy and water for our production activities
- The inability to obtain energy, raw materials or water at reasonable prices, or at all, could adversely affect our operations
- The prices for and availability of these items may be subject to change, curtailment or shortages.

3Ps impact

Related material issues

- Supply chain transparency
- Circular economy and adjacent markets
- Climate change
- Energy
- Water
- Biodiversity

How we mitigate this risk

- We are focused on:
  - Improving procurement methods
  - Finding alternative lower-cost fuels and raw materials
  - Reducing water consumption
  - Minimising waste
  - Improving manufacturing and logistics efficiencies, and
  - Implementing energy-reduction initiatives.

Strategic and 2020Vision objectives

- Achieve cost advantages.
- Accelerate growth in higher margin growth segments.
- Reduce our environmental footprint.

6 Project implementation and execution

Trend: ↔

Root cause

- In executing our strategy, we carry out a number of capital expenditure projects
- Should these projects not be completed on time, deliver the expected quality/ cost reduction or exceed the allocated capital spend, it would have significant adverse implications
- This would impact the project's financial return metrics, impact normal operations, delay the time to market or result in a loss in market share
- Reasons for this could be supplier and vendor performance, skill levels and ineffective project management and controls.

3Ps impact

Related material issue

- Cost containment and capital allocation

How we mitigate this risk

- A rigorous process selects potential contractors with the same Sappi commitment to quality and safety.
- Evaluate shortcomings between contractor and supplier interfaces which, together with planning local skilled resource availability, are addressed well in advance.
- Consider various contracting philosophies specific to the regions in which we operate.
- The use of modern tools to improve efficacy in front-end engineering design, engineering standards, cost control and planning functions throughout the construction, erection and commissioning phases.
- Continue to develop strong relationships with main suppliers.
- Where applicable, cross-functional global teams, additional internal expert resources and detailed oversight and review, including risk metrics, will be brought into the various phases of projects to ensure project execution.
- Operational and maintenance training remains a key focus area.

Strategic and 2020Vision objectives

- Achieve cost advantages
- Rationalise declining businesses
- Accelerate growth in higher margin growth segments
- Provide greater opportunities for local communities
- Reduce our environmental footprint.

RISK MANAGEMENT continued

7 Uncertain and evolving regulatory landscape

Trend: ↔

Root cause

- Regulatory requirements on business (including compliance with environmental, health and safety laws) as well as national and international political uncertainty could translate into cost increases that directly impact Sappi's competitiveness and profitability
- Our global operations are subject to various economic, fiscal, monetary, regulatory, operational and political conditions
- We are therefore exposed 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.

3Ps impact

Related material issue

- Ethical behaviour and corruption

How we mitigate this risk

- A legal compliance programme designed to increase awareness of, and compliance with, applicable legislation is in place. The Group Compliance Officer reports twice per annum to the Group Audit and Risk Committee.
- Our aim is to minimise our impact on the environment. The principles of ISO 14000, FSC™, SFI®, PEFC™ and other recognised programmes are well entrenched across the group. We have also made significant investments in operational and maintenance activities to reduce air emissions, waste water discharges and waste generation.
- We closely monitor the potential for changes in pollution control laws, including GHG emission requirements, and take action in our operations accordingly. We invest to maintain compliance with applicable laws and cooperate across regions to apply best practices in sustainability.

Strategic and 2020Vision objectives

- Achieve cost advantages
- Reduce our environmental footprint.

8 Market share and customer concentration

Trend: ↔

Root cause

- Sappi is a business-to-business supplier, so a limited number of customers account for a significant amount of our sales
- Should adverse changes in economic market conditions have a negative impact on our customers, it could materially affect the results of our operations and financial position.

3Ps impact

How we mitigate this risk

- We are continuously working to expand and diversify our customer base.
- No single customer, although some are significant, individually represented more than 10% of our total sales.
- We monitor any adverse development affecting our customers to respond proactively.

Strategic and 2020Vision objective

- Accelerate growth in higher margin growth segments.

9 Employee relations

Trend: ↔

Root cause

- A large percentage of our employees are unionised, and wage increases or work stoppages by our unionised employees may have a material adverse effect on our business
- A large percentage of our employees are represented by labour unions under collective bargaining agreements, which need to be renewed from time to time
- In addition, we have in the past and may in future seek, or be obliged to seek, agreements with our employees on workforce reductions, closures and other restructurings
- We may become subject to material cost increases or additional work rules imposed by agreements with labour unions, which could increase expenses in absolute terms and/or as a percentage of net sales.

3Ps impact

Related material issues

- Labour relations
- Employee engagement
- Skills

How we mitigate this risk

- Across all our regions, we continue to interact and engage with our union representatives and organised labour on a frequent basis and to build constructive work relationships.

Strategic and 2020Vision objective

- Achieve cost advantages.

10 Failure to attract and retain key skills

Trend: ↔

Root cause

- We require specialised and scarce skills to execute our strategy
- Should we fail to attract, develop and retain key skills, this might have a material effect on our business.

3Ps impact

Related material issue

- Skills

How we mitigate this risk

- Succession planning and regular talent reviews.
- Leadership training and development as well as dedicated skills centres.
- Workforce planning.

Strategic and 2020Vision objectives

- Achieve cost advantages
- Rationalise declining businesses
- Accelerate growth in higher margin growth segments.

RISK MANAGEMENT continued

EMERGING RISKS AND OPPORTUNITIES

The effects of climate change may have an impact on our business

In all three regions where Sappi operates, climate change could alter the frequency and intensity of forest disturbances such as insect outbreaks, invasive species, wildfires and storms. These disturbances could reduce forest productivity, change the distribution of tree species and increase the risk that the wood supply necessary for our operations may be negatively affected.

However, given Sappi Europe's general risk mitigation strategy of sourcing pulp and woodfibre from a variety of sources and regions, we do not anticipate any material impact on our raw material supply from climate change in the short to medium term (five to ten years). In Sappi North America, our operations do not currently face material risks associated with climate change. With the exception of fibre from Brazil for Westbrook Mill, we source from northern hard and softwood baskets that have not suffered under any drought conditions or from fire.

In Sappi Southern Africa, where our operations have already been impacted by climate change, we invest significantly in preventing fire, pests and diseases, as well as site species matching to tolerate drought, frost and other weather events. Climate change has led to an increased emphasis on water footprint in South Africa. This, in turn, is causing greater focus on the location of forestry plantations, which could affect the quality and quantity of groundwater, the use of water by our operational units, quality of water released back into natural water systems and control of effluent discharge. The cost, availability and use of our water supply also have a direct impact on our input costs and operating profit.

Should our strategy to mitigate the related risks of raw materials shortages fail, our business may be adversely impacted.

The threat of cyber-risk is expanding

Continued cyber-attacks on both public and private institutions as well as businesses are intensifying as the Internet of Things and use of connected devices expands. Cyber-criminals are becoming more sophisticated, changing what they target and using complex methods of attack for different security systems.

In addition to confidential customer and employee information, as well as financial, commercial, transactional and production systems, Sappi owns significant trade secrets and intellectual property.

We protect these through an information technology security programme which mitigates against cyber-attacks and information security breaches. Should this fail, we could face serious disruption to our business and confidential information on our employees and customers could be compromised.

We adhere stringently to the data protection laws in the jurisdictions where we operate and provide relevant training to all our employees. Nevertheless, in the event of data breaches, we could be negatively impacted by regulatory fines or sanctions which could change our reputation and shareholder value.

Industry 4.0 is changing the business landscape

Industry 4.0 is about smart and autonomous systems fuelled by data and machine learning. At Sappi, we recognise the opportunities presented by automation, digitisation and data analytics in optimising our production and maintenance processes, as well as our logistics and supply chains, together with enhanced innovation and speed to market.

We are using our strong foundation of continuous technology improvement and intentional evolution to leverage these key developments by maximising the use of data analytics; making our processes more efficient and productive; tracking information on quality, raw materials and environmental information; and enhancing workforce training and development. We are already making extensive use of intelligent solutions through satellite imaging and drones in our forestry operations.

Falling behind in investment for Industry 4.0 opportunities and failing to keep pace with developments could have negative implications for our strategic direction and growth path.

Increasing need to integrate of sustainability into everyday business practices

Environmental issues, structural demographic changes and resource scarcity are affecting us globally. Economic and social progress remains uneven, various financial crises and trade tensions have revealed the fragility of progress, and accelerating environmental degradation inflicts increasing costs on societies. There are a number of economic, social, technological, demographic and environmental megatrends underlying these challenges including accelerating urbanisation and globalisation; the rise of social media; climate change, energy, water and food insecurity; pressure on natural resources and an increasingly vocal and connected population.

Sappi's sustainable development agenda prioritises Prosperity, while balancing the needs of People and Planet in an approach known internally as the 3Ps. We believe this approach brings demonstrable benefits in terms of risk management, cost savings, access to capital, as well as human resource management and innovation capacity. It also enhances our trust levels with stakeholders, including shareholders, customers, employee and communities.

Should we fail in our drive for sustainability to underpin our strategic direction, this could have a significant impact on our licence to trade, reputation and levels of established trust.

Social unrest

Incidents of social unrest in South Africa have been escalating, the result of a disaffected population protesting about lack of service delivery and job opportunities. Officially, the country's unemployment is at 29% but in certain regions of the country, particularly the rural areas, it is much higher.

This risk is partially mitigated by the integrated community forums we have established. However, should the country's broader issues not be resolved, the impact on our business could be disruptive.

Land restitution

Sappi is currently engaged in a number of land claims in South Africa. In the past 10 years, we have settled 37 claims involving 33,992 hectares of which claimants took ownership of 8,151 hectares and claims for 11,629 hectares in which claimants preferred to seek compensation. The balance of the land has been withdrawn from the claim by the Restitution on Land Rights Commission or the claim rejected by the Land Claims Court.

For many of the land claims in which we have been involved, and where there has been a change in ownership, we continue to buy the timber and help manage those plantations.

We are involved in some 60 land reform projects, helping beneficiaries to manage ±19,000 hectares of land. To ensure sustainable production from these properties, we have entered into supply agreements with the new beneficiaries and provide them with assistance. The level of assistance depends on the requirements of the project, but ranges from a pure supply agreement to a comprehensive forestry enterprise development agreement. The latter is a supply agreement which incorporates development objectives whereby Sappi provides technical and business training as well as administrative support to help entrench these new timber suppliers.

While we support the land claim initiatives generally, we have been frustrated by the implementation of policies and levels of bureaucracy. The forestry industry is a key driver of rural growth. If government could unlock some of the bureaucratic lagging, the attendant benefit would flow directly to rural communities.

Should the issue of bureaucratic lagging not be resolved, it could heighten social tensions and social unrest which, in turn, could negatively impact our operations.

17 PARTNERSHIPS FOR THE GOALS

Strengthen the means of implementation and revitalise the global partnership for sustainable development.

OUR KEY RELATIONSHIPS

We believe that building relationships with our stakeholders in a spirit of trust and mutual respect enables more tangible business value creation.

Our stakeholders

We view stakeholder engagement not as a once-off annual intervention but an ongoing dynamic process that enables us to respond to the changing nature of shared priorities of parties who are interested in, and affected by, our business. To enhance our understanding of, and communication with, our stakeholder groups we consider: expectations, existing relationships, cultural context and capacity to engage (language barriers, IT literacy, access to digital resources).

Our approach to engagement with all stakeholder groupings is based on inclusivity and the principles of:

- **Materiality:** Identifying the legitimate interests and material concerns of stakeholder groupings
- **Relevance:** Focusing on those issues of legitimate interest and material concern to our stakeholders and to Sappi, and identifying how best to address them for mutual benefit
- **Completeness:** Understanding the views, needs, performance expectations and perceptions associated with these legitimate and material issues, and assessing them against prevailing local and global trends
- **Responsiveness:** Engaging with stakeholders on these issues and giving regular, comprehensive, coherent feedback.

Our stakeholder work is aligned to the governance outcomes of King IV, namely ethical culture, performance and value creation, adequate and effective control and trust, good reputation and legitimacy.

In terms of feedback loops, we assess the quality of our relationships both formally (employee engagement and customer surveys, as well as Poverty Stoplight in South Africa and community forums) and informally (ongoing regular engagement with suppliers, investors, industry bodies and business, government, civil society and media).

Employees

We invest in future talent while challenging and enabling our people so that they are able to leverage the opportunities presented by our strategic direction and a changing world.

Shared priorities	Our response
Resources that enable our people to grow intellectually, fulfil their potential and drive innovation in Sappi	Invested an average of US$525 per person in training and development
Connection with Sappi's strategic goals and high levels of engagement	We conduct engagement surveys every second year (see Key material issues for more detail). At group level, leadership and direction as well as image and customer focus were identified as areas needing attention. Accordingly, we have introduced new leadership development programmes at senior and executive levels and are working to further entrench our One Sappi culture. We provide regular updates on progress towards our 2020Vision business strategy.
Effective safety, health, wellness and recognition programmes	• The theme for Global Safety Awareness week was *'We value safety'*. The message was reinforced by toolbox talks, safety games, competitions, addresses by media personalities and self-defence classes • Wellbeing and wellness programmes are tailored to the needs of each region • Our recognition programmes include: **Sappi Limited:** – *Technical Innovation Awards* – *CEO Award for Excellence* **SEU:** Annual *Coryphaena Award* **SNA:** *TOUTS Recognition Awards* and periodic regional *President's Awards* **SSA:** *Excellence in Achievement Awards (EAA)* **Sappi Trading:** *SMART Awards.*
Encourage employee volunteerism through initiatives like:	**SEU:** Support of various local education, cultural and environmental projects based on annual requests and identified needs. **SNA:** The Employee Ideas that Matter initiative through which we provide grants to employees to fund their individual projects to support good in local communities. **SSA:** Employee wellbeing committees at each mill support local community projects and support Mandela Day.

Opportunities for value creation

- Employees who understand and buy into our 2020Vision are pivotal to the success of our business – alignment with our strategic direction enables our people to contribute more positively to the business as well as their personal and career development
- By building our human capital, we establish a base of technical skills needed by the industry
- An increased commitment to safety delivers benefits at personal, team and operational levels
- By establishing an ethical culture where corporate citizenship is promoted, we ensure the ongoing viability of our business, enhance reputation and become an employer of choice.

Challenges for value creation

- Recruitment and retention of key skills
- Loss of institutional memory.

OUR KEY RELATIONSHIPS continued

17 PARTNERSHIPS FOR THE GOALS

Unions

Given challenging global economic conditions and current socio-economic dynamics across the world, particularly in the South African labour market, we prioritise our relationship with our employees and their representatives.

Shared priorities	Our response
Freedom of association and collective bargaining	Sappi endorses the principles of fair labour practice as entrenched in the United Nations Global Compact and Universal Declaration of Human Rights. At a minimum, we conform to and often exceed labour legislation requirements in countries in which we operate. We promote freedom of association and engage extensively with representative trade unions.
Safety and wellness initiatives	Unions are involved in health and safety committees at each mill.
Remuneration, working hours and other conditions of service	**SEU:** Collective labour agreements. In 2019, the overall industrial relations climate in Sappi Europe remained good, without any major issues. **SNA:** Collective bargaining with hourly paid employees and labour agreements with various unions. In 2019, we settled labour agreements with all four unions at Somerset Mill, the trade unions at its Westbrook Mill and two small unions representing railroad workers at the Cloquet Mill railroad. **SSA:** Employees (collective bargaining); forestry workers (sectoral determination/consultation) In 2019, the region successfully concluded a separate collective bargaining framework agreement with the majority trade union, Chemical Energy Paper Printing Wood Allied Workers Union (CEPPWAWU) for forestry operations. This will effectively replace the ministerial or government determination and allow for annual engagement on wages and conditions of employment for forestry workers, similar to pulp and paper as well as sawmilling segments of Sappi Southern Africa operations. We also settled wage negotiations for pulp and paper staff.
• **Resolving grievances** • **Engaging on strategy**	• Well-established grievance channels and disciplinary procedures • We regularly engage with unions on economic conditions, market dynamics and growth plans.

Opportunities for value creation

- Good employee/management relations enable us to resolve new and difficult labour issues as they develop
- When employees understand strategic direction and operating context, they are more likely to be engaged, leading to a more stable labour force and higher levels of productivity.

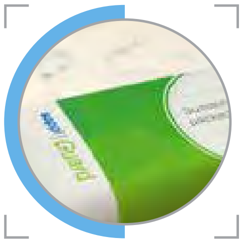
Challenges for value creation

- Multi-union landscapes, particularly in North America and South Africa, are adding to complexities in the labour environment.

Customers

We adopt a partnership approach, where we develop long-term relationships with global, regional and local customers. We also accommodate more transactional customers. Where relevant, we will conduct R&D and develop products to suit customers' specific needs.

In addition to the usual avenues of engagement, we engage through initiatives like the Sappi Football Cup (Sappi Europe); Ideas that Matter (ITM) and by sponsoring the Citrus Research Symposium (Sappi Southern Africa).



Shared priorities	Our response
High levels of service	We moved to a single customer relationship management (CRM) system across all regions. This enabled us to manage customer relationships more effectively and provide better service by leveraging customer data and sales processes across the globe.
New or enhanced products that meet rapidly changing market demand	In 2019 we launched: • Atelier GC1 paperboard with the brand promise 'brilliance meets function' • Transjet Drive, a sublimation paper optimised for industrial printers with a glue-belt system • We relaunched Sappi OHG, the first paper wrapper for confectionery bars • We launched Sappi Seal, a paper-board packaging solution to replace heat-sealing laminates by material with a high share coming from renewable sources • Heaven 42 under the auspices of IGEPA which owns the brand • A range of new release paper textures including Selva, Optima and Fiesta.
Support for paper, packaging, DWP and sustainability goals	For DWP, technical centres of excellence are located at Saiccor and Cloquet Mills; Sappi joined the Sustainable Apparel Coalition (SAC). Customers can use the competence centre for speciality papers and paper laboratory at Alfeld Mill. In North America, the Sustainability Customer Council provides candid feedback, identifies emerging issues and helps to establish goals. In South Africa, we co-fund with Cellmark (through its Paperseed Foundation) projects in our Tugela Mill community. Funding is in the form of US$0.50 per ton of sales per partner.

Opportunities for value creation

- Meet customer needs for products with an enhanced environmental profile
- Innovate to align with evolving market trends
- Increase awareness of the importance of sustainability
- Promote our customers' own sustainability journeys
- Keep abreast of market developments
- Showcase our products and promote the Sappi brand.

Challenges for value creation

- Confusing harvesting with deforestation and lack of understanding about the manner in which the forests and plantations from which we source woodfibre help mitigate global warming.

17 PARTNERSHIPS FOR THE GOALS

OUR KEY RELATIONSHIPS continued

Customers continued

Shared priorities	Our response
Information and campaigns to promote print as a communication medium and encourage the use of packaging	We showcased our brands at Fachpak, Nuremberg; FESPA, Munich; Interzum, Cologne; LabelExpo, Brussels; Luxe Pack Shanghai; Northwest Materials Show, Portland; Packaging Premiere, Milan and the PRINTING United tradeshow in Dallas. Globally, we continue to participate in industry initiatives like TwoSides.
Information about the fibre sourcing and production processes behind our brands	At the request of our customers, we participate in EcoVadis and Sedex in all regions. **SEU and SSA:** We make paper profiles, wood origin declarations and information sheets available for our papers. **SNA:** Has an updated eQ GHG calculator on the Sappi North America e-commerce portal. This online tool enables our salesforce and customers to calculate carbon savings achieved by buying our graphic and packaging products compared to the industry average. See page 28 for details of Sappi North America's investment in Forest in Focus, a joint undertaking of the American Forest Foundation and GreenBlue/Sustainable Packaging Coalition.
Providing technical information	Globally, a series of technical brochures is available on our website www.sappi.com **SEU:** • The Sappi Houston online knowledge platform for graphic paper • The PSP site to provide targeted information on packaging and speciality papers (www.sappi-psp.com) **SNA:** • The POP site is aimed at marketers, creatives, designers and printers looking to innovate in their categories (www.sappipops.com) • Sappi etc is an educational platform for designers and printers (www.sappi.com/sappietc) **SSA:** Our paper and paper pulp product offerings are supported by strong technical teams at each mill and the technology centre in Pretoria.

Creating value by responding strategically

Communities

We work to incorporate communities close to our operations into our journey of intentional evolution, which recognises the importance of sharing value with all our stakeholders; conserving natural resources and uplifting people so that they are well positioned to thrive in our increasingly interconnected world.

Community engagement meetings take various formats in our mills in the regions where they operate. These range from broad liaison forums for business, local government and communities to legally mandated environmental forums that form part of the licensing conditions of mills. In South Africa, there are local farmer and community forums related to our forestry communities.

Our initiatives are described in more detail in our **2019 Group Sustainability Report** on www.sappi.com/sustainability.

Shared priorities	Our response
Community support including employment, job creation, business opportunities, economic and social impacts/ contributions and community support	**SEU:** Mills offer support and financial sponsorships to local schools, sport and hobby clubs, forest products industry students, local safety/environmental organisations and support local charities. Supporting youth in our communities was a key priority in 2019. SOS Children's Villages International, Save the Children and Global Exploration were some of the charities that we contributed to. Engagement and contributions to local schools are also made. **SNA:** • Each business unit has a lead sustainability ambassador who is responsible for supporting sustainability communication, conducting training and fostering community engagement through local projects • Education programmes are supported at targeted colleges and universities as are programmes to encourage study in fields relevant to our operations • Our employees supported initiatives like Living Lands and Waters and the Charles River Watershed Association focused on environmental stewardship and education • The Ideas that Matter programme, now in its 20th year, recognised and rewarded designers who support good causes • The Employee Ideas that Matter programme allows employees to apply for grants made by Sappi to their favourite non-profit or charity. **SSA:** • Given South Africa's significant development needs, the bulk of community support is allocated to this region. Support is directed to education, environment and socio-economic development, based on helping communities help themselves. Initiatives include: • Sappi Khulisa, our enterprise development scheme for timber farmers • The Abashintshi Youth programme • Early childhood development • Education, including Khulisa Ulwazi, our training centre for small growers and two training centres for local unemployed youth, one at Saiccor Mill and the other at Ngodwana Mill • Support for local tourism through our mountain biking and trail running sponsorships and promoting recreational riding on Sappi land. In Sappi Southern Africa, we have appointed a specialist team to drive local procurement.

Opportunities for value creation

- Enhanced licence to operate and thrive
- Promoting socio-economic development which could, in the long term, lead to increased demand for our products
- Initiation of real social mobilisation and change for the better.

Challenges for value creation

- Community expectations for jobs and service delivery.

Sappi North America supports Living Lands & Waters, an Illinois-based environmental organisation established in 1998 to clean up America's rivers. It has become the only 'industrial strength' river clean-up operation of its kind in the world.

Spending up to nine months a year living and travelling on a barge, the Living Lands & Waters clean-up crew hosts river clean-ups, watershed conservation initiatives, workshops, tree plantings and other key conservation efforts. Through our corporate sponsorship, employees volunteer in river clean-ups.

To date, the organisation has removed around 4 million kilograms of rubbish and debris from 24 rivers in 21 states.

17 PARTNERSHIPS FOR THE GOALS

OUR KEY RELATIONSHIPS continued

Industry bodies and business

We partner with industry and business bodies to provide input on issues and regulations that affect and are relevant to our businesses and industries. We also support and partner with industry initiatives aimed at promoting the use of our products.

One of our longest relationships is with the United Nations Global Compact, to which we have been a signatory since 2008.

Shared priorities

- **Issues that affect the sustainability of our industry including woodfibre base, carbon taxes, energy and emissions**
- **Ethical issues impacting business**
- **Energy issues in general and government proposals on carbon taxation in particular**
- **The impact of increased regulations on business**
- **The benefits of our industry and our economic contribution to society**
- **Social and environmental credentials of our products**

Our response

Globally in 2019:

- We became a member of the Sustainable Apparel Coalition and will use its sustainability measurement suite of tools, the Higg Index, to drive environmental and social responsibility throughout our supply chain. With this membership, we join over 240 global brands, retailers and manufacturers, as well as government, non-profit environmental organisations and academic institutions that are collectively committed to improving supply chain sustainability in the apparel, footwear and textile industry
- We continued our work with the Cambridge Institute of Sustainability and other partners on blockchain technology for timber certification (see page 59 of this report for details of the Trado project) and developing new low-carbon pulp technology (deep eutectic solvents).

We are an investor in the Forests in Focus tool in the USA, which strives to assess and evaluate forest-based risks within wood baskets for customers, investors and stakeholders, using credible scientific public data collected by state and federal government agencies. https://greenblue.org/work/forests-in-focus-landscape-assessment/

We celebrated 20 years of partnership with Borregaard of Norway for our LignoTech South Africa joint venture which extracts lignin from Saiccor Mill's effluent stream. Output is sold in South Africa and exported to countries in Africa, Asia Pacific, Middle East and South America for a range of applications including dust suppression, concrete additives, pelleting agents in animal feeds and mineral granulation aids.

Opportunities for value creation

- Develop sustainable, transparent supply chains
- Maintain and expand markets for our products
- Dispel myths and enhance understanding of our environmental and social credentials
- Promote dialogue.

Challenges for value creation

- High cost of membership and resource allocation involved in certain memberships.

Our membership of industry associations

Sappi Limited	Sappi Europe	Sappi North America	Sappi Southern Africa	Sappi Forests
Business Leadership South Africa, Cambridge Institute for Sustainability Leadership, Paris Pledge for Action, Programme for the Endorsement of Forest Certification™ (PEFC™), Sustainable Apparel Coalition, Technical Association of the Pulp and Paper Industry (TAPPI), The CEO Initiative, The Ethics Institute, United Nations Global Compact	Confederation of European Paper Industries (CEPI), Eurograph, European Joint Undertaking on Biobased Industries, Print Power, Save Food, The Alliance of Energy-Intensive Industries, The Two Team Project (focusing on breakthrough technology concepts in the industry that could enable a more competitive future), TwoSides	American Forests and Paper Association (AF&PA), Paper and Paper Packaging Board, Agenda 2020 Technology Alliance, Forest Products Working Group, Forest Stewardship Council™ (FSC™), Sustainable Packaging Coalition (SPC), *Sustainable Forestry Initiative® (SFI®) *The Recycling Partnership, TwoSides	Business Unity South Africa. Public Private Growth Initiative, Energy Intensive Users' Group. Fibre Processing and Manufacturing Skills Education and Training Authority (SETA). Forestry South Africa, Forest Stewardship Council™ (FSC™). Packaging SA. Paper Manufacturers' Association of South Africa (PAMSA), Recycle Paper ZA. Printing Industries Federation SA (PIFSA). Manufacturing Circle, South African Chamber of Commerce and Industry (SACCI) and local chambers of commerce and industry, TwoSides, National Business Initiative (NBI)	Institute for Commercial Forestry Research (ICFR), Founding member of the Tree Protection Co-operative Programme (TPCP), Biological Control of Eucalypt Pests (BiCEP) (**www.bicep.net.au**), Eucalyptus Genome Network (EUCAGEN), CAMCORE

Investors

Our aim is to provide investors (shareholders and bondholders) and analysts with transparent, timely, relevant communication that facilitates informed decisions.

Shared priorities

- **Information on Sappi's strategy, debt levels and key developments such as the acquisition of Matane Mill in Canada**
- **Return on investment**
- **Transparent information about risks, opportunities and environmental, social and governance (ESG) performance**

Our response

- Our investor relations (IR) department engages with shareholders and analysts continually
- Our Chairman and CEO engage with shareholders on relevant issues
- We engage with various ratings agencies, particularly on ESG performance. We conduct ad hoc mill visits and road shows and issue announcements through the JSE Stock Exchange News Services (SENS), in the press and on our website (see www.sappi.com/SENS)
- We publish our annual integrated report (see www.sappi.com/annual-reports) and sustainability reports (see www.sappi.com/sustainability) on the group website

Shareholders can attend and participate in the Annual General Meeting (AGM) as well as the four quarterly financial result briefings

- Our Chief Financial Officer and Head of Treasury engage with bondholders, banks and rating agencies continually on the performance of the company
- We participate in the CDP disclosure projects every year, making our submissions publicly available.

Opportunities for value creation

- Understanding our strategic direction
- Enhanced reputation
- Greater investment confidence
- Broader licence to invest.

Challenges for value creation

- Global economic uncertainty, trade wars, reduced demand, lower pricing.

Government and regulatory bodies

We engage with government departments and regulatory bodies to provide input on issues and regulations that affect our industry. We also engage with regional and local governments and local authorities to obtain support for our operations and show how our activities contribute to local economic and social development.

Shared priorities

- **The social and economic benefits of our industry nationally and at a local level**
- **Increased investment**
- **Energy issues in general and government moves on carbon taxation, decarbonisation and recyclability in particular**
- **The impact of increased regulations on business**

Our response

- In 2018 our group CEO made commitments at the first investment conference hosted by the South African President, announcing R2.7 billion to expand Sappi Saiccor Mill's dissolving wood pulp capacity by 110,000 tons per annum (for global textile markets); and R5 billion for upgrade projects at the mill to decrease production costs, introduce new technology, optimise processes, reduce environmental footprint and future-proof manufacturing systems at Saiccor Mill
- Ongoing consultations with government departments and regulatory bodies in each region. In Europe we also regularly engage with the European Commission. (See Our operating context: Regulatory and environmental issues on page 26)
- We brief legislators
- We support specific government initiatives, including in South Africa the renewable energy drive; our biomass project at Ngodwana Mill is under construction.

Opportunities for value creation

- Promote understanding of issues and challenges, as well as the strategic value of our industry
- Help create a more receptive regulatory and policy environment.

Challenges for value creation

- Policies which do not take our high use of biobased energy into account
- Administrative delays.

17 PARTNERSHIPS FOR THE GOALS

OUR KEY RELATIONSHIPS continued

Suppliers and contractors

We are committed to establishing mutually respectful relationships with our suppliers and encouraging them to join our commitment to economic, social and environmental responsibility and creating a shared commitment to doing business with integrity and courage; making smart decisions which we execute with speed, underpinned by a commitment to safety. We aim to build long-term value partnerships, based on the importance of suppliers to a sustainable supply chain.

Shared priorities	Our response
• **Safety** • **Transparency**	• Given our focus on zero harm in the workplace, we work with our contractors to ensure that they follow our safety systems. In South Africa, Sappi Forests works closely with contractors and their workers in implementing its innovative *Stop and Think Before You Act* safety initiative • Rolled out our Group Supplier Code of Conduct (for further details on page 59).
• **Increased value** • **Decreased costs** • **Security of fibre supply, certification, income generation and job creation**	**SEU:** A joint sourcing partnership assists in negotiating better terms with timber and other suppliers. In addition, we are a member of the Confederation of European Paper Industries (CEPI), which participates in actions supporting and promoting the development of sustainable forestry management tools, including forest certification, globally, particularly in less developed countries. **SNA:** • The Sappi Maine Forestry programme and the Sappi Lake States Private Forestry programme assist forest landowners to meet their objectives for managing their woodland. Sappi's trained foresters are able to develop a forest management plan geared to the interests of the landowner including wildlife management and aesthetics, marketing timber to generate maximum return and providing an extensive network of environmental and marketing resources • Procurement practices extend far beyond avoiding controversial sources by requiring the promotion of biodiversity, logger training, forest research, landowner and community outreach, and implementation of best management practices for soil and water conservation, as evidenced by our conformance to the SFI® Fibre Sourcing Standard. **SSA:** • Qualified extension officers provide growers in our Sappi Khulisa enterprise development scheme with ongoing growing advice and practical assistance • We have established a training centre, Khulisa Ulwazi, for Khulisa growers. The objective is to develop growers' and contractors' skills so that they can conduct silviculture operations economically and to a good standard. Training material has been developed in conjunction with the Institute of Natural Resources and covers area like entrepreneurship, fire management, harvesting planning, leadership and management development, as well as safety • At the end of September 2019, Sappi was involved in 60 land reform projects, helping beneficiaries to manage approximately 18,320 hectares of land. Many of these properties previously belonged to commercial farmers who had supply agreements with Sappi. For many of the land claims in which we have been involved, and where there has been a change in ownership, we continue to buy the timber and help to manage those plantations • Sappi Forests pays small growers a premium for certified timber.

Opportunities for value creation

- Security of woodfibre supply
- Improved supplier relations
- Better understanding of the requirements of the Sappi group
- Expanded basket of certified fibre
- Support for local economic development
- Support for emerging supplier/contractor development.

Challenges for value creation

- Balancing the need to support SMMEs with the need to source from suppliers with strong social and environmental credentials.

17 PARTNERSHIPS FOR THE GOALS

Civil society and media

We maintain an open relationship with the media, believing that an informed media is better able to serve public reporting and debate on any issue.

We continue to update the media on our strategic shifts to extract value from woodfibre in line with future trends. We engage with civil society organisations on issues of mutual interest and belong to key organisations relevant to our operations. We engage with various civil society groups on our societal and development impact.

Globally we interact and engage with a wide range of non-governmental organisations, especially through our participation with the forest certification systems (FSC™, PEFC™ and SFI®). We actively contribute to the growth of forest certification world-wide and collaborate with diverse stakeholders. In South Africa, Sappi is a member of the local WWF organisation as well as FSC™ and has worked closely with PEFC™ to develop a forestry assurance standard, now known as the South African Forestry Assurance Standard (SAFAS).

Shared priorities

- **Business developments**
- **The future of our industry**
- **Our impacts on our communities**
- **Protecting the environment**

Our response

- Join key credible organisations as members.
- Develop personal relationships and engage continually.
- We provide support to and sponsorship for key organisations on issues of mutual interest.

We have joined The Forest Dialogue whose unique purpose is to utilise a constructive dialogue process among key stakeholders, to build relationships and to spur collaborative action on the highest priority issues facing the world's forests.

SSA: In terms of civil society, in South Africa, our forestry operations belong to a number of fire associations, given that fire is a key risk on our plantations. We also provide funding for BirdLife South Africa and have established a project which coordinated efforts to re-establish the *Warburgia salutaris* (pepper-bark tree) in communities and the wild.

SNA: We support the Ruffed Grouse Society; the Dovetail Partners which works to promote bat habitat conservation efforts in the state and the University of Minnesota Sustainable Forests Education Cooperative.

SEU: We participate in the Save Food initiative, signalling a firm commitment to better protection of all foodstuffs globally. Save Food is a joint initiative of the Food and Agriculture Organization of the United Nations (FAO), the United Nations Environment Programme (UNEP), Messe Düsseldorf and Interpack, the world's leading trade fair for processes and packaging.

Opportunities for value creation

- Opportunity to inform and educate media
- Transparent, two-way communication and opportunity for dialogue with civil society and media.

Challenges for value creation

- Misunderstanding of our environmental impacts.

Hear the word 'connect' and you invariably think of digital connection. There is no doubt it has profoundly and irrevocably changed humanity. However, there is another way of connecting – travel – that has an equally significant effect. The evolution of the railroad and the car shifted travel by horseback and wagon to one side, as the aeroplane did with ocean liners.

As an example – in 1949, flying from London to New York took around 20 hours. Today, 70 years later, it takes just over seven hours.

The benefit of shortening travel times is that it can enhance human connection by truncating time and space. This in turn can increase understanding and appreciation for geographic and cultural differences it drives home the message that it is our diversity that makes us stronger. At Sappi we believe in the power and the benefit of diversity and a multiplicity of views. Human connection and interaction is what drives us forward and makes for a successful business. The power of trust, mutual understanding and support flowing from our ongoing engagement with our stakeholders underpins this success and cannot be replicated without connection.

It is why we hold an employee engagement survey every two years. Why we listen closely to our customers and design products and services to meet their needs. Why we pay attention to the needs of the communities in which our operations are situated. Why we collaborate closely with our industry partners.

It is how we ensure that all our stakeholders are listened to, heard and valued. It is how we anticipate future trends and challenges to ensure we are shaping the realities of today to connect with tomorrow.

AT A GLANCE: INTEGRATING OUR KEY MATERIAL ISSUES

Our reporting reflects our support of the 3Ps model, which we believe offers an integrated approach to value creation.

In addition to the 3Ps, we consider the material issues in relation to the Principles, which form the ethical foundation of our business, and underpin our ability to create value.

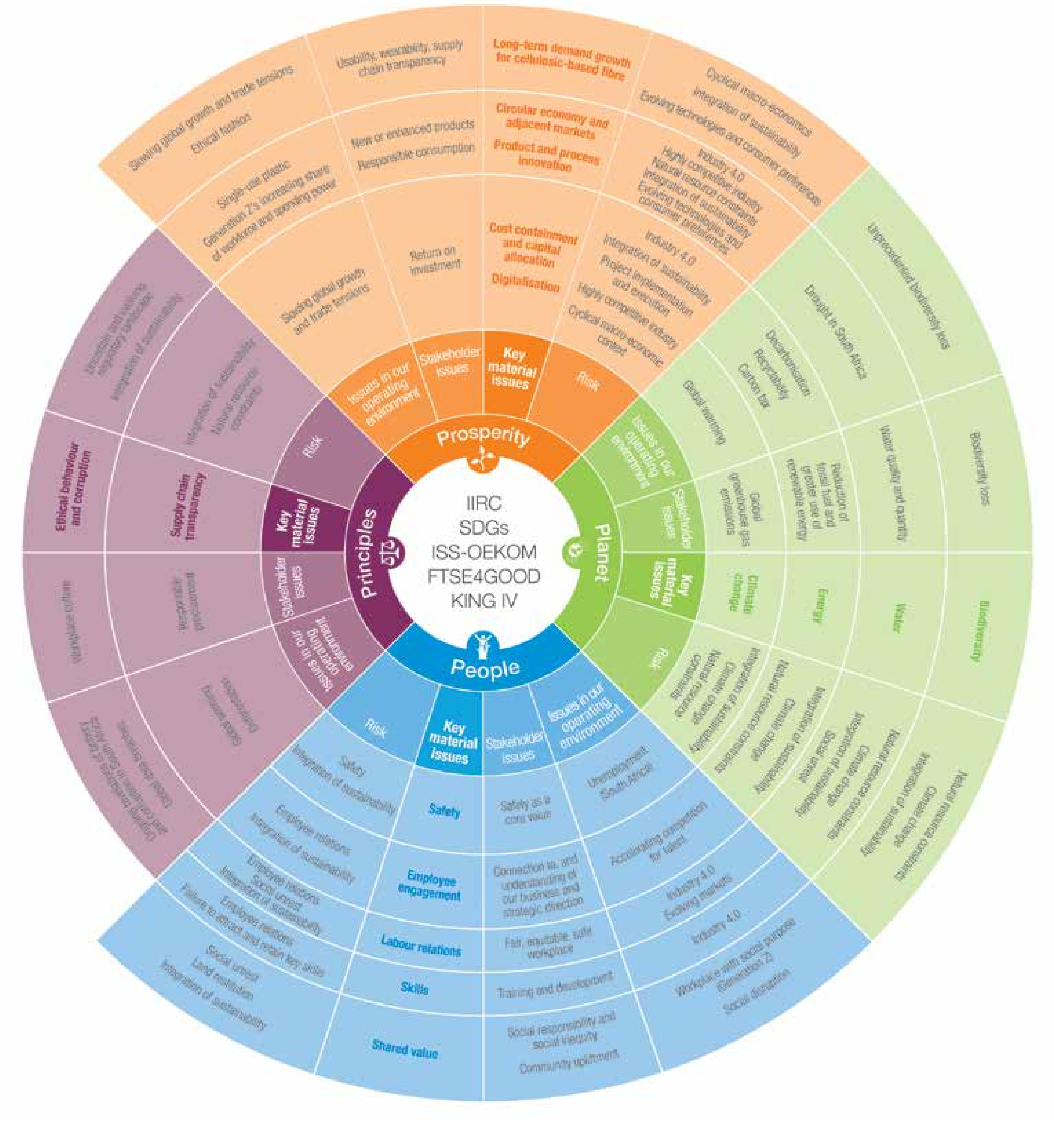
We are committed to continually improving our reporting to our stakeholders.

In doing so, we are guided by leading thinking, including but not limited to the International Integrated Reporting Council, the SGDs, ISS-OEKOM, the FTSE4GOOD and King IV.

The connectivity of our reporting extends beyond the 3Ps and the Principles that support it.

Indeed our operating context, risks and stakeholder concerns inform the material issues that we report against.

The links between our operating context, risk, key relationships and key material issues



OUR ALIGNMENT WITH THE SDGs

In alignment with the spirit of the first UN Summit on the SDGs: Gearing up for a decade of action and delivery for sustainable development, in 2019 we established a working group to prioritise the SDGs most relevant to our business and develop related action plans. As set out below, we have identified seven global priority SDGs where we can make the biggest contribution, either by reducing our negative impacts or increasing our positive contributions. In South Africa, we have also identified *SDG1: No poverty* and *SDG4: Quality education* as priorities. Further detail is provided in our group and regional sustainability reports, available on www.sappi.com.

SDG	What does this goal mean to Sappi?	How are we translating the goal into action?
6 CLEAN WATER AND SANITATION	Water is an essential natural resource on which our company depends. We need to use it responsibly and demonstrate that we take this responsibility seriously. Water quality, availability and access are critical issues impacting sustainable development, but the diversity and severity of water issues vary widely between regions, countries and/or specific locations.	We have proposed a global indicator that will focus on water consumption as measured by water-use efficiency (m^3/adt). It will only apply to Sappi mills in water-scarce locations. Across all our mills, the topic of water stewardship will be embedded to ensure we take a proactive and responsible approach to managing water issues holistically, even in locations not considered water scarce.
7 AFFORDABLE AND CLEAN ENERGY	As an energy-intensive industry, our fuel choices have a major impact. Where SDG 13 focuses more directly on CO_2 emissions, the point of relevance for this goal is explicitly the share of renewable energy within our total energy consumption. The proposed indicators should help to profile our progress as well as encourage us to continually improve and look for new energy solutions. A reduction in energy intensity is another, complementary way that Sappi can contribute to this goal.	Global indicators will focus on the share of renewable energy (%) in total energy and specific total energy (STE, GJ/adt).
8 DECENT WORK AND ECONOMIC GROWTH	Given that we are a responsible business operating in many locations around the world and employing over 13,000 people, this goal is strongly linked to Sappi´s commitments to Prosperity and People.	We have identified indicators that adequately cover the scope of this goal and reflect both the desire to measure and reduce negative impacts (accidents) and quantify positive contributions (contribution to local economies) and specifically reflect sustainability aspirations. Proposed indicators are: • Safety (LTIFR) • Percentage procurement spend with declared compliance with Supplier Code of Conduct • Gender diversity: proportion of women in middle and senior management • Employment engagement survey • EBITDA

SDG	What does this goal mean to Sappi?	How are we translating the goal into action?
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Manufacturing products from sustainably harvested, renewable forest resources is the core of our business. Correspondingly, there are many points of relevance for how Sappi can contribute to this SDG, especially from the perspectives of manufacturing, product design and product use/end of life. We operate according to circular economy principles by using resources efficiently and reducing waste generation, from manufacturing processes through to end-of-life product recycling. With investments in R&D and new product development, Sappi's innovation continually strives to create new products and value from woodfibre and side streams. Not only does this work improve resource use, but in many cases, it also generates products that have superior sustainability credentials to the conventional products that they replace.	The global indicators we have proposed include reduction of specific landfilled waste and new products launched with defined sustainability benefits.
13 CLIMATE ACTION	Taking urgent and appropriate actions to combat climate change and its impacts is a shared responsibility reinforced within the Paris Agreement and regional and national regulations and/or initiatives. For Sappi the obvious and direct connection to this SDG is through our CO_2 emissions, and our actions and commitments to reduce them.	We are looking to set an ambitious strategic goal to decarbonise (Scope 1 and 2) to prevent a 1.5°C temperature rise. We will also intensify efforts to work with suppliers and customers to reduce CO_2 emissions (Scope 3 actions).
15 LIFE ON LAND	This SDG seeks to protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, as well as reverse land degradation and halt biodiversity loss.	With Sappi's excellence in sustainable forest management and strong reliance on forest certification systems, we can make a positive impact on this goal by continuing to increase our positive contributions towards sustainably managed forests and using our established global forest certification goal as an indicator. Looking ahead, we plan to take a more active, collaborative role on forest-related issues and expand our use of social media to promote awareness of the issue, as well as our activities to enhance life on land.
17 PARTNERSHIPS FOR THE GOALS	While Sappi is already engaged and contributing to many partnerships and collaborations, there are many further opportunities in the sustainability arena for us to become more involved generally, or in pursuit of our SDG commitments specifically. The intention with this goal is further strengthen our contribution to partnerships in a way that is well aligned with our priority SDGs and topics, and where a partnership approach can support us in contributing more actively and effectively to various issues.	We will focus on building and activating partnerships to contribute to our priority SDGs and topics including: climate change and forests, sustainable forest management, water stewardship, responsible procurement, innovation, circularity and energy policy.

OUR KEY MATERIAL ISSUES

The issues set out on the following pages are those that we believe underpin our strategic risks and opportunities and have the highest potential impact – positive and negative – on stakeholder value.

How we determine materiality

We take various stakeholder guidelines into account, including those set out in terms of the Sustainable Development Goals, the Global Reporting Initiatives, the International Integrated Reporting Council and King IV, as well as ratings agencies such as ISS-OEKOM and the FTSE4GOOD Index Series

Regulatory and reporting guidelines are mapped against stakeholder issues, as well as trends and developments in the external operating environment

How relevant is each issue to our business?

How does each issue impact our ability to create value in the short, medium and long term?

We regularly review our key material issues and their alignment with our strategy of intentional evolution

Our material issues

PRINCIPLES
- Supply chain transparency
- Ethical behaviour and corruption

PROSPERITY
- Cost containment and capital allocation
- Digitalisation
- Product and process innovation
- Circular economy and adjacent markets
- Long-term demand growth for cellulosic based fibres

PEOPLE
- Safety
- Employee engagement
- Skills
- Shared value
- Labour relations

PLANET
- Climate change
- Energy
- Water
- Biodiversity

PRINCIPLES

Supply chain transparency

MATERIAL ISSUE

Why it is important

Visibility into the supply chain helps identify risks and issues early, and also addresses consumer concerns about issues like deforestation.

How it links to other aspects of our business

17 PARTNERSHIPS FOR THE GOALS

Operating context: Increasing consumer and brand owner concerns about sustainability-related issues

How it links to risk

5 Natural resource constraints

Emerging risk

Integration of sustainability

WHAT WE DID ABOUT IT IN 2019

- Rolled out our Supplier Code of Conduct across the group and began the review process by assessing raw material suppliers in countries with a score of 50 or lower in the Global Corruption Perception Index
- Participated in Trado, a consortium including the Cambridge Institute for Sustainability Leadership that is testing blockchain technologies. The project is trialling the concept by using a shared data system for tea farmers in Malawi that supply Unilever and United Kingdom-based supermarket Sainsbury's.

Ethical behaviour and corruption

MATERIAL ISSUE

Why it is important

Creating clear boundaries and a consistent framework across geographies for ethical behaviour provides a foundation for unlocking growth opportunities as One Sappi.

How it links to other aspects of our business

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

17 PARTNERSHIPS FOR THE GOALS

Operating context: Increasing consumer and brand owner concerns about sustainability-related issues

How it links to risk

7 Uncertain and evolving regulatory landscape

Emerging risks

Integration of sustainability

WHAT WE DID ABOUT IT IN 2019

Global training on ethics targeted relevant new employees across the group, while regional training covered topics relevant to each region including general data protection regulations (GDPR) in Europe, insider trading in North America and the Protection of Personal Information (POPI) Act in South Africa.

OUR KEY MATERIAL ISSUES continued

PROSPERITY

Cost containment and capital allocation

MATERIAL ISSUE

Why it is important

Ongoing investment and cost containment are strategic pillars of competitive advantage.

How it links to other aspects of our business

8 DECENT WORK AND ECONOMIC GROWTH

Achieve cost advantages

Maintain a healthy balance sheet

How it links to risk

- R 2 Cyclical macro-economic context
- R 4 Highly competitive industry
- R 6 Project implementation and execution

WHAT WE DID ABOUT IT IN 2019

- Acquired Matane Mill in Quebec, Canada with capacity of 270,000 tons per annum of aspen and maple high-yield pulp to deliver the following benefits:
  - Increased levels of pulp integration by supplying pulp to our United States and European packaging operations
  - Secure supply of a raw material critical to product quality
  - Reduced input pricing and volatility in profitability
  - Avoid higher capital cost of internal high-yield pulp capacity
- Completed a rebuild of PM8 at Lanaken Mill in Belgium. The PM can now produce woodfree coated paper in addition to lightweight coated paper, enhancing our ability to meet market demand
- Took downtime at certain mills and began an asset review in Europe and North America in line with reduced demand in key markets.

Digitalisation

MATERIAL ISSUE

Why it is important

Digital solutions offer a new platform for innovation and efficiency as well as enhanced connection with customers and employees.

How it links to other aspects of our business

8 DECENT WORK AND ECONOMIC GROWTH

Achieve cost advantages

Operating context: Generation Z

Emerging risks

Industry 4.0

Integration of sustainability

WHAT WE DID ABOUT IT IN 2019

- Launched digital group-wide learning initiatives
- In Sappi Europe:
  - Appointed a head of digital transformation
  - Launched Octoboost, an internal technology start-up whose core mission is to develop innovative digital solutions for the print industry
  - Signed a global strategic alliance with PerfectPattern to roll out artificial intelligence (AI) driven dynamic print planning and ganging technology to print businesses world-wide.

Product and process innovation

MATERIAL ISSUE

Why it is important

We view innovation not as an end in itself, but as an integral aspect of our business that provides sustainable, competitive advantages which make a significant difference.

How it links to other aspects of our business

8 DECENT WORK AND ECONOMIC GROWTH

17 PARTNERSHIPS FOR THE GOALS

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Achieve cost advantage

Operating context: Increasing consumer and brand owner concerns about sustainability-related issues

How it links to risk

3 Evolving technologies and consumer preferences

Emerging risks

Industry 4.0
Integration of sustainability

WHAT WE DID ABOUT IT IN 2019

- Piloted a new-generation manufacturing execution system to leverage data analytics make our processes more efficient and productive and enable tracking of information on quality, raw materials and environmental aspects
- Continued to promote internal innovation through the Technical Innovation Awards. In 2019, Sappi Europe was named the 2018 winner for designing a completely new 'three layers in one headbox' for paperboard packaging that combines good printability with high bulk and good creasability. This step-change technology was successfully applied to the rebuild of PM6 at Maastricht Mill, making it the only producer world-wide to use this novel concept for its packaging product range
- Collaborated closely with a specialist packaging converter and a global fast-moving consumer goods (FMCG) company to develop breakthrough proprietary barrier technology and support the launch of a new confectionery snack bar wrapped in recyclable paper (see box below)
- Invested US$42 million in R&D initiatives.

An innovative solution for the circular economy

Packaging for the food industry that meets stringent health and safety standards and that is also recyclable is a longstanding challenge. Sappi has been working with leading consumer brand owners to develop and supply renewable paper-based packaging solutions by understanding and supporting the goals of making their packaging recyclable without compromising on food protection and shelf life.

One example of this is the new Sappi Guard range of products. These innovative papers for flexible packaging come with integrated barriers against oxygen, water vapour, grease, aroma and mineral oil. Thanks to the integrated barriers, there is no need to apply special coatings or laminations. The work was enabled by Sappi's 2017 acquisition of barrier film technology company Rockwell Solutions.

Sappi used this technology when it worked with a global FMCG company and a specialist flexible packaging converter to develop the wrapper for a new confectionery snack bar. The launch of the new snack bar highlights the benefits of collaboration across the value chain in a focused effort to increase the use of recyclable packaging made from renewable woodfibre.

OUR KEY MATERIAL ISSUES continued

Circular economy and adjacent markets

MATERIAL ISSUE

Why it is important

Producing more with less has become a global focus in light of a burgeoning global population and subsequent pressure on resources.
In keeping with the approach outlined above, our aim is to extract more value from each tree and in doing so, move into adjacent markets in order to strengthen our core business model.

How it links to other aspects of our business

8 DECENT WORK AND ECONOMIC GROWTH — Accelerate growth in higher margin growth segments

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

Operating context: Increasing consumer and brand owner concerns about sustainability-related issues

How it links to risk

R 3 — Evolving technologies and consumer preferences

R 4 — Highly competitive industry

R 5 — Natural resource constraints

WHAT WE DID ABOUT IT IN 2019

- In August 2019, we commissioned the pre-hydrolysis liquor (PHL) evaporator at Ngodwana Mill, moving into the second phase of our sugar extraction project. This is to demonstrate industrial-scale operability of the technology to concentrate hemicellulose sugar streams, extracted from the wood, to levels required for downstream technologies. The work enables derisking the full-scale implementation of the sugar concentration technology, in turn opening up new revenue generation opportunities in the xylitol and furan chemistry value chains
- We progressed the design of a furfural pilot plant to be established at Saiccor Mill. The plant will illustrate the technology, produce commercial samples and provide greater clarity on process economics. We anticipate beneficial operation in 2021
- Construction of a 25MW Ngodwana energy biomass power plant at Ngodwana Mill, in which we have a 30% stake, began in July. The plant will use biomass from surrounding plantations to generate power that will feed into the national grid
- We are building on our established position in lignin markets to expand into high-value markets, including substitution for phenol which is widely used in household products and as intermediates for industrial synthesis, as well as replacement for petrochemicals in foams. We are also diversifying into lignin as a replacement for starch in manufacturing recycled paper, as a fuel pellet binder and in the area of animal health and nutrition
- We began testing fuel rods in one of the boilers at Tugela Mill. The rods, manufactured at Ngodwana Mill, comprise a mixture of waste coal slurry (from discarded thermal-grade coal fines), biomass and lignosulphonates. If positive results are achieved, the demonstration facility at the latter mill will be upgraded
- We are advancing our Valida fibrillated cellulose technology and continue to conduct third-party development work with prominent global brand owners and technology institutions to develop a variety of applications where Valida's functionality can enhance everyday products responsibly and sustainably. The product is also being used to develop new advanced paper grades with greater strength and unique barriers
- In terms of biocomposites, we continue to develop markets for Sappi Symbio which brings the haptics of nature and reduced environmental footprint to plastic composite materials. Sappi Symbio is a specially prepared and easy-to-use cellulose fibre ready to be easily dispersed into plastic compounds. Symbio compounds can be injection moulded and blow moulded into components for various sectors, including automotive, furniture, utensils, appliances and consumer electronics. Weight reduction, warm touch and high stiffness are just some of the product's many benefits.

Long-term demand growth for cellulosic-based fibres

MATERIAL ISSUE

Why it is important

Increasing our capacity in the DWP market aligns with our strategy of refocusing operations away from graphics paper to the higher-margin DWP sector, together with specialised packaging products and the biotech sectors.

How it links to other aspects of our business

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Accelerate growth in higher margin growth segments

Operating context: Increasing consumer and brand owner concerns about sustainability-related issues

How it links to risk

3 Evolving technologies and consumer preferences

Emerging risk

Integration of sustainability
Cyclical macro-economics

WHAT WE DID ABOUT IT IN 2019

- Completed a US$25 million capital investment at Cloquet Mill to debottleneck areas of the pulp manufacturing process and add 30,000 tons per annum of DWP production capacity
- The expansion of Saiccor Mill to add 110,000 tons per annum of DWP capacity was around 40% complete at year-end and is on track for completion in the last quarter of 2020.
- We continue to engage with customers to develop products and solutions for the market.

The uncertainty in textile markets as a result of the United States/China trade tensions – China is the largest exporter of apparel to the United States – and an oversupplied viscose staple fibre market are challenges for value creation in the short term, but we believe the fundamentals of the DWP market are sound. Accordingly, we expect sales volumes to remain healthy and anticipate that our expanded DWP production will be fully taken up to meet customer demand.

OUR KEY MATERIAL ISSUES continued

PEOPLE

Safety

MATERIAL ISSUE

Why it is important

Unsafe practices and conditions can have devastating consequences – the impact of human loss and suffering on individuals and those around them is immeasurable.

Globally, the pulp and paper industry, and forestry in particular, is viewed as potentially hazardous.

How it links to other aspects of our business

8 DECENT WORK AND ECONOMIC GROWTH

- Achieve cost advantages
- Rationalise declining businesses
- Maintain a healthy balance sheet
- Accelerate growth in higher margin growth segments

How it links to risk

1 Safety

Emerging risk

Integration of sustainability

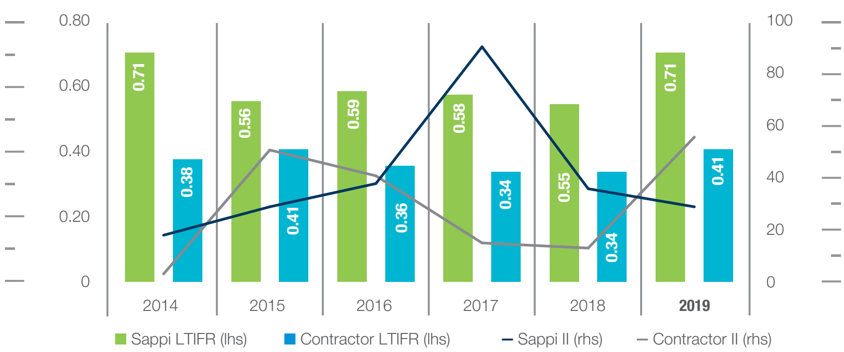
WHAT WE DID ABOUT IT IN 2019

Our safety performance was deeply unsatisfactory:

- Tragically, there were four contractor fatalities in Sappi Southern Africa
- As shown below, the LTIFR for own employees and contractors deteriorated against the previous five years. The global own injury index (II) was an improvement on 2018, but above what was achieved in 2014, with the contractor II performance impacted by the four fatalities.

Sappi North America's own employee LTIFR was the best ever. Year-on-year, own employee LTIFR deteriorated in Sappi Europe while contractor LTIFR improved, but both own employee and contractor LTIFR declined in Sappi Southern Africa. Performance in Sappi Europe was mainly affected by the integration of mills acquired in 2018. The region has conducted safety gap audits to redress the situation. With the assistance of a team from DuPont, Sappi Southern Africa is driving initiatives to improve safety systems and awareness. The focus on life-saving rules will continue in 2020 as the region's primary safety initiative.

Lost-time injury frequency rate



Employee engagement

MATERIAL ISSUE

Why it is important

When employees are engaged at work, they feel a connection with the company. They believe the work they are doing is important and therefore work harder. This has obvious implications for productivity, career development and overall job satisfaction.

How it links to other aspects of our business

8 DECENT WORK AND ECONOMIC GROWTH

- Achieve cost advantages
- Rationalise declining businesses
- Maintain a healthy balance sheet
- Accelerate growth in higher margin growth segments

How it links to risk

9 Employee relations

Emerging risk

Integration of sustainability

WHAT WE DID ABOUT IT IN 2019

- 90% of the total organisation participated in our 2019 survey – a 6% improvement on participation levels of 84% in 2017.
- Overall employee engagement remains high, with 42% of employees fully engaged, 39% unsupported or detached and 19% fully disengaged.

Skills

MATERIAL ISSUE

Why it is important

People are no longer looking for a 'job for life' but have moved towards 'learning for life'. At the same time, rapid changes in the operating environment are constantly reshaping the skills requirements of our business.

How it links to other aspects of our business

8 DECENT WORK AND ECONOMIC GROWTH

Operating context:
Generation Z

How it links to risk

9 Employee relations

10 Failure to attract and retain key skills

WHAT WE DID ABOUT IT IN 2019

- In 2019, we continued to implement programmes to enhance skills levels, particularly across priority categories of employees
- We also continued to offer all employees access to detailed development plans and the opportunity to select online or classroom training from over 4,000 approved courses.

OUR KEY MATERIAL ISSUES continued

Shared value

MATERIAL ISSUE

Why it is important

Shared value involves developing profitable business strategies that deliver tangible social benefits. In other words, identifying societal challenges within our sphere of operation and finding ways of addressing these for the mutual benefit of communities and the company, thereby enhancing our social licence to operate, building our reputation as a responsible corporate citizen, establishing customer loyalty and attracting talent.

How it links to other aspects of our business

Operating context:
Social disruption

Emerging risks

Integration of sustainability
Social unrest
Land restitution

WHAT WE DID ABOUT IT IN 2019

We continued to take a very active approach to Corporate Shared Value (CSV) both regionally and globally, driving key initiatives in support of our three primary stakeholder groups – employees, customers and the local communities in which we operate. Given South Africa's development needs, and in line with our longstanding approach, the bulk of spend was allocated to this region:
- Sappi Europe: EUR100,000
- Sappi North America : US$460,000
- Sappi Southern Africa: ZAR50 million.

Investing in early childhood development

International research states that 90% of brain growth and development takes place before the age of five. Research also indicates that children whose development is nurtured early in life are more likely to be:
- Successful in school, have fewer learning disabilities and be more likely to finish high school and seek further education or training
- More productive in the workforce, hold better jobs, own their own homes
- Healthier throughout their lives, physically and mentally.

Against this backdrop, the South African government prioritised early childhood development (ECD) as highlighted in the National Development Plan (NDP) Vision for 2030.

We began investing in ECD in 2014, partnering with key role players to achieve the following results:
- In Mpumalanga, we have developed an ECD centre of excellence at the Sappi Elandshoek community through Penreach, the largest teacher development programme in Africa. Sappi has sponsored training for the principal and five primary school teachers from a local primary school in ECD-related topics. Between 2016 and 2018, these teachers reached 415 children
- In 2016, we extended the ECD programme to Gauteng, by sponsoring the Jabulani Training and Development Centre. Our sponsorship of the centre has contributed to training over 1,250 ECD practitioners in recent years
- In 2018, a total of 22 ECD practitioners graduated from the ECD programme in KwaZulu-Natal with an NQF4 (a national standard) qualification, implemented under the auspices of Training and Resources in Early Education (TREE), and a further 36 will complete their training at the end of 2019. Of these, 18 will have an NQF4 certification which they will administer in their crèches, while the other 18 have been trained to run playgroups in their areas, where there were no ECD facilities before. Practitioners in this region have impacted over 2,000 children between 2016 and 2018.

Labour relations

MATERIAL ISSUE

Why it is important

Sound labour relations result in increased levels of engagement, enhanced productivity and a more harmonious working environment.

How it links to other aspects of our business

8 DECENT WORK AND ECONOMIC GROWTH

Operating context:
Social disruption

How it links to risk

R 9 Employee relations

Emerging risks

Social unrest
Integration of sustainability

WHAT WE DID ABOUT IT IN 2019

- Sappi endorses the principles of fair labour practice as entrenched in the United Nations Global Compact and Universal Declaration of Human Rights. At a minimum, we conform to, and often exceed, the labour legislation requirements in countries where we operate. We promote freedom of association and engage extensively with representative trade unions. Globally, 62% of Sappi's workforce is unionised, with 69% belonging to a bargaining unit.
- Sappi enjoyed relatively positive industrial relations with trade unions at all manufacturing sites across the group and Sappi Forests' plantations in Sappi Southern Africa – attributable mainly to our proactive engagement strategy and initiatives.

OUR KEY MATERIAL ISSUES continued

PLANET

Issues discussed here are covered in greater detail in the Planet section of our 2019 Group Sustainability Report, available at www.sappi.com

Climate change

MATERIAL ISSUE

Why it is important

Woodfibre is a key input into our business. Climate change could pose a risk to our plantations in South Africa.

How it links to other aspects of our business

13 CLIMATE ACTION

Operating context: Increasing consumer and brand owner concerns about sustainability-related issues

How it links to risk

R 5 Natural resource constraints

Emerging risks

Integration of sustainability
Climate change

WHAT WE DID ABOUT IT IN 2019

We have established a working group to integrate the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) into our risk assessment of climate change.

Sappi together with other forestry companies in South Africa, and with financial support from the Department of Science and Technology's Forest Sector Innovation Fund, has initiated a detailed climate change mapping project with the Global Change Institute (GCI) at the University of the Witwatersrand. This project will enable us to spatially map the risk across our entire land base, and understand how it changes over decades.

In addition, we continued to:
- Adjust and direct our tree breeding strategy using modelled future climate data. This will help us to produce and select the most optimally suited hybrid varieties for each climatic zone
- Replace pure species with hybrids more suited to future climatic conditions to enhance security of supply
- Together with rapid understanding of the relative tolerance/susceptibility of our growing stock to new pests or disease, these techniques are critical in successfully managing the viability of our woodfibre base
- Use of satellite imagery and drones to rapidly detect and respond to change
- Monitor soil – under hotter and drier climatic conditions, the importance of soil organic matter will increase because of its ability to reduce soil temperature, and to increase the soil water infiltration rate and soil water holding capacity
- Implement an extensive fire protection strategy, as climate change raises the potential for fires.

Understanding climate risks

A preliminary climate change investigation conducted by Sappi Forests' scientists indicated that climate change is likely to be larger in Southern Africa compared to the world average. The study indicated that maximum temperatures are more likely to increase than minimum temperatures, especially during the spring and summer months. It is also likely that spring rainfall will decrease, with more high-intensity rainfall in summer. The combined effect of higher temperatures and lower rainfall in spring is likely to increase tree stress. This in-house study highlighted that simply understanding changes to annual averages is not enough if we are to mitigate potential losses. Currently, the available climate projections do not meet Sappi's needs for the following reasons:
- The time resolution is too infrequent – projections are typically for mid-century and end of century, whereas we need something closer to decadal intervals
- The spatial resolution is too coarse – often regional, rather than plantation block specific.

The variables provided are too general – annual rainfall rather than its monthly distribution, mean temperatures rather than the extremes, wind, humidity and other variables absent.

Understanding climate risks continued

Accordingly, together with other forestry companies in South Africa and financial support from the Department of Science and Technology Forest Sector Innovation Fund, Sappi has initiated a detailed climate change mapping project with the Global Change Institute (GCI) at the University of the Witwatersrand. The GCI team is made up of South Africa's leading climate change experts. The project entails two phases:

- **Phase 1:** 2020: Generation of raster climate surfaces for the entire forestry domain of South Africa, at 8 km resolution, with monthly time resolution, for the years 2020, 2030, 2040 to 2100. The variables would include up to 20 important bioclimatic indicators as well as averages and information about their statistical distribution, such as variances, confidence ranges and probabilities of exceedance
- **Phase 2:** 2021 onward: A second iteration of the variables generated for the one-year product, refining the indicators or making them more specific for species or issues; and/or including more ensemble members or scenarios to broaden the robustness of the evaluation; and/or 1 km data for selected parts of the country.

The regional climate modelling capacity established at Wits GCI can resolve all the needs of the industry, listed above. Wits GCI runs the CCAM Global Climate Model, a state-of-the-art Global Circulation Model (GCM), fully coupled with land and ocean. It can seamlessly use the same framework to incorporate the output of ensembles of other GCMs, and downscale them for Southern Africa in a very robust way. Outputs can be generated at any time interval. The Southern African downscalings already under way produce coverage at a fundamental resolution of 8 x 8 km over the entire South African forestry domain, fine enough to be able to represent important local phenomena (like the escarpment) that are invisible to GCMs. All primary climate variables are generated, so producing them as output tailored to the needs of forest bioclimatology is relatively straightforward.

The Variable Resolution Earth System Model used for the regional downscalings can then be used a second time, to generate projections with a resolution of as fine as 1 x 1 km, over an area of 200 x 200 km. This is a 'cloud-resolving' scale, so it can capture the specificity of rainfall in relation to terrain and aspect. The process is computationally intensive, so cannot immediately be applied to all the forest extent in South Africa, but over time key areas will be prioritised.

Energy

MATERIAL ISSUE

Why it is important

Given the high-energy intensity of our industry, the cost and availability of energy is a key consideration that must be weighed up in the context of a carbon-constrained world.

How it links to other aspects of our business

7 AFFORDABLE AND CLEAN ENERGY

Achieve cost advantages

Operating context: Increasing consumer and brand owner concerns about sustainability-related issues

How it links to risk

5 Natural resource constraints

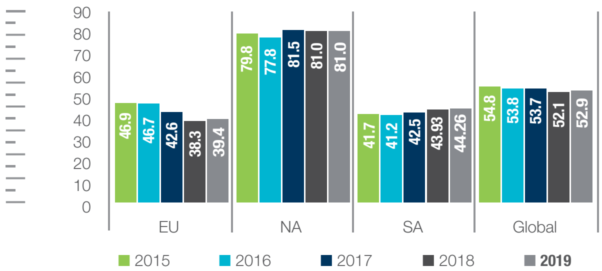
Emerging risks

Integration of sustainability
Climate change

WHAT WE DID ABOUT IT IN 2019

- Energy is a key input for our industry. Aggressively managing energy use reduces carbon emissions and enhances cost efficiencies. Globally, purchased energy costs as a percentage of cost of sales have not fluctuated significantly over the last five years and were 8.74% in FY19 (2018: 8.98%).
- Environmental impact is reduced by the amount of energy as well as type consumed. We have made significant efforts to reduce our reliance on fossil fuels, thereby reducing fossil-fuel related greenhouse gas (GHG) emissions and separating our operations from the volatility of energy prices. In 2019, our global use of renewable energy as a percentage of total energy used was 52.9%. However, while our global direct (Scope 1) GHG emissions were stable in the year under review, indirect (Scope 2) emissions increased by 5.7% year-on-year. The main reason for the increase was the deteriorating emissions factor of energy derived from Eskom, the South African state power utility.

Renewable energy (%)



OUR KEY MATERIAL ISSUES continued

Water

MATERIAL ISSUE

Why it is important

Our operations are highly dependent on the use and responsible management of water resources. Water is used in all major process stages, including raw materials preparation (woodchip washing), pulp washing, screening, and paper machines (pulp slurry dilution and fabric showers). Water is also used for process cooling, materials transport, equipment cleaning and general facilities operations.

How it links to other aspects of our business

6 CLEAN WATER AND SANITATION

Operating context: Increasing consumer and brand owner concerns about sustainability-related issues

How it links to risk

R 5 Natural resource constraints

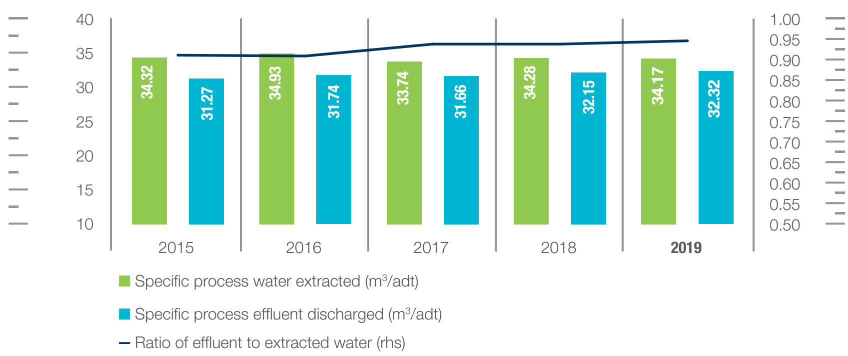
Emerging risks

Climate change
Integration of sustainability
Social unrest

WHAT WE DID ABOUT IT IN 2019

- Globally, in 2019, we extracted 288.91 million cubic metres of total water for all purposes. However, our total water consumption is much lower than the amount extracted would indicate, because we return a high percentage of the water we use to the environment – 95% of water drawn was returned to the environment in the past year. Water that is 'consumed' in our operations is primarily water lost to the environment due to evaporation in the paper drying process and a small amount of moisture contained in our finished products.

Specific process water returned versus extracted (m^3/adt)



Biodiversity

MATERIAL ISSUE

Why it is important

The plantations and forests from which we source woodfibre depend on healthy ecosystems and beneficial biotic processes taking place.

How it links to other aspects of our business

15 LIFE ON LAND

Operating context: Increasing consumer and brand owner concerns about sustainability-related issues

How it links to risk

5 Natural resource constraints

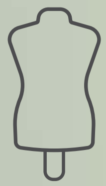
Emerging risks

Integration of sustainability
Climate change

WHAT WE DID ABOUT IT IN 2019

- Globally, 74.8% of fibre supplied to our mills is certified. The internationally accepted, independently verified forest certification systems we use – PEFC™, SFI® and FSC™ – all make provision for biodiversity management. In PEFC™-certified forests, for example, managers must *"ensure that forest management activities maintain, conserve and enhance biodiversity"* while SFI® guidelines stipulate the protection of biodiversity. Principle 6 of the FSC™'s principles and criteria, states: *"Forest management shall conserve biological diversity and its associated values, water resources, soils, and unique and fragile ecosystems and landscapes, and, by so doing, maintain the ecological functions and the integrity of the forest".*
- We set aside some 30% permanently unplanted land on our owned and leased landholdings in South Africa to conserve natural habitats and their biodiversity.
- In Sappi Southern Africa, we have used systematic conservation planning to identify 166 important conservation areas (ICAs) on our land using a systematic conservation planning approach based on the presence of both plant and animal red data species, the size, connectedness, condition and aesthetic and recreational value of the area.

OUR PRODUCT REVIEW



Dissolving wood pulp

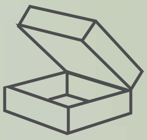
With 16% share of the DWP market and producing close to 1.4 million tons per annum, our dissolving wood pulp brand Verve is a truly sustainable brand.

We continue to invest in all three of our world-class production sites – further entrenching our leadership position as a trusted source for responsible and sustainable DWP.

Graphic papers

Coated and uncoated papers designed to get the best results for you and your customers.

When companies build brands, picking the right paper can mean the difference between creating something average and something memorable.



Packaging and speciality papers

We are your value-creating partner, offering an extensive range of innovative products and services.

With our broad and innovative portfolio of premium products, we have the right solutions to meet our customers' needs, and we offer a broad range of paper based sustainable solutions as an alternative to fossil-fuel based, non-renewable packaging in many of our product segments.

OUR PRODUCT REVIEW continued

Dissolving wood pulp

Our dissolving wood pulp (DWP) brand, Verve, is a significant participant in this market. With 16% share of the DWP market and capable of producing 1.4 million tons per annum, Verve is a truly sustainable brand. From textiles to pharmaceuticals and food applications, Sappi has the expertise, technology and track record to meet almost any challenge from these DWP market segments.

In FY19, 19% of Sappi's sales were dissolving wood pulp

DWP is a highly purified form of cellulose extracted from sustainably grown and responsibly managed trees using unique cellulose chemistry technology. The majority of DWP is used to make textiles, such as viscose and lyocell, where DWP is converted to viscose and lyocell staple fibres. From there, the fibres are spun into yarns and ultimately textiles, providing naturally soft, smooth and breathable fabrics. Cellulosic fibre far exceeds cotton and polyester when it comes to sustainability – what consumers want, and our environment needs, are goods that are renewable, biodegradable and have superior resource efficiency, and that is where cellulosic fibres differentiate themselves from the alternatives.

DWP can also be processed into products used in food and beverages, health and hygiene, wrapping and packaging, pharmaceuticals and many more applications that touch our daily lives.

Demand for DWP used in textiles, particularly for viscose and lyocell fibres, is both the largest and fastest growing sector, while end markets and demand growth for other applications

> We continue to invest in our three world-class production sites – further entrenching our leadership as a trusted source for responsible and sustainable dissolving wood pulp.

are smaller and have lower growth rates. Based on the growth rate in the overall textile market, driven by factors such as population growth, rising urbanisation, wealth and the shift towards more comfortable, environmentally friendly natural fibres, we expect long-term growth in demand of approximately 6% per annum for DWP.

Market prices for DWP are influenced by viscose staple fibre (VSF) and other textile market dynamics, paper pulp market pricing which can also influence swing mills as well as general macro-economic uncertainties pertaining to the ongoing United States/China trade dispute and subsequent US$/RMB exchange rate fluctuations.

Our markets in 2019 and outlook for 2020

FY19 marked a period where a substantial portion of the integrated VSF and DWP capacity disrupted market dynamics; installed VSF capacity now exceeds global demand by approximately 25%. This surplus of new low-cost VSF capacity has disrupted the market, lowering operating rates and resulting in VSF and DWP prices reaching historical lows. Over FY19, the index price for DWP declined by over US$300 per ton. We believe current pricing is below the cash cost of production for a significant proportion of global supply and therefore unsustainable over a prolonged period. Underlying demand for DWP is still growing at rates consistent with our long-term forecasts of around 6%. A recovery in DWP prices is therefore likely to be prompted by a recovery in VSF prices which in turn have been depressed by excess VSF capacity and a weak Chinese textile market.

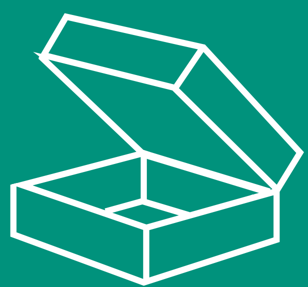
Despite these low prices, EBITDA was similar to the prior year. EBITDA margins for this segment declined from 29% to 28% on lower US Dollar prices, offset by a weaker Rand/Dollar exchange rate and increased sales volumes. We believe DWP prices in the coming year will be lower than the historical trend price, and that profitability for this segment will therefore be below that of the prior year.

Volumes increased 7%, or 86,000 tons, from last year as we used the expanded production capacity at our three sites after debottlenecking projects. Our 110,000 ton expansion project at Saiccor Mill remains on track for a late FY20 start-up. The project is expected to yield long-term safety, efficiency and reliability improvements and reflects our ongoing focus on productivity and operational efficiencies. This investment is a key part of our strategic vision as we expand into fast-growing, higher-margin segments.

In 2020, a year expected to be characterised by macro-economic uncertainty and disruptive market dynamics, we aim to remain focused on meeting and exceeding the needs of our customers. We will capitalise on our competitive advantages: our world-class and sustainably managed plantations, geographic positioning and sterling reputation as a reliable partner to bring our customers sustainable products that create shared value for everyone.

OUR PRODUCT REVIEW continued

Packaging and speciality papers



Both legislative edicts and consumer pressure are forcing companies to rethink their packaging needs. Governments, retailers and brand owners all over the world are demanding paper based packaging solutions for their products, and eco-conscious consumers and shoppers are pressuring brand owners for more biodegradable, recyclable and compostable packaging, all reflecting a more circular economy. We estimate the increasing need for more sustainable and environmentally friendly packaging solutions will lead to demand growth of 3% to 6% per year, globally, across the spectrum of our products.

The evolution of our focus from graphic papers to packaging and speciality papers derives from the suitability of many of our graphic paper machines for conversion to packaging grades that require some form of coating. Ahead of commissioning the various conversion projects, we carefully analysed our assets, specifically their production capabilities for packaging and speciality grades, and how those capabilities matched their expected cost of production, the cost to serve customers, historical demand growth, forecasts for the future, as well as competitive threats – choosing only those mills/products/projects where we believed we held a significant advantage. With the construction complete, and our ramp-ups progressing, we are winning new business with customers with a compelling value proposition, propensity for innovation and superlative service record. We aim to create solutions that solve our customers' most critical challenges, helping them grow their sales, lower cost, improve their sustainability metrics and minimise their risk.

We work in partnerships based on trust and respect. As such, we place great value on reliability. Our superior logistics network, financial stability, global availability and consistent premium quality are vital to our customers. That is why we manage well what we can control, always aiming to exceed our customers' expectations, making sure we optimise the full value chain, leveraging the strengths and flexibility of our network.

In FY19, 22% of Sappi's sales came from packaging and speciality papers, up from 19% last year

Sappi offers products and solutions in many different segments including:

- **Flexible packaging** can be coated or uncoated, for food and non-food applications, such as sachets, pouches and wrappers
- **Label papers** for pressure-sensitive applications as well as for wet glue and wet strength labels
- **Functional papers** that offer highly efficient paper based solutions with integrated functionality, like paper with barriers against mineral oil residuals, oxygen, water vapour and grease as well as sealing properties
- **Containerboard** including liner and fluting, for corrugated boxes. Sappi's products are found in applications like consumer packaging, shelf-ready packaging and transport packaging for agricultural and industrial uses.

> With our broad and innovative portfolio of premium products, we have the right solutions to meet our customers' needs. We offer a broad range of paper based sustainable solutions as an alternative to fossil fuel based, non-renewable packaging in many of our product segments.

- **Paperboard** such as solid bleached board and folding boxboard for luxury packaging with more graphic applications. Packaging for cosmetic, perfume, confectionery and premium beverages uses our products
- **Release liner** with silicon base papers and glassine papers for self-adhesive applications, such as graphic art applications with outdoor advertisements, adhesive tapes and office materials
- **Technical papers** for interleaving and thermal coating. Examples include tickets for boarding passes and concert/stadium tickets
- **Casting and release papers** used by suppliers to the fashion, textiles, automobile and household industries. It is used in the manufacture of synthetic leather and decorative laminate products, creating textures that make designs come to life
- **Dye sublimation papers** – a coated sublimation paper for digital transfer printing with water based dye sublimation inks. Designed for the transfer of an image onto various polyester materials, such as banners, flags, snowboards, gadgets (mugs, mouse pads, etc) apparel and home textiles
- **Digital imaging papers** for large-format inkjet printing. Posters, for indoor/outdoor applications, and technical printing in the construction industry (CAD/engineering)
- **Tissue paper** used for toilet tissue, kitchen towels, serviettes, and medical and industrial wipes.

We manufacture from a suite of machines in Europe, North America and South Africa, ensuring scale-based efficiencies and security of supply. Our South African operations mainly focus on the local containerboard market.

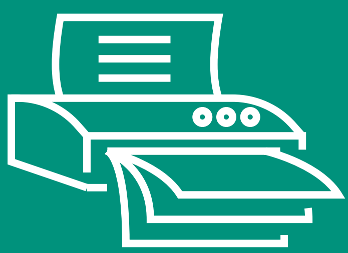
We supply the agricultural sector with cartonboard to protect fresh produce as it is shipped from farms to tables locally and around the world. Our North American operations currently make functional packaging papers, label papers and, following our Somerset conversion, paperboard for folding cartons. Examples include perfume boxes, packaging for items like toys, small electronics, chocolates and other fast-moving consumer goods. The focus of our European operations in this segment is much more diverse and niche. Our portfolio has higher levels of specialisation and customisation than most other speciality paper producers. We are capable of engineering specific products for specific customers, particularly those who want more than just a package. We can coat paper to give it unprecedented functionality such as moisture controls, oxygen barriers, grease resistant barriers, vapour barriers and more. Our European operations are ideally located in a region leading the 'paper-for-plastic' packaging movement. Last year, the European Union introduced rules to reduce marine litter by banning certain single-use plastic items, like cutlery, straws and drink stirrers, alongside a measure that holds those plastic producers responsible for the cost of cleaning these items from European beaches. The industry will also be given incentives to develop less-polluting alternatives for these products. With a comprehensive product range on three continents, R&D centres in each region sharing best practices and new findings from new customers, our customers benefit from reliable supply from a broad geographic footprint, and a leader in innovation in the sector.

Our markets in 2019 and outlook for 2020

The review period was characterised by increased volumes and costs. Volumes were nearly 12% higher than last year as ongoing customer trials and qualifications turned into customer wins and subsequent volume commitments. Net sales were up 15% from last year. Despite the increase in volume, EBITDA margins declined from 12.7% last year to 9.8% in FY19. While our realised price per ton increased by some 3% through the year, our average cost per ton rose over 7% from last year, mainly due to purchased paper pulp. Increasing our level of pulp integration has been a group priority for some time. Accordingly, in November 2019, we purchased the Matane pulp mill in Quebec, Canada, which will increase pulp integration for the group. Pulp prices began declining in the second quarter of our fiscal with the benefit most evident in our fourth quarter, as we worked through higher-cost inventory in our supply chain. EBITDA margins rose to 13.7% in our fourth quarter, and given the Matane acquisition and lower market paper pulp prices, we believe margins will be better for this segment in FY20.

Along with higher EBITDA margins, we also believe FY20 will bring additional volume growth, aided by the shift from plastics to paper in various packaging and speciality categories. We expect continued success from conversion projects we completed in 2018. Customer qualifications and trial-runs of our new products prove we are capable of developing innovative and quality products that our customers can depend on.

OUR PRODUCT REVIEW continued



Graphic papers

At Sappi, we understand this difference and use our expertise to develop a variety of printing papers designed to meet specific needs, whether a high-end product with extra wow factor, a comprehensive solution that caters to numerous requirements or a paper that is more budget-friendly. Sappi delivers so that brands can have a more memorable impact.

Our markets in 2019 and outlook for 2020

Demand for graphic papers has been in secular decline in mature markets for several years, while growing in developing economies around the world. Taken together, global demand for graphic papers netted modest declines. In FY19 demand dropped relative to 2018 for all grades and in all regions. Having noticed this trend developing in our markets in 2017 and 2018, we converted the most ideal paper machines in our portfolio from graphic paper to packaging and speciality papers, where demand is growing world-wide. Our graphics business is declining and part of our strategy is to rationalise this business. For Sappi, this means maximising its significant cash flow generation, continuously improving our cost position, and optimising the use of our best-in-class production assets. Executing this strategic pillar means more funds available to invest in our other, faster-growing, higher-margin segments and ultimately returning cash to shareholders.

In FY19, global industry statistics showed volume declines between 8% and 9% for both coated woodfree and coated mechanical papers. Our volumes from the segment were some 7% lower year-on-year due to increases in market share in coated woodfree paper. Despite the decline in market demand, average prices realised were flat relative to 2018 as industry capacity closed in the United States and Europe and producers took downtime to manage inventories, keeping our major markets in balance. Input cost pressures eased in the second half as prices for paper pulp declined from their historical highs in late 2018 and early 2019. Our EBITDA margin declined relative to last year, from 8.8% to 7.4%, reflecting the decline in volumes and higher costs in the first half FY19.

In 2020, we expect to sell marginally lower volumes of graphic papers as we ramp up production and sales of packaging and speciality papers from our converted machines. We believe our cost position next year will be better than 2019. Prices for our main raw material – paper pulp – declined in the latter half of 2019 and, while forecasts vary, we see pulp market dynamics showing little reason for pulp prices to rise above their historical highs of last year.

When companies build brands, picking the right paper can mean the difference between creating something average and something memorable.

In FY19, 64% of Sappi's sales were in four different grades of graphic papers discussed below:

Coated woodfree paper

Share of sales: 41%

Printers and publishers use coated woodfree paper for a variety of marketing promotions including brochures, catalogues, calendars, annual reports, direct mail, textbooks and magazines. Coated paper is brighter, smoother and tends to have greater opacity than uncoated grades. We manufacture coated woodfree paper in our North American and European businesses but sell to customers all over the world. In FY19, 41% of Sappi's sales were in this segment, typically through large paper merchants.

Demand trends: Global advertising expenditure is forecast to grow, but the print share of that spend is expected to decline. However, we believe there will always be a place for paper within the marketing mix. Globally, demand for coated woodfree paper is forecast to decline from around 22 million tons in 2019 to 18 million tons by 2023.

Sales: Sappi's net revenue from coated woodfree paper was 7% less than last year due to slack demand and the subsequent downtime taken during the year. Sales volumes declined around 10% in 2019, due to this downtime and our conversion projects away from graphic paper. Globally, demand for coated woodfree paper declined by 8.5%.

Coated mechanical paper

Share of sales: 10%

Coated mechanical paper is primarily used in magazines, catalogues, newspaper inserts and other advertising materials. In FY19, 10% of Sappi's sales constituted coated mechanical paper, all from our European business. Customers for this paper are typically large paper merchants, commercial printers and publishers of weekly and/or monthly magazine titles.

Demand trends: Demand for coated mechanical paper is more closely linked to demand for magazines. Readership, subscriptions, circulation, pagination and advertising revenue per page continue to decrease in larger markets as consumers opt for digital formats.

Sales: Sappi's net revenue from coated mechanical paper was 11% lower than last year, due to lower volumes as we took both market-related downtime and converted coated mechanical capacity into coated woodfree capacity. Volumes were around 12% lower than the prior period. This year, the global market contracted by 8.4%.

Uncoated woodfree paper

Share of sales: 6%

Uncoated woodfree paper is used for letterheads, business stationery and photocopy paper, with certain brands sold to converters for books, brochures, envelopes, pamphlets and magazines. Sappi makes and sells uncoated woodfree paper in our European and South African businesses. In FY19, 6% of Sappi's sales were uncoated woodfree paper. Our main customers in this sector are paper merchants and converters.

Demand trends: Demand for uncoated woodfree paper is expected to post modest declines of about 2% over the next few years. Like other graphic papers, demand continues to decline in most markets, with limited growth from emerging markets.

Sales: Our net revenue from uncoated woodfree paper was 9% higher than last year, reflecting increased volumes and prices in both Europe and South Africa. Globally, demand was relatively stable this financial year, with a modest decline of 1.4%.

Newsprint paper

Share of sales: 1%

Newsprint, 1% of Sappi's sales, is manufactured from mechanical and bleached chemical pulp, with uses including advertising inserts and newspapers. We manufacture and sell newsprint from our South African business.

Demand trends: Demand for newsprint is principally derived from newspaper circulation and overall retail advertising. As newspaper readership declines around the world, publishers are consolidating and many titles have closed. There are pockets of growth in advertising-financed daily newspapers typically found in large metropolitan cities.

Sales: Production problems limited our newsprint volumes this year, which were 4% behind last year although net revenues rose marginally. Globally, newsprint demand declined 11% versus 2018.

The speed of now. That is the reality of 5G technology which takes advantage of higher-frequency bands in the radio spectrum that have a lot of capacity but shorter wavelengths. 5G technology offers an extremely low latency rate, or the delay between sending and receiving information. From 200 milliseconds for 4G, we go down to 1 millisecond (1ms) with 5G.

That is extraordinary when you consider that a millisecond is 1/1,000 of a second and that the average reaction time for humans to a visual stimulus is 250ms or one-quarter of a second.

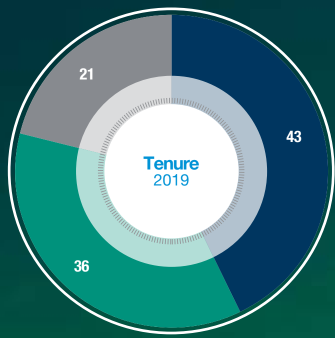
The power of 5G will reshape the way we think and operate, enabling connected cars, smart cities and factories and enhanced healthcare, among other things.

The possibilities are vast: the only limits are the edges of our collective imagination.

But for us at Sappi, the real value lies in greater levels of inclusivity, the more seamless linking of people and the implications this has for the way we reach out to, talk to and care about each other. It will enable individualised communication and create one-to-one relationships with all our stakeholders.

That is profoundly important in a world of ever-accelerating changes, where just being able to stand still, take time out and instantly share a rapport with someone can transform lives.

OUR LEADERSHIP



- Zero to three years
- Three to 10 years
- Over 10 years

Sappi board committee memberships:

- Audit and Risk Committee
- Human Resources and Compensation Committee
- Nomination and Governance Committee
- Social, Ethics, Transformation and Sustainability Committee

* Committee Chairman

Non-executive directors

Sir Nigel Rudd (72)
Independent Chairman

Qualifications: DL, Chartered Accountant
Nationality: British
Appointed: April 2006

Skills, expertise and experience
Sir Nigel Rudd has held various senior management and board positions in a career spanning more than 35 years. He founded Williams plc in 1982, one of the largest industrial holding companies in the United Kingdom (UK). Sir Nigel Rudd brings his expertise in finance, management, governance and leadership to the Sappi board.

Michael Anthony Fallon
(Mike) (61)
Independent

Qualifications: BSc (Hons) (first class)
Nationality: British
Appointed: September 2011

Skills, expertise and experience
Mr Fallon brings management and leadership experience that extends across a wide range of functions from research and development, human resources, finance, plant management, sales and marketing and supply chain to general management, including mergers and acquisitions.

Nkateko Peter Mageza
(Peter) (64)
Independent

Qualifications: FCCA (UK)
Nationality: South African
Appointed: January 2010

Skills, expertise and experience
Mr Mageza brings his knowledge and experience having held senior executive positions across a wide range of industries.

John David McKenzie
(Jock) (72)
Lead independent director

Qualifications: BSc (Chemical Engineering) (cum laude), MA, PMD
Nationality: South African
Appointed: September 2007

Skills, expertise and experience
Mr McKenzie joined the Sappi board after having held senior executive positions globally and in South Africa, in the public and private sectors. His experience includes strategy, leadership and governance, among others.

Dr Bonakele Mehlomakulu
(Boni) (46)
Independent

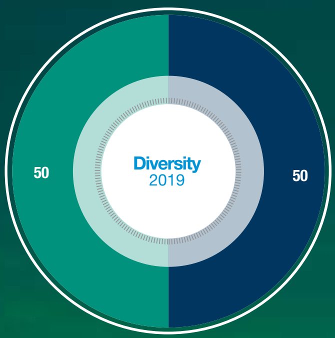
Qualifications: PhD (Chemical Engineering)
Nationality: South African
Appointed: March 2017

Skills, expertise and experience
With a PhD in chemical engineering, Dr Mehlomakulu has experience and expertise in engineering, management and leadership.

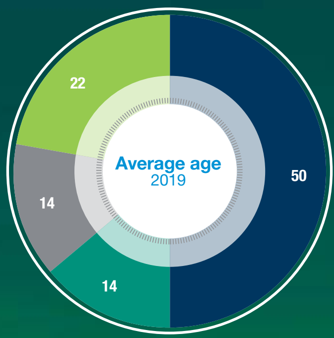
Mohammed Valli Moosa
(Valli) (62)
Independent

Qualifications: BSc (Mathematics and Physics)
Nationality: South African
Appointed: August 2010

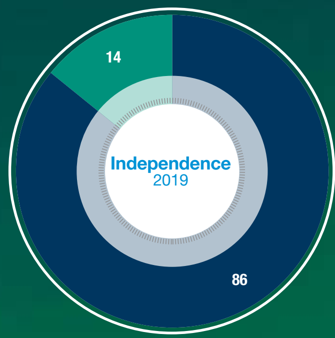
Skills, expertise and experience
Mr Moosa has held numerous leadership positions across business, government, politics and civil society in South Africa and internationally. Mr Moosa has expertise in finance, general business and mining and is an international expert on sustainable development and climate change.



- Diverse
- Other



- 60s
- 70s
- 40s
- 50s



- Independant non-executives
- Executives

Karen Rohn Osar (70)
Independent

Qualifications: MBA (Finance)
Nationality: American
Appointed: May 2007

Skills, expertise and experience
Mrs Osar has extensive experience across multiple industries and brings her expertise in leadership, corporate activities and financing to the Sappi board.

Robertus Johannes Antonius Maria Renders (Rob Jan) (66)
Independent

Qualifications: MSc (Mechanical Engineering), MDP
Nationality: Dutch
Appointed: October 2015

Skills, expertise and experience
Mr Renders currently serves as a business consultant and brings to the board his extensive experience in governance and leadership as well as operational expertise in manufacturing and packaging internationally.

Brian Richard Beamish
(Brian) (62)
Independent

Qualifications: BSc (Mechanical Engineering), HBS PMD
Nationality: British/South African
Appointed: March 2019

Skills, expertise and experience
Mr Beamish, a qualified mechanical engineer, brings more than 40 years' experience in management, business and leadership in capital intensive industries to the board.

Zola Nwabisa Malinga (41)
Independent

Qualifications: BCom, CA(SA)
Nationality: South African
Appointed: October 2018

Skills, expertise and experience
Mrs Malinga has over 10 years' experience in investment banking and corporate finance, having held senior roles at various financial institutions. She is also the founder and Executive Director of Jade Capital Partners, a women-owned investment holding company.

James Michael Lopez
(Jim) (59)
Independent

Qualifications: BA (Economics)
Nationality: American
Appointed: March 2019

Skills, expertise and experience
Mr Lopez brings his experience as the former President and CEO of Tembec Inc (2006 – 2017) a manufacturer of lumber, pulp, paper/paperboard and speciality cellulose and a global leader in sustainable forest management practices.

Janice Elaine Stipp
(Janice) (60)
Independent

Qualifications: BA (Accounting), MBA
Nationality: American
Appointed: June 2019

Skills, expertise and experience
Ms Stipp brings with her a wealth of experience in leadership, finance and treasury to the Sappi board.

OUR LEADERSHIP continued

Executive directors

Stephen Robert Binnie
(Steve) (52)
Chief Executive Officer

Qualifications: BCom, BAcc, CA(SA), MBA
Nationality: British
Appointed: September 2012

Skills, expertise and experience
Mr Binnie was appointed Chief Executive Officer of Sappi Limited in July 2014 and brings extensive experience in financial management, leadership, corporate activity and strategy to the role.

Glen Thomas Pearce (56)
Chief Financial Officer

Qualifications: BCom, BCom (Hons), CA(SA)
Nationality: South African
Appointed: July 2014

Skills, expertise and experience
Mr Pearce joined Sappi Limited in June 1997 and was promoted to Chief Financial Officer and executive director of Sappi Limited in July 2014. Mr Pearce has extensive financial management experience, both locally and abroad.

Executive management

Berend John Wiersum
(Berry) (63)
Chief Executive Officer of Sappi Europe

Qualifications: MA (Medieval and Modern History)
Appointed: January 2007

Skills, expertise and experience
Mr Wiersum brings vast experience in the paper and packaging industry across Europe, as well as mergers and acquisitions, to the Sappi board.

Mark Gardner (64)
President and Chief Executive Officer of Sappi North America

Qualifications: BSc (Industrial Technology)
Appointed: September 1981

Skills, expertise and experience
Mr Gardner, who has qualifications in statistical process control, management effectiveness design, change management and business optimisation, offers his experience in manufacturing, production and supply chain management to the Sappi board.

Michael George Haws
(Mike) (56)
President and Chief Executive Officer of Sappi North America

Qualifications: BSc (Paper Science and Engineering)
Appointed: October 2019

Skills, expertise and experience
Mr Haws brings his extensive industry leadership and strategy experience to the business. Mr Haws was integral to the development and execution of Sappi's 2020Vision and the investments made in North America to grow the dissolving wood pulp and packaging and speciality papers businesses.

Alexander van Coller Thiel
(Alex) (58)
Chief Executive Officer of Sappi Southern Africa

Qualifications: BSc (Mechanical Engineering), MBA (Financial Management and Information Technology)
Appointed: December 1989

Skills, expertise and experience
Mr Thiel has a long history with Sappi. His experience and expertise includes marketing, logistics, procurement, strategy and operations across Europe and Southern Africa.

Gary Roy Bowles (59)
Group Head Technology

Qualifications: BSc (Electrical Engineering), GCC, PR Eng, PMD, EDP
Appointed: November 1990

Skills, expertise and experience
Mr Bowles brings more than 28 years of experience with Sappi as well as expertise in engineering, research, manufacturing, project execution, operational and risk management to his role.

Mohamed Mansoor (52)
Executive Vice President of Sappi Dissolving Wood Pulp

Qualifications: BSc (Chemistry and Mathematics), BSc (Hons) (Chemistry), MBA
Appointed: August 1991

Skills, expertise and experience
Mr Mansoor's expertise includes contract negotiation and management, supply chain management, strategic planning, sales management, key account management, dissolving wood pulp, international logistics and technical application support.

Fergus Conan Salvador Marupen (Fergus) (54)
Group Head Human Resources

Qualifications: BA (Hons) (Psychology), BEd (Education Management), MBA, LCOR (Stanford University)
Appointed: March 2015

Skills, expertise and experience
Mr Marupen's experience across a variety of industries in South Africa enables him to offer insight into human resources, governance and management, among many other fields

Maarten van Hoven (46)
Group Head Strategy and Legal

Qualifications: BProc, LLM (International Business Law)
Appointed: December 2011

Skills, expertise and experience
As an admitted attorney of the High Court in South Africa, Mr van Hoven brings expertise in corporate, commercial and competition law, in the private and public sectors, as well as experience in mergers and acquisitions.

CHIEF FINANCIAL OFFICER'S REPORT

GT Pearce
Chief Financial Officer

Observance of the four pillars of our long-term group strategy reduced the impact of the prevailing global economic uncertainty.

Section 1
Financial highlights

(US$ million)	2019	2018	% change
Sales	**5,746**	5,806	(1)
EBITDA excluding special items	**687**	762	(10)
Operating profit excluding special items	**402**	480	(16)
Profit for the year	**211**	323	(35)
EBITDA excluding special items to sales (%)	**12.0%**	13.1%	n/a
Operating profit excluding special items to sales (%)	**7.0%**	8.3%	n/a
Operating profit excluding special items to capital employed (ROCE) (%)	**11.5%**	14.6%	n/a
Net cash (utilised) generated	**1**	(254)	n/a
Net debt	**1,501**	1,568	(4)
Basic earnings per share (US cents)	**39**	60	(35)

Observance of the four pillars of our long-term group strategy reduced the impact of the prevailing global economic uncertainty. Volume growth in our dissolving wood pulp and packaging and speciality segments offset the majority of the 7% volume decline in our graphics segment. The continuous improvement initiatives supported by projects to improve our cost base and enhance our competitiveness yielded US$88 million savings for the year. We strengthened the balance sheet by improving our debt maturity profile and refinanced the 2022 bonds with 2026 bonds at the lower coupon of 3.125%. Although net working capital levels increased during the first half of the year, a strong focus on inventory and payment terms reduced net working capital to 7.9% of annual net sales.

> The year under review was challenging in many respects, but served to reinforce our commitment to our strategic initiatives.

Weak markets in all our segments constricted EBITDA margin by 1% to 12%. The conversion projects in North America and Europe from graphic paper to packaging and specialities gained traction towards the end of the fiscal following lengthy qualification processes. Dissolving wood pulp volumes increased by 7% following the capacity increase projects at the Cloquet and Ngodwana Mills in the previous fiscal. The reduced margins and volumes (excluding forestry volumes) resulted in EBITDA of US$687 million (LY = US$762 million).

Net finance costs increased by 24% to US$85 million as they included the 2026 bond refinancing costs of US$13 million. The average tax rate of 29% was above the average statutory rate due mainly to unutilised tax losses in Europe. Profit for the year was US$211 million (LY = US$323 million) and earnings per share excluding special items reduced from US60 cents to US44 cents. The directors have considered it prudent to temporarily halt dividends until such time as market conditions improve.

Cash generated for the year of US$1 million includes a dividend payment of US$92 million, tax payments of US$51 million and capital expenditure of US$471 million.

Segment reporting

Our reporting is based on the geographical location of our businesses, ie Europe, North America and South Africa.

The selected product line information is reviewed by our Executive Committee in addition to the geographical basis upon which the group is managed. This additional information is presented in this report to assist our stakeholders in obtaining a complete understanding of our business.

Exchange rates and their impact on the group's results

The group reports its results in US Dollar and, as such, the main foreign exchange rates used in the preparation of the financial statements were:

	Income statement average rates		**Balance sheet closing rates**	
	2019	2018	**2019**	2018
EUR1 = US$	**1.1282**	1.1902	**1.0939**	1.1609
US$1 = ZAR	**14.3464**	13.0518	**15.1563**	14.1473

Two of our three geographic business units (Europe and Southern Africa) have home or 'functional' currencies of Euro and ZAR respectively. The results and cash flows of these two non-US Dollar units are translated into US Dollar at the average exchange rate for the reporting period in order to arrive at the consolidated US Dollar results and cash flows. When exchange rates differ from one period to the next, the impact of translation from the functional currency to reporting currency can be significant.

CHIEF FINANCIAL OFFICER'S REPORT continued

Section 2

Financial performance

The discussion in this section focuses on the group financial performance in 2019 compared with 2018. A detailed discussion, in local currencies, of each of our three operating regions follows in Section 3.

Income statement

Our group financial results can be summarised as follows:

(Metric tons '000)	2019	2018	% change
Sales volume	**7,622**	7,591	–
US$ million			
Sales revenue	**5,746**	5,806	(1)
Variable manufacturing and delivery costs	**(3,530)**	(3,521)	–
Fixed costs	**(1,711)**	(1,767)	–
Sundry items[1]	**(43)**	(38)	13
US$ million			
Operating profit excluding special items	**402**	480	(16)
Special items	**(19)**	9	–
Operating profit	**383**	489	(22)
Net finance costs	**(85)**	(68)	25
Taxation	**(87)**	(98)	(11)
Net profit	**211**	323	(35)
EPS excluding special items (US cents)	**44**	60	(27)

[1] Sundry items include all income and costs not directly related to manufacturing operations such as debtor securitisation costs, commissions paid and received and results of equity-accounted investments.

Sales volume

In 2019, sales volume increased by 31,000 tons compared with 2018. The regional and product segment contributions to sales volume are shown below:

Sales volume (metric tons '000)	2019	2018	% change
North America	**1,379**	1,371	1
Europe	**3,241**	3,366	(4)
Southern Africa	**3,002**	2,854	5
Group	**7,622**	7,591	–
Graphics	**3,846**	4,150	(7)
Packaging and specialities	**1,129**	1,009	12
Dissolving wood pulp	**1,284**	1,198	7
Forestry	**1,363**	1,234	10

In North America, increases in the packaging and speciality papers and dissolving wood pulp sales volumes offset the reduced Graphics volumes due to the conversion of PM1 at Somerset.

European volumes decreased by 4% with lower demand in the mechanical coated and coated woodfree markets. The decrease in sales volumes was partially offset by strong growth in the packaging and speciality product segments.

Volumes in South Africa increased by 5% mainly due to growth in dissolving wood pulp and forestry volumes. Packaging and speciality volumes decreased due to lower demand in the local citrus market.

Capacity utilisation reduced to an average of 88% for the group as weak graphic markets forced us to take 268 000 tons of production downtime during the year.

Sales volume to capacity	**2019 %**	2018 %
North America	**82**	93
Europe	**88**	93
Southern Africa	**94**	95
Group	**88**	95

Sales revenue

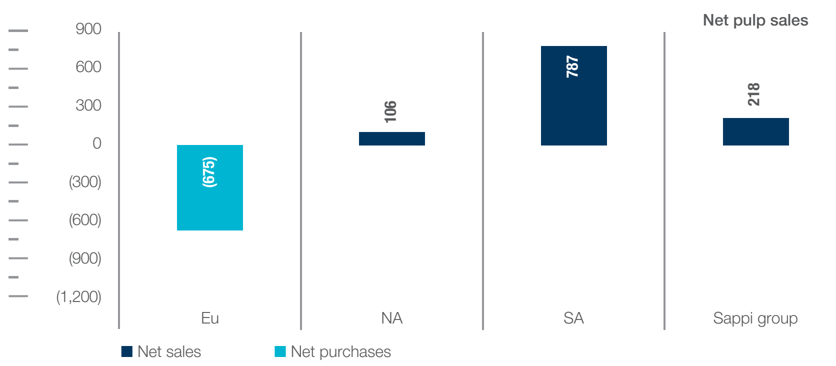
Sales revenue decreased by 1% from US$5.8 billion in 2018 to US$5.7 billion in 2019. The stronger US Dollar resulted in a negative US$188 million conversion impact which was offset by selling price and mix improvements of US$163 million. Consolidated volumes were marginally down on last year.

Variable and delivery costs

Variable and delivery costs increased by US$9 million from 2018. This is in line with sales volumes increasing marginally. There were offsetting variances amongst the different product categories which resulted in variable costs remaining stable relative to last year.

The net paper and dissolving wood pulp purchases and sales of the Sappi group are detailed in the graph below:

Sappi group pulp balance (US$ million)



CHIEF FINANCIAL OFFICER'S REPORT continued

The table below reflects the breakdown of variable and delivery costs by type.

Variable manufacturing and delivery costs (US$ million)	2019	2018	% change
Wood	**624**	598	4
Energy	**417**	411	1
Chemicals	**811**	851	(5)
Pulp and other	**1,243**	1,171	6
Delivery	**435**	490	(11)
Group	**3,530**	3,521	–

Fixed costs

Fixed costs increased by US$4 million from fiscal 2018. This increase was mainly due to a higher depreciation charge (US$31 million) as a result of the increased capital spend offset by lower personnel cost (US$29 million). The weaker ZAR and EUR resulted in a decrease in US Dollar costs (US$77 million). Excluding the currency impact fixed costs increased by US$81 million.

Details of the make-up of fixed costs are provided in the table below:

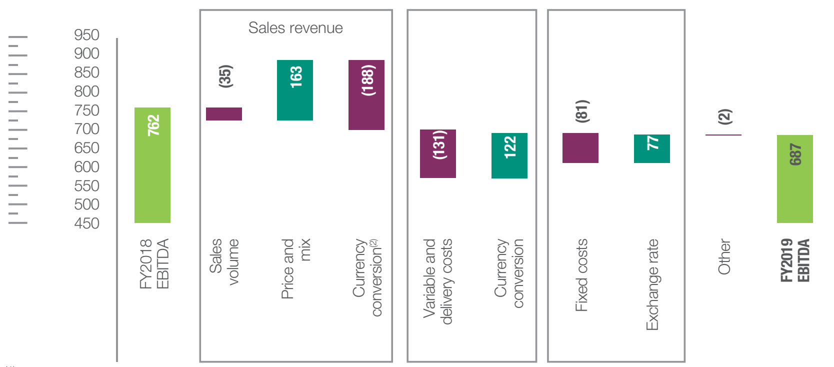
Fixed costs (US$ million)	2019	2018	% change
Personnel	**1,014**	1,043	(3)
Maintenance	**234**	235	(0)
Depreciation	**277**	274	1
Other	**246**	215	14
Group	**1,771**	1,767	–

EBITDA and operating profit excluding special items

EBITDA excluding special items decreased to US$687 million, 10% lower than the previous year. Operating profit excluding special items declined from US$480 million last year to US$402 million in 2019.

The EBITDA bridge reflected in the graph below shows the impact on profitability from higher sales volumes, higher sales prices and improved sales mix which were offset by increased variable and fixed cost.

Reconciliation of EBITDA excluding special items: 2019 compared to 2018[(1)] (US$ million)

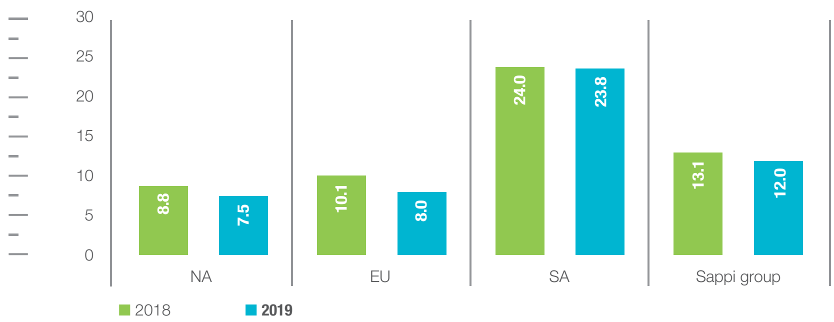


[(1)] All variance were calculated excluding Sappi Forestry.
[(2)] "Currency conversion" reflects translation and transactional effect on consolidation.

The tables below detail the EBITDA and operating profit excluding special items of the business for both 2019 and 2018 and the margins of each.

EBITDA excluding special items by region (US$ million)	2019	2018
North America	**110**	126
Europe	**232**	299
Southern Africa	**339**	337
Corporate and other	**6**	–
Group	**687**	762

EBITDA margin by region (%)

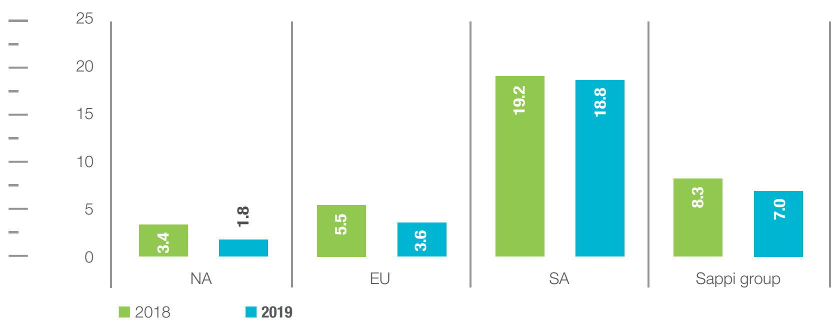


EBITDA excluding special items by product category (US$ million)	2019	2018
Dissolving wood pulp	**304**	306
Specialities and packaging papers	**126**	138
Printing and writing papers	**251**	318
Other	**6**	–
Group	**687**	762

Operating profit excluding special items by region (US$ million)	2019	2018
North America	**27**	49
Europe	**104**	163
Southern Africa	**267**	270
Corporate and other	**4**	(2)
Group	**402**	480

CHIEF FINANCIAL OFFICER'S REPORT continued

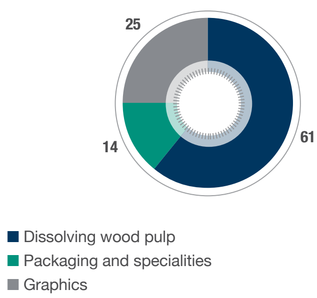
Operating profit margin by region (%)



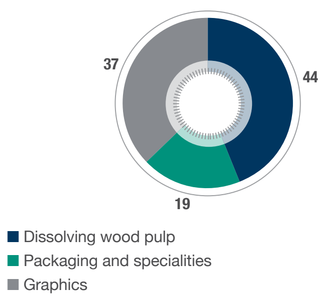
Operating profit excluding special items by product category (US$ million)	2019	2018
Dissolving wood pulp	**245**	251
Specialities and packaging papers	**52**	78
Printing and writing papers	**101**	153
Other	**4**	(2)
Group	**402**	480

The charts below illustrate that 75% of the groups' EBITDA originates from growing markets in the dissolving wood pulp and packaging and speciality segments. The Graphics segment, which contributes 37% of the EBITDA remains an important strategic component of our business.

Operating profit excluding special items by product 2019: US$402 million (%)



EBITDA excluding special items by product 2019: US$687 million (%)



For information regarding the financial performance of the regions, please refer to Section 3 of this report.

Key operating targets

Our financial targets and performance against them are dealt with in the Letter to Shareholders section.

Special items

Special items consist of those items which management believe are material, by nature or amount, to the results for the year and require separate disclosure. A breakdown of special items for 2019 and 2018 is reflected in the table below:

Special items – gain (loss) (US$ million)	2019	2018
Plantation price fair value adjustment	**19**	27
Acquisition costs	**(2)**	(2)
Net restructuring provisions	**–**	(1)
Profit (loss) on disposal and written off assets	**(11)**	4
Net asset (impairment) reversals	**(10)**	3
Black economic empowerment charge	**–**	(1)
Fire, flood, storm and other events	**(15)**	(21)
Total	**(19)**	9

The net impact of special items in 2019 was US$19 million. The major components are described below:
- A positive non-cash US$19 million plantation price fair value adjustment was recognised following increases to the market price of timber
- Various assets in Sappi Southern Africa and Europe amounting to US$7 million and US$4 million were scrapped
- A net asset impairment of US$10 million was incurred of which US$18 million related to our Westbrook Mill which was offset by impairment reversals of US$8 million at our Tugela and Stanger Mills
- Fire, flood, storm and other events includes turbine damage at the Stockstadt Mill amounting to US$10 million, fire damaged timber of US$4 million in South Africa, integration costs of US$2 million offset by a contingent consideration release of US$7 million.

Net finance costs

(US$ million)	2019	2018
Finance costs	**98**	92
Finance income	**(9)**	(18)
Net foreign exchange gains	**(4)**	(6)
Total	**85**	68

Finance costs include a charge of US$13 million for the cost of refinancing the 2022 bonds. Finance income reduced in the current year as a result of lower South African cash balances due to the increased capital expenditure in the region.

CHIEF FINANCIAL OFFICER'S REPORT continued

Taxation

A regional breakdown of the tax charge is provided below:

(US$ million)	Profit before tax	Tax (charge) relief	Effective tax rate %
Europe	**30**	**(11)**	(37)
North America	**(17)**	**4**	(24)
Southern Africa	**285**	**(80)**	(28)
Total	**298**	**(87)**	(29)

The tax charge of US$11 million in Europe was predominantly incurred in Germany and Italy. Unutilised tax losses in Austria and Belgium increased the effective tax rate to 37%.

In North America and Southern Africa, the effective tax rate is in line with the statutory tax rates in those countries.

Net profit, earnings per share and dividends

After taking into account net finance costs and taxation, our net profit and earnings per share for 2019, with comparatives for 2018, were as follows:

(US$ million)	2019	2018
Operating profit	**383**	489
Net finance costs	**85**	68
Profit before taxation	**298**	421
Taxation	**87**	98
Profit for the period	**211**	323
Weighted average number of shares in issue (millions)	**542.0**	538.1
Basic earnings per share (US cents)	**39**	60

The directors have elected not to declare a dividend and temporarily halt dividends until such time as market conditions improve.

Section 3

Below we discuss the performance of the regional businesses. The discussion is based on performance in local currencies as we believe this facilitates a better understanding of the revenue and costs in the European and Southern African operations.

North America

(Metric tons '000)	2019	2018	% change
Sales volume	1,379	1,379	1

	US$ million 2019	US$ million 2018	% change	US$ per ton 2019	US$ per ton 2018	% change
Sales	1,466	1,432	2	1,063	1,044	2
Variable manufacturing and delivery costs	(924)	(856)	8	(670)	(624)	7
Contribution	542	576	(6)	393	420	(6)
Fixed costs	(501)	(506)	(1)	(363)	(369)	(2)
Sundry costs and consolidation entries	(14)	(21)	(33)	(10)	(15)	(33)
Operating profit excluding special items	27	49	(45)	20	36	(44)
EBITDA excluding special items	110	126	(13)	80	92	(13)

The conversion of PM1 at Somerset Mill to produce paperboard grades and the increased dissolving wood pulp capacity at Cloquet offset the drop in graphic sales volumes. The weak graphic markets forced the region to take 155, 000 tons of production downtime which had a negative impact on costs. Customer acceptance of the new paperboard products increased during the year, but the extended qualification runs had an adverse impact on costs during the first half of the year. As a result, EBITDA margin reduced to 8% from 9% in the previous year.

EBITDA of US$110 million was 13% lower than the previous year.

Europe

(Metric tons '000)	2019	2018	% change
Sales volume	3,241	3,366	(4)

	€ million 2019	€ million 2018	% change	€ per ton 2019	€ per ton 2018	% change
Sales	2,587	2,494	4	798	741	8
Variable manufacturing and delivery costs	(1,707)	(1,632)	5	(527)	(485)	9
Contribution	880	862	2	271	256	6
Fixed costs	(762)	(712)	7	(235)	(212)	11
Sundry costs and consolidation entries	(25)	(13)	92	(7)	(3)	133
Operating profit excluding special items	93	137	(32)	29	41	(29)
EBITDA excluding special items	206	254	(19)	64	75	(15)

CHIEF FINANCIAL OFFICER'S REPORT continued

Market conditions for graphic paper in Europe were challenging as overall demand shrunk by more than 10%. The European operations were able to reduce the impact of the demand reduction by increasing market share, but was nevertheless forced to take 113,000 tons of production downtime during the year. The extended shut at Lanaken for the conversion of PM8 further impacted profitability. Selling prices were resilient in the face of the declining demand as the region managed the effects of increasing input costs. Strong volume growth of 14% in the packaging and speciality segment provided some relief.

Variable costs per ton increased by 9% relative to last year due mainly to an increase in purchased pulp prices. The purchased pulp prices reduced during the fourth fiscal quarter, which improved margins at the contribution level but was offset by increased fixed costs per ton due to lower absorption of fixed costs on lower sales volumes. EBITDA margins reduced from 10% to 8% as a consequence.

Southern Africa

(Metric tons '000)	**2019**	2018	% change
Sales volume*	**1,639**	1,620	1

	ZAR million 2019	ZAR million 2018	% change	**ZAR per ton 2019**	ZAR per ton 2018	% change
Sales*	**19,253**	17,333	11	**11,747**	10,699	10
Variable manufacturing and delivery cost	**(11,764)**	(10,415)	13	**(7,178)**	(6,429)	12
Contribution	**7,489**	6,918	8	**4,569**	4,270	7
Fixed costs	**(5,896)**	(5,403)	9	**(3,597)**	(3,335)	8
Sundry income and consolidation entries	**2,239**	2,009	11	**(1,366)**	1,240	10
Operating profit excluding special items	**3,832**	3,524	9	**2,338**	2,175	7
EBITDA excluding special items	**4,864**	4,398	11	**2,968**	2,715	9

* Excludes forestry.

The debottlenecking projects at Ngodwana and Saiccor increased dissolving wood pulp sales volumes during the current year by 5%. The South African packaging and paper business came under pressure as citrus fruit exports dropped and the weak South African economy impacted other paper sales volumes. Net selling prices of dissolving wood pulp reduced in US Dollar terms, but the weaker exchange rate resulted in price increases in local currency. Variable costs per ton increased by 12% mainly due to increased wood and purchased pulp costs. The variable costs were also impacted by a ZAR20 million charge for carbon tax which was introduced during the fourth fiscal quarter. Fixed costs were mainly influenced by wage inflationary increases at 7% and the employment of additional personnel in anticipation of the increased capacity at Saiccor planned for fiscal 2020. The net result of the above is an increase in EBITDA to ZAR4,864 million with annual operating profit of ZAR3,832 million.

The region's capital expenditure focused on increasing dissolving wood pulp capacity during the year.

Major sensitivities

Some of the more important factors which impact the group's EBITDA excluding special items, based on current anticipated revenue and cost levels, are summarised in the table below:

Sensitivities	Change	Europe € million	North America US$ million	Southern Africa ZAR million	Translation impact* US$ million	Group US$ million
Net selling prices	1%	25	16	200	–	58
Dissolving wood pulp prices	US$10	–	3	145	–	13
Variable costs	1%	14	8	113	–	32
Sales volume	1%	9	6	74	–	22
Fixed costs	1%	7	5	54	–	15
Paper pulp price	US$10	5	4	7	–	11
Oil price	US$1	2	–	3	–	2
ZAR/US$ (weakening)	10 cents	–	–	68	(1)	3
Euro/US$ (weakening)	10 cents	(2)	(4)	–	(23)	(29)

* Based on currency impact on translation of EBITDA.

The table demonstrates that EBITDA excluding special items is most sensitive to changes in the selling prices of our products.

The calculation of the impact of these sensitivities assumes all other factors remain constant and does not consider potential management interventions to mitigate negative impacts or enhance benefits.

CHIEF FINANCIAL OFFICER'S REPORT continued

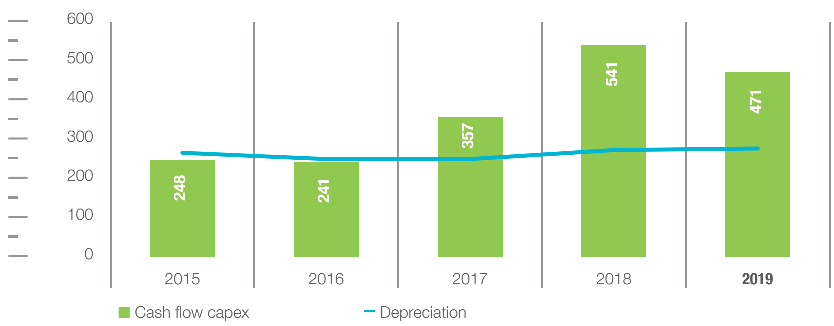
Section 4
Cash flow

In the table below, we present the group's cash flow statement for 2019 and 2018 in a summarised format:

(US$ million)	2019	2018
Operating profit excluding special items	**402**	480
Depreciation and amortisation	**285**	282
EBITDA excluding special items	**687**	762
Contributions to post-employment benefits	**(41)**	(45)
Other non-cash items	**27**	(8)
Cash generated from operations	**673**	709
Movement in working capital	**(15)**	(79)
Net finance costs	**(42)**	(66)
Taxation	**(51)**	(73)
Dividend paid	**(92)**	(81)
Capital expenditure	**(471)**	(541)
Net proceeds on disposal of assets	**3**	11
Acquisition of subsidiary	**–**	(132)
Other	**(4)**	(2)
Net cash generated (utilised)	**1**	(254)

Net cash generated for the financial year was US$1 million (FY18: US$254 million utilised which includes the acquisition of Cham Paper Group for US$132 million). Lower profitability was offset by tight working capital control and lower capital expenditure of US$471 million (LY = US$541 million). The lower cash finance charge is due to the timing of the fiscal year-end date.

Investment in fixed assets versus depreciation (US$ million)



Section 5

Balance sheet

Summarised balance sheet

(US$ million)	2019	2018
Property, plant and equipment	**3,061**	3,010
Plantations	**451**	466
Net working capital	**452**	493
Other assets	**291**	323
Net post-employment liabilities	**(298)**	(261)
Other liabilities	**(508)**	(516)
Employment of capital	**3,449**	3,515
Equity	**1,948**	1,947
Net debt	**1,501**	1,568
Capital employed	**3,449**	3,515

Sappi has 18 production facilities in eight countries, capable of producing approximately 3.7 million tons of pulp and 5.7 million tons of paper. For more information on our mills, their production capacities and products, please refer to the Where we operate section.

During 2019, capital expenditure for property, plant and equipment was US$471 million. The capacity replacement value of property, plant and equipment for insurance purposes has been assessed at approximately US$20 billion.

Property, plant and equipment

The cost and depreciation related to our property are set out in the table below:

Book value of property, plant and equipment

(US$ million)	2019	2018
Cost	**9,033**	9,077
Accumulated depreciation and impairment	**5,972**	6,067
Net book value	**3,061**	3,010

The group incurred capital expenditure of US$471 million during the year on various capital improvement projects. This was largely offset by depreciation of US$277 million and foreign currency exposure of US$139 million due to the strengthening of the US Dollar against the ZAR and the EUR.

Plantations

We regard ownership of our plantations in South Africa as a key strategic resource as it gives us access to low-cost fibre for pulp production and ensures continuity of supply on an important raw material input source.

We currently have access to approximately 529,000 hectares of land of which approximately 394,000 hectares are planted with pine and eucalyptus. These plantations provide approximately 66% of the wood requirements for our South Africa mills.

During the year, there were market price increases coupled with higher average fair value rates. These increases were offset by the rising cost of fuel and an increase in the discount rate. As we manage our plantations on a sustainable basis, the growth for the year was offset by timber felled during the year.

CHIEF FINANCIAL OFFICER'S REPORT continued

Our plantations are valued on the balance sheet at fair value less the estimated costs of delivery, including harvesting and transport costs. In notes 2.3.4 and 11 to the financial statements, we provide more detail on our accounting policies for plantations, how we manage our plantations as well as the major assumptions used in the calculation of fair value.

Working capital

The component parts of our working capital at the 2019 and 2018 fiscal year-ends are shown in the table below:

Net working capital

(US$ million)	2019	2018
Inventories	**709**	741
Trade and other receivables	**718**	767
Trade and other payables and provisions	**(975)**	(1,015)
Net working capital	**452**	493

Optimising working capital remains a key focus area for us and appropriate targets are incorporated into the management incentive schemes for all businesses. The working capital investment is seasonal and typically peaks during the third quarter of each financial year.

Net working capital decreased to US$452 million in 2019 from US$493 million in 2018. The material movements in working capital are discussed below:
- Inventories decreased by US$32 million, caused mainly by a favourable currency translation impact of US$31 million
- Receivables decreased by US$49 million following lower net selling prices and decreased volumes in the fourth quarter, and a favourable currency translation impact of US$27 million
- Payables decreased by US$40 million. The decrease in payables is largely due to an unfavourable currency translation impact of US$49 million, decreased raw material prices and decreases in bonus accruals. This was partially offset by higher accruals for capital expenditure.

Post-employment liabilities

We operate various defined benefit pension/lump sum plans, post-employment healthcare subsidies and other employee benefits in the various countries in which we operate. A summary of defined benefit assets and liabilities (pension and post-employment healthcare subsidies) is as follows:

Defined benefit liabilities

(US$ million)	2019	2018
Defined benefit obligation	**(1,525)**	(1,431)
Fair value of plan assets	**1,227**	1,170
Net balance sheet liability	**(298)**	(261)
Cash contributions to defined benefit plans/ subsidies	**36**	40
Income statement charge (credit) to profit or loss*	**26**	18
Cash contributions deemed 'catch-up'**	**17**	19

* There was a significant non-routine past service credit during fiscal 18, which causes the total charge to appear much lower compared to the amount charged in fiscal 19.

** 'Catch-up' is cash contributions paid to defined benefit plans in excess of current service cost.

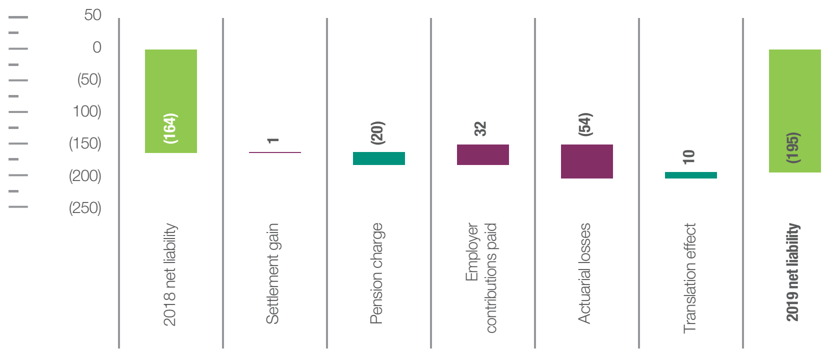
Gross liabilities from all our plans (funded plans and unfunded) increased by US$94 million compared with last year. The main cause of the overall increase was a significant drop in discount rates due to falling yields in respective bond markets.

Fair value of plan assets rose by US$57 million over the year due to favourable investment returns of assets in our funded plans from outperforming bonds markets. Significant portions of our assets are held in bonds as part of liability matching strategic allocation.

Included in the liability and asset movements above is a US$12 million gain resulting from movements relative to the reporting currency.

The increase in liabilities exceeded the increase in assets, which contributed to an increase in the overall net liability by US$37 million as at September 2019. A reconciliation of the movement in the balance sheet over the year is shown graphically below and disclosed in more detail in note 28 of the annual financial statements.

Sappi Limited defined benefit pensions balance sheet movement (US$ million)



Sappi Limited post-retirement medical aid subsidy balance sheet movement (US$ million)

CHIEF FINANCIAL OFFICER'S REPORT continued

Equity

Year-on-year, equity increased by US$1 million to US$1,948 million as summarised below:

Equity reconciliation

(US$ million)	2019
Equity as at September 2018	**1,947**
Profit for the year	**211**
Dividend paid	**(92)**
Actuarial losses	**(49)**
Share based movements	**9**
Movement in hedging reserves	**(11)**
Foreign currency movements	**(67)**
Equity as at September 2019	**1,948**

Profit for the year of US$211 million was offset by dividends of US$92 million, actuarial losses of US$49 million and foreign currency movements of US$67 million.

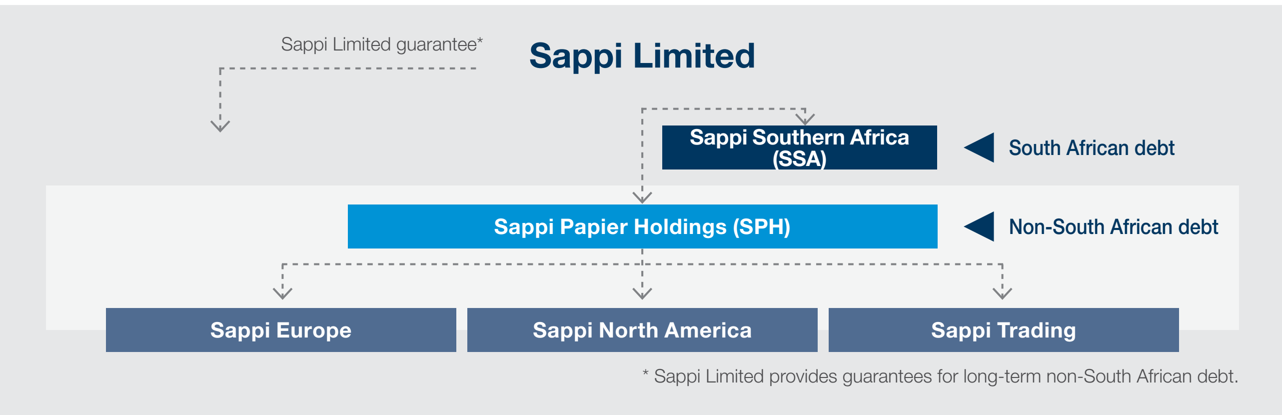
Debt

Debt is a major source of funding for the group. In the management of debt, we focus on net debt, which is the sum of current and non-current interest-bearing borrowings and bank overdrafts, net of cash and cash equivalents.

Debt funding structure

The Sappi group principally takes up debt in two legal entities. Sappi Southern Africa Limited issues debt in the local South African market for its own funding requirements and Sappi Papier Holding GmbH (SPH), which is the international holding company, issues debt in the international money and capital markets to fund our non-South African businesses. SPH's long-term debt is supported by a Sappi Limited guarantee and the financial covenants on certain of its debt are based on the ratios of the consolidated Sappi Limited group. The covenants applicable to the debt of these two entities and their respective credit ratings are discussed below.

The diagram below depicts our debt funding structure:



Below we highlight the main financing activities that occurred during the year:

- The previous €330 million securitisation facility at Sappi Papier Holding was increased to €380 million and extended to 2022. The increase was required to cater for the additional receivables arising from the Cham Paper Group acquisition in 2018
- The €450 million 2022 public bond was repaid at the April 2019 call window. The repayment was refinanced with a new €450 million public bond maturing in 2026
- The 110,000 tons expansion project at Saiccor was partially financed with a new long-term facility. An unlisted ZAR1.5 billion five-year private placement under the Domestic Medium-Term Note programme was issued in May 2019
- Shortly after the financial year-end the US$175 million Matane acquisition was finalised. The purchase price was financed with a new eight-year term loan from the Oesterreichische Kontrollbank in Austria. The term loan has a €74 million tranche and a CAD129 million tranche, with both tranches amortising in equal instalments from December 2021 to December 2027.

Structure of net debt and liquidity

We consider the liquidity position to be sufficient, with cash holdings exceeding short-term obligations by US$212 million at fiscal year-end. In addition, Sappi has US$640 million of unutilised committed credit facilities, including the revolving credit facility at SPH of €525 million (US$574 million).

The structure of our net debt at September 2019 and 2018 is summarised below:

(US$ million)	2019	2018
Long-term debt	**1,713**	1,818
Senior unsecured debt	**1,465**	1,471
Securitisation funding	**366**	376
Less: Short-term portion	**(118)**	(29)
Net short-term debt/(cash)	**(212)**	(250)
Overdrafts and short-term loans	**63**	84
Short-term portion of long-term debt	**118**	29
Less: Cash	**(393)**	(363)
Net debt	**1,501**	1,568

Movement in net debt

The movement of our net debt from fiscal 2018 to fiscal 2019 is explained in the table below:

(US$ million)	2019
Net debt as at September 2018	**1,568**
Net cash generated	**(1)**
Currency and other movements	**(66)**
Net debt as at September 2019	**1,501**

CHIEF FINANCIAL OFFICER'S REPORT continued

Group debt profile

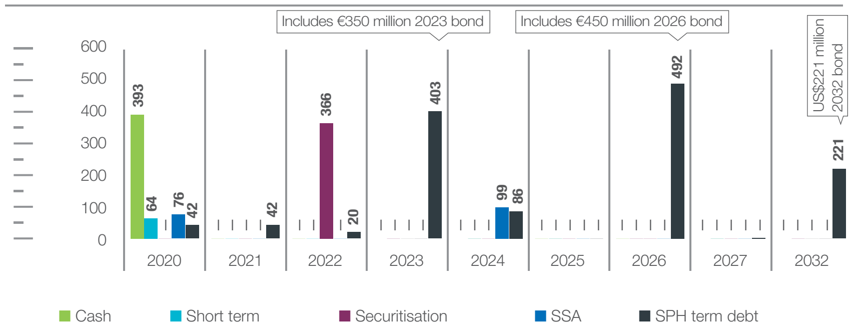
We show the major components and maturities of our net debt at September 2019 below. These are split between our debt in South Africa and our debt outside South Africa.

	Amount US$ million	Interest rates (local currencies) %	Fixed/ variable	Maturity (Sappi fiscal years) 2020	2021	2022	2023	Thereafter
South Africa								
Bank debt	**26**	**9.72**	**Variable**	26				
DMTN Private Placement	**99**	**9.25**	**Fixed**					99
2020 Bond	**49**	**8.06**	**Fixed**	49				
Gross debt	**175**							
Less: Cash	**(124)**			(124)				
Net South Africa debt	**51**			(48)	–	–	–	99
Non-South African								
Securitisation (US$)	**130**	**3.44**	**Variable**			130		
Securitisation (EUR)	**236**	**1.38**	**Variable**			236		
OeKB term loan 1	**45**	**1.25**	**Fixed**	22	22			
OeKB term loan 2	**164**	**2.20**	**Fixed**	20	20	20	20	85
Other bank debt (EUR)	**65**	**0.33**	**Variable**	64	0.2	0.1	0.3	1
2023 public bonds (EUR)	**383**	**4.00**	**Fixed**				383	
2026 public bonds (EUR)	**492**	**3.13**	**Fixed**					492
2032 Bonds (US$)	**221**	**7.5**	**Fixed**					221
IFRS adjustments	**(16)**							(16)
Gross debt	**1,720**							
Less: Cash	**(270)**			(270)				
Net non-South African debt	**1,450**			(164)	42	386	403	783
Net group debt	**1,501**			(212)	42	386	403	882

The majority of our non-South African long-term debt is guaranteed by Sappi Limited, the group holding company.

A diagram of the debt maturity profile for Sappi fiscal years is shown below.

Debt maturity profile for Sappi fiscal years (US$ million)



Covenants

Non-South African covenants

Financial covenants apply to US$209 million of our non-South African bank debt, the €525 million revolving credit facility and the securitisation facility.

The covenants are described below and are calculated on a rolling last four quarter basis and require to be met at the end of each quarter:

- the ratio of group net debt to EBITDA:

September 2019	**December 2019**	March 2020 to June 2021	September 2021 to September 2022	December 2022	March 2023
3.75	**4.25**	4.50	4.25	4.00	3.75

- the ratio of group EBITDA to net interest expense should not be less than 2.50-to-1.

The table below shows that at September 2019 we were well in compliance with these covenants:

Non-South Africa covenants	**2019**	Covenant
Net debt to EBITDA	**2.20**	<3.75
EBITDA to net interest	**9.49**	>2.50

In addition to the financial covenants referred to above, our bonds and certain of our bank facilities contain customary affirmative and negative covenants restricting, among other things, the granting of security, incurrence of debt, the provision of loans and guarantees, mergers and disposals and certain restricted payments. As regards dividend payments, in terms of the international bond indentures, any cash dividends paid may not exceed 50% of net profit excluding special items after tax and certain other adjustments, calculated on a cumulative basis.

South African covenants

Separate covenants also apply to the revolving credit facility of our Southern African business.

These covenants are calculated on a rolling last four quarter basis and require that at the end of March and September, with regard to Sappi Southern Africa Limited and its subsidiaries:

- The ratio of net debt to equity at the end of March and September is not greater than 65%
- At the financial year-end, the ratio of EBITDA to net interest paid for the year is not less than 2-to-1.

Below we show that for the year ended September 2019 the South African financial covenants were comfortably met.

South African covenants	**2019**	Covenant
Net debt to equity (%)	**3.41**	<65
EBITDA to net interest	**42.9**	>2.00

CHIEF FINANCIAL OFFICER'S REPORT continued

Credit ratings

Global credit ratings: South African national rating
Sappi Southern Africa Limited: AA (za)/A1+(za)/stable outlook (November 2019)

Moody's
Sappi corporate family rating: Ba1/NP/stable outlook (January 2019)
SPH debt rating:
- 2023/2026 bonds and RCF: Ba1/stable outlook (January 2019)
- 2032 bonds: Ba3

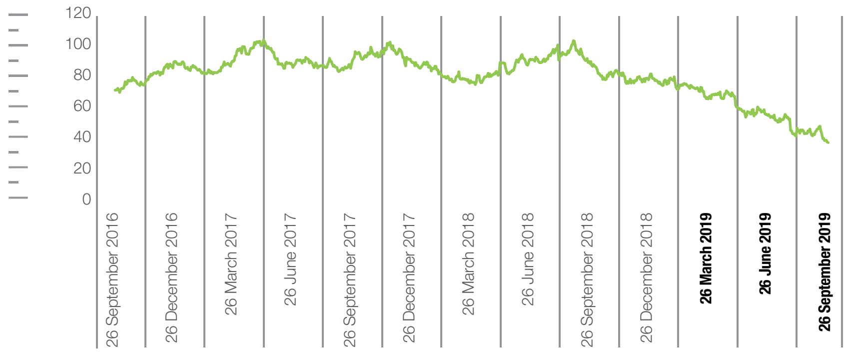
S&P Global Ratings
Corporate credit rating: BB/B/stable outlook (March 2019)

SPH Debt Rating:
- 2023/2026/2032 bonds and RCF: BB stable outlook (March 2019)

Section 6

Share price performance

Sappi share price – September 2016 to September 2019 (ZAR/share)



Conclusion

The year under review was challenging in many respects but served to reinforce our commitment to our strategic initiatives. The foundation laid during fiscal 2018 in terms of conversions and capacity increases reduced the severity of the economic headwinds we experienced during the second half of fiscal 2019. We were able to adjust our short-term plans without compromising the long-term initiatives by focusing on cash generation and balance sheet management. One of the regrettable consequences of the balance sheet management has been the decision to suspend dividends.

The conversion projects in Europe and North America showed promise as packaging and speciality volumes increased by 12% year-on-year, denting the impact of the demand decline in the graphics sector. Similarly, the dissolving wood pulp volumes increased by 7% following the completion of the capacity increases at Cloquet and Ngodwana. The Saiccor capacity expansion project is scheduled to be completed towards the end of fiscal 2020. Our input costs were well controlled and cost improvement projects of US$88 million were recorded for the year.

Fiscal 2020 promises to be a challenging year, but we are well positioned to rise to the challenge.

GT Pearce

Chief Financial Officer

CORPORATE GOVERNANCE

Sappi is committed to the highest standards of corporate governance, which form the foundation for the long-term sustainability of our company and creation of value for our stakeholders.

98% overall committee attendance rate

Good governance at Sappi contributes to living our values through enhanced accountability, a transparent and ethical culture, strong risk management, a focus on effective control of the business, legitimacy and good performance. Governance is one of our key enablers to unlocking and protecting value, as we optimise the use of our capitals, address our key risks while taking advantage of exciting opportunities and minimising the negative impacts of trade-offs that have to be made, as set out in Our key material issues

See Key material issues on page 58

The group endorses the recommendations contained in the King Code of Governance Principles for South Africa 2016 (King IV) and applies the various principles to achieve the following good governance outcomes

An application register of how Sappi applies King IV principles is provided on the group's website (www.sappi.com)

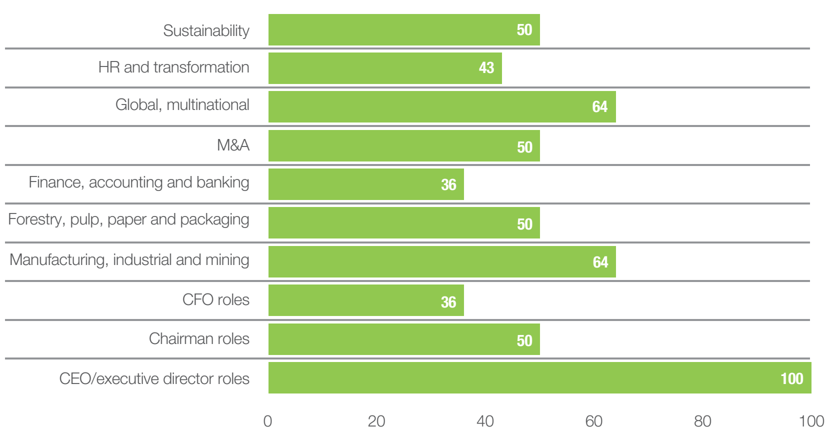
The group is listed on the JSE Limited and complies in all material respects with the JSE Listings Requirements, regulations and codes

The board of directors

The basis for good governance at Sappi is laid out in the board charter, which sets out the division of responsibilities between the board and executive management. The board creates and protects sustainable value by collectively determining strategies, approving major policies and plans, taking responsibility for risk management, and providing oversight as well as monitoring, to help to ensure accountability. The board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.

For further information about the board and the board charter please refer to www.sappi.com.

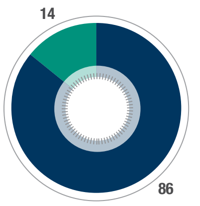
Board experience (Sappi's board members have experience across multiple industries and leadership roles) (%)



The Sappi board and diversity

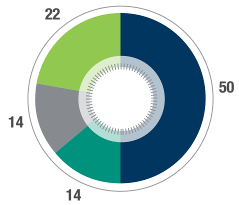
Sappi operates globally and across a variety of markets, jurisdictions and cultures, requiring a diverse mix of experience, skills, gender, age and backgrounds. It is important that our board composition reflects this diversity, both in a South African context as well as globally.

Directors' independence (%)



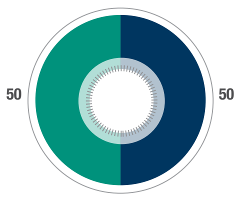
■ Independent non-executives
■ Executives

Directors' age: average 60 years (%)



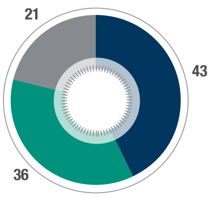
■ 60s
■ 70s
■ 40s
■ 50s

Diversity (%)



■ Diverse (50% are female or ethnically diverse)
■ Other

Directors' tenure: average 6.25 years (as at financial year-end) (%)



■ Zero to three years
■ Three to 10 years
■ Over 10 years

The composition of the board and attendance at board meetings and board committee meetings is set out below for the year ended September 2019:

Name	Appointed (Retiring) from Board	BOARD		BOARD COMMITTEES: Audit and Risk		Nomination and Governance		Human Resources and Compensation		SETS		% attendance during tenure	AGM
Independent non-executives													
BR Beamish	01 March 2019		●●					Ⓐ		Ⓐ			
MA Fallon			●●●●●		●●●●●			★	●●●●●			100	●
JM Lopez	01 March 2019		●●							Ⓐ		100	
NP Mageza			●●●●●	★	●●●●●				●●●●●			100	●
ZN Malinga			●✕●●●		●●●●●							90	✕
JD McKenzie	(31 December 2019)	Ⓛ	●●●●●				●●●		●●●●●			100	●
B Mehlomakulu			●●●●●								●●●	100	●
MV Moosa			●●●●●				●●●			★	●●●	100	●
KR Osar	(31 December 2019)		●●●●●		✕●●●●							90	●
RJAM Renders			●●●●●		●●●●●				●●●●●			100	●
Sir Nigel Rudd		★	●●●●●	✓	●✕●●●	★	●●●	✓	●●✕●●	✓	●●●	100	●
JE Stipp	01 June 2019		●	Ⓐ	●							100	
Executives													
SR Binnie (CEO)			●●●●●	ⓘ	●●●●●	ⓘ	●●●	ⓘ	●●●●●		●●●	100	●
GT Pearce (CFO)			●●●●●	ⓘ	●●●●●							100	●

Ⓛ Lead director ● Committee member (present) ★ Chairman ✓ Ex officio ✕ Absent ⓘ By invitation Ⓐ Indicates appointed to committee 01 August 2019

CORPORATE GOVERNANCE continued

Strategic focus areas

In addition to standard items on the board's agenda, 2019 focus areas included:

- External overviews of global and regional economies and related developments
- Each serious safety incident was reviewed in detail
- Biotech and related research and development
- A renewed focus on new products, the exciter (R&D) programme and go-to-market strategies
- The acquisition of Matane pulp mill in Canada
- Carbon emissions and reduction of Sappi's carbon footprint
- Human resource capacity building and transformation for the Southern Africa region
- Review of all major shuts and the project management process
- Review of regional market peculiarities
- Review of results from the engagement survey
- A review of the Code of Ethics and related policies, such as anti-trust and anti-fraud and corruption policies
- A review of cyber-security risks
- The Sefate employee share scheme
- Land reform in South Africa and fibre supply in Europe
- Cost reduction targets and strategies
- Review of supply and demand, of dissolving wood pulp and impact on the group
- Review of the packaging and speciality papers business
- Planning for the 2025 strategic plan.

All top risks and emerging risks received attention from the board in 2019.

The following specific areas will be added to the board's agenda in 2020:

- A revised approach for reviewing the risks facing the group
- Project management and oversight for large capital projects
- A review of gender diversification across regions and the group
- Commercialisation of biotech
- Consideration of additional cost improvement areas
- Review of risks and opportunities related to climate change in line with the Task Force on Climate-related Finance Disclosure (TCFD) recommendations
- Consideration and approval of the 2025 strategic plan.

Induction and training of directors

Following appointment to the board, directors receive induction and all directors receive training tailored to their individual needs, when required.

Stakeholder communication

The board is responsible for presenting a balanced and understandable assessment of the group's position in reporting to stakeholders. The group's reporting addresses material matters of significant interest and is based on principles of openness and substance over form. The reporting includes information on key trade-offs that have to be made. Various policies have been developed to guide engagement with Sappi's stakeholders such as the Group Stakeholder Engagement Policy and Group Corporate Citizenship Policy on www.sappi.com/policies. Sappi has a policy addressing alternate dispute resolution (ADR) and relevant ADR clauses are generally included in contracts with customers and suppliers. There have been no requests for information for the period under review in terms of the Promotion of Access to Information Act (South African legislation).

See Our key relationships on page 42 for more information.

Sappi board and management committees

Board and management committees have been established and are discussed from pages 111 to 117

Board committees

The board has established committees to assist it to discharge its duties. The committees operate under written terms of reference set by the board.

Board of directors

- **Strategic leadership and guidance**
- **The board delegates certain oversight responsibilities to board committees**
- **Ultimate oversight, accountability and responsibility**
- **The board assigns responsibilities for management of the group to the CEO**

Sappi's board committees create and maintain sustainable value by focusing on these key areas:

Audit and Risk Committee

- Financial and sustainability systems and reporting
- Risk management
- Compliance and ethics
- Combined assurance
- Internal and external audit
- IT governance

Nomination and Governance Committee

- Board size, composition and diversity
- Selection and recruitment of directors
- Evaluation of board performance
- Corporate governance developments

Human Resources and Compensation Committee

- Directors' remuneration
- Succession planning
- Remuneration policy
- Incentive schemes
- Labour and industrial relations management

Social, Ethics, Transformation and Sustainability Committee

- Group corporate citizenship
- Ethics
- Environment
- Safety
- Broad-based black economic empowerment

Executive Committee

- Executive directors (CEO and CFO)
- Other senior executives
- Execute strategic decisions approved by the board

Disclosure Committee

Control and Assurance Committee

Accounting Standards Committee

Treasury Committee

Taxation Committee

Global Business Systems Council

Group Risk Management Committees

IT Steering Committee

Project Steering Committees

Sustainability Councils

Global Brand Council

Technical Committee

Management committees

CORPORATE GOVERNANCE continued

Board committees

The board has established committees to assist it to discharge its duties. The committees operate within written terms of reference set by the board.

NP Mageza
Chairman

Membership details at September 2019:
- NP Mageza
- MA Fallon
- KR Osar
- RJAM Renders
- ZN Malinga
- JE Stipp

96% committee attendance rate

The Audit and Risk Committee confirms that it has received and considered sufficient and relevant information to fulfil its duties, as set out in the Audit and Risk Committee Report.

The external and internal auditors attended Audit and Risk Committee meetings and had unrestricted access to the committee and Chairman. The external and internal auditors met privately with the Audit and Risk Committee during 2019.

Mr NP Mageza is the Chairman and designated financial expert of the Audit and Risk Committee and attended the Annual General Meeting held on 6 February 2019. Ms ZN Malinga, joined the board and the Audit and Risk Committee with effect from 1 October 2018. Ms JE Stipp, joined the board with effect from 1 June 2019 and was appointed to the Audit and Risk Committee with effect from 1 August 2019.

See 2019 Audit and Risk Committee Report on www.sappi.com/annual-reports for more information.

Audit and Risk Committee

Roles and responsibilities

The Audit and Risk committee consists of six independent non-executive directors. The committee assists the board in discharging its duties relating to the following:
- Safeguarding and efficient use of assets
- Oversight of the risk management function
- Oversight of information and technology risks, related controls and governance
- Oversight of non-financial risks and controls, through a combined assurance model
- Operation of adequate systems and control processes
- Reviewing the integrity of financial information and the preparing of accurate financial reports in compliance with applicable regulations and accounting standards
- Reviewing the quality and transparency of sustainability information included in the Annual Integrated Report
- Reviewing compliance with the group's Code of Ethics and external regulatory requirements
- Oversight of the external auditors' qualifications, experience, independence and performance. For FY19, this included close monitoring of the audit activities of the external audit firm KPMG, as well as the ongoing review of reputational concerns relating to media reports involving KPMG South Africa
- Oversight of the performance of the internal audit function
- Oversight of the performance of the finance function
- Oversight of taxation policies, congruent with responsible corporate citizenship
- A formal review of the committee's operating effectiveness and performance every two years by way of an assessment with feedback being provided to the board.

Strategic focus areas

The Audit and Risk Committee helped to create and protect value by providing oversight and guidance for a wide range of topics, including the following areas related to Sappi's strategy:
- Global business systems projects tasked with harmonising diverse systems and processes, to achieve streamlined, effective ways of working across the group and the associated cost advantages
- Investment projects designed to rationalise declining businesses
- Management's efforts to maintain a healthy balance sheet
- Projects to accelerate the group's ability to take advantage of opportunities in higher-margin growth segments, such as dissolving wood pulp, packaging and speciality papers, the biotech and renewable energy fields
- Review of cyber-security incidents impacting on specific outsourced service suppliers
- Oversight of the establishment of a Control and Assurance Committee, which uses combined assurance to focus on risks facing the group
- Suggestions and oversight for the development of a revised approach to reviewing the group's risks
- Regulatory compliance with global privacy legislation.

Areas of additional oversight for the committee in 2020 will be:
- refinement of the risk framework and approach to reviewing risks
- oversight of the risk topics to be reviewed by the Control and Assurance Committee (CAC)
- oversight of the progress of the expanded project management approach.

Stakeholders

The Audit and Risk Committee has helped to create and protect value for many stakeholders, specifically employees, customers, shareholders and regulators.

See Our key relationships on page 42 for further details.

Risks

The Audit and Risk Committee has provided oversight for all the risks in the group risk register and this includes addressing the following top 10 risks:

1 Safety
2 Cyclical macro-economic context
3 Evolving technologies and consumer preferences
4 Highly competitive industry
5 Natural resource constraints
6 Project implementation and execution
7 Uncertain and evolving regulatory landscape
8 Market share and customer concentration
9 Employee relations
10 Failure to attract and retain key skills

See Risk management on page 34 for more information.

Sir Nigel Rudd
Chairman

Membership details at September 2019:
- Sir Nigel Rudd
- JD McKenzie
- MV Moosa

100%
committee attendance rate

Nomination and Governance Committee

Roles and responsibilities

The Nomination and Governance Committee consists of three independent directors. The committee considers the leadership and governance requirements of the company including a succession plan for the board. The committee identifies and nominates suitable candidates for appointment to the board in line with Sappi's policy on the promotion of gender and race diversity at board level, for board and shareholders' approval. It considers the independence of candidates as well as directors. The committee makes recommendations on corporate governance practices and disclosures, and reviews compliance with corporate governance requirements. It has oversight of appraising the performance of the board and all board committees. The results of this process and recommended improvements are communicated to the chairman of each committee and the board. The functioning and performance of Sappi's board and board committees were assessed externally in 2019 and established that the board and board committees functioned well.

Strategic focus areas

The Nomination and Governance committee helped to protect value by providing oversight and guidance in 2019 on:
- Corporate governance
- Tone at the top
- Succession plans for senior executives and the board with a focus on board composition
- Assessment of the board and board committee performance
- Rotation and replacement of directors

A focus area for 2020 will be executive and board succession planning.

Stakeholders

The Nomination and Governance Committee has helped to protect value primarily for the shareholders and regulators.

See Our key relationships on page 42 for more information.

The Nomination and Governance Committee focused on some of the top 10 risks:

1 Safety
6 Project implementation and execution
7 Uncertain and evolving regulatory landscape
10 Failure to attract and retain key skills

See Risk management on page 34 for more information.

Governance and compensation

CORPORATE GOVERNANCE continued

MA Fallon
Chairman

Membership details at September 2019:
- MA Fallon
- NP Mageza
- JD McKenzie
- RJAM Renders
- BR Beamish

100% committee attendance rate

Mr BR Beamish was appointed to the committee from 01 August 2019.

Human Resources and Compensation Committee

Roles and responsibilities

The Human Resources and Compensation Committee consists of five independent directors. The responsibilities of the Human Resources and Compensation Committee are, among others, to provide oversight of the group's human capital, determine the group's human resource policy and strategy, assist with the hiring, and setting of terms and conditions of employment of executives, the approval of retirement policies, and succession planning for the CEO and management. The committee ensures that the compensation philosophy and practices of the group are aligned to its strategy and performance goals. It reviews and agrees the various compensation programmes and, in particular, the compensation of executive directors and senior executives as well as employee benefits. It also reviews and agrees to executive proposals on the compensation of non-executive directors for approval by the board and ultimately by shareholders.

Strategic focus areas

The key focus area in 2019 was to review Sappi's compensation policy and practices to ensure alignment and compliance to the requirements of King IV. The Sappi Limited AGM was held on 06 February 2019 and the requisite ordinary resolutions endorsing the remuneration policy (96% majority) and implementation reports (93% majority) were passed. This vote by our shareholders is an endorsement for our ongoing commitment to good governance and disclosure.

The strategic focus areas for the committee in 2020 will include:
- To maintain high standards of corporate governance in line with King IV
- Action points from the employment engagement survey
- Leadership development
- Global HR systems implementation
- To review succession and retirement plans for key positions in Sappi
- To engage with key stakeholders to discuss areas of mutual concern.

See Remuneration Report on page 123 for more information.

Stakeholders

The Human Resources and Compensation Committee has helped to protect value primarily for the employees, shareholders and regulators.

See Our key relationships on page 42 and Remuneration Report on page 123 for more information.

Risks

The Human Resources and Compensation Committee has focused on the following top 10 risks:

1 Safety
2 Cyclical macro-economic context
6 Project implementation and execution
7 Uncertain and evolving regulatory landscape
9 Employee relations
10 Failure to attract and retain key skills

See Risk management on page 34 for more information.

MV Moosa
Chairman

Membership details at September 2019:

- MV Moosa
- SR Binnie
- B Mehlomakulu
- BR Beamish
- JM Lopez

100%
committee attendance rate

Mr BR Beamish and Mr JM Lopez were appointed to the Human Resources and Compensation Committee from 01 August 2019.

Social, Ethics, Transformation and Sustainability Committee

Roles and responsibilities

The Social, Ethics, Transformation and Sustainability (SETS) Committee comprises two independent non-executive directors and the CEO. Other executive and group management committee members attend committee meetings by invitation. It should be noted that a number of other non-executive directors attend SETS committee meetings ex officio. The chairmen of the Audit and Risk Committee and SETS Committee attend each other's meetings to avoid unnecessary repetition of discussions.

The committee's mandate is to oversee the group's sustainability strategies, ethics management, good corporate citizenship, labour and employment practices, as well as its contribution to social and economic development and, for the group's South African subsidiaries, the strategic business priority of transformation.

The committee is supported by the Global Sustainability Council and by Regional Sustainability Committees in dealing with day-to-day sustainability issues and helping to develop and entrench related initiatives in the business.

Strategic focus areas

In 2019 the committee:

- Oversaw the implementation of a Supplier Code of Conduct intended to enable Sappi to manage our supply chain risks more closely
- Provided oversight of safety initiatives and reviewed serious safety incidents
- Oversaw external assurance on LTIFR and emissions data as well as environmental impact analyses for major investment projects
- Considered trade-offs between the following:
  - Productivity and safety advantages of mechanisation and the social and human capital implications
  - Financial and natural capitals relating to the use of coal versus other renewable energy fuels for our heating requirements.

The strategic focus areas for the committee in 2020 will include:

- Further reduction of the group's carbon footprint
- Safety initiatives
- Sappi Southern Africa's performance against the applicable BBBEE legislation.

Stakeholders

The SETS Committee has a broad spread of stakeholders for which it helps to protect (or create) value, namely suppliers, customers, employees, regulators, shareholders and society.

See Our key relationships on page 42 for more information.

Risks

The SETS Committee focused on the top 10 risks:

1 Safety
2 Cyclical macro-economic context
3 Evolving technologies and consumer preferences
4 Highly competitive industry
5 Natural resource constraints
6 Project implementation and execution
7 Uncertain and evolving regulatory landscape
8 Market share and customer concentration
9 Employee relations
10 Failure to attract and retain key skills

See Risk management on page 34 for more information.

See SETS Committee Report on page 123 and summary of the group's sustainability initiatives at www.sappi.com/sustainability.

Governance and compensation

CORPORATE GOVERNANCE continued

Management committees

The board assigns responsibility for the day-to-day management of the group to the CEO. To assist the CEO in discharging his duties, a number of management committees have been formed. Some of these committees also provide support for specific board committees. The management committees are a key component of Sappi's second line of defence and assurance. Refer to pages 34 for additional details of Sappi's approach to risk, controls and assurance.

Executive Committee

This committee comprises executive directors and senior management from Sappi Limited as well as the CEOs of the three main regional business operations, and the dissolving wood pulp business. The CEO has assigned responsibility to the Executive Committee for a number of functional areas relating to the management of the group, including the development of policies and alignment of initiatives for strategic, operational, financial, governance, sustainability, social and risk processes. The Executive Committee meets at least five times per annum.

Disclosure Committee

The Disclosure Committee comprises members of the Executive Committee and senior management from various disciplines. Its objective is to review and discuss financial and other information prepared for public release. It is the ultimate decision-making body, apart from the board, on disclosure.

Treasury Committee

The Treasury Committee meets monthly to assess financial risks on treasury-related matters.

Taxation Committee

The Taxation Committee meets monthly to discuss and address global taxation matters.

Project steering committees

For key strategic projects, steering committees are established to oversee successful execution.

Technical committees

The technical committees focus on global technical alignment, performance and efficiency measurement as well as new product development.

Group Risk Management Committee

The committee is known as the group risk management team (GRMT) and is mandated by the board to establish, coordinate and drive the risk management process throughout Sappi. It has established a risk management system to identify and manage significant risks. The GRMT reports regularly on risks to the Audit and Risk Committee and the board. Risk management software is used to support the risk management process.

Control and Assurance Committee

The Control and Assurance Committee (CAC) is supported by the internal control function and provides regular oversight and guidance to the business on internal controls and combined assurance for financial, strategic and operational risks. The committee is accountable to GRMT and the Audit and Risk Committee.

Among other duties, the committee provided oversight for the activities of control and assurance workgroups (CAW) established to review key risks, identified risk mitigations and controls, assurance provision and identification of any gaps and subsequent remediation activities. The working group focused on IT security risks, fibre certification risk, corporate communications risks as well as our periodic review and streamlining of the group's risk and control framework, which is the foundation for Sappi's first line of defence and assurance. In 2020, the CAW will assist the CAC to create and protect value by undertaking reviews of combined assurance, risks and controls relating to retirement benefits, taxation, safety, and environmental sustainability.

IT Steering Committee

The IT Steering Committee promotes IT governance throughout the group and is the highest authority responsible for this aspect of Sappi's business, apart from the board. The committee has a charter approved by the Audit and Risk Committee and the board. An IT governance framework has been developed and IT feedback reports are presented to the Audit and Risk Committee and the board. Sappi IT has implemented a standardised approach to IT risk management through a group-wide risk framework supported by risk management software. The committee has helped to create value for shareholders in 2019 by its oversight of:

- The integration of SAP systems of operating units in Italy into Sappi's SAP environment
- Coordination with group internal audit of reviews of IT security arrangements for specific service providers who experienced or may have been at risk of cyber-security attacks
- The implementation of COBIT 2019.

Oversight by the committee will continue in 2020 for these IT initiatives, as well as:

- The integration of SAP systems of the recently acquired Matane Mill in Canada, into Sappi's SAP environment
- The implementation of reviews of IT security arrangements for key suppliers.

Global Business Systems Council

This council meets monthly to provide direction for strategic business improvement projects, in particular, harmonisation, One Sappi and effective use of resources.

Sustainability Council

This council provides direction for Sappi's efforts to achieve its sustainable value creation objectives.

Brand Council

This council coordinates Sappi's brand communication programme, monitors brand performance and ensures effective brand management to enhance Sappi's reputation.

CORPORATE GOVERNANCE continued

Ensuring leadership through ethics and integrity

Sappi is committed to doing business the right way. Trust is created by operating from a commonly accepted set of values, enhancing and protecting our reputation. We require our directors and employees to act with integrity, to be courageous, to make smart decisions and to execute with speed, in all transactions and in their dealings with all business partners and stakeholders.

CODE OF ETHICS

Our values underpin the group's Code of Ethics and commit the group and its employees to sound business practices and compliance with applicable legislation, which help to promote legitimacy.

Actions are taken against employees who do not abide by the spirit and provisions of our code.

Online Code of Ethics, anti-bribery and corruption training as well as social media training has been provided to employees across the group over the past three years.

A Group Supplier Code of Conduct (code) has been developed to help ensure that Sappi's values and ethical standards are clearly understood and supported by all our suppliers, their first-tier suppliers and other stakeholders.

See Code of Ethics on www.sappi.com/code-of-ethics.

LEGAL COMPLIANCE PROGRAMME

The programme is designed to increase awareness of, and enhance compliance with, applicable legislation. The group compliance officer reports twice per annum to the Audit and Risk Committee.

Sappi enhanced the legal compliance programme in 2019 by progressing implementation of Exclaim legal compliance software for Sappi group functions and Sappi Southern Africa. In addition, online training has been provided to employees across the group on relevant core legal compliance topics.

We intend to expand the use of Exclaim software in support of our legal compliance responsibilities in 2020. We have implemented a policy passport tool to support our legal compliance efforts. The introduction of these software tools and related training and online learning is helping to create and protect value primarily for employees, customers, shareholders and regulators.

CONFLICT OF INTERESTS

The group has a policy that obliges all employees to disclose any interest in contracts or business dealings with Sappi to assess any possible conflict of interest. The policy also dictates that directors and senior officers of the group must disclose any interest in contracts as well as other appointments to assess any conflict of interest that may affect their fiduciary duties.

During the year under review, apart from that disclosed in the financial statements, none of the directors had a significant interest, in any material contract or arrangement entered into by the company or its subsidiaries.

See Code of Ethics (Preventing fraud and corruption) on www.sappi.com/code-of-ethics.

INSIDER TRADING

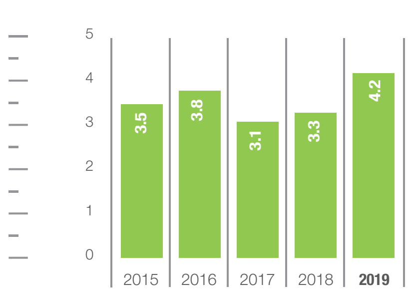
The company has a code of conduct for dealing in company securities and follows the JSE Limited Listings Requirements in this regard.

See Code of Ethics (Insider trading) at www.sappi.com/code-of-ethics.

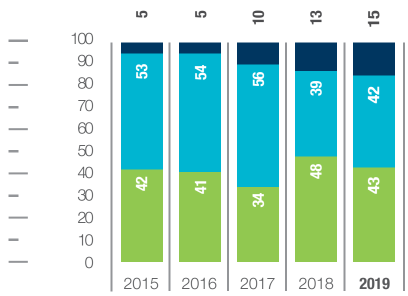
Reporting on compliance and ethics concerns

Sappi employees and stakeholders can report any potential illegal or non-compliant behaviour they observe directly to (senior) management, internal audit or legal counsel, or alternatively, report anonymously via telephone or an online form. Whistle-blower hotlines have been implemented in all the regions in which the group operates. The hotline service, operated by independent service providers, enables all stakeholders to anonymously report environmental, safety, ethics, accounting, auditing, control issues or other concerns. Retaliation against whistle-blowers is not tolerated. The follow-up on all reported matters is coordinated either by legal counsel or internal audit and reported to the Audit and Risk Committee. The majority of calls and ethics reports received related to the Southern African region. Please refer to the whistle-blower hotline and ethics report graphs for information on the number of hotline calls per 1,000 employees, categories of hotline calls and ethics reports, and outcome of investigations. The hotline report rates, categories of reports and outcomes of cases broadly align with international whistle-blower benchmark data. See Code of Ethics (Reporting and whistle-blowing) on www.sappi.com/code-of-ethics.

Hotline report rate per 1,000 employees per annum

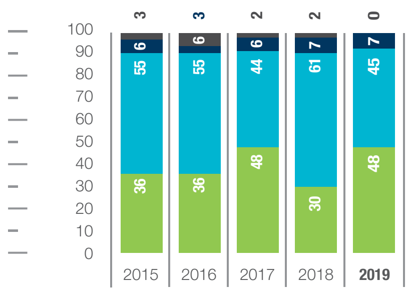


Analysis of hotline and ethics reports by category (%)



- Corruption, fraud and theft
- Employment-related matters
- Environment, health, and safety

Analysis of hotline and ethics reports case outcomes (%)



- Cleared, no action or unresolved
- Disciplined, counselled or other management action
- Termination
- Criminal charges

Financial statements

The directors are responsible for overseeing the preparation and final approval of the group annual financial statements, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

The group's results are reviewed prior to submission to the board, as follows:

- All quarterly results – by the Disclosure Committee as well as the Audit and Risk Committee
- Interim and final results – by external audit.

Risk, controls and assurance at Sappi

Risks facing the group are identified, evaluated and managed by implementing risk mitigations, such as insurance, strategic actions or specific internal controls. Sappi maintains a robust framework of risks and controls which assists in the application of the King IV guidelines and the achievement of governance outcomes by helping to: create an ethical culture; establishing effective control; and promoting legitimacy, all of which help Sappi to and its stakeholders to benefit from good performance. The framework includes controls addressing our material matters, by focusing on the main drivers of Sappi and comprises both financial and non-financial controls, which support the achievement of our strategy, within our risk appetite and tolerance levels, across the economic, social and environmental context in which the organisation operates as well as each of the six capitals set out in the IIRC's model. More information on these capitals and integrated thinking in the context of Sappi's sustainable business model can be found in Our Strategy and performance, as well as Our global sustainability goals.

The group's internal controls and systems are designed in accordance with the COSO control framework to support the achievement of the group's objectives including strategic, operational and financial performance goals, effective and efficient use of resources, safeguarding assets against material loss, integrity and reliability of internal and external financial and non-financial reporting, and compliance with applicable laws and regulations.

Sappi operates a combined assurance framework, which aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers, on the risk areas affecting the group.

During 2019 we further developed our approach to combined assurance which was overseen by the Control and Assurance Committee (CAC). The committee and its workgroups provided more holistic feedback to the GRMT and Audit and Risk Committee on the state of controls quality as well as coverage of assurance from various assurance providers across Sappi's three lines of defence.

CORPORATE GOVERNANCE continued

Sappi's combined assurance framework, incorporating the three lines of defence and oversight by the board and board committees

	First line of defence	Second line of defence	Third line of defence	Oversight by the board
Risk areas and value drivers, capitals	**Business management operations supported by appropriate controls and systems**	**Monitoring and oversight functions**	**Independent assurance provided by external audit, internal audit and other assurance providers**	**Board and board committees**
Governance, risk, and controls – general (core business cycles)	Day-to-day risk management activity Established risk and control environment Executive, corporate and regional lead teams Corporate and regional business functions, eg sales, finance, IT, HR, purchasing Business units, eg forestry, mills, sales offices Business unit operations, eg production, engineering, controlling, materials management	Control and Assurance Committee management self-assessments	Internal audit	Audit and Risk Committee
Strategy and vision, competition and markets, socio-political		Executive Committee, Group Head Strategy, Control and Assurance Committee, management self-assessments	Internal audit	Nomination and Governance Committee
Financial, tax and treasury		Control and assurance, accounting standards, taxation, treasury and disclosure committees, management self-assessments	KPMG, tax authorities, internal audit	Audit and Risk Committee
Legal and compliance		Legal compliance programme, Group Compliance Manager	Legal compliance audits, internal audit	Audit and Risk, SETS, HR and Compensation Committees
IT		IT Steering Committee, group IT governance functions, management self-assessments	KPMG, ISA 3402s, penetration testing, internal audit	Audit and Risk Committee
Planet, environment, natural capital		Sustainability councils, Environmental and Energy (E4) Global Cluster, GRMT	ISO 14001, FSC™, PEFC™, EMAS, KPMG Government reviews emissions effluent etc, internal audit	SETS Committee
Ethics		Group Compliance Manager, ethics surveys, management self-assessments	Internal audit	SETS Committee
People, HR and transformation		Global HR Committee, regional labour forums, employee engagement surveys, management self-assessments	BBBEE audits, internal audit	Audit and Risk, SETS, HR and Compensation Committees
Research and development, intellectual property		Group technical cluster, management self-assessments	ISO 17025, internal audit	SETS Committee
Manufacturing, supply chain management, quality, forestry		Technical clusters and platforms, regional SHEQ audits, supplier audits, management self-assessments	ISO 9001, ISO 50001, FSC™ PEFC™, Matrix, internal audit	SETS Committee
Stakeholders, communication, reputation, society		Group corporate affairs, sustainability and investor relations functions	Internal audit	SETS Committee
Safety		Group and regional risk management teams, safety audits	OHSAS 18000, ISO 22000 regulatory inspections, internal audit	SETS Committee

A key element of combined assurance at Sappi is derived from the annual control self-assessments completed by control owners, which helps to protect value for stakeholders by providing management and the board with assurance on the state of controls throughout the group. Control gaps identified through this process are recorded and remediation progress is monitored by management, relevant committees, auditors and the board.

The Audit and Risk Committee advises the board on the state of risk management and controls, as well as assurance, in Sappi's operating environment. This information is used as the basis for the board's review, sign-off and reporting to stakeholders, via the Annual Integrated Report and annual financial statements, on risk management and the effectiveness of internal controls and assurance in Sappi.

As part of combined assurance on reported information, Sappi has obtained assurance on data in the Annual Integrated Report from the following sources:

- KPMG have audited the Group Annual Financial Statements
- External sustainability assurance was obtained from KPMG in 2019 for scope 1 and 2 emissions information as well as specific safety information
- Specific Planet (environment) related processes are subject to review by third parties during the year. Certain local environmental and safety reporting is subject to audit by local regulators
- Limited reviews of sustainability information have been undertaken by central technical management and internal audit.

Internal audit

The group has an effective risk based internal audit department which is suitably resourced. It has a specific charter from the Audit and Risk Committee and independently appraises the adequacy and effectiveness of the group's governance, risk management, systems, internal controls and accounting records. Internal audit coordinates combined assurance and reports the findings to local and divisional management, the external auditors as well as the Audit and Risk Committee.

The head of internal audit reports to the Audit and Risk Committee, meets with board members, has direct access to executive management and is invited to attend certain management meetings. The role of internal audit at Sappi is set out below:

The role of internal audit at Sappi is set out in the following diagram:

Internal audit value proposition

Mission, vision, values	Strategy	Performance and outcomes
Stakeholders	**Objectives**	**Capitals**
• Board, Audit and Risk Committee • Management • Employees • Other	People, Planet and Prosperity • Strategic • Operational • Compliance • Reporting	• Manufactured • Financial • Human • Natural • Societal • Intellectual

Governance, risk and opportunity management, controls

Support	Internal audit activities	Support

Advisory and assistance

- Forensic, hotline and ethics management
- Projects, new business processes
- Ad hoc management requests
- Governance, risk, controls consulting
- King IV, governance disclosures
- Secondments to business
- Internal control support (risk and control framework, self-assessments, segregation of duties, workgroups)

Assurance (risk based)

- Financial processes and systems
- Business processes and systems
- Operational and strategic risks
- IT (value, GCC, security, operations)
- Ethics, risks, legal compliance
- Sustainability data
- Combined assurance
- Annual opinion

Core principles					
Integrity	Competence and due professional care	Objective and independent	Aligned with strategies, risks and objectives	Appropriately positioned and resourced
Quality and continuous improvement	Effective communication	Risk based assurance	Insightful, future-focused and proactive	Promotes organisational improvement

CORPORATE GOVERNANCE continued

During 2019, apart from the ongoing focus on financial controls, which includes supporting Sappi's strategy to maintain a healthy balance sheet, internal audit helped to create and protect value by completing reviews in support of the following strategic objectives:

- **Achieve cost advantages:** advisory services to the global business systems projects (requisition to pay, sales order to cash, shared service centre optimisation)
- **Rationalising declining businesses:** project management reviews for business optimisation projects.
- **Accelerate growth in higher margin growth segments:** Integration and control onboarding reviews of operating units in the United Kingdom and Italy. Assurance reviews of contractors and capital expenditure for the Vulindlela project at Sappi's Saiccor Mill in South Africa.

In 2020, internal audit will continue to create and protect value for shareholders, management, several management committees, as well as the Audit and Risk Committee by:

- Undertaking further advisory or assurance assignments for strategic projects
- Developing our agile approach to establishing the audit plan and to streamline our way of working; and spearheading Sappi's enhanced focus on combined assurance by playing a leading role in coordinating the efforts of Combined Assurance Workgroup (CAW) which will address key group risks, provision of assurance and identification of gaps, with feedback to the Control and Assurance Committee (CAC), GRMT and Audit and Risk Committee
- Continuing with capital expenditure and contractor reviews for the Vulindlela project in Sappi Southern Africa
- Integration and control onboarding reviews of the acquired Matane Mill in Canada.

Internal audit maintains an internal quality assurance programme. An external quality assurance review is undertaken periodically. The last review was in 2015, conducted by the Institute of Internal Auditors (IIA). A generally conforms rating was received, which is the highest of the three levels of conformance to the IIA's standards. The 2019 internal quality assurance review highlighted a need for more regular review of our audit strategy and assessment of risks. This will be addressed in 2020.

Board assessment of the company's risk management, compliance function and effectiveness of internal controls and combined assurance

The board is responsible for the group's systems of internal financial and operational control. As part of an ongoing comprehensive evaluation process, control self-assessments, independent reviews by internal audit, external audit and other assurance providers were undertaken across the group to test the effectiveness of various elements of financial, disclosure and other internal controls as well as procedures and systems. Identified areas of improvement are being addressed to strengthen the group's controls further. The board has assessed the combined assurance provided in 2019. The results of the reviews did not indicate any material breakdown in the functioning of these controls, procedures and systems during the year. The internal controls in place, including the financial controls and financial control environment, are considered to be effective and provide a sound basis for the preparation of the Group Annual Financial Statements, Annual Integrated Report and other reports used internally for management decision making.

Company Secretary

The Company Secretary does not fulfil executive management functions outside of the duties of company secretary and is not a director. During the year, the board has assessed the independence, competence, qualifications and experience of the company secretary and has concluded that she is sufficiently independent (ie maintained an arm's length relationship with the executive team, the board and individual directors), qualified, competent and experienced to hold this position. The company secretary is responsible for the duties set out in section 88 of the Companies Act 71 of 2008 (as amended) of South Africa. Specific responsibilities include providing guidance to directors on discharging their duties in the best interests of the group, informing directors of new laws affecting the group, as well as arranging for the induction of new directors.

REMUNERATION REPORT

This Remuneration Report details the company's compensation policy for executive directors, executive committee members and non-executive directors.

The information provided in the report has been approved by the board as per recommendation by the Human Resources and Compensation Committee.

The report is split into three sections: section A details our remuneration background statement disclosures, section B gives an overview of our remuneration policy and section C addresses implementation of the remuneration policy in 2019.

Section A: Remuneration background statement disclosures

I am pleased to present the committee's report on remuneration. Our report and disclosures fully comply with regulatory and statutory provisions relating to remuneration governance in all the countries in which we operate. This report is aligned to the principles and recommended practices of the King IV Report on Corporate Governance of South Africa (King IV) and as part of our commitment to good corporate governance.

Sappi Limited's AGM was held on 06 February 2019 and ordinary resolutions endorsing the remuneration policy and implementation reports were passed with 95.94% and 93.43% majorities, respectively. This vote by our shareholders is an endorsement of Sappi's good governance and disclosure.

Following positive feedback and support from our shareholders, we have further improved the following in the 2019 report:

- Disclosed reasons why Performance Share Plan (PSP) allocations were being adjusted up or down
- Disclosed executive directors' key objectives
- Included working capital in the calculation of the cash flow return on net assets (CFRONA)
- Adjusted limits of the PSP in line with shareholder recommendation of 5% of issued share capital See resolutions on page 155.
- Disclosed that the terms and conditions of the annual incentive scheme for executive directors and executive committee members also affords the company the right to seek redress and recoup from an individual where for any reason the board determines within a 12-month period of such payment.

We value the input of our shareholders and will continue to seek their input to ensure good disclosure.

As detailed in the Chairman and CEO's report, in the year ended September 2019 a number of major factors influenced the group's results, namely:

- Prolonged weakness in global graphic paper markets was experienced
- In the second half of the year, the graphic paper segment started to benefit from a reduction in input costs, particularly paper pulp, helping to mitigate the impact of lower volumes
- The year started strongly for dissolving wood pulp (DWP) markets, with pricing above long-term averages for the first six months. Thereafter, the combination of the impact from global trade wars on Chinese textile markets, excess viscose staple fibre (VSF) capacity and a weaker Renminbi exchange rate drove DWP prices to historical lows, impacting profitability in this segment

REMUNERATION REPORT continued

- To mitigate the impact from lower profitability, capital expenditure was postponed and reduced. Tighter working capital measures were also implemented.

During the year, Sappi made further strides towards diversifying its product portfolio into higher-margin growth segments. This involved plant conversions to increase our packaging capacity in Sappi North America (SNA) and Sappi Europe (SEU), and in Sappi Southern Africa (SSA) to debottleneck and to improve our DWP plants, for both capacity and sustainability footprint. These projects removed production capacity from our operations during the conversion and subsequent ramp-up periods which had an impact on short-term EBITDA. In the year ahead we will continue the project to boost DWP capacity by 110,000 tons at Saiccor Mill in South Africa. Following the recent conversions at Somerset, Maastricht and Lanaken, the product portfolio will be further optimised with a significant increase in packaging volumes.

The remuneration policy and its implementation aims where possible to balance short-term market conditions with the need to incentivise management to continue to drive performance and implement the long-term strategy.

Two resolutions will be put forward to shareholders at the AGM in February 2020 to reset the number of shares under the plan (Performance Share Plan). Our existing number of shares under the plan and the scheme have been in place for 14 years and the board was prudent in the allocation of the shares over this time. This allowed for an effective annual burn rate of just under 1%. However, these shares are almost fully utilised. During the year we engaged with and received the input from large shareholders before finalising the resolutions.

For 2020, the focus for Mr Binnie and his leadership team will be as follows:
- Drive the Safety-first programme
- Continue leading the Sappi Values (of integrity, speed, courage and Smart decision making)
- Lead the roll out of the Sappi 2025 strategy
- Execute Saiccor expansion projects as planned and guide the DWP business through challenging times
- Grow the packaging and speciality business with optimal volumes
- Manage the graphics business capacity
- Drive operational excellence across all plants
- Integrate Matane Mill into the Sappi environment
- Drive One Sappi initiatives across all regions
- Ongoing training and development of people
- Drive Sappi's sustainability footprint
- Work to ensure the short-term incentive plan is mindful of challenging trading conditions and to gain optimum performance in FY20 results
- Show significant progress on commercialisation of new biotech products
- Talent management and succession – managing key retirements over the next 12 months and near-term succession.

Our remuneration policy is continuously benchmarked against relevant industry peers to ensure it motivates our senior team to achieve the group's objectives and deliver sustained returns and value creation for our stakeholders. The committee also believes that the remuneration of executives in 2019 reflects our challenges and successes to date in the delivery of our strategy. Thank you for the support and advice that you have given for our 2019 Remuneration Report. The improved disclosures on our policy and the implementation report reflect this feedback. I look forward to continuing engaging with you in future.

Mike Fallon

Chairman of the Human Resources and Compensation Committee

Statement of voting at AGM

The AGM of Sappi Limited was held on 06 February 2019 and the requisite resolutions endorsing the remuneration policy and implementation report were passed as follows:

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

For	Against	Shares voted	Abstain
401,173,338	16,971,270	418,144,608	287,954 (0.05%)
95.94%	4.06%	74.75% (voteable shares)	

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

For	Against	Shares voted	Abstain
388,806,540	27,338,144	416,144,684	287,878 (0.05%)
93.43%	6.57%	74.39% (voteable shares)	

At the February 2018 AGM, results for the requisite ordinary resolutions endorsing the remuneration policy and implementation report were 99.43% and 92.14% respectively.

Human Resources and Compensation Committee

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

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

At the end of the year, the committee consisted of five independent non-executive directors:

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

The Chairman of the company, Sir Nigel Rudd, attends committee meetings ex officio while the Group CEO, Mr SR Binnie and Group Head Human Resources, Mr Fergus Marupen attend meetings by invitation. Mr JD McKenzie retires at the end of December 2019.

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

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

Attendance at meetings by individual members is detailed on page 109.

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

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

The committee ensures that compensation practices and structures in the group support its strategy and performance goals. The policy also enables the attraction, retention and motivation of executives and all employees.

Key activities of the committee in 2019 are summarised as follows:

- Reviewed and approved the vesting, or otherwise, of performance share plan awards awarded on 04 December 2015
- Approved winding up of the Sefate employee empowerment scheme for South Africa
- Approved allocation of 2019 performance share awards to executive directors and all other eligible participants
- Reviewed and approved salary increases and bonus payments for executive directors and other key senior managers for 2020
- Recommended fee levels for non-executive directors of Sappi Limited for consideration and recommendation to shareholders for approval

REMUNERATION REPORT continued

- Approved the allocation model and comparator peer group for the 2019 performance share plan
- Reviewed the Remuneration Report, including the content of the company compensation policy and practices, which was put to shareholders for a non-binding vote at the AGM in February 2019
- Approved the 2020 Management Incentive Scheme rules and reviewed the Share Incentive Plan rules, including changes to the Performance Share Plan
- Reviewed the share limits of the PSP and recommended two resolutions to the AGM
- Reviewed succession, retirement and development plans for key management positions
- Reviewed the group's Industrial Relations Policy and implementation
- Reviewed the group's training and development policy and implementation
- Sought advice on the implementation of a return measure, ROCE, as part of future incentive plans.

Independent advice

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

- Mercer Kepler, United Kingdom
- Korn Ferry, South Africa
- KPMG Inc, South Africa
- Bowmans, South Africa
- PricewaterhouseCoopers Tax Services, South Africa.

Compliance statement

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

The committee believes the objectives stated in the remuneration policy have been achieved for the period under review. The committee is satisfied it has fulfilled its responsibilities in accordance with its terms of reference and with the status of remuneration and incentives in the group.

Areas of focus for 2020

Key activities for the committee in 2020 will include the approval of the remuneration and bonuses for executive directors and senior management.

In addition to the annual work plan as approved by the committee, the chairman of the committee and senior executives from Sappi will, if required, visit key shareholders to discuss issues of mutual concern. The committee will also consider options available for a future Sappi empowerment scheme to replace the Sefate scheme that vested in August 2019.

Section B: Overview of the remuneration policy

Compensation strategy and policy

Our compensation packages:

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

Summary of reward components of executive directors and other members of the Group Executive Committee

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

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

REMUNERATION REPORT continued

Purpose	Structure	Opportunity
Variable		
Component – annual cash incentive		
• Focus participants on targets relevant to the group's strategic goals • Drive performance • Motivate executives to achieve specific and stretching short-term goals • Reward individuals for their personal contribution and performance • Deferred share proportion of the annual bonus aligns interests with shareholders.	• All measures and objectives are reviewed and set at the beginning of the financial year. • Payments are reviewed and approved at year-end by the committee based on performance against targets • Threshold must be met for any bonus payment to occur • Target level of bonuses varies from 65% to 85% of base salary • Weightings for 2019 were: EBITDA – 50%, working capital – 20% and safety – 10%, individual – 20% • Bonuses are paid in cash. The Group CEO and executive committee members have volunteered to purchase shares with 40% and 30% of their after-tax cash bonus respectively. The right to sell the shares is deferred for up to three years, subject to individual members not being terminated for cause • Non-pensionable.	• The maximum bonus for executive directors is 116% of base salary • Executive committee members and other senior managers may earn a maximum bonus of up to 95% of base salary • The number of shares arising from the deferred Executive Management Incentive Scheme – will be increased by 20% of the original number of shares purchased, provided the employee holds all the shares for a period of three years.
Component – long-term share incentive plans		
• Align the interests of executive members with those of the shareholder • Reward execution of strategy and long-term outperformance of our competitors • Encourage long-term commitment to the company • Is a wealth-creation mechanism for executive members if the company outperforms the peer group.	• Conditional grants awarded annually to executive directors, executive committee members and other key senior managers of the company • Straight-line vesting after four years • Performance is measured relative to a peer group of 16 other industry-related companies • The number of conditional shares allocated varies from 142,000 conditional share awards to the CEO, and between 39,000 and 79,000 conditional share awards to each executive committee member • Measures for 2019 awards were relative total shareholder return (TSR) – 50% and relative cash flow return on net assets (CFRONA) – 50%.	• None

Purpose	Structure	Opportunity

Variable continued

Component – broad-based black economic empowerment

Purpose	Structure	Opportunity
• Provide black managers with the opportunity to acquire equity in the company • Attract, motivate and retain black managers.	• Established to meet the requirements of the Forestry Sector Charter BBBEE codes • Eligible employees receive an allocation based on seniority of A ordinary shares • Shares vest 40% after three years and 10% each year thereafter • Shares can only be taken up after September 2019 • Managers receive the net value in shares or cash at the end of the lock-in period.	• In terms of the rules of the scheme, A units for both schemes lapsed as the threshold of R73.50 was not achieved. B units delivered value for participants. The board approved an ex gratia payment, in lieu of all units that lapsed under the scheme of approximately US$1 million. This was distributed to current permanent Sappi employees. Value to each participant was determined based on the number of A units they hold.

Component – service contracts

Purpose	Structure	Opportunity
• Provide an appropriate level of protection to both the executive and to Sappi.	• Executive committee members have notice periods of 12 months or less • Separation agreements, when appropriate, are negotiated with the individual concerned with prior approval being obtained in terms of our governance structures.	• In circumstances where there is a significant likelihood of a transaction involving the Sappi group or a business unit, limited change in control protections may be agreed and implemented if deemed necessary for retention purposes.

Service contracts

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

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

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

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

REMUNERATION REPORT continued

Choice of performance measures and approach to target setting

Short-term incentive

The table below shows the metrics for 2019, why they were chosen and how targets are set.

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

Performance Share Plan (PSP)

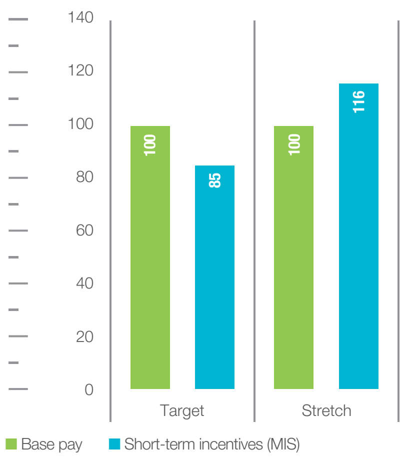
The table below shows the metrics for 2019 grants, why they were chosen and how targets are set.

Metric	Relevance	How do we set the targets?
Total shareholder return (TSR)	TSR measures the total returns to Sappi's shareholders, so provides close alignment with shareholder interests.	The committee sets the performance requirements for each grant. A peer group of packaging and paper sector companies is used. Nothing vests in positions 10 – 17 of the peer group. Vesting increases from 25% at position 9 to 100% for positions 1 – 5.
Cash flow return on net assets	A key indicator of the effective use of capital. Cash flow return on net assets (CFRONA) is calculated as cash generated by operations after working capital movements (before interest, tax and dividends) divided by average total assets (excluding cash) less interest-free liabilities.	The committee sets the performance requirements for each grant. A peer group of packaging and paper sector companies is used. Nothing vests in positions 10 – 17 of the peer group. Vesting increases from 25% at position 9 to 100% for positions 1 – 5.

Remuneration scenarios at different performance levels

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

Remuneration levels (CEO and CFO)



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

Statement of fair and responsible remuneration

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

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

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

Approach to remuneration benchmarks

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

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

REMUNERATION REPORT continued

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

Remuneration policy for non-executive directors (fees)

Element	Purpose	How it works?	Fees
Non-executive Chairman (fees)	• To attract and retain high-calibre chairman, with the necessary experience and skills • To provide fees which take account of the time commitment and responsibilities of the role.	• The Chairman receives an all-inclusive fee.	• The Chairman's fees are reviewed periodically by the committee • Fees are set by reference to market median data for companies of similar size and complexity to Sappi.
Other non-executive directors (fees)	• To attract and retain high-calibre non-executives, with the necessary experience and skills • To provide fees which take account of the time commitment and responsibilities of the role.	• The non-executives are paid a basic fee. • Attendance fees are also paid to reflect the requirement for non-executive directors to attend meetings in various international locations. • The chairmen of the main board committees and the lead independent director are paid additional fees to reflect their extra responsibilities.	• Non-executive directors' fees are reviewed periodically by the Chairman and Human Resources and Compensation Committee • Fees are set by reference to market median data for companies of similar size and complexity to Sappi.

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

All non-executive directors have letters of appointment with Sappi Limited for an initial period of three years. In accordance with best practice, non-executive directors are subject to re-election at the AGM after the three-year period. Appointments may be terminated by Sappi with six months' notice.

No compensation is payable on termination, other than accrued fees and expenses.

Voting on remuneration

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

- An engagement process to ascertain the reasons for the dissenting votes
- Appropriately addressing legitimate and reasonable objections and concerns raised which may include amending the remuneration policy or clarifying or adjusting remuneration governance and/or processes.

You can also view the full remuneration policy on www.sappi.com

Section C: Remuneration implementation report

Compensation structure

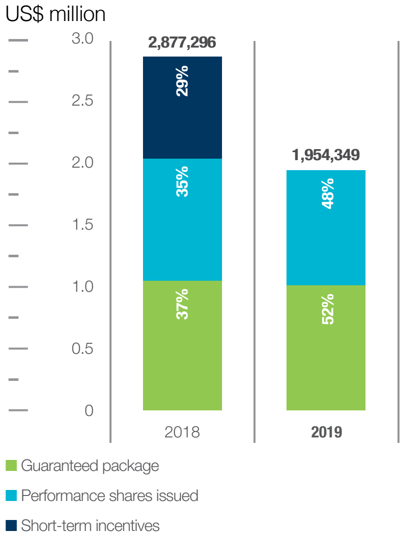
Total compensation comprises fixed pay (ie base salary and benefits) and variable performance-related pay, which is divided further into short-term incentives with a one-year performance period and long-term incentives which have a four-year performance period.

Compensation mix

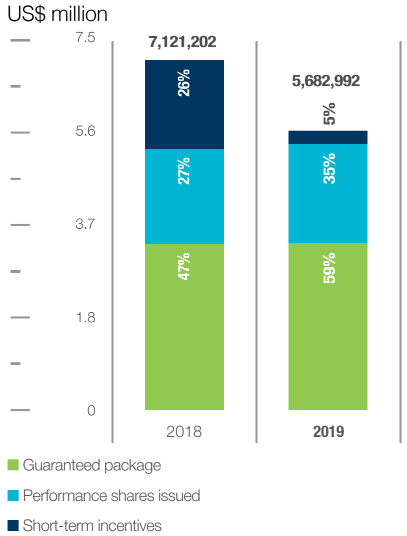
The compensation mix for executive directors and executive committee members is shown in the schematics below and alongside.

The long-term incentive awards are based on the face value of the performance plan shares issued in December 2019 (share price at date of allocation: ZAR80.60 November 2018). Details of the executive directors' remuneration can be found on page 138.

Executive directors (number of employees at September 2019 = 2) (%)



Executive Committee (number of employees at 30 September 2019 = 7) (%)



Our compensation policy aims to have a balance between base salary, short and long-term incentives. No short-term bonuses were paid in 2019 to the majority of executive committee members.

Base salary

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

Increases are effective from 01 January each year. There are no automatic annual base salary adjustments.

The 2019 salary increases were based on individuals' performances and contributions, internal relativities, inflation rates in the countries of operation, general market salary movement and overall affordability.

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

For 2019 Mr Binnie received a salary increase of 5% on the South African portion of his salary and 1.5% on the offshore portion. His salary with effect from 01 January 2019 was US$539,629 per annum.

Mr Pearce received a salary increase of 5% on the South African portion of his salary and 1.5% on the offshore portion. Mr Pearce's salary with effect from 01 January 2019 was US$312,014 per annum.

For the Executive Committee, two members were awarded a short-term bonus.

Retirement benefits

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

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

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

Short-term incentive

Performance-related annual bonuses may be paid to executive directors and other executive and senior managers under the Management Incentive Scheme. The scheme is designed to incentivise the achievement of pre-defined annual financial targets and personal objectives which are critical measures of business success.

For the 2019 financial year, the financial business performance criteria were: EBITDA (50%), working capital (20%) and safety (10%) – which accounted for 80% of the bonus calculation, with the remaining 20% being based on individual performance during the year.

REMUNERATION REPORT continued

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

	On-target bonus	Stretch target
Executive director	85% of base salary	116% of base salary
Regional chief executive officer	70% of base salary	95% of base salary
Other prescribed officers (ie Executive Committee members)	65% of base salary	88.5% of base salary

A performance threshold of 85% of budgeted EBITDA for the group is required before any bonus can be paid to participants in the group scheme.

Furthermore, if a region does not achieve the 85% bonus threshold target, no bonus is paid to participants in the region irrespective of overall group performance. Only Sappi Southern African will be entitled to a bonus payment for fiscal 2019. They have met the 85% threshold on EBITDA.

The group's performance for the 2019 financial year:

Performance criteria	Points	2019 actual achievement
EBITDA*	50	0
Working capital**	20	0
Safety***	10	0
Total	**80**	**0**

* Budgeted EBITDA as less than the 85% threshold, hence zero.
** Working capital needs to be at least 110% of target, 2019 was above at 112%, hence zero.
*** The group and regional safety performance improved, zero was allocated to the Executive Committee and applicable regions due to the tragic fatalities.

Personal objectives of executives for 2019 Management Incentive Scheme

Key objectives and achievements

The executives share many key objectives and have individual objectives specific to their role, some examples are as follows:

Rationalising declining business	→	During 2018 Sappi continued to balance paper supply and demand. Capacity was reduced by conversions, carouselling opportunities. The graphic paper manufacturing capacity reduced by approximately 550,000 tons since 2014. Converting paper machines to higher-margin businesses with the implementation of transformation programmes in Europe and North America. In total, 11 mills are now converted in the group to produce speciality and/or packaging paper.
Maintain healthy balance sheet	→	The focus was on strong cash generation, sale of non-core assets and debt reduction. The improved balance sheet enabled the investment in further pulp integration with the acquisition of the Matane Mill from Rayonier.
Accelerate growth in higher margin growth segments	→	Expanding the packaging grades is an ongoing process. The Cham operations have been successfully integrated in the Sappi Europe business. The specialised cellulose portfolio is also being enhanced by expansion at Ngodwana (completed), Saiccor (in progress) and Cloquet (completed). The lignosulphonate business was expanded, but, commercialising biotech products are more challenging than expected.
Achieve cost advantages	→	The optimisation of the business process continues to gain momentum with the establishment of global business centres and the Global Business Council. IT centres of excellence were established, HR was unified into nine global processes and a brand council was created to focus on global marketing efforts. Through our cost-saving initiatives, pulp buying and the global freight programme, Sappi's savings for 2019 exceeded US$80 million. Energy and efficiency investments were made at several of the operations.
Sustainability	→	Developed the Sappi sustainability strategy. See more details on Sappi's sustainability performance in **our key material issues on page 58** of the Annual Integrated Report.
Talent and succession	→	During this period, a new CEO for Sappi North America (SNA) was appointed from the SNA team. This is proof of the good succession planning process in place. CEO and Chairman of the board followed a rigorous process to appoint three new non-executive directors.
Sappi Southern Africa's (SSA) performance relative to the Employment Equity Act and new Forestry Charter	→	Sappi Southern Africa retained a level 2 rating after the independent Empowerdex audit in 2019 and 2018.

REMUNERATION REPORT continued

2019 Management Incentive Scheme outcomes for executives

%	EBITDA	Working capital	Safety	Personal	Total
Weight	**50**	**20**	**10**	**20**	**100**
Steve Binnie	**–**	**–**	**–**	**20**	**–**
Glen Pearce	**–**	**–**	**–**	**18**	**–**

Based on 2019 performance against the set targets as defined by the board in October 2018, neither Mr Binnie or Pearce will not qualify for a bonus payment in 2019.

The terms and conditions of the annual incentive scheme for executive directors and executive committee members affords the company the right to seek redress and recoup from an individual where for any reason the board determines, within a 12-month period of such payment, that the performance goals (whether for the participant or for the group) were in fact not achieved following the restatement of financial results or otherwise.

Long-term incentive

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

The performance criteria are relative total shareholder return (TSR) and relative cash flow return on net assets (CFRONA).

The peer group for the 2019 PSP award consisted of:

- Fortress Paper
- Lenzing
- Rayonier Advance Materials
- Ahlstrom-Munksjo
- Borrogaard
- Domtar
- West Rock
- Sun Paper
- UPM-Kymmene
- Holmen
- Metsá Board
- Verso
- Mondi plc
- International Paper
- Stora Enso
- Resolute Forest Products.

Performance Share Plan

As disclosed in previous reports, the committee approved the linear vesting schedule for 2015 allocations which will be applicable from the 2019 vesting and onwards. This will have the impact that, at median performance, 25% of the allocation vests. The vesting schedule for 2015 allocation for both TSR and CFRONA is as follows:

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

For the four-year period ended September 2019, Sappi's performance relative to the peer group measured on TSR was ranked sixth, which meant that 80% TSR component shares vested on the due date in December 2019.

The determination of the vesting of the shares was provided by Mercer Kepler, an independent third party.

Sappi's performance relative to the peer group measured on CFRONA for the same period resulted in 100% of this portion of the awards vesting, as Sappi's performance was ranked in third place. The determination of the vesting of this portion of the shares was verified by KPMG.

In aggregate, therefore 90% of the total 2015 awards vested.

In December 2015, Mr Binnie was granted 190,000 conditional performance plan shares of which 171,000 will vest in December 2019.

In December 2015, Mr Pearce was granted 90,000 conditional performance plan shares of which 81,000 will vest in December 2019.

The historical vesting of PSP awards:

Share awards	2015 %	2016 %	2017 %	2018 %	**2019 %**
TSR	–	100	100	100	**80**
CFRONA	100	100	100	100	**100**
Aggregate	50	100	100	100	**90**

Governance and compensation

Vesting since 2016 which had been at 100% on both performance criteria, reduced to 90% for 2019. However, the markets we operate in are expected to remain challenging in the coming year, and profitability is likely to be negatively impacted as a result. DWP pricing, in particular, will have a significant impact on earnings as this segment is a major contributor to our profits and cash flow generation.

Performance Share Plan allocations for 2019

Each year, Mercer Kepler provides management with a recommendation for an appropriate pool size. For the 2019 allocation, it was approved to grant the number of shares implied by the same ZAR value of prior-year PSP awards, where value is based on trailing long-run average share price at grant (eg 12 months). This approach has been applied for the last three years and is consistent with recommendations by our shareholders, to disclose the allocation method. This meant the pool size was adjusted by some 10% (6% based on share price movement and 4% based on an average salary adjustment across all regions).

Mr Binnie was awarded 156,000 conditional performance plan shares in December 2019 that will vest in December 2023.

Mr Pearce was awarded 71,000 conditional performance plan shares in December 2019 that will vest in December 2023.

Changes to the long-term incentive scheme

Sappi received authority to use 7.95% of shares for the Sappi Limited Share Incentive Trust (the scheme) and/or the Sappi Limited Performance Share Incentive Trust (the plan) from shareholders at the AGM on 07 March 2005. This was equivalent to 19 million shares subject to adjustment in case of any increase or reduction of Sappi's issued share capital on any conversion, redemptions, consolidations, sub-division and/or any rights or capitalisation issues of shares.

After the rights issue undertaken by Sappi in November 2008, this number increased to 42.7 million (still equivalent to 7.95% of the shares in issue at the time). Since obtaining shareholder approval in 2005, Sappi has been allocating shares to participants and currently has only 5.8 million shares available to issue and is therefore close to the shareholder-approved limit. The authority to use the shares in the plan and the scheme has been in place for 14 years and with an annual burn rate of just under 1%.

Sappi has prepared the requisite ordinary resolutions to be tabled at the AGM in February 2020, requesting shareholders to (i) approve an additional 27.8 million shares, being approximately 5% of Sappi's issued shares as at September 2019, that can be used to incentivise management under the rules of the plan in years ahead and (ii) to place these shares under the specific control of directors to issue in terms of the rules of the plan. Approval will be sought from shareholders to reset the numbers of shares under the plan only as Sappi is liquidating the scheme. This reset will happen with effect from date of approval of the resolution and all future outstanding shares will be calculated accordingly.

Employee Share Ownership Plan (broad-based black economic empowerment)

The Employee Share Ownership Plan (Sefate) was established in 2009 to meet the requirements of broad-based black economic empowerment established in the Forestry Sector Charter and in line with the codes set out by the South African Department of Trade and Industry.

There are two schemes which make up Sappi's Employee Share Ownership Plan, namely the Employee Share Ownership Plan (ESOP) and Management Share Ownership Plan (MSOP). There were 5,607 participants in the schemes at the end of September 2014. Eligible employees receive an allocation based on seniority, of A ordinary shares and ordinary shares. Shares vest 40% after three years and 10% each year thereafter.

Shares may, however, only be taken up after September 2019. Employees receive the net value in shares or cash at the end of the lock-in period.

In terms of the rules of the scheme, the A units for both schemes lapsed as the threshold of ZAR73.50 was not achieved. The B units delivered value for the participants. The board approved an ex gratia payment, in lieu of all the units that lapsed under the scheme of approximately US$1 million. This was distributed to current permanent Sappi employees. Value to each participant was determined based on the number of A units they hold. The scheme has come to an end. Management, together with the board, are working on alternatives to replace the Sefate scheme. Sappi will, however, retain its ownership points under the Forestry Charters for the next nine years.

Dilution

If all outstanding option and plan shares were to be exercised or vest as at September 2019, the resulting dilution effect would be 2.26% (2018: 2.42%) of issued ordinary share capital excluding treasury shares. To the extent possible, treasury shares will continue to be used to meet future requirements for shares arising from the exercise of options and vesting of awards.

Share ownership guidelines and restrictions

The Chief Executive Officer, Mr Binnie, volunteered to hold a target number of shares equal to 2 x his annual base

REMUNERATION REPORT continued

salary by December 2020. He currently holds shares to the value of approximately 134% of his annual base salary. The lower share price has impacted the short-term value of his holding, however, he is committed to achieving this target as soon as possible. There is no requirement for the Chief Financial Officer and the executive committee members to hold a specific number of shares during their employment with the company.

Remuneration disclosure of executive directors and prescribed officers

Executive directors' emoluments for 2019 (US$)

US$	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share-based payment benefit	Total
SR Binnie[1]	**539,629**	**–**	**14,819**	**82,317**	**635,321**	**1,272,086**
GT Pearce[2]	**312,014**	**–**	**8,422**	**60,185**	**301,641**	**682,263**

[1] SR Binnie received a 5% increase on the South African portion (72% of total salary), and a 1.5% increase on the offshore portion (28% of total salary). Overall salary expressed in reporting currency was 3.3% lower than in 2018.

[2] GT Pearce received a 5% increase on the South African portion (73% of total salary), and a 1.5% increase on the offshore portion (27% of total salary). Overall salary expressed in reporting currency was 3.4% lower than in 2018.

- Base salary – the actual salary earned during 2019
- Retirement benefits – the annual contribution paid by the company into a defined benefit fund on behalf of the members determined as a percentage of their base salary
- Other payments – expense allowances
- Annual cash bonus – the actual bonus earned in 2019 based on the rules of the Management Incentive Scheme
- Long-term incentive – conditional performance plan shares awarded in 2019 financial year which will vest in 2023 if the TSR and CFRONA targets are met
- Local earnings are translated into the reporting currency (US Dollar) using the average exchange rate over the financial year. The average rate for the South African Rand depreciated by 10%, and for the Swiss Franc 2.2%
- Due to the earnings currencies (ZAR) depreciating against the reporting currency (US$) over the year, this had the effect of showing earnings in US Dollar terms to be lower than last year.

Executive directors' emoluments for 2018 (US$)

US$	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share-based payment benefit	Total
SR Binnie	558,318	525,830	14,907	85,129	701,472	1,885,656
GT Pearce	322,878	303,971	8,473	63,461	292,857	991,640

Prescribed officers/executive committee members

Prescribed officers are members of the Group Executive Committee.

The table below sets out the remuneration for prescribed officers for 2019:

US$	Salary	Bonuses and performance-related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share-based payment benefit	Total
B Wiersum	**756,218**	**–**	**2,820**	**258,045**	**360,596**	**1,377,679**
M Gardner[(1)]	**564,133**	**–**	**–**	**57,222**	**360,596**	**981,951**
A Thiel	**325,447**	**189,876**	**9,379**	**57,939**	**360,596**	**943,237**
M van Hoven	**167,871**	**–**	**4,964**	**43,939**	**282,976**	**499,750**
G Bowles	**253,087**	**–**	**7,865**	**106,199**	**301,641**	**668,792**
F Marupen	**182,354**	**–**	**5,219**	**47,238**	**235,658**	**470,469**
M Mansoor	**276,886**	**106,828**	**157,904**	**105,498**	**111,072**	**758,188**

The table below sets out the remuneration for prescribed officers for 2018:

US$	Salary	Bonuses and performance-related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share-based payment benefit	Total
B Wiersum	779,507	511,203	2,976	261,304	353,023	1,908,013
M Gardner	548,690	442,734	–	56,125	353,023	1,400,572
A Thiel	336,541	230,261	9,435	61,199	384,436	1,021,872
A Rossi[(2)]	84,049	43,391	2,460	–	–	129,900
M van Hoven	173,061	123,824	4,994	47,087	279,116	628,082
G Bowles	250,935	183,597	7,534	104,581	297,682	844,329
F Marupen	188,705	134,788	5,250	50,189	196,818	575,750
M Mansoor[(3)]	205,370	152,653	115,083	73,390	66,188	612,684

(1) Retired in September 2019.
(2) Retired in December 2017.
(3) Appointed in January 2018.

REMUNERATION REPORT continued

Non-executive directors' fees

Directors are normally remunerated in the currency of the country in which they live or work from. Their remuneration is translated into US Dollar, the group's reporting currency, at the average exchange rate prevailing during the financial year. Directors' fees are established in local currencies to reflect market conditions in those countries.

Non-executive directors' fees reflect their services as directors and services on various sub-committees on which they serve. The quantum of committee fees depends on whether the director is an ordinary member or a chairman of the committee. Non-executive directors do not earn attendance fees, however, additional fees are paid for attendance at board meetings more than the five scheduled meetings per annum.

The Chairman of the Sappi Limited board receives a flat director's fee and does not earn committee fees. Non-executive directors do not participate in any incentive schemes or plans of any kind.

In determining the fees for non-executive directors, due consideration is given to the fee practice of companies of similar size and complexity in the countries in which they are based. The extreme volatility of currencies, in particular the ZAR/US Dollar exchange rate in recent years, caused distortions of the relative fees in US Dollar paid to individual directors. Every second year, Mercer provides a recommendation on fees to the committee.

Non-executive directors' fees are proposed by the Executive Committee, agreed by the Compensation Committee, recommended by the board and approved at the AGM by the shareholders.

The non-executive directors' fees for 2019 financial year were approved by shareholders. The table below sets out the remuneration for non-executive directors for 2019:

	2019			
US$	Board fees	Committee fees	Travel allowance	Total
KR Osar	69,320	35,050	18,500	122,870
JD McKenzie	44,944	19,518	7,400	71,862
ANR Rudd	402,325	–	11,100	413,425
NP Mageza	30,037	40,950	7,400	78,387
MV Moosa	30,037	28,512	7,400	65,949
MA Fallon	58,687	65,376	11,100	135,163
RJAM Renders	69,238	64,601	11,100	144,939
B Mehlomakulu	30,037	9,759	7,400	47,196
Z Malinga[1]	30,037	15,596	7,400	53,033
BR Beamish[2]	34,235	8,271	–	42,506
JM Lopez[2]	40,419	4,175	7,400	51,994
JE Stipp[3]	23,097	5,842	3,700	32,639
Total	**862,413**	**297,650**	**99,900**	**1,259,963**

[1] Appointed to the board in October 2018.
[2] Appointed to the board in March 2019.
[3] Appointed to the board in June 2019.

US$	2018 Board fees	Committee fees	Travel allowance	Total
D Konar[1]	13,686	14,344	–	28,030
KR Osar	74,140	34,100	18,000	126,240
JD McKenzie	50,394	20,511	7,200	78,105
ANR Rudd	419,684	–	10,800	430,484
NP Mageza	34,729	37,569	7,200	79,498
R Thummer[2]	24,700	7,478	7,000	39,178
MV Moosa	34,729	24,834	7,200	66,763
MA Fallon	66,335	67,223	10,800	144,358
RJ De Koch[3]	65,806	21,357	14,400	101,563
RJAM Renders	78,937	67,022	10,800	156,759
B Mehlomakulu	31,565	10,255	7,200	49,020
Total	894,705	304,693	100,600	1,299,998

(1) Retired from the board in January 2018.
(2) Retired from the board in December 2017.
(3) Retired from the board in August 2018.

Statement by the board regarding compliance with the remuneration policy

The board annually receives a report from the Human Resources and Compensation Committee on pay practices across the group, including salary levels and trends, collective bargaining outcomes and bonus participation.

The board endorses the Human Resources and Compensation Committee position that Sappi's remuneration policy is set taking appropriate account of remuneration and employment conditions of other employees in the group and external factors. It is the view of the board that this policy, as detailed herein, drives business performance and value creation for all stakeholders.

SOCIAL, ETHICS, TRANSFORMATION AND SUSTAINABILITY COMMITTEE REPORT

Introduction

The Social, Ethics, Transformation and Sustainability (SETS) Committee presents its report for the financial year ended September 2019. This is a statutory committee with a majority of independent non-executive members, whose duties are delegated to them by the board of directors. The committee conducted its affairs in compliance with a board-approved terms of reference and discharged all its responsibilities contained therein.

The committee was established during the 2012 financial year in response to the requirements of section 72(4) of the South African Companies Act 71 of 2008, read with regulation 43 of the Companies Regulations, 2011. These regulations required the establishment of a Social and Ethics Committee, to which were added the Transformation and Sustainability oversight roles previously contained in the Sustainability and Human Resources and Transformation Committees.

Multifunctional Regional Sustainability Councils provide strategic and operational support to a Group Sustainability Council which in turn provides support to the SETS Committee in dealing with key sustainability issues.

During the financial year, the committee formally met three times to deliberate on all aspects relating to its terms. A 100% attendance record was achieved by board committee members for 2019.

Objectives of the committee

The role of the SETS Committee is to assist the board with the oversight of the company and to provide guidance to management's work in respect of its duties in the fields of social, ethics, transformation and sustainability. The committee relies on international best practice as well as the laws and regulations under which Sappi's businesses operate to ensure that the group not only complies with, but also fully implements all requirements. The committee addresses issues relating to corporate social investment, ethical conduct, diversity, transformation and empowerment initiatives and targets and ongoing sustainability practices to ensure that our business, our environment and our people can prosper on an ongoing basis. The responsibilities include monitoring the company's activities, having regard to any relevant legislation, other legal requirements and prevailing codes of best practice. The committee meets a minimum of three times each year.

Membership of the committee

The members of the SETS Committee during the 2019 financial year were:

- Mr MV Moosa (Chairman from 01 March 2016)
- Mr SR Binnie
- Dr B Mehlomakulu
- Mr BR Beamish (from 01 August 2019)
- Mr JM Lopez (from 01 August 2019)

Four members of the committee were independent non-executive directors and one the CEO. In addition, the Chairman of the board attends committee meetings ex officio. The regional Chief Executive Officers, the Group Head Strategy and Legal, the Group Head Technology, the Group Head Human Resources, the Group Head Corporate Affairs, the Executive Vice-President Dissolving Wood Pulp and the Group Head Investor Relations and Sustainability attend meetings by invitation.

Committee activities reviewed and actioned during the year

- Reviewed and revised the committee terms of reference and annual work plan
- Approved the Public Affairs and CSR programmes and policy
- Reviewed the Corporate Social Development programme
- Reviewed the UN Sustainable Development Goals most relevant to Sappi
- Reviewed Sappi's standing in terms of:
  - The principles set out in the United Nations Global Compact
  - The OECD recommendations regarding corruption
  - The Employment Equity Act, and
  - The Broad-based Black Economic Empowerment Act
- Reviewed the Code of Ethics, ethics programme and their effectiveness
- Obtained feedback from the ethics reporting hotlines
- Reviewed the South African skills audit as well as the training and development plan
- Reviewed the staff training progress
- Reviewed the company performance relative to the Employment Equity Act, Broad-based Black Economic Empowerment (BBBEE) Act and the company's transformation strategies
- Reviewed the Sappi Southern Africa Transformation Charter
- Reviewed Sappi's policy and standing in terms of the International Labour Organization (ILO) protocol on decent work and working conditions
- Reviewed the group safety programmes, safety performance and actions being taken to improve the safety performance of the group
- Reviewed the group unfair discrimination and equality policy
- Reviewed the Group Sustainability Charter and Environmental Policy
- Reviewed the material indicators of the group's environmental performance
- Reviewed regional sustainability performance against goals for 2019
- Reviewed regional and global public policy matters affecting the group and its operations
- Reviewed the various production unit operating efficiencies, reliability and unscheduled downtime metrics for 2019
- Indepth review of the European industry dynamics, particularly risks and opportunities related to the single use plastic directive and the transition to a low-carbon economy
- Indepth review of factors influencing the sustainability of Sappi's timber plantations and related actions taken to mitigate risks and improve growth
- Indepth review of Sappi North America's energy and carbon emissions strategy
- Reviewed the SETS Committee Report for the Annual Integrated Report as well as sustainability information presented in the Annual Integrated Report.

At each meeting a topic is selected for an indepth review, typically matters which in the view of the committee represent key risks or opportunities for the business. In the past year the three focus areas were European industry dynamics, including the single-use plastic legislation, shift to paper packaging and the transition to a low-carbon economy. Secondly, factors influencing the sustainability of Sappi's South African timber plantations and new technologies being implemented to lower cost, enhance productivity and improve safety. Lastly, the committee reviewed Sappi North America's energy and carbon emissions reduction strategy.

Conclusion

The committee confirms that the group gives its social, ethics, transformation and sustainability responsibilities the necessary attention. Appropriate policies and programmes are in place to contribute to social and economic development, ethical behaviour of staff towards colleagues and other stakeholders, fair labour practices, environmental responsibility and good customer relations. In fulfilling their mandate, the committee has sought to ensure the needs of a wide set of stakeholders, including employees, local communities, customers and shareholders are considered and that key sustainability risks are identified and managed.

There were no substantive areas of non-compliance with legislation and regulation, nor non-adherence with codes of best practice applicable to the areas within the committee's mandate that were brought to its attention. The committee has no reason to believe that any such non-compliance or non-adherence has occurred.

MV Moosa
Chairman

Social, Ethics, Transformation and Sustainability Committee

Every marathon runner has their own individual race strategy – intervals and tempo runs that increase cardio capacity, rest and recovery periods that help prevent injuries. However different their strategies may be, they all have one characteristic in common: determination.

It begins with the long, hard slog of training, often at inconvenient times, sometimes in inclement weather. Determination continues as runners have to contend with meeting the increasingly stringent criteria for cut off times.

Nobody forces anybody to participate, nobody needs to participate. For all the hundreds of thousands of those who participate in marathons every year, it is not only a competition against other runners, it is a competition against themselves. That is what drives them to finish the race even when their bodies are saying they cannot possibly do so and the power of the mind and positive thinking drives them on.

This individual and collective determination demonstrates how success is achieved – not just by the record breakers or race winners, but everyone who finishes within the cut-off time.

At Sappi, we believe in the power of determination, of overcoming the impossible and constantly challenging ourselves to do better than our best. It is what underpins our focus on our chosen markets, our approach to leveraging the power of woodfibre and our drive to be a trusted and sustainable organisation with an exciting future.

FIVE-YEAR REVIEW

US$ million	2019	2018	2017	2016	2015
Income statement					
Sales	**5,746**	5,806	5,296	5,141	5,390
Variable manufacturing and delivery costs	**3,530**	3,521	3,147	3,061	3,414
Fixed costs	**1,771**	1,767	1,601	1,571	1,613
Sundry expenses (income)[1]	**43**	38	22	22	6
Operating profit excluding special items	**402**	480	526	487	357
Special items – (gains) losses	**19**	(9)	–	(57)	(54)
Operating profit	**383**	489	526	544	411
Net finance costs	**85**	68	80	121	182
Profit (loss) before taxation	**298**	421	446	423	229
Taxation charge	**87**	98	108	104	62
Profit (loss) for the year	**211**	323	338	319	167
EBITDA excluding special items	**687**	762	785	739	625
Balance sheet					
Total assets	**5,623**	5,670	5,247	5,177	4,913
Non-current assets	**3,789**	3,766	3,378	3,171	3,174
Current assets	**1,834**	1,904	1,869	2,006	1,739
Current liabilities	**1,214**	1,173	1,043	1,474	1,092
Shareholders' equity	**1,948**	1,947	1,747	1,378	1,015
Net debt	**1,501**	1,568	1,322	1,408	1,771
Gross interest-bearing debt	**1,894**	1,931	1,872	2,111	2,227
Cash	**(393)**	(363)	(550)	(703)	(456)
Capital employed	**3,449**	3,515	3,069	2,786	2,786
Cash flow					
Cash generated from operations	**673**	709	748	693	544
Decrease (increase) in working capital	**(15)**	(79)	(27)	4	(11)
Finance costs paid	**(51)**	(84)	(96)	(107)	(148)
Finance revenue received	**9**	18	15	16	13
Taxation paid	**(51)**	(73)	(100)	(56)	(16)
Dividends paid	**(92)**	(81)	(59)	–	–
Cash generated from operating activities	**473**	410	481	550	382
Net cash generated (utilised)	**1**	(254)	108	359	145
Cash effects of financing activities	**56**	68	(279)	(130)	(127)
Capital expenditure (gross)	**471**	541	357	241	248
To maintain operations	**148**	167	140	155	175
To expand operations	**323**	374	217	86	73
Exchange rates					
US$ per one Euro exchange rate – closing	**1,094**	1,161	1,181	1,123	1,120
US$ per one Euro exchange rate – average (financial year)	**1,128**	1,190	1,106	1,111	1,150
ZAR to one US$ exchange rate – closing	**15,156**	14,147	13,556	13,714	13,914
ZAR to one US$ exchange rate – average (financial year)	**14,346**	13,052	13,381	14,788	11,964

[1] Sundry items include all income and costs not directly related to manufacturing operations such as debtor securitisation costs, commissions paid and received and results of equity-accounted investments.

US$ million	2019	2018	2017	2016	2015
Statistics					
Number of ordinary shares (millions)[1]					
In issue at year-end	**542.8**	539.3	535.0	530.6	526.4
Basic weighted average number of shares in issue during the year	**542.0**	538.1	533.9	529.4	525.7
Per share information (US cents)					
Basic earnings (loss)	**39**	60	63	60	32
Diluted earnings (loss)	**39**	59	62	59	31
Headline earnings (loss)	**42**	59	64	58	32
Diluted headline earnings (loss)	**42**	58	63	57	31
EPS excluding special items (US cents)	**44**	60	64	57	34
Net asset value	**359**	361	327	260	193
Profitability ratios (%)					
Operating profit to sales	**6.7**	8.4	9.9	10.6	7.6
Operating profit excluding special items to sales	**7.0**	8.3	9.9	9.5	6.6
EBITDA excluding special items to sales	**12.0**	13.1	14.8	14.4	11.6
Operating profit excluding special items to capital employed (ROCE)	**11.5**	14.6	18.0	17.5	12.4
Net debt to EBITDA excluding special items	**2.2**	2.1	1.7	1.9	2.8
Interest cover	**9.3**	11.0	9.1	7.3	4.4
Return on average equity (ROE)	**10.8**	17.5	21.6	26.7	16.2
Debt ratios (%)					
Net debt to total capitalisation	**43.5**	44.6	43.1	50.5	63.6
Efficiency ratios					
Asset turnover (times)	**1.0**	1.0	1.0	1.0	1.1
Inventory turnover ratio	**7.0**	6.7	7.0	7.0	7.9
Liquidity ratios					
Current asset ratio	**1.5**	1.6	1.8	1.4	1.6
Trade accounts receivable days outstanding (including receivables securitised)	**46**	45	45	44	45
Cash interest cover (times)	**7.6**	9.3	8.1	5.6	3.0
Other non-financial information[2]					
Sales volumes	**7,622**	7,591	7,410	7,253	7,306
Number of full-time equivalent employees	**12,821**	12,645	12,158	12,051	12,548
Lost-time injury frequency rate (including contract employees)	**0.54**	0.43	0.44	0.46	0.48
Energy					
Energy intensity (GJ/adt)	**22.84**	22.44	22.63	22.75	22.64
Renewable energy to total energy (%)	**52.93**	52.15	53.71	53.78	54.84
Water					
Specific process water drawn (m^3/adt)	**34.17**	34.28	33.74	34.93	34.32
Specific process water returned (m^3/adt)	**32.32**	32.15	31.66	31.74	31.27
Waste					
Specific total landfill (ton/adt)	**0.059**	0.064	0.079	0.069	0.077
Emissions					
Specific Scope 1 emissions (ton CO_2 eq/adt)	**0.69**	0.69	0.68	0.69	0.67
Absolute Scope 1 (ton CO_2e)	**4,395,556**	4,456,032	4,330,484	4,233,863	4,098,481
Specific Scope 2 emissions (ton CO_2 eq/adt)	**0.25**	0.24	0.25	0.28	0.27
Absolute Scope 2 (ton CO_2e)	**1,608,661**	1,537,231	1,583,499	1,699,092	1,667,942

Refer to share statistics section for other market and share-related information.

[1] Net of treasury shares (refer to note 18 to the group financial statements).

[2] Certain energy, water, waste and emissions data for the comparative years have been restated using the latest reporting standards and measurement methodology.

Note: Definitions for various terms and ratios used above are included in the glossary section.

SHARE STATISTICS

as at September 2019

Shareholding

Ordinary shares in issue	Number of shareholders	%	Number of shares[1]	% of shares in issue
1 – 5,000	5,145	81.1	2,714,091	0.5
5,001 – 10,000	210	3.3	1,526,010	0.3
10,001 – 50,000	396	6.3	9,952,385	1.9
50,001 – 100,000	157	2.5	11,063,470	2.0
100,001 – 1,000,000	357	5.6	110,244,899	20.3
Over 1,000,000	76	1.2	407,274,585	75.0
	6,341	100.0	542,775,440	100.0

[1] The number of shares excludes 5,278,023 treasury shares held by the group.

Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.4
Sappi Limited directors and prescribed officers	0.4
Associates of group directors	–
Trustees of the company's share and retirement funding schemes	–
Shareowners who, by virtue of any agreement, have the right to nominate board members	–
Share owners interested in 10% or more of the issued shares	–
Public (the number of public shareholders as at September 2019 was 6,330)	99.6
	100.0

Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter market in the United States.

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to section 56(7) of the Companies Act 71 of 2008 of South Africa, the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 2019, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	81,646,282	15.0

Further, as a result of these investigations, the directors have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of September 2019, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

Fund manager	Shares	%
Allan Gray Proprietary Limited	89,790,341	16.5
Public Investment Corporation	73,976,923	13.6
Prudential Investment Managers	68,923,170	12.7

Share statistics

		2019	2018	2017	2016	2015
Ordinary shares in issue (millions)[1]		**542.8**	539.3	535.0	530.6	526.4
Net asset value per share (US cents)		**359**	361	327	260	193
Number of shares traded (millions)						
JSE		**537.1**	557.4	630.7	544.7	351.0
New York		**0.3**	0.4	3.1	0.9	1.1
Value of shares traded						
JSE (ZAR million)		**33,141.3**	49,837.1	54,760.0	35,428.6	15,642.5
New York (US$ million)		**1.5**	2.9	20.3	4.2	4.4
Percentage of issued shares traded		**99.0**	103.4	118.5	102.8	66.9
Market price per share						
– year-end	JSE (South African cents)	**3,629.0**	8,875.0	9,206	7,226	4,069
	New York (US cents)	**251.0**	639.0	681	522	286
– highest	JSE (SA cents)	**9,059.0**	10,579.0	10,438	7,942	5,279
	New York (US cents)	**640.0**	749.0	797	522	448
– lowest	JSE (SA cents)	**3,542.0**	7,180.0	6,953	3,982	3,610
	New York (US cents)	**241.0**	613.0	509	282	267
Earnings yield (%)[2]		**16.29**	9.56	9.28	11.39	10.94
Price/earnings ratio (times)[2]		**6.14**	10.46	10.78	8.78	9.14
Total market capitalisation (US$ million)[2]		**1,300**	3,383	3,633	2,796	1,539

[1] The number of shares excludes 5,278,023 treasury shares held by the group.
[2] Based on financial year-end closing prices on the JSE Limited. Income statement amounts have been converted at average year-to-date exchange rates.

Note: Definitions for various terms and ratios used above are included in the Glossary section.

GLOSSARY

General definitions

AGM – Annual General Meeting.

AF&PA – American Forest and Paper Association.

air dry tons (ADT) – Meaning dry solids content of 90% and moisture content of 10%.

biochemicals – Enzymes, hormones, pheromones etc, which either occur naturally or are manufactured to be identical to naturally occurring substances. Biochemicals have many environment-friendly applications, such as natural pesticides that work in non-lethal ways as repellents or by disrupting the mating patterns of the pests.

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

biomaterials – New developments in wood processing supports the move to a biobased economy that utilises materials that are renewable and biodegradable and that do not compete with food sources.

black liquor – The spent cooking liquor from the pulping process which arises when pulpwood is cooked in a digester thereby removing lignin, hemicellulose and other extractives from the wood to free the cellulose fibres. The resulting black liquor is an aqueous solution of lignin residues, hemicellulose, and the inorganic chemicals used in the pulping process. Black liquor contains slightly more than half of the energy content of the wood fed into the digester.

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

casting and release paper – Embossed paper used to impart design in polyurethane or polyvinyl chloride plastic films for the production of synthetic leather and other textured surfaces.

CEPI – Confederation of European Paper Industries.

Cham Paper Group Holding AG (CPG) – Speciality paper business acquired by Sappi, which included CPG's Carmignano and Condino Mills (Italy) and its digital imaging business in Cham (Switzerland) as well as all brands and know-how.

chemical oxygen demand (COD) – The amount of oxygen required to break down the organic compounds in effluent.

chemical pulp – A generic term for pulp made from woodfibre that has been produced in a chemical process.

CHP – Combined heat and power.

coated mechanical paper (CM) – Coated paper made from groundwood pulp which has been produced in a mechanical process, primarily used for magazines, catalogues and advertising material.

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

coated woodfree paper (CWF) – Coated paper made from chemical pulp which is made from woodfibre that has been produced in a chemical process, primarily used for high-end publications and advertising material.

corrugating medium – Paperboard made from chemical and semi-chemical pulp, or waste paper, that is to be converted to a corrugated board by passing it through corrugating cylinders. Corrugating medium between layers of linerboard form the board from which corrugated boxes are produced.

CSI and CSR – Corporate social investment and corporate social responsibility.

CSV – Corporate shared value involves developing profitable business strategies that deliver tangible social benefits.

dissolving pulp – Highly purified chemical pulp derived primarily from wood, but also from cotton linters intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament.

dissolving wood pulp – Highly purified chemical pulp derived from wood intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament.

EIA – Environmental impact assessment.

ESG – Environmental, social and corporate governance.

energy – Is present in many forms such as solar, mechanical, thermal, electrical and chemical. Any source of energy can be tapped to perform work. In power plants, coal is burned and its chemical energy is converted into electrical energy. To generate steam, coal and other fossil fuels are burned, thus converting stored chemical energy into thermal energy.

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

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

FMCG – Fast-moving consumer goods. Examples include non-durable goods such as packaged foods, beverages, toiletries, over-the-counter medicines and many other consumables.

Forestry South Africa – Largest forestry organisation representing growers of timber in South Africa.

Forest Stewardship Council™ (FSC™) – A global, not-for-profit organisation dedicated to the promotion of responsible forest management world-wide. (FSC-N003159) (https://ic.fsc.org/en)

full-time equivalent employee – The number of total hours worked divided by the maximum number of compensable hours in a full-time schedule as defined by law.

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

hemicellulose sugars – The biorefinery process for second generation hemicellulose sugars involves recovering them from the prehydolysate liquor, and then separating them.

Ideas that Matter (ITM) – More than a decade ago Sappi North America established the Ideas that Matter grant programme to recognise and support designers who use their skills and expertise to solve communications problems for a wide range of charitable activities.

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

JSE Limited – The main securities exchange in South Africa.

kraft paper – Packaging paper (bleached or unbleached) made from kraft pulp.

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

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

lignosulphonate – Lignosulphonate is a highly soluble lignin derivative and a product of the sulphite pulping process.

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

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

lost-time injury frequency rate (LTIFR) – Number of lost-time injuries x 200,000 divided by man hours.

managed forest – Naturally occurring forests that are harvested commercially.

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

mechanical pulp – Pulp produced by means of the mechanical grinding or refining of wood or woodchips.

nanocellulose – Cellulose is the main component of plant stems, leaves and roots. Traditionally, its main commercial use was in producing paper and textiles. Nanocellulose opens up opportunities for advanced, planet-friendly solutions in place of environmentally harmful products.

National Development Plan (NDP) – Aims to eliminate poverty and reduce inequality by 2030. South Africa can realise these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society.

natural/indigenous forest – Pristine areas not used commercially.

NBHK – Northern Bleached Hardwood Kraft pulp. One of the varieties of market pulp, produced from hardwood trees (ie birch or aspen) in Scandinavia, Canada and northern United States of America.

NBSK – Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, produced from coniferous trees (ie spruce, pine) in Scandinavia, Canada and northern United States of America. The price of NBSK is a benchmark widely used in the pulp and paper industry for comparative purposes.

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

NGO – Non-governmental organisation.

NPO – Non-profit organisation.

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

OTC – Over-the-counter trading of shares.

Packaging and speciality papers – A generic term for a group of papers intended for commercial and industrial use such as flexible packaging, label papers, functional papers, containerboard, paperboard, silicone base papers, casting and release papers, dye sublimation papers, inkjet papers and tissue paper.

packaging paper – Paper used for packaging purposes.

PAMSA – Paper Manufacturers' Association of South Africa.

GLOSSARY continued

Programme for the Endorsement of Forest Certification™ (PEFC™) – An international non-profit, non-governmental organisation dedicated to promoting sustainable forest management (SFM) through independent third-party certification. PEFC™ works by endorsing national forest certification systems and is represented in 49 countries through national organisations such as SFI® in North America (https://www.pefc.org).

plantation – Large-scale planted forests, intensively managed, highly productive and grown primarily for wood and fibre production.

PM – Paper machine.

printing and writing papers – A generic term for a group of papers intended for commercial printing use such as coated woodfree, coated mechanical, uncoated woodfree and newsprint.

power – The rate at which energy is used or produced.

pulpwood – Wood suitable for producing pulp – usually not of sufficient standard for sawmilling.

raster – A rectangular pattern of parallel scanning lines followed by the electron beam on a television screen or computer monitor.

release paper – Based paper used in the production of making release liners, the backing paper for self-adhesive labels.

sackkraft – Kraft paper used to produce multi-wall paper sacks.

Sappi Biotech – The business unit within Sappi which drives innovation and commercialisation of biomaterials and biochemicals.

Sappi Europe (SEU) – The business unit within Sappi which oversees operations in the European region.

Sappi Dissolving Wood Pulp – The business unit within Sappi which oversees the production and marketing of dissolving wood pulp (DWP).

Sappi North America (SNA) – The business unit within Sappi which oversees operations in the North American region.

Sappi Southern Africa (SSA) – The business unit within Sappi which oversees operations in the Southern Africa region.

Scope 1 and 2 GHG emissions – The Greenhouse Gas Protocol defines Scope 1 (direct) and Scope 2 (indirect) emissions as follows:
- Direct GHG emissions are emissions from sources that are owned or controlled by the reporting entity
- Indirect GHG emissions are emissions from purchased electricity, steam, heat or cooling.

SETS – Social, ethics, transformation and sustainability.

silviculture costs – Growing and tending costs of trees in forestry operations.

solid waste – Dry organic and inorganic waste materials.

specific – When data is expressed in specific form, this means that the actual quantity consumed during the year indicated, whether energy, water, emissions or solid waste, is expressed in terms of a production parameter. For Sappi, as with other pulp and paper companies, this parameter is air dry tons of saleable product.

specific purchased energy – The term 'specific' indicates that the actual quantity during the year indicated is expressed in terms of a production parameter. For Sappi, as with other pulp and paper companies, the parameter is air dry tons of product.

specific total energy (STE) – The energy intensity ratio defined by the total energy consumption in the context of the saleable production.

Sustainable Forestry Initiative® (SFI®) – A solutions-oriented sustainability organisation that collaborates on forest-based conservation and community initiatives. The SFI® forest management standard is the largest forestry certification standard in the PEFC™ programme. (http://www.sfiprogram.org).

thermo-mechanical pulp – Pulp produced by processing woodfibres using heat and mechanical grinding or refining wood or woodchips.

ton – Metric ton of 1,000 kg.

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

tons per annum (tpa) – Term used in this report to denote tons per annum (tons a year). Capacity figures in this report denote tons per annum at maximum continuous run rate.

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

United Nations Global Compact (UNGC) – A principle based framework for businesses, stating 10 principles in the areas of human rights, labour, environment and anti-corruption.

viscose staple fibre (VSF) – A natural fibre made from purified cellulose, primarily from dissolving wood pulp that can be twisted to form yarn.

woodfree paper – Paper made from chemical pulp.

World Wildlife Fund (WWF) – The world's largest conservation organisation, focused on supporting biological diversity.

General financial definitions

acquisition date – The date on which control in respect of subsidiaries, joint control in respect of joint arrangements and significant influence in associates commences.

associate – An entity over which the investor has significant influence.

basic earnings per share – Net profit for the year divided by the weighted average number of shares in issue during the year.

commissioning date – The date that an item of property, plant and equipment, whether acquired or constructed, is brought into use.

compound annual growth rate – Is the mean annual growth rate of an investment over a specified period of time longer than one year.

control – An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

diluted earnings per share – Is calculated by assuming conversion or exercise of all potentially dilutive shares, share options and share awards unless these are anti-dilutive.

discount rate – This is the pre-tax interest rate that reflects the current market assessment of the time value of money for the purposes of determining discounted cash flows. In determining the cash flows, the risks specific to the asset or liability are taken into account in determining those cash flows and are not included in determining the discount rate.

disposal date – The date on which control in respect of subsidiaries, joint arrangements and significant influence in associates ceases.

fair value – The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

financial results – Comprise the financial position (assets, liabilities and equity), results of operations (revenue and expenses) and cash flows of an entity and of the group.

foreign operation – An entity whose activities are based or conducted in a country or currency other than that of the reporting entity.

functional currency – The currency of the primary economic environment in which the entity operates.

group – The group comprises Sappi Limited, its subsidiaries and its interest in joint ventures and associates.

joint arrangement – Is an arrangement of which two or more parties have joint control.

joint venture – Is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

operation – A component of the group:

- That represents a separate major line of business or geographical area of operation that is distinguished separately for financial and operating purposes.

operating profit – A profit from business operations before deduction of net finance costs and taxes.

presentation currency – The currency in which the financial results of an entity are presented.

qualifying asset – An asset that necessarily takes a substantial period (normally in excess of six months) to get ready for its intended use.

recoverable amount – The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs of disposal and its value in use. In determining the value in use, expected future cash flows are discounted to their net present values using the discount rate.

related party – Parties are considered to be related if one party directly or indirectly has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or is a member of the key management of Sappi Limited.

share based payment – A transaction in which Sappi Limited issues shares or share options to group employees as compensation for services rendered.

significant influence – Is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control of those policies.

Non-GAAP financial definitions

The group believes that it is useful to report certain non-GAAP measures for the following reasons:

- These measures are used by the group for internal performance analysis
- The presentation by the group's reported business segments of these measures facilitates comparability with other companies in our industry, although the group's measures may not be comparable with similarly titled profit measurements reported by other companies, and
- It is useful in connection with discussion with the investment analyst community and debt rating agencies. These non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS.

asset turnover (times) – Sales divided by total assets.

GLOSSARY continued

average – Averages are calculated as the sum of the opening and closing balances for the relevant period divided by two.

black economic empowerment (BEE) charge – Represents the IFRS 2 non-cash charge associated with the BEE transaction implemented in 2010 in terms of BEE legislation in South Africa.

capital employed – Shareholders' equity plus net debt.

cash interest cover – Cash generated by operations divided by finance costs less finance revenue.

current asset ratio – Current assets divided by current liabilities.

dividend yield – Dividends per share, which were declared after year-end, in US cents divided by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate.

earnings yield – Earnings per share divided by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate.

EBITDA excluding special items – Earnings before interest (net finance costs), taxation, depreciation, amortisation and special items.

EPS excluding special items – Earnings per share excluding special items and certain once-off finance and tax items.

fellings – The amount charged against the income statement representing the standing value of the plantations harvested.

GAAP – Generally accepted accounting principles.

headline earnings – As defined in Circular 4/2018, issued by the South African Institute of Chartered Accountants in April 2018, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share.

inventory turnover (times) – Cost of sales divided by inventory on hand at balance sheet date.

net assets – Total assets less total liabilities.

net asset value per share – Net assets divided by the number of shares in issue at balance sheet date.

net cash (utilised) generated – Cash flows from operating activities less cash flows from investing activities.

net debt – Current and non-current interest-bearing borrowings, and bank overdraft (net of cash, cash equivalents and short-term deposits).

net debt to total capitalisation – Net debt divided by capital employed.

net operating assets – Total assets (excluding deferred taxation and cash and cash equivalents) less current liabilities (excluding interest-bearing borrowings and overdraft).

ordinary dividend cover – Profit for the period divided by the ordinary dividend declared, multiplied by the actual number of shares in issue at year-end.

ordinary shareholders' interest per share – Shareholders' equity divided by the actual number of shares in issue at year-end.

price/earnings ratio – The financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate divided by earnings per share.

revolving credit facility (RCF) – A variable line of credit used by public and private businesses.

ROCE – Return on average capital employed. Operating profit excluding special items divided by average capital employed.

ROE – Return on average equity. Profit for the period divided by average shareholders' equity.

RONOA – Return on average net operating assets. Operating profit excluding special items divided by average net operating assets.

SG&A – Selling, general and administrative expenses.

special items – Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash.

total market capitalisation – Ordinary number of shares in issue (excluding treasury shares held by the group) multiplied by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate.

total shareholder return (TSR) – A measure of the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualised percentage.

trade receivables days outstanding (including securitised balances) – Gross trade receivables, including receivables securitised, divided by sales multiplied by the number of days in the year.

NOTICE TO SHAREHOLDERS

Notice of Annual General Meeting

This document is important and requires your immediate attention.

If you are in any doubt as to what action you should take, please consult your stockbroker, banker, attorney, accountant or other professional advisor immediately.

Sappi Limited
(Registration number: 1936/008963/06)
(Sappi or the Company)

The eighty-third Annual General Meeting (AGM) of Sappi will be held at Sappi's registered office, in the Oxford Room, Ground Floor, 108 Oxford Road (entrance on Ninth Street), Houghton Estate, Johannesburg, 2198, Republic of South Africa on Wednesday, 05 February 2020 at 14:00. The following business will be transacted and, if deemed fit, the following resolutions will be passed with or without modification.

The record date on which shareholders must be recorded as such in the register maintained by the transfer secretaries of the company for the purposes of determining which shareholders are entitled to attend and vote at the AGM is Friday, 31 January 2020.

1. **Ordinary resolution number 1: Presentation of annual financial statements**

   Ordinary resolution number 1 is proposed to present the Group Annual Financial Statements of the company for the year ended September 2019, including the Directors' Report, the Report of the Auditors and the Report of the Audit and Risk Committee.

   Summarised financial information is contained in the Financial Officer's Report of the Annual Integrated Report (see page 80). The complete Group Annual Financial Statements for the year ended September 2019 are available on the Sappi website: www.sappi.com/2019AFS

   "Resolved that the Group Annual Financial Statements for the year ended September 2019 of the company, including the Directors' Report, the Report of the auditors and the Report of the Audit and Risk Committee, be and are hereby received and accepted."

   In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

2. **Ordinary resolution number 2: Approval and confirmation of appointment of directors appointed subsequent to the last AGM and subsequent to the financial year-end**

   Ordinary resolution number 2.1

   "Resolved that the appointment of Mr BR Beamish with effect from 01 March 2019 is approved and confirmed as required in terms of Sappi's Memorandum of Incorporation."

   Ordinary resolution number 2.2

   "Resolved that the appointment of Mr JM Lopez with effect from 01 March 2019 is approved and confirmed as required in terms of Sappi's Memorandum of Incorporation."

   Ordinary resolution number 2.3

   "Resolved that the appointment of Ms JE Stipp with effect from 01 June 2019 is approved and confirmed as required in terms of Sappi's Memorandum of Incorporation."

   The board recommends and supports the approval and confirmation of the appointment of Mr BR Beamish, Mr JM Lopez and Ms JE Stipp. For their brief biographical details, see note 1 in Notice to shareholders on page 162.

   In order for these resolutions to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution, is required.

3. **Ordinary resolutions numbers 3.1 to 3.2: Re-election of the directors retiring by rotation in terms of Sappi's Memorandum of Incorporation**

   The board has evaluated the performances of each of the directors who are retiring by rotation and recommends and supports the re-election of each of them. For brief biographical details of those directors, refer to note 2 in Notice to shareholders on page 162.

   It is intended that all the directors who retire by rotation will, if possible, attend the AGM, either in person or by means of video-conferencing.

NOTICE TO SHAREHOLDERS continued

In order for these resolutions to be adopted, in each case the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required:

Ordinary resolution number 3.1

"Resolved that Mr MA Fallon is re-elected as a director of Sappi."

Ordinary resolution number 3.2

"Resolved that Mr NP Mageza is re-elected as a director of Sappi."

Ordinary resolution number 3.3

"Resolved that Dr B Mehlomakulu is re-elected as a director of Sappi."

Ordinary resolution number 3.4

"Resolved that Mr GT Pearce is re-elected as a director of Sappi."

4. **Ordinary resolution number 4: Election of Audit and Risk Committee members**

Ordinary resolution number 4 is proposed to elect the members of the Audit and Risk Committee in terms of section 94(2) of the South African Companies Act, 71 of 2008 (as amended) (the Companies Act) and the King IV Report on Corporate Governance for South Africa 2016 (King IV).

Section 94 of the Companies Act requires that, at each AGM, shareholders of the company must elect an Audit and Risk Committee comprising of at least three members.

The Nomination and Governance Committee assessed the performance and independence of each of the directors proposed to be members of the Audit and Risk Committee and the board considered and accepted the findings of the Nomination and Governance Committee. The board is satisfied that the proposed members meet the requirements of section 94(4) of the Companies Act, that they are independent according to King IV and that they possess the required qualifications and experience as prescribed in regulation 42 of the Companies Regulations, 2011, which requires that at least one-third of the members of a company's Audit and Risk Committee at any particular time must have academic qualifications or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

Brief biographical details of each member of the Audit and Risk Committee are included in the biographies of all directors contained under Our leadership of the Annual Integrated Report (see page 104).

"Resolved that an Audit and Risk Committee be and is hereby elected, by separate election to the committee of the following independent directors:

4.1	Mr NP Mageza	Chairman*
4.2	Mrs ZN Malinga	Member
4.3	Dr B Mehlomakulu	Member*
4.4	Mr RJAM Renders	Member
4.5	Ms JE Stipp	Member**

in terms of the Companies Act, to hold office until the conclusion of the next AGM and to perform the duties and responsibilities stipulated in section 94(7) of the Companies Act and in King IV and to perform such other duties and responsibilities as may from time to time be delegated to it by the board."

In order for these resolutions to be adopted, the support in each case of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

* Subject to his/her re-election as a director pursuant to ordinary resolution number 3.2 and 3.3, respectively.

** Subject to her confirmation as a director pursuant to ordinary resolution number 2.3.

5. **Ordinary resolution number 5: Appointment of auditors**

The board has evaluated the performance of KPMG Inc. and recommends their reappointment as auditors of Sappi.

"Resolved that KPMG Inc. (with the designated registered auditor to be Mr Coenie Basson) be reappointed as the auditors of Sappi for the financial year ending September 2020 and to remain in office until the conclusion of the next AGM."

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

6. Ordinary resolution number 6: Authority from shareholders

In March 2005, shareholders approved the maximum allocation of shares allowed under The Sappi Limited Share Incentive Trust (**the scheme**) and The Sappi Limited Performance Share Incentive Trust (**the plan**). Sappi intends liquidating the Scheme but believes that the plan is an effective long-term incentive plan for employees. Over the last 14 years, since the approved maximum allocation for the scheme and the plan, the shares originally allocated for these purposes have almost been utilised, and the company wishes to seek the requisite approval and authority from shareholders for 27,402,673 ordinary shares, being 5% of the issued shares of the company at the date of the passing of this resolution, to be set aside for the purposes of the plan in order to settle obligations to employees under the plan in the years ahead. The plan document is available for inspection by shareholders during normal business hours at the company's registered office until 05 February 2020.

"Resolved that, from the date of the passing of this resolution, the maximum number of ordinary shares which may be allocated and issued or acquired in respect of which shares may be granted to employees of the company under The Sappi Limited Performance Share Incentive Trust (the plan) (excluding any broad-based ownership schemes replacing the Sappi ESOP Trust and the Sappi MSOP Trust) be set at 27,402,673 ordinary shares, which constitutes 5% of the total issued shares of the company at the date of the passing of this resolution."

The percentage of voting rights required for ordinary resolution number 6 to be adopted is 75% (seventy-five percent) majority of the votes.

7. Ordinary resolution number 7: The provision of Sappi Limited shares as required by the Sappi Limited Performance Share Incentive Trust

The passing of resolution number 7 will enable the directors to continue to meet the share requirements of The Sappi Limited Performance Share Incentive Trust (the plan), which is already in place and is subject to the Listings Requirements of the JSE Limited (JSE).

"Resolved that, subject to the passing of ordinary resolution number 7, 27,402,673 ordinary shares required for the purposes of carrying out the terms of the plan be and are hereby specifically placed under the control of the directors who are hereby authorised to issue and deal with those shares in terms of the rules of the plan."

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

8. Ordinary resolution number 8: Remuneration policy

"Resolved as an ordinary resolution, that the company's remuneration policy as contained under Remuneration Report of the Annual Integrated Report (see page 126), be and is hereby endorsed by way of a non-binding advisory vote."

This non-binding advisory vote is being proposed in accordance with the recommendations of King IV.

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

9. Ordinary resolution number 9: Remuneration implementation report

"Resolved as an ordinary resolution, that the company's remuneration implementation report under Remuneration Report of the Annual Integrated Report (see page 133), be and is hereby endorsed by way of a non-binding advisory vote."

This further non-binding advisory vote is being proposed in accordance with the recommendations of King IV.

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

NOTICE TO SHAREHOLDERS continued

10. Special resolution number 1: Non-executive directors' fees

"Resolved that, with effect from 01 October 2019 and until otherwise determined by Sappi in general meeting, the remuneration of the non-executive directors for their services shall be increased as follows:

Fee structure

		From	To
1.	**Sappi board fees**[1]		
	Chairperson		
	If United Kingdom resident	£315,210	£319,940[2]
	Lead independent director		
	If South African resident	ZAR644,790	ZAR674,450
	If United Kingdom resident	£69,030	£70,070
	If United States of America resident	US$103,950	US$105,820
	If European resident	€92,120	€93,500
	Other directors		
	If South African resident	ZAR430,930	ZAR450,750
	If United Kingdom resident	£45,980	£46,670
	If United States of America resident	US$69,290	US$70,540
	If European resident	€61,370	€62,290
2.	**Audit and Risk Committee fees**[1]		
	Chairperson		
	If South African resident	ZAR447,470	ZAR468,050
	If United Kingdom resident	£46,690	£47,390
	If United States of America resident	US$71,770	US$73,060
	If European resident	€62,310	€63,240
	Other directors		
	If South African resident	ZAR223,740	ZAR234,030
	If United Kingdom resident	£23,480	£23,830
	If United States of America resident	US$35,050	US$35,680
	If European resident	€31,320	€31,790

		From	To
3.	**Human Resources and Compensation Committee, Nomination and Governance Committee, Social, Ethics, Sustainability and Transformation Committee and any other committee fees[1]**		
	Chairperson		
	If South African resident	ZAR269,030	ZAR281,400
	If United Kingdom resident	£27,740	£28,160
	If United States of America resident	US$41,010	US$41,750
	If European resident	€37,010	€37,570
	Other directors		
	If South African resident	ZAR140,010	ZAR146,450
	If United Kingdom resident	£19,440	£19,730
	If United States of America resident	US$25,050	US$25,500
	If European resident	€25,940	€26,330
4.	**Additional meeting fees for board meetings in excess of five meetings per annum whether attended in person or by teleconference/video-conference**		
	If South African resident	ZAR43,200 per meeting	ZAR45,190 per meeting
	If United Kingdom resident	£4,560 per meeting	£4,630 per meeting
	If United States of America resident	US$6,930 per meeting	US$7,050 per meeting
	If European resident	€6,080 per meeting	€6,170 per meeting
5.	**Travel compensation**		
	(applicable to long-haul flights with a duration of at least 10 hours)		
	If South African resident	US$3,700 per meeting	US$3,800 per meeting
	If United Kingdom resident	US$3,700 per meeting	US$3,800 per meeting
	If United States of America resident	US$3,700 per meeting	US$3,800 per meeting
	If European resident	US$3,700 per meeting	US$3,800 per meeting

[1] Fees per annum unless otherwise indicated.

[2] Inclusive of all board committee fees. If a future chairperson is not United Kingdom domiciled, appropriate benchmark information in relation to his/her domicile will be used to determine fees payable.

NOTICE TO SHAREHOLDERS continued

Sappi's practice, as recorded previously, is to review directors' fees annually. Special resolution number 1 increases the remuneration currently paid to non-executive directors and board committee members by between approximately 1.5% and 4.6% per annum depending generally on the domicile of the directors and the currency in which they are paid, with effect from 01 October 2019. The fees were last increased with effect from 01 October 2018 and have been reviewed to ensure that Sappi's fees remain generally comparable with those of its peer companies in the various countries in which its directors are domiciled.

The review also takes into account that the responsibility of non-executive directors continues to increase substantially flowing from legislative, regulatory and corporate governance developments and requirements in South Africa and elsewhere.

Non-executive directors' fees are paid quarterly (in March, June, September and December each year) and the proposed increase, if approved, will be applicable to payments to be made in December 2019 onwards. Initially the December 2019 payment will be made on the basis of the existing fee structure, and following shareholder approval of the proposed increases, the shortfall in the December 2019 payment will be made up in the March 2020 payment.

The practice has been and will continue to be that directors' fees and board committee fees are paid to non-executive directors only.

In order for this resolution to be adopted, the support of at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

11. Special resolution number 2: Loans or other financial assistance to related or inter-related companies

The Companies Act provides, among other things, that, except to the extent that the Memorandum of Incorporation of a company provides otherwise, the board may authorise the company to provide direct or indirect financial assistance (which includes lending money, guaranteeing a loan or other obligation and securing any debt or obligation) to a related or inter-related company or corporation, provided that such authorisation shall be made pursuant to a special resolution of the shareholders adopted within the previous two years, which approved such assistance either for the specific recipient or generally for a category of potential recipients and the specific recipient falls within that category.

"Resolved that the directors of the company be and are hereby authorised, in accordance with the Companies Act, to authorise the company to provide direct or indirect financial assistance to any company or corporation which is related or inter-related to the company."

In order for this resolution to be adopted, the support of at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

12. Ordinary resolution number 10: Signature of documents

"Resolved that any director of Sappi is authorised to sign all such documents and do all such things as may be necessary for or incidental to the implementation of the resolutions passed at the AGM held on 05 February 2020 or any adjournment thereof."

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution is required.

13. To receive a report from the Social, Ethics, Transformation and Sustainability (SETS) Committee

Shareholders are referred to the Social, Ethics, Transformation and Sustainability (SETS) Committee Report in the Annual Integrated Report (see page 142).

Proxies

Shareholders are entitled to appoint one or more proxies to attend, speak and on a poll to vote in their stead. A proxy need not be a shareholder. For the convenience of shareholders, a form of proxy is enclosed.

The attached form of proxy is only to be completed by shareholders who hold Sappi shares in certificated form or have dematerialised their shares (ie have replaced the paper share certificates with electronic records of ownership under JSE's electronic settlement system (Strate Limited) and are recorded in the sub-register in 'own name' dematerialised form (ie shareholders who have specifically instructed their Central Securities Depositary Participant (CSDP) or broker to hold their shares in their own name on Sappi's sub-register).

Shareholders who have dematerialised their shares and who are not registered as 'own name' dematerialised shareholders and who wish to:

- attend the AGM must instruct their CSDP or brokers to provide them with a letter of representation to enable them to attend such meeting, or
- vote, but not to attend the AGM, must provide their CSDPs or brokers with their voting instructions in terms of the relevant custody agreement between them and their CSDPs or brokers.

Such a shareholder must not complete the attached form of proxy.

When authorised to do so, CSDPs or brokers recorded in Sappi's sub-register or their nominees should vote either by appointing a duly authorised representative to attend and vote at the AGM to be held on 05 February 2020 or any adjournment thereof or by completing the attached form of proxy and returning it to one of the addresses indicated on the form of proxy in accordance with the instructions thereon.

Electronic participation by shareholders

Should any shareholder (or any proxy for a shareholder) wish to participate in the AGM by way of electronic participation, that shareholder should make application in writing (including details as to how the shareholder or the shareholder's representative or proxy, can be contacted) to so participate to the transfer secretaries, at their address as reflected under Administration (see page 164), to be received by the transfer secretaries at least five business days prior to the AGM in order for the transfer secretaries to arrange for the shareholder (or the shareholder's representative or proxy) to provide reasonably satisfactory identification to the transfer secretaries for the purposes of section 63(1) of the Companies Act and for the transfer secretaries to provide the shareholder (or the shareholder's representative or proxy) with details as to how to access any electronic participation to be provided. The company reserves the right to elect not to provide for electronic participation at the AGM in the event that it determines that it is not practical to do so. The costs of accessing any means of electronic participation provided by the company will be borne by the company.

It should be noted, however, that voting will not be possible via the electronic facilities and for shareholders wishing to vote, their shares will need to be represented at the meeting either in person, by proxy or by letter of representation, as provided for in the notice of meeting.

Questions

The board encourages shareholders to attend and to ask questions at the AGM. In order to facilitate the answering of questions at the meeting, shareholders who wish to ask questions in advance are encouraged to submit their questions in writing to the Group Company Secretary by 17:00 on Friday, 31 January 2020 at:

108 Oxford Road
Houghton Estate
Johannesburg, 2198
South Africa

or

PO Box 52264
Saxonwold, 2132
South Africa

or

By email to Ami.Mahendranath@sappi.com
Secretaries: per A Mahendranath

Group Company Secretary

Sappi Southern Africa Limited
108 Oxford Road
Houghton Estate
Johannesburg, 2198
South Africa

06 December 2019

NOTICE TO SHAREHOLDERS continued

Notes

1. **Approval and confirmation of appointment of directors appointed since the last AGM and subsequent to the year-end**

Brian Richard Beamish (Brian) (62)
(Independent)

Qualifications: BSc (Mech Eng): HBS PMD

Nationality: British and South African

Appointed: March 2019

Sappi board committee memberships
- Social, Ethics, Transformation and Sustainability Committee
- Human Resources and Compensation Committee

Other board and organisation memberships
- Nordgold (member of the Audit and Risk Committee and Remuneration Committee, as well as Chairman of the Safety and Sustainable Development Committee)
- Sita Capital Global Mining Opportunities Fund (Associate Partner)

Skills, expertise and experience
Mr Beamish, a qualified mechanical engineer with over 40 years of relevant management, business and leadership experience in capital intensive industries. He was appointed to the Lonmin Board in 2013 and served as Chairman from May 2014 until June 2019 when the corporate action with Sibanye-Stillwater completed. He also served as Chair of the Nomination Committee and as a member of the Remuneration and Safety, Health and Environment Committees. His senior executive career was spent within Anglo American, where his final role until retirement was that of Group Director Mining and Technology, before he was the CEO of the Base Metals Division.

James Michael Lopez (Jim) (59)
(Independent)

Qualifications: BA (Economics)

Nationality: American

Appointed: March 2019

Sappi board committee memberships
- Social, Ethics, Transformation and Sustainability Committee

Skills, expertise and experience
Mr Lopez is the former President and CEO of Tembec Inc (2006 – 2017) having progressed through management, senior management and executive positions within Tembec since 1989. In 2017 Mr Lopez successfully negotiated the sale of Tembec Inc., a manufacturer of lumber, pulp, paper/paperboard and specialty cellulose and a global leader in sustainable forest management practices.

Mr Lopez is currently the Co-Chairman of the Bi-National Softwood Lumber Council. Previous chairmanships included the Softwood Lumber Board, Forest products Innovation and Ontario Forest Products Association.

Janice Elaine Stipp (Janice) (60)
(Independent)

Qualifications: BA (Accounting) MBA

Nationality: American

Appointed: June 2019

Sappi board committee memberships
- Audit and Risk Committee

Other board and organisation memberships
- ArcBest Corp (Chairperson of the Audit Committee)
- Commercial Vehicle Group Inc.
- NN Inc.

Skills, expertise and experience:
Ms Stipp retired from Rogers Corporation in 2018 where she served as Senior Vice-President (2017 – 2018), Chief Financial Officer and Treasurer from 2015. Prior to that, Ms Stipp was employed at several companies in senior financial positions, including Tecumseh Products, Acument Global Technologies, GDX Automotive and TI Group Automotive Systems. Ms Stipp holds a Bachelor's degree in Accounting from Michigan State University and a Master of Business Administration from Wayne State University. She is a Certified Public Accountant and a Chartered Global Management Accountant.

Ms Stipp is currently non-executive director and Chair of the Audit Committee of ArcBest Corporation.

2. **Directors retiring by rotation who are seeking re-election**

Michael Anthony Fallon (Mike) (61)
(Independent)

Qualifications: BSc (Hons) (first class)

Nationality: British

Appointed: September 2011

Sappi board committee memberships
- Human Resources and Compensation Committee (Chairman)
- Audit and Risk Committee (until 31 December 2019)
- Nomination and Governance Committee (appointed from 01 January 2020)

Skills, expertise and experience
Mr Fallon retired as an executive director of Nippon Sheet Glass Company Limited (NSG Group) at the end of June 2012. Prior to retirement, Mr Fallon was President of NSG's Global Automotive Division, with 17,500 employees, heading up all the glass and glazing

operations in the key automotive regions across the world. With annual sales of around €6 billion, the NSG Group is one of the world's largest manufacturers of glass and glazing products for the building, automotive and speciality glass sectors. His management and leadership experience extend across a wide range of functions from plant management, sales and marketing and supply chain to general management, including mergers and acquisition experience.

During his 30-year career in a highly competitive industry he held a wide range of roles, including President of Pilkington operations in North America and has been director and chairman of companies in the United Kingdom, New Zealand and Finland. In his last four years at NSG he was both a main board director and leader of their Global Automotive Division. He was responsible for leading and developing the strategic direction and ultimately the performance and governance of this business. His leadership and experience covered all aspects of the business, from its research and development, sales and marketing, 30 manufacturing sites, supply chain, including 150 warehouses and distribution centres, purchasing, human resources and finance.

Nkateko Peter Mageza (Peter) (64)
(Independent)

Qualifications: FCCA (United Kingdom)

Nationality: South African

Appointed: January 2010

Sappi board committee memberships
- Audit and Risk Committee (Chairman)
- Human Resources and Compensation Committee

Other board and organisation memberships
- Anglo American Platinum Limited
- Ethos Private Equity Proprietary Limited (Chairman)
- RCL Foods Limited
- Remgro Limited
- MTN Group Limited

Skills, expertise and experience
Mr Mageza joined the Sappi board after having held senior executive positions across a wide range of industries. He is a former Group Chief Operating Officer and executive director of Absa Group Limited, Assistant General Manager at Nedcor Limited and Chief Executive Officer of Autonet, the Road Passenger and Freight Logistics division of Transnet Limited.

Dr Bonakele Mehlomakulu (Boni) (46)
(Independent)

Qualifications: PhD (Chemical Engineering)

Nationality: South African

Appointed: March 2017

Sappi board committee memberships
- Social, Ethics, Transformation and Sustainability Committee
- Audit and Risk Committee (appointed from 01 January 2020)

Other board and organisation memberships
Hulamin Limited
Yokogawa South Africa
Ububanzi Investments Proprietary Limited
Renewable Energy Systems Proprietary Limited
The Imp Proprietary Limited

Skills, expertise and experience
Dr Boni Mehlomakulu holds a PhD in Chemical Engineering from the University of Cape Town. Her career started at Sasol before joining the Department of Science and Technology occupying various management roles. Her recent executive role was a Chief Executive Officer of the South African Bureau of Standards (SABS), the position she held for nine years. In addition to her non-executive directorship at Sappi Limited, her portfolio includes non-executive director of Hulamin Limited and Yokagawa South Africa. She is currently managing a portfolio of acquisitions and investments in various industry sectors as a shareholder in Ububanzi Investments Proprietary Limited, Renewable Energy Systems Proprietary Limited and The Imp Proprietary Limited. Her past directorships include PBMR Proprietary Limited, Nuclear Energy Corporation of South Africa (Necsa), Eskom Holdings SOC Limited and the Technology Innovation Agency (TIA), as well as having served as the Deputy Chair of Unisa Council and a country representative on the Council of International Standards Organisation (ISO, Geneva).

Glen Thomas Pearce (56)
(Chief Financial Officer)

Qualifications: BCom, BCom (Hons), CA(SA)

Nationality: South African

Appointed: July 2014

Sappi board committee memberships
Expected to attend Audit and Risk Committee meetings by invitation

Skills, expertise and experience
Mr Pearce joined Sappi Limited in June 1997 as Financial Manager and subsequently held various senior finance roles in South Africa and in Belgium before being promoted to Chief Financial Officer and executive director of Sappi Limited in July 2014. Prior to joining Sappi, he worked at Murray & Roberts Limited from 1992 to 1996.

SHAREHOLDERS' DIARY

Annual General Meeting	05 February 2020
First quarter results released	February 2020
Second quarter and half-year results released	May 2020
Third quarter results released	August 2020
Financial year-end	September 2020
Preliminary fourth quarter and year results	November 2020
Annual Integrated Report posted to shareholders and posted on website	December 2020

ADMINISTRATION

Sappi Limited

Registration number: 1936/008963/06
JSE code: SAP
ISIN: ZAE 000006284

Group Company Secretary

Ami Mahendranath

Secretaries

Sappi Southern Africa Limited
108 Oxford Road
Houghton Estate
Johannesburg, 2198
South Africa

PO Box 52264
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South Africa

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Fax +27 (0)11 784 8280

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United States of America

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Suite 1600
Louisville, KY 40202
United States of America

shrrelations@cpushareownerservices.com
www.mybnymdr.com

PROXY FORM FOR THE ANNUAL GENERAL MEETING

Sappi Limited

(Registration number: 1936/008963/06)
(Incorporated in the Republic of South Africa)
(Sappi or the Company)
Issuer code: SAP
JSE code: SAP
ISIN: ZAE000006284

For use by shareholders who:

- hold shares in certificated form; or
- hold dematerialised shares (ie where the paper share certificates representing the shares have been replaced with electronic records of ownership under the electronic settlement and depositary system (Strate Limited of the JSE Limited) and are recorded in Sappi's sub-register with own name registration (ie shareholders who have specifically instructed their Central Securities Depository Participant (CSDP) to record the holding of their shares in their own name in Sappi's sub-register).

If you are unable to attend the eighty-third Annual General Meeting of the members to be held at 14:00 on Wednesday, 05 February 2020 at Sappi in the Oxford Room, Ground Floor, 108 Oxford Road (entrance on Ninth Street), Houghton Estate, Johannesburg, 2198, Republic of South Africa, you should complete and return the form of proxy as soon as possible, but in any event to be received by not later than 14:00 South African time on Monday, 03 February 2020, to Sappi's transfer secretaries, Computershare Investor Services Proprietary Limited, by way of hand delivery to Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196, Republic of South Africa or by way of postal delivery to PO Box 61051, Marshalltown, 2107, Republic of South Africa or handed to the chairman of the Annual General Meeting before the appointed proxy exercises any of the relevant shareholder's rights.

Shareholders who have dematerialised their shares and who do not have own name registration and wish to attend the Annual General Meeting, must instruct their CSDP or broker to provide them with the relevant letter of representation to enable them to attend such meeting, or, alternatively, should they wish to vote, but not to attend the Annual General Meeting, they must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. **Such shareholders must not complete this form of proxy.**

I/We

of

being a shareholder(s) of Sappi holding Sappi shares and entitled to vote at the abovementioned Annual General Meeting, appoint

or failing him/her

or failing him/her

or failing him/her, the chairman of the meeting as my/our proxy to attend and speak and, on a poll, to vote for me/us on the resolutions to be proposed (with or without modification) at the Annual General Meeting of Sappi to be held at 14:00 on Wednesday, 05 February 2020 or any adjournment thereof, as follows:

	Number of shares		
	For	Against	Abstain
Ordinary resolution number 1 – Receipt and acceptance of 2019 Annual Financial Statements, including Directors' Report, Auditors' Report and Audit and Risk Committee Report			
Ordinary resolution number 2 – Approval and confirmation of appointment of directors appointed subsequent to the last AGM and subsequent to the financial year-end			
Ordinary resolution number 2.1 – Approval and confirmation of appointment of Mr BR Beamish as a director of Sappi			
Ordinary resolution number 2.2 – Approval and confirmation of appointment of Mr JM Lopez as a director of Sappi			
Ordinary resolution number 2.3 – Approval and confirmation of appointment of Ms JE Stipp as a director of Sappi			
Ordinary resolution number 3 – Re-election of directors retiring by rotation in terms of Sappi's Memorandum of Incorporation[1]			
Ordinary resolution number 3.1 – Re-election of Mr MA Fallon as a director of Sappi			
Ordinary resolution number 3.2 – Re-election of Mr NP Mageza as a director of Sappi			
Ordinary resolution number 3.3 – Re-election of Dr B Mehlomakulu as a director of Sappi			
Ordinary resolution number 3.4 – Re-election of Mr GT Pearce as a director of Sappi			
Ordinary resolution number 4 – Election of Audit and Risk Committee members			
Ordinary resolution number 4.1 – Election of Mr NP Mageza as member and chairman of the Audit and Risk Committee			
Ordinary resolution number 4.2 – Election of Mrs ZN Malinga as a member of the Audit and Risk Committee			
Ordinary resolution number 4.3 – Election of Dr B Mehlomakulu as a member of the Audit and Risk Committee[2]			
Ordinary resolution number 4.4 – Election of Mr RJAM Renders as a member of the Audit and Risk Committee			
Ordinary resolution number 4.5 – Election of Ms JE Stipp as a member of the Audit and Risk Committee[3]			
Ordinary resolution number 5 – Reappointment of KPMG Inc. as auditors of Sappi for the year ending September 2020 and until the next Annual General Meeting of Sappi			
Ordinary resolution number 6 – Authority from shareholders for the maximum number of ordinary shares which may be utilised under the plan.			
Ordinary resolution number 7 – Authority from shareholders to place the ordinary shares required for the purposes of the plan under the control of the directors			
Ordinary resolution number 8 – Non-binding endorsement of remuneration policy			
Ordinary resolution number 9 – Non-binding endorsement of remuneration implementation report			
Special resolution number 1 – Increase in non-executive directors' fees			
Special resolution number 2 – Authority for loans or other financial assistance to related or inter-related companies or corporations			
Ordinary resolution number 10 – Authority for directors to sign all documents and do all such things necessary to implement the above resolutions			

[1] See notes in Notice to shareholders on page 155.
[2] Subject to her re-election as a director pursuant to ordinary resolution 3.3 above.
[3] Subject to her appointment under ordinary resolution number 2.3 above.

Insert X in the appropriate block if you wish to vote all your shares in the same manner. If not, insert the number of votes in the appropriate block. If no indication is given, the proxy will vote as he/she thinks fit.

Signed at on

Assisted by me (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be shareholders of Sappi) to attend, speak, and on a poll, vote in place of that shareholder at the Annual General Meeting or any adjournment thereof.

NOTES TO THE FORM OF PROXY

The form of proxy must only be used by certificated shareholders or shareholders who hold dematerialised shares with own name registration. Other shareholders are reminded that the onus is on them to communicate with their CSDP or broker.

Instructions on signing and lodging the Annual General Meeting proxy form

1. A deletion of any printed matter (only where a shareholder is allowed to choose between more than one alternative option) and the completion of any blank spaces need not be signed or initialled. Any alteration must be signed, not initialled.
2. The chairman shall be entitled to decline to accept the authority of the signatory:
   2.1 under a power of attorney, or
   2.2 on behalf of a company,

   if the power of attorney or authority has not been lodged at the offices of the company's transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196, Republic of South Africa or posted to PO Box 61051, Marshalltown, 2107, Republic of South Africa.
3. The signatory may insert the name(s) of any person(s) whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose.
4. When there are joint holders of shares and if more than one of such joint holders is present or represented, the person whose name stands first in the register in respect of such shares or his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof.
5. The completion and lodging of the form of proxy will not preclude the signatory from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.
6. Forms of proxy must be lodged with, or posted to, the offices of Sappi's transfer secretaries, Computershare Investor Services Proprietary Limited, at Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196, Republic of South Africa (for hand delivery) or PO Box 61051, Marshalltown, 2107, Republic of South Africa (for postal delivery), to be received by not later than 14:00 on Monday, 03 February 2020 or handed to the chairman of the Annual General Meeting before the appointed proxy exercises any of the relevant shareholder's rights.
7. If the signatory does not indicate in the appropriate place on the face hereof how he/she wishes to vote in respect of a particular resolution, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution.
8. The chairman of the Annual General Meeting may reject any proxy form which is completed other than in accordance with these instructions and may accept any proxy form when he is satisfied as to the manner in which a member wishes to vote.

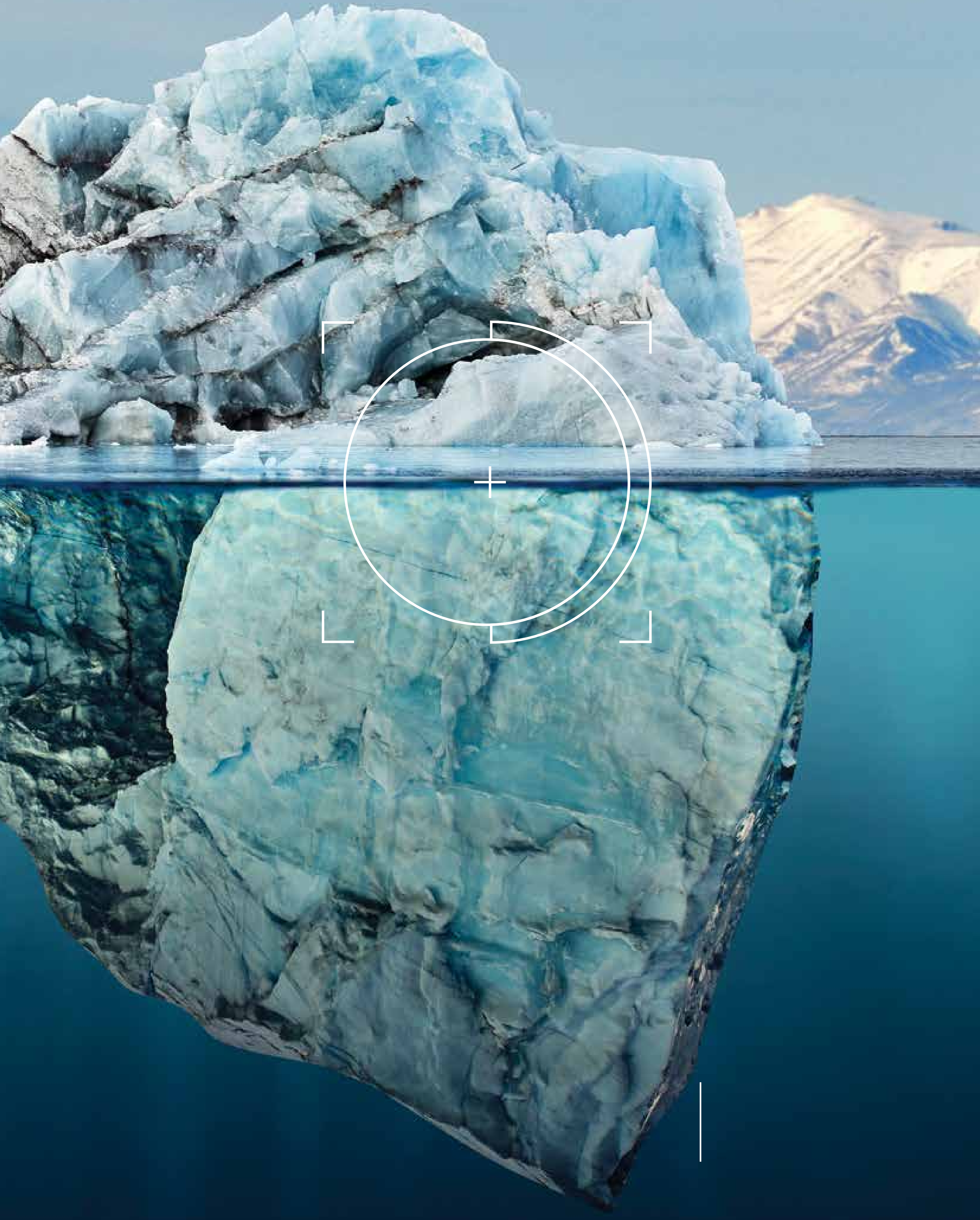
Summary in terms of section 58(8)(b)(i) of the South African Companies Act, 2008, as amended

Section 58(8)(b)(i) provides that if a company supplies a form of instrument for appointing a proxy, the form of proxy supplied by the company for the purpose of appointing a proxy must bear a reasonably prominent summary of the rights established by section 58 of the Companies Act, 2008, as amended, which summary is set out below:

- A shareholder of a company may, at any time, appoint any individual, including an individual who is not a shareholder of that company, as a proxy, among other things, to participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder
- A shareholder may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder
- A proxy may delegate the proxy's authority to act on behalf of the shareholder to another person
- A proxy appointment must be in writing, dated and signed by the shareholder; and remains valid only until the end of the meeting at which it was intended to be used, unless the proxy appointment is revoked, in which case the proxy appointment will be cancelled with effect from such revocation
- A shareholder may revoke a proxy appointment in writing.
- A proxy appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder
- A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction.

sappi

Group Annual Financial Statements 2019



CONTENTS

The audited financial statements for the year ended September 2019 have been prepared by the corporate accounting staff of Sappi Limited headed by John Shaw, Group Financial Manager. This process was supervised by Glen Pearce, Chief Financial Officer.

The financial statements have been audited in compliance with section 30 of the Companies Act of South Africa.

This report is printed on GalleriaArt silk 135 and 250 g/m²

DIRECTORS' APPROVAL

The directors are responsible for the maintenance of adequate accounting records and the content, integrity and fair presentation of the Group Annual Financial Statements and the related financial information included in this report. These have been prepared in accordance with International Financial Reporting Standards and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. In preparing the Group Annual Financial Statements, the group applied appropriate accounting policies supported by reasonable judgements and estimates. The auditors are responsible for auditing the Group Financial Statements in the course of executing their statutory duties.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and are committed to maintaining a strong control environment. Details relating to the group's internal control environment are set out in the corporate governance section of the Annual Integrated Report.

The directors are of the opinion, based on the information and explanations given by the company's officers and the internal auditors, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Group Annual Financial Statements that are free from material misstatements, whether due to fraud or error. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or loss.

The directors have reviewed the group's budget and cash flow forecasts. This review, together with the group's financial position, existing borrowing facilities and cash on hand, has satisfied the directors that the group will continue as a going concern for the foreseeable future. The group, therefore, continues to adopt the going concern basis in preparing its Group Annual Financial Statements.

The directors' report and the Group Annual Financial Statements appear on pages 4 to 92 and were approved by the board of directors on 06 December 2019 and signed on its behalf by:

SR Binnie
Chief Executive Officer
Authorised director

GT Pearce
Chief Financial Officer
Authorised director

Sappi Limited

06 December 2019

GROUP COMPANY SECRETARY'S CERTIFICATE

In terms of section 88(2)(e) of the Companies Act 71 of 2008 of South Africa, I hereby certify that, to the best of my knowledge and belief, the company has lodged with the Companies and Intellectual Property Commission of South Africa, for the financial year ended September 2019, all such returns as are required of a public company in terms of this Act and that such returns appear to be true, correct and up to date.

Sappi Southern Africa Limited
Secretaries

per A Mahendranath
Group Company Secretary

06 December 2019

AUDIT AND RISK COMMITTEE REPORT

for the year ended September 2019

Introduction

The Audit and Risk Committee presents its report for the financial year ended September 2019. The committee is an independent statutory committee, whose duties are delegated to it by the board of directors. The committee has conducted its affairs in compliance with a board approved terms of reference and has discharged its responsibilities contained therein.

Objectives and scope

The overall objectives of the committee are:
- To assist the board in discharging its duties relating to the safeguarding of assets and the operation of adequate systems and control processes
- To control reporting processes and the preparation of financial statements in compliance with the applicable legal and regulatory requirements and accounting standards
- To provide a forum for the governance of risk, including control issues and developing recommendations for consideration by the board
- To oversee the internal and external audit appointments and functions, and
- To perform duties that are attributed to it by the South African Companies Act of 2008 (the Companies Act), the JSE Limited Listings Requirements and King IV.

Committee performance:
- Received and reviewed reports from both internal and external auditors concerning the effectiveness of the internal control environment, systems and processes.
- Reviewed the reports of both internal and external audit findings and their concerns arising out of their audits and requested appropriate responses from management.
- Made recommendations to the board of directors regarding the corrective actions to be taken as a consequence of audit findings.
- Ensured that appropriate financial reporting procedures are being maintained and are operating effectively.
- Considered the independence and objectivity of the external auditors and ensured that the scope of their additional services provided did not impair their independence.
- Received and dealt with concerns and complaints through 'whistle-blowing' mechanisms that were reported to the committee by the group internal audit function.
- Reviewed a documented assessment, including key assumptions, prepared by management on the going concern status of the group, and accordingly made recommendations to the board.
- Reviewed and recommended for adoption by the board the financial information that is publicly disclosed, which included:
  - The Annual Integrated Report;
  - The Group Annual Financial Statements; and
  - The quarterly financial results.
- Considered the effectiveness of internal audit, approved the annual operational strategic internal audit plan and monitored adherence of internal audit to its plan.
- Reviewed the performance and expertise of the Chief Financial Officer and confirmed his suitability for the position
- Satisfied itself that the internal audit function is efficient and effective and carried out its duties in an independent manner in accordance with a board approved internal audit charter.

The committee is satisfied that it has fulfilled its obligations in respect of its scope of responsibilities.

Membership

The membership of the committee is comprised of independent non-executive directors, all of whom are financially literate, with three members forming a quorum:

Mr NP Mageza	(appointed in February 2010, Chairman from February 2018)
Mr RJAM Renders	(appointed in March 2017)
Mr MA Fallon	(appointed in January 2012)
Mrs KR Osar	(appointed in November 2007)
Ms Z Malinga	(appointed in October 2018)
Ms JE Stipp	(appointed in June 2019)

Biographical details of the current members of the committee are set out in our Leadership section of the Annual Integrated Report.

In addition, the Chief Executive Officer, the Chief Financial Officer, Head of Group Internal Audit, the Group Internal Control and Risk Manager and the external auditors are also permanent invitees to the meeting. The chairman of the board attends meetings ex officio. The effectiveness of the committee is assessed every year. In terms of the Companies Act, the committee is required to be elected annually at the Annual General Meeting.

External audit

The committee, having considered all relevant matters, satisfied itself through enquiry that auditor independence, objectivity and effectiveness were maintained in 2019. Meetings were held with the auditors where management was not present.

No material non-audit services were provided by the external auditors during the year under review.

The committee has given adequate consideration to the information presented by the external auditor as required by the JSE Listings requirements. The committee has consequently nominated, for approval at the Annual General Meeting, KPMG as the external auditor for the 2020 financial year of whom Mr Coenie Basson is the designated auditor for Sappi Limited and Safeera Loonat is the designated auditor for Sappi Southern Africa Limited. The committee confirms that the auditors are accredited by the JSE Limited and the designated auditors do not appear on the JSE Limited's list of disqualified individual auditors.

Annual Integrated Report and the Group Annual Financial Statements

The committee has evaluated the Annual Integrated Report, incorporating the Group Annual Financial Statements, for the year ended September 2019. The committee has also considered the sustainability information as disclosed in the Annual Integrated Report and has assessed its consistency with operational and other information known to committee members. The committee has also considered the report and is satisfied that the information is reliable and consistent with the financial results. The Group Annual Financial Statements have been prepared using appropriate accounting policies, which conform to International Financial Reporting Standards.

The committee has therefore recommended the Annual Integrated Report and the Group Annual Financial Statements for approval to the board. The board has subsequently approved the report and the Group Annual Financial Statements, which will be open for discussion at the Annual General Meeting.

Based on the results of the formal documented review of the group's system of internal financial controls for the year which was performed by the internal audit function, nothing has come to the attention of the committee to indicate that the internal financial controls were not operating effectively.

P Mageza
Chairman
Audit and Risk Committee

06 December 2019

DIRECTORS' REPORT

for the year ended September 2019

The directors have pleasure in presenting their report for the year ended September 2019.

Nature of business

Sappi Limited, the holding company of the group, was formed in 1936 and is incorporated and domiciled in the Republic of South Africa.

Sappi is a global company with operations in North America, Europe and Southern Africa and is focused on providing dissolving wood pulp, packaging and speciality papers, printing and writing papers as well as biomaterials and biochemicals to our direct and indirect customer base across more than 150 countries.

The group's dissolving wood pulp products are used worldwide mainly by converters to create viscose fibre for fashionable clothing and textiles, as well as other consumer products; quality packaging and speciality papers are used in the manufacture of such products as soup sachets, luxury carry bags, cosmetic and confectionery packaging, boxes for agricultural products for export, tissue wadding for household tissue products and casting release papers used by suppliers to the fashion, textiles, automobile and household industries; our market-leading range of printing and writing papers are used by printers in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; biomaterials include nanocellulose, fibre composites and lignosulphonate; biochemicals include second generation sugars.

Financial results

The group generated a profit of US$211 million for the year ended September 2019 (39 US cents) compared to US$323 million profit (60 US cents) for the prior year.

Detailed commentary on the 2019 financial results is contained in various reviews throughout the Annual Integrated Report.

Dividends

The directors have decided that in light of the uncertain future market conditions and low dissolving wood pulp prices that it would be prudent to temporarily halt dividends until such time as market conditions improve.

Going concern

The directors believe that the group has sufficient resources and expected cash flows to continue as a going concern for the next financial year.

Corporate governance

Sappi is committed to high standards of corporate governance and endorses the recommendations contained in the King Code of Corporate Governance principles. Please refer to our Corporate Governance section contained in our annual integrated report for full details and to our website for Sappi's application of the principles of King IV.

Health, safety, environment and community

Information on our health, safety and environmental performance is provided in our sustainability report in our annual integrated report.

Significant announcements during the year under review and subsequent to year-end

The following significant announcements were made:

- In March 2019 the group raised an aggregate principal amount of €450 million (US$505 million) in new senior unsecured notes due 2026 at a coupon of 3.125% per annum. The proceeds from these notes were used to redeem the full amount of the group's €450 million senior (US$505 million) unsecured notes due 2022 on 10th April as the group exercised its option to early redeem these notes. The coupon on the notes redeemed was 3.375%.
- In August 2019 the group announced that it had signed an agreement, subject to conditions precedent, to acquire the 270,000 ton Matane high yield hardwood pulp mill, in Quebec, Canada, from Rayonier Advanced Materials Inc., for US$175 million. The acquisition will increase Sappi's pulp integration for its packaging businesses and lower Sappi's costs of pulp, reduce its volatility of earnings throughout the pulp cycle and provide certainty of supply.
- In November 2019 the group announced that it had concluded the Matane mill acquisition for US$158 million.

Liquidity and financing

At September 2019, we had liquidity comprising US$393 million of cash on hand, which exceeds the amount of short-term interest-bearing debt of US$181 million by US$212 million and US$640 million available from undrawn committed facilities in Europe and South Africa.

Net debt decreased from US$1,568 million to US$1,501 million as the group generated net cash of US$1 million during the year (2018: Net cash utilised US$254 million, which included the US$132 million acquisition of the Cham Paper Group). Although the group had lower profitability this was mitigated by tight working capital control, lower capital expenditure and a decrease in finance payments.

Details of our non-current borrowings are set out in note 21.

Risks and insurance
Details of the groups' risks and insurance are set out in the Top Risks section of our annual integrated report.

Property, plant and equipment
There were no major changes in the nature of the group's property, plant and equipment during the period under review.

Capital expenditure for the year ended September 2019 of US$471 million (2018: US$541 million). Of the above expansion expenditure was US$323 million (2018: US$374 million) with maintenance expenditure of US$148 million (2018: US$167 million).

Subsequent events
In November 2019 the group announced that it had concluded the Matane mill acquisition for US$158 million which had been announced in August 2019 subject to conditions precedent as set out in note 33.

Directorate
The composition of the board of directors is set out in Our Leadership section in our annual integrated report. During the year, the following changes were announced:
- The appointment of Mr Brian Beamish as an independent non-executive director with effect from 01 March 2019.
- The appointment of Mr James Lopez as an independent non-executive director with effect from 01 March 2019.
- The appointment of Ms Janice Stipp as an independent non-executive director with effect from 01 June 2019.

At the end of September 2019, there were 14 directors, two of whom are executive directors. All 12 of the non-executive directors are considered to be independent. The independence of those directors who are designated as independent was reviewed and confirmed during the year by the Nomination and Governance Committee.

In terms of the company's Memorandum of Incorporation, Mr MA Fallon, Mr NP Mageza, Dr B Mehlomakulu and Mr GT Pearce will retire by rotation from the board at the forthcoming Annual General Meeting and all being eligible, have offered themselves for re-election. Having assessed the individual performances of the directors concerned, the board recommends each of them for re-appointment.

Details of the secretaries and their business and postal addresses are set out in the administration section of the Annual Integrated Report.

Details of the directors and prescribed officers' shareholding and remuneration are set out in notes 34 to 36.

Directors' and officers' disclosure of interests in contracts
During the period under review, no significant contracts were entered into in which directors and officers had an interest and which affected the business of the group.

Directors' liabilities
Directors and officers of the group are covered by directors' and officers' liability insurance.

Subsidiary companies
Details of the company's significant subsidiaries are set out in note 37.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Sappi Limited

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sappi Limited and its subsidiaries (the group) set out on pages 10 to 92, which comprise the group balance sheet as at September 2019, the group income statement, the group statement of comprehensive income, the group statement of changes in equity and the group statement of cash flows for the year then ended, and notes to the group financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sappi Limited and its subsidiaries as at September 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' International *Code of Ethics for Professional Accountants* (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
Valuation of plantations	
Refer to note 2.3.4 for the accounting policies applied and note 11 to the group financial statements. Plantations are valued in terms of IAS 41 *Agriculture* (IAS 41) and are stated at fair value less cost to sell at the harvesting stage, using the income approach, and is a level 3 measure in terms of IFRS 13 *Fair Value Measurement* (IFRS 13). The valuation of plantations requires complex measurements and involves estimation uncertainty. The key inputs and assumptions involving significant estimation, judgement and having the most significant impact on the fair value of the plantations are: • Volume and growth estimations (standing tons); and • Discount rate. Given the complexity and the significant amount of estimation and judgement involved in the determination of fair value of the plantations, this matter was considered a key audit matter.	Our audit procedures related to the valuation of plantations included: • Critically evaluating the fair value methodology, key measurements and assumptions applied by management in determining the fair value of the plantations against the criteria in terms of IAS 41 and IFRS 13. This was performed by the audit team, by applying their knowledge of the industry to assess the appropriateness of the valuations. • Challenging the consistency and appropriateness of the underlying measurements and assumptions used by comparing to external observable data, where possible, and considering management's historical accuracy in determining these measurements and estimations. • Assessing the reasonableness of the group's fair value estimates, and the related sensitivity disclosures, by performing our own sensitivity analysis of the plantation valuations. • We considered the adequacy and appropriateness of the group's disclosures in respect of the valuation of plantations in accordance with IAS 41 and IFRS 13.

Key audit matter	How the matter was addressed in our audit
Impairment of property, plant and equipment	
Refer to note 2.3.1 for the accounting policies applied and note 10 to the group financial statements. **Composition of European cash-generating units (CGUs)** The completion of the capital expenditure project in Europe resulted in the need for management to revise the European CGU composition in accordance with IAS 36 *Impairment of Assets* (IAS 36). The determination of the revised CGU composition requires judgement and was based on the following key considerations: • Revenue separation; • Assets separation; and • Management's monitoring and decision making in respect of assets and operations in Europe. Based on the results of the revised CGU composition, impairment assessments were performed by management. No impairment losses were recognised based on the revised CGU composition. **Westbrook CGU impairment** The continued decline in profitability and product demand in respect of the Westbrook CGU resulted in an impairment trigger requiring management to perform a detailed impairment assessment in accordance with IAS 36, which resulted in an impairment loss of US$18 million recognised in the income statement. The calculation of the value in use as part of the impairment assessment requires the determination and application of the following key assumptions: • Future cash flow projections • Discount rate; and • Long-term growth rate. Given the judgement involved in the determination of the revised CGU composition in Europe and the impairment of the Westbrook CGU, impairment of property, plant and equipment was considered a key audit matter.	Our team included senior engagement team members and valuation specialists who understand the group's business, industry and the economic environment in which it operates. Our audit procedures related to impairment of property, plant and equipment included: • Critically evaluating management's revised CGU composition to ensure that it complies with IAS 36 by comparing management's conclusion with our own independent analysis and expectations. • Critically evaluating the appropriateness of management's impairment models applied. • Challenging the assumptions used by management in their value-in-use calculations by: – assessing the reasonableness of cash flow projections based on historical trends, current year performance and our knowledge of the business and the industry – assessing the reasonableness of the long-term growth rates in relation to external market data – assessing the reasonableness of the discount rate applied by independently calculating the rate and comparing to the rate used by management; and – assessing the reasonableness of the key assumptions and the related sensitivity analyses by performing our own sensitivity analyses. • We also considered the adequacy and appropriateness of the group's disclosures in respect of impairment of property, plant and equipment, in accordance with IAS 36.

INDEPENDENT AUDITOR'S REPORT continued

Other information
The directors are responsible for the other information. The other information comprises the information included in the document titled 2019 Annual Integrated Report and in the document titled Sappi 2019 Group Annual Financial Statements, which includes the Directors' Report, the Audit and Risk Committee Report and the Group Company Secretary's certificate as required by the Companies Act of South Africa. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements
The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that KPMG Inc. has been the auditor of Sappi Limited for three years.

KPMG Inc.
Registered Auditor

Per Coenie Basson
Chartered Accountant (SA)
Registered Auditor
Director

85 Empire Road, Parktown
Johannesburg, 2193

06 December 2019

GROUP INCOME STATEMENT

for the year ended September 2019

(US$ million)	Note	2019	2018
Revenue		**5,746**	5,806
Cost of sales	4	**4,969**	4,928
Gross profit		**777**	878
Selling, general and administrative expenses	4	**368**	396
Other operating (income) expenses		**30**	(4)
Share of profit from equity accounted investees net of tax		**(4)**	(3)
Operating profit	4	**383**	489
Net finance costs	5	**85**	68
Finance costs		**98**	92
Finance income		**(9)**	(18)
Net foreign exchange gains		**(4)**	(6)
Profit before taxation		**298**	421
Taxation charge	6	**87**	98
Profit for the year		**211**	323
Basic earnings per share (US cents)	7	**39**	60
Weighted average number of ordinary shares in issue (millions)		**542.0**	538.1
Diluted earnings per share (US cents)	7	**39**	59
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)		**546.3**	550.0

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended September 2019

(US$ million)	Note	2019	2018
Profit for the year		**211**	323
Other comprehensive income (loss), net of tax	19	**(127)**	(57)
Item that will not be reclassified subsequently to profit or loss		**(49)**	–
Actuarial gains (losses) on post-employment benefit funds		**(59)**	28
Deferred tax on above items and changes in tax rates		**10**	(28)
Items that may be reclassified subsequently to profit or loss		**(78)**	(57)
Exchange differences on translation to presentation currency		**(67)**	(61)
Gains (losses) on hedging reserves		**(14)**	8
Fair value adjustments on financial assets at fair value through other comprehensive income (FVOCI)		**–**	(1)
Tax effect on above items		**3**	(3)
Total comprehensive income for the year		**84**	266

GROUP BALANCE SHEET

as at September 2019

(US$ million)	Note	2019	2018
Assets			
Non-current assets		**3,789**	3,766
Property, plant and equipment	10	**3,061**	3,010
Plantations	11	**451**	466
Deferred tax assets	12	**106**	106
Goodwill and intangible assets	13	**54**	63
Equity accounted investees	14	**31**	33
Other non-current assets	15	**86**	88
Current assets		**1,834**	1,904
Inventories	16	**709**	741
Trade and other receivables	17	**718**	767
Derivative financial instruments	30	**3**	21
Taxation receivable		**11**	12
Cash and cash equivalents		**393**	363
Total assets		**5,623**	5,670
Equity and liabilities			
Shareholders' equity		**1,948**	1,947
Ordinary share capital and share premium	18	**802**	858
Non-distributable reserves	20	**99**	133
Foreign currency translation reserve		**(184)**	(180)
Hedging reserves		**(41)**	(28)
Retained earnings		**1,272**	1,164
Non-current liabilities		**2,461**	2,550
Interest-bearing borrowings	21	**1,713**	1,818
Deferred tax liabilities	12	**328**	335
Derivative financial instruments	30	**2**	–
Defined benefit liabilities	28	**356**	329
Other non-current liabilities	22	**62**	68
Current liabilities		**1,214**	1,173
Interest-bearing borrowings	21	**181**	97
Overdrafts		**–**	16
Trade and other payables	23	**969**	1,009
Provisions	23	**6**	6
Derivative financial instruments	30	**7**	6
Taxation payable		**51**	39
Total equity and liabilities		**5,623**	5,670

GROUP STATEMENT OF CASH FLOWS

for the year ended September 2019

(US$ million)	Note	2019	2018
Cash retained from operating activities		**473**	410
Cash generated from operations	24.1	**673**	709
– Decrease (increase) in working capital	24.2	**(15)**	(79)
Cash generated from operating activities		**658**	630
– Finance costs paid	24.3	**(51)**	(84)
– Finance income received		**9**	18
– Taxation paid	24.4	**(51)**	(73)
– Dividends paid		**(92)**	(81)
Cash utilised in investing activities		**(472)**	(664)
Investment to maintain operations		**(148)**	(167)
Investment to expand operations		**(323)**	(374)
Proceeds on disposal of property, plant and equipment	24.5	**3**	11
Investment in equity accounted investees		**–**	(10)
Dividends received from equity accounted investees		**3**	6
Decrease (increase) in other non-current assets		**(7)**	2
Acquisition of subsidiary	9	**–**	(132)
Cash effects of financing activities		**56**	68
Proceeds from interest-bearing borrowings		**616**	137
Repayment of interest-bearing borrowings		**(560)**	(69)
Net movement in cash and cash equivalents		**57**	(186)
Cash and cash equivalents at beginning of year		**363**	550
Translation effects		**(27)**	(1)
Cash and cash equivalents at end of year		**393**	363

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended September 2019

(US$ million)	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distri-butable reserves	Foreign currency trans-lation reserve	Hedging reserves	Retained earnings	**Total equity**
Balance – September 2017	535,0	40	854	894	123	(158)	(34)	922	**1,747**
Share-based payments	–	–	–	–	11	–	–	–	**11**
Transfers of vested share options	4,3	–	1	1	3	–	–	–	**4**
Dividend paid – 15 US cents per share	–	–	–	–	–	–	–	(81)	**(81)**
Translation of parent company's ordinary share capital and share premium	–	(2)	(35)	(37)	–	37	–	–	**–**
Profit for the year	–	–	–	–	–	–	–	323	**323**
Other comprehensive (loss) income	–	–	–	–	(4)	(59)	6	–	**(57)**
Balance – September 2018	539,3	38	820	858	133	(180)	(28)	1,164	**1,947**
Adoption of IFRS 9	–	–	–	–	–	–	(4)	4	**–**
Share-based payments[1]	–	–	–	–	10	–	–	–	**10**
Transfers of vested share options	3,5	–	1	1	(2)	–	–	–	**(1)**
Transfers between reserves	–	–	–	–	(34)	–	–	34	**–**
Translation of parent company's ordinary share capital and share premium	–	(2)	(55)	(57)	–	57	–	–	**–**
Dividend paid – 17 US cents per share	–	–	–	–	–	–	–	(92)	**(92)**
Profit for the year	–	–	–	–	–	–	–	211	**211**
Other comprehensive (loss) income	–	–	–	–	(8)	(61)	(9)	(49)	**(127)**
Balance – September 2019	542,8	36	766	802	99	(184)	(41)	1,272	**1,948**
Note				*18*	*20*				

[1] Share-based payments net of US$2 million distribution to beneficiaries.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended September 2019

1. Basis of preparation

The consolidated financial statements of Sappi Limited (the 'company') as at and for the year ended September 2019 comprise the company and its subsidiaries (together referred to as the 'group' and individually as 'group entities' or 'group entity') as well as the group's interests in associates and joint ventures.

The consolidated financial statements (the 'Group Financial Statements') have been prepared in accordance with:
- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
- The SAICA Financial Reporting Guides as issued by the Accounting Practices Committee
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council
- The Listings Requirements of the JSE Limited, and
- The requirements of the Companies Act 2008 of South Africa.

The Group Annual Financial Statements were authorised for issue by the Board of Directors on 06 December 2019.

The Group Financial Statements are prepared on the historical cost basis, except as set out in the accounting policies which follow. Certain items, including derivatives, are stated at their fair value while plantations are stated at fair value less costs to sell.

Fair value is determined in accordance with IFRS 13 *Fair Value Measurement* and is categorised as follows:
- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices that are observable, either directly or indirectly
- Level 3: Inputs for the asset or liability that are unobservable

Transfers between fair value hierarchies are recorded when that change occurs.

The Group Financial Statements are presented in United States Dollar (US$) as it is the major trading currency of the pulp and paper industry and are rounded to the nearest million except as otherwise indicated.

The group's financial year-end is on the Sunday closest to the last day of September. Accordingly, the last two financial years were as follows:
- 01 October 2018 to 29 September 2019 (52 weeks)
- 02 October 2017 to 30 September 2018 (52 weeks)

The Group Financial Statements are prepared on the going concern basis.

Assets and liabilities and income and expenses are not offset in the income statement or balance sheet unless specifically permitted by IFRS.

2. Accounting policies

The following principal accounting policies have been consistently applied in dealing with items that are considered material in relation to the Group Financial Statements. Adoption of new accounting standards and changes to accounting standards are dealt with in sections 2.4 and 2.5.

Changes in accounting estimates are recognised prospectively in profit or loss, except to the extent that they give rise to changes in the carrying amount of recognised assets and liabilities where the change in estimate is recognised immediately.

2.1 Significant accounting policy elections

The group has made the following significant accounting policy elections in terms of IFRS:
- Regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting.
- Cumulative gains or losses recognised in other comprehensive income (OCI) for cash flow hedge relationships are transferred from equity and included in the initial measurement of the non-financial asset or liability when the hedged item is recognised.
- The net interest on post-employment benefits is included in finance costs.
- Property, plant and equipment is accounted for using the cost model.
- The step-by-step method of reclassification of foreign currency translation reserves from equity to profit or loss on disposal is applied.

The elections are explained further in each specific policy in sections 2.2 and 2.3.

2. Accounting policies continued

2.2 Summary of accounting policies

2.2.1 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The Group Financial Statements are presented in US Dollar, which is the group's presentation currency.

The functional currency of the parent company is ZAR (Rand). The share capital and share premium of the parent company are translated into US Dollar at the period-end rate. The exchange differences arising on this translation are included in the foreign currency translation reserve and cannot be recycled through profit or loss.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Subsequent to initial recognition, monetary assets and liabilities denominated in foreign currencies are translated at the earlier of reporting or settlement date and the resulting foreign currency exchange gains or losses are recognised in profit or loss for the period.

(iii) Foreign operations

The results and financial position of each group entity that has a functional currency that is different to the presentation currency of the group is translated into the presentation currency of the group as follows:

- Assets and liabilities are translated at the period-end rate.
- Income statement items are translated at the average exchange rate for the year.

Exchange differences on translation are accounted for in OCI. These differences will be recognised in earnings on realisation of the underlying operation.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations (ie the reporting entity's interest in the net assets of that operation), and of borrowings designated as hedging instruments of such investments, are taken to OCI.

Goodwill, intangible assets and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the period-end rate at each reporting date.

The group used the following exchange rates for financial reporting purposes:

	2019	2018
Period-end rate		
US$1 = ZAR	**15,1563**	14,1474
EUR1 = US$	**1,0939**	1,1609
Annual average rate		
US$1 = ZAR	**14,3464**	13,0518
EUR1 = US$	**1,1282**	1,1902

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.2 Group accounting

(i) Business combinations

The group accounts for business combinations using the acquisition method when control is transferred to the group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the income statement immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement. Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in the income statement.

(ii) Subsidiaries

An entity is consolidated when the group can demonstrate power over the investee, is exposed or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are consolidated into the group's results from acquisition date until disposal date.

Intra-group balances and transactions and, profits or losses arising from intra-group transactions are eliminated in the preparation of the Group Annual Financial Statements.

(iii) Associates and joint ventures (equity accounted investees)

The financial results of associates and joint ventures are incorporated in the group's results using the equity method of accounting from acquisition date until disposal date. Under the equity method, associates and joint ventures are carried at cost and adjusted for the post-acquisition changes in the group's share of the associates' and joint ventures' net assets. The share of the associates' or joint ventures' profit after tax is determined from their latest financial statements or, if their year-ends are different to those of the group, from their unaudited management accounts that correspond to the group's financial year-end.

Where there are indicators of impairment, the entire carrying amount of the investment, including goodwill, is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised, which the group records in other operating expenses in profit or loss, is deducted from the carrying amount of the investment. Any reversal of an impairment loss increases the carrying amount of the investment to the extent recoverable, but not higher than the historical amount.

2.2.3 Financial instruments (In the current year IFRS 9 has been adopted, refer to note 2.4 for the policy of adoption for this standard)

Policy applicable after 1 October 2018

(i) Initial recognition

Financial instruments are recognised on the balance sheet when the group becomes a party to the contractual provisions of a financial instrument. All purchases of financial assets that require delivery within the timeframe established by regulation or market convention ('regular way' purchases) are recognised at trade date.

(ii) Initial measurement

A financial asset (unless it is a trade receivable without a significant financing component) or a financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(iii) Classification and subsequent measurement

- *Financial assets*

  On initial recognition, a financial asset is classified and measured at: amortised cost, fair value through other comprehensive income (FVOCI) – debt investment, FVOCI – equity instrument or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
  - it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
  - its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.3 Financial instruments (In the current year IFRS 9 has been adopted, refer to note 2.4 for the policy of adoption for this standard) continued

Policy applicable after 1 October 2018 continued

(iii) Classification and subsequent measurement continued

- *Financial assets continued*

  A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
  - it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
  - its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  On initial recognition of an equity investment that is not held for trading, the group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

  All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

- *Financial assets – Business model assessment:*

  The group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
  - the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
  - how the performance of the portfolio is evaluated and reported to the group's management;
  - the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
  - how managers of the business are compensated – eg whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
  - the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

  Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the group's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

- *Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest:*

  For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (eg liquidity risk and administrative costs), as well as a profit margin.

  In assessing whether the contractual cash flows are solely payments of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the group considers:
  - contingent events that would change the amount or timing of cash flows;
  - terms that may adjust the contractual coupon rate, including variable-rate features;
  - prepayment and extension features; and
  - terms that limit the group's claim to cash flows from specified assets (eg non-recourse features).

  A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.3 Financial instruments (In the current year IFRS 9 has been adopted, refer to note 2.4 for the policy of adoption for this standard) continued

Policy applicable after 1 October 2018 continued

(iii) Classification and subsequent measurement continued

Financial assets – subsequent measurement and gains and losses

- *Financial assets at FVTPL*
  These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

- *Financial assets at amortised cost*
  These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

- *Debt investments at FVOCI*
  These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

- *Equity investments at FVOCI*
  These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss.

Any gain or loss on derecognition is also recognised in profit or loss.

Policy applicable prior to 1 October 2018

- *Financial assets and financial liabilities at fair value through profit or loss*
  Financial instruments at fair value through profit or loss consisted of items classified as held for trading or where they have been designated as fair value through profit or loss. All derivative instruments were classified as held for trading other than those which were designated and effective hedging instruments.

- *Financial liabilities at amortised cost*
  All financial liabilities, other than those at fair value through profit or loss, were classified as financial liabilities at amortised cost.

- *Loans and receivables*
  Loans and receivables were carried at amortised cost.

- *Available-for-sale financial assets*
  Available-for-sale financial assets were measured at fair value with any gains or losses recognised directly in equity along with the associated deferred taxation. Any foreign currency translation gains or losses or interest revenue, measured on an effective-yield basis, were recognised in profit or loss.

(iv) Embedded derivatives

Certain derivatives embedded in financial and host contracts are treated as separate derivatives and recognised on a standalone basis when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. Gains or losses on these embedded derivatives are reported in profit or loss.

(v) Derecognition

The group derecognises a financial asset when the rights to receive cash flows from the financial asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership of the financial asset.

A financial liability is derecognised when and only when the liability is extinguished, ie when the obligation specified in the contract is discharged, cancelled or has expired. The group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. The difference in the respective carrying amounts is recognised in profit or loss for the period.

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.3 Financial instruments (In the current year IFRS 9 has been adopted, refer to note 2.4 for the policy of adoption for this standard) continued

(vi) Impairment of financial assets

Policy applicable after 1 October 2018

The group measures loss allowances at an amount equal to lifetime expected credit losses using a simplified approach. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the group's historical experience and informed credit assessment and including forward looking information. Forward looking information incorporates actual and expected significant changes in the political, regulatory and technological environment of the debtor and its business activities.

Impairment losses are calculated taking into account the life time expected credit losses of trade and other receivables. The group's trade and other receivables are managed on a collective basis irrespective of the nature of its customers. The group does not have a history of significant trade receivables write-offs as the contractual terms entered with the customers help ensure that these balances are recoverable.

The group establishes an allowance for impairment that represents its estimate of credit losses in respect of trade and other receivables. The main components of this allowance is a specific loss component that relates to individual significant exposures and a collective loss component in respect of losses that may be incurred but have not yet been identified. The collective loss allowances are determined based on historical write-offs data over the last five years. This takes into account past circumstances which resulted in trade and other receivable balances that were not recovered. Individual significant exposures refer to customers that are under business rescue, in liquidation or unable to pay their obligations. These customers are credit impaired irrespective of their ageing. This takes into account forward looking circumstances. Five years is considered to be a reasonable timeframe on which to calculate a loss rate given the nature of the group's operations and the contractual terms agreed to with its customers.

Policy applicable prior to 1 October 2018

- *Loans and receivables*
  An impairment loss is recognised in profit or loss when there is evidence that the group will not be able to collect an amount in accordance with the original terms of each receivable.

- *Available-for-sale financial assets*
  When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains or losses recognised in equity (to the extent of any remeasurements) are reclassified to profit or loss even though the financial asset has not been derecognised.

  Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised. Impairment reversals other than available-for-sale debt securities are not reversed through profit or loss but through OCI.

(vii) Finance income and finance costs

Finance income and finance costs are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to that asset's or liability's net carrying amount on initial recognition.

(viii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

2.2.4 Government grants

Government grants related to income are recognised in sundry income under selling, general and administrative expenses. Government grants related to assets are recognised by deducting the grant from the carrying amount of the related asset.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.5 Intangible assets

(i) Research activities

Expenditures on research activities and internally generated goodwill are recognised in profit or loss as an expense as incurred.

(ii) Development activities

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation of engineering projects, computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, not exceeding five years.

(iii) Brands, customer relationships and customer technology

Brands, customer relationships and customer technology acquired are capitalised and amortised on a straight-line basis over their estimated useful lives which, on average, is ten years.

(iv) Other intangible assets

Other intangible assets comprise licence fees, trademarks and carbon certificates which are amortised on a straight-line basis over their useful lives between three and 20 years.

2.2.6 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost is determined on the following basis:

Classification	*Cost formula*
Finished goods	First in first out (FIFO)
Raw materials, work in progress and consumable stores	Weighted average
Cost of items that are not interchangeable	Specific identification inventory valuation basis

Net realisable value is the estimated selling price in the ordinary course of business less necessary costs to make the sale.

2.2.7 Leases

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments with the related lease obligation recognised at the same value. Lease payments are allocated between capital repayments and finance charges using the effective interest rate method.

Capitalised leased assets are depreciated on a basis consistent with those of owned assets except, where the transfer of ownership at the end of the lease period is uncertain, they are depreciated on a straight-line basis over the shorter of the lease period and the expected useful life of the asset.

Lease payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the group's benefit.

2.2.8 Segment reporting

The group's reportable segments, which have been determined in accordance with how the group allocates resources and evaluates performance, is predominantly on a geographical basis and comprise North America, Europe and Southern Africa.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for intra-segment revenues and transfers as if the transactions were with third parties at current market prices.

2.2.9 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of those assets.

Borrowing costs capitalised are calculated at the group's average funding cost other than to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.10 Revenue (In the current year IFRS 15 has been adopted, refer to note 2.4 for the policy of adoption for this standard)

Policy applicable after 1 October 2018

Revenue is recognised when a customer obtains control of the goods. Revenue is recognised at a point in time, with no deferral of revenue. Control of goods passes to the customer when the performance obligations are satisfied. Sappi primarily has one performance obligation, which is the delivery of the goods to the customer. Control is dependent on shipping incoterms where goods are sold to customers overseas. Depending on the shipping terms used, shipping and handling activities may be a separate performance obligation where these activities are performed after revenue is recognised from the sale of the goods. In these instances, revenue is recognised from the shipping and handling activities when these activities are fulfilled, which is at the same time revenue is recognised from the sale of goods. Sappi acts as an agent in the fulfilment of these shipping and handling performance obligations, and as such recognises revenue from this performance obligation net of the costs incurred to fulfil it. When shipping and handling activities are not a separate performance obligation, these costs are included in cost of sales.

Policy applicable prior to 1 October 2018

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, delivery has been made and title has passed, the amount of the revenue and the related costs can be reliably measured and it is probable that the debtor will pay for the goods. For the majority of local and regional sales, transfer occurs at the point of offloading the shipment into the customer warehouse whereas for the majority of export sales, transfer occurs when the goods have been loaded into the relevant carrier unless the contract of sale specifies different terms.

Revenue is measured at the fair value of the amount received or receivable and after the deduction of trade and settlement discounts, rebates and customer returns.

Shipping and handling costs, such as freight to the group's customers' destinations, are included in cost of sales.

2.2.11 Emission trading

The group recognises government grants for emission rights as intangible assets at the cost of the rights as well as a liability which equals the cost of the rights at the time of the grant.

The group does not recognise a liability for emissions to the extent that it has sufficient allowances to satisfy emission liabilities. Where there is a shortfall of allowances that the group would have to deliver for emissions, a liability is recognised at the current market value of the shortfall.

Where the group sells allowances to parties outside the group at amounts greater than the carrying amount, a gain is recognised in selling, general and administrative expenses in profit or loss for the period.

2.2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits and money market instruments with a maturity of three months or less and other short-term highly liquid investments that are readily convertible into cash. Cash and cash equivalents are measured at amortised cost.

2.2.13 Goodwill

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date.

Goodwill arising at acquisition is subsequently held at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently where there is an indication of impairment within one or more cash-generating units (CGUs) to which goodwill has been allocated.

Goodwill is tested for impairment using a cash flow valuation model based on an allocation of the goodwill to one or more CGUs. The group takes into account its ability to produce products across different operating units in determining CGUs and in allocating goodwill to those CGUs.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.14 Share-based payments

(i) Equity-settled share-based payment transactions

The services or goods received in an equity-settled share-based payment transaction with counterparties are measured at the fair value of the equity instruments at grant date.

If the equity instruments granted vest immediately and the beneficiary is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the benefit received is recognised in profit or loss for the period in full on grant date with a corresponding increase in equity.

Where the equity instruments do not vest until the beneficiary has completed a specified period of service, it is assumed that the benefit received by the group as consideration for those equity instruments will be received over the vesting period. These benefits are accounted for in profit or loss as they are received with a corresponding increase in equity. Share-based payment expenses are adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met.

(ii) Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at the measurement date using either the modified binomial option pricing or the Monte-Carlo simulation model. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

(iii) Broad-based black economic empowerment transaction

The group accounts for the transaction in accordance with IFRS 2 *Share-based Payment* and the South African Institute of Chartered Accountants Financial Reporting Guide 2 as issued by the Accounting Practices Committee and the fair value of the services rendered by employees are recorded in profit or loss as they are rendered during the service period.

In accounting for the group's share-based payment transactions, management uses estimates and assumptions to determine share-based payment expenses. Key inputs, which are necessary in determining the grant date fair value, include the volatility of the group's share price, employee turnover rate and dividend payout rates.

Note 29 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of the year.

2.2.15 Derivatives and hedge accounting (In the current year IFRS 9 has been adopted refer to note 2.4 for the policy of adoption for this standard)

Policy applicable after 1 October 2018

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are generally recognised in profit or loss. For the purpose of hedge accounting, hedges are classified as follows:

(i) Fair value hedges

Fair value hedges are designated when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment. Changes in the fair value of derivatives that are designated as hedging instruments are recognised in profit or loss immediately together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument is recognised in the same line of profit or loss as the change in the hedged item.

(ii) Cash flow hedges

Cash flow hedges are designated when hedging the exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment. In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in OCI and the ineffective portion is recognised in profit or loss.

The gains or losses recognised in OCI are transferred to profit or loss in the same period in which the hedged transaction affects profit or loss.

If the forecast transaction results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is transferred from OCI to the underlying asset or liability on the transaction date.

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.15 Derivatives and hedge accounting (In the current year IFRS 9 has been adopted, refer to note 2.4 for the policy of adoption for this standard) continued

Policy applicable after 1 October 2018 continued

(iii) Hedge of a net investment in a foreign operation

The effective portion of the gain or loss on the hedging instrument is recognised in OCI and is only reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

(iv) Discontinuance of hedge accounting

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised and when, for cash flow hedges, the designation is revoked and the forecast transaction is no longer expected to occur. Where a forecast transaction is no longer expected to occur, the cumulative gain or loss deferred in OCI is transferred to profit or loss.

The financial instruments that are used in hedging transactions are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in either the fair value or cash flows of the related underlying exposures. Hedge ineffectiveness is recognised immediately in profit or loss.

Refer to notes 30 and 31 for details of the hedging relationships as well as the impact of hedges on the pre-tax profit or loss for the period.

Policy applicable prior to 1 October 2018

The accounting policy in the comparative information presented for 2018 is similar to that applied for 2019. The only changes as a result of the application of IFRS 9 was that changes in the fair value of the forward element of forward exchange contracts is recorded as a cost of hedging reserve as a separate component of OCI, whereby under IAS 39 it was recognised immediately in profit or loss.

2.2.16 Provisions

A provision is recognised when the group has a legal or constructive obligation arising from a past event which can be reliably measured and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the effect of discounting (time value) is material, provisions are discounted and the discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The establishment and review of the provisions requires judgement by management as to whether or not there is a probable obligation and as to whether or not a reliable estimate of the amount of the obligation can be made.

Environmental accruals are recorded based on current interpretation of environmental laws and regulations.

Restructuring provisions are recognised when the group has developed a detailed formal plan for restructuring and has raised a valid expectation that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and is recorded in other operating expenses in profit or loss.

Refer to note 23 for the nature of provisions recorded.

2.2.17 Environmental restoration and decommissioning obligations

The group initially recognises a liability for management's best present value estimate of costs expected to be incurred in the dismantling and removal of non-current assets where a legal or constructive obligation exists. The liability changes over time and actual costs incurred in future periods could differ materially from estimates. Additionally, future changes to environmental laws and regulations, life-of-operation estimates and discount rates could affect the carrying amount of this liability.

Due to the uncertainty in the timing of the closure of the group's facilities, some of these obligations have an indeterminate settlement date, and the group believes that adequate information does not exist to apply an expected present value technique to estimate any such potential obligations. Accordingly, the group does not record a liability for such remediation until a decision is made that allows reasonable estimation of the timing of such remediation.

2.2.18 Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.2.19 Share capital

Share capital comprises ordinary shares and are classified as equity. Issued ordinary shares are measured at the fair value of the proceeds received less any directly attributable issue costs. An amount equal to the par value of the shares issued is presented as share capital. The amount by which the fair value exceeds par value is presented as share premium. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12. Treasury shares are excluded from equity.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

2. Accounting policies continued

2.3 Critical accounting policies and key sources of estimation uncertainty

2.3.1 Impairment of assets other than goodwill and financial instruments

The group assesses all assets other than goodwill at each balance sheet date for indications of impairment or whether an impairment reversal is required.

In assessing assets for impairment, the group estimates the asset's useful life, future cash flows, including appropriate bases for future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, the planned use of machinery or equipment or closing of facilities and the long-term growth rate. The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. Additionally, assets are also assessed against their fair value less costs of disposal.

In cases where a revision to CGUs are required, the following key considerations are taken into account: (1) revenue separation; (2) assets separation; and (3) management's monitoring and decision making in respect of assets and operations.

Where impairment exists, the losses are recognised in other operating expenses in profit or loss for the period.

A previously recognised impairment loss will be reversed through profit or loss if the recoverable amount increases as a result of a change in the estimates that were previously used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods.

2.3.2 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes, where specifically required in terms of legislative requirements or where a constructive obligation exists, the estimated cost of dismantling and removing the assets, professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy. In addition, spare parts whose expected useful lives are anticipated to be more than 12 months are treated as property, plant and equipment.

Expenditure incurred to replace a component of property, plant and equipment is capitalised to the cost of related property, plant and equipment and the part replaced is derecognised.

Depreciation, which commences when the assets are ready for their intended use, is recognised in profit or loss over their estimated useful lives to estimated residual values using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Land is not depreciated.

Management judgement and assumptions are necessary in estimating the methods of depreciation, useful lives and residual values. The residual value for the majority of items of property, plant and equipment has been deemed to be zero by management due to the underlying nature of the property, plant and equipment.

The following methods and rates are used to depreciate property, plant and equipment to estimated residual values:

Buildings	straight-line	10 to 40 years
Plant and equipment	straight-line	3 to 30 years

The group reassesses the estimated useful lives and residual values of components of property, plant and equipment on an ongoing basis. As a result, depending on economic and other circumstances, a component of property, plant and equipment could exceed the estimated useful life as indicated in the categories above.

2.3.3 Taxation

Taxation on the profit or loss for the year comprises current and deferred taxation. Taxation is recognised in profit or loss except to the extent that it relates to items recognised directly in OCI, in which case it is also recognised in OCI.

(i) Current taxation

Current taxation is the expected taxation payable on the taxable income, which is based on the results for the period after taking into account necessary adjustments, using taxation rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxation payable in respect of previous years.

The group estimates its income taxes in each of the jurisdictions in which it operates. This process involves estimating its current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes.

The various group entities are subject to examination by tax authorities. The outcome of tax audits cannot be predicted with certainty. If any matters addressed in these tax audits are resolved in a manner not consistent with management's expectations or tax positions taken in previously filed tax returns, then the provision for income tax could be required to be adjusted in the period that such resolution occurs.

2. Accounting policies continued

2.3 Critical accounting policies and key sources of estimation uncertainty continued

2.3.3 Taxation continued

(ii) Deferred taxation

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the balance sheet date. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

Before recognising a deferred tax asset, the group assesses the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent recovery is not probable, a deferred tax asset is not recognised. In recognising deferred tax assets, the group considers profit forecasts, including the effect of exchange rate fluctuations on sales, external market conditions and restructuring plans.

Refer to note 12 for the movement in unrecognised deferred tax assets.

(iii) Dividend withholding tax

Dividend withholding tax is payable on dividends distributed to certain shareholders. This tax is not attributable to the company paying the dividend but is collected by the company and paid to the tax authorities on behalf of the shareholder. On receipt of a dividend, the dividend withholding tax is recognised as part of the current tax charge in the income statement in the period in which the dividend is received.

2.3.4 Plantations

Plantations are stated at fair value less costs to sell at the harvesting stage and is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement*. The group uses the income approach in determining fair value as it believes that this method yields the most appropriate valuation.

In arriving at plantation fair values, the key inputs are market prices, costs to sell, discount rates, and volume and growth estimations. Of these key inputs, discount rates and the volume and growth estimations are key assumptions that have significant estimation and judgement.

All changes in fair value are recognised in profit or loss in the period in which they arise.

The impact that changes in market prices, costs to sell, discount rates, and volume and growth assumptions may have on the calculated fair value on plantations is disclosed in note 11.

- *Market prices and costs to sell*

  The fair value is derived by using the prices explained below less costs to sell. Costs to sell includes all costs associated with getting the harvested agricultural produce to the market, including harvesting, loading, transport and allocated fixed overheads.

  The group uses a 12 quarter rolling historical average fair value to value all immature timber and mature timber which is to be felled more than 12 months from the reporting date. In total 12 quarters is considered a reasonable period of time after taking the length of the growth cycle of the plantations into account. Expected future price trends and recent market transactions involving comparable plantations are also considered for reasonability when estimating fair value.

  Mature timber that is expected to be felled within 12 months from the end of the reporting period is valued using unadjusted current market prices less costs to sell. Such timber is expected to be used in the short term and consequently, current market prices are considered an appropriate reflection of fair value.

- *Discount rate*

  The discount rate used is the applicable real pre-tax discount rate.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

2. Accounting policies continued

2.3 Critical accounting policies and key sources of estimation uncertainty continued

2.3.4 Plantations continued

- *Volume and growth estimations*

  The group focuses on good husbandry techniques which include ensuring that the rotation of plantations is met with adequate planting activities for future harvesting. The age threshold used for quantifying immature timber is dependent on the rotation period of the specific timber genus which varies between five and 18 years. In the Southern African region, softwood less than eight years and hardwood less than five years are classified as immature timber.

  Trees are generally felled at the optimum age when ready for intended use. At the time the tree is felled, it is taken out of plantations and accounted for under inventory and reported as a depletion cost (fellings).

  Depletion costs includes harvesting (fellings) and damages. The fair value of timber felled is determined on the actual method while damages is calculated on the average method. Damages are written off against standing timber to record loss or damage caused by fire, storms, disease and stunted growth. Harvesting (fellings) depletion costs are accounted for as actual tonnes multiplied by the actual fair value. Damages depletion costs are accounted for as actual damaged tonnes multiplied by the actual 12 quarter rolling historical average price. Damaged tonnes are calculated using the projected growth to rotation age and are extrapolated to current age on a straight-line basis.

  The group has projected growth estimation over a period of five to 18 years per rotation. In deriving this estimate, the group established a long-term sample plot network which is representative of the species and sites on which trees are grown and the measured data from these permanent sample plots were used as input into the group's growth estimation. Periodic adjustments are made to existing models for new genetic material.

  Volume and growth assumptions are used in determining standing tons at valuation date.

  The associated costs for managing plantations are recognised as silviculture costs in cost of sales (refer to note 4).

2.3.5 Post-employment benefits

Defined benefit and defined contribution plans have been established for eligible employees of the group, with the assets held in separate trustee-administered funds.

The present value of the defined benefit obligations and related current service costs are calculated annually by independent actuaries using the projected unit credit method.

These actuarial models use an attribution approach that generally spread individual events over the service lives of the employees in the plan.

Estimates and assumptions used in the actuarial models include the discount rate, salary increases, healthcare cost trends, longevity and service lives of employees.

The group recognises actuarial gains or losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in OCI. Any increase in the present value of plan liabilities expected to arise due to current service costs is charged to profit or loss.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in profit or loss when the group is demonstrably committed to the curtailment or settlement. Past service costs or credits are recognised immediately.

Net interest for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, adjusted for any changes as a result of contributions and benefit payments, to the net defined benefit liability and recorded in finance costs in profit or loss.

The net liability recognised in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of the plan assets. Where the calculation results in a benefit to the group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Refer to note 28 for the key estimates, assumptions and other information on post-employment benefits.

2. Accounting policies continued

2.4 Adoption of accounting standards in the current year

The group adopted IFRS 9 (refer to 2.4.1) and IFRS 15 (refer to 2.4.2) from 1 October 2018. The following standards, interpretations, amendments and improvements to standards were also effective and adopted in the current fiscal year, all of which had no material impact on the group's reported results or financial position:

- IFRS 2 *Classification and Measurement of Share-based Payment Transactions*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- Annual Improvements 2014 – 2016 Cycle

2.4.1 IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, the entity has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2019, but have not been generally applied to comparative information.

2.4.1.1 Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the group's accounting policies related to financial liabilities and derivative financial instruments. The only adjustment was US$4 million that was reclassified from cash flow hedge reserves to retained income. (Refer to derivatives that are used as hedging instruments, see 2.4.1.3.)

The changes in classification and measurement from IAS 39 to IFRS 9 are as follows:

September 2018	**Total balance**	**Total in scope**	**Categories in accordance with IAS 39**			**Categories in accordance with IFRS 9**		
(US$ million)			Fair value through profit or loss	Loans and receivables	Available for sale	Fair value through profit or loss	Amortised cost	Fair value through OCI
Non-current assets								
Other non-current assets	88	10	–	3	7	–	3	7
	88	10	–	3	7	–	3	7
Current assets								
Trade receivables	634	634	–	634	–	–	634	–
Prepayments and other receivables	133	36	–	36	–	–	36	–
Derivative financial instruments	21	21	21	–	–	21	–	–
Cash and cash equivalents	363	363	–	363	–	–	363	–
	1,115	1,054	21	1,033	–	21	1,033	–

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

2. Accounting policies continued

2.4 Adoption of accounting standards in the current year continued

2.4.1 IFRS 9 *Financial Instruments* continued

2.4.1.2 Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The group has determined that the application of IFRS 9's impairment requirements at 1 October 2018 results in no significant increase in an impairment allowance.

2.4.1.3 Hedge accounting

The group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings, sales and capital expenditure. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity. Under IAS 39, the change in fair value of the forward element of the forward exchange contracts ('forward points') was recognised immediately in profit or loss. However, under IFRS 9 the forward points are separately accounted for as a cost of hedging; they are recognised in OCI and accumulated in a cost of hedging reserve as a separate component within equity. Under IAS 39, for all cash flow hedges the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affected profit or loss. However, under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast PPE purchases, the amounts accumulated in the cash flow hedge reserve are instead included directly in the initial cost of the PPE item when it is recognised. The same approach also applies under IFRS 9 to the amounts accumulated in the cost of hedging reserve.

2.4.2 IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control at a point in time or over time requires judgement.

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The group has reviewed the significant customer contracts, and the adoption of IFRS 15 does not have a material impact on the recognition and measurement of revenue when compared to that of the application of IAS 18.

Under IAS 18 Sappi derived revenue from contracts with customers from one revenue stream being the sale of goods. For the majority of local and regional sales, transfer occurred at the point of offloading the shipment into the customer warehouse whereas for the majority of export sales, transfer occurred when the goods have been loaded into the relevant carrier unless the contract of sale specified different terms. Revenue was measured at the fair value of the amount received or receivable and after the deduction of trade and settlement discounts, rebates and customer returns. Shipping and handling costs, such as freight to the group's customers destination, were included in cost of sales. Under IFRS 15 revenue is recognised when a customer obtains control of the goods. There has not been a material change in timing of revenue recognition with revenue being recognised at a point in time, with no deferral of revenue. As a result there has not been an impact in retained earnings on transition to IFRS 15. The application of IFRS 15 has had the effect on the group to the extent that there have been instances where revenue has been recognised prior to the shipping of the goods, where the shipping of the goods is still the responsibility of Sappi. This has created a separate performance obligation, where Sappi is acting as an agent for the fulfilment of the shipping activities. As there is no margin earned on the shipping of the goods, the net revenue recognised for the shipping is nil. This has resulted in revenue being recognised at a lower value net of the shipping costs, and operating expenses also reducing by the corresponding value as a result of the re-allocation of the shipping costs from operating costs to sales. Sappi has adopted IFRS 15 using the cumulative effect method without practical expedients applied, with the effect of initially applying this standard recognised at the date of initial application (ie 1 October 2018). Accordingly, the information presented for 2018 has not been restated. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

2. Accounting policies continued

2.5 Accounting standards, interpretations and amendments to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective and which have not yet been adopted by the group. The impact of these standards is still being evaluated by the group. The effective date denotes the fiscal year end in which it will be adopted.

- IFRS 9 *Financial Instruments* – Prepayment Features with Negative Compensation – September 2020
- IFRS 16 *Leases*

  Management have substantially completed their assessment of IFRS 16 *Leases* which it will adopt from its mandatory adoption date of 30 September 2019 being the beginning of the 2020 financial year. IFRS 16 introduces a single on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. The group intends to apply the modified retrospective transition approach and will not restate comparative amounts. The group expects to recognise right-of-use assets measured at the amount of the lease liability on adoption between the range of US$85 million and US$100 million. The group's leasing activities mainly relate to the lease of premises, vehicles and equipment.

  Sappi is planning to elect the following practical expedients as allowed by IFRS 16:
  - relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 29 September 2019
  - accounting for operating leases with a remaining lease term of less than 12 months as at the adoption date as short-term leases
  - excluding initial direct costs for the measurement of the right-of-use asset at the adoption date
  - using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

  The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

- IFRIC 23 *Uncertainty over Income Tax Treatments* – September 2020
- IAS 19 *Plan Amendment, Curtailment or Settlement* – September 2020
- IAS 28 *Long-term Interests in Associates and Joint Ventures* – September 2020
- IFRS 3 A*mendment Definition of a Business* – September 2020
- IAS 1 and 8 *Amendments to the Definition of Material* – September 2020
- Annual Improvements 2015 – 2017 Cycle – Amendments to IFRS 1 and IAS 28 – September 2020

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

3. Segment information

Reportable segments are components of an entity for which separate financial information, that is evaluated regularly by the chief operating decision maker in deciding on how to allocate resources and assess performance, is available. The group's reportable segments comprise the geographic regions of North America, Europe and Southern Africa (and which have remained unchanged from the prior year) as this is the basis on which financial information is reported to the chief operating decision maker for the purposes of deciding on how to allocate resources and assess performance.

The group's revenue is comprised mostly of the sale of dissolving wood pulp, coated paper and speciality paper in North America; coated, uncoated and speciality paper in Europe as well as dissolving wood pulp, paper pulp, and uncoated and commodity paper in Southern Africa.

The group operates a trading network called Sappi Trading for the international marketing and distribution of dissolving wood pulp and paper pulp throughout the world and of the group's other products in areas outside its core operating regions of North America, Europe and Southern Africa. The financial results and position associated with Sappi Trading are allocated to the reportable segments.

The group regards its primary measures of segment performance as EBITDA excluding special items and operating profit excluding special items.

	North America		Europe	
(US$ million)	**2019**	2018	**2019**	2018
Income statement				
Total sales	**1,516**	1,485	**3,056**	3,094
Intersegmental sales	**(50)**	(53)	**(138)**	(124)
External sales[1]	**1,466**	1,432	**2,918**	2,970
Operating profit (loss) excluding special items	**27**	49	**104**	163
Special items – (gains) losses[2]	**25**	2	**(1)**	(3)
Segment operating profit (loss)	**2**	47	**105**	166
EBITDA excluding special items[2]	**110**	126	**232**	299
Share of profit of equity investments net of tax	**–**	–	**–**	–
Depreciation and amortisation	**(83)**	(77)	**(128)**	(136)
Net asset (impairments) reversals	**(18)**	–	**–**	–
Profit (loss) on disposal and write off of property, plant and equipment	**–**	–	**(4)**	–
Fellings	**–**	–	**–**	–
Plantation fair value adjustment	**–**	–	**–**	–
Restructuring provisions (raised) released and closure costs	**–**	–	**–**	–
Balance sheet				
Capital expenditures	**65**	196	**175**	121
Net operating assets[2]	**1,135**	1,137	**1,518**	1,574
Property, plant and equipment	**923**	960	**1,098**	1,112

Reconciliation of operating profit excluding special items to operating profit (loss) by segment:

	North America 2019	North America 2018	Europe 2019	Europe 2018
Operating profit excluding special items	**27**	49	**104**	163
Special items – gains (losses)[2]	**(25)**	(2)	**1**	3
Operating profit (loss) by segment	**2**	47	**105**	166

[1] Sales of products are allocated to where the product is manufactured.
[2] Refer to the definitions below.
[3] Primarily includes the group's treasury operations, its self-insurance captive and the delivery cost revenue adjustment (refer to note 2.4.2).

***EBITDA excluding special items –** earnings before interest (net finance costs), taxation, depreciation, amortisation and special items.*
***Net operating assets –** total assets (excluding deferred tax assets and cash) less current liabilities (excluding interest-bearing borrowings and overdraft).*
***Special items –** special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash.*

	Southern Africa		Unallocated and eliminations[3]		Group	
	2019	2018	**2019**	2018	**2019**	2018
	1,422	1,404	**(60)**	–	**5,934**	5,983
	–	–	**–**	–	**(188)**	(177)
	1,422	1,404	**(60)**	–	**5,746**	5,806
	267	270	**4**	(2)	**402**	480
	(16)	(25)	**11**	17	**19**	(9)
	283	295	**(7)**	(19)	**383**	489
	339	337	**6**	–	**687**	762
	4	4	**–**	(1)	**4**	3
	(72)	(67)	**(2)**	(2)	**(285)**	(282)
	–	3	**8**	–	**(10)**	3
	(7)	4	**–**	–	**(11)**	4
	(71)	(66)	**–**	–	**(71)**	(66)
	92	96	**–**	–	**92**	96
	–	–	**–**	(1)	**–**	(1)
	246	261	**1**	1	**487**	579
	1,430	1,392	**8**	38	**4,091**	4,141
	1,032	930	**8**	8	**3,061**	3,010
	267	270	**4**	(2)	**402**	480
	16	25	**(11)**	(17)	**(19)**	9
	283	295	**(7)**	(19)	**383**	489

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

3. Segment information continued

Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to profit (loss) for the period:

	Group		North America	
(US$ million)	**2019**	2018	**2019**	2018
EBITDA excluding special items(2)	**687**	762	**110**	126
Depreciation and amortisation	**(285)**	(282)	**(83)**	(77)
Operating profit excluding special items	**402**	480	**27**	49
Special items – gains (losses)(2)	**(19)**	9	**(25)**	(2)
Plantation price fair value adjustment	**19**	27		
Acquisition costs	**(2)**	(2)		
Net restructuring provisions	**–**	(1)		
Profit (loss) on disposal and write off of property, plant and equipment	**(11)**	4		
PPE impairments	**(18)**	–		
PPE impairment reversals	**8**	3		
Black Economic Empowerment charge	**–**	(1)		
Fire, flood, storm and other events	**(15)**	(21)		
Segment operating profit (loss)	**383**	489	**2**	47
Net finance costs	**(85)**	(68)		
Profit before taxation	**298**	421		
Taxation charge	**(87)**	(98)		
Profit for the year	**211**	323		
Reconciliation of segment assets to total assets:				
Net operating assets(2)	**4,091**	4,141		
Deferred tax assets	**106**	106		
Cash and cash equivalents	**393**	363		
Trade and other payables	**969**	1,009		
Provisions	**6**	6		
Derivative financial instruments (included in current liabilities)	**7**	6		
Taxation payable	**51**	39		
Total assets	**5,623**	5,670		

In addition to regularly reviewing separate financial information by reportable segment, the chief operating decision maker also reviews certain financial information by major product category which is shown below:

Sales		
Dissolving wood pulp	**1,095**	1,043
Packaging and specialities	**1,249**	1,087
Graphics(4)	**3,382**	3,600
Forestry	**80**	76
Delivery cost adjustment(3)	**(60)**	–
Total	**5,746**	5,806
Operating profit excluding special items		
Dissolving wood pulp	**245**	251
Packaging and specialities	**52**	78
Graphics(4)	**101**	153
Unallocated and eliminations(3)	**4**	(2)
Total	**402**	480
EBITDA excluding special items		
Dissolving wood pulp	**304**	306
Packaging and specialities	**126**	138
Graphics(4)	**251**	318
Unallocated and eliminations(3)	**6**	–
Total	**687**	762

(2) Refer to the definitions below.
(3) Primarily includes the group's treasury operations, its self-insurance captive and the delivery cost revenue adjustment (refer to note 2.4.2).
(4) Graphics was previously referred to as printing and writing papers.

EBITDA excluding special items – *earnings before interest (net finance costs), taxation, depreciation, amortisation and special items.*
Net operating assets – *total assets (excluding deferred tax assets and cash) less current liabilities (excluding interest-bearing borrowings and overdraft).*
Special items – *special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash.*

Europe		Southern Africa		Unallocated and eliminations[3]	
2019	2018	**2019**	2018	**2019**	2018
232	299	**339**	337	**6**	–
(128)	(136)	**(72)**	(67)	**(2)**	(2)
104	163	**267**	270	**4**	(2)
1	3	**16**	25	**(11)**	(17)
105	166	**283**	295	**(7)**	(19)

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

4. Operating profit

Operating profit has been arrived at after charging (crediting):

(US$ million)	2019 Cost of sales	2019 Selling, general and administrative expenses	2018 Cost of sales	2018 Selling, general and administrative expenses
Raw materials, energy and other direct input costs	**3,097**	**–**	3,030	–
Wood (includes growth and felling adjustments)[1]	**697**	**–**	666	–
Energy	**417**	**–**	411	–
Chemicals	**811**	**–**	851	–
Pulp	**1,048**	**–**	1,001	–
Other variable costs	**124**	**–**	101	–
Plantation price fair value changes	**(19)**	**–**	(27)	–
Employment costs	**850**	**165**	858	185
Depreciation	**268**	**9**	261	12
Delivery charges	**435**	**–**	490	–
Maintenance	**235**	**–**	236	–
Other overheads	**103**	**–**	80	–
Marketing and selling expenses	**–**	**80**	–	85
Administrative and general expenses	**–**	**114**	–	114
	4,969	**368**	4,928	396

(US$ million)	2019	2018
Silviculture costs (included within cost of sales)	**67**	65
Leasing charges for premises	**16**	14
Leasing charges for plant and equipment	**16**	15
Auditor's remuneration	**5**	4
Research and development costs	**42**	42
Amortisation	**8**	9
Cost on derecognition of loans and receivables[2]	**15**	15
Impairment of property, plant and equipment	**18**	–
Impairment reversal of property, plant and equipment and investments	**(8)**	(3)
Allowance for credit losses	**16**	16
Restructuring provisions and closure costs raised (reversed)	**–**	1
(Profit) loss on disposal and write-off of property, plant and equipment	**11**	(4)
Release of contingent consideration	**(7)**	(6)
Black Economic Empowerment (BEE) charge	**–**	1
Employment costs consist of	**1 015**	1 043
Wages and salaries	**911**	952
Defined contribution plan expense	**40**	39
Defined benefit pension plan expense	**19**	10
Other defined benefit plan expense	**3**	3
Share-based payment expense	**12**	11
Other	**30**	28
[1] Changes in plantation volumes		
Fellings	**71**	66
Growth	**(73)**	(69)

[2] The cost on derecognition of trade receivables relates to the derecognition of trade receivables related to the securitisation programme in South Africa and to the sale of letters of credit in Hong Kong.

(US$ million)	2019	2018
5. Net finance costs		
Interest and other finance costs on liabilities carried at amortised cost	**95**	89
Interest on redeemable bonds and other loans	**86**	89
Premium and costs on early redemption of redeemable bonds and other loans	**9**	–
Net interest on employee benefit liabilities	**5**	5
Interest capitalised to property, plant and equipment	**(2)**	(2)
Finance costs	**98**	92
Finance income received on assets carried at amortised cost	**(9)**	(18)
Interest income on bank accounts	**(6)**	(14)
Interest income on other loans and investments	**(3)**	(4)
Net foreign exchange gains	**(4)**	(6)
	85	68

(US$ million)	2019	2018
6. Taxation charge		
Current taxation		
Current year	**65**	70
Prior year	**(2)**	2
Other company taxes	**8**	2
Deferred taxation		
Current year	**16**	14
Prior year	**–**	(3)
Attributable to tax rate changes	**–**	13
	87	98
Reconciliation of the tax rate		
Profit before taxation	**298**	421
Profit-making regions	**319**	421
Loss-making regions	**(21)**	–
Taxation at the average statutory tax rate	**78**	113
Profit-making regions at 26% (2018: 27%)	**83**	113
Loss-making regions at 23% (2018: N/A)	**(5)**	–
Non-taxable income[(1)]	**(12)**	(18)
Non-deductible expenditure[(2)]	**10**	21
Effect of tax rate changes[(3)]	**–**	13
No tax relief on losses	**20**	5
No tax charge on profits	**–**	(10)
Derecognition of deferred tax assets	**(1)**	17
Recognition of deferred tax assets	**(14)**	(44)
Prior year adjustments	**(2)**	(1)
Other taxes[(4)]	**8**	2
Taxation charge	**87**	98
Effective tax rate for the year	**29%**	23%

In addition to income taxation charges to profit or loss, a taxation relief of US$11 million (2018: US$28 million charge) has been recognised directly in other comprehensive income (refer to note 12).

[(1)] *This includes income in foreign jurisdictions, notional interest deductions and dividends received.*
[(2)] *This includes mainly provisions for uncertain tax positions and non-deductible interest.*
[(3)] *The effect of tax rate changes relates primarily to the reduction of the federal corporate income tax rate in the USA where the rate changed from 35% in 2017 to 21% in 2018.*
[(4)] *This includes mainly Controlled Foreign Company taxes in South Africa.*

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

7. Earnings per share

Basic earnings per share (EPS)

EPS is based on the group's profit for the year divided by the weighted average number of shares in issue during the year under review.

	2019 Profit US$ million	2019 Shares million	2019 Earnings per share US cents	2018 Profit US$ million	2018 Shares million	2018 Earnings per share US cents
Basic EPS calculation	**211**	**542,0**	**39**	323	538,1	60
Share options and performance shares under Sappi Limited Share Trust	**–**	**4,3**	**–**	–	11,9	–
Diluted EPS calculation	**211**	**546,3**	**39**	323	550,0	59

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR65.20 (2018: ZAR87.95). In the current and prior financial year, all share options that could potentially dilute EPS in the future are included in the calculation above.

Headline earnings per share[(1)]

Headline earnings per share is based on the group's headline earnings divided by the weighted average number of shares in issue during the year.

Reconciliation between attributable earnings to ordinary shareholders and headline earnings:

(US$ million)	2019 Gross	2019 Tax	2019 Net	2018 Gross	2018 Tax	2018 Net
Attributable earnings to ordinary shareholders	**298**	**87**	**211**	421	98	323
Impairments of property, plant and equipment	**18**	**(4)**	**14**	3	–	3
Profit on disposal of equity investments	**–**	**–**	**–**	(3)	–	(3)
Profit on disposal and write-off of property, plant and equipment	**11**	**(2)**	**9**	(4)	1	(3)
Property, plant and equipment impairment reversals	**(8)**	**2**	**(6)**	(3)	–	(3)
Headline earnings	**319**	**91**	**228**	414	97	317
Weighted average number of ordinary shares in issue (millions)			**542.0**			538.1
Headline earnings per share (US cents)			**42**			59
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**546.3**			550.0
Diluted headline earnings per share (US cents)			**42**			58

(1) ***Headline earnings –*** *As defined in Circular 4/2018, issued by the South African Institute of Chartered Accountants in March 2018, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share.*

7. Earnings per share continued

EPS excluding special items

EPS excluding special items is based on the group's earnings adjusted for special items (as disclosed in note 3) and certain once-off finance and tax items, divided by the weighted average number of shares in issue during the year.

	2019			2018		
(US$ million)	**Gross**	**Tax**	**Net**	Gross	Tax	Net
Attributable earnings to ordinary shareholders	**298**	**87**	**211**	421	98	323
Special items	**19**	**(3)**	**16**	(9)	(7)	(2)
Refinancing costs	**9**	**–**	**9**	–	–	–
Tax special items	**–**	**–**	**–**	–	(3)	3
Earnings excluding special items	**326**	**84**	**236**	412	88	324
Weighted average number of ordinary shares in issue (millions)			**542.0**			538.1
EPS excluding special items (US cents)			**44**			60
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**546.3**			550.0
Diluted EPS excluding special items (US cents)			**43**			59

8. Dividends

No dividends were declared for the current year (2018: US17 cents per share).

9. Acquisition of subsidiary

In the prior year the group acquired the speciality paper business of Cham Paper Group Holding AG (CPG) for CHF132 million (US$139 million). The fair value of the net assets acquired was US$136 million, with goodwill arising on the acquisition of US$3 million. The net cash outflow on acquisition was US$132 million.

At the end of the current year the group was still finalising the purchase of the Matane mill in Quebec, Canada, which was concluded subsequent to year end. Refer to note 33.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

	(US$ million)	2019	2018
10.	**Property, plant and equipment**		
	Land and buildings[1]		
	At cost	**1,348**	1,403
	Accumulated depreciation and impairments	**(851)**	(863)
		497	540
	Plant and equipment[2]		
	At cost	**7,685**	7,674
	Accumulated depreciation and impairments	**(5,121)**	(5,204)
		2,564	2,470
	Aggregate cost	**9,033**	9,077
	Aggregate accumulated depreciation and impairments	**(5,972)**	(6,067)
	Aggregate book value[3]	**3,061**	3,010

The movement of property, plant and equipment is reconciled as follows:

(US$ million)	Land and buildings	Plant and equipment	Total
Net book value at September 2017	525	2,156	**2,681**
Additions	22	557	**579**
Acquisition	38	60	**98**
Finance costs capitalised	–	2	**2**
Disposals	(2)	(6)	**(8)**
Depreciation	(32)	(241)	**(273)**
Translation differences	(11)	(58)	**(69)**
Net book value at September 2018	540	2,470	**3,010**
Additions	19	468	**487**
Finance costs capitalised	–	2	**2**
Disposals	(5)	(7)	**(12)**
Depreciation	(32)	(245)	**(277)**
Impairments[4]	(4)	(14)	**(18)**
Impairment reversals[4]	–	8	**8**
Transfers between categories	4	(4)	**–**
Translation differences	(25)	(114)	**(139)**
Net book value at September 2019	497	2,564	**3,061**

(1) Details of land and buildings are available at the registered offices of the respective companies that own the assets.
(2) Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.
(3) Includes an amount of US$287 million (2018: US$285 million) which relates to assets under construction.
(4) The impairment reversal of US$8 million relates to the Tugela and Stanger mills within the South African segment and the PPE impairment of US$18 million relates to the Westbrook CGU in the North American segment which was necessitated due to a decline in demand for release paper products and the related impact on profitability. A pre-tax discount rate of 10% and a terminal growth rate of 2.6% were used. These amounts are recorded in other operating expenses.

Following the completion of a capital expenditure project in Europe during the year, management revised its CGU composition for the European segment. Impairment assessments were performed by management for each of the revised CGUs which resulted in no impairment losses.

	(US$ million)	2019	2018
11.	**Plantations**		
	Fair value of plantations at beginning of year	**466**	458
	Additions	**2**	–
	Gains arising from growth	**73**	69
	Fire, flood, storms and related events	**(4)**	–
	In-field inventory	**(3)**	1
	Gain arising from fair value price changes	**19**	27
	Harvesting – agriculture produce (fellings)	**(71)**	(66)
	Translation differences	**(31)**	(23)
	Fair value of plantations at end of year	**451**	466

Sappi manages the establishment, maintenance and harvesting of its plantations on a compartmentalised basis. These plantations are comprised of pulpwood and sawlogs and are managed to ensure that the optimum fibre balance is supplied to its paper and pulping operations in Southern Africa.

The group manages its plantations on a rotational basis. As such, increases by means of growth are negated by fellings, for the group's own use or for external sales, over the rotation period.

The group manages plantations on land that the group owns, as well as on land that the group leases. The group discloses both of these as directly managed plantations. With regard to indirectly managed plantations, the group has several different types of agreements with many independent farmers. The terms of the agreements depend on the type and specific needs of the farmer as well as the areas planted and range in duration from one to more than twenty years. In certain circumstances, the group provides loans to farmers that are disclosed as other non-current assets on the group balance sheet (these loans are considered, individually and in aggregate, immaterial to the group). If the group provides seedlings, silviculture and/or technical assistance, the costs are expensed when incurred by the group.

The group is exposed to financial risks arising from climatic changes, disease and other natural risks such as fire, flooding and storms as well as human-induced losses arising from strikes, civil commotion and malicious damage. These risks are covered by an appropriate level of insurance as determined by management. The plantations have an integrated management system that complies with Forest Stewardship Council™ standards.

Plantations are stated at fair value less costs to sell at the harvesting stage and is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement* which is consistent with the prior year.

The fair value of plantations has been calculated using a real pre-tax discount rate of 12.35% (2018: 11.04%). The group currently values approximately 28 million tons of timber (2018: 28 million tons) using selling prices and delivery costs that are benchmarked against industry norms. The average annual growth is measured at approximately 18 tons (2018: 16 tons) of timber per hectare while immature timber comprise approximately 107,000 hectares (2018: 107,000 hectares) of plantations. As changes to estimated prices, the discount rate, costs to sell and volume and growth assumptions applied in the valuation of immature timber may impact the calculated fair value, the group has calculated the sensitivity of a change in each of these assumptions as tabled below:

(US$ million)	2019	2018
Market price changes		
1% increase in market prices	**2**	2
1% decrease in market prices	**(2)**	(2)
Discount rate (for immature timber)		
1% increase in rate	**(2)**	(3)
1% decrease in rate	**2**	3
Volume assumption		
1% increase in estimate of volume	**4**	4
1% decrease in estimate of volume	**(4)**	(4)
Costs to sell		
1% increase in costs to sell	**(2)**	(2)
1% decrease in costs to sell	**2**	2
Growth assumptions		
1% increase in rate of growth	**1**	1
1% decrease in rate of growth	**(1)**	(1)

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

	(US$ million)	2019 Assets	2019 Liabilities	2018 Assets	2018 Liabilities
12.	**Deferred tax**				
	Other liabilities, accruals and prepayments	**(39)**	**(133)**	(51)	(117)
	Inventory	**9**	**2**	7	2
	United States of America (USA) tax credits carry forward	**4**	**–**	12	–
	Tax losses	**110**	**3**	113	12
	Property, plant and equipment	**(26)**	**(208)**	(19)	(222)
	Plantations	**–**	**5**	–	(14)
	Other non-current assets	**(6)**	**(2)**	5	(2)
	Other non-current liabilities	**54**	**5**	39	6
		106	**(328)**	106	(335)

Negative asset and liability positions

These balances reflect the impact of tax assets and liabilities arising in different tax jurisdictions, which cannot be netted against tax assets and liabilities arising in other tax jurisdictions.

Deferred tax assets recognised on the balance sheet

The recognised deferred tax assets relate mostly to available unused tax losses. It is probable that there will be sufficient future taxable profits against which these losses can be recovered. In the estimation of future taxable profits, future product pricing and production capacity utilisation are taken into account.

Unrecognised deferred tax assets

Deferred tax assets arising from unused tax losses and unused tax credits are not recognised for carry forward when it cannot be demonstrated that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

(US$ million)	2019	2018
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	**12**	21
Tax losses	**525**	579
	537	600
Attributable to the following tax jurisdictions:		
Austria	**414**	457
Belgium	**49**	57
Finland	**34**	39
The Netherlands	**40**	47
	537	600
Expiry between one and five years	**41**	54
Expiry after five years	**18**	24
Indefinite life	**478**	522
	537	600

(US$ million)	2019	2018
12. Deferred tax continued		
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	**600**	711
No tax relief on losses	**16**	2
No tax charge on profits	**–**	(46)
Derecognition of deferred tax assets	**(1)**	17
Recognition of deferred tax assets	**(14)**	(44)
Expiry of tax losses	**(15)**	–
Prior year adjustments	**(7)**	(10)
Rate adjustments	**(8)**	(20)
Movement in foreign exchange rates	**(34)**	(10)
Balance at end of year	**537**	600
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**106**	123
Deferred tax liabilities	**(335)**	(295)
	(229)	(172)
Deferred tax charge for the year	**(16)**	(24)
Other liabilities, accruals and prepayments	**(21)**	(12)
Inventory	**2**	(3)
USA tax credits carry forward	**1**	(4)
Tax losses	**2**	(27)
Property, plant and equipment	**(7)**	35
Plantations	**20**	17
Other non-current assets	**(20)**	(22)
Other non-current liabilities	**7**	(8)
Amounts recorded directly in other comprehensive income	**11**	(28)
Acquisition of subsidiary	**–**	(18)
Reclassification of deferred tax to receivables[1]	**(8)**	–
Translation differences	**20**	13
Deferred tax balances at end of year	**(222)**	(229)
Deferred tax assets	**106**	106
Deferred tax liabilities	**(328)**	(335)

[1] *This relates to a reclassification of alternative minimum taxes to receivables*

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

13. Goodwill and intangible assets

(US$ million)	Goodwill	Brands	Customer relationship	Customer technology	Other[(1)]	Total
	2019					
Net carrying amount at beginning of year	**8**	**9**	**32**	**9**	**5**	**63**
Additions	**–**	**–**	**–**	**–**	**10**	**10**
Acquisitions	**–**	**–**	**–**	**–**	**–**	**–**
Amortisation	**–**	**(1)**	**(3)**	**(2)**	**(2)**	**(8)**
Utilisation	**–**	**–**	**–**	**–**	**(8)**	**(8)**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**
Translation differences	**(1)**	**(1)**	**–**	**–**	**(1)**	**(3)**
Net carrying amount	**7**	**7**	**29**	**7**	**4**	**54**
Cost (gross carrying amount)	**7**	**29**	**34**	**11**	**19**	**100**
Accumulated amortisation and impairments	**–**	**(22)**	**(5)**	**(4)**	**(15)**	**(46)**
Net carrying amount	**7**	**7**	**29**	**7**	**4**	**54**

Goodwill is attributable to the cash generating units of specialities of US$4 million (2018: US$4 million) and coated woodfree of US$3 million (2018: US$4 million) in Sappi Europe. The goodwill has been assessed for impairment by comparing the carrying amount against the recoverable amount.

[(1)] *Included in other intangible assets is licence fees, trademarks and carbon certificates.*

(US$ million)	2019	2018
14. Equity accounted investees		
Group's share of carrying amount of equity accounted investees		
Umkomaas Lignin Proprietary Limited	**10**	11
Other equity accounted investees	**21**	22
	31	33

Dividends received from equity accounted investees for the 2019 financial year were US$3 million (2018: US$6 million).

Umkomaas Lignin Proprietary Limited

A 50% joint venture agreement with Borregaard AS for the construction and operation of a lignin plant at Umkomaas, South Africa and the development, production and sale of products based on lignosulphonate in order to build a sustainable lignin business. The financial statements of Umkomaas Lignin Proprietary Limited are to 31 December of each year which is the year-end of Borregaard AS. The unaudited management accounts which are prepared in accordance with IFRS are used to account for the joint venture's income to Sappi's year-end.

	2018					
	Goodwill	Brands	Customer relationship	Customer technology	Other	Total
	7	13	7	6	6	39
	–	–	–	–	–	–
	3	–	27	5	7	42
	–	(3)	(2)	2	(2)	(9)
	–	–	–	–	(4)	(4)
	–	–	–	–	–	–
	(2)	(1)	–	–	(2)	(5)
	8	9	32	9	5	63
	8	31	34	11	10	94
	–	(22)	(2)	(2)	(5)	(31)
	8	9	32	9	5	63

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

14. Equity accounted investees continued

Summarised financial information of Umkomaas Lignin Proprietary Limited:

(US$ million)	2019	2018
Current assets	**17**	19
Non-current assets	**16**	18
Current liabilities	**(7)**	(7)
Non-current liabilities	**(5)**	(7)
The above assets and liabilities include the following:		
Cash and cash equivalents	**3**	5
Current financial liabilities (excluding trade and other payables and provisions)	**(4)**	(7)
Non-current financial liabilities (excluding trade and other payables and provisions)	**(3)**	(7)

(US$ million)	2019	2018
Sales	**44**	49
Depreciation and amortisation	**2**	2
Taxation charge	**2**	2
Profit from continuing operations	**6**	7
Total comprehensive income	**6**	7

Reconciliation of the financial information to the carrying amount of the joint venture:

(US$ million)	2019	2018
Net assets of the joint venture	**21**	23
Proportion of the group's ownership interest	**50%**	50%
Carrying amount of the joint venture	**10**	11

Details of other equity accounted investees

The group has entered into various joint venture agreements primarily for the purchase of wood and wood chips for the common benefit of the venturers. The financial year-end of each of these joint ventures is 31 December which is a common date for entities operating in the joint ventures countries of incorporation and which is also the year-end of the other venturers.

Aggregate financial information for joint ventures that are not individually material:

(US$ million)	2019	2018
Profit (loss) from continuing operations	**1**	(1)
Other comprehensive income	**–**	–
Total comprehensive income (loss)	**1**	(1)

(US$ million)	2019	2018
Carrying amount of these other equity accounted investees	**21**	22

(US$ million)	2019	2018
15. Other non-current assets		
Investment funds	**7**	7
Defined benefit pension plan assets (refer to note 28)	**58**	68
Advances to tree growers	**3**	3
Ngodwana energy loan	**8**	5
Other non-financial assets	**7**	2
Financial assets at amortised cost	**3**	3
	86	88

(US$ million)	2019	2018
16. Inventories		
Raw materials	**168**	173
Work in progress	**60**	65
Finished goods	**327**	355
Consumable stores and spares	**154**	148
	709	741

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US$6 million (2018: US$2 million). There were no reversals of any inventory write-downs for the periods presented.

The cost of inventories recognised as an expense and included in cost of sales amounted to US$4,538 million (2018: US$4,432 million).

(US$ million)	2019	2018
17. Trade and other receivables		
Trade receivable, gross	**605**	649
Allowance for credit losses	**(15)**	(15)
Trade accounts receivable, net	**590**	634
Prepayments and other receivables	**128**	133
	718	767

Management rates the quality of trade and other receivables periodically against its internal credit rating parameters. The quality of these trade and other receivables is such that management believes no additional allowance for expected credit losses, other than as provided, is necessary. No significant risk has been identified within the trade receivables not past due but not impaired. Due to the short maturities of trade and other receivables, the carrying amount of these trade and other receivables approximate their fair values.

Prepayments and other receivables primarily represent prepaid insurance, prepaid taxes and other sundry receivables.

Trade receivables (including securitised trade receivables) represent 12.5% (2018: 12.4%) of turnover.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

	(US$ million)	2019	2018
17.	**Trade and other receivables** continued		
17.1	**Reconciliation of the allowance for credit losses**		
	Balance at beginning of year	**15**	10
	Raised during the year	**16**	16
	Released during the year	**(14)**	(7)
	Utilised during the year	**(2)**	(3)
	Translation differences	**–**	(1)
	Balance at end of year	**15**	15

The allowance for credit losses has been determined by reference to specific customer delinquencies incorporating future expected losses.

17.2 Analysis of amounts past due

September 2019

The following provides an analysis of the amounts that are past the contractual maturity dates:

(US$ million)	Not impaired	Impaired	Total
Less than seven days overdue	**11**	**–**	**11**
Between seven and 30 days overdue	**10**	**–**	**10**
Between 30 and 60 days overdue	**3**	**–**	**3**
More than 60 days overdue	**3**	**15**	**18**
	27	**15**	**42**

September 2018

The following provides an analysis of the amounts that are past the contractual maturity dates:

(US$ million)	Not impaired	Impaired	Total
Less than seven days overdue	10	–	10
Between seven and 30 days overdue	15	–	15
Between 30 and 60 days overdue	3	–	3
More than 60 days overdue	4	15	19
	32	15	47

All amounts which are due but beyond their contractual repayment terms are reported to divisional management on a regular basis. Any allowance for credit losses is required to be approved in line with the group's limits of authority framework.

17.3 Trade receivables securitisation

The group operates on- and off-balance sheet trade receivables securitisation programmes in order to improve working capital and to utilise the cost effectiveness of such structures.

On-balance sheet structure

The group operates an on-balance sheet securitisation programme with UniCredit Bank AG which ends in January 2022. This programme has a limit of US$416 million (€380 million). The trade receivables sold in terms of this programme are disclosed on the group balance sheet together with a corresponding liability.

At financial year-end, trade receivables with a value of US$429 million (2018: US$438 million) have been pledged as collateral for amounts received as funding under the programme of US$366 million (2018: US$376 million). The group is restricted from selling or repledging the trade receivables that have been pledged as collateral for this liability. For more detail on this programme, refer to note 21.

17. Trade and other receivables continued

17.3 Trade receivables securitisation continued

Off-balance sheet structures

Southern African securitisation facility

Sappi sells the majority of its ZAR receivables to Rand Merchant Bank Limited, a division of FirstRand Bank Limited. In terms of the agreement, Sappi is required to maintain a credit insurance policy with a reputable insurance provider and, while the company does not guarantee the recoverability of any amounts, it carries 15% of the credit risk (and Rand Merchant Bank Limited the remainder) of each underlying receivable, after all recoveries, including insurance recoveries. As a result, no additional liability has been recognised as this would be insignificant to the financial statements.

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 securitisation facility were to be terminated, the group would discontinue further sales of trade receivables and would not incur any losses in respect of receivables previously sold in excess of the 15% mentioned above. There are a number of events which may trigger termination of the facility, among 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 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 is entered into.

The total amount of trade receivables sold at the end of September 2019 amounted to US$114 million (2018: US$71 million).

Details of the securitisation programme at the end of the 2019 and 2018 financial years are disclosed in the table below:

Bank	Currency	Value	Facility[1]	Discount charges
2019				
Rand Merchant Bank Limited	**ZAR**	**ZAR1,723 million**	**Unlimited**	**Linked to 3-month JIBAR**
2018				
Rand Merchant Bank Limited	ZAR	ZAR1,004 million	Unlimited	Linked to 3-month JIBAR

[1] *The securitisation facility is unlimited, but subject to the sale of qualifying receivables to the bank.*

Letters of credit discounting

At the end of each financial month and on a non-recourse basis, the group sells certain Letters of Credit to Citibank (Hong Kong) and KBC Bank (Hong Kong) and, similarly, discounts certain trade receivables with Union Bancaire Privee (Switzerland), Erste Bank Austria (Erste), HSBC (Mexico), Bancolombia and Citibank (New York) by utilising the customers' credit facilities with the discounting bank.

The total charge related to this discounting amounted to US$8 million (2018: US$7 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

17. Trade and other receivables continued

17.4 Concentration of credit risk

A significant portion of the group's sales and trade receivables are from a small number of customers. None of the group's significant customers represented more than 10% of sales and trade receivables during the years ended September 2019 and September 2018.

Where appropriate, credit insurance has been taken out over the group's trade receivables.

None of the group's other receivables represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers worldwide.

At balance sheet date, the carrying amount of US$718 million (2018: US$767 million) represents the group's maximum credit risk exposure from trade and other receivables.

The group has the following net trade receivable amounts from single customers:

	2019			2018		
Threshold	**Number of customers**	**US$ million**	**Percentage**	Number of customers	US$ million	Percentage
Greater than US$10 million	**6**	**107**	**18%**	6	103	16%
Between US$5 million and US$10 million	**8**	**55**	**9%**	9	63	10%
Less than US$5 million	**2,735**	**428**	**73%**	2,497	468	74%
	2,749	**590**	**100%**	2,512	634	100%

Refer to note 31 for further details on credit risk.

	2019		2018	
	Number of shares	**US$ million**	Number of shares	US$ million
18. Ordinary share capital and share premium				
Authorised share capital:				
Ordinary shares of ZAR1 each	**725,000,000**		725,000,000	
'A' ordinary shares of ZAR1 each[1]	**19,961,476**		19,961,476	
Issued share capital:				
Fully paid ordinary shares of ZAR1 each	**548,053,463**	**36**	557,202,573	39
Fully paid 'A' ordinary shares of ZAR1 each[1]	**–**	**–**	19,961,476	2
Treasury shares[2]	**(5,278,023)**	**–**	(37,909,932)	(3)
Share premium	**–**	**766**	–	820
	542,775,440	**802**	539,254,117	858
The movement in ordinary share capital and share premium is reconciled as follows:				
Opening balance		**858**		894
Transfers from Sappi Limited Share Incentive Trust		**1**		1
Translation movements		**(57)**		(37)
Closing balance		**802**		858

(1) Sappi repurchased the full 19,961,476 'A' ordinary shares in August 2019 at par value upon their vesting date. The 'A' ordinary shares were unlisted but ranked pari passu with the ordinary shares in all respects except for dividend entitlements where the 'A' ordinary shares were entitled to 50% of the dividends payable on the ordinary shares. The 'A' ordinary shares had the same voting rights as ordinary shares but were not listed on the JSE Limited.

(2) Includes 5,278,023 ordinary shares (2018: 17,948,456) as well as nil (2018: 19,961,476) 'A' ordinary shares that are held by group entities including The Sappi Limited Performance Share Incentive Trust and the trusts set up to house the Broad-based Black Economic Empowerment transaction. These shares may be utilised to meet the requirements of the trusts.

18. Ordinary share capital and share premium continued

The movement in the number of treasury shares is set out in the table below:

Number of shares	2019	2018
Ordinary treasury shares:		
Opening balance	**17,948,456**	22,182,378
Repurchase and delisting of treasury shares from wholly owned subsidiary	**(9,149,110)**	–
Treasury shares issued to participants	**(3,521,323)**	(4,233,922)
– Scheme shares (refer to note 29)	**(424,291)**	(583,804)
– Plan shares (refer to note 29)	**(3,097,032)**	(3,650,118)
Closing balance	**5,278,023**	17,948,456
'A' ordinary treasury shares:		
'A' ordinary shares issued to the Broad-based Black Economic Empowerment trusts	**–**	19,961,476
	5,278,023	37,909,932

Included in the issued and unissued share capital of 725,000,000 shares, is a total of 42,700,870 shares which may be used to meet the requirements of The Sappi Limited Share Incentive Trust (the 'Scheme') and/or The Sappi Limited Performance Share Incentive Trust (the 'Plan'). In terms of the rules of the Scheme and the Plan, the maximum number of shares which may be acquired in aggregate by the Scheme and/or the Plan, and allocated to participants of the Scheme and/or the Plan, is 42,700,870 shares subject to adjustment of Sappi's issued share capital arising from any conversion, redemption, consolidation, sub-division and/or any rights or capitalisation issue of shares. Sappi is, at all times, obliged to reserve and keep available such number of shares (together with any treasury shares held by Sappi subsidiaries which may be used for the purposes of the Scheme and/or the Plan) as shall then be required in terms of the Scheme and/or the Plan out of its authorised but unissued share capital. Authority to use treasury shares for the purposes of the Scheme and/or the Plan was granted by shareholders at the Annual General Meeting held on 07 March 2005.

Capital risk management

The capital structure of the group consists of:

- issued share capital and share premium and accumulated profits disclosed above and in the statement of changes in equity respectively
- debt, which includes interest-bearing borrowings as disclosed in note 21, and
- cash and cash equivalents.

The objectives of the group in managing capital are:

- to safeguard the group's ability to continue as a going concern, to be flexible and to take advantage of opportunities that are expected to provide an adequate return to shareholders
- to ensure sufficient resilience against economic turmoil
- to maximise returns to stakeholders by optimising the weighted average cost of capital, given inherent constraints, and
- to ensure appropriate access to equity and debt.

The group monitors its gearing through a ratio of net debt (interest-bearing borrowings and overdrafts less cash and cash equivalents) to total capitalisation (shareholders' equity plus net debt).

The group has entered into a number of debt facilities which contain certain terms and conditions in respect of capital management.

During the 2019 and 2018 financial years, the group was in compliance with the financial covenants relating to the loans payable.

The group manages its capital and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the current period.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

(US$ million)	2019	2018
19. Other comprehensive income (loss)		
Item that will not be reclassified subsequently to profit or loss		
Actuarial gains (losses) on post-employment benefit funds	**(49)**	–
Gross amount	**(59)**	28
Tax on above	**10**	(9)
Tax rate change[1]	**–**	(19)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**(67)**	(61)
Translation of foreign operations	**(61)**	(58)
Exchange differences arising on non-distributable reserves	**(8)**	(4)
Exchange differences arising on hedging reserves	**2**	1
Tax	**–**	–
Fair value adjustment on financial instruments at FVOCI	**–**	(1)
Gross amount	**–**	(1)
Tax	**–**	–
Hedging reserves	**(11)**	5
Gains (losses) during the year	**2**	(2)
Reclassified to profit or loss	**1**	2
Reclassified to property, plant and equipment	**(13)**	8
Adoption of IFRS 9	**(4)**	–
Tax	**3**	(3)
Other comprehensive income (loss) recorded directly in equity	**(127)**	(57)
Profit for the year	**211**	323
Total comprehensive income for the year	**84**	266

[1] *The effect of tax rate changes relates primarily to the reduction of the federal corporate income tax rate in the USA where the rate changed from 35% in 2017 to 21% in 2018.*

(US$ million)	2019 Legal reserves[1]	2019 Share-based payment reserve	2019 Other	2019 Total	2018 Legal reserves[1]	2018 Share-based payment reserve	2018 Other	2018 Total
20. Non-distributable reserves								
Opening balance	**59**	**72**	**2**	**133**	60	61	2	123
Transfer to retained earnings	**(34)**	**–**	**–**	**(34)**	–	–	–	–
Transfers of vested share options	**–**	**(2)**	**–**	**(2)**	–	(1)	–	(1)
Share-based payment expense	**–**	**10**	**–**	**10**	–	11	–	11
Other movements	**–**	**–**	**–**	**–**	–	4	–	4
Translation differences	**(2)**	**(5)**	**(1)**	**(8)**	(1)	(3)	–	(4)
	23	**75**	**1**	**99**	59	72	2	133

[1] *Represents equity of the group that is not available for distribution to shareholders other than on liquidation. This is a legal requirement in certain countries which require a percentage of profit (loss) for the year to be transferred to a legal reserve until a certain threshold is reached. This threshold varies from country to country.*

(US$ million)	2019	2018
21. Interest-bearing borrowings		
Secured borrowings[1]	**366**	376
Total secured borrowings	**366**	376
Unsecured borrowings	**1,528**	1,539
Total borrowings (refer to note 31)	**1,894**	1,915
Less: Current portion included in current liabilities	**(181)**	(97)
Total non-current interest-bearing borrowings	**1,713**	1,818
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2019	**–**	97
2020	**181**	504[2]
2021	**42**	46
2022	**386[2]**	538
2023	**398**	443
2024 (September 2018: Thereafter)	**184**	287
Thereafter	**703**	–
	1,894	1,915

[1] *Consists of pledge over securitised trade receivables (refer to note 25 for details of encumbered assets).*
[2] *Includes securitisation debt.*

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

21. Interest-bearing borrowings continued

Set out below are details of the more significant interest-bearing borrowings in the group at September 2019:

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry[8]	Financial covenants
Redeemable bonds							
Public bond	EUR	Fixed	€450 million	€443 million[3][4][5]	Unsecured	April 2023	No financial covenants
Public bond	EUR	Fixed	€350 million	€346 million[3][4][5]	Unsecured	April 2023	No financial covenants
Public bond	US$	Fixed	US$221 million	US$218 million[4][5][6]	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed	ZAR745 million	ZAR745 million[4]	Unsecured	April 2020	No financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€216 million	€216 million	Trade receivables (securitisation programme)	January 2022	EBITDA to net interest and net debt to EBITDA[7]
UniCredit Bank	US$	Variable	US$130 million	US$130 million	Trade receivables (securitisation programme)	January 2022	EBITDA to net interest and net debt to EBITDA[7]
Unsecured bank term loans							
Österreichische Kontrollbank (OeKB)	EUR	Variable	€58 million	€58 million		December 2019	No financial covenants
Österreichische Kontrollbank	EUR	Fixed	€41 million	€41 million[4][2]		June 2021	EBITDA to net interest and net debt to EBITDA[7]
Österreichische Kontrollbank	EUR	Fixed	€150 million	€149 million[4][2]		March 2024	EBITDA to net interest and net debt to EBITDA[7]
GroCapital Financial Services	ZAR	Variable	€400 million	€400 million		May 2020	No financial covenants
Nedbank	ZAR	Variable	ZAR1,500 million	ZAR1,498 million[4]		May 2024	No financial covenants

(1) The nature of the rates for the group bonds are explained in note 31.
(2) The OeKB provides the funding for this facility but the majority of the credit risk is guaranteed by some of Sappi's relationship banks.
(3) Under the relevant indenture, certain limitations exist including dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations. In case of a change of control, holders have a right to require the relevant issuer to repurchase all or any part of their bonds at a purchase price of 101% of the principal amount of bonds.
(4) The principal value of the loans/bonds corresponds to the amount of the facility; however, the balance sheet value has been adjusted by the discounts and capitalised transaction costs paid upfront.
(5) Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time redeem any public bonds (the 'securities'), in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus a premium, as defined in the bond indentures, together with interest calculated on the principal amount of the securities to be redeemed up to the date of redemption.
(6) Under the relevant indenture, limitations exist on liens, sale and leaseback transactions and mergers and consolidations. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH group.
(7) Financial covenants relate to the Sappi Limited group.
(8) The expiry date reflects the final repayment date of the borrowings. Certain borrowings have separate instalment payments prior to the expiry date which is reflected in the repayment profile of the borrowings.

The majority of the non-Southern African long-term debt is guaranteed by Sappi Limited.

		Local currency million	US$ million
21.	**Interest-bearing borrowings** continued		
	The analysis of the currency per debt is:		
	US Dollar	348	**348**
	Euro	1,254	**1,371**
	ZAR	2,642	**175**
			1,894

A detailed analysis of total interest-bearing borrowings has been disclosed in note 31.

Other restrictions

As is the norm for bank loan debt, a portion of the group's financial indebtedness is subject to cross default provisions above certain de minimis amounts. Breaches in bank covenants in Sappi Southern Africa, if not corrected in time, might result in a default in group debt, and in this case, a portion of the group's consolidated liabilities might eventually become payable on demand.

During the 2019 and 2018 financial years, the group was in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institutions before such breach occurs.

Borrowing facilities secured by trade receivables

The on-balance sheet securitisation programme with UniCredit Bank AG has a limit of US$416 million (€380 million) and, to the extent utilised, is disclosed on the balance sheet together with a corresponding trade receivable. The interest arising on this programme is recorded within finance costs.

In terms of the programme, the securitisation sellers being Sappi Papier Holding GbmH on behalf of Europe and Trading, and Sappi NA Finance LLC (a special purpose entity) on behalf of North America, sell certain eligible trade receivables to Elektra Purchase N° 29 DAC (Elektra) a securitisation special purpose entity, that is consolidated by the Sappi group. Elektra has a commissioning agreement with Arabella Finance Limited (Arabella), an entity belonging to UniCredit Bank AG that issues commercial paper to fund the purchase of the trade receivables (alternative funding resources are available should the market for commercial paper be disrupted). The funding is settled in US Dollar and Euro.

As at September 2019, a funding reserve, that is reset on a monthly basis, amounted to 14.40% (2018: 13.89%).

The cost of the programme includes a variable component based on Euribor/Libor (floor 0%), a fixed margin and a commitment fee computed on the difference between US$383 million (€350 million) and the used portion of the programme limit.

The trade receivables are legally transferred; however, these receivables do not qualify for derecognition under IFRS 9 as most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi.

Further detail of the value of trade receivables pledged as security for this programme is included in notes 17 and 25.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

21. Interest-bearing borrowings continued

Unutilised facilities

The group monitors its availability of funds on a daily basis. The group treasury committee monitors the amount of unutilised facilities to assess the headroom available. The net cash balances included in current assets and current liabilities are included in the determination of the headroom available.

(US$ million)	Currency	Interest rate	2019	2018
Unutilised committed facilities				
Syndicated loan/revolving credit facility[1]	EUR/ZAR	Variable (EURIBOR/JIBAR)	**640**	680
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**50**	8
			690	688
Unutilised uncommitted facilities				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (ZAR bank prime rate)	**38**	19
Cash management overdraft facility	USD	Variable (LIBOR)	**20**	20
			58	39
Total unutilised facilities (committed and uncommitted) excluding cash			**748**	727

[1] *Two syndicated loans with a consortium of banks with revolving facilities available of €525 million (2018: €525 million) and ZAR1,000 million (2018: ZAR1,000 million). Both facilities were unutilised as at financial year-end. The €525 million facility matures in February 2023, is subject to financial covenants relating to the Sappi Limited group and is unsecured. The ZAR1,000 million facility is an evergreen facility with a 15 month notice period and is subject to financial covenants relating to the financial position of Sappi Southern Africa Limited. The group has paid a total combined commitment fee of US$3.6 million (2018: US$4.5 million) in respect of the two facilities.*

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 31.

(US$ million)	2019	2018
22. Other non-current liabilities		
Long-term employee benefits	**6**	4
Workmen's compensation	**13**	14
Long service awards	**20**	19
Land restoration obligation	**15**	14
Restructuring provisions	**2**	3
Deferred income	**1**	7
Other	**5**	7
	62	68

(US$ million)	2019	2018
23. Trade and other payables and provisions		
Trade payables	**596**	637
Employee-related liabilities	**111**	139
Capital expenditure accruals	**37**	26
Accrued interest	**28**	9
Rebates	**73**	73
Value added tax	**31**	35
Other payables	**93**	90
Trade and other payables	**969**	1,009
Provisions	**6**	6

Details of restructuring provisions are provided below:

(US$ million)	Severance, retrenchment and related costs
Balance at September 2017	13
Increase in provisions	4
Utilised	(5)
Released during the year	(3)
Balance at September 2018	9
Utilised	(3)
Balance at September 2019	**6**

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

(US$ million)	2019	2018
24. Notes to the group statement of cash flows		
24.1 Cash generated from operations		
Profit for the year	**211**	323
Adjustment for:		
Depreciation	**277**	273
Fellings	**71**	66
Amortisation	**8**	9
Taxation charge	**87**	98
Net finance costs	**85**	68
Impairments (reversals) of property, plant and equipment and investments	**10**	(3)
Restructuring provisions and closure costs raised	**–**	1
Fair value adjustment gains and growth on plantations	**(92)**	(96)
Defined post-employment benefits paid	**(41)**	(45)
(Profit) loss on disposal and written off assets	**11**	(4)
Share-based payment charges	**12**	13
Other non-cash items	**34**	6
	673	709

Other non-cash items for the 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 the contingent consideration of US$7 million (2018: US$6 million).

(US$ million)	2019	2018
24.2 Decrease (increase) in working capital		
(Increase) decrease in inventories	**4**	(92)
Decrease (increase) in receivables	**34**	(87)
(Decrease) increase in payables	**(53)**	100
	(15)	(79)
24.3 Finance costs paid		
Interest and other finance costs on liabilities carried at amortised cost	**(89)**	(92)
Premium and costs on early redemption of redeemable bonds and other loans	**(9)**	–
Net foreign exchange gains	**4**	6
Accrued interest and non-cash items	**43**	2
	(51)	(84)
24.4 Taxation paid		
Net amounts payable at beginning of year	**(27)**	(25)
Taxation charge to profit or loss	**(71)**	(74)
Translation and other	**7**	(1)
Less: Net amounts payable at end of year	**40**	27
	(51)	(73)
24.5 Proceeds on disposal of property, plant and equipment		
Book value of non-current assets disposed of	**12**	8
Gain (loss) on disposal	**(9)**	3
	3	11

24.6 Reconciliation of liabilities arising from financing activities

(US$ million)	2018	Cash flows	Transfers between long-term and short-term	Acquisition	Foreign exchange move-ments	Other changes	2019
Long-term borrowings	1,818	100	(123)	–	(93)	11	**1,713**
Short-term borrowings[1]	113	(44)	123	–	(11)	–	**181**
Total	1,931	56	–	–	(104)	11	**1,894**
	2017						2018
Long-term borrowings	1 739	124	(25)	7	(30)	3	1 818
Short-term borrowings[1]	133	(56)	25	6	5	–	113
Total	1 872	68	–	13	(25)	3	1 931

[1] *Includes overdraft.*

(US$ million)	2019	2018
25. Encumbered assets		
The carrying value of trade receivables which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third-party ownership in terms of capitalised leases or suspensive sale agreements, are as follows:		
Trade receivables	**429**	438

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of US$416 million (EUR380 million), of which, US$366 million (EUR335 million) was utilised at financial year-end (refer to notes 17 and 21).

(US$ million)	2019	2018
26. Commitments		
Capital commitments		
Contracted but not provided	**194**	293
Approved but not contracted	**167**	381
	361	674
The above figures exclude the post-balance sheet acquisition (refer to note 33).		
Future forecast cash flows of capital commitments in the year ended:		
2019	**–**	432
2020	**347**	208
2021	**6**	24
2022	**–**	2
2023	**–**	–
2024 (2018: Thereafter)	**–**	8
Thereafter	**8**	–
	361	674
These projects are expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group.		
Lease commitments		
Future undiscounted minimum operating lease obligations payable in the year ended September:		
2019	**–**	26
2020	**28**	18
2021	**24**	14
2022	**17**	8
2023	**14**	6
2024 (2018: Thereafter)	**11**	19
Thereafter	**16**	–
	110	91

The group enters into a number of leases, mainly relating to premises, vehicles and equipment. Lease terms range between 3 to 10 years and may be renegotiated on expiry.

27. Contingent liabilities

Contingent liabilities mainly relate to environmental and taxation queries in respect of certain group companies.

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these lawsuits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that the possibility of a material outflow of resources in connection with these lawsuits and administrative proceedings is considered to be remote.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

28. Post-employment benefits

Summary of results

	Defined contribution plans[1]		Defined benefit pension plans		Post-employment healthcare subsidy	
(US$ million)	**2019**	2018	**2019**	2018	**2019**	2018
Post-employment plan costs recognised in profit or loss	**40**	39	**19**	11	**7**	7
Employer contributions paid during the financial year	**40**	39	**32**	37	**4**	3
Amounts presented in the group balance sheet are as follows:						
Net pension/healthcare subsidy liabilities (refer to balance sheet)			**253**	232	**103**	97
Net pension assets (refer to note 15)[2]			**(58)**	(68)	**–**	–
Net balance sheet liabilities			**195**	164	**103**	97
Movement in the balance sheet for the pension/healthcare subsidy						
Net pension/healthcare subsidy liabilities at beginning of year			**(164)**	(203)	**(97)**	(106)
Acquisitions			**–**	(5)	**–**	–
Net pension/healthcare subsidy costs for the year			**(19)**	(11)	**(7)**	(7)
Employer contributions			**32**	37	**4**	3
Net actuarial gains for the year			**(54)**	16	**(5)**	12
Translation differences			**10**	2	**2**	1
Net pension/healthcare liabilities at end of year			**(195)**	(164)	**(103)**	(97)

[1] *Defined contribution plans: Employer contributions paid is the amount charged to profit or loss.*
[2] *Defined benefit plans in South Africa, United Kingdom and certain defined benefit plans in North America.*

Actuarial valuations of all plans are performed annually with the exception of our South African and United Kingdom defined benefit pension plans where actuarial reviews are performed annually and formal actuarial funding valuations are performed tri-annually.

28. Post-employment benefits continued

Defined contribution plans

The group operates defined contribution plans of various sizes for all qualifying employees in most regions throughout the group. The assets of the plans are held separately from those of the group in funds under the control of trustees or administered by insurance companies. The group also participates in various local industry (multi-employer) plans, open to eligible employees often as a voluntary alternative to company sponsored plans. There are no obligations on the group other than to pay contributions according to the rules of each plan.

The total cost charged to the income statement of US$40 million (2018: US$39 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans. Expected contributions to be paid in the next financial year is US$40 million.

In addition to company-sponsored plans across the group, employees commonly participate in local state plans wherever they exist. State plans exist in most regions to provide such benefits as disability, unemployment income protection, basic state pension, top-ups thereon, and spousal benefits. Eligibility and participation is generally mandatory to local tax payers, usually on residence-based criteria in accordance with domestic laws. State benefits vary widely in value and accrual formulae from country to country. Contributions are normally paid with domestic taxation or as supplemental national insurance contributions (or the like), at rates set by domestic governments. Participation in state plans involves no obligations on group companies other than to pay contributions according to the rates specified by domestic governments. Costs, where incurred, are included in employee costs reported in note 4 and are excluded from the figures reported in this note.

Defined benefit pension/lump sum plans

The group operates several principal defined benefit pension and/or lump sum plans in all regions plus a number of smaller plans. The extent of employee access to these plans vary. Plans open to new entrants or future accrual cover all qualifying employees. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country.

With the exception of our German, Austrian and Italian plans, which are unfunded, the assets of our funded plans are held in separate trustee-administered funds which are subject to varying statutory requirements in the particular countries concerned. Generally, the trusts are required by local legislation as well as their respective articles of associations to act in the interests of the fund and its stakeholders (i.e. members and the various local sponsoring companies across the group). The pension funds comprise management and member-appointed trustees, including (in some instances) an independent trustee, who collectively are responsible for the administration and governance of the trusts.

Benefits are formula-driven, comprising a variety of earnings definitions (such as final average salary or career average revalued earnings) and years of service. Exceptions include certain plans in Germany and Austria that provide fixed value Euro benefits and certain plans in North America that provide benefits based on years of service and a '$ multiplier' (a nominal US Dollar value which increases from time to time only by collective bargaining agreement). The table below briefly illustrates the nature of defined benefits and their link with earnings.

Type of benefit revaluation rate/pensionable salary definition	Location of scheme
Final average salary	South Africa, Austria, Germany
Career average revalued earnings	Belgium, The Netherlands
Frozen benefit	United Kingdom, North America (salaried plan), Italy
Fixed EUR-value	Germany, Austria
Nominal USD-value (periodically revalued)	North America (works plans)
Old age accounts with minimum guarantees	Switzerland

Plans remain open to new hires except for plans in North America, South Africa, Austria and some in Germany. Plans in the United Kingdom and one in North America are closed to future accrual.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

28. Post-employment benefits continued

Investment management and strategic asset allocation

Plan fiduciaries are responsible for investment policies (including ESG) and strategies for local trusts. Long-term strategic investment objectives includes preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment in each region. Plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Plan fiduciaries also make use of fiduciary managers, multi-asset manager mandates and 'flight path' assessment tools to assist with strategic asset allocation. Such reviews include asset-liability modelling studies with varying degrees of complexity according to the needs of each plan, analysing risk-and-return profiles in order to help set investment and contribution policies for our plans.

The main strategic asset allocation choices that are formulated in the actuarial and technical policies of our plans across the group are shown below. Local regulations impose minimum funding targets which significantly influence the strategic asset allocation of individual plans.

- **South Africa:** Asset mix based on 20% equity instruments, 55% debt instruments, 20% multi-asset and other instruments, 5% cash
- **Europe including United Kingdom (UK)[1]:** Asset mix based on 42% equity and real estate instruments, 38% debt instruments, 20% multi-asset and other instruments
- **North America:** Asset mix based on 26% equity instruments, 60% debt instruments, 12% multi-asset and other instruments, 2% cash

(1) Weighted average of plans in this region.

Exposure to risks

The major risks faced by the group as a result of the defined benefit obligation can be summarised as follows:

- **Inflation**: The risk that future inflation indices (including medical aid inflation) is higher than expected and uncontrolled,
- **Future changes in legislation**: The risk that changes to legislation with respect to the post-employment liability may increase the liability for the group,
- **Future changes in the tax environment**: The risk that changes in the tax legislation governing employee benefits may increase the liability for the group,
- **Longevity**: The risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected, and
- **Administration**: Administration of this liability poses a burden to the group.

Since the pension liabilities are adjusted to respective local consumer price indices, the plans are exposed to local inflation, interest rate risks and changes in life expectancies of members.

- **Assets**: As the plan assets include significant investments in quoted equity shares, property and high yield bonds in various markets around the globe, the group is exposed to equity, property, high yield bond market risk and for non-domestic holdings, currency risk. Debt instruments typically comprise investment grade corporate and government debt (nominal coupon and index-linked coupon) in markets around the globe, primarily held to match, fully or partially, counter-movements in plan liabilities. The group is also exposed to losses from the effects of credit grade re-ratings on debt instruments across the globe. Changes in tax status of dividends and coupons will also affect investment income.

Funding policy

The group's subsidiaries fund the entire cost of the entitlements expected to be earned on an annual basis, with the exception of plans where employees contribute a fixed percentage of pensionable salary (or equivalent definition). The funding requirements are based on local actuarial measurement frameworks. For prefunded plans, contributions are determined on a current salary base or fixed nominal amounts and, for unfunded plans, contributions are paid to meet ongoing pension payroll. Additional liabilities stemming from past service due to salary increases are paid immediately to the plans as part of the overall agreed contribution rate to restore individual plan deficits where these occur.

Apart from paying the costs of the entitlements, the group's subsidiaries are, to various extents, liable to pay additional contributions in cases where the plans do not hold sufficient assets. These are normally resolved as voluntary payment agreements with plan fiduciaries but could evolve into enforcement actions by local regulators, reducing accrued entitlements, or a charge over company assets.

Expected company contributions for our defined benefit pension/lump sum plans across group subsidiaries over the next financial year are US$28 million.

Post-employment healthcare subsidy

The group sponsors two defined benefit post-employment plans that provide certain healthcare and life insurance benefits to eligible retired employees of the North American and South African operations. Employees are generally eligible for benefits upon retirement and on completion of a specified number of years of service, or joining the company prior to a certain date.

Our healthcare subsidy plan in South Africa is partially funded with assets held in a local cell-captive. Our subsidy plan in North America is wholly unfunded.

Expected company contributions to fund these subsidies over the next financial year are US$7 million.

28. **Post-employment benefits** continued

Other employee benefits

Group companies have no significant post-employment defined benefit obligations other than the following:

(US$ million)	**2019**	2018
Jubilee (long service award) in continental Europe	**20**	19
Early retirement (temporary pension) benefit in Belgium	**6**	4
ATZ (early retirement – temporary salary supplement) obligations in Germany and Austria	**9**	10
Workmen's compensation benefit obligations in North America	**13**	14

These (unfunded) liabilities are reported under other long-term liabilities and other payables.

	Defined benefit pension plans		Post-employment healthcare subsidy	
(US$ million)	**2019**	2018	**2019**	2018
Components of defined benefit cost recognised in profit or loss				
Current service cost	**16**	18	**3**	3
Past service cost (credit)	**2**	(9)	**–**	–
Interest on net defined benefit	**–**	1	**4**	4
Fund administration costs	**2**	2	**–**	–
Non-routine settlement gain	**(1)**	(1)	**–**	–
Net amount recognised in profit or loss	**19**	11	**7**	7
Charge attributed to operating cost	**19**	10	**3**	3
Charge attributed to finance cost	**–**	1	**4**	4
Components of defined benefit cost recognised in OCI				
Actuarial gains (losses) arising from membership experience	**(6)**	(6)	**1**	8
Actuarial gains (losses) arising from changes in demographic assumptions	**7**	5	**–**	(2)
Actuarial gains (losses) arising from changes in financial assumptions	**(147)**	50	**(6)**	7
Return on plan assets (excluding amounts included in interest income)	**92**	(33)	**–**	(1)
Gain (loss) recognised in other comprehensive income	**(54)**	16	**(5)**	12

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

28. Post-employment benefits continued

(US$ million)	Defined benefit pension plans 2019	2018	Post-employment healthcare subsidy 2019	2018
Movement in the present value of the defined benefit obligation in the current year				
Defined benefit obligation at beginning of year	**1,327**	1,334	**104**	114
Current service cost	**16**	18	**3**	3
Past service cost (credit)	**2**	(9)	**–**	–
Interest expense	**47**	46	**5**	5
Plan participants' contributions	**2**	2	**–**	–
Remeasurements	**146**	(49)	**5**	(13)
– Membership experience changes	**6**	6	**(1)**	(8)
– Demographic assumption changes	**(7)**	(5)	**–**	2
– Financial assumption changes	**147**	(50)	**6**	(7)
Acquisition[1]	**–**	78	**–**	–
Non-routine plan settlements	**(9)**	(1)	**–**	–
Benefits paid	**(79)**	(77)	**(4)**	(4)
Translation difference	**(37)**	(15)	**(3)**	(1)
Defined benefit obligation at end of year	**1,415**	1,327	**110**	104
– Present value of wholly unfunded obligation	**183**	176	**84**	77
– Present value of wholly or partially funded obligation	**1,232**	1,151	**26**	27
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	**1,163**	1,131	**7**	8
Interest income	**47**	45	**1**	1
Employer contributions	**32**	37	**4**	3
Plan participants' contributions	**2**	2	**–**	–
Remeasurements				
– Return (loss) on plan assets net of interest income	**92**	(33)	**–**	(1)
Acquisition[1]	**–**	73	**–**	–
Non-routine plan settlements	**(8)**	–	**–**	–
Benefits paid	**(79)**	(77)	**(4)**	(4)
Fund administration costs	**(2)**	(2)	**–**	–
Translation difference	**(27)**	(13)	**(1)**	–
Fair value of plan assets at end of year	**1,220**	1,163	**7**	7
Net balance sheet defined benefit liability	**195**	164	**103**	97

[1] *Acquisition: Refers to assets and liabilities acquired with Cham.*

28. Post-employment benefits continued

The major categories of plan assets at fair value are presented as follows:

(US$ million)	Funded pension plans 2019	Funded pension plans 2018	Funded subsidy plans 2019	Funded subsidy plans 2018
Investments quoted in active markets				
– Equity and high yield investments	**191**	232	**–**	–
– Investment grade debt instruments	**197**	215	**–**	–
– Property investment funds	**16**	16	**–**	–
Unquoted investments				
– Equity and high yield investments[1]	**789**	680	**6**	6
Cash	**27**	20	**1**	1
	1,220	1,163	**7**	7

[1] *Funded plans consist of commingled funds that are not quoted in active markets. However, the underlying securities held by these funds are quoted in active markets or the prices of these underlying securities are determined by other observable market data. Funded subsidy plans included here, consist of with-profit annuities where distributable income is subject to the discretion of the insurer's investment returns.*

Total investment return on plan assets	**139**	12	**1**	–

As at financial year-end, there were no investments in the group's own quoted equity instruments.

The fair values of the various equity and debt instruments are determined based on quoted market prices in active markets, whereas the fair values of certain property and derivatives are not based on quoted market prices in active markets. Plans generally buy and hold bonds as a hedge against interest rate and inflation rate risk.

The principal assumptions used in determining pension and post-employment medical aid subsidies for the group's plans (weighted average per region) are shown below:

	2019			2018		
	North America	**Europe (incl UK)**	**Southern Africa**	North America	Europe (incl UK)	Southern Africa
Discount rate – pension (%)	**2.88**	**0.90**	**9.09**	4.02	1.70	9.69
Discount rate – post-employment healthcare subsidy (%)	**2.76**	**n/a**	**10.44**	3.93	n/a	10.00
Future salary increase rate – pension (%)	**–**	**0.90**	**6.19**	–	1.00	7.09
Cost of living adjustment for pensions in payment (%)[1]	**–**	**1.50**	**4.15**	–	1.80	4.87
Healthcare cost trend rate (%)[2]	**7.60 – >4.5**	**n/a**	**7.58**	8.00 – >4.50	n/a	7.75
Sample rate average life expectancy from retirement (years)[3]						
– For current beneficiaries	**25.40**	**24.30**	**19.20**	25.40	24.40	19.20
– For future retiring beneficiaries	**27.10**	**26.10**	**20.20**	27.10	26.20	20.20

[1] *Weighted average for plans granting cost of living adjustment whether fixed or variable.*
[2] *North America: Initial rate – > long term rate trend over 8 years (2018: 9 years).*
[3] *Based on local mortality tables in use (with modifications to reflect expected changes in mortality over time) for males at age 60.*

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

28. Post-employment benefits continued

A quantitative sensitivity analysis for significant assumptions as at financial year-end is disclosed below:

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, expected salary increase, cost of living adjustments to pensions in payment, healthcare cost trends and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, whilst holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by US$170 million (increase by US$207 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$26 million (decrease by US$22 million).
- If the post-retirement pension increase (cost of living adjustment) rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$38 million (decrease by US$32 million).
- If the expected healthcare cost trend rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$6 million (decrease by US$5 million).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by US$51 million (decrease by US$48 million).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the sensitivity analysis above, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognised in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The average duration of the defined benefit plan obligations at the end of the reporting period (per region) is as follows:

	Pension plans	Healthcare subsidy
North America	12 years	10 years
Europe (including UK)	12 years	n/a
Southern Africa	8 years	14 years

Regional split of results

(US$ million)	**2019 North America**	**2019 Europe (including UK)**	**2019 Southern Africa**	2018 North America	2018 Europe (including UK)	2018 Southern Africa
Defined benefit obligation (pension)	**(757)**	**(551)**	**(107)**	(665)	(547)	(115)
Defined benefit obligation (healthcare)	**(84)**	**n/a**	**(26)**	(77)	n/a	(27)
Fair value of plan assets (pension)	**752**	**353**	**115**	675	355	133
Fair value of plan assets (healthcare)	**–**	**n/a**	**7**	–	n/a	7
Net defined benefit liability	**(89)**	**(198)**	**(11)**	(67)	(192)	(2)
Reconciliation of the regional balance sheets						
Net defined benefit liability at beginning of year	**(67)**	**(192)**	**(2)**	(102)	(206)	(1)
Defined benefit cost recognised in profit or loss (pension)	**(8)**	**(8)**	**(3)**	(9)	2	(4)
Defined benefit cost recognised in profit or loss (healthcare)	**(5)**	**n/a**	**(2)**	(4)	n/a	(3)
Balance sheet take-on of Cham acquisition plans	**–**	**–**	**–**	–	(5)	–
Net gain (loss) recognised in OCI (pension)	**(16)**	**(28)**	**(10)**	18	(2)	–
Net gain (loss) recognised in OCI (healthcare)	**(5)**	**n/a**	**–**	12	n/a	–
Company contributions paid during the year	**12**	**19**	**5**	18	17	5
Translation differences	**–**	**11**	**1**	–	2	1
Net defined benefit liability at end of year	**(89)**	**(198)**	**(11)**	(67)	(192)	(2)

29. Share-based payments

The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust

Shareholders, at prior annual general meetings, fixed the aggregate number of shares which may be acquired by all participants under The Sappi Limited Share Incentive Trust (the Scheme) and The Sappi Limited Performance Share Incentive Trust (the Plan) at 42,700,870 shares.

The Sappi Limited Share Incentive Trust (the Scheme)

Under the rules of the Scheme, participants (a) may be offered options to acquire ordinary shares (share options) and (b) may be offered the opportunity to acquire ordinary shares (scheme shares).

Under the rules of the Scheme:

- Share options entitle the participant to purchase one ordinary share per share option, and
- Scheme shares entitle the participant to enter into a loan with the Scheme to acquire Sappi Limited shares at a specific issue price.

The scheme shares are registered in the participant's name and pledged to the Scheme as security for the loan. Upon payment of the loan, the scheme shares become unsecured Sappi Limited shares owned by the participant.

The amount payable by a participant is the closing price at which shares are traded on the JSE Limited on the trading date immediately preceding the date upon which the board authorised the grant of the opportunity to acquire relevant share options or scheme shares, as the case may be.

The share options and scheme shares vest in blocks of 25% per annum on the anniversary date of the offer and expire eight years after the offer date. Only once the options vest, may share options be exercised by the participants and may scheme shares be released from the Scheme to participants.

The Scheme rules provide that appropriate adjustments are to be made to the rights of participants in the event that the company, *inter alia*, undertakes a rights offer, a capitalisation issue, or consolidation of ordinary shares or any reduction in its ordinary share capital.

The Sappi Limited Performance Share Incentive Trust (the Plan)

Under the rules of the Plan, participants may be awarded conditional contracts to acquire ordinary shares for no cash consideration. The conditional contracts are subject to performance criteria being met or exceeded after the fourth anniversary date. Should the performance criteria not be met, the number of shares allotted are adjusted downwards from 100% to 75%, or 50%, or none depending on the degree of not meeting the criteria. The performance criteria, which entails a benchmarking of the company's performance against an appropriate peer group of companies, is set by the board at the offer date for each conditional share award.

The Plan rules provide that appropriate adjustments are made to the rights of participants in the event that the company, *inter alia*, undertakes:

- a rights offer, or
- is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital.

The Plan rules also provide that if:

- the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself, or
- the persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action, the effect of which is to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action;

then the company is obliged to notify every participant thereof that such participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the performance criteria been achieved.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

29. Share-based payments continued

Movements in share options and performance shares for the financial years ended September 2019 and September 2018 are as follows:

	Performance shares[(1)]	Share options	Weighted average share option exercise price (ZAR)	Total shares
Outstanding at September 2017	13,484,755	1,425,789	28.99	**14,910,544**
– Offered	2,755,650	–	–	**2,755,650**
– Paid for/vested	(3,650,118)	(583,804)	31.63	**(4,233,922)**
– Returned, lapsed and forfeited	(280,117)	(126,350)	32.95	**(406,467)**
Outstanding at September 2018	12,310,170	715,635	26.67	**13,025,805**
– Offered	3,088,150	–	–	**3,088,150**
– Paid for/vested	(3,097,032)	(424,291)	28.07	**(3,521,323)**
– Returned, lapsed and forfeited	(256,198)	(56,898)	31.95	**(313,096)**
Outstanding at September 2019	12,045,090	234,446	22.90	**12,279,536**
Exercisable at September 2017	–	1,425,789	28.99	
Exercisable at September 2018	–	715,635	26.67	
Exercisable at September 2019	–	234,446	22.90	

(1) Performance shares are issued in terms of the Plan and are for no cash consideration. The value is determined on the day the shares vest.

The following table sets out the number of share options and performance shares outstanding:

	2019	2018	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
03 December 2010	**–**	214,200	Time	Vested	03 December 2018	35.20
02 December 2011	**234,446**	501,435	Time	Vested	02 December 2019	22.90
Performance shares:						
04 December 2014	**–**	3,130,645	Performance	04 December 2018	n/a	Rnil
07 December 2015	**3,487,930**	3,548,110	Performance	07 December 2019	n/a	Rnil
09 December 2016	**2,831,414**	2,889,604	Performance	09 December 2020	n/a	Rnil
04 December 2017	**2,671,378**	2,741,811	Performance	04 December 2021	n/a	Rnil
19 November 2018	**3,054,368**	–	Performance	19 November 2022	n/a	Rnil
	12,279,536	13,025,805				

29. Share-based payments continued

The following assumptions have been utilised to determine the fair value of the shares granted in the financial period in terms of the Plan:

	Issue 44	Issue 44
Date of grant	19 November 2018	19 November 2018
Type of award	Performance	Performance
Share price at grant date	ZAR 82.49	ZAR 82.49
Vesting period	4 years	4 years
Vesting conditions	Market-related – relative to peers	Cash flow return on net assets relative to peers
Life of options	n/a	n/a
Market-related vesting conditions	Yes	No
Percentage expected to vest	68.5%	80.0%
Number of shares offered	1,544,075	1,544,075
Volatility	30%	n/a
Risk-free discount rate	7.8% (ZAR yield)	n/a
Expected dividend yield	2.5%	n/a
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR 61.79	ZAR 59.46

Volatility has been determined with reference to the historic volatility of the Sappi share price over the expected period.

Refer to note 36 for more information on directors' and prescribed officers' participation in the Scheme and the Plan.

No new loans have been granted to the executive directors since 28 March 2002.

Broad-based Black Economic Empowerment

Sappi's BBBEE transaction vested in August 2019 with the "A" ordinary shares vesting at Rnil value as the 30-day volume-weighted average share price of R46.91 was below the share price hurdle rate of R72.18. As a result Sappi Limited repurchased and cancelled all the 19,961,476 "A" ordinary shares from the BBBEE trusts at par value. The 1,280,597 ordinary shares held within the ESOP trust for certain Sappi employees vested at R42.70 per share.

The group incurred a share-based payment expense of US$1 million (2018: US$1 million) during the 2019 financial year that related to the 'A' ordinary shares that were awarded.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

(US$ million)		2019	2018
30. Derivative financial instruments			
Hedging instrument	**Hedged item**		
Current assets			
Pulp swaps	Raw materials	**–**	4
Forward exchange contracts	Various	**3**	17
		3	21
Non-current liabilities			
Interest rate currency swap	ZAR1,500 million unsecured loan	**2**	–
		2	–
Current liabilities			
Forward exchange contracts	Various	**1**	2
Pulp swaps	Raw materials	**2**	–
FX zero cost collar	Highly probable forecast sales	**4**	4
		7	6

Refer to note 31 for more detail on financial instruments.

31. Financial instruments

The group's financial instruments consist mainly of cash and cash equivalents, trade receivables, certain investments, trade payables, borrowings and derivative instruments.

Introduction

The group's main financial risk management objectives are to identify, measure and manage, through financial instruments, the following principal risks to which the group is exposed to:

(a) Market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:
- Interest rate risk
- Currency risk, and
- Commodity price risk

(b) Liquidity risk, and
(c) Credit risk.

Sappi's Group Treasury is primarily responsible for managing the group's interest rate, foreign currency, liquidity and credit risk (in so far as it relates to deposits of cash, cash equivalents and financial investments).

Credit risk, in so far as it relates to trade receivables, is primarily managed regionally but is coordinated on a group basis, whilst commodity price risk is managed regionally within the overall commodity group policy.

The group's Limits of Authority framework delegates responsibility and approval authority to various officers, committees and boards based on the nature, duration and size of the various transactions entered into by, and exposures of, the group including the exposures and transactions relating to those financial instruments and risks referred to in this note.

31. Financial instruments continued

(a) Market risk

Interest rate risk

Interest rate risk is the risk that the value of a borrowing or an investment will change due to a change in the absolute level of interest rates, the spread between two rates, the shape of the yield curve or any other interest rate relationship.

The group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The group monitors market conditions and may utilise approved interest rate derivatives to alter the existing balance between fixed and variable interest rate loans in response to changes in the interest rate environment. Hedging of interest rate risk for periods greater than one year is only allowed if income statement volatility can be minimised by means of hedge accounting, fair value accounting or other means. The group's exposure to interest rate risk is set out below.

Interest-bearing borrowings

The following table provides information about Sappi's principal amounts of current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows of the carrying value by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2019 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 29 September 2019. The information is presented in US Dollar, which is the group's reporting currency.

	Expected maturity date						**2019 Carrying value**	**2019 Fair value[4]**	2018 Carrying value	2018 Fair value
(US$ equivalent in millions)	2020	2021	2022	2023	2024	2025+				
US Dollar										
Fixed rate debt	–	–	–	–	–	219	**219**	**244**	218	223
Average interest rate (%)	–	–	–	–	–	7.59	**7.59**		7.60	
Variable rate debt[1]	–	–	130	–	–	–	**130**	**130**	134	134
Average interest rate (%)	–	–	2.80	–	–	–	**2.80**		4.46	
Euro										
Fixed rate debt	42	42	20	398	85	484	**1,071**	**1,146**	1,170	1,249
Average interest rate (%)	1.69	1.69	2.19	3.95	2.23	3.18	**3.25**		3.30	
Variable rate debt[2]	64	–	236	–	–	–	**300**	**301**	312	313
Average interest rate (%)	0.30	0.88	1.38	0.88	0.88	0.88	**1.15**		1.15	
Rand										
Fixed rate debt	49	–	–	–	99	–	**148**	**158**	53	55
Average interest rate (%)	8.06	–	–	–	9.26	–	**8.86**		8.06	
Variable rate debt[3]	26	–	–	–	–	–	**26**	**28**	28.00	30
Average interest rate (%)	9.74	–	–	–	–	–	**9.74**		9.46	
Total										
Fixed rate debt	91	42	20	398	184	703	**1,438**	**1,548**	1,441	1,527
Average interest rate (%)	5.12	1.69	2.19	3.87	6.47	4.55	**4.49**		4.13	
Variable rate debt	90	–	366	–	–	–	**456**	**459**	474	477
Average interest rate (%)	3.07	0.88	1.88	0.88	0.88	0.88	**2.12**		2.57	
Fixed and variable	181	42	386	398	184	703	**1,894**	**2,007**	1,915	2,004
Current portion							**181**	**189**	97	98
Long-term portion							**1,713**	**1,818**	1,818	1,906
Total interest-bearing borrowings (refer to note 21)							**1,894**	**2,007**	1,915	2,004

[1] The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).
[2] The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).
[3] The ZAR floating interest rates are based on the Johannesburg Inter-bank Agreed Rate (JIBAR).
[4] The method used to measure fair value is the net present value method using a yield curve plus an appropriate credit spread. For disclosure purposes, the fair value of non-current borrowings is estimated by Sappi based on rates from market quotations for non-current borrowings with fixed interest rates and on quotations provided by internationally recognised pricing services for notes, exchange debentures and revenue bonds.

The abovementioned fair values include Sappi's own credit risk. Please refer to the sensitivity analysis on interest rate risk in this note for additional information regarding Sappi's rating.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

31. Financial instruments continued

(a) Market risk continued

Interest rate risk continued

Interest-bearing borrowings continued

The range of interest rates in respect of all non-current borrowings, comprising both fixed and floating rate obligations, is between 0.30% and 9.74% (depending on currency). At September 2019 75.88% of Sappi's borrowings were at fixed rates of interest and 24.12% were at floating rates. Fixed rates of interest are based on contract rates.

A detailed analysis of the group's borrowings is presented in note 21.

Hedging of interest rate risk

Depending on the market conditions, Sappi uses interest rate derivatives as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. Sappi does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period or in other comprehensive income (OCI), depending on the hedge designation as described in a documented hedging strategy.

Cash flow hedges

The effective gains or losses from changes in fair value of the derivatives designated in a cash flow hedge are recorded in OCI. These accumulated gains or losses will be recycled to profit or loss in the same account as the hedged item when the hedged item affects profit or loss.

Hedge effectiveness is assessed at inception of the hedge relationship and on a quarterly basis or upon a significant change in circumstances affecting the hedge effectiveness requirements. The hedge effectiveness requirements are principles-based, so there is no determined precise quantitative threshold of effectiveness. The hedge effectiveness assessment is only forward looking using the critical terms match.

Retrospective measurement is based on the hypothetical derivative approach which is a type of ratio analysis comparing changes in fair value or cash flows of the hedging instrument with the changes in fair value or cash flows of the perfect hypothetical derivative. The hypothetical derivative exactly mirrors the features of the underlying hedged item.

The valuation of the hedging instruments includes an adjustment for credit risk, ie an asset includes a counterparty credit risk spread, whereas the fair value measurement of a liability includes Sappi's own credit risk spread.

Interest rate swaps floating to fixed

In May 2019, Sappi contracted a floating rate term loan in the total amount of ZAR1.5 billion maturing in 2024 and swapped the floating rates into fixed rates. This liability and the corresponding interest rate swap are designated in a cash flow hedging relationship, allowing all mark-to-market valuations of the swaps to be booked to equity. As all critical terms of the hedged item and the hedging instrument match perfectly, the hedge is expected to continue being highly effective.

At September 2019, the hedge was highly effective and the swap had a net negative fair value of US$2.03 million which was deferred to equity.

Summary of outstanding cash flow hedges

September 2019

					Recorded in	
(US$ million)	**Interest rate**	**Maturity date**	**Nominal value**	**Total fair value[1]**	**OCI**	**Profit or loss**
Cash flow hedges						
IRS	ZAR variable (3-M JIBAR + 180 BPS) to ZAR 9.2484% fixed	May 2024	ZAR1,500 million	**(2)**	**(2)**	**–**
				(2)	**(2)**	**–**

September 2018

None outstanding

[1] *This refers to the carrying value.*

The total fair value of the IRS is the estimated amounts that Sappi would pay or receive to terminate the agreements at balance sheet date after taking into account current interest rates and the current creditworthiness of the counterparties as well as the specific relationships of the group with those counterparties. However, this amount excludes the possible breakage and other fees that would be incurred in case of a sale before the maturity date.

31. Financial instruments continued

(a) Market risk continued

Interest rate risk continued

Sensitivity analyses

The following are sensitivity analyses, in US Dollar, of the impact on profit or loss arising from:

Sensitivity analysis: interest rate risk – in case of a credit rating downgrade of Sappi

The table below shows the sensitivity of certain debt to changes in the group's own credit rating. The agreements of these specific external loans (including the on-balance sheet securitisation programme) stipulate that if the company were downgraded below its current rating, an additional margin would be added to the contractual funding rate.

(US$ million)	Notional	Impact on profit or loss of downgrade below current credit rating
Securitisation – Elektra N°29 DAC (only if double notch downgrade below BB-)	366	1.35
Commitment fee on unused revolving credit facility	574	0.50
Interest on utilised bank syndicated loans	209	0.52
	1,149	2.38
Impact calculated on total portfolio amounts to	0.21%	

Sensitivity analysis: interest rate risk of floating rate debt

The table below shows the sensitivity of the floating rate debt to a move by 50 bps to the interest rates.

(US$ million)	Total	Fixed rate debt	Floating rate debt	Impact on profit or loss of 50 bps interest
Total debt	1,894	1,438	456	2
Ratio fixed/floating to total debt		75.88%	24.12%	

The floating rate debt represents 24.12% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by US$2.285 million.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

31. Financial instruments continued

(a) Market risk continued

Currency risk

The objective of the group in managing currency risk is to ensure that foreign exchange exposures are identified as early as possible and actively managed. Sappi is exposed to the following currency risks:

- Economic exposures which consist of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders
- Transaction exposures arise from transactions entered into which result in a flow of cash in foreign currency such as payments under foreign currency long- and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts, and
- Translation exposures arise from translating the group's assets, liabilities, income and expenditure into the group's presentation currency. Borrowings are taken out in a range of currencies which are based on the group's preferred ratios of gearing and interest cover based on a judgement of the best financial structure for the group. This gives rise to translation exposure on consolidation.

In managing currency risk, the group first makes use of internal hedging techniques with external hedging being applied thereafter. External hedging techniques consist primarily of foreign currency forward exchange contracts and zero cost foreign exchange collars. Foreign currency capital expenditure on projects must be covered as soon as practical (subject to regulatory approval).

Currency risk analysis

In the preparation of the currency risk analysis, derivative instruments are allocated to the currency of the hedged item.

The following tables for the 2019 and 2018 financial years disclose financial instruments as determined by IFRS 9 *Financial Instruments: Recognition and Measurement*, classified by underlying currency, and does not indicate the group's foreign currency exchange exposure.

(US$ million)	Total	Total in scope	USD	EUR	ZAR	GBP	Other
September 2019							
Classes of financial instruments							
Non-current assets							
Other non-current assets	**86**	**18**	–	8	10	–	–
Current assets							
Trade receivables	**590**	**590**	265	261	11	29	24
Prepayments and other receivables	**128**	**35**	2	17	16	–	–
Derivative financial instruments	**3**	**3**	1	–	2	–	–
Cash and cash equivalents	**393**	**393**	215	26	122	3	27
		1 039	483	312	161	32	51
Non-current liabilities							
Interest-bearing borrowings	**1,713**	**1,713**	348	1,266	99	–	–
Derivative financial instruments	**2**	**2**	–	–	2	–	–
Other non-current liabilities	**418**	**–**	–	–	–	–	–
Current liabilities							
Interest-bearing borrowings	**181**	**181**	–	105	76	–	–
Derivative financial instruments	**7**	**7**	4	–	2	1	–
Trade payables	**596**	**596**	185	237	172	1	1
Other payables and accruals	**373**	**186**	29	71	86	–	–
		2,685	566	1,679	437	2	1
Foreign exchange gap		**(1,646)**	(83)	(1,367)	(276)	30	50

31. Financial instruments continued

(a) Market risk continued

Currency risk continued

Currency risk analysis continued

(US$ million)	Total	Total in scope	USD	EUR	ZAR	GBP	Other
September 2018							
Classes of financial instruments							
Non-current assets							
Other non-current assets	88	10	–	10	–	–	–
Current assets							
Trade receivables	634	634	272	285	8	32	37
Prepayments and other receivables	133	36	8	13	14	–	1
Derivative financial instruments	21	21	8	–	13	–	–
Cash and cash equivalents	363	363	218	41	74	1	29
		1,064	506	349	109	33	67
Non-current liabilities							
Interest-bearing borrowings	1,818	1,818	352	1,385	81	–	–
Other non-current liabilities	68	8	1	–	–	7	–
Current liabilities							
Interest-bearing borrowings	97	97	–	97	–	–	–
Overdrafts	16	16	–	16	–	–	–
Derivative financial instruments	6	6	–	–	6	–	–
Trade payables	637	637	187	268	179	2	1
Other payables and accruals	372	163	31	77	54	–	1
		2,745	571	1,843	320	9	2
Foreign exchange gap		(1,681)	(65)	(1,494)	(211)	24	65

Hedging of foreign currency risk

Foreign currency forward exchange contracts

The group's foreign currency forward exchange contracts at September are detailed below:

(US$ million)		**2019** Contract amount (notional amount)	**2019** Fair value (unfavourable) favourable	2018 Contract amount (notional amount)	2018 Fair value (unfavourable) favourable
Foreign currency					
Bought:	US Dollar	**178**	**–**	4	–
	Euro	**89**	**(1)**	83	–
	Rand	**44**	**–**	93	4
Sold:	US Dollar	**(122)**	**–**	(130)	4
	Euro	**(54)**	**1**	(36)	–
	Rand	**(95)**	**1**	(160)	7
		41	**1**	(146)	15

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

31. Financial instruments continued

(a) Market risk continued

Currency risk continued

Foreign currency forward exchange contracts continued

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2019 financial year.

All forward exchange contracts are valued at fair value with the resultant profit or loss included in net finance costs for the year.

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being 30 October 2020.

As at September 2019, there was an open exposure of US$37 million that has since been hedged.

Sensitivity analysis – (loss) gain

Base currency	Exposure (US$ million)	+10%	–10%
AUD	6.5	0.6	(0.7)
CAD	79.7	(1.0)	1.2
CHF	(11.0)	(0.2)	0.2
JPY	2.1	0.2	(0.2)
USD	(17.9)	(1.6)	2.0
ZAR	(22.8)	(2.1)	2.5
Other currencies	0.3	7.5	(9.1)
Total	36.9	3.4	(4.1)

Based on the exposure at the end of September 2019, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a gain of US$3.4 million or a loss of US$4.1 million respectively.

During 2019, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$203 million which were used as an overlay hedge of export sales from Southern Africa. The total impact on profit or loss amounted to a net gain of US$2.7 million. We also contracted zero cost foreign exchange collars for a total nominal value of US$250 million. This collar complements the other strip cover hedges (using non-deliverable FX forwards) by covering a different portion of the economic FX exposure.

As at September 2019 the impact on profit or loss of the marking to market relating to the time value of the collar amounted to a loss of US$2.3 million.

31. Financial instruments continued

(a) Market risk continued

Cash flow hedges

Export sales

In Southern Africa, Sappi is exposed to an economic risk arising from its export sales of its dissolving wood pulp product. As sales prices are linked to a US Dollar price but sales are invoiced in Rand, any change in the foreign currency exchange rate between the US Dollar and the Rand would result in a different Rand selling price. This results in an economic foreign currency exchange rate exposure between the order date and invoicing date.

Sappi therefore enters into cash flow hedges with the objective to eliminate this economic foreign exchange rate exposure by entering into non-deliverable forward exchange contracts and zero cost foreign exchange collars which were designated as hedging instruments. Only the spot movements of the FECs and the intrinsic value of the zero cost foreign exchange collar is designated as the hedging instrument. The forward points of the FECs and the time value of the zero cost collars are not included in the hedge designation and will be reported as cost of hedging in OCI.

The hedging instruments are recorded at fair value on the balance sheet with changes in fair value recorded through OCI. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

During the 2019 financial year, the hedges were highly effective. A realised gain of US$2.7 million relating to the realised fair value movements of non-deliverable forward exchange contracts (including cost of hedging) was transferred from OCI to revenue in profit or loss and at the financial year-end, a negative amount of US$0.2 million was deferred in equity. A realised loss of US$2.3 million relating to the settled zero cost foreign exchange collars (including cost of hedging) was transferred from OCI to revenue in profit or loss and at the financial year-end, a positive value in the amount of US$1.2 million was deferred to equity.

Mill expansion and maintenance capital expenditure projects

Sappi Southern Africa (SSA) has approved several capex projects requiring the acquisition of property plant and equipment for the maintenance and expansion of its South African mills Saiccor and Ngodwana. An important part of the equipment was ordered in foreign currency, predominantly in EUR and in USD which created a foreign exchange exposure as SSA is a ZAR functional entity. To cover these foreign exchange exposures either as highly probable forecast transactions or as firm commitments, SSA entered into forward foreign exchange contracts (FECs) which were designated as hedging instruments in a cash flow hedge. The full fair value of the FECs, including forward points, have been designated as hedging instruments.

The hedging instruments are recorded at fair value on the balance sheet with changes in fair value recorded through OCI. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

During the 2019 financial year, most of the hedges were highly effective. A realised foreign exchange loss of US$3 million of the designated FECs was transferred from OCI as a basis adjustment to fixed assets, a positive amount of US$0.2 million was deferred in equity.

Firm commitment regarding the acquisition of a business

Sappi Canada having a CAD functional currency, decided to acquire a business located in Canada from a US timber company in the amount of US$175 million. The Offer to Purchase in USD was signed in July 2019 with the acquisition flow of funds scheduled to take place on 30 October 2019. In order to cover the foreign exchange risk relating to the economic FX exposure as early as possible, Sappi Canada decided to contract a forward foreign exchange contract (FEC) selling forward CAD and buying forward USD. The spot element of the FEC has been designated as a hedging instrument in a cash flow hedge. The difference between the full fair value of the FEC and its spot element will not form part of the hedging instrument for hedge accounting purposes. The forward points portion of the FEC will be reported as hedging cost.

The hedging instruments are recorded at fair value on the balance sheet with changes in fair value recorded through OCI. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

During the 2019 financial year, the hedge was highly effective. An unrealised foreign exchange loss of US$0.3 million of the designated FEC including cost of hedging was deferred in equity.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

31. Financial instruments continued

(a) Market risk continued

Net investment hedges

The hedge of the net investment designated in February 2010, was de-designated in March 2016. At the moment of the de-designation the life-to-date negative foreign exchange differences amounting to EUR36.9 million (US$41.5 million), will remain in equity until the disposal or liquidation of the foreign operation.

In March 2016, Sappi designated a new net investment hedge for an indeterminate period of Sappi Papier Holding GmbH (SPH) in SD Warren Holdings Corporation (North America) including all its subsidiaries and incorporating all net assets.

During 2017 several de- and re-designations took place in line with the evolving net USD exposure linked to the net investment. As at September 2019 the hedged notional amount at amortised cost amounted to US$103 million.

The hedged risk is the currency risk associated with the spot retranslation of the net assets of the foreign operation into the functional currency of the consolidating parent entities at the level of which the hedge is designated, ie SPH for US Dollar/Euro spot exchange rate risk and Sappi Limited for US Dollar/Rand spot exchange rate risk. The hedging instrument is a non-derivative foreign currency external debt instrument. At the inception of the hedge (or on hedge designation date), both the designated portion of the net investment in the foreign operation (as hedged item) and the foreign currency denominated debt (as hedging instrument) were recorded at the spot rate.

To the extent that the hedge is effective, foreign exchange rate differences linked to the subsequent revaluation of the foreign currency debt in the books of the entity holding the debt are deferred in OCI until the foreign operation is disposed of or liquidated. These foreign exchange currency differences are recognised in profit or loss on disposal or liquidation of the foreign operation as part of the gain or loss on disposal.

Ineffectiveness can only occur if the net investment carrying value of the foreign operation would fall below the designated amount of the hedging instruments. The net investment value of the foreign operation is validated each quarter. Ineffective gains or losses are booked directly to profit or loss. As at the end of the 2019 financial year, the hedge was 100% effective.

	2019		2018	
(US$ million)	**Hedged notional**	**Foreign exchange result deferred in OCI**	Hedged notional	Foreign exchange result deferred in OCI
Bond 2032	**103**	**(7)**	103	(1.0)
Previous designations	**–**	**(32)**	–	(34)
	103	**(39)**	103	(35)
Net investment value of North America	**781**		815	

31. Financial instruments continued

(a) Market risk continued

Commodity price risk

Commodity price risk arises mainly from price volatility and threats to supply of raw material and other inputs to the production process.

A combination of contract and spot deals are used to manage price volatility and contain costs. Contracts are limited to the group's own use requirements.

During 2019, pulp futures and pulp zero-cost options in Europe were contracted for a total volume of 33,000 tons of pulp. Sappi Europe buys pulp from external suppliers at a variable price consisting of a reference price linked to the Pix Pulp index which is adjusted with a premium depending on the pulp market conditions. As Sappi Europe expected pulp prices to increase, it was decided to fix the pulp price for one year by entering into a pulp futures and pulp zero rated options whereby the variable price was swapped for an annual fixed price. A realised gain of US$0.5 million resulting from the settled pulp futures and options was booked directly to profit or loss.

The group's pulp contracts (zero-cost options) outstanding at September 2019 are detailed below:

		2019		2018	
(US$ million)	Base currency	**Contract amount (notional amount)**	**Fair value (unfavourable) favourable**	Contract amount (notional amount)	Fair value (unfavourable) favourable
Northern Bleached Softwood Kraft Pulp (NBSK)					
Bought:	USD	**–**	**–**	16	2
Bleached Hardwood Kraft Pulp (BHKP)					
Bought:	USD	**12**	**(2)**	13	2
		12	**(2)**	29	4

(b) Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its current and future financial obligations as they fall due.

The group's objective is to manage its liquidity risk by:

- managing its bank balances, cash concentration methods and cash flows,
- managing its working capital and capital expenditure,
- ensuring the availability of a minimum amount of short-term borrowing facilities at all times, to meet any unexpected funding requirements, and
- ensuring appropriate long-term funding is in place to support the group's long-term strategy.

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 21.

The group is in compliance with all material financial covenants applicable to its borrowing facilities.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

31. Financial instruments continued

(b) Liquidity risk

Liquidity risk management

The following tables for the 2019 and 2018 financial years disclose financial instruments, as determined by IFRS 9 *Financial Instruments: Recognition and Measurement*, are classified by liquidity and does not necessarily indicate the group's actual cash flows.

(US$ million)	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows 0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years	Total
September 2019								
Non-current assets								
Other non-current assets	**18**	**18**	–	–	8	–	10	18
Current assets								
Trade receivables	**590**	**590**	590	–	–	–	–	590
Prepayments and other receivables	**35**	**35**	35	–	–	–	–	35
Derivative financial instruments	**3**	**3**	3	–	–	–	–	3
Cash and cash equivalents	**393**	**393**	393	–	–	–	–	393
			1,021	–	8	–	10	1,039
Non-current liabilities								
Interest-bearing borrowings	**1,713**	**1,722**	–	–	144	1,006	984	2,134
Derivative financial instruments	**2**	**2**	–	–	–	2	–	2
Current liabilities								
Interest-bearing borrowings	**181**	**185**	159	22	–	–	–	181
Derivative financial instruments	**7**	**7**	7	–	–	–	–	7
Trade payables	**596**	**596**	596	–	–	–	–	596
Other payables and accruals	**186**	**186**	186	–	–	–	–	186
			948	22	144	1,008	984	3,106
Liquidity surplus (gap)			73	(22)	(136)	(1,008)	(974)	(2,067)

31. Financial instruments continued

(b) Liquidity risk continued

Liquidity risk management continued

(US$ million)	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows 0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years	Total
September 2018								
Non-current assets								
Other non-current assets	10	10	–	–	9	–	1	10
Current assets								
Trade receivables	634	634	634	–	–	–	–	634
Prepayments and other receivables	36	36	36	–	–	–	–	36
Derivative financial instruments	21	21	21	–	–	–	–	21
Cash and cash equivalents	363	363	363	–	–	–	–	363
			1,054	–	9	–	1	1,064
Non-current liabilities								
Interest-bearing borrowings	1,818	1,906	93	9	478	1,181	441	2,202
Other non-current liabilities	8	8	–	–	8	–	–	8
Current liabilities								
Interest-bearing borrowings	97	98	98	–	–	–	–	98
Overdrafts	16	16	–	16	–	–	–	16
Derivative financial instruments	6	6	6	–	–	–	–	6
Trade payables	637	637	637	–	–	–	–	637
Other payables and accruals	163	163	163	–	–	–	–	163
			997	25	486	1,181	441	3,130
Liquidity surplus (gap)			57	(25)	(477)	(1,181)	(440)	(2,066)

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

31. Financial instruments continued

(b) Liquidity risk continued

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for the 2019 and 2018 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

(US$ million)	Total	Maturity analysis Undiscounted cash flows 0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years
September 2019						
Assets						
Fair value of derivatives by risk factor						
Foreign exchange risk						
FX forward contracts	**3**	3	–	–	–	–
– receiving leg	**198**	198	–	–	–	–
– paying leg	**(195)**	(195)	–	–	–	–
Liabilities						
Fair value of derivatives by risk factor						
Interest rate risk						
Interest rate swaps	**2**	–	–	–	2	–
– receiving leg	**–**	–	–	–	–	–
– paying leg	**2**	–	–	–	2	–
Foreign exchange risk						
FX forward contracts	**5**	5	–	–	–	–
– receiving leg	**(324)**	(324)	–	–	–	–
– paying leg	**329**	329	–	–	–	–
Commodity price risk	**2**	2	–	–	–	–

31. Financial instruments continued

(b) Liquidity risk continued

Derivative financial instruments with maturity profile continued

		Maturity analysis Undiscounted cash flows				
(US$ million)	Total	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years
September 2018						
Assets						
Fair value of derivatives by risk factor						
Foreign exchange risk						
FX forward contracts	17	17	–	–	–	–
– receiving leg	220	220	–	–	–	–
– paying leg	(203)	(203)	–	–	–	–
Commodity price risk	4	4	–	–	–	–
Liabilities						
Fair value of derivatives by risk factor						
Foreign exchange risk						
FX forward contracts	6	6	–	–	–	–
– receiving leg	(51)	(51)	–	–	–	–
– paying leg	57	57	–	–	–	–

Fair values

The group's financial instruments are initially recognised at fair value. The carrying amounts of other financial instruments which include cash and cash equivalents, trade receivables, certain investments, bank overdraft, trade payables and the current portion of interest-bearing borrowings approximate their fair values due to their short-term nature.

As a result of the implementation of IFRS 13 *Fair Value Measurement*, the fair value of all financial instruments measured at fair value, are measured based on a market exit price incorporating credit risk, by using standard valuation techniques based on observable market data inputs.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

31. Financial instruments continued

(b) Liquidity risk continued

Fair values continued

The fair value of all external over-the-counter derivatives and material non-current borrowings (for disclosure purposes only) is calculated based on the discount rate adjustment technique. The discount rate used is derived from observable rates of return for comparable assets or liabilities traded in the market. The credit risk of the external counterparty is incorporated into the calculation of fair values of financial assets and own credit risk is incorporated in the measurement of financial liabilities. The change in fair value is therefore impacted by the move of the interest rate curves, by the volatility of the applied credit spreads, and by any changes of the credit profile of the involved parties.

There are no financial assets and liabilities that have been remeasured to fair value on a non-recurring basis. The carrying value of assets and liabilities (excluding plantations) which are held for sale, are considered to be below their net recoverable amount.

		As determined by IFRS 9		Categories in accordance with IFRS 9			
(US$ million)	**Total balance**	Total out of scope	Total in scope	Fair value through profit or loss	Amortised cost	Fair value through OCI	Fair value
September 2019							
Non-current assets							
Other non-current assets	**86**	68	18	–	11	7	18
	86	68	18	–	11	7	18
Current assets							
Trade receivables	**590**	–	590	–	590	–	590
Prepayments and other receivables	**128**	93	35	–	35	–	35
Derivative financial instruments	**3**	–	3	3	–	–	3
Cash and cash equivalents	**393**	–	393	–	393	–	393
	1,114	93	1,021	3	1,018	–	1,021

		As determined by IFRS 9		Categories in accordance with IFRS 9		
(US$ million)	**Total balance**	Total out of scope	Total in scope	Fair value through profit or loss	Amortised cost	Fair value
September 2019						
Non-current liabilities						
Interest-bearing borrowings	**1,713**	–	1,713	–	1,713	1,722
Derivative financial instruments	**2**	–	2	2	–	2
Other non-current liabilities	**418**	418	–	–	–	–
	2,133	418	1,715	2	1,713	1,724
Current liabilities						
Interest-bearing borrowings	**181**	–	181	–	181	185
Derivative financial instruments	**7**	–	7	7	–	7
Trade payables	**596**	–	596	–	596	596
Other payables and accruals	**373**	187	186	–	186	186
	1,157	187	970	7	963	974

31. Financial instruments continued

(b) Liquidity risk continued

Fair values continued

(US$ million)	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Loans and receivables	Available for sale	Fair value
	As determined by IAS 39			Categories in accordance with IAS 39			
September 2018							
Non-current assets							
Other non-current assets	88	78	10	–	3	7	10
	88	78	10	–	3	7	10
Current assets							
Trade receivables	634	–	634	–	634	–	634
Prepayments and other receivables	133	97	36	–	36	–	36
Derivative financial instruments	21	–	21	21	–	–	21
Cash and cash equivalents	363	–	363	–	363	–	363
	1,151	97	1,054	21	1,033	–	1,054

(US$ million)	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Other financial liabilities	Fair value
	As determined by IAS 39			Categories in accordance with IAS 39		
September 2018						
Non-current liabilities						
Interest-bearing borrowings	1,818	–	1,818	–	1,818	1,906
Other non-current liabilities	68	60	8	7	1	8
	1,886	60	1,826	7	1,819	1,914
Current liabilities						
Interest-bearing borrowings	97	–	97	–	97	98
Overdraft	16	–	16	–	16	16
Derivative financial instruments	6	–	6	6	–	6
Trade payables	637	–	637	–	637	637
Other payables and accruals	372	209	163	–	163	163
	1,128	209	919	6	913	920

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

31. Financial instruments continued

(b) Liquidity risk continued

Fair values continued

The level in the fair value hierarchy into which financial instruments that are measured at fair value are categorised is disclosed below. There have been no transfers between the categories of the fair value hierarchy.

	2019				2018			
	Total fair value	**Fair value hierarchy**			Total fair value	Fair value hierarchy		
(US$ million)		**Level 1**	**Level 2**	**Level 3**		Level 1	Level 2	Level 3
Non-current assets								
Other non-current assets	**18**	**7**	**11**	**–**	10	7	3	–
	18	**7**	**11**	**–**	10	7	3	–
Current assets								
Derivative financial instruments	**3**	**–**	**3**	**–**	21	–	21	–
	3	**–**	**3**	**–**	21	–	21	–
Non-current liabilities								
Derivative financial instruments	**2**	**–**	**2**	**–**	–	–	–	–
Contingent consideration liability	**–**	**–**	**–**	**–**	7	7	–	–
	–	**–**	**–**	**–**	7	7	–	–
Current liabilities								
Derivative financial instruments	**7**	**–**	**7**	**–**	6	–	6	–
	7	**–**	**7**	**–**	6	–	6	–

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group faces credit risk in relation to trade receivables, cash deposits and financial investments.

Credit risk relating to trade receivable management is the responsibility of regional management and is coordinated on a group basis.

The group's objective in relation to credit risk is to limit the exposure to credit risk through specific groupwide policies and procedures. Credit control procedures are designed to ensure the effective implementation of best trade receivable practices, the comprehensive maintenance of all related records, and effective management of credit risk for the group.

The group assesses the creditworthiness of potential and existing customers in line with its credit policies and procedures. Collateral is obtained to minimise risk. Exposures are monitored on an ongoing basis utilising various reporting tools which highlight potential risks when considered appropriate.

In the event of deterioration of credit risk, the appropriate measures are taken by the regional credit management team. All known risks are required to be fully disclosed, accounted for, and provided for as bad debts in accordance with the applicable accounting standards.

Overall, 74% of the group's total trade receivables, both on- and off-balance sheet, are insured or covered by letters of credit and bank guarantees.

Quantitative disclosures on credit risk are included in note 17.

32. Related-party transactions

Transactions between group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the group and other related parties are disclosed below:

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
(US$ million)	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
– proNARO GmbH	–	–	**121.1**	118.0	**–**	–	**–**	–
– Umkomaas Lignin (Pty) Ltd	**5.2**	5.2	**–**	–	**0.7**	0.6	**–**	–
– Papierholz Austria GmbH	**–**	–	**87.6**	91.5	**–**	–	**–**	–
– The Boldt Company (Boldt)	**–**	–	**–**	88.0	**–**	–	**–**	25.7
	5.2	5.2	**208.7**	297.5	**0.7**	0.6	**–**	25.7

The related party arrangement with Boldt ended August 2018. There are ongoing disputes over amounts billed and arbitration has been requested by Boldt.

The amounts outstanding at balance sheet date are unsecured and will be settled in cash or, in the case of Boldt, may be adjusted by the arbitration panel or a negotiated settlement. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Broad-based Black Economic Empowerment (BBBEE) transaction

Refer to notes 18 and 29 for details of the BBBEE transaction.

Key management personnel

Key management personnel include our executive directors and prescribed officers. The total key management personnel emoluments amounted to US$7.6 million (2018: US$10.0 million). The details of key management personnel, including emoluments, interests in contracts and participation in The Sappi Limited share schemes are disclosed in notes 34 to 36.

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to section 56(7) of the Companies Act 71 of 2008 of South Africa, the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 2019, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	81,646,282	15.0

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

33. Events after balance sheet date

On 3 November 2019, Sappi acquired the 270,000 ton Matane high yield hardwood pulp mill, in Quebec, Canada, from Rayonier Advanced Materials Inc for US$158 million. The acquisition will increase Sappi's pulp integration for its packaging businesses and lower Sappi's costs of pulp, reduce its volatility of earnings throughout the pulp cycle and provide certainty of supply. The last 12 months' annual sales were US$159 million. The acquisition will be financed from internal cash resources and available debt facilities.

Provisional fair values of assets acquired and liabilities assumed as at the acquisition date are as follows:

	US$ million
Property, plant and equipment, intangibles and goodwill	145
Inventories	19
Trade receivables	14
Prepayments and other assets	1
Cash and cash equivalents	–
Trade payables	(9)
Pension liabilities	(8)
Other payables and accruals	(4)
Net cash outflow on acquisition	158

34. Directors' and prescribed officers' remuneration

Non-executive directors

Directors are normally remunerated in the currency of the country in which they live or work from. Their remuneration is translated into US Dollar, the group's reporting currency, at the average exchange rate prevailing during the financial year. Directors' fees are established in local currencies to reflect market conditions in those countries.

Non-executive directors' fees reflect their services as directors and services on various sub-committees on which they serve. The quantum of committee fees depends on whether the director is an ordinary member or a chairman of the committee. Non-executive directors do not earn attendance fees; however, additional fees are paid for attendance at board meetings in excess of the five scheduled meetings per annum.

The chairman of the Sappi Limited board receives a flat director's fee and does not earn committee fees.

Non-executive directors do not participate in any incentive schemes or plans of any kind.

In determining the fees for non-executive directors, due consideration is given to the fee practice of companies of similar size and complexity in the countries in which the directors are based.

The extreme volatility of currencies, in particular the ZAR/US Dollar exchange rate in the past few years, caused distortions of the relative fees in US Dollar paid to individual directors.

Non-executive directors' fees are proposed by the Executive Committee, agreed by the Compensation Committee, recommended by the board and approved at the Annual General Meeting by the shareholders.

	2019			
(US$)	Board fees	Committee fees	Travel allowance	Total
KR Osar	69,320	35,050	18,500	122,870
JD McKenzie	44,944	19,518	7,400	71,862
ANR Rudd	402,325	–	11,100	413,425
NP Mageza	30,037	40,950	7,400	78,387
MV Moosa	30,037	28,512	7,400	65,949
MA Fallon	58,687	65,376	11,100	135,163
RJAM Renders	69,238	64,601	11,100	144,939
B Mehlomakulu	30,037	9,759	7,400	47,196
Z Malinga(1)	30,037	15,596	7,400	53,033
BR Beamish(2)	34,235	8,271	–	42,506
JM Lopez(2)	40,419	4,175	7,400	51,994
JE Stipp(3)	23,097	5,842	3,700	32,639
	862,413	297,650	99,900	1,259,963

(1) *Appointed to the board in October 2018.*
(2) *Appointed to the board in March 2019.*
(3) *Appointed to the board in June 2019.*

Note: Fees paid in Fiscal 2019 are generally less than fiscal 2018 because of an extra meeting during fiscal 2018.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

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34. Directors' and prescribed officers' remuneration continued

Non-executive directors continued

(US$)	2018 Board fees	Committee fees	Travel allowance	Total
D Konar[4]	13,686	14,344	–	28,030
KR Osar	74,140	34,100	18,000	126,240
JD McKenzie	50,394	20,511	7,200	78,105
ANR Rudd	419,684	–	10,800	430,484
NP Mageza	34,729	37,569	7,200	79,498
R Thummer[5]	24,700	7,478	7,000	39,178
MV Moosa	34,729	24,834	7,200	66,763
MA Fallon	66,335	67,223	10,800	144,358
RJ DeKoch[6]	65,806	21,357	14,400	101,563
RJAM Renders	78,937	67,022	10,800	156,759
B Mehlomakulu	31,565	10,255	7,200	49,020
	894,705	304,693	100,600	1,299,998

[4] Retired from the board in January 2018.
[5] Retired from the board in December 2017.
[6] Retired from the board in August 2018.

Executive directors

Our pay policy is to pay our executive directors a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

(US$)	**2019** Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share-based payment benefit	Total
SR Binnie[1]	**539,629**	**–**	**14,819**	**82,317**	**635,321**	**1,272,086**
GT Pearce[2]	**312,014**	**–**	**8,422**	**60,185**	**301,641**	**682,262**
	851,643	**–**	**23,241**	**142,502**	**936,962**	**1,954,348**

(US$)	2018 Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share-based payment benefit	Total
SR Binnie	558,318	525,830	14,907	85,129	701,472	1,885,656
GT Pearce	322,878	303,971	8,473	63,461	292,857	991,640
	881,196	829,801	23,380	148,590	994,329	2,877,296

[1] SR Binnie received a 5% increase on the South African portion (70% of total salary), and a 1.5% increase on the off-shore portion of his salary (30% of total salary). Overall salary expressed in reporting currency was 3% lower in 2019 than in 2018.
[2] GT Pearce received a 5% increase on the South African portion (70% of total salary), and a 1.5% increase on the off-shore portion of his salary (30% of total salary). Overall salary expressed in reporting currency was 3% lower in 2019 than in 2018.

The remuneration figures shown above are affected by the translation into US Dollar.

Details of directors' service contracts

The executive directors have service contracts with notice periods of 12 months or less. These notice periods are in line with international norms for executive directors.

None of the non-executive directors have service contracts with the company.

None of the directors have provisions for predetermined compensation on termination of their contracts exceeding 12 months' gross remuneration and benefits-in-kind.

34. Directors' and prescribed officers' remuneration continued

Prescribed officers

As with our executive directors, our pay policy is to pay our prescribed officers a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

(US$)	Salary	Bonuses and performance-related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share-based payment benefit	Total
B Wiersum	**756,218**	**–**	**2,820**	**258,045**	**360,596**	**1,377,679**
M Gardner[1]	**564,133**	**–**	**–**	**57,222**	**360,596**	**981,951**
A Thiel	**325,447**	**189,876**	**9,379**	**57,939**	**360,596**	**943,237**
M van Hoven	**167,871**	**–**	**4,964**	**43,939**	**282,976**	**499,750**
G Bowles	**253,087**	**–**	**7,865**	**106,199**	**301,641**	**668,792**
F Marupen	**182,354**	**–**	**5,219**	**47,238**	**235,658**	**470,469**
M Mansoor	**276,886**	**106,828**	**157,904**	**105,498**	**111,072**	**758,188**
Total – 2019	**2,525,996**	**296,704**	**188,151**	**676,080**	**2,013,135**	**5,700,066**
B Wiersum	779,507	511,203	2,976	261,304	353,023	1,908,013
M Gardner	548,690	442,734	–	56,125	353,023	1,400,572
A Thiel	336,541	230,261	9,435	61,199	384,436	1,021,872
A Rossi[2]	84,049	43,391	2,460	–	–	129,900
M van Hoven	173,061	123,824	4,994	47,087	279,116	628,082
G Bowles	250,935	183,597	7,534	104,581	297,682	844,329
F Marupen	188,705	134,788	5,250	50,189	196,818	575,750
M Mansoor[3]	205,370	152,653	115,083	73,390	66,188	612,684
Total – 2018	2,566,858	1,822,451	147,732	653,875	1,930,286	7,121,202

(1) *Retired in September 2019.*
(2) *Retired in December 2017.*
(3) *Appointed in January 2018.*

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

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35. Directors' and prescribed officers' interests

The following table sets out each director's and prescribed officer's direct and indirect interests in shares in Sappi Limited.

Director	2019 Direct interests Beneficial	2019 Indirect interests Beneficial	2018 Direct interests Beneficial	2018 Indirect interests Beneficial
Non-executive directors				
MV Moosa	–	576,542	–	576,542
MA Fallon	5,000	–	5,000	–
Executive directors				
SR Binnie	285,000	–	217,522	–
GT Pearce	112,542	–	67,067	–
Prescribed officers				
B Wiersum	420,929	–	352,929	–
M Gardner	177,664	–	124,164	–
A Thiel	461,664	–	361,664	–
M van Hoven	150,418	–	107,618	–
G Bowles	46,040	–	26,040	–
F Marupan	13,106	–	9,385	–
M Mansoor	36,000	–	25,000	–
	1,708,363	576,542	1,296,389	576,542

Subsequent to year-end and as per SENS announcements to the date of this report, the directors and prescribed officers have acquired 250,000 shares.

36. Directors' and prescribed officers' participation in the Sappi Limited share schemes

Changes in executive directors' and prescribed officers' share options and performance shares before financial year-end

	Executive directors				Prescribed officers								
	SR Binnie	GT Pearce	**Total 2019**	Total 2018	B Wiersum	M Gardner	A Thiel	M v Hoven	G Bowles	F Marupen	M Mansoor	**Total 2019**	Total 2018
Outstanding at beginning of year													
Number of shares held	664,000	313,000	**977,000**	1,120,000	371,000	371,000	371,000	294,000	313,000	199,213	79,100	**1,998,313**	2,238,213
'A' ordinary shares	–	–	**–**	–	–	–	–	–	–	18,213	–	**18,213**	18,213
Performance shares 39	–	–	**–**	343,000	–	–	–	–	–	–	–	**–**	720,000
Performance shares 40	175,000	85,000	**260,000**	260,000	100,000	100,000	100,000	80,000	85,000	–	11,000	**476,000**	465,000
Performance shares 41	190,000	90,000	**280,000**	280,000	105,000	105,000	105,000	85,000	90,000	70,000	15,000	**575,000**	560,000
Performance shares 42	162,000	75,000	**237,000**	237,000	90,000	90,000	90,000	70,000	75,000	60,000	15,100	**490,100**	475,000
Performance shares 43	137,000	63,000	**200,000**	–	76,000	76,000	76,000	59,000	63,000	51,000	38,000	**439,000**	–
Offered and accepted during the year													
Performance shares 43				200,000									401,000
Performance shares 44	142,000	65,000	**207,000**	–	79,000	79,000	79,000	61,000	65,000	53,000	39,000	**455,000**	–
Vested during the year													
Number of shares	(175,000)	(85,000)	**(260,000)**	(343,000)	(100,000)	(100,000)	(100,000)	(80,000)	(85,000)	(18,213)	(11,000)	**(494,213)**	(720,000)
Appointment during the year													
Number of shares	–	–	**–**	–	–	–	–	–	–	–	–	**–**	79,100
Outstanding at end of year													
Number of shares	631,000	293,000	**924,000**	977,000	350,000	350,000	350,000	275,000	293,000	234,000	107,100	**1,959,100**	1,998,313
'A' ordinary shares	–	–	**–**	–	–	–	–	–	–	–	–	**–**	18,213
Performance shares 40	–	–	**–**	260,000	–	–	–	–	–	–	–	**–**	476,000
Performance shares 41	190,000	90,000	**280,000**	280,000	105,000	105,000	105,000	85,000	90,000	70,000	15,000	**575,000**	575,000
Performance shares 42	162,000	75,000	**237,000**	237,000	90,000	90,000	90,000	70,000	75,000	60,000	15,100	**490,100**	490,100
Performance shares 43	137,000	63,000	**200,000**	200,000	76,000	76,000	76,000	59,000	63,000	51,000	38,000	**439,000**	439,000
Performance shares 44	142,000	65,000	**207,000**	–	79,000	79,000	79,000	61,000	65,000	53,000	39,000	**455,000**	–

Performance shares are issued for Rnil and vest after four years subject to performance criteria being achieved. The 'A' ordinary shares did not vest and the plan share issue 40 vested at R77.

Vesting dates

Performance shares 41	07 December 2019
Performance shares 42	09 December 2020
Performance shares 43	04 December 2021
Performance shares 44	19 November 2022

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

37. Investments in subsidiaries

Set out below are the significant subsidiaries of the group as at financial year-end:

Name of subsidiary	Country of incorporation	Principal activity	Effective holding (%) 2019	Effective holding (%) 2018
Elektra Purchase No 29 Limited	Ireland	Securitisation of receivables	**–**	–
Sappi Rockwell Solutions Limited	Scotland	Manufacture of paper	**100**	100
Sappi Alfeld GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappi Austria Produktions GmbH and CoKG	Austria	Manufacture of paper and paper pulp	**100**	100
Sappi Cloquet LLC	United States of America	Manufacture of paper, paper pulp and dissolving wood pulp/paper pulp	**100**	100
Sappi Deutschland GmbH	Germany	Sales	**100**	100
Sappi Ehingen GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappi Europe SA	Belgium	Sales	**100**	100
Sappi Finland Operations Oy and Sappi Finland I Oy	Finland	Manufacture of paper and paper pulp	**100**	100
Sappi Italy Operations SpA	Italy	Manufacture of paper	**100**	100
Sappi International Holdings (Pty) Ltd	South Africa	Treasury	**100**	100
Sappi International SA	Belgium	Treasury	**100**	100
Sappi Lanaken NV	Belgium	Manufacture of paper	**100**	100
Sappi Lanaken Press Paper NV	Belgium	Manufacture of paper and paper pulp	**100**	100
Sappi Maastricht BV	The Netherlands	Manufacture of paper	**100**	100
Sappi Papier Holding GmbH	Austria	Holding company/Sales	**100**	100
Sappi Southern Africa Limited	South Africa	Production of paper and paper pulp, dissolving wood pulp and forestry	**100**	100
Sappi Stockstadt GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappisure Försäkrings AB	Sweden	Insurance	**100**	100
Sappi North America Inc	United States of America	Manufacture of paper and paper pulp	**100**	100

FORWARD-LOOKING STATEMENTS

Certain statements in this release that are neither reported financial results nor other historical information are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. The words "believe", "anticipate", "expect", "intend", "estimate", "plan", "assume", "positioned", "will", "may", "should", "risk" and other similar expressions, which are predictions of or indicate future events and future trends and which do not relate to historical matters, may be used to identify forward-looking statements. 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 following:

- The highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicality, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing)
- The impact on our business of adverse changes in global economic conditions
- Unanticipated production disruptions (including as a result of planned or unexpected power outages)
- Changes in environmental, tax and other laws and regulations
- Adverse changes in the markets for our products
- The emergence of new technologies and changes in consumer trends including increased preferences for digital media
- Consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed
- 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
- 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 restructuring and other strategic initiatives and achieving expected savings and synergies
- Currency fluctuations.

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.

About our theme: Focus

In 2019, the international economic order was under significant pressure, reducing global growth prospects. Ongoing trade conflicts and Brexit uncertainty weighed further on economic prospects. Populism spread and protests erupted around the world.

Given that some 90% of an iceberg's mass is hidden under water making them extremely difficult to navigate around, they are a powerful metaphor for operating in a business context where all the threats are not immediately visible or obvious.

An iceberg is also a valid metaphor in that much of the hard work to achieve our strategy happens away from the public gaze and is not always recognised. Equally so the breadth and depth of engagement with our customers to provide the solutions their customers demand and with our employees to ensure they are aligned with our strategy. Despite the turbulent global economy, we did not lose focus and are well positioned to benefit from our recent investments. We are determined to maintain our line of sight on our end goal as encapsulated in our 2020Vision and strategy: providing enhanced returns to all our stakeholders.

Our 2019 annual integrated report reflects the focused actions we have taken over the last year. It is supported by various other sources of information including our website and our group and regional sustainability reports, available on www.sappi.com.

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