sappi

2022 Group Annual Financial Statements

For the year ended September 2022

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GROUP ANNUAL FINANCIAL STATEMENTS

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

The audited financial statements for the year ended September 2022 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.

DIRECTORS' APPROVAL

FOR THE YEAR ENDED SEPTEMBER 2022

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 (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and, the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa (the Companies Act). 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 Annual 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 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.

In terms of section 3.84(k) of the JSE Listings Requirements, each of the directors, whose names are stated below, hereby confirm that:

(a) The Group Annual Financial Statements set out on pages 5 and 6 and pages 10 to 84, fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of IFRS
(b) To the best of our knowledge and belief, no facts have been omitted or untrue statements made that would make the Group Annual Financial Statements false or misleading
(c) Internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the Group Annual Financial Statements of the issuer
(d) The internal financial controls are adequate and effective and can be relied upon in compiling the Group Annual Financial Statements, having fulfilled our role and function as executive directors with primary responsibility for implementation and execution of controls
(e) Where we are not satisfied, we have disclosed to the Audit and Risk Committee and the auditors any deficiencies in design and operational effectiveness of the internal financial controls and have taken steps to remedy the deficiencies, and
(f) we are not aware of any fraud involving directors.

The directors' report and the Group Annual Financial Statements appear on pages 5 and 6 and pages 10 to 84 and were approved by the board of directors on 9 December 2022 and signed on its behalf by:

SR Binnie
Chief Executive Officer
Authorised director

GT Pearce
Chief Financial Officer
Authorised director

Sappi Limited

9 December 2022

GROUP COMPANY SECRETARY'S CERTIFICATE

FOR THE YEAR ENDED SEPTEMBER 2022

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 2022, 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

9 December 2022

AUDIT AND RISK COMMITTEE REPORT

FOR THE YEAR ENDED SEPTEMBER 2022

INTRODUCTION

The Audit and Risk Committee presents its report for the financial year ended September 2022. 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 assessment and developing recommendations for consideration by the board
- To oversee the internal and external audit appointments and functions
- To perform duties that are attributed to it by the South African Companies Act of 2008 (the Companies Act), the JSE Listings Requirements and King IV.

Committee performance:
- Reviewed reports by management setting out the group's risk management approach, including an overview of the main risks, and emerging risks, the trends and key risk indicators, as well as the risk appetite and tolerance per risk, and mitigations
- Considered feedback from the group's combined assurance processes, in respect of key risk topics
- Received and reviewed reports from internal audit 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 auditor 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
  - 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 CFO 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
- Considered the certification process implemented by management to support the CEO and CFO confirmation of the fairness of the annual financial statements and the system of internal control over financial reporting, as required by section 3.84(k) of the JSE Listings Requirements. This includes consideration of the evaluation report, including identified control deficiencies and management's remedial actions, as well as compensating measures and assurance from other sources in the combined assurance framework.

The committee is satisfied that it has fulfilled its obligations in respect of its scope of responsibilities.

MEMBERSHIP

The membership of the committee comprises 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)
Ms Z Malinga	(appointed in October 2018)
Ms JE Stipp	(appointed in June 2019, retired February 2022)
Dr B Mehlomakulu	(appointed January 2020)
Mr L von Zeuner	(appointed September 2022)
Mr N Sowazi	(appointed October 2022)
Ms E Istavridis	(appointed October 2022)

Biographical details of the current members of the committee are set out in Our Leadership section of the Annual Integrated Report.

AUDIT AND RISK COMMITTEE REPORT continued

FOR THE YEAR ENDED SEPTEMBER 2022

In addition, the CEO, the CFO, Head of Group Internal Audit, the Group Internal Control and Risk Manager and the external auditor 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 2022. Meetings were held with the auditor where management was not present.

No material non-audit services were provided by the external auditor 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 2023 financial year of whom Ms Giuseppina Aldrighetti is the designated auditor for Sappi Limited and Mr Mohammed Hassan 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 2022. The committee has 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

9 December 2022

DIRECTORS' REPORT
FOR THE YEAR ENDED SEPTEMBER 2022

The directors have pleasure in presenting their report for the year ended September 2022.

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 leading provider of woodfibre-based renewable resources. Together with our partners, we are quickly moving toward a more circular economy.

Our raw material offerings (such as dissolving pulp, wood pulp and biomaterials) and end-use products (packaging and specialities papers, graphic papers, casting and release papers and forestry products) are manufactured from woodfibre sourced from sustainably managed forests and plantations, in production facilities powered, in many cases, with bio-energy from steam and existing waste streams. Many of our operations are energy self-sufficient.

Sappi works to build a thriving world to support the planet, people and prosperity.

FINANCIAL RESULTS
The group generated a profit of US$536 million for the year ended September 2022 (95 US cents) compared to a profit of US$13 million (2 US cents) for the prior year.

Detailed commentary on the 2022 financial results is contained in various reviews throughout the Annual Integrated Report.

DIVIDENDS
After the year end the directors have decided in light of the strong performance for the year to declare a cash dividend of 15 US cents.

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 April 2022, the group announced that its South African operations in KwaZulu-Natal had been impacted by adverse weather and flooding. The estimated impact of the lost production at the three mills was approximately 23,000 tons, mainly dissolving pulp. In addition, approximately 45,000 tons of inventory (including dissolving pulp of 30,000 tons) was damaged in the warehouses. Insurance is in place for business interruption and inventory damage subject to normal excesses and Sappi's insurance captive first loss provisions. As a result, there will not be a material impact on EBITDA for the year. However, the estimated net loss after external insurance proceeds of approximately US$18 million will be reflected as a special item expense
- On 29 September 2022, Sappi signed an agreement, subject to certain conditions precedent, to sell its three European graphic paper mills, being Kirkniemi, Stockstadt and Maastricht, to Aurelius Investment Lux One Sarl for a consideration of €272 million consisting of cash, retained receivables and assumed liabilities. The transaction is expected to close once all conditions precedent have been fulfilled in the first calendar quarter of 2023
- In October 2022, the group offered to purchase for cash a portion of its outstanding 3.125% Senior Notes due in 2026. The result of this tender offer was a repurchase of US$206 million (€210 million) of nominal Senior Notes in the tender offer at a purchase price of 92.41%.

LIQUIDITY AND FINANCING
At September 2022, we had liquidity comprising US$780 million of cash on hand and US$615 million available committed facilities in Europe and South Africa.

Net debt decreased from US$1,946 million to US$1,163 million as the group generated net cash of US$506 million during the year (2021: net cash generated of US$29 million) and incurred a US$280 million foreign currency exchange gain due to the strengthening of the US$ against the €. The strong cash generation for the year was due to the substantially higher profitability in the year.

Details of our non-current borrowings are set out in note 22.

DIRECTORS' REPORT continued

FOR THE YEAR ENDED SEPTEMBER 2022

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 amounted to US$361 million (2021: US$374 million). Of the above, expansion expenditure was US$173 million (2021: US$198 million) with maintenance expenditure of US$188 million (2021: US$176 million).

Fixed assets of US$295million (€273 million) were transferred to held-for-sale assets at year-end.

SUBSEQUENT EVENTS
Details of subsequent events are as set out in note 34.

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 retirement of Ms JE Stipp as an independent non-executive director with effect from 9 February 2022
- The appointment of Mr Louis von Zeuner as independent non-executive director with effect from 1 September 2022
- The appointment of Mr Nkululeko (Nkunku) Sowazi as independent non-executive director with effect from 3 October 2022
- The appointment of Ms Eleni Istavridis as independent non-executive director with effect from 3 October 2022.

At the end of September 2022, there were 12 directors, two of whom are executive directors. All 10 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 P 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 35 to 37.

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 38.

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 84, which comprise the group balance sheet as at September 2022, 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 2022, 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 Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards).* 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.

Valuation of plantations

Refer to note 2.3.4 for the accounting policies applied and note 12 to the Group financial statements

Key audit matter	How the matter was addressed in our audit
Plantations are stated at fair value less costs to sell and is considered to be a Level 3 measure in terms of the fair value measurement hierarchy as established by 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 (together as standing tons); and • Discount rate for immature timber. Given the complexity and the significant estimation and judgement involved in the determination of the fair value of plantations, this was considered a key audit matter in respect of the consolidated financial statements.	Our team included senior audit team members and valuation specialists, who understand the Group's business and industry. Our audit procedures related to the valuation of plantations included: • Critically evaluating the fair value methodology against the criteria in IAS 41, *Agriculture* (IAS 41) and IFRS 13 and evaluating the key measurements and assumptions applied by management in determining the fair value of the plantations; • Challenging the consistency, reasonableness 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; and • 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 also 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.

INDEPENDENT AUDITOR'S REPORT continued

FOR THE YEAR ENDED SEPTEMBER 2022

Assets held-for-sale – Europe segment

Refer to note 2.2.20 for the accounting policies applied and note 9 to the Group financial statements

Key audit matter

On 29 September 2022, the Group signed an agreement, subject to certain conditions precedent, to sell its three European graphic paper mills, being:
- Kirkniemi;
- Stockstadt; and
- Maastricht

These operations were classified as held-for-sale at September 2022 with assets of US$281 million and liabilities of US$240 million being classified as held-for-sale. Before being classified as held-for-sale in accordance with IFRS 5, *Non-current assets held-for-sale and discontinued operations* (IFRS 5), impairment testing was performed in accordance with IAS 36, *Impairment of assets* (IAS 36), on the cash generating units which these mills formed a part of. Based on this assessment no impairment was required.

The assets held-for-sale were subsequently measured at the lower of their carrying amount and fair value less costs to sell in accordance with IFRS 5. The disposal group of assets were written down by US$183 million to fair value less costs to sell.

The determination of assets held-for-sale requires complex judgements in determining whether the requirements for classification as held-for-sale under IFRS 5 have been met. The key inputs and assumptions involving significant judgement and having the most significant impact are:
- Criteria and timing for classification as held-for-sale;
- Evaluation of conditions precedent that would impact whether the sale is highly probable;
- Measurement of the disposal group at the lower of the carrying amount and fair value less costs to sell; and
- Considerations around presentation of the assets held for sale.

Given the complexity and the significant amount of judgement involved in the determination of assets held for sale, this matter was considered a key audit matter in respect of the consolidated financial statements.

How the matter was addressed in our audit

Our team included senior audit team members, who understand the Group's business and industry.

Our audit procedures included an evaluation of management's conclusions on the criteria and timing for classification of the disposal group as held-for-sale under IFRS 5 as well as an evaluation of management's conclusions on the conditions precedent and the presentation as discontinued operation.

This was performed through the following procedures:
- Inspection of board minutes for approval of the sale;
- Assessment of the criteria and timing for classification through inspection of the underlying agreements between parties and any other internal information such as minutes of board and lead management team meetings;
- Challenging the assumptions reached by management in their assessment of the conditions precedent in the assessment of the sale being highly probable through gathering understanding of those conditions included in the underlying agreements and corroborative inquiries of different members of management (i.e. CEO, CFO and head of accountants); and
- Assessment of management's conclusion relating to not classifying the assets held-for-sale as a discontinued operation against the criteria in terms of IFRS 5.

Our audit procedures related to the fair value less costs to sell on assets classified as held-for-sale included:
- Assessing the accuracy of the fair value measurement less costs to sell of the disposal group based on the agreement signed on 29 September 2022 and comparing this to the carrying amount of the disposal group; and
- Assessing the costs to sell through inspection of the underlying share purchase agreements (SPA) between the parties for identification of costs and tracing the costs to sell to appropriate supporting documentation (i.e. contracts directly linked to the transaction, engagement letters with advisors as well as certain principles agreed in the final draft SPA).

We also considered the adequacy and appropriateness of the Group's disclosures in respect of the assets held-for-sale in accordance with the requirements in IFRS 5.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "2022 Annual Integrated Report" and in the document titled "2022 Group Annual Financial Statements for the year ended September 2022", 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 and will 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 4 December 2015, we report that KPMG Inc. has been the auditor of Sappi Limited for six years.

KPMG Inc.
Registered Auditor

Per Coenie Basson
Chartered Accountant (SA)
Registered Auditor
Director

9 December 2022

85 Empire Road, Parktown
Johannesburg, 2193

GROUP INCOME STATEMENT

FOR THE YEAR ENDED SEPTEMBER 2022

US$ million	Note	2022	2021
Revenue	3	7,296	5,265
Cost of sales	4	5,926	4,716
Gross profit		1,370	549
Selling, general and administrative expenses	4	410	376
Other operating (income) expenses		191	30
Share of profit from equity-accounted investees net of tax		(1)	(3)
Operating profit (loss)	4	770	146
Net finance costs	5	97	134
Finance costs		108	112
Finance income		(10)	(8)
Net foreign exchange gains		(1)	(1)
Net fair value loss on financial instruments		–	31
Profit (loss) before taxation		673	12
Taxation charge	6	137	(1)
Profit (loss) for the year		536	13
Basic earnings per share (US cents)	7	95	2
Weighted average number of ordinary shares in issue (millions)		563.3	549.7
Diluted earnings per share (US cents)	7	90	2
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)		601.1	552.5

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED SEPTEMBER 2022

US$ million	Note	2022	2021
Profit (loss) for the year		536	13
Other comprehensive income net of tax	20	(161)	252
Item that will not be reclassified subsequently to profit or loss		35	90
Actuarial gains (losses) on post-employment benefit funds		32	92
Tax effect on above item and other tax items		3	(2)
Items that may be reclassified subsequently to profit or loss		(196)	162
Exchange differences on translation to presentation currency		(152)	164
Movements in hedging reserves		(46)	(1)
Tax effect on above items		2	(1)
Total comprehensive income for the year		375	265

GROUP BALANCE SHEET

AS AT SEPTEMBER 2022

US$ million	Note	2022	2021
ASSETS			
Non-current assets		**3,430**	4,255
Property, plant and equipment	10	**2,705**	3,325
Right-of-use assets	11	**76**	110
Plantations	12	**382**	477
Deferred tax assets	13	**46**	59
Goodwill and intangible assets	14	**89**	110
Equity-accounted investees	15	**8**	10
Other non-current assets	16	**123**	164
Derivative financial instruments	31	**1**	–
Current assets		**2,799**	1,931
Inventories	17	**780**	841
Trade and other receivables	18	**939**	703
Derivative financial instruments	31	**8**	4
Taxation receivable		**1**	7
Cash and cash equivalents		**780**	366
Assets held-for-sale	9	**291**	10
Total assets		**6,229**	6,186
EQUITY AND LIABILITIES			
Shareholders' equity		**2,358**	1,970
Ordinary share capital and share premium	19	**728**	877
Non-distributable reserves	21	**117**	121
Foreign currency translation reserve		**(191)**	(194)
Hedging reserves		**(76)**	(43)
Retained earnings		**1,780**	1,209
Non-current liabilities		**2,347**	2,907
Interest-bearing borrowings	22	**1,688**	2,062
Lease liabilities		**66**	94
Deferred tax liabilities	13	**361**	345
Defined benefit liabilities	29	**180**	327
Other non-current liabilities	23	**52**	73
Derivative financial instruments	31	**–**	6
Current liabilities		**1,524**	1,309
Interest-bearing borrowings	22	**171**	132
Lease liabilities		**18**	24
Trade and other payables	24	**1,045**	1,131
Provisions	24	**4**	10
Derivative financial instruments	31	**21**	4
Taxation payable		**25**	8
Liabilities associated with assets held-for-sale	9	**240**	–
Total equity and liabilities		**6,229**	6,186

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 2022

US$ million	Note	2022	2021
Cash retained from operating activities		**882**	407
Cash generated from operations	25.1	**1,267**	472
– Decrease (increase) in working capital	25.2	**(270)**	39
Cash generated from operating activities		**997**	511
– Finance costs paid	25.3	**(96)**	(103)
– Lease interest		**(6)**	(7)
– Finance income received		**10**	8
– Taxation paid	25.4	**(23)**	(2)
Cash utilised in investing activities		**(376)**	(378)
Investment to maintain operations		**(196)**	(176)
Investment to expand operations		**(172)**	(198)
Proceeds on disposal of property, plant and equipment	25.5	**2**	4
Investment in equity-accounted investees		**(1)**	–
Dividends received from equity-accounted investees		**5**	–
Decrease (increase) in other non-current assets		**(14)**	(8)
Cash effects of financing activities	25.6	**(43)**	33
Proceeds from interest-bearing borrowings		**46**	690
Repayment of interest-bearing borrowings		**(65)**	(631)
Lease repayments		**(24)**	(26)
Net movement in cash and cash equivalents		**463**	62
Cash and cash equivalents at beginning of year		**366**	279
Translation effects		**(49)**	25
Cash and cash equivalents at end of year		**780**	366

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED SEPTEMBER 2022

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 2020	546.1	32	678	710	101	(245)	(40)	1,106	**1,632**
Share-based payments	–	–	–	–	8	–	–	–	**8**
Transfers of vested share options	1.3	–		–	–	–	–	–	**–**
Translation of parent company's ordinary share capital and share premium	–	5	97	102	–	(102)	–	–	**–**
Issue of shares	14.1	1	25	26		–	–		**26**
Convertible bond – equity portion	–	–	39	39		–	–		**39**
Profit (loss) for the year	–	–	–	–	–	–	–	13	**13**
Other comprehensive (loss) income	–	–	–	–	12	153	(3)	90	**252**
Balance – September 2021	561.5	38	839	877	121	(194)	(43)	1,209	**1,970**
Share-based payments	–	–	–	–	7	–	–	–	**7**
Transfers of vested share options	0.3	–	–	–	–	–	–	–	**–**
Translation of parent company's ordinary share capital and share premium	–	(7)	(148)	(155)	–	155	–	–	**–**
Issue of shares	3.4	–	6	6	–	–	–	–	**6**
Profit (loss) for the year	–	–	–	–	–	–	–	536	**536**
Other comprehensive (loss) income	–	–	–	–	(11)	(152)	(33)	35	**(161)**
Balance – September 2022	565.2	31	697	728	117	(191)	(76)	1,780	**2,358**
Note				*19*	*21*				

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 2022

1. BASIS OF PREPARATION

The consolidated financial statements of Sappi Limited (the company) as at and for the year ended September 2022 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 Annual 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
- The requirements of the Companies Act 2008 of South Africa (the Companies Act).

The Group Annual Financial Statements were authorised for issue by the board of directors on 9 December 2022.

The Group Annual 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 Annual 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:
- 27 September 2021 to 2 October 2022 (53 weeks)
- 28 September 2020 to 26 September 2021 (52 weeks).

Assets and liabilities and, income and expenses are not offset in the income statement or balance sheet unless specifically permitted by IFRS.

Going concern

The group generated a profit of US$536 million for the year ended September 2022 (2021: US$13 million). The directors have reviewed the group's financial position, existing borrowing facilities and cash on hand, and are satisfied that the group will continue as a going concern for the foreseeable future.

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 Annual 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 Annual Financial Statements are presented in US Dollar, which is the group's presentation currency.

The functional currency of the parent company is Rand (ZAR). 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:

Period-end rate	2022	2021
US$1 = ZAR	18,154	14,966
€1 = US$	0,980	1,172
Annual average rate		
US$1 = ZAR	15,783	14,851
€1 = US$	1,085	1,196

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

(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 time frame 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
- 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 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
- 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
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The group has concluded that it holds its financial assets to collect the contractual cash flows.

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
- 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.

2. ACCOUNTING POLICIES continued

2.2 Summary of accounting policies continued

2.2.3 Financial instruments 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.

(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.

(vi) Impairment of financial assets

The group measures loss allowances at an amount equal to life-time 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.

2. ACCOUNTING POLICIES continued

2.2 Summary of accounting policies continued

2.2.3 Financial instruments continued

(vi) Impairment of financial assets continued

The group establishes an allowance for impairment that represents its estimate of credit losses in respect of trade and other receivables. The main component 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.

(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 assets 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.

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 10 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. ACCOUNTING POLICIES continued

2.2 Summary of accounting policies continued

2.2.7 Leases

At inception of a contract, the group assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of the identified asset, the group assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified
- The group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use
- The group has the right to direct the use of the asset. The group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the group has the right to direct the use of the asset if either:
  - The group has the right to operate the asset or
  - The group designed the asset in a way that predetermines how and for what purpose it will be used.

As a lessee

The group's leasing activities mainly relate to the lease of premises, plant and equipment. Information about leases to which the group is a lessee is presented in note 11.

The group applies the practical expedient not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. This expedient is applied by class of underlying assets. Current identified class to which the practical expedient is applied is to is building leases. For all other leases, the non-lease components are separated.

Contracts sometimes include amounts payable by the lessee for activities and costs that do not transfer a good or service to the lessee. For example, a lessor may include in the total amount payable a charge for administrative tasks or other costs it incurs associated with the lease, that do not transfer a good or service to the lessee. Such amounts payable do not give rise to a separate component of the contract, but are considered to be part of the total consideration that is allocated to the separately identified components of the contract, eg property taxes, insurance, admin costs.

The group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any prepaid and accrued lease payments plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use asset is periodically reduced by impairment losses if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate. Generally the group uses its incremental borrowing rate at the date of initial application as determined by group Treasury which is based on a portfolio of leases with similar lease terms. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, or if there is a change in the group's assessment of the amount expected to be payable under a residual value guarantee if the group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or it is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease term is the non-cancellable period of a lease, together with both:

- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option
- Periods after an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments
- Variable lease payments that depend on an index rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable under a residual value guarantee
- The exercise price under a purchase option that the group is reasonably certain to exercise, lease payments in an optional renewal period if the group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the group is reasonably certain not to terminate early.

2. ACCOUNTING POLICIES continued

2.2 Summary of accounting policies continued

2.2.7 Leases continued

Short-term leases and leases of low-value assets

The group has elected not to recognise right-of-use assets and lease liabilities of low-value assets and short-term leases. The group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. Low-value leases are deemed to be below that of US$5,000 and mainly relate to IT equipment.

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, are 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.

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.

2.2.10 Revenue

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 inco terms where goods are sold to customers overseas. The transaction price is the expected consideration to be received, to the extent that it is highly probable that there will not be a significant reversal of revenue in future, after deducting discounts, volume rebates, value added tax and other sales taxes. When the period of time between delivery of goods and subsequent payment by the customer is less than one year, no adjustment for a financing component is made. Depending on the shipping terms used, shipping and handlings 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.

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. ACCOUNTING POLICIES continued

2.2 Summary of accounting policies continued

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.

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.

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 30 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

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 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 31 and 32 for details of the hedging relationships as well as the impact of hedges on the pre-tax profit or loss for the period.

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 management's judgement 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 24 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 is 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.

2. ACCOUNTING POLICIES continued

2.2 Summary of accounting policies continued

2.2.20 Assets held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying value and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the group's other accounting policies. Impairment losses on initial classification as held-for-sale or held for distribution and subsequent gains and losses on remeasurement are recognised in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted. The key inputs and assumptions are the criteria and timing for classification as held-for-sale, evaluation of conditions precedent, measurement of the disposal group at the lower of the carrying amount and fair value less costs to sell and presentation as discontinued operation.

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. Given the decision to sell the three European graphic paper mills within our European segment (refer note 9), impairment tests were performed for the European CGUs to determine each CGUs recoverable amount. The recoverable amount is measured at the higher of fair value less cost of disposal and value in use. An impairment loss is recognised to the extent that the carrying amount of the CGU exceeds its recoverable amount.

In assessing assets for impairment, the group estimates the asset's value in use based on its useful life, future cash flows based on management's five-year plan, 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, the continued business impact of Covid-19 and the long-term growth rate. The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation. The pre-tax real discount rates used for impairment testing ranged from 6.69% to 14.49% (2021: 5.67% to 13.28%). For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the CGU to which the asset belongs. Additionally, where required, 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. There were no changes in the identification of CGUs in the current year.

Where impairment loss 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

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Land, whether in use or lying fallow, is stated at cost and not depreciated. 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.

Management's 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. ACCOUNTING POLICIES continued

2.3 Critical accounting policies and key sources of estimation uncertainty continued

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.

(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 13 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 with all changes in fair value being recognised in profit or loss. The fair value of forestry assets is a level 3 measure in terms of the fair value measurement hierarchy. The group uses the income approach in determining fair value as it believes that this method yields the most appropriate valuation.

The key inputs are the selling prices, costs to sell, discount rates, volume and growth estimations. The impact of these inputs are disclosed in note 12.

- Selling prices and costs to sell

The net selling price is defined as the selling price less the costs to sell which include the costs of transport, harvesting, loading and overheads. The selling prices are based on external third-party transactions and are benchmarked against international pricing of recent market transactions and which are influenced by species, maturity profile and location of timber. Forecast consumer price indexes are also considered for both timber prices and costs to sell.

A current net selling price is used for mature timber that is expected to be felled within 12 months from the end of the reporting period as such timber is expected to be used in the short-term whereas a 12 quarter historical net selling price is used for immature timber and mature timber that is expected to be felled 12 months after the reporting date. This is due to the long-term nature of forestry assets where the quantity, age and readiness for harvesting need to be considered in determining a fair value rate. Plantations within South Africa are generally considered mature from around five years of age. To ensure the sustainability of a plantation enterprise, however, a farmer would typically only harvest timber from nine years of age with any timber falling between the five to eight years of age range would not be harvested despite being considered mature. Thus there is no observable fair value of mature trees less than nine years of age because there is no market activity for this resource in its current condition.

2. ACCOUNTING POLICIES continued

2.3 Critical accounting policies and key sources of estimation uncertainty continued

2.3.4 Plantations continued

- Discount rate

The discount rate used is the real pre-tax discount rate.

- 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 include harvesting (fellings) and damages. The fair value of timber felled is determined using the current net selling price while damages are calculated using the 12 quarter historical net selling price. 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 tons multiplied by the current net selling price. Damages depletion costs are accounted for as actual damaged tons multiplied by the 12 quarter historical net selling price. Damaged tons 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 29 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 following standards, interpretations, amendments and improvements to standards where 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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform Phase 2*
- IFRS 16 *Covid-19-Related Rent Concessions*.

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.

- IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* – September 2024
- IAS 8 *Definition of Accounting Estimates* – September 2024
- IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies* – September 2024
- IAS 1 *Classification of Liabilities as Current or Non-Current* – September 2024
- IAS 16 *Proceeds before intended Use* – September 2023
- IAS 37 *Onerous Contracts – Cost of Fulfilling a Contract* – September 2023
- Annual Improvements to IFRS Standards 2018-2020 – September 2023.

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, being the group executive committee, for the purposes of deciding on how to allocate resources and assess performance.

The group's revenue from contracts with customers comprises mostly of the sale of dissolving pulp, coated paper and speciality paper in North America; coated, uncoated and speciality paper in Europe as well as dissolving pulp, paper pulp, and uncoated and commodity paper in Southern Africa. Revenue is recognised at a point in time when the goods are delivered to the customer. Customer payment terms do not contain significant financing components. Sappi acts as an agent for the fulfilment of shipping activities and as there is no margin earned on the shipping of the goods, the net revenue recognised for shipping is nil (2021: nil).

The group operates a trading network called Sappi Trading for the international marketing and distribution of dissolving 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.

3. SEGMENT INFORMATION continued

	North America		Europe	
US$ million	2022	2021	2022	2021
Income statement				
Total sales	**2,270**	1,762	**4,017**	2,644
Intersegmental sales	**(70)**	(74)	**(214)**	(145)
External sales[1]	**2,200**	1,688	**3,803**	2,499
Operating profit (loss) excluding special items	**369**	105	**416**	(52)
Special items – (gains) losses[2]	**(29)**	1	**207**	17
Operating profit (loss) by segment	**398**	104	**209**	(69)
EBITDA excluding special items[2]	**464**	209	**535**	93
Share of profit of equity-accounted investees net of tax	**–**	–	**–**	–
Depreciation and amortisation	**(95)**	(104)	**(119)**	(145)
Asset impairments	**–**	–	**–**	(12)
(Loss) gain on remeasurement of held-for-sale assets	**–**	4	**(183)**	–
Profit (loss) on disposal, written off assets and incremental costs	**–**	–	**(20)**	3
Fellings	**–**	–	**–**	–
Plantation fair value adjustment	**–**	–	**–**	–
Net restructuring provisions	**–**	–	**–**	(2)
Balance sheet				
Capital expenditures	**58**	48	**134**	121
Net operating assets[2]	**1,308**	1,322	**1,191**	1,478
Property, plant and equipment	**874**	904	**697**	1,123
Reconciliation of operating profit excluding special items to operating profit (loss) by segment:				
Operating profit excluding special items	**369**	105	**416**	(52)
Special items – gains (losses)[2]	**29**	(1)	**(207)**	(17)
Operating profit (loss) by segment	**398**	104	**209**	(69)
Special items cover those items which management believes 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:				
EBITDA excluding special items[2]	**464**	209	**535**	93
Depreciation and amortisation	**(95)**	(104)	**(119)**	(145)
Operating profit (loss) excluding special items	**369**	105	**416**	(52)
Special items – gains (losses)[2]	**29**	(1)	**(207)**	(17)
Plantation price fair value adjustment				
Net restructuring provisions				
Profit (loss) on disposal, written off assets and incremental costs				
Asset impairments				
(Loss) gain on remeasurement of held-for-sale assets				
Equity-accounted investees (impairment) reversal				
Insurance recoveries				
Fire, flood, storm and other events				
Segment operating profit (loss)	**398**	104	**209**	(69)
Net finance costs				
Profit (loss) before taxation				
Taxation charge				
Profit (loss) for the year				

(1) *Sales of products are allocated to where the product is manufactured.*
(2) *Refer to the definitions below.*
(3) *Includes the group's treasury operations, insurance captive and delivery costs netted off against revenue.*

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, lease liabilities and overdraft).
Special items – special items cover those items which management believes 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	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
	1,453	1,187	**(134)**	(88)	**7,606**	5,505
	(26)	(21)	**–**	–	**(310)**	(240)
	1,427	1,166	**(134)**	(88)	**7,296**	5,265
	250	151	**3**	(1)	**1,038**	203
	72	29	**18**	10	**268**	57
	178	122	**(15)**	(11)	**770**	146
	334	227	**6**	3	**1,339**	532
	1	3	**–**	–	**1**	3
	(84)	(76)	**(3)**	(4)	**(301)**	(329)
	–	(7)	**–**	–	**–**	(19)
	–	–	**–**	–	**(183)**	4
	(43)	(2)	**–**	–	**(63)**	1
	(55)	(67)	**–**	–	**(55)**	(67)
	36	66	**–**	–	**36**	66
	–	–	**–**	–	**–**	(2)
	145	201	**8**	(8)	**345**	362
	1,569	1,815	**–**	(7)	**4,068**	4,608
	1,118	1,287	**16**	11	**2,705**	3,325

	250	151	**3**	(1)	**1,038**	203
	(72)	(29)	**(18)**	(10)	**(268)**	(57)
	178	122	**(15)**	(11)	**770**	146

	334	227	**6**	3	**1,339**	532
	(84)	(76)	**(3)**	(4)	**(301)**	(329)
	250	151	**3**	(1)	**1,038**	203
	(72)	(29)	**(18)**	(10)	**(268)**	(57)
					(38)	(13)
					–	(2)
					(63)	1
					–	(19)
					(183)	4
					3	(4)
					30	(1)
					(17)	(23)
	178	122	**(15)**	(11)	**770**	146
					(97)	(134)
					673	12
					(137)	1
					536	13

3. SEGMENT INFORMATION continued

Reconciliation of segment assets to total assets:

	Group	
US$ million	2022	2021
Net operating assets(2)	4,068	4,608
Deferred tax assets	46	59
Cash and cash equivalents	780	366
Trade and other payables	1,045	1,131
Provisions	4	10
Derivative financial instruments	21	4
Taxation payable	25	8
Liabilities associated with assets held-for-sale	240	–
Total assets	6,229	6,186

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.

	Group	
US$ million	2022	2021
Sales		
Pulp(4)	1,260	952
Packaging and speciality papers(4)	2,107	1,578
Graphic papers(4)	3,975	2,740
Forestry	88	83
Delivery cost adjustment(3)	(134)	(88)
Total	7,296	5,265
Operating profit excluding special items		
Pulp(4)	250	127
Packaging and speciality papers(4)	264	109
Graphic papers(4)	521	(32)
Unallocated and eliminations(3)	3	(1)
Total	1,038	203
EBITDA excluding special items		
Pulp(4)	325	197
Packaging and speciality papers(4)	359	214
Graphic papers(4)	650	120
Unallocated and eliminations(3)	5	1
Total	1,339	532

(2) *Refer to the definitions below.*
(3) *Includes the group's treasury operations, insurance captive and delivery costs netted off against revenue.*
(4) *Pulp, Packaging and speciality papers and Graphic papers were previously referred to as Dissolving Pulp, Packaging and specialities and Graphics respectively. There has been no change to the previously reported amounts.*

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, lease liabilities and overdraft).
Special items – special items cover those items which management believes 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.

4. OPERATING PROFIT

Operating profit has been arrived at after charging (crediting):

US$ million	2022 Cost of sales	2022 Selling, general and administrative expenses	2021 Cost of sales	2021 Selling, general and administrative expenses
Raw materials, energy and other direct input costs	**3,749**	**–**	2,751	–
Wood (includes growth and felling adjustments)[1]	**853**	**–**	652	–
Energy	**801**	**–**	437	–
Chemicals	**1,042**	**–**	784	–
Pulp	**983**	**–**	789	–
Other variable costs	**70**	**–**	89	–
Plantation price fair value changes	**38**	**–**	13	–
Employment costs	**908**	**196**	889	188
Depreciation	**268**	**24**	295	23
Delivery charges	**631**	**–**	486	–
Maintenance	**247**	**–**	241	–
Other overheads	**85**	**–**	41	–
Marketing and selling expenses	**–**	**72**	–	65
Administrative and general expenses	**–**	**118**	–	100
	5,926	**410**	4,716	376

US$ million	2022	2021
Silviculture costs (included within cost of sales)	**73**	74
Auditor's remuneration	**4**	5
Research and development costs	**47**	43
Amortisation	**9**	10
Cost on derecognition of loans and receivables[2]	**11**	7
Impairment of property, plant and equipment	**–**	19
Loss (gain) on remeasurement of assets held-for-sale[3]	**183**	(4)
Insurance recoveries[4]	**(30)**	1
(Reversal) impairment of equity-accounted investee	**(3)**	4
Allowance for credit losses	**30**	6
Net restructuring provisions	**–**	2
Assets written off	**19**	–
(Profit) loss on disposal of property, plant and equipment	**3**	(1)
Employment costs consist of	**1,104**	1,077
Wages and salaries	**1,056**	987
Defined contribution plan expense	**23**	35
Defined benefit pension plan expense	**(10)**	22
Other defined benefit plan expense	**2**	2
Share-based payment expense	**7**	8
Other	**26**	23

	2022	2021
(1) *Includes changes in plantation volumes*		
Fellings	***55***	*67*
Growth	***(74)***	*(79)*

(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.*

(3) *On 29 September 2022, Sappi signed an agreement, subject to certain conditions precedent, to sell its three European graphic paper mills, being Kirkniemi, Stockstadt and Maastricht, to Aurelius Investment Lux One Sarl. The disposal group of assets were written down by US$183 million (€169 million) to fair value less costs to sell. In the prior year, a remeasurement gain of US$4 million was recorded within our North American segment writing up the held-for-sale assets to their fair value less costs to sell. Refer to note 9.*

(4) *In April 2022, severe flooding occurred in the KwaZulu-Natal province of South Africa resulting in widespread damage and losses. As a result, the group's South African segment wrote off inventory, incurred incremental costs and business interruption losses amounting to US$48 million to the end of September 2022. Related insurance proceeds amounting to US$30 million have been recognised in other operating expenses (income) in the income statement.*

Impairments and held-for-sale remeasurements are disclosed within other operating expenses.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

5. NET FINANCE COSTS

US$ million	2022	2021
Interest and other finance costs on liabilities carried at amortised cost	105	119
Interest on overdrafts	–	1
Interest on redeemable bonds and other loans	99	111
Premium and costs on early redemption of redeemable bonds and other loans	–	–
Costs on early settlement of loans		
Accelerated amortisation on early settlement of redeemable bonds and other loans	–	–
Interest cost on lease liabilities	6	7
Net interest on employee benefit liabilities	3	5
Interest capitalised to property, plant and equipment[1]	–	(12)
Finance costs	108	112
Finance income received on assets carried at amortised cost	(10)	(8)
Interest income on bank accounts	(6)	(7)
Interest income on other loans and investments	(4)	(1)
Net foreign exchange gains	(1)	(1)
Fair value loss on convertible bond	–	31
	97	134

[1] *Relates to interest on specific borrowings.*

6. TAXATION CHARGE

US$ million	2022	2021
Current taxation		
Current year	51	10
Prior year	(3)	1
Other company taxes	–	–
Deferred taxation		
Current year	104	(11)
Prior year	(3)	(2)
Attributable to tax rate changes	(12)	1
	137	(1)
Reconciliation of the tax rate		
Profit before taxation	673	12
Profit-making regions	673	221
Loss-making regions	–	(209)
Taxation at the average statutory tax rate	179	3
Profit-making regions at 26% (2021: 26%)	179	57
Loss-making regions at 28% (2021: 26%)	–	(54)
Non-taxable income[1]	(3)	(1)
Special tax allowances	(3)	(11)
Non-deductible expenditure[2]	9	11
Effect of tax rate changes[3]	(12)	1
No tax relief on losses	–	21
No Tax relief on assets held-of-sale	53	–
No tax charge on profits	(55)	(18)
Recognition of deferred tax assets	(25)	(6)
Prior year adjustments[4]	(6)	(1)
Taxation (relief) charge	137	(1)
Effective tax rate for the year	20%	(8%)

In addition to income taxation charges to profit or loss, a taxation charge of US$6 million (2021: US$3 million relief) has been recognised directly in other comprehensive income (refer to note 13).

[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 relate to the decrease in the tax rate from 28% to 27% in South Africa.*
[4] *The prior year adjustments primarily relate to prior year disputes with revenue authorities settled in favour of the group.*

7. EARNINGS PER SHARE

Basic earnings per share (EPS)

EPS is based on the group's profit (loss) for the year divided by the weighted average number of shares in issue during the year under review.

	2022 Profit US$ million	2022 Shares million	2022 EPS US cents	2021 Profit US$ million	2021 Shares million	2021 EPS US cents
Basic EPS calculation	**536**	**563.3**	**95**	13	549.7	2
Convertible bond	**5**	**36.7**				
Performance shares		**1.1**			2.8	
Diluted EPS calculation[1]	**541**	**601.1**	**90**	13	552.5	2

In the current and prior financial year, all share options, and share conversions that could potentially dilute EPS in the future are included in the calculation above.

Headline earnings per share[2]

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	2022 Gross	2022 Tax	2022 Net	2021 Gross	2021 Tax	2021 Net
Attributable earnings to ordinary shareholders	**673**	**137**	**536**	12	(1)	13
Impairments of assets	**–**	**–**	**–**	19	(2)	17
Equity-accounted investees impairments	**(3)**	**–**	**(3)**	4	–	4
Profit (loss) on disposal and written off assets	**22**	**(7)**	**15**	(1)	(1)	(2)
Gain on remeasurement of assets held-for-sale	**183**	**–**	**183**	(4)	–	(4)
Headline earnings	**875**	**130**	**731**	30	2	28
Weighted average number of ordinary shares in issue (millions)			**563.3**			549.7
Headline earnings per share (US cents)			**130**			5
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**601.1**			552.5
Diluted headline earnings per share[1] (US cents)			**122**			5

[1] *The effects of anti-dilutive potential ordinary shares are ignored in the calculation of diluted EPS and diluted headline earnings per share. The convertible bond is a dilutive instrument in 2022 and its effects on profit or loss and the weighted average number of shares for the period has been adjusted for in determining the diluted EPS for the period.*

[2] ***Headline earnings** – as defined in Circular 1/2021, issued by the South African Institute of Chartered Accountants in March 2021, 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.

	2022			2021		
US$ million	Gross	Tax	Net	Gross	Tax	Net
Attributable earnings to ordinary shareholders	**673**	**137**	**536**	12	(1)	13
Special items	**268**	**(19)**	**249**	57	(11)	46
Fair value loss on convertible bond			**–**	31	(9)	22
Tax special items	**–**	**(6)**	**(6)**	–		–
Earnings excluding special items	**941**	**112**	**779**	100	(21)	81
Weighted average number of ordinary shares in issue (millions)			**563.3**			549.7
EPS excluding special items (US cents)			**138**			15
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**601.1**			592.7
Diluted EPS excluding special items (US cents)			**130**			14

8. DIVIDENDS

After year end the directors have resolved to declare a gross cash dividend (number 89) out of income earned for the financial year ended September 2022 of 15 US cents per ordinary share in issue on the record date being 13 January 2023. The dividend is payable in ZAR at an exchange rate of R17.81877, being R267.28155 cents per share.

9. HELD-FOR-SALE ASSETS AND LIABILITIES

On 29 September 2022, Sappi signed an agreement, subject to certain conditions precedent, to sell its three European graphic paper mills within our European segment, being Kirkniemi, Stockstadt and Maastricht, to Aurelius Investment Lux One Sarl for a consideration of €272 million consisting of:

	EURO
Cash	**41**
Retained receivables	**170**
Assumed liabilities	**61**
	272

In terms of the agreement which is structured in the form of a share deal, the purchaser will acquire the specific legal entities which own and control the assets and liabilities of the individual mills. The disposal group of assets were written down by US$183 million (€169 million) to fair value less costs to sell. The transaction is expected to close once all conditions precedent have been fulfilled in the first calendar quarter of 2023. Management concluded that the disposal group does not meet the definition of a discontinued operation. The major classes of assets held-for-sale or liabilities associated with assets held-for-sale are as follows:

	US$
Property, plant and equipment	**102**
Right-of-use assets	**9**
Other non-current assets	**1**
Inventories	**121**
Trade and other receivables	**48**
Assets held-for-sale	**281**
Other non-current liabilities	**37**
Trade and other payables	**198**
Lease liabilities	**2**
Provisions	**3**
Liabilities associated with assets held-for-sale	**240**
Net assets classified as held-for-sale	**41**

Included in assets held-for-sale is US$10 million relating to assets in North America which have been held-for-sale since the prior year. These assets were sold subsequent to year-end in November 2022. Refer to note 34.

US$ million	2022	2021
10. PROPERTY, PLANT AND EQUIPMENT		
Land and buildings[1]		
At cost	**1,122**	1,436
Accumulated depreciation and impairments	**(745)**	(940)
	377	496
Plant and equipment[2]		
At cost	**6,797**	8,472
Accumulated depreciation and impairments	**(4,469)**	(5,643)
	2,328	2,829
Aggregate cost	**7,919**	9,908
Aggregate accumulated depreciation and impairments	**(5,214)**	(6,583)
Aggregate book value[3]	**2,705**	3,325

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 2020	488	2,615	**3,103**
Additions	20	342	**362**
Finance costs capitalised	–	12	**12**
Disposals	–	(3)	**(3)**
Depreciation	(32)	(257)	**(289)**
Impairments	–	(19)	**(19)**
Translation differences	20	139	**159**
Net book value at September 2021	496	2,829	**3,325**
Additions	48	298	**346**
Disposals	–	(5)	**(5)**
Depreciation	(29)	(236)	**(265)**
Transfers to assets held-for-sale	(79)	(216)	**(295)**
Translation differences	(59)	(342)	**(401)**
Net book value at September 2022	377	2,328	**2,705**

(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) *Included within plant and equipment is an amount of US$180 million (2021: US$590 million) which relates to assets under construction.*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

US$ million	Land and buildings	Plant and equipment[1]	Total
11. RIGHT-OF-USE ASSETS			
Net book value at September 2020	60	41	**101**
Additions	22	13	**35**
Disposals	(3)	–	**(3)**
Depreciation	(14)	(16)	**(30)**
Translation differences	6	1	**7**
Net book value at September 2021	71	39	**110**
Additions	9	8	**17**
Disposals	(3)	(1)	**(4)**
Depreciation	(14)	(13)	**(27)**
Transfers to assets held-for-sale	–	(9)	**(9)**
Translation differences	(7)	(4)	**(11)**
Net book value at September 2022	56	20	**76**

[1] *Plant and equipment includes vehicles, the book value of which does not warrant disclosure as a separate class of assets.*

	2022	2021
Amounts recognised in profit (loss)		
Interest on lease liabilities	**6**	7
Expenses related to short-term and low-value asset leases	**8**	6
Amounts recognised in the statement of cash flows		
Principal cash flow lease payments	**(24)**	(26)

US$ million	2022	2021
12. PLANTATIONS		
Fair value of plantations at beginning of year	**477**	419
Additions	**7**	–
Gains arising from growth	**74**	79
Fire, flood, storms and related events	**(1)**	(2)
Gain arising from fair value price changes	**(38)**	(13)
Harvesting – agriculture produce (fellings)	**(55)**	(67)
Translation differences	**(82)**	61
Fair value of plantations at end of year	**382**	477

The group has 399,996 hectares (2021: 394,368 hectares) of owned and leased land available for forestry activities. 138,391 hectares (2021: 136,142 hectares) are set aside for conservation activities. The balance of 261,605 hectares (2021: 258,226 hectares) are under afforestation which forms the basis of the valuation set out above.

The fair value of forestry assets is a level 3 measure in terms of the fair value measurement hierarchy, consistent with the prior year.

The following assumptions have a significant impact on the valuation of the forestry assets:
- The average 12 quarter net selling price was US$17 per ton (2021: US$20 per ton) which also approximates the current average net selling price at year-end
- A real pre-tax discount rate of 14.49% was used for immature timber (2021: 12.99%)
- Approximately 29 million standing tons of timber (2021: 28 million standing tons) were valued
- The average annual growth is measured at approximately 17 tons (2021: 17 tons) of timber per hectare.

The valuation of the group's forestry assets is determined in ZAR and converted to US$, the group's presentation currency, at the closing exchange rate.

12. PLANTATIONS continued

A sensitivity analysis of a change in each of these assumptions is tabled below:

US$ million	2022	2021
Effect of 1% impact in gross selling price	2	3
Effect of 1% impact in costs to sell	(2)	(2)
Effect of 1% impact in net selling price	1	1
Effect of 1% impact in discount rate	(2)	(3)
Effect of 1% impact in volume	4	5
Effect of 1% impact in rate of growth	1	1

13. DEFERRED TAX

US$ million	2022 Assets	2022 Liabilities	2021 Assets	2021 Liabilities
Other liabilities, accruals and prepayments	(26)	20	(38)	17
Inventory	–	7	6	–
United States of America (USA) tax credits carry forward	–	–	4	–
Tax losses	85	34	127	52
Property, plant and equipment	12	(330)	(36)	(291)
Plantations	–	(103)	–	(135)
Other non-current assets	(16)	(8)	(31)	(8)
Other non-current liabilities	(9)	19	27	20
	46	(361)	59	(345)

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 among others.

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	2022	2021
13. DEFERRED TAX continued		
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	**38**	53
Tax losses	**379**	562
	417	615
Attributable to the following tax jurisdictions:		
Austria	**289**	408
Belgium	**68**	94
Finland	**10**	25
The Netherlands	**44**	57
United Kingdom	**6**	–
USA	**–**	31
	417	615
Expiry between one and five years	**2**	41
Expiry after five years	**4**	33
Indefinite life	**411**	541
	417	615
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	**615**	636
No tax relief on losses	**–**	11
No tax charge on profits	**(55)**	(38)
Recognition of deferred tax assets	**(25)**	(6)
Rate adjustments	**(30)**	8
Movement in foreign exchange rates	**(88)**	4
Balance at end of year	**417**	615

US$ million	2022	2021
13. DEFERRED TAX continued		
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**59**	59
Deferred tax liabilities	**(345)**	(304)
	(286)	(245)
Deferred tax (charge) relief for the year	**(101)**	12
Other liabilities, accruals and prepayments	**3**	9
Inventory	**–**	(5)
USA tax credits carry forward	**(4)**	–
Tax losses	**(43)**	74
Property, plant and equipment	**(51)**	(49)
Plantations	**5**	–
Other non-current assets	**(1)**	(17)
Other non-current liabilities	**(10)**	(14)
Convertible bond – revaluation	**–**	14
Amounts recorded directly in OCI	**6**	(3)
Rate adjustments	**12**	–
Reclassification of deferred tax to equity relating to the convertible bond (note 22)	**–**	(14)
Translation differences	**54**	(36)
Deferred tax balances at end of year	**(315)**	(286)
Deferred tax assets	**46**	59
Deferred tax liabilities	**(361)**	(345)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

14. GOODWILL AND INTANGIBLE ASSETS

	2022					
US$ million	Goodwill	Brands	Customer relationships	Customer technology	Other[1]	Total
Net carrying amount at beginning of year	57	7	37	3	6	110
Additions	–	–	–	–	8	8
Amortisation	–	(1)	(7)	(1)	–	(9)
Derecognition	–	–	–	–	(10)	(10)
Translation differences	(4)	(1)	(5)	–	–	(10)
Net carrying amount	53	5	25	2	4	89
Gross carrying amount	53	9	48	11	8	129
Accumulated amortisation and impairments	–	(4)	(23)	(9)	(4)	(40)
Net carrying amount	53	5	25	2	4	89

Goodwill is attributable to the CGUs of specialities of US$5 million (2021: US$4 million), coated woodfree of US$3 million (2021: US$3 million) in our European segment and high-yield pulp of US$45 million (2021: US$47 million) in our North American segment. The goodwill has been assessed for impairment by comparing the carrying amount against the recoverable amount. The recoverable amount is based on value in use determined on the same basis as described in note 2.3.1. The discount rate used in the value-in-use calculation for goodwill attributable to the goodwill in the North American segment was 13.80% (2021: 12.32%) and the terminal growth rate was 2.25% (2021: 2.22%).

[1] *Included in other intangible assets are licence fees, trademarks and carbon certificates.*

15. EQUITY-ACCOUNTED INVESTEES

	2022	2021
Group's share of carrying amount of equity-accounted investees		
Umkomaas Lignin Proprietary Limited	1	3
Other equity-accounted investees	7	7
	8	10

Dividends received from equity-accounted investees for the 2022 financial year were US$5 million (2021: US$nil).

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. The financial information for Umkomaas Lignin Proprietary Limited is not material.

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. The financial information for the joint ventures are not in aggregate or individually material.

	2021				
Goodwill	Brands	Customer relationships	Customer technology	Other	Total
54	7	43	5	4	113
–	1	–	–	3	4
–	(1)	(6)	(2)	(1)	(10)
3	–	–	–	–	3
57	7	37	3	6	110
57	11	53	11	10	139
–	(4)	(16)	(8)	(4)	(29)
57	7	37	3	6	110

	US$ million	2022	2021
16.	**OTHER NON-CURRENT ASSETS**		
	Investment funds	**4**	5
	Defined benefit pension plan assets (refer to note 29)	**95**	133
	Advances to tree growers	**4**	4
	Equity-investees loans	**15**	13
	Other non-financial assets	**3**	4
	Prepaid insurance premiums	**2**	2
	Financial assets at amortised cost	**–**	3
		123	164
17.	**INVENTORIES**		
	Raw materials	**186**	178
	Work in progress	**51**	54
	Finished goods	**413**	454
	Consumable stores and spares	**130**	155
		780	841

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US$2 million (2021: US$4 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$5,858 million (2021: US$4,190 million)

	US$ million	2022	2021
18.	**TRADE AND OTHER RECEIVABLES**		
	Trade receivables, gross	**816**	581
	Allowance for credit losses	**(24)**	(17)
	Trade accounts receivable, net	**792**	564
	Prepayments and other receivables	**147**	139
		939	703

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 and 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% (2021: 12.9%) of turnover.

		2022	2021
18.1	**Reconciliation of the allowance for credit losses**		
	Balance at beginning of year	**17**	20
	Raised during the year	**30**	6
	Released during the year	**(16)**	(6)
	Utilised during the year	**(3)**	(4)
	Translation differences	**(4)**	1
	Balance at end of year	**24**	17

The allowance for credit losses has been determined by reference to specific customer delinquencies incorporating future expected losses.

18. TRADE AND OTHER RECEIVABLES continued

18.2 Analysis of amounts past due

September 2022

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	**33**	**–**	**33**
Between seven and 30 days overdue	**22**	**–**	**22**
Between 30 and 60 days overdue	**8**	**–**	**8**
More than 60 days overdue	**4**	**13**	**17**
	67	**13**	**80**

September 2021

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	14	–	14
Between seven and 30 days overdue	8	–	8
Between 30 and 60 days overdue	2	–	2
More than 60 days overdue	–	17	17
	24	17	41

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.

18.3 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 2024. This programme has a limit of US$323 million (€330 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$391 million (2021: US$418 million) have been pledged as collateral for amounts received as funding under the programme of US$322 million (2021: US$337 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 22.

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 Interbank 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 2022 amounted to US$63 million (2021: US$99 million).

18. TRADE AND OTHER RECEIVABLES continued

18.3 Trade receivables securitisation continued

Off-balance sheet structures continued

Southern African securitisation facility continued

Details of the securitisation programme at the end of the 2022 and 2021 financial years are disclosed in the table below:

Bank	Currency	Value	Facility[1]	Discount charges
2022				
Rand Merchant Bank Limited	**ZAR**	**ZAR1,142 million**	**Unlimited**	**Linked to three-month JIBAR**
2021				
Rand Merchant Bank Limited	ZAR	ZAR1,484 million	Unlimited	Linked to three-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 Erste Bank Austria (Erste) 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$7 million (2021: US$3 million).

18.4 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 2022 and September 2021. 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$939 million (2021: US$703 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:

	2022			2021		
Threshold	Number of customers	US$ million	Percentage	Number of customers	US$ million	Percentage
Greater than US$10 million	**8**	**145**	**18%**	4	62	11%
Between US$5 million and US$10 million	**16**	**107**	**14%**	12	81	14%
Less than US$5 million	**2,506**	**540**	**68%**	2,664	421	75%
	2,530	**792**	**100%**	2,680	564	100%

Refer to note 32 for further details on credit risk.

19. ORDINARY SHARE CAPITAL AND SHARE PREMIUM

	2022 Number of shares	2022 US$ million	2021 Number of shares	2021 US$ million
Authorised share capital:				
Ordinary shares of ZAR1 each	**725,000,000**		725,000,000	
Issued share capital:				
Fully paid ordinary shares of ZAR1 each	**570,389,094**	**31**	566,980,237	38
Treasury shares	**(5,163,562)**	**–**	(5,457,921)	–
Share premium	**–**	**697**	–	839
	565,225,532	**728**	561,522,316	877
The movement in ordinary share capital and share premium is reconciled as follows:				
Opening balance		**877**		710
Issue of shares		**6**		26
Convertible bond – equity portion		**–**		39
Translation movements		**(155)**		102
Closing balance		**728**		877

The movement in the number of treasury shares is set out in the table below:

Number of shares	2022	2021
Ordinary treasury shares:		
Opening balance	**5,457,921**	1,761,527
Issuance of treasury shares	**–**	5,000,000
Repurchase and delisting of treasury shares from wholly owned subsidiary	**–**	–
Treasury shares issued to participants	**(294,359)**	(1,303,606)
– Scheme shares (refer to note 30)	**–**	–
– Plan shares (refer to note 30)	**(294,359)**	(1,303,606)
Closing balance	**5,163,562**	5,457,921

Included in the issued and unissued share capital of 725,000,000 shares, is a total of 33,018,426 shares (5,615,753 shares allocated to participants under prior shareholder approval in March 2005 and 27,402,673 shares approved by shareholders in February 2020) which may be used to meet the requirements of The Sappi Limited Performance Share Incentive Trust (the Plan). In terms of the rules of the Plan, the maximum number of shares which may be acquired in aggregate by the Plan, and allocated to participants of the Plan, is 33,018,426 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 as shall be required in terms of the Plan out of its authorised but unissued share capital. Authority to use treasury shares for the purposes of the Plan was granted by shareholders at the Annual General Meeting held on 05 February 2020.

19. ORDINARY SHARE CAPITAL AND SHARE PREMIUM continued

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 22
- 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
- To ensure appropriate access to equity and debt.

The group monitors its gearing through a ratio of net debt (interest-bearing borrowings and leased liabilities, bank 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.

The group is in compliance with all material financial covenants applicable to its borrowing facilities.

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.

US$ million	2022	2021
20. OTHER COMPREHENSIVE INCOME		
Item that will not be reclassified subsequently to profit or loss		
Actuarial gains (losses) on post-employment benefit funds	**35**	90
Gross amount (refer to note 29)	**32**	92
Tax effect on above and other tax items	**3**	(2)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**(152)**	164
Translation of foreign operations	**(152)**	153
Exchange differences arising on non-distributable reserves	**(11)**	12
Exchange differences arising on hedging reserves	**11**	(1)
Hedging reserves	**(44)**	(2)
Gains (losses) during the year	**(51)**	7
Reclassified to profit or loss	**5**	(9)
Reclassified to property, plant and equipment	**–**	1
Tax	**2**	(1)
Other comprehensive income recorded directly in equity	**(161)**	252
Profit (loss) for the year	**536**	13
Total comprehensive income for the year	**375**	265

US$ million	2022 Legal reserves[1]	2022 Share-based payment reserve	2022 Other	2022 Total	2021 Legal reserves[1]	2021 Share-based payment reserve	2021 Other	2021 Total
21. NON-DISTRIBUTABLE RESERVES								
Opening balance	**25**	**95**	**1**	**121**	25	75	1	101
Share-based payment expense	**–**	**7**	**–**	**7**	–	8	–	8
Translation differences	**6**	**(17)**	**–**	**(11)**	–	12	–	12
	31	**85**	**1**	**117**	25	95	1	121

[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	2022	2021
22. INTEREST-BEARING BORROWINGS		
Total securitisation[1]	**322**	337
Unsecured borrowings	**1,537**	1,857
Total borrowings	**1,859**	2,194
Less: Current portion included in current liabilities	**(171)**	(132)
Total non-current interest-bearing borrowings	**1,688**	2,062
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2022	**–**	132
2023	**171**	116[2]
2024	**484[2]**	552
2025	**21**	24
2026	**523**	628
2027 (September 2021: Thereafter)	**24**	742
Thereafter	**636**	–
	1,859	2,194

[1] *Consists of sold trade receivables, do not qualify for derecognition under IFRS 9 (refer to note 26 for details of encumbered assets).*
[2] *Includes securitisation debt.*

22. INTEREST-BEARING BORROWINGS continued

Set out below are details of the more significant interest-bearing borrowings in the group at September 2022:

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/cession	Expiry[8]	Financial covenants
Redeemable bonds							
Public bond	EUR	Fixed	€450 million	€449 million[3][4][5]	Unsecured	April 2026	No financial covenants
Public bond	EUR	Fixed	€400 million	€394 million[3][4][5][10]	Unsecured	March 2028	No financial covenants
Public bond	US$	Fixed	US$221 million	US$219 million[4][5][6]	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Variable	ZAR1,080 million	ZAR1,080 million[4]	Unsecured	May 2023	No financial covenants
Public bond	ZAR	Fixed	ZAR1,500 million	ZAR1,499 million[4]	Unsecured	May 2024	No financial covenants
Convertible bond	ZAR	Fixed	ZAR1,219 million	ZAR1,053 million[4][9]	Unsecured	November 2025	No financial covenants
Securitisation							
UniCredit Bank	EUR	Variable	€250 million	€250 million	Trade receivables (securitisation programme)	January 2024	EBITDA to net interest and net debt to EBITDA[7]
UniCredit Bank	US$	Variable	US$77 million	US$77 million	Trade receivables (securitisation programme)	January 2024	EBITDA to net interest and net debt to EBITDA[7]
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Fixed	€78 million	€78 million[2]		March 2024	EBITDA to net interest and net debt to EBITDA[7]
Österreichische Kontrollbank	EUR	Fixed	€63 million	€63 million		December 2027	EBITDA to net interest and net debt to EBITDA[7]
Österreichische Kontrollbank	CAD	Fixed	CAD111 million	CAD111 million		December 2027	EBITDA to net interest and net debt to EBITDA[7]
Trade finance facilities							
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million		December 2022	No financial covenants
Commercial Paper Programmes							
Commercial Paper	ZAR	Variable	ZAR300 million	ZAR300 million		August 2023	No financial covenants

	Local currency million	US$ million
The analysis of the currency per debt is:		
US Dollar	297	**297**
Euro	1,291	**1,265**
ZAR	3,932	**217**
CAD	111	**80**
		1,859

(1) *The nature of the rates for the group bonds are explained in note 32.*

(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.*

(9) *In November 2020, Sappi Southern Africa, a wholly owned subsidiary of Sappi Limited, issued a ZAR1.8 billion (US$123 million) senior, unsecured, convertible bonds due in 2025. The bonds were issued at par and carry a fixed-term interest rate coupon of 5.25% per annum. The initial conversion price of ZAR33.16 was set at a premium of 32.5% above the reference share price of ZAR25.03. The group issued 3.4 million shares (2021: 14.1 million) amounting to US$6 million (2021: US$26 million) to early settle approximately 6% (2021: 26%) of the convertible bond's initial offering of ZAR1.8 billion.*

(10) *In March 2021 the group raised an aggregate principal amount of €400 million (US$472 million) in new senior unsecured notes due 2028 at a coupon of 3.625% per annum.*

22. INTEREST-BEARING BORROWINGS continued

The majority of the non-Southern African long-term debt is guaranteed by Sappi Limited.

A detailed analysis of total interest-bearing borrowings has been disclosed in note 32.

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.

Securitisation

The on-balance sheet securitisation programme with UniCredit Bank AG has a limit of US$323 million (€330 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.

The cost of the programme includes a variable component based on European Interbank Offered Rate (EURIBOR)/ London Interbank Offered Rate (LIBOR) (floor 0%), a fixed margin and a commitment fee computed on the difference between US$304 million (€310 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 18 and 26.

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	2022	2021
Unutilised committed facilities				
Syndicated loan/revolving credit facility[1]	EUR/ZAR	Variable (EURIBOR/ JIBAR)	**615**	732
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**1**	50
			616	782
Unutilised uncommitted facilities				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (ZAR bank prime rate)	**15**	25
Cash management overdraft facility	US$	Variable (LIBOR)	**21**	21
			36	46
Total unutilised facilities (committed and uncommitted) excluding cash			**652**	828

(1) *Two syndicated loans with a consortium of banks with revolving facilities available of €515 million (2021: €525 million) and ZAR2,000 million (2021: ZAR1,750 million), with both facilities unutilised at year-end. The €515 million facility matures in February 2027, is unsecured, subject to financial covenants related to the Sappi Limited group and certain sustainability key performance indicators. The ZAR2,000 million revolving credit facility matures in August 2027, is unsecured, subject to financial covenants relating to Sappi Southern Africa and certain sustainability key performance indicators. The group has paid a total combined commitment fee of US$4 million (2021: US$4 million) in respect of the two facilities.*

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 32.

Reconciliation of net debt and covenants

US$ million	2022	2021
Non-current and current interest-bearing borrowings	**1,859**	2,194
Non-current and current lease liabilities	**84**	118
Less: Cash and cash equivalents	**(780)**	(366)
Net debt	**1,163**	1,946
As at year-end, the group was in compliance with its debt covenants		
Covenant leverage ratio[1]	**0.9**	3.7
Interest cover[2]	**15.6**	5.5

(1) *Covenant leverage ratio - Net debt divided by last 12 months EBITDA excluding special items as defined by our bank covenants.*
(2) *Interest cover is defined as last 12 months EBITDA excluding special items to net interest adjusted for refinancing costs.*

US$ million	2022	2021
23. OTHER NON-CURRENT LIABILITIES		
Workmen's compensation	**10**	11
Long service awards	**14**	21
Land restoration obligation	**14**	20
Restructuring provisions	**3**	10
Deferred income	**–**	4
Other	**11**	7
	52	73

Details of long-term restructuring provisions are provided below:

US$ million	Severance, retrenchment and related costs
Balance at September 2020	16
Increase in provisions	2
Other movements	(8)
Balance at September 2021	10
Increase/decrease in provisions	(1)
Transfer to short-term restructuring provision	(2)
Other movements	(2)
Translation effect	(2)
Balance at September 2022	**3**

US$ million	2022	2021
24. TRADE AND OTHER PAYABLES AND PROVISIONS		
Trade payables	**693**	699
Employee-related liabilities	**163**	179
Capital expenditure accruals	**8**	20
Accrued interest	**16**	20
Rebates	**74**	83
Valued added tax	**22**	30
Other payables	**69**	100
Trade and other payables	**1,045**	1,131
Short-term provisions	**4**	10

Details of short-term restructuring provisions are provided below:

US$ million	Severance, retrenchment and related costs
Balance at September 2020	19
Increase in provisions	2
Utilised	(19)
Other movements	8
Balance at September 2021	10
Increase in provisions	1
Utilised	(5)
Other movements	(2)
Balance at September 2022	**4**

Provisions relate primarily to the machine closure at Westbrook and the post-retirement provision in Belgium and SESA.

	US$ million	2022	2021
25.	**NOTES TO THE GROUP STATEMENT OF CASH FLOWS**		
25.1	**Cash generated from operations**		
	Profit (loss) for the year	**536**	13
	Adjustment for:		
	– Depreciation	**292**	319
	– Fellings	**55**	67
	– Amortisation	**9**	10
	– Taxation charge	**137**	(1)
	– Net finance costs	**97**	134
	– (Reversal) impairments of property, plant and equipment and equity-accounted investees	**(3)**	23
	– Loss (gain) on remeasurement of assets held-for-sale	**183**	(4)
	– Net restructuring provisions	**–**	2
	– Fair value adjustment gains and growth on plantations	**(36)**	(66)
	– Defined employment benefits paid	**(24)**	(49)
	– Loss (profit) on disposal and written off assets	**22**	(1)
	– Share-based payment charges	**7**	8
	– Other non-cash items	**(8)**	17
		1,267	472
25.2	**Decrease (increase) in working capital**		
	(Increase) decrease in inventories	**(174)**	(147)
	Decrease (increase) in receivables	**(381)**	(110)
	(Decrease) increase in payables	**285**	296
		(270)	39
25.3	**Finance costs paid**		
	Interest and other finance costs on liabilities carried at amortised cost	**(102)**	(105)
	Accrued interest and non-cash items	**6**	2
		(96)	(103)
25.4	**Taxation paid**		
	Net amounts receivable (payable) at beginning of year	**(1)**	8
	Taxation charge to profit or loss	**(48)**	(11)
	Translation and other	**2**	–
	Less: Net amounts (receivable) payable at end of year	**24**	1
		(23)	(2)
25.5	**Proceeds on disposal of property, plant and equipment**		
	Book value of non-current assets disposed of	**5**	3
	Gain (loss) on disposal	**(3)**	1
		2	4

25. NOTES TO THE GROUP STATEMENT OF CASH FLOWS

25.6 Reconciliation of liabilities arising from financing activities

US$ million	2021	Net cash flows	Transfers between long term and short term	New leases and remeasure-ments	Foreign exchange move-ments	Other changes	2022
Long-term borrowings	2,062	**46**	**(133)**	**–**	**(286)**	**(1)[2]**	**1,688**
Short-term borrowings[1]	132	**(65)**	**133**	**–**	**(31)**	**2**	**171**
Lease liabilities	118	**(24)**	**–**	**12**	**(11)**	**(11)**	**84**
Total	2,312	**(43)**	**–**	**12**	**(328)**	**(10)**	**1,943**

	2020	Net cash flows	Transfers between long term and short term	New leases and remeasure-ments	Foreign exchange move-ments	Other changes	2021
Long-term borrowings	1,861	252	(47)	–	34	(38)[2]	2,062
Short-term borrowings[1]	270	(193)	47	–	10	(2)	132
Lease liabilities	105	(26)	–	35	4	–	118
Total	2,236	33	–	35	48	(40)	2,312

[1] *Includes overdrafts.*
[2] *Includes convertible bond conversions of US$6 million (2021: US$26 million) that occurred during the year. Refer to note 22.*

US$ million	2022	2021
26. 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	**391**	418

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of US$323 million (€330 million), of which US$322 million (€329 million) was utilised at financial year-end (refer to notes 18 and 22).

US$ million	2022	2021
27. COMMITMENTS		
Capital commitments		
Contracted but not provided	**108**	116
Approved but not contracted	**255**	144
	363	260
Future forecast cash flows of capital commitments in the year ended:		
2022	**–**	252
2023	**353**	–
2024	**2**	–
2025	**–**	–
2026	**–**	–
2027 (September 2021: Thereafter)	**–**	8
Thereafter	**8**	–
	363	260
These projects are expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group. Also refer to note 34.		
28. CONTINGENT LIABILITIES		
Guarantees and suretyships	**–**	–
Other contingent liabilities	**4**	9
	4	9

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.

29. POST-EMPLOYMENT BENEFITS

Summary of results

	Defined contribution plans[1]		Defined benefit pension plans		Post-employment healthcare subsidy	
US$ million	2022	2021	2022	2021	2022	2021
Post-employment plan costs recognised in profit or loss	**23**	35	**(11)**	23	**6**	7
Employer contributions paid during the financial year	**23**	35	**19**	47	**5**	3
Amounts presented in the group balance sheet are as follows:						
Net pension/healthcare subsidy liabilities (refer to balance sheet)			**101**	224	**79**	103
Net pension assets (refer to note 16)[2]			**(95)**	(133)	**–**	–
Net balance sheet liabilities			**6**	91	**79**	103
Movement in the balance sheet for the pension/healthcare subsidy						
Net pension/healthcare subsidy liabilities at beginning of year			**(91)**	(203)	**(103)**	(103)
Transfer to liabilities held-for-sale			**27**	–	**–**	–
Net pension/healthcare subsidy costs for the year			**11**	(23)	**(6)**	(6)
Employer contributions			**19**	47	**5**	3
Net actuarial gains for the year			**10**	87	**22**	5
Translation differences			**18**	1	**3**	(2)
Net pension/healthcare liabilities at end of year			**(6)**	(91)	**(79)**	(103)

[1] *Defined contribution plans: Employer contributions paid is the amount charged to profit or loss.*
[2] *Defined benefit plans in United Kingdom and certain defined benefit plans in North America and one in South Africa.*

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.

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$23 million (2021: US$35 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$22.5 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.

29. POST-EMPLOYMENT BENEFITS continued

Summary of results continued

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 (ie 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 'US$ 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, Canada
Career average revalued earnings	Belgium, The Netherlands
Frozen benefit and/or pensioners only	United Kingdom, United States (salaried plan), Italy, Switzerland
Fixed €-value	Germany, Austria
Nominal US$-value (periodically revalued)	United States (works plans)

Plans remain open to new hires in some locations. Plans in the United States, South Africa, Austria and some in Germany continue accrual but are closed to new hires. Plans in the United Kingdom, one in the United States, Italy and Switzerland are closed to future accrual.

Investment management and strategic asset allocation

Plan fiduciaries are responsible for investment policies 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 pension:** Asset mix based on 6% equities, 69% debt instruments, 25% cash
- **South Africa post-retirement medical aid:** Asset mix based on 85% with-profit annuities, 15% cash
- **Europe including United Kingdom (UK)[(1)]:** Asset mix based on 74% insurance contracts, 24% tradeable investment funds, 4% cash and 2% and other mandates
- **North America:** Asset mix based on 17% equities, 79% debt instruments, real estate 1% and 3% cash.

(1) *Weighted average of plans in this region.*

29. POST-EMPLOYMENT BENEFITS continued

Summary of results continued

Exposure to risks

The major risks faced by the group as a result of the defined benefit obligation can be summarised as follows:

- 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
  - **Inflation:** The risk that future inflation indices (including medical aid inflation) is higher than expected leading to higher ultimate benefit costs
  - **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 will increase the cost of the ultimate benefits
  - **Administration:** Administration of this liability poses a burden to the group
  - **Investment:** The risk that the return earned by plan assets is lower than expected. 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.
  - **Default:** The risk of default on the instruments underpinning plan assets.

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 models. 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 on accrued service are funded according to agreed contribution rates to restore plan deficits.

Apart from paying the costs of entitlements, the group's subsidiaries are liable to pay additional contributions in cases where plans hold insufficient assets. These are normally voluntary payment agreements with plan fiduciaries but could evolve into enforcement actions by local regulators, reduced entitlements or a charge over company assets.

Expected normal company contributions for our defined benefit pension/lump sum plans across group subsidiaries over the next financial year are US$14 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$6 million.

29. POST-EMPLOYMENT BENEFITS continued

Summary of results continued

Post-employment healthcare subsidy continued

US$ million	Defined benefit pension plans 2022	Defined benefit pension plans 2021	Post-employment healthcare subsidy 2022	Post-employment healthcare subsidy 2021
Components of defined benefit cost recognised in profit or loss				
Current service cost	**16**	18	**2**	2
Past service cost (credit)	**2**	2	**–**	–
Interest on net defined benefit	**(1)**	1	**4**	4
Fund administration costs	**2**	2	**–**	–
Non-routine settlement gain[1]	**(30)**		**–**	–
Net amount recognised in profit or loss	**(11)**	23	**6**	6
Charge attributed to operating cost (refer to note 4)	**(10)**	22	**2**	2
Charge attributed to finance cost (refer to note 5)	**(1)**	1	**4**	4
Components of defined benefit cost recognised in OCI				
Actuarial gains (losses) arising from membership experience	**(12)**	3	**7**	5
Actuarial gains (losses) arising from changes in demographic assumptions	**(20)**	9	**(1)**	–
Actuarial gains (losses) arising from changes in financial assumptions	**233**	20	**18**	–
Return on plan assets (excluding amounts included in interest income)	**(191)**	55	**(2)**	–
Gain (loss) recognised in OCI (refer to note 20)	**10**	87	**22**	5

[1] *In October 2021, the group purchased a group annuity contract from its pension assets for US$508 million to transfer US$535 million of the North American regions' retiree pension obligations to an insurance company. The pension obligations were remeasured to their present value, as required, prior to settlement resulting in an actuarial loss of US$33 million. The resulting settlement gain of US$26 million, net of professional fees, was recorded in profit or loss.*

29. POST-EMPLOYMENT BENEFITS continued

Summary of results continued

Movement in the present value of the defined benefit obligation in the current year

	Defined benefit pension plans		Post-employment healthcare subsidy	
US$ million	2022	2021	2022	2021
Defined benefit obligation at beginning of year	1,431	1,492	109	108
Current service cost	16	18	2	2
Past service cost (credit)	2	2	–	–
Interest expense	21	32	5	5
Plan participants' contributions	1	1	–	–
Remeasurements	(201)	(32)	(24)	(5)
– Membership experience changes	12	(3)	(7)	(5)
– Demographic assumption changes	20	(9)	1	–
– Financial assumption changes	(233)	(20)	(18)	–
Transfer to liabilities held-for-sale	(27)	–	–	–
Non-routine plan settlements	(583)	–	(1)	–
Benefits paid	(50)	(116)	(5)	(4)
Translation difference	(83)	33	(4)	3
Defined benefit obligation at end of year	527	1,431	82	109
– Present value of wholly unfunded obligation	93	150	62	83
– Present value of wholly or partially funded obligation	434	1,281	20	26
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	1,340	1,289	6	5
Interest income	22	31	1	1
Employer contributions	19	47	5	3
Plan participants' contributions	1	2	–	–
Remeasurements				
– Return (loss) on plan assets net of interest income	(191)	55	(2)	–
Acquisition	–	–	–	–
Non-routine plan settlements	(553)	–	(1)	–
Benefits paid	(50)	(116)	(5)	(4)
Fund administration costs	(2)	(2)	–	–
Translation difference	(65)	34	(1)	1
Fair value of plan assets at end of year	521	1,340	3	6
Net balance sheet defined benefit liability	6	91	79	103

The major categories of plan assets at fair value are presented as follows

	Funded pension plans		Funded subsidy plans	
US$ million	2022	2021	2022	2021
Investments quoted in active markets				
– Equity and high-yield investments	56	91	–	–
– Investment grade debt instruments	66	287	–	–
– Property investment funds	2	3	–	–
Unquoted investments				
– Equity and high-yield investments[1]	364	939	2	5
Cash	33	20	1	1
	521	1,340	3	6
Total investment return on plan assets	(169)	86	(1)	1

[1] *Commingled funds not quoted in active markets, but with assets consisting of securities quoted in active markets or 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.*

29. POST-EMPLOYMENT BENEFITS continued

Summary of results continued

Movement in the present value of the defined benefit obligation in the current year continued

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

	2022 North America	2022 Europe (incl UK)	2022 Southern Africa	2021 North America	2021 Europe (incl UK)	2021 Southern Africa
Discount rate – pension (%)	**5.16**	**4.40**	**11.13**	2.54	0.80	9.39
Discount rate – post-employment healthcare subsidy (%)	**5.05**	**n/a**	**13.00**	2.37	n/a	11.80
Future salary increase rate – pension (%)	**–**	**1.30**	**7.70**	–	0.90	6.49
Cost of living adjustment for pensions in payment (%)[1]	**–**	**2.10**	**5.36**	–	1.90	4.39
Healthcare cost trend rate (%)[2]	**8 – >4.5**	**n/a**	**8.60**	6.60 – >4.5	n/a	8.35
Sample rate average life expectancy from retirement (years)[3]						
– For current beneficiaries	**25.80**	**–**	**19.24**	25.00	26.00	19.20
– For future retiring beneficiaries	**27.50**	**–**	**20.18**	26.70	27.80	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 10 years (2021: 10 years).*
(3) *Based on local mortality tables in use (with modifications to reflect expected changes in mortality over time) for males at age 60.*

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, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by US$54 million (increase by US$68 million)
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$11 million (decrease by US$11 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$16 million (decrease by US$ 7 million)
- If the expected healthcare cost trend rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$4 million (decrease by US$3 million)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by US$14 million (decrease by US$10 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.

29. POST-EMPLOYMENT BENEFITS continued

Summary of results continued

Movement in the present value of the defined benefit obligation in the current year continued

The weighted average duration of the defined benefit obligations at the end of the reporting period (per region) is as follows

	Pension plans	Healthcare subsidy
North America	13 years	8 years
Europe (including UK)	n/a	n/a
Southern Africa	8 years	13 years

Regional split of results

US$ million	2022 North America	2022 Europe (incl UK)	2022 Southern Africa	2021 North America	2021 Europe (incl UK)	2021 Southern Africa
Defined benefit obligation (pension)	**(205)**	**(262)**	**(60)**	(790)	(551)	(90)
Defined benefit obligation (healthcare)	**(62)**	**n/a**	**(20)**	(83)	n/a	(26)
Fair value of plan assets (pension)	**266**	**176**	**79**	869	376	95
Fair value of plan assets (healthcare)	**–**	**n/a**	**3**	–	n/a	6
Net defined benefit liability	**(1)**	**(86)**	**2**	(4)	(175)	(15)
Reconciliation of the regional balance sheets						
Net defined benefit liability at beginning of year	**(4)**	**(175)**	**(15)**	(86)	(204)	(16)
Defined benefit cost recognised in profit or loss (pension)	**18**	**(4)**	**(3)**	(11)	(7)	(4)
Defined benefit cost recognised in profit or loss (healthcare)	**(4)**	**n/a**	**(2)**	(3)	n/a	(3)
Balance sheet take-on of Matane acquisition	**–**	**–**	**–**	–	–	–
Net gain (loss) recognised in OCI (pension)	**(37)**	**30**	**17**	83	(3)	7
Net gain (loss) recognised in OCI (healthcare)	**21**	**n/a**	**1**	5	n/a	–
Company contributions paid during the year	**5**	**16**	**3**	8	38	4
Liabilities held-for-sale	**–**	**24**	**–**			
Translation differences	**2**	**23**	**1**	–	1	(3)
Net defined benefit liability at end of year	**1**	**(86)**	**2**	(4)	(175)	(15)

30. SHARE-BASED PAYMENTS

The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust

In March 2005, shareholders 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 of which 5,615,753 shares are outstanding as at September 2022. A further 27,402,673 shares were approved by shareholders in February 2020 of which 10,138,202 are outstanding as at September 2022.

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 25%, 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.

Movements in performance shares for the financial years ended September 2022 and September 2021 are as follows:

	Total shares[1]
Outstanding at September 2020	11,321,013
– Offered and accepted	6,039,700
– Paid for/vested	(1,303,606)
– Returned, lapsed and forfeited	(1,852,707)
Outstanding at September 2021	14,204,400
– Offered and accepted	4,525,600
– Paid for/vested	(294,359)
– Returned, lapsed and forfeited	(2,681,686)
Outstanding at September 2022	**15,753,955**

[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.*

30. SHARE-BASED PAYMENTS continued

The following table sets out the number of performance shares outstanding:

	2022	2021	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Performance shares:						
4 December 2017	**–**	2,420,135	Performance	4 December 2021	n/a	Rnil
19 November 2018	**2,602,102**	2,709,331	Performance	19 November 2022	n/a	Rnil
19 November 2019	**3,013,651**	3,176,804	Performance	19 November 2023	n/a	Rnil
18 November 2020	**5,687,531**	5,898,130	Performance	18 November 2024	n/a	Rnil
18 November 2021	**4,450,671**	–	Performance	18 November 2025	n/a	Rnil
	15,753,955	14,204,400				

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 47	Issue 47
Date of grant	19 November 2021	19 November 2021
Type of award	Performance	Performance
Share price at grant date	ZAR 41.58	ZAR 41.58
Vesting period	Four years	Four 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	77.4%	80.0%
Number of shares offered	2,262,800	2,262,800
Volatility	49%	n/a
Risk-free discount rate	7.56% (ZAR yield)	n/a
Expected dividend yield	3.0%	n/a
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR28.80	ZAR29.47

Volatility has been determined with reference to the historic volatility of the Sappi share price over the expected period.

Refer to note 37 for more information on directors and prescribed officers' participation in the Plan.

No new loans have been granted to the executive directors since 28 March 2002.

31. DERIVATIVE FINANCIAL INSTRUMENTS

US$ million		2022	2021
Hedging instrument	**Hedged item**		
Non-current assets			
Interest rate swap	ZAR1,500 million unsecured loan	**1**	–
		1	–
Current assets			
Commodity forward contracts	Raw materials	**2**	–
Forward exchange contracts	Various	**6**	4
		8	4
Non-current liabilities			
Interest rate currency swap	ZAR1,500 million unsecured loan	**–**	6
		–	6
Current liabilities			
Forward exchange contracts	Various	**21**	4
		21	4

Refer to note 32 for more detail on financial instruments.

32. 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
   - Commodity price risk

b) Liquidity risk

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 co-ordinated on a group basis, while 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.

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 on the following page.

32. FINANCIAL INSTRUMENTS continued

a) Market risk continued

Interest rate risk continued

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 information is presented in US Dollar, which is the group's reporting currency.

	Expected maturity date						2022		2021	
US$ equivalent in millions	2023	2024	2025	2026	2027	2028+	Carrying value	Fair value[4]	Carrying value	Fair value
US Dollar										
Fixed rate debt	–	–	–	–	–	219	**219**	**197**	219	232
Average interest rate (%)	–	–	–	–	–	7.56	**7.56**		7.58	
Variable rate debt[1]	–	77	–	–	–	–	**77**	**77**	126	126
Average interest rate (%)	–	4.49	–	–	–	–	**4.49**		1.73	
Euro										
Fixed rate debt	25	66	8	452	10	403	**964**	**906**	1,204	1,243
Average interest rate (%)	2.28	2.32	1.79	3.09	1.49	3.57	**3.19**		3.15	
Variable rate debt[2]	57	245	–	–	–	–	**302**	**302**	278	279
Average interest rate (%)	0.68	2.14	–	–	–	–	**1.86**		1.32	
Rand										
Fixed rate debt	–	83	–	58	–	–	**141**	**181**	174	226
Average interest rate (%)	–	9.25	–	5.34	–	–	**7.64**		7.61	
Variable rate debt[3]	76	–	–	–	–	–	**76**	**76**	92	94
Average interest rate (%)	6.87	–	–	–	–	–	**6.87**		6.03	
Canadian Dollar										
Fixed rate debt	13	13	13	13	14	14	**80**	**81**	101	80
Average interest rate (%)	4.10	4.10	4.10	4.10	4.10	4.10	**4.10**		4.12	
Total										
Fixed rate debt	38	162	21	523	24	636	**1,404**	**1,365**	1,698	1,781
Average interest rate (%)	2.90	6.01	3.22	3.36	3.01	4.96	**4.37**		4.24	
Variable rate debt	133	322	–	–	–	–	**455**	**455**	496	499
Average interest rate (%)	4.22	2.70	–	–	–	–	**3.14**		2.30	
Fixed and variable	171	484	21	523	24	636	**1,859**	**1,820**	2,194	2,280
Current portion							**171**	**171**	132	132
Long-term portion							**1,688**	**1,649**	2,062	2,148
Total interest-bearing borrowings (refer to note 22)							**1,859**	**1,820**	2,194	2,280

[1] *The US Dollar floating interest rates are based on the LIBOR. This facility uses the one-month US$ LIBOR rate, which will continue to be published until June 2023 at least. There is therefore no immediate need to replace this benchmark rate in this facility. Management intends replacing the one-month US$ LIBOR with an appropriate alternative benchmark rate prior to June 2023 upon renewal of the facility.*

[2] *The Euro floating interest rates are based on the EURIBOR.*

[3] *The ZAR floating interest rates are based on the 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.

The range of interest rates in respect of all non-current borrowings, comprising both fixed and floating rate obligations, is between 0.88% and 9.25% (depending on currency). At September 2022, 76% of Sappi's borrowings were at fixed rates of interest and 24% 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 22.

32. FINANCIAL INSTRUMENTS continued

a) Market risk continued

Interest rate risk continued

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 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.

To confirm the expected effectiveness of the hedge relationship at inception of the hedge relationship, a retrospective ratio analysis is performed using the hypothetical derivative where the changes in fair value or cash flows of the hedging instrument are compared 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 2022, the hedge was highly effective and the swap had a positive fair value of US$1 million (2021: negative US$6 million) which was deferred to equity.

Summary of outstanding cash flow hedges

US$ million	Interest rate	Maturity date	Nominal value	Total fair value[1]	Recorded in OCI	Recorded in Profit or loss
September 2022						
Cash flow hedges						
IRS	ZAR variable (3-M JIBAR + 180bps) to ZAR9.2484% fixed	May 2024	ZAR1,500 million	**1**	**1**	**–**
				1	**1**	**–**

US$ million	Interest rate	Maturity date	Nominal value	Total fair value[1]	Recorded in OCI	Recorded in Profit or loss
September 2021						
Cash flow hedges						
IRS	ZAR variable (3-M JIBAR + 180bps) to ZAR9.2484% fixed	May 2024	ZAR1,500 million	(6)	(6)	–
				(6)	(6)	–

[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.

32. 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-)	322	0.96
Commitment fee on unused revolving credit facility	615	0.57
Interest on utilised bank syndicated loans	218	0.72
	1,155	2.25
Impact calculated on total portfolio amounts to	0.19%	

Sensitivity analysis: interest rate risk of floating rate debt

The table below shows the sensitivity of the floating rate debt to a move by 50bps to the interest rates.

US$ million	Total	Fixed rate debt	Floating rate debt	Impact on profit or loss of 50bps interest
Total debt	1,859	1,404	455	2.3
Ratio fixed/floating to total debt		76%	24%	

The floating rate debt represents 24% of total debt. If interest rates were to increase (decrease) by 50bps, the finance cost on floating rate debt would increase (decrease) by US$2.3 million.

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
- 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.

32. FINANCIAL INSTRUMENTS continued

a) Market risk continued

Currency risk continued

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 2022 and 2021 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	US$	EUR	ZAR	GBP	Other
September 2022							
Classes of financial instruments							
Non-current assets							
Other non-current assets	123	22	–	5	17	–	–
Derivative financial instruments	1	1	–	–	1	–	–
Current assets							
Trade receivables	792	792	406	324	8	34	20
Prepayments and other receivables	147	62	8	31	21	–	2
Derivative financial instruments	8	8	6	–	–	2	–
Cash and cash equivalents	780	780	629	14	88	5	44
		1,665	1,049	374	135	41	66
Non-current liabilities							
Interest-bearing borrowings	1,688	1,688	297	1,184	141	–	66
Other non-current liabilities	232	2	–	–	2	–	–
Lease liabilities	66	66	27	9	29	–	1
Current liabilities							
Interest-bearing borrowings	171	171	–	82	76	–	13
Derivative financial instruments	21	21	20	1	–	–	–
Trade payables	693	693	167	297	187	33	9
Lease liabilities	18	18	8	4	5	–	1
Other payables and accruals	352	151	28	77	45	–	1
		2,810	547	1,654	485	33	91
Foreign exchange gap		(1,145)	502	(1,280)	(350)	8	(25)

US$ million	Total	Total in scope	US$	EUR	ZAR	GBP	Other
September 2021							
Classes of financial instruments							
Non-current assets							
Other non-current assets	164	24	–	8	16	–	–
Current assets							
Trade receivables	564	564	266	238	8	29	23
Prepayments and other receivables	139	42	6	14	19	–	3
Derivative financial instruments	4	4	2	–	2	–	–
Cash and cash equivalents	366	366	156	17	156	2	35
		1,000	430	277	201	31	61
Non-current liabilities							
Interest-bearing borrowings	2,062	2,062	345	1,384	246	–	87
Derivative financial instruments	6	6	–	–	6	–	–
Other non-current liabilities	400	7	4	–	3	–	–
Lease liabilities	94	94	34	20	40	–	–
Current liabilities							
Interest-bearing borrowings	132	132	–	98	20	–	14
Derivative financial instruments	4	4	2	2	–	–	–
Trade payables	699	699	185	307	195	1	11
Lease liabilities	24	24	10	7	5	–	2
Other payables and accruals	432	192	34	96	60	–	2
		3,220	614	1,914	575	1	116
Foreign exchange gap		(2,220)	(184)	(1,637)	(374)	30	(55)

32. FINANCIAL INSTRUMENTS continued

a) Market risk continued

Currency risk continued

Currency risk analysis continued

Foreign currency forward exchange contracts

The group's foreign currency forward exchange contracts at September are detailed below:

US$ million		2022 Contract amount (notional amount)	2022 Fair value (unfavourable) favourable	2021 Contract amount (notional amount)	2021 Fair value (unfavourable) favourable
Foreign currency					
Bought:	US Dollar	**185**	**(8)**	138	(2)
	Euro	**55**	**–**	288	1
	Rand	**124**	**(7)**	50	–
Sold:	US Dollar	**(7)**	**–**	(4)	–
	Euro	**(101)**	**2**	(108)	–
	Rand	**(50)**	**3**	(40)	–
		206	**(10)**	324	(1)

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2022 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 November 2023.

As at September 2022, there was an open exposure of US$45.2 million that has since been hedged.

Sensitivity analysis – (loss) gain

Base currency	Exposure (US$ million)	+10 %	−10 %
AUD	8.4	0.7	(0.9)
CAD	(1.5)	(0.1)	0.2
EUR	(10.0)	(0.9)	1.1
SEK	(1.5)	(0.1)	0.1
US$	(32.0)	(2.9)	3.6
ZAR	(10.3)	(0.9)	1.1
Other currencies	1.7	0.1	(0.2)
Total	(45.2)	(4.1)	5.0

Based on the exposure at the end of September 2022, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a loss of US$4.1 million or a gain of US$5.0 million respectively.

32. FINANCIAL INSTRUMENTS continued

a) Market risk continued

Currency risk continued

Currency risk analysis 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 foreign exchange contracts (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 2022 financial year, the hedges were highly effective. A realised loss of US$3.0 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 loss of US$7.1 million was deferred in equity. A realised loss of US$1.1 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 loss amount of US$7.0 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 SEK 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 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 2022 financial year, most of the hedges were highly effective. A realised foreign exchange gain of US$0.4 million of the designated FECs was transferred from OCI as a basis adjustment to fixed assets, a loss amount of US$0.3 million was deferred in equity.

32. FINANCIAL INSTRUMENTS continued

a) Market risk continued

Currency risk continued

Currency risk analysis continued

Cash flow hedges 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 €36.9 million (US$36.2 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 US$ exposure linked to the net investment. In 2021, another de- and re-designation occurred and as at September 2022 the hedged notional amount at amortised cost amounted to US$205 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 2021 financial year, the hedge was 100% effective.

	2022		2021	
US$ million	Hedged notional	Foreign exchange result deferred in OCI	Hedged notional	Foreign exchange result deferred in OCI
Bond 2032	**205**	**(40)**	205	(5)
Previous designations	**–**	**(26)**	–	(34)
	205	**(66)**	205	(39)
Net investment value of North America	**1,294**		1,010	

Commodity price risk

The group is exposed to various commodity prices like gas, pulp and oil. From time to time we take out derivatives to cover the exposure. At year-end, two commodity pulp swaps related to European BHKP and NBSK exposure were still outstanding with an overall positive mark-to-market of US$2.1 million.

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
- 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 22.

The group is in compliance with all material financial covenants applicable to its borrowing facilities.

32. FINANCIAL INSTRUMENTS continued

b) Liquidity risk continued

Liquidity risk management

The following tables for the 2022 and 2021 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 2022								
Non-current assets								
Other non-current assets	22	22	–	–	5	–	17	22
Derivative financial instruments	1	1	–	–	1	–	–	1
Current assets								
Trade receivables	792	792	792	–	–	–	–	792
Prepayments and other receivables	62	62	62	–	–	–	–	62
Derivative financial instruments	8	8	8	–	–	–	–	8
Cash and cash equivalents	780	780	780	–	–	–	–	780
			1,642	–	6	–	17	1,665
Non-current liabilities								
Interest-bearing borrowings	1,688	1,612	–	–	533	693	726	1,952
Lease liabilities	66	66	–	–	19	32	23	74
Other non-current liabilities	2	2	–	–	–	2	–	2
Current liabilities								
Interest-bearing borrowings	171	171	99	76	–	–	–	175
Lease liabilities	18	18	5	13	–	–	–	18
Derivative financial instruments	21	21	21	–	–	–	–	21
Trade payables	693	693	693	–	–	–	–	693
Other payables and accruals	151	151	107	44	–	–	–	151
			925	133	552	727	749	3,086
Liquidity surplus (gap)			717	(133)	(546)	(727)	(732)	(1,421)

32. 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 2021								
Non-current assets								
Other non-current assets	24	24	–	–	8	–	16	24
Current assets								
Trade receivables	564	564	564	–	–	–	–	564
Prepayments and other receivables	42	42	42	–	–	–	–	42
Derivative financial instruments	4	4	2	2	–	–	–	4
Cash and cash equivalents	366	366	366	–	–	–	–	366
			974	2	8	–	16	1,000
Non-current liabilities								
Interest-bearing borrowings	2,062	2,095	–	–	253	1,343	869	2,465
Lease liabilities	94	94	–	–	18	42	34	94
Derivative financial instruments	6	6	–	–	–	6	–	6
Other non-current liabilities	7	7	–	–	4	3	–	7
Current liabilities								
Interest-bearing borrowings	132	132	116	20	–	–	–	136
Lease liabilities	24	24	6	18	–	–	–	24
Derivative financial instruments	4	4	2	2	–	–	–	4
Trade payables	699	699	699	–	–	–	–	699
Other payables and accruals	192	192	192	–	–	–	–	192
			1,015	40	275	1,394	903	3,627
Liquidity surplus (gap)			(41)	(38)	(267)	(1,394)	(887)	(2,627)

32. 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 2022 and 2021 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 2022						
Assets						
Fair value of derivatives by risk factor						
Interest rate risk						
Interest rate swaps	**1**	–	1	–	–	–
– Receiving leg	**1**	–	1	–	–	–
– Paying leg	**–**	–	–	–	–	–
Foreign exchange risk						
FX forward contracts	**6**	6	–	–	–	–
– Receiving leg	**110**	110	–	–	–	–
– Paying leg	**(104)**	(104)	–	–	–	–
Commodity price risk	**2**	2	–	–	–	–
Liabilities						
Fair value of derivatives by risk factor						
Foreign exchange risk						
FX forward contracts	**21**	21	–	–	–	–
– Receiving leg	**(235)**	(235)	–	–	–	–
– Paying leg	**256**	256	–	–	–	–

US$ million	Total	Maturity analysis Undiscounted cash flows 0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years
September 2021						
Assets						
Fair value of derivatives by risk factor						
Foreign exchange risk						
FX forward contracts	4	4	–	–	–	–
– Receiving leg	352	352	–	–	–	–
– Paying leg	(348)	(348)	–	–	–	–
Liabilities						
Fair value of derivatives by risk factor						
Interest rate risk						
Interest rate swaps	6	–	–	6	–	–
– Receiving leg	–	–	–	–	–	–
– Paying leg	6	–	–	6	–	–
Foreign exchange risk						
FX forward contracts	4	4	–	–	–	–
– Receiving leg	(187)	(187)	–	–	–	–
– Paying leg	191	191	–	–	–	–

32. FINANCIAL INSTRUMENTS continued

b) Liquidity risk continued

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.

In line with 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.

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 which are held-for-sale are carried at their fair value less cost of disposal.

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 2022							
Non-current assets							
Other non-current assets	**123**	101	22	–	18	4	22
Derivative financial instruments	**1**	–	1	1	–	–	1
	124	101	23	1	18	4	23
Current assets							
Trade receivables	**792**	–	792	–	792	–	792
Prepayments and other receivables	**147**	85	62	–	62	–	62
Derivative financial instruments	**8**	–	8	8	–	–	8
Cash and cash equivalents	**780**	–	780	–	780	–	780
	1,727	85	1,642	8	1,634	–	1,642

US$ million	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Amortised cost	Fair value
September 2022						
Non-current liabilities						
Interest-bearing borrowings	**1,688**	–	1,688	–	1,688	1,612
Lease liabilities	**66**	–	66	–	66	66
Other non-current liabilities	**232**	230	2	–	2	2
	1,986	230	1,756	–	1,756	1,680
Current liabilities						
Interest-bearing borrowings	**171**	–	171	–	171	171
Derivative financial instruments	**21**	–	21	21	–	21
Trade payables	**693**	–	693	–	693	693
Lease liabilities	**18**	–	18	–	18	18
Other payables and accruals	**352**	201	151	–	151	151
	1,255	201	1,054	21	1,033	1,054

32. 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	Amortised cost	Fair value through OCI	Fair value
September 2021							
Non-current assets							
Other non-current assets	164	140	24	–	18	6	24
	164	140	24	–	18	6	24
Current assets							
Trade receivables	564	–	564	–	564	–	564
Prepayments and other receivables	139	97	42	–	42	–	42
Derivative financial instruments	4	–	4	4	–	–	4
Cash and cash equivalents	366	–	366	–	366	–	366
	1,073	97	976	4	972	–	976

US$ million	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Amortised cost	Fair value
September 2021						
Non-current liabilities						
Interest-bearing borrowings	2,062	–	2,062	–	2,062	2,095
Derivative financial instruments	6	–	6	6	–	6
Lease liabilities	94	–	94	–	94	94
Other non-current liabilities	400	393	7	–	7	7
	2,562	393	2,169	6	2,163	2,202
Current liabilities						
Interest-bearing borrowings	132	–	132	–	132	132
Derivative financial instruments	4	–	4	4	–	4
Trade payables	699	–	699	–	699	699
Lease liabilities	24	–	24	–	24	24
Other payables and accruals	432	240	192	–	192	192
	1,291	240	1,051	4	1,047	1,051

32. 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.

	2022				2021			
	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3
Non-current assets								
Other non-current assets	4	4	–	–	6	6	–	–
Derivative financial instruments	1	–	1	–	–	–	–	–
	5	4	1	–	6	6	–	–
Current assets								
Assets held-for-sale	291	–	291	–	10	–	10	–
Derivative financial instruments	8	–	8	–	4	–	4	–
	299	–	299	–	14	–	14	–
Non-current liabilities								
Derivative financial instruments	–	–	–	–	6	–	6	–
	–	–	–	–	6	–	6	–
Current liabilities								
Derivative financial instruments	21	–	21	–	4	–	4	–
Liabilities associated with assets held-for-sale	240	–	240	–	–	–	–	–
	261	–	261	–	4	–	4	–

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 co-ordinated 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, 66% 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 18.

33. 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	2022	2021	2022	2021	2022	2021	2022	2021
– proNARO GmbH	–	–	128.9	110.1	–	–	–	–
– Umkomaas Lignin (Pty) Ltd	0.4	0.4	–	–	–	–	–	–
– Papierholz Austria GmbH	–	–	85.5	74.9	–	–	–	–
– Ngodwana Energy	–	–	–	–	7.9	9.6	–	–
– Tugela Fuel Rods	–	–	–	–	3.5	3.9	–	–
	0.4	0.4	214.4	185.0	11.4	13.5	–	–

The amounts outstanding at balance sheet date are unsecured and will be settled in cash. No expense has been recognised in the period for expected credit losses in respect of the amounts owed by related parties.

Key management personnel

Key management personnel include our executive directors and prescribed officers. The total key management personnel emoluments amounted to US$8.8 million (2021: US$8.7 million). The details of key management personnel, including emoluments, interests in contracts and participation in the groups' share scheme are disclosed in notes 35 to 37.

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to section 56(7) of the Companies Act 71, 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 2022, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	107,256,752	19.0
Allan Gray Balanced Fund	37,805,103	6.7
Alexander Forbes Investments	31,179,908	5.5

Shareholder spread

Type of shareholders	% of shares in issue
Non-public	
Sappi Limited directors and prescribed officers	0.5
Associates of group directors	–
Trustees of the company's share and retirement funding schemes	–
Share owners 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 2022 was 10,068)	99.5
	100.0

34. EVENTS AFTER BALANCE SHEET DATE

In October 2022, the group offered to purchase for cash a portion of its outstanding 3.125% Senior Notes due in 2026. The result of this tender offer was a repurchase of US$206 million (€210 million) of nominal Senior Notes in the tender offer at a purchase price of 92.41%, yielding a gain of US$15 million (€15 million) net of the accelerated amortisation of upfront costs.

In November 2022, the directors have resolved to declare a gross cash dividend (number 89) out of income earned for the financial year ended September 2022 of 15 US cents per ordinary share in issue on the record date being 13 January 2023. The dividend is payable in ZAR at an exchange rate of ZAR17.81877, being ZAR267.28155 cents per share.

In November 2022, the board approved a US$418 million investment at Somerset to convert PM2 from coated woodfree graphic paper to solid bleached sulphate board.

On 17 November 2022, the group received approximately US$10 million related to the sale of its five hydroelectric facilities on the Presumpscot River in Maine (the Hydro Sale). As part of the Hydro Sale, pending completion of a previously agreed surrender of the FERC licence for the Saccarappa project, the buyer will lease the Saccarappa property, including the Saccarappa fishway, from the group. Upon completion of the group's surrender of the Saccarappa project licence, the lease will terminate, the group will transfer ownership of the Saccarappa fishway to the buyer, and the group will retain the remainder of the property associated with the former Saccarappa dam. The group anticipates that the surrender of the Saccarappa project licence will be completed early in calendar year 2023.

35. 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.

	2022			
US$	Board fees	Committee fees	Travel allowance	Total
ANR Rudd	433,758	–	11,400	445,158
NP Mageza	35,829	40,687	11,400	87,916
MV Moosa	50,640	28,328	11,400	90,368
MA Fallon	84,727	62,244	11,400	158,371
RJAM Renders	81,804	63,706	7,600	153,110
B Mehlomakulu	35,829	25,192	11,400	72,421
Z Malinga	35,829	15,495	7,600	58,924
BR Beamish	72,693	51,287	3,800	127,780
JM Lopez	86,756	26,138	19,000	131,894
JE Stipp[1]	26,038	13,170	3,800	43,008
LL von Zeuner[2]	2,487	–	–	2,487
	946,390	326,247	98,800	1,371,437

[1] *Retired from the board in February 2022.*
[2] *Appointed to the board in September 2022.*

	2021			
US$	Board fees	Committee fees	Travel allowance	Total
ANR Rudd	437,515	–	–	437,515
NP Mageza	30,353	41,379	3,800	75,532
MV Moosa	45,416	28,811	3,800	78,027
MA Fallon	63,821	65,489	–	129,310
RJAM Renders	74,465	69,480	–	143,945
B Mehlomakulu	30,353	25,621	3,800	59,774
Z Malinga	30,353	15,759	3,800	49,912
BR Beamish	63,821	53,961	–	117,782
JM Lopez	70,540	25,500	3,800	99,840
JE Stipp	70,540	35,680	3,800	110,020
	917,177	361,680	22,800	1,301,657

35. DIRECTORS AND PRESCRIBED OFFICERS' REMUNERATION continued

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$	2022 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]	**549,242**	**673,307**	**15,973**	**80,893**	**355,672**	**1,675,087**
GT Pearce[1]	**317,525**	**388,990**	**9,086**	**58,760**	**163,841**	**938,202**
	866,767	**1,062,297**	**25,059**	**139,653**	**519,513**	**2,613,289**

[1] *Both directors received a 4.5% and 1.0% increase on their South African and off-shore salaries for fiscal 2022.*

US$	2021 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	564,742	607,749	16,440	84,179	458,673	1,731,783
GT Pearce	326,357	351,098	9,344	61,581	210,425	958,805
	891,099	958,847	25,784	145,760	669,098	2,690,588

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.

35. 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$	2022 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
M Eikelenboom	514,341	581,459	2,713	120,831	109,883	1,329,227
M Haws	448,993	520,062	–	51,953	132,698	1,153,706
A Thiel	330,492	278,379	11,233	56,635	197,197	873,936
M van Hoven	176,065	165,428	5,388	46,659	153,727	547,267
G Bowles	258,365	259,810	8,477	52,049	160,664	739,365
F Marupen	185,526	174,134	5,625	45,126	132,613	543,024
M Mansoor	317,523	312,171	160,186	77,647	107,412	974,939
Total	2,231,305	2,291,443	193,622	450,900	994,194	6,161,464

US$	2021 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[(1)]	414,011	–	1,494	147,274	223,478	786,257
M Eikelenboom[(2)]	274,953	–	1,494	62,905	95,540	434,892
M Haws	437,552	391,597	–	49,375	120,560	999,084
A Thiel	339,777	307,032	11,561	59,071	254,330	971,771
M van Hoven	179,317	148,830	5,537	48,522	197,198	579,404
G Bowles	265,605	234,379	8,726	54,275	209,307	772,292
F Marupen	190,682	157,173	5,790	47,591	170,559	571,795
M Mansoor	321,900	259,661	137,000	64,205	126,026	908,792
Total	2,423,797	1,498,672	171,602	533,218	1,396,998	6,024,287

(1) *Retired in March 2021.*
(2) *Appointed in April 2021.*

36. 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.

	2022		2021	
	Direct interests	Indirect interests	Direct interests	Indirect interests
Director	Beneficial	Beneficial	Beneficial	Beneficial
Non-executive directors				
ANR Rudd	500,000	–	500,000	–
MV Moosa	–	576,542	–	576,542
MA Fallon	5,000	–	5,000	–
Executive directors				
SR Binnie	417,125	–	400,000	–
GT Pearce	193,752	–	185,877	–
Prescribed officers				
M Eikelenboom	22,943	–	20,318	–
M Haws	42,750	–	40,000	–
A Thiel	571,402	–	561,902	–
M van Hoven	210,778	–	203,403	–
G Bowles	80,051	–	109,438	–
F Marupen	84,636	–	73,261	–
M Mansoor	61,800	–	57,050	–
	2,190,237	576,542	2,156,249	576,542

Subsequent to year-end and up to the date of this report, 186,115 shares were acquired by the directors and prescribed officers.

37. 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	
	SR Binnie	GT Pearce	Total 2022	Total 2021
Outstanding at beginning of year				
Number of shares held	685,000	314,000	**999,000**	871,000
Performance shares 42	–	–	**–**	237,000
Performance shares 43	137,000	63,000	**200,000**	200,000
Performance shares 44	142,000	65,000	**207,000**	207,000
Performance shares 45	156,000	71,000	**227,000**	227,000
Performance shares 46	250,000	115,000	**365,000**	–
Offered and accepted during the year				
Performance shares 46			**–**	365,000
Performance shares 47	180,000	85,000	**265,000**	
Vested during the year				
Number of shares	(17,125)	(7,875)	**(25,000)**	(94,800)
Forfeited during the year				
Number of shares	(119,875)	(55,125)	**(175,000)**	(142,200)
Appointment (retirement) during the year				
Number of shares	–	–	**–**	–
Outstanding at end of year				
Number of shares	728,000	336,000	**1,064,000**	999,000
Performance shares 43	–	–	**–**	200,000
Performance shares 44	142,000	65,000	**207,000**	207,000
Performance shares 45	156,000	71,000	**227,000**	227,000
Performance shares 46	250,000	115,000	**365,000**	365,000
Performance shares 47	180,000	85,000	**265,000**	–

Performance shares are issued for Rnil and vest after four years subject to performance criteria being achieved.

The Plan share issue 43 vested at R46.96.

Vesting dates

Performance shares 44
Performance shares 45
Performance shares 46
Performance shares 47

							Prescribed officers	
M Eikelenboom	M Haws	A Thiel	M van Hoven	G Bowles	F Marupen	M Mansoor	Total 2022	Total 2021
209,000	269,000	379,000	294,000	309,000	254,000	207,000	**1,921,000**	1,714,100
–	–	–	–	–	–	–	**–**	426,100
21,000	22,000	76,000	59,000	63,000	51,000	38,000	**330,000**	385,000
23,000	23,000	79,000	61,000	65,000	53,000	39,000	**343,000**	399,000
27,000	86,000	86,000	67,000	71,000	58,000	50,000	**445,000**	504,000
138,000	138,000	138,000	107,000	110,000	92,000	80,000	**803,000**	–
							–	665,000
100,000	100,000	100,000	80,000	80,000	68,000	60,000	**588,000**	–
(2,625)	(2,750)	(9,500)	(7,375)	(7,875)	(6,375)	(4,750)	**(41,250)**	(213,050)
(18,375)	(19,250)	(66,500)	(51,625)	(55,125)	(44,625)	(33,250)	**(288,750)**	(213,050)
–	–	–	–	–	–	–	**–**	(32,000)
288,000	347,000	403,000	315,000	326,000	271,000	229,000	**2,179,000**	1,921,000
–	–	–	–	–	–	–	**–**	330,000
23,000	23,000	79,000	61,000	65,000	53,000	39,000	**343,000**	343,000
27,000	86,000	86,000	67,000	71,000	58,000	50,000	**445,000**	445,000
138,000	138,000	138,000	107,000	110,000	92,000	80,000	**803,000**	803,000
100,000	100,000	100,000	80,000	80,000	68,000	60,000	**588,000**	–

19 November 2022
19 November 2023
18 November 2024
19 November 2025

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

38. 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 (%) 2022	Effective holding (%) 2021
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 Co. KG	Austria	Manufacture of paper and paper pulp	**100**	100
Sappi Canada Enterprises Inc	Canada	Manufacture of paper pulp	**100**	100
Sappi Cloquet LLC	United States of America	Manufacture of paper, paper pulp and dissolving 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	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 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

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