

SAPPI LIMITED

Registration Number 1936/008963/06

SEPARATE ANNUAL FINANCIAL STATEMENTS
SEPTEMBER 2022

AUDITED

SAPPI LIMITED

SEPARATE ANNUAL FINANCIAL STATEMENTS

September 2022

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The financial statements have been audited in accordance with Section 30 of the Companies Act of South Africa and have been prepared by B Jones CA(SA) under the supervision of J Shaw CA(SA).

SAPPI LIMITED

ANNUAL FINANCIAL STATEMENTS

General information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Group holding company
Executive Directors	S R Binnie G Pearce
Non-Executive Directors	A N R Rudd N P Mageza M V Moosa M A Fallon B Mehloakulu RJAM Renders Z Malinga BR Beamish JM Lopez LL von Zeuner N Sowazi E Istavridis
Prescribed Officers	M Eikelenboom M Haws A Thiel M Mansoor M van Hoven G Bowles F Marupen
Registered office	108 Oxford Road Houghton Estate Johannesburg 2198
Postal address	PO Box 52264 Saxonwold 2132
Auditor	KPMG Inc
Secretary	Sappi Southern Africa Limited Secretaries per A Mahendranath Group Secretary

SEPARATE ANNUAL FINANCIAL STATEMENTS

September 2022

Statement of responsibility

The directors are responsible for the maintenance of adequate accounting records and the content, integrity and fair presentation of the separate Annual Financial Statements and the related financial information included in this report. These have been prepared in accordance with International Financial Reporting Standards and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and, the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. In preparing the separate Financial Statements, the company applied appropriate accounting policies supported by reasonable judgements and estimates. The auditors are responsible for auditing the separate 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 company and are committed to maintaining a strong control environment. Details relating to the group's internal control environment are set out in the corporate governance section of the Annual Integrated Report.

The directors are of the opinion, based on the information and explanations given by the company's officers and the internal auditors, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the company separate 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 company's budget and cash flow forecasts. This review, together with the company's financial position, existing borrowing facilities and cash on hand, has satisfied the directors that the company will continue as a going concern for the foreseeable future. The company, therefore, continues to adopt the going concern basis in preparing its Separate Annual Financial Statements.

Secretary's certificate

In terms of section 88(2)(e) of the Companies Act 71 of 2008 of South Africa, I hereby certify that, to the best of my knowledge and belief, the company has lodged with the Companies and Intellectual Property Commission of South Africa, for the separate 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
09 December 2022

Approval of the separate annual financial statements

The separate annual financial statements set out on pages 11 to 37 and the directors' report on pages 6 to 7 were approved by the board of directors on 9 December 2022 and signed on its behalf by:



GT Pearce

Sappi Limited

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 Limited 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 auditors and ensured that the scope of their additional services provided did not impair their independence
- Received and dealt with concerns and complaints through 'whistle-blowing' mechanisms that were reported to the committee by the group internal audit function
- Reviewed a documented assessment, including key assumptions, prepared by management on the going concern status of the group, and accordingly made recommendations to the board
- Reviewed and recommended for adoption by the board the financial information that is publicly disclosed, which included:
 - The Annual Integrated Report
 - The Group Annual Financial Statements
 - The quarterly financial results
- Considered the effectiveness of internal audit, approved the annual operational strategic internal audit plan and monitored adherence of internal audit to its plan
- Reviewed the performance and expertise of the Chief Financial Officer and confirmed his suitability for the position
- Satisfied itself that the internal audit function is efficient and effective and carried out its duties in an independent manner in accordance with a board approved internal audit charter.
- 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 Limited 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.

Integrated Report and the Group Annual Financial Statements

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

Membership

The membership of the committee is comprised of independent non-executive directors, all of whom are financially literate, with three members forming a quorum:

Mr NP Mageza	(appointed in February 2010, Chairman from February 2018)
Mr RJAM Renders	(appointed in March 2017)
Ms Z Malinga	(appointed in October 2018)
Ms JE Stipp	(appointed in June 2019, retired February 2022)
Dr B Mehloakulu	(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 Integrated Annual Report.

In addition, the Chief Executive Officer, the Chief Financial Officer, Head of Group Internal Audit, the Group Internal Control and Risk Manager and the external auditors are also permanent invitees to the meeting. The chairman of the board attends meetings ex officio. The effectiveness of the committee is assessed every year. In terms of the Companies Act, the committee is required to be elected annually at the Annual General Meeting.

External audit

The committee, having considered all relevant matters, satisfied itself through enquiry that auditor independence, objectivity and effectiveness were maintained in 2022. Meetings were held with the auditors where management was not present.

No material non-audit services were provided by the external auditors during the year under review.

The committee has given adequate consideration to the information presented by the external auditor as required by the JSE Listings requirements. The committee has consequently nominated, for approval at the Annual General Meeting, KPMG as the external auditor for the 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.

The committee has evaluated the Integrated Report, incorporating the group annual financial statements, for the year ended September 2022. The committee has also considered the sustainability information as disclosed in the 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 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

SAPPI LIMITED

Directors' report

The directors have pleasure in presenting their report for the year ended September 2022. The directors' report on the consolidated financial statements was included in those published consolidated financial statements on 9 December 2022. Details of the consolidated annual financial statements are available at www.sappi.com.

Nature of business

Sappi Limited as the holding company of the group, was formed in 1936 and is incorporated and domiciled in the Republic of South Africa.

Sappi is a global company with operations in North America, Europe and Southern Africa and is focused on providing dissolving pulp, paper pulp and paper based solutions to its direct and indirect customer base across more than 160 countries. The group's dissolving pulp products are used worldwide by converters to create viscose fibre for clothing and textiles, acetate tow, pharmaceutical products as well as a wide range of consumer products. The group's market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and in the Southern African region newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products.

Financial results

The company made a loss of R34 million for the year ended September 2022 (2021: Loss of R24 million).

Dividends

On 9 November 2022, the directors approved a dividend (number 89) of 15 US cents per share which will be paid to shareholders on 16 January 2023. The dividend will be funded from cash reserves. The group aims to declare ongoing annual dividends.

Going concern

The directors believe that the company has access to sufficient resources and expected cash flows to continue as a going concern for the next financial year (refer note 22).

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.

Subsequent events

Refer to note 17 of financial statements for further detail.

Directors' report (continued)

Litigation

From time to time, the company becomes involved in various claims and lawsuits incidental to the ordinary course of our business. The company is not currently involved in legal proceedings which, either individually or in the aggregate, are expected to have a material adverse effect on our business, assets or properties.

Directors and secretaries

The composition of the board of directors is set out in Our Leadership section in our Annual Integrated Report which is available at www.sappi.com. During the year there were no changes to the board:

At the end of September 2022, there were 12 directors, two of whom are executive directors. All of the ten 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.

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 J E Stipp as an independent non-executive director with effect from 09 February 2022
- The appointment of Mr Louis von Zeuner as independent non-executive director with effect from 01 September 2022
- The appointment of Mr Nkululeko (Nkunku) Sowazi as independent non-executive director with effect from 03 October 2022
- The appointment of Ms Eleni Istavridis as independent non-executive director with effect from 03 October 2022

Details of the secretaries and their business and postal addresses are set out on page 2.

Details of the directors and prescribed officers' shareholding and remuneration are set out in notes 18 to 20.

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 company.

The directors and officers have certified that they do not have any material interest in any significant transaction with either the company or any of its subsidiaries.

Directors' liabilities

Directors and officers of the company are covered by directors' and officers' liability insurance.

Subsidiary companies

Details of the company's significant subsidiaries are set out in note 21.

Financial assistance to related parties

The shareholders of the company passed a special resolution authorising the board of the company to provide financial assistance to certain related parties from the date of the adoption of the special resolution at the annual general meeting held on 4 February 2022. See note 23 on related parties for more information.

Share Capital

During the year, Sappi issued 3,4 million shares in terms of the convertible bond set out in note 8.



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Independent Auditor's Report

To the shareholders of Sappi Limited

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Sappi Limited (the Company) set out on pages 11 to 37, which comprise the balance sheet as at September 2022 and the income statement, statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of Sappi Limited and its subsidiaries as at September 2022, and its separate financial performance and separate cash flows for the year then ended 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 separate financial statements* section of our report. We are independent of the Company 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 separate financial statements of the current period

We have determined that there are no key audit matters to communicate in our report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Sappi Limited Separate Annual Financial Statement for the year ended September 2022", which includes the Directors' Report, the Audit and Risk Committee's Report and the Secretary's Certificate as required by the Companies Act of South Africa. The other information does not include the separate financial statements and our auditor's report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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 separate financial statements

The directors are responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Company'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 Company'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 separate 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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 separate 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

A handwritten signature in black ink, appearing to read 'Per Coenie Basson', with a long horizontal stroke extending to the right.

Per Coenie Basson
Chartered Accountant (SA)
Registered Auditor
Director
9 December 2022

SAPPI LIMITED**Income statement**

for the year ended September 2022

R'000	note	2022	2021
Management fees	2	328 866	254 143
Dividends received	2	-	15 310
Revenue	2	328 866	269 453
Operating expenses		(365 856)	(298 540)
Operating loss	3	(36 990)	(29 087)
Net finance income (loss)		1 365	1 406
- Interest income		1 678	1 234
- Net foreign exchange gain (loss)		(313)	172
Loss before taxation		(35 625)	(27 681)
Taxation	4	1 171	3 706
Loss for the year		(34 454)	(23 975)

Statement of comprehensive Income

for the year ended September 2022

R'000	2022	2021
Loss for the year	(34 454)	(23 975)
Other comprehensive income, net of tax	-	-
Total comprehensive income for the year	(34 454)	(23 975)

SAPPI LIMITED**Balance sheet**

as at end September 2022

R'000	note	2022	2021
ASSETS			
Non-current assets		21 775 083	21 773 069
Investments in subsidiaries	5	21 769 829	21 769 829
Deferred taxation	6	5 254	3 240
Current assets		164 205	50 041
Other receivables		811	1 140
Related party loans	23	161 911	48 901
Taxation receivable		1 483	-
Cash and cash equivalents	7	-	-
TOTAL ASSETS		21 939 288	21 823 110
Shareholders' equity		16 712 748	16 560 873
Ordinary share capital and share premium	8	13 027 257	12 930 928
Non-distributable reserves	9	1 653 396	1 563 396
Retained earnings		2 032 095	2 066 549
Non-current liabilities			
Current liabilities		5 226 540	5 262 237
Other payables		113 453	103 392
Taxation payable		-	4 879
Related party loans	23	5 113 087	5 153 966
TOTAL EQUITY AND LIABILITIES		21 939 288	21 823 110

SAPPI LIMITED**Statement of cash flows**

for the year ended September 2022

R'000

	note	2022	2021
Cash utilised in operating activities		(34 500)	190 000
Cash generated (utilised) by operations	10	(9 663)	(11 438)
Movement in working capital	11	(81 670)	129 670
Cash generated by operating activities		(91 333)	118 232
- Interest income		1 678	1 234
Taxation paid	12	(7 205)	(4 266)
Employee share option recharge		62 360	59 489
Dividends received		-	15 310
Cash effects of financing activities	13	34 500	(190 000)
Repayments of related party loan		(40 000)	(210 000)
Proceeds from related party loan		74 500	20 000
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year	7	-	-

SAPPI LIMITED

Statement of changes in equity
for the year ended September 2022

R'000	Number of ordinary shares '000	Ordinary share capital	Share premium	Non-distributable reserves	Retained earnings	Total
Balance - September 2020	547 860	547 860	11 992 745	1 471 120	2 090 524	16 102 249
Total comprehensive income	-	-	-	-	(23 975)	(23 975)
Share-based payments ⁽¹⁾	-	-	-	32 787	-	32 787
Employee share options recharge	-	-	-	59 489	-	59 489
Convertible bond into Share Capital issue ⁽²⁾	14 120	14 120	371 203	-	-	385 323
Issue of shares for share scheme	5 000	5 000	-	-	-	5 000
Balance - September 2021	566 980	566 980	12 363 948	1 563 396	2 066 549	16 560 873
Total comprehensive income	-	-	-	-	(34 454)	(34 454)
Share-based payments ⁽¹⁾	-	-	-	27 640	-	27 640
Employee share options recharge	-	-	-	62 360	-	62 360
Convertible bond into Share Capital issue ⁽²⁾	3 409	3 409	92 920	-	-	96 329
Issue of shares for share scheme	-	-	-	-	-	-
Balance - September 2022	570 389	570 389	12 456 868	1 653 396	2 032 095	16 712 748

Note:

⁽¹⁾ The movement of share-based payments reserve relates to IFRS 2 charges for:

- Sappi Employee Share Schemes	2022	2021
	27 640	32 787
	<u>27 640</u>	<u>32 787</u>

⁽²⁾ Refer to note 8.

Notes to the annual financial statements

for the year ended September 2022

1. ACCOUNTING POLICIES

1.1 Basis of preparation

The financial statements have been prepared in accordance with:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB),
 - the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee,
 - Financial Reporting Pronouncements as issued by Financial Reporting Standards Council,
 - the Listings Requirements of the JSE Limited, and
 - the requirements of the Companies Act 2008 of South Africa.
- all amounts disclosed are rounded in Rand thousands (R'000).

The Sappi group prepared consolidated financial statements as required per IFRS. Details of these are available at www.sappi.com

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. Adoption of new accounting standards and changes to accounting standards are dealt with in section 1.16.

The financial statements have been prepared in Rand, which is the company's functional currency.

The financial statements are prepared on the historical cost basis and were approved by the board of directors on 9 December 2022.

1.2 Fiscal year

The company'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)

1.3 Underlying concepts

The financial statements have been prepared on the going concern basis.

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

Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgement and based on various assumptions and other factors such as historical experience, current and expected economic conditions, and in some cases, actuarial techniques. The company constantly re-evaluates these significant factors and makes adjustments where facts and circumstances dictate. Refer to notes 1.9, 1.11, 1.13(ii) and 16.

Changes in accounting estimates are recognised prospectively in the income statement 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.

1.4 Revenue

1.4.1 Revenue received from customers

Revenue received from customers comprise of related party management fees received for management services rendered. Revenue is recognised when the customer obtains the service. Revenue is recognised over time, with no deferral of revenue. Control of services passes to the customer when the performance obligation is satisfied. Sappi has one performance obligation, which is delivery of the service to the customer.

1.4.2 Dividends received

Dividend income is recognised in the income statement on the date on which the company's right to receive payment is established.

1.5 Foreign currencies

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 the income statement for the period.

1.6 Finance Income

Finance Income consists of interest earned on cash balances. Finance income is recognised as it accrues, using the effective interest method.

1.7 Ordinary share capital

The company share capital consist of ordinary shares. The issued ordinary shares are listed on JSE Limited stock exchange and publicly traded. 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.

Notes to the annual financial statements (continued)

for the year ended September 2022

1.8 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.

1.9 Investments in subsidiaries

Investments in subsidiaries are stated at cost less accumulated impairments. If an impairment indicator exists, a discounted cash flow model is applied to determine the recoverable amount of these investments. A key assumption in this discounted cash flow model is the assumption of sustained profitable operations of the various business operations.

Where impairment exists, the losses are recognised in profit or loss for the period. A previously recognised impairment losses will be reversed through profit or loss if the recoverable amount increases as a result of a change in the earnings 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 had no impairment loss been recognised in prior periods.

1.10 Financial instruments

(i) Initial recognition

Financial instruments are recognised on the balance sheet when the company 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; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the company 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.

Financial assets – Business model assessment:

The company 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 company'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 – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the company'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.

Sappi's business model is to hold assets to collect contractual cash flows.

Notes to the annual financial statements (continued)

for the year ended September 2022

1.10 Financial instruments Continued

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 (e.g. 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 company 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 company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the company's claim to cash flows from specified assets (e.g. 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.

Financial assets - subsequent measurement and gains and losses

- **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.

Financial liabilities

Financial liabilities are classified and 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.

• **Financial liabilities at amortised cost**

All financial liabilities, other than those at fair value through profit or loss, are classified and measured as financial liabilities at amortised cost.

• **Loans and receivables**

Loans and receivables are carried at amortised cost.

Notes to the annual financial statements (continued)for the year ended September 2022

1.10 Financial instruments (continued)**(iv) Derecognition**

The company derecognises a financial asset when the rights to receive cash flows from the asset have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when and only when the liability is extinguished i.e. when the obligation specified in the contract is discharged, cancelled or has expired. The difference in the respective carrying amounts is recognised in profit or loss for the period.

(v) Impairment of financial assets

The company measures loss allowances at an amount equal to lifetime expected credit losses using a simplified approach. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the company 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 company'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 related party loans and other receivables. The company's related party loans and other receivables are managed on a collective basis irrespective of the nature of its customers. The company does not have a history of significant related party loans and other receivables write-offs as the contractual terms entered with the customers help ensure that these balances are recoverable.

The company establishes an allowance for impairment that represents its estimate of credit losses in respect of its related party loans 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 other receivables 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 aging. 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 company's operations and the contractual terms agreed to with its customers.

1.11 Taxation

Taxation on the profit or loss for the year comprises current and deferred taxation. Taxation is recognised in profit or loss.

(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, including imputed income from controlled foreign entities using taxation rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxation payable in respect of previous years.

The company estimates its income taxes. This process involves estimating its current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes.

(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 deferred tax assets against deferred tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Before recognising a deferred tax asset the company 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.

Notes to the annual financial statements (continued)

for the year ended September 2022

1.12 Taxation (continued)

(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.

1.13 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 company as consideration for those equity instruments, will be received in the future during the vesting period. These benefits are accounted for in profit or loss as they are received during the vesting period, 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-related performance conditions are expected to be met.

(ii) Measurement of fair value of equity instruments granted

The equity instruments granted by the company 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 company's share-based payment transactions, management uses assumptions to determine share-based payment expenses. Key inputs to this process include; the volatility of the share price, employee turnover rate and dividend payout rates which are necessary in determining the grant date fair value.

Note 16 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of the year.

(iv) Employee share option recharge

When the Company grants a share-based payment award to employees of a subsidiary, the Company requires the subsidiary to make a payment to reimburse it for granting the share-based payment award. This employee share option recharge is recognised in equity as a non-distributable reserve, Employee share call option reserve.

1.14 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 company 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.

Notes to the annual financial statements (continued)

for the year ended September 2022

1,15 Financial guarantees

Financial guarantee contracts are accounted for as financial instruments and are recognised initially at fair value and are subsequently measured at the higher of the amount of loss allowance according to the impairment requirements of IFRS 9 and the amount initially recognised less, where appropriate, the cumulative amount of income recognised under IFRS 15.

1,16 Adoption of accounting standards in the current year

The following standards, interpretations, amendments and improvements to standards were effective and adopted in the current fiscal year, all of which had no material impact on the company's reported results or financial position:

- IFRS 9, IAS 13 and IFRS 7 - Interest Rate Benchmark Reform Phase 2
- IFRS 16 - Covid-19-Related Rent Concessions

1,17 Accounting standards and amendments to existing standards that are not yet effective

Certain new standards and amendments to existing standards have been published but which are not yet effective and which have not yet been adopted by the company. No material impact of these standards is being expected by the company. 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

SAPPI LIMITED**Notes to the annual financial statements (continued)**

for the year ended September 2022

R'000	2022	2021
2. REVENUE		
Revenue consists of:		
Management fees from subsidiaries	328 866	254 143
Dividends received from subsidiaries	-	15 310
	<u>328 866</u>	<u>269 453</u>
3 OPERATING LOSS		
Operating loss is stated after taking into account the items detailed below:		
Share-based payment expense	27 640	32 787
Technical and administrative services	19 003	17 718
Auditor's remuneration	9 698	9 388
Staff costs	251 116	205 842
4. TAXATION		
Current tax:	843	13 005
- Current year	915	10 460
- Prior year under (over) provision	(72)	2 545
Deferred tax:	(2 014)	(16 711)
- Current year	(2 014)	(13 771)
- Prior year over provision	-	(2 940)
	<u>(1 171)</u>	<u>(3 706)</u>
Reconciliation of the tax rate:	%	%
Statutory tax rate	28,0	28,0
Adjusted for:		
Non-deductible shareholders costs	(19,4)	(27,0)
Income from vested trusts	(0,3)	-
Exempt income - dividends received	-	15,7
Non-deductible expenses	(0,8)	
Other imputed income ⁽¹⁾	(3,8)	(4,9)
Prior year over (under) provision	0,1	1,6
Effect of tax rate changes ⁽²⁾	(0,5)	-
Effective tax rate	<u>3,3</u>	<u>13,4</u>
5. INVESTMENTS IN SUBSIDIARIES		
Investments in the company's significant subsidiaries are detailed in note 21. All the company's investments are directly or indirectly wholly owned and shown at cost less impairment.		
Investments opening balance	21 769 829	21 769 829
Investments as at September	<u>21 769 829</u>	<u>21 769 829</u>

⁽¹⁾ Other imputed income relates to income from controlled foreign entities taxable according to SA Revenue legislation.

⁽²⁾ The effect of tax rate changes relate to the decrease in the tax rate from 28% to 27% in South Africa.

SAPPI LIMITED**Notes to the annual financial statements (continued)**

for the year ended September 2022

R'000

2022**2021****6. DEFERRED TAXATION****Reconciliation of deferred taxation**

Deferred tax balance at beginning of year	3 240	(13 471)
Deferred tax for the year	2 014	16 711
Other liabilities and accruals	2 994	13 791
Employees share option recharge	(980)	2 920
Deferred tax balance at end of year	5 254	3 240

Analysis of deferred tax

Other liabilities and accruals	23 734	20 740
Employees share option recharge	(18 480)	(17 500)
Net deferred tax asset (liability)	5 254	3 240

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents	-	-
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The company is part of a cash management facility with Sappi Southern Africa Limited (SSA) whereby the company's cash balances are swept on a daily basis to SSA.

8. ORDINARY SHARE CAPITAL AND SHARE PREMIUM

Authorised		
725,000,000 (September 2021: 725,000,000) ordinary shares of R1 each	725 000	725 000
Issued		
570,389,094 (September 2021: 566,980,237) ordinary shares of R1 each	570 389	566 980
Share premium	12 456 868	12 363 948
	13 027 257	12 930 928

⁽¹⁾ On 25 November 2020, Sappi Southern Africa, a wholly owned subsidiary of Sappi Limited, issued a R1.8 billion 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 R33.16 was set at a premium of 32.5% above the reference share price of R25.03. The company issued 3.4 million ordinary shares in April 2022 amounting to R96.3 million to early settle approximately 6% of the convertible bond's initial offering of R1.8 billion.

The movement in ordinary share capital and share premium is reconciled as follows:

Opening balance	12 930 928	12 540 605
Issue of shares	3 409	19 120
Convertible bond - equity portion	92 920	371 203
Repurchase and delisting of treasury shares from wholly owned subsidiary	-	-
Closing balance	13 027 257	12 930 928

SAPPI LIMITED**Notes to the annual financial statements (continued)**

for the year ended September 2022

R'000

8. ORDINARY SHARE CAPITAL AND SHARE PREMIUM (continued)

Included in the issued and unissued share capital of 725,000,000 shares, is a total of 35,708,943 shares (8,306,270 shares allocated to participants under prior shareholder approval in March 2005 and 27,402,673 shares approved by shareholders in February 2020 and yet to be allocated) 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 35,708,943 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.

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to section 56(7) of the Companies Act 71 of 2008 of South Africa, the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 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	18,80
Alexander Forbes Investments	37 805 103	6,63
Allan Gray Balanced Fund	31 179 908	5,47

9. NON-DISTRIBUTABLE RESERVES

	2022	2021
Reduction in capital arising from the transfer of share premium in terms of the special resolution dated 14 April 1975	6 813	6 813
Capital redemption reserve fund	648	648
Share-based payment reserve	548 009	520 369
Employee share call option reserve	1 097 926	1 035 566
	<u>1 653 396</u>	<u>1 563 396</u>

10. CASH GENERATED BY OPERATIONS

Operating loss	(36 990)	(29 087)
Dividends received	-	(15 310)
Adjustment for non-cash items		
Net foreign exchange (loss) gain	(313)	172
Share-based payment expense	27 640	32 787
	<u>(9 663)</u>	<u>(11 438)</u>

11. MOVEMENT IN WORKING CAPITAL

Decrease in other receivables	329	2 160
Increase in other payables	10 061	37 179
Increase in related party receivable	(187 510)	(41 184)
Decrease in related party payable	95 450	131 515
	<u>(81 670)</u>	<u>129 670</u>

12. TAXATION PAID

Balance - beginning of year	(4 879)	3 860
Charge to the income statement	(843)	(13 005)
Balance - end of year	<u>(1 483)</u>	<u>4 879</u>
	<u>(7 205)</u>	<u>(4 266)</u>

Notes to the annual financial statements (continued)

for the year ended September 2022

R'000

13. Reconciliation of movements in liabilities to cash flows arising from financing activities

	Opening balance	Cash flows from Financing activities	Working capital cash flows	Other non-cash movements	Closing balance
2022					
Short-term related party balances	5 105 065	34 500	-92 060	-96 329	4 951 176
2021					
Short-term related party balances	5 595 056	-190 000	90 331	-390 322	5 105 065
The current year's non-cash movement of R96m is for share capital issued on behalf of Sappi Southern Africa's settlement of convertible bonds. Refer to note 8 for more information.					

14. Financial Guarantee Contracts

	2022	2021
Guarantees	23 361 100	23 230 897

All guarantees given by Sappi Limited for 2022 and 2021 relate to the following debt acquired by a subsidiary of the group:

Public Bond - Euro 450 million	Expiry	April 2026
Public Bond - US\$ 221 million	Expiry	June 2032
Public Bond - Euro 400 million	Expiry	March 2028
Osterreichische Kontrollbank - Euro 78 million	Expiry	March 2024
Osterreichische Kontrollbank - Euro 63 million	Expiry	December 2027
Osterreichische Kontrollbank - CAD 111 million	Expiry	December 2027
Eskom - ZAR 175 million	Expiry	none ⁽¹⁾

⁽¹⁾ Expiry of Eskom guarantee applicable to three months notice and mutual agreement with Eskom.

15. FINANCIAL INSTRUMENTS

The company's financial instruments consist mainly of related party receivables and payables, and other non-current assets and liabilities. Related party receivables and payables bear no interest and are not secured and are repayable / receivable on demand.

Introduction

The principal risks to which Sappi Limited is exposed through financial instruments are:

- a) market risk (the risk of loss arising from adverse changes in market rates and prices), arising from :
 - currency risk
- b) credit risk
- c) liquidity risk

The company's main financial risk management objectives are to identify, measure and manage the above risks as more fully discussed under the individual risk headings below.

a) Market risk

Currency risk

Sappi Limited is exposed to economic, transaction and translation currency risks. The objective of the company in managing currency risk is to ensure that foreign exchange exposures are identified as early as possible and actively managed.

- Economic exposure consists of planned net foreign currency trade in services not yet manifested in the form of actual invoices and orders;

- Transaction exposure arises due to 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 purchases and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts.

As at September 2022 and September 2021, there were no open foreign exchange contracts.

Notes to the annual financial statements (continued)

for the year ended September 2022

R'000

15. FINANCIAL INSTRUMENTS (continued)

Currency risk analysis

September 2022	R'000	Balance sheet carrying amount	In Scope financial instruments	USD	EUR	ZAR
Classes of financial instruments						
Assets						
Other receivables		811	-	-	-	811
Related party loans		161 911	161 911			161 911
		162 722	161 911	-	-	162 722
Liabilities						
Other payables		113 453	113 453			113 453
Related party loans		5 113 087	5 113 087	-	12 256	5 100 831
		5 226 540	5 226 540	-	12 256	5 214 284
Foreign exchange gap				-	(12 256)	(5 051 562)

September 2021	R'000	Balance sheet carrying amount	In Scope financial instruments	USD	EUR	ZAR
Classes of financial instruments						
Assets						
Other receivables		1 140	-	-	-	1 140
Related party loans		48 901	48 901			48 901
		50 041	48 901	-	-	50 041
Liabilities						
Other payables		103 392	103 392			103 392
Related party loans		5 153 966	5 153 966	4 861	25 488	5 123 617
		5 257 358	5 257 358	4 861	25 488	5 227 009
Foreign exchange gap				(4 861)	(25 488)	(5 176 968)

Based on the exposure as at September 2022, a variation of 10 % in the EUR foreign currency rate would result in a variation of R1,226 thousand (2021: R2,548 thousand) to profit or loss and equity.

b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the company.

Transactions that exposes the company to credit risk are mainly those entered into with its direct and indirect subsidiaries. The company has not raised any provisions for impairment relating to receivables from subsidiaries and other group companies because the company does not expect the counterparties to default and there is no evidence of potential default.

The company's exposure to credit risk is concentrated on loans receivable from its significant subsidiaries. The maximum credit risk as at year-end amounted to R161.9 million (2021: R48.9 million).

The company is exposed to risk where guarantees have been provided in respect of certain debt owed by subsidiaries as detailed in note 14 in the event of default by the debtor. At September 2022 and 2021, there was no indication that any of the guarantees will be called upon.

Notes to the annual financial statements (continued)

for the year ended September 2022

R'000

15. FINANCIAL INSTRUMENTS (continued)

c) Liquidity risk

Liquidity risk is the risk that the company will be unable to meet its current and future financial obligations as they fall due.

The company's objective is to manage its liquidity risk by:

- managing its bank balances, cash concentration methods and cash flows; and
- ensuring the availability of a minimum amount of short term borrowing facilities at all times, to meet any unexpected funding requirements

The company is a going concern and considered the impact of current liabilities exceeding current assets. Current liabilities mainly constitute related parties loans deemed short term due to no fixed repayment terms. These are not expected to be called upon in the foreseeable future. The majority of these loans are received from wholly owned subsidiaries of the company.

September 2022

R' 000

Assets

Other receivables

Related party loans

Liabilities

Other payables

Related party loans

Liquidity gap

Financial guarantees (note 14)

September 2021

R' 000

Assets

Other receivables

Related party loans

Liabilities

Other payables

Related party loans

Liquidity gap

Financial guarantees (note 14)

Capital Risk Management

The capital structure of the company consists of:

- issued share capital, premium and accumulated losses disclosed in note 8; and
- debt, which includes related party payables.

The company's capital management objective is to achieve an optimal weighted average cost of capital while continuing to safeguard the company's ability to meet its liquidity requirements repay borrowings as they fall due and continue as a going concern.

The company monitors its gearing through a ratio of net debt (related party payables and overdraft less cash and cash equivalents) to total capitalisation (shareholders equity and related party liabilities) The company has given guarantees to certain debt acquired by other subsidiaries of the company as disclosed in note 14.

	Undiscounted cash flows				
	Total	Fair value of	< 1 year	> 1 year	Total
Other receivables	811	811	811	-	811
Related party loans	161 911	161 911	161 911	-	161 911
	162 722	162 722	162 722	-	162 722
Other payables	113 453	113 453	113 453	-	113 453
Related party loans	5 113 087	5 113 087	5 113 087	-	5 113 087
	5 226 540	5 226 540	5 226 540	-	5 226 540
Liquidity gap	(5 063 818)	(5 063 818)	(5 063 818)	-	(5 063 818)
Financial guarantees (note 14)	23 361 100	23 361 100	23 361 100		23 361 100
Other receivables	1 140	1 140	1 140	-	1 140
Related party loans	48 901	48 901	48 901	-	48 901
	50 041	50 041	50 041	-	50 041
Other payables	103 392	103 392	103 392	-	103 392
Related party loans	5 153 966	5 153 966	5 153 966	-	5 153 966
	5 257 358	5 257 358	5 257 358	-	5 257 358
Liquidity gap	(5 207 317)	(5 207 317)	(5 207 317)	-	(5 207 317)
Financial guarantees (note 14)	23 230 897	23 230 897	23 230 897		23 230 897

Notes to the annual financial statements (continued)

for the year ended September 2022

R '000

15. FINANCIAL INSTRUMENTS (continued)

Fair values

The company's financial instruments are initially recognised at fair value. The carrying amounts for financial instruments approximate fair value due to their short-term nature.

Classes of financial instruments

September 2022

Assets

Other receivables	811	-	811	-	811	-	811
Related party loans	161 911	-	161 911	-	161 911	-	161 911
	<u>162 722</u>	<u>-</u>	<u>162 722</u>	<u>-</u>	<u>162 722</u>	<u>-</u>	<u>162 722</u>

Liabilities

Other payables	113 453	113 453	-	-	-	-	-
Related party loans	5 113 087	-	5 113 087	-	5 113 087	-	5 113 087
	<u>5 226 540</u>	<u>113 453</u>	<u>5 113 087</u>	<u>-</u>	<u>5 113 087</u>	<u>-</u>	<u>5 113 087</u>

September 2021

Assets

Other receivables	1 140	-	1 140	-	1 140	-	1 140
Related party loans	48 901	-	48 901	-	48 901	-	48 901
	<u>50 041</u>	<u>-</u>	<u>50 041</u>	<u>-</u>	<u>50 041</u>	<u>-</u>	<u>50 041</u>

Liabilities

Other payables	103 392	103 392	-	-	-	-	-
Related party loans	5 153 966	-	5 153 966	-	5 153 966	-	5 153 966
	<u>5 257 358</u>	<u>103 392</u>	<u>5 153 966</u>	<u>-</u>	<u>5 153 966</u>	<u>-</u>	<u>5 153 966</u>

Notes to the annual financial statements (continued)

for the year ended September 2022

16. Share-based payments

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 Performance Share Incentive Trust (the Plan) at 42,700,870 shares of which 8,306,270 shares are outstanding as at September 2022. A further 27,402,673 shares were approved by shareholders in February 2020 of which 5,898,130 are outstanding as at September 2022. The Scheme was liquidated in February 2020 upon expiry of the last options in December 2019.

The Sappi Limited Performance Share Incentive Trust (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.

Notes to the annual financial statements (continued)

for the year ended September 2022

16. Share-based payments (continued)

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

	Total Shares ⁽¹⁾
Outstanding at September 2020	2 574 649
Offered	1 301 500
Paid for / vested	(319 925)
Returned, lapsed, forfeited and transfers	(276 240)
Outstanding at September 2021	3 279 984
Offered	1 024 600
Paid for / vested	(75 401)
Returned, lapsed, forfeited and transfers	(587 941)
Outstanding at September 2022	3 641 242

⁽¹⁾ Performance shares are issued in terms of the Plan for no cash consideration. The value is determined on the day the shares vest.

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

	2022	2021	Vesting conditions	Vesting date	Exercise price (ZAR)
Performance shares:					
04 December 2017	-	605 678	Performance	04 December 2021	Rnil
19 November 2018	643 034	648 286	Performance	19 November 2022	Rnil
19 November 2019	726 810	735 523	Performance	19 November 2023	Rnil
18 November 2020	1 265 741	1 290 497	Performance	18 November 2024	Rnil
19 November 2021	1 005 657	-	Performance	19 November 2025	Rnil
	<u>3 641 242</u>	<u>3 279 984</u>			

The following assumptions have been utilised to determine the fair value of the shares granted in the financial period

	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	4 years	4 years
Vesting conditions	Market-related - relative to peers	Cash flow return on net assets relative to peers
Life of options	n/a	n/a
Market related vesting conditions	Yes	No
Percentage expected to vest	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	ZAR 28,80	ZAR 29,47

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

17. Events after balance sheet date

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.

Notes to the annual financial statements (continued)

for the year ended September 2022

18. 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. The remuneration is translated into SA Rands (ZAR) at the average exchange rates prevailing during the reporting 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, and 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 Rand/US Dollar exchange rate in the past few years, caused distortion of the relative fees paid to individual directors.

Non-executive directors' fees are proposed by the Executive Committee, agreed by the Compensation Committee, recommended by the Board, approved at the annual general meeting by the shareholders and paid by the company.

Director (ZAR)	2022			
	Board fees	Committee fees	Travel allowance	Total
ANR Rudd	6 845 966	-	179 925	7 025 891
NP Mageza	565 482	642 152	179 925	1 387 559
MV Moosa	799 248	447 103	179 925	1 426 276
MA Fallon	1 337 237	982 384	179 925	2 499 546
RJAM Renders	1 291 099	1 005 463	119 950	2 416 512
B Mehlomakulu	565 482	397 601	179 925	1 143 008
Z Malinga	565 482	244 561	119 950	929 993
BR Beamish	1 147 300	809 464	59 975	2 016 739
JM Lopez	1 369 261	412 533	299 875	2 081 670
JE Stipp ⁽¹⁾	410 955	207 861	59 975	678 791
LL von Zeuner ⁽²⁾	39 253	-	-	39 253
	14 936 765	5 149 122	1 559 350	21 645 238

⁽¹⁾ Retired from the board in February 2022

⁽²⁾ Appointed to the board in September 2022

Director (ZAR)	2021			
	Board fees	Committee fees	Travel allowance	Total
ANR Rudd	6 497 317	-	-	6 497 317
NP Mageza	450 757	614 499	56 432	1 121 688
MV Moosa	674 450	427 858	56 432	1 158 740
MA Fallon	947 774	972 544	-	1 920 318
RJAM Renders	1 105 842	1 031 813	-	2 137 655
B Mehlomakulu	450 757	380 485	56 432	887 674
Z Malinga	450 757	234 029	56 432	741 218
BR Beamish	947 774	801 348	-	1 749 122
JM Lopez	1 047 554	378 688	56 432	1 482 674
JE Stipp	1 047 554	529 866	56 432	1 633 852
	13 620 537	5 371 129	338 592	19 330 257

Notes to the annual financial statements (continued)

for the year ended September 2022

18. Directors' and prescribed officers' remuneration (continued)

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.

Average exchange rates for the years concerned have been applied in the tables below in converting the currency of payment into Rands.

Executive directors

		2022					
Director		Salary	Performance related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share based payments benefit	Total
(R)							
S R Binnie ⁽¹⁾	c	8 668 632	10 626 737	252 100	1 276 726	5 613 530	26 437 725
G T Pearce ⁽¹⁾	c	5 011 465	6 139 390	143 403	927 403	2 585 890	14 807 551
		13 680 097	16 766 127	395 503	2 204 129	8 199 420	41 245 276

		2021					
			Performance related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share based payments benefit	Total
Director		Salary					
(R)							
S R Binnie	c	8 386 701	9 025 377	244 142	1 250 100	6 811 523	25 717 843
G T Pearce	c	4 846 565	5 213 981	138 763	914 509	3 124 916	14 238 734
		13 233 266	14 239 358	382 905	2 164 609	9 936 439	39 956 577

⁽¹⁾ Both directors received 4.5% on South African and 1.0% on off-shore salaries for fiscal 2022.

^c Executive directors receive 70% of remuneration from Sappi Limited and remainder 30% from a subsidiary company.

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.

Notes to the annual financial statements (continued)

for the year ended September 2022

18. Directors' and prescribed officers' remuneration (continued)

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.

Prescribed officers

2022

		2022					
			Bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share based payment benefit	
(R)		Salary					Total
M Eikelenboom	^S	8 117 793	9 177 109	42 819	1 907 064	1 734 272	20 979 057
M Haws	^S	7 086 412	8 208 087	-	819 969	2 094 359	18 208 827
A Thiel	^S	5 216 122	4 393 628	177 289	893 865	3 112 341	13 793 245
M van Hoven	^C	2 778 816	2 610 934	85 038	736 414	2 426 258	8 637 460
G Bowles	^C	4 077 749	4 100 555	133 792	821 484	2 535 744	11 669 324
F Marupen	^C	2 928 138	2 748 339	88 779	712 219	2 093 018	8 570 493
M Mansoor	^S	5 011 434	4 926 964	2 528 200	1 225 495	1 695 273	15 387 366
		35 216 464	36 165 616	3 055 917	7 116 510	15 691 265	97 245 772

Prescribed officers

2021

		2007					
			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
(R)		Salary					
B Wiersum ⁽¹⁾	S	6 148 270	-	22 187	2 187 093	3 318 760	11 676 310
M Eikelenboom ⁽²⁾	S	4 083 190	-	22 187	934 171	1 418 817	6 458 365
M Haws	S	6 497 866	5 815 411	-	733 243	1 790 376	14 836 896
A Thiel	S	5 045 858	4 559 579	171 687	877 234	3 776 928	14 431 286
M van Hoven	C	2 662 947	2 210 200	82 227	720 576	2 928 489	8 604 439
G Bowles	C	3 944 367	3 480 645	129 585	806 011	3 108 314	11 468 922
F Marupen	C	2 831 723	2 334 098	85 984	706 750	2 532 886	8 491 441
M Mansoor	S	4 780 376	3 856 096	2 034 519	953 476	1 871 549	13 496 016
		35 994 597	22 256 029	2 548 376	7 918 554	20 746 119	89 463 675

⁽¹⁾ Retired in March 2021.

⁽²⁾ Appointed in April 2021.

^S Prescribed Officer receives remuneration from a subsidiary company.

^C Prescribed Officer receives 70% of remuneration from Sappi Limited and remainder 30% from a subsidiary company.

SAPPI LIMITED**Notes to the annual financial statements (continued)**
for the year ended September 2022**19. Directors' and prescribed officers' interests**

The following table sets out each director's and prescribed officer's direct and indirect interests in shares in Sappi Limited.

Director	2022		2021	
	Direct interests - beneficial	Indirect interests - beneficial	Direct interests - beneficial	Indirect interests - beneficial
Non-executive directors				
ANR Rudd	500 000	-	500 000	-
M V Moosa	-	576 542	-	576 542
MA Fallon	5 000	-	5 000	-
Executive directors				
S R 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	-
TOTAL	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.

Notes to the annual financial statements (continued)

for the year ended September 2022

20. Directors' and prescribed officers' participation in the Sappi Limited share schemes

Changes in executive directors' and prescribed officers' share options, allocation shares and performance shares before financial year-end

Executive directors

	S R Binnie	G T 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 ⁽¹⁾	(17 125)	(7 875)	(25 000)	(94 800)
Returned, lapsed and forfeited during the year				
Number of shares ⁽²⁾	(119 875)	(55 125)	(175 000)	(142 200)
Outstanding at end of year				
Number of shares held ⁽³⁾	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	-

⁽¹⁾ Performance shares 43 were issued for Rnil and vested after 4 years subject to performance criteria being achieved.

The Plan share issue 43 vested at a market value of R46.96 per share.

⁽²⁾ Performance shares lapsed and forfeited for Rnil after 4 years due to performance criteria not achieved.

⁽³⁾ All performance shares outstanding at end of year, vesting after a 4 years after issue, dependant on performance conditions, will be issued for Rnil consideration.

Vesting dates

Performance shares 44	19 November 2022
Performance shares 45	19 November 2023
Performance shares 46	18 November 2024
Performance shares 47	19 November 2025

Notes to the annual financial statements (continued)

for the year ended September 2022

20. Directors' and prescribed officers' participation in the Sappi Limited share schemes (continued)

Changes in executive directors' and prescribed officers' share options and performance shares before financial year-end

Prescribed officers

	M Eikelenboom	M Haws	A Thiel	M v Hoven	G Bowles	F Marupen	M Mansoor	Total 2022	Total 2021
Outstanding at beginning of year									
Number of shares held	209 000	269 000	379 000	294 000	309 000	254 000	207 000	1 921 000	1 714 100
Performance shares 42	-	-	-	-	-	-	-	-	426 100
Performance shares 43	21 000	22 000	76 000	59 000	63 000	51 000	38 000	330 000	385 000
Performance shares 44	23 000	23 000	79 000	61 000	65 000	53 000	39 000	343 000	399 000
Performance shares 45	27 000	86 000	86 000	67 000	71 000	58 000	50 000	445 000	504 000
Performance shares 46	138 000	138 000	138 000	107 000	110 000	92 000	80 000	803 000	-
Offered and accepted during the year									
Performance shares 46								-	665 000
Performance shares 47	100 000	100 000	100 000	80 000	80 000	68 000	60 000	588 000	-
Vested during the year									
Number of shares	(2 625)	(2 750)	(9 500)	(7 375)	(7 875)	(6 375)	(4 750)	(41 250)	(213 050)
Forfeited during the year									
Number of shares	(18 375)	(19 250)	(66 500)	(51 625)	(55 125)	(44 625)	(33 250)	(288 750)	(213 050)
Appointment / Retirement during the year									
Number of shares	-	-	-	-	-	-	-	-	(32 000)
Outstanding at end of year									
Number of shares	288 000	347 000	403 000	315 000	326 000	271 000	229 000	2 179 000	1 921 000
Performance shares 43	-	-	-	-	-	-	-	-	330 000
Performance shares 44	23 000	23 000	79 000	61 000	65 000	53 000	39 000	343 000	343 000
Performance shares 45	27 000	86 000	86 000	67 000	71 000	58 000	50 000	445 000	445 000
Performance shares 46	138 000	138 000	138 000	107 000	110 000	92 000	80 000	803 000	803 000
Performance shares 47	100 000	100 000	100 000	80 000	80 000	68 000	60 000	588 000	-

All performance shares are issued for Rnil and vest after 4 years subject to performance criteria being achieved.

The Plan share issue 43 vested at Rnil exercise price with at market value of R46.96 per share.

Vesting dates

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

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

SAPPI LIMITED**Notes to the annual financial statements (continued)**

for the year ended September 2022

21. Investments in subsidiaries

Set out below are the significant subsidiaries of the company as at the financial year-end:

Name of subsidiary	Country of incorporation	Principal activity	Direct / Indirect holding (%)	
			2022	2021
Elektra Purchase N° 29 Limited	Ireland	Securitisation of receivables	-	-
Sappi Rockwell Solutions Limited	Scotland	Manufacture of paper	100	100
Sappi Alfeld GmbH	Germany	Manufacture of paper and paper pulp	100	100
Sappi Austria Produktions GmbH and CoKG	Austria	Manufacture of paper and paper pulp	100	100
Sappi Canada Enterprise Inc	Canada	Manufacture of paper pulp	100	100
Sappi Cloquet LLC	United States of America	Manufacture of paper, paper pulp and dissolving wood pulp/paper pulp	100	100
Sappi Deutschland GmbH	Germany	Sales	100	100
Sappi Ehingen GmbH	Germany	Manufacture of paper and paper pulp	100	100
Sappi Europe SA	Belgium	Sales	100	100
Sappi Finland Operations Oy and Sappi Finland I Oy	Finland	Manufacture of paper and paper pulp	100	100
Sappi Italy Operations SpA	Italy	Manufacture of paper	100	100
Sappi International Holdings (Pty) Ltd	South Africa	Treasury	100	100
Sappi International SA	Belgium	Treasury	100	100
Sappi Lanaken NV	Belgium	Manufacture of paper	100	100
Sappi Lanaken Press Paper NV	Belgium	Manufacture of paper and paper pulp	100	100
Sappi Maastricht BV	The Netherlands	Manufacture of paper	100	100
Sappi Papier Holding GmbH	Austria	Holding company/Sales	100	100
Sappi Southern Africa Limited	South Africa	Production of paper and paper pulp, dissolving wood pulp and forestry	100	100
Sappi Stockstadt GmbH	Germany	Manufacture of paper and paper pulp	100	100
Sappisure Försäkrings AB	Sweden	Insurance	100	100
Sappi North America Inc	United States of America	Manufacture of paper and paper pulp	100	100

22 Going concern

We draw attention to the fact that the company incurred a loss for the year of R34 million (2021: R24 million) and current liabilities exceed current assets by R5.1 billion (2021: R5.2 billion). Current liabilities mainly constitute related parties loans deemed to be short-term due to there being no fixed repayment terms. The majority of these loans 99% (2021: 99%) are received from wholly owned subsidiaries of the company being Sappi Southern Africa Limited and Sappi Papier Holding GmbH. These loans are not expected to be called upon in the foreseeable future. The executive directors of the company are also directors of these subsidiaries. The company is solvent and total assets exceed total liabilities by R16.7 billion (2021: R16.6 billion).

The company's operations are funded by Sappi Southern Africa Limited by way of an interest-free related party loan which is used to pay for company expenses and taxes and fund dividend payments to shareholders. Sappi Southern Africa Limited's current assets exceed its current liabilities by R2.5 billion (2021: R2.4 billion), excluding the loan to the company. Sappi Southern Africa Limited generated profit after tax of R1.9 billion in 2022 (2021: R1.3 billion). Sappi Southern Africa Limited has a healthy balance sheet and is in a financial position to continue to support the operational funding of the company.

The company is able to receive dividends from subsidiary companies to the extent that additional funding is required for its requirements. The company is the holding company of the Sappi group which generated operating profit before special items in 2022 of US\$1,038 million (2021: US\$203 million). The current assets of the Sappi group exceed current liabilities by US\$1,275 million (2021: US\$662 million). The total assets of the Sappi group exceed total liabilities by US\$2.4 billion (2021: US\$2 billion).

The directors have reviewed the company's budget and cash flow forecasts and are satisfied that the company will continue as a going concern for the foreseeable future. The company, therefore, continues to adopt the going concern basis in preparing its financial statements.

Notes to the annual financial statements (continued)

for the year ended September 2022

23. Related parties

Related parties of the company include all subsidiaries, share incentive trusts, directors and prescribed officers (collectively key management personnel).

Financial Guarantee Contracts

Refer to note 14 for details of financial guarantees provided in respect of subsidiary debt.

Related party transactions and balances

Except for the cash management facility which bear interest, all related parties receivables and payables bear no interest and have no fixed repayment terms.

Related party receivables are expected to be realised within 12 months after the reporting period and none are expected to default, with no loss allowances required.

Balances and transactions between the company and other related parties are as follows:

R'000	Management fee from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2022	2021	2022	2021	2022	2021
Sappi Europe SA	-	-	550	129	3 966	646
Sappi International Holding (Pty) Ltd	-	-	591	-	-	-
Sappi North America Inc	-	-	-	-	-	4 861
Sappi Papier Holding GmbH	201 755	161 498	23 500	-	8 290	24 842
Sappi Southern Africa Limited	127 111	92 645	137 270	35 750	5 097 216	5 119 204
Sappi Trading SA	-	-	-	83	-	-
The Sappi Limited Performance Share Incentive Trust	-	-	-	12 939	3 615	4 413
	328 866	254 143	161 911	48 901	5 113 087	5 153 966

Related party transactions

Refer to notes 18 to 20 for director's and prescribed officers remuneration, interests and participation in the company's share schemes.

Dividends received from related parties:

	Dividends received	
	2022	2021
Volby Co Ltd BVI	-	15 310
	-	15 310