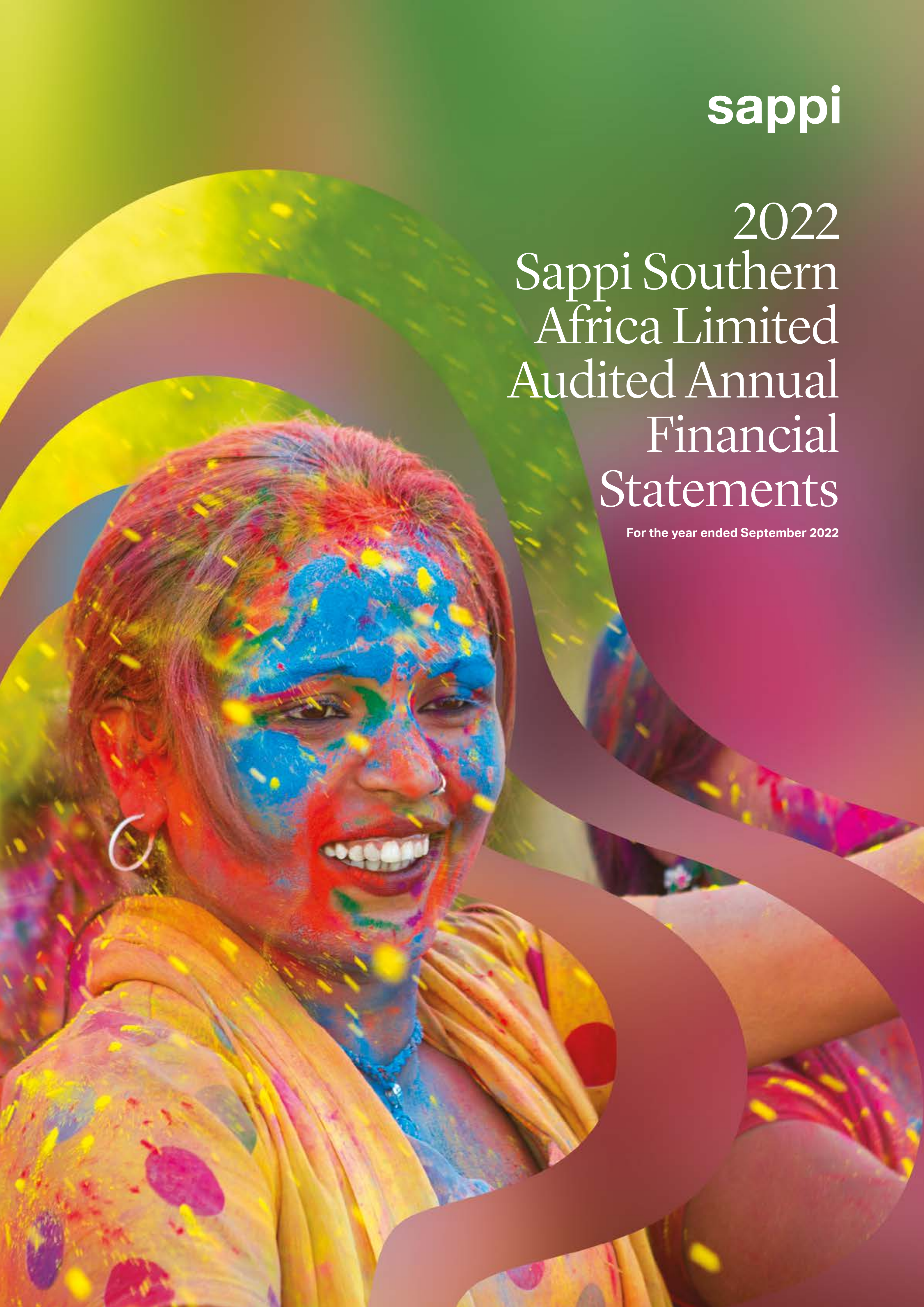

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2022 Sappi Southern Africa Limited Audited Annual Financial Statements

For the year ended September 2022

CONTENTS

GROUP ANNUAL FINANCIAL STATEMENTS

NOTES TO THE AUDITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

The audited financial statements for the year ended September 2022 have been prepared by the corporate accounting staff of Sappi Southern Africa Limited headed by John Shaw, Group Financial Manager. This process was supervised by Pramy Moodley, Chief Financial Officer.

The financial statements have been audited in compliance with section 30 of the Companies Act of South Africa.

Sappi Southern Africa Limited (incorporated in the Republic of South Africa), registration number 1951/003180/06

DIRECTORS' APPROVAL

FOR THE YEAR ENDED SEPTEMBER 2022

The directors are responsible for the maintenance of adequate accounting records and the content, integrity and fair presentation of the group and company annual financial statements and the related financial information included in this report.

These have been prepared in accordance with International Financial Reporting Standards, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the JSE Limited Debt Listings Requirements and the requirements of the Companies Act of South Africa. In preparing the group financial statements, appropriate accounting policies supported by reasonable judgements and estimates were applied. The auditors are responsible for auditing the group financial statements in the course of executing their statutory duties.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established and are committed to maintaining a strong control environment. The directors are of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the group financial statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or loss.

The directors have reviewed the group and company's budget and cash flow forecasts. This review, together with the group and company's financial position, existing borrowing facilities and cash on hand, have satisfied the directors that the group and company will continue as a going concern for the foreseeable future. The group and company, therefore, continue to adopt the going concern basis in the preparation of the group and company financial statements.

APPROVAL OF THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

The directors' report and group and company annual financial statements appear on pages 3 to 8 and pages 12 to 69 respectively and were approved by the board of directors on 30 January 2023 and signed on its behalf by:

A Thiel
Chief Executive Officer
Authorised director

P Moodley
Chief Financial Officer
Authorised director

COMPANY SECRETARY'S CERTIFICATE

FOR THE YEAR ENDED SEPTEMBER 2022

In terms of section 88(2)(e) of the Companies Act 71 of 2008 of South Africa, I hereby certify that, to the best of my knowledge and belief, the company has lodged with the Companies and Intellectual Property Commission of South Africa, for the financial year ended September 2022, all such returns as are required of a public company in terms of this Act and that such returns appear to be true, correct and up to date.

Sappi Limited
Secretaries

per A Mahendranath
Group Company Secretary

30 January 2023

AUDIT AND RISK COMMITTEE REPORT

FOR THE YEAR ENDED SEPTEMBER 2022

The Sappi Southern Africa Limited group of companies (group) is a major subsidiary of Sappi Limited (Sappi), a company that maintains its listing on the JSE Limited. Sappi complies in all material respects with the JSE listings requirements, regulations and codes. The Sappi Southern Africa Limited Audit Committee operates as a function of the Sappi Limited Audit Committee. The committee, in terms of the Companies Act of South Africa, and King Code has the responsibility for reviewing the effectiveness of the group's system of internal controls and risk management system. An internal audit function is responsible for advising the board of directors on the effectiveness of the group's risk management system. For further information on Sappi's application of the King Code please refer to the Sappi Limited 2022 Integrated Annual Report.

The committee oversees the relationship with the external auditors; is responsible for their appointment and remuneration; reviews the effectiveness of the external audit process; and ensures that the objectivity and independence of the external auditors is maintained. The committee has concluded that it is satisfied that the auditor independence and objectivity has been maintained. The comprehensive report of the committee is included in the Sappi Limited annual report.

DIRECTORS' REPORT

FOR THE YEAR ENDED SEPTEMBER 2022

The directors submit their report for the year ended September 2022.

BUSINESS OF SAPPI SOUTHERN AFRICA LIMITED (SAPPI SOUTHERN AFRICA OR THE COMPANY) AND ITS OPERATING COMPANIES (THE GROUP)

The group and company was formed in 1951 and is incorporated and domiciled in the Republic of South Africa and produces dissolving pulp (DP), packaging and speciality papers, graphics papers, biomaterials and biochemicals sourced from sustainably managed forests and plantations for our direct and indirect customer base in the Southern Africa and export markets.

SAPPI SOUTHERN AFRICA OVERVIEW

The Sappi Group is one of the world's largest manufacturer of DP and exports almost all of the 1,145,000 tons produced by Sappi Southern Africa at the Saiccor and Ngodwana Mills. DP is a highly purified form of cellulose extracted from sustainably grown and responsibly managed trees using unique cellulose chemistry technology. Our DP brand, Verve, is a significant player in this market. Verve is a truly sustainable brand. From textiles to pharmaceuticals and food applications, Sappi has the expertise, technology and the track record to meet almost any challenge from these DP market segments.

The South African paper business produces 690,000 tons of kraft linerboard, corrugating medium, newsprint, office paper and tissue paper which are largely sold regionally, where we have strong market positions in most of these products. This broad range of paper-based sustainable solutions is offered as an alternative to fossil fuel-based, non-renewable packaging. We supply the agricultural sector with carton board to protect fresh produce as it is shipped from farms to tables locally and around the world. We also produce 550,000 tons of paper pulp and collect 83,000 tons of recycled waste paper. On a net basis we are approximately self-sufficient for our pulp requirements.

Sappi Southern Africa owns or leases 394,000 hectares (ha) with approximately 28 million tons of standing timber and 136,000 ha being used for other purposes such as conservation. We are committed to sourcing woodfibre from forests and timber plantations in a manner that promotes their health and supports community wellbeing. Contracted supply covers almost 136,519 ha. Of the 261,605 ha planted at the end of FY2022, 63% was hardwood and 35% softwood, and of contracted supply, 96% is hardwood. These plantations provide approximately 59% of the wood requirements for the Southern Africa mills. Our aim is to produce low-cost wood with the required pulping characteristics and increase yield per hectare. We actively pursue this aim, particularly through genetic improvement of planting stock.

FINANCIAL PERFORMANCE

Strong demand and the implementation of higher sales prices to offset rising costs, combined with a focus on product and customer mix optimisation, supported margin expansion in all product segments resulting in a record EBITDA in fiscal year 2022. The outstanding performance was particularly noteworthy within the context of a challenging macroeconomic environment. Significant headwinds included extreme weather-related events, lingering Covid-19 pandemic effects in China as well as extraordinary global inflation, which was triggered by geopolitical turmoil and ongoing global supply chain disruptions.

Positive highlights for the year were recovery of profitability in the dissolving pulp (DP) segment driven by buoyant demand and significantly better market prices. DP market conditions rallied strongly from the first quarter on the back of improved apparel retail demand in the US and Asia, which favourably impacted demand for all textile fibres. The market price for hardwood DP surged from a base of US$1,000 per ton in September 2021 to a high of US$1,220 and closed the year at US$1,070 per ton at the end of September 2022. Demand for container board remained very strong on the back of an excellent citrus export season. Volumes were restricted based on low stock levels. The demand for shipping surged which triggered vessel and container shortages, severe port congestion and freight rates continued to rise. High demand for raw materials and commodities, coupled with long lead times and an inability to restock inventories, fuelled worldwide inflationary pressures. Consequently, escalating delivery and raw material costs triggered selling price increases across all product segments. In April 2022, Sappi announced that its operations in KwaZulu-Natal had been impacted by adverse weather and flooding. The estimated impact of the lost production at the three mills was approximately 23,000 tons, mainly dissolving pulp. In addition, approximately 45,000 tons of inventory (including dissolving pulp of 30,000 tons) was damaged in the warehouses. Insurance was in place for business interruption and inventory damage subject to normal excesses and Sappi's insurance captive first loss provisions. As a result there was no material impact to EBITDA.

The major project to expand the Saiccor Mill capacity was successfully completed in March 2022. Apart from the capacity increase of 110,000 ktpa, the project has helped to reduce overall environmental footprint through reduction of coal boiler steam, increased recovery boiler steam production and power generation and reduced chemical consumption.

DIRECTORS' REPORT continued

FOR THE YEAR ENDED SEPTEMBER 2022

Sappi Southern Africa's sales for 2022 in ZAR terms increased year on year, ZAR21,981 million compared to 2021 (ZAR16,752 million), driven mainly by the improvement in DP and container board pricing. Commodity prices increased sharply during the year causing our variable costs per ton to increase by 17% due to increased fibre, chemical and energy cost. Fixed costs were also higher year on year by 6% due to higher personnel cost and the annual Saiccor and Ngodwana shut.

The net result of the above is an increase in ZAR EBITDA to ZAR4,768 million (ZAR3,014 million in 2021), annual operating profit of ZAR2,663 million (ZAR1,462 million in 2021).

We regard ownership of our plantations as a key strategic resource as it gives us access to low cost fibre for our pulp production and ensures continuity of supply on an important raw material input source. During the year there were market price increases coupled with higher fair value rates. These increases were offset by the rising cost of fuel and an increase in the discount rate. The price adjustment was also affected by rising market prices due to rising demand for exports.

We have worked very hard to create a culture which prioritises safety for our own employees and contractors at all times and therefore it was a particularly satisfying highlight for the year that we achieved a record safety performance. We do not accept that injuries and accidents are inevitable and our commitment to zero injuries underpins our value system. We comply with occupational health and safety legislation in all our operations.

We are very pleased to report that there were no work-related fatalities during the year and our performance with respect to safety improved to reaching the best ever LTIFR level. This is as a result of the continuous focus on and integration of programmes such as the "Life Saving Rules", "Visible Felt Leadership" and Sappi Forest's "Stop. Think before you act". A number of noteworthy milestones were achieved during the year. Our safety ambition remains zero injuries and we continue to implement enhanced procedures and focus on improved personal behaviour and leadership engagement.

We have a strong focus on social responsibility in South Africa, which is an economic imperative in the region. Recognising that we are part of the communities beyond our fence lines and that their prosperity and wellbeing are linked to our own, we strive to make a purpose-driven, meaningful contribution towards the wellbeing and development of our neighbouring communities. We work to create positive social impact by jointly identifying and leveraging opportunities, thereby demonstrating our commitment to transparency and collaboration. Community engagement meetings take various formats in our mills and forestry operations. These range from broad liaison forums for business, local government and communities to legally mandated environmental forums that form part of the licensing conditions of mills. We continue to make progress on each of the elements of our Black Economic Empowerment scorecard.

GOING CONCERN

The directors believe that the group and company have sufficient resources and expected cash flows to continue as a going concern for the next financial year.

EVENTS AFTER BALANCE SHEET DATE

There are no material subsequent events.

OUTLOOK

Macroeconomic uncertainty has increased considerably in recent weeks. Ongoing lockdowns in China, the geopolitical turmoil in Europe and unprecedented inflation are increasing the likelihood of a global discretionary spend will likely weaken demand in our dissolving pulp segment in upcoming quarters. Order activity in these segments has slowed and destocking is occurring across the value chain. The Covid-19 pandemic demonstrated that the underlying demand for packaging and speciality papers is more resilient in economic downturns, particularly for product categories in food, beverage and healthcare. Furthermore, the shift from plastic to paper offers significant opportunity to grow this segment.

Rising input costs remain a risk in the year ahead although the prices for some raw materials have decreased in recent weeks.

We remain focused on maximising our operational efficiency and will balance our production with demand to proactively manage our costs and preserve pricing.

REPORTING PERIOD

The group and company's financial period end on the Sunday closest to the last day of September and results are reported as if at the last day of September. The current financial year ended on 2 October 2022 and the prior year ended 26 September 2021.

SHARE CAPITAL

There were no changes in the authorised share capital during the financial year.

Authorised

6,052,500	Ordinary shares of ZAR2 each
19,520	Class "A" cumulative non-convertible redeemable preference shares of ZAR0.01 each with a variable coupon rate
221,107	Class "B" cumulative non-convertible redeemable preference shares of ZAR0.01 each with a variable coupon rate
831	Class "C" cumulative non-convertible redeemable preference shares of ZAR0.01 each with a variable coupon rate
123,321	Class "D" cumulative non-convertible redeemable preference shares of ZAR0.01 each with a variable coupon rate

Issued

6,015,769	Ordinary shares of ZAR2 each
19,520	Class "A" cumulative non-convertible redeemable preference shares of ZAR0.01 each with a variable coupon rate
219,733	Class "B" cumulative non-convertible redeemable preference shares of ZAR0.01 each with a variable coupon rate
831	Class "C" cumulative non-convertible redeemable preference shares of ZAR0.01 each with a variable coupon rate
118,153	Class "D" cumulative non-convertible redeemable preference shares of ZAR0.01 each with a variable coupon rate

LIQUIDITY AND FINANCING

At September 2022, we had liquidity comprising ZAR1,560 million of cash on hand and ZAR6,255 million available committed facilities.

Financial covenants apply to the revolving credit facility. These covenants are calculated on a rolling last four quarter basis and require that at the end of March and September each year, with regard to Sappi Southern Africa and its subsidiaries:

- The ratio of net debt to equity at the end of March and September is not greater than 65%; and
- The ratio of EBITDA to net interest paid is not less than 2.5 to 1.

Below we show that for the year ended September 2022 the South African financial covenants were comfortably met.

South African covenants	2022	Covenant
Net debt to equity	10.85%	<65%
EBITDA to net interest	13.1	>2.50

Sappi Southern Africa Limited currently has the following credit ratings:
– Global Credit Rating (GCR): South African national rating AA+(za)/Positive outlook (June 2022).

NET BORROWINGS

Sappi Southern Africa has sufficient cash to meet all its debt obligations. Details of the non-current term borrowings are set out in note 18 of the annual financial statements.

INSURANCE

We have renewed our calendar 2022 asset property damage and business interruption (PDBI) insurance cover. The maximum self-insured retention for any one property damage incident is €20.5 million, with an annual aggregate of €33.0 million. For property damage and business interruption insurance, cost effective cover is not generally available to full replacement value. As at September 2022, the annual limit for claims under our property damage and business interruption insurance policy was €750.0 million. In addition to the property damage and business interruption policy there is a full programme of other insurance policies to mitigate any losses stemming from events not covered by the PDBI policy.

DIRECTORS' REPORT continued

FOR THE YEAR ENDED SEPTEMBER 2022

PROPERTY, PLANT AND EQUIPMENT

There were no major changes in the nature of the Group's property, plant and equipment during the period under review.

Capital expenditure of ZAR2,476 million was incurred during the year as per the cash flow statement. Capital expenditure decreased slightly in 2022 due to the completion of Saiccor Mill expansion project.

LITIGATION

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

CORPORATE GOVERNANCE

Sappi is committed to high standards of Corporate Governance which form the foundation for long-term sustainability of our company and the creation of value for our stakeholders. Good governance at Sappi contributes to living our values through enhanced accountability, a transparent and ethical culture, strong risk management, a focus on performance, legitimacy and effective control of the business. Sappi endorses the corporate outcomes of ethical cultures, good performance, effective control and legitimacy promoted by the King IV Report on Corporate Governance for South Africa (released November 2019).

Sappi Southern Africa Limited is a wholly owned subsidiary of Sappi Limited who has its equity shares listed on the main board of the JSE. Sappi Southern Africa adopts Sappi Limited's application of the King Code. The full details of how Sappi applies the King IV principles can be found on the Sappi website under https://www.sappi.com/corporate-governance-and-risk and in the Sappi Limited 2022 Annual Integrated Report on pages 150 to 167.

Details of the Sappi Limited's and the issuer's current policy dealing with the process for the nomination and appointment of directors can be found on the Sappi website under https://www.sappi.com/corporate-governance-and-risk and in the Sappi Limited 2022 Annual Integrated report on pages 150 to167. Furthermore we confirm that the board of directors has executed its responsibilities in terms of DLR 7.3(f) and the board charter is available on the link above. The company has appointed the Treasurer of Sappi Southern Africa Limited as the debt officer. The board of the company confirms that it has considered and is satisfied with the competence, qualifications and experience of the debt officer.

Details on Sappi's Limited's and the issuer's current policy dealing with the conflicts of interest of the directors and the executive management can be found on the Sappi website under https://www.sappi.com/corporate-governance-and-risk and in the Sappi Limited 2022 Annual Integrated Report on page 163. The issuers conflict of interest register can be found under the link above.

COMPANY SECRETARY

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

DIRECTORS' AND OFFICERS' DISCLOSURE OF INTEREST IN CONTRACTS

During the period under review, no significant contracts were entered into in which directors and officers had an interest and which affected the business of the group.

SUBSIDIARY COMPANIES

Details of the company's significant subsidiaries are given in note 32.

REGISTERED OFFICE

108 Oxford Road
Houghton Estate
2198

AUDITORS

KPMG Inc

HOLDING COMPANY

Sappi Limited

DIRECTORS\OTHER DIRECTORSHIPS

Steven Binnie
Chief Executive Officer
Sappi Limited and
Executive Director
Sappi Southern Africa Limited

Qualifications: BCom, BAcc, CA(SA), MBA

Nationality: British

Appointed: 1 September 2012

Skills and experience: Mr Binnie was appointed Chief Executive Officer of Sappi Limited in July 2014 and is an Executive Director of Sappi Southern Africa Limited. He brings extensive experience in financial management, leadership, corporate activity and strategy to the role.

Directorships: Sappi Southern Africa Limited; Sappi Limited; Sappi Europe N.V.; Sappi North America Inc.; and SDW Holdings Corporation.

Glen Pearce
Chief Financial Officer
Sappi Limited and
Executive Director
Sappi Southern Africa Limited

Qualifications: BCom, BCom (Hons), CA(SA)

Nationality: South African

Appointed: 1 July 2014

Skills and experience: Mr Pearce joined Sappi Limited in June 1997 and was promoted to Chief Financial Officer and Executive Director of Sappi Limited in July 2014. He was also appointed as Executive Director of Sappi Southern Africa Limited at the same time. Mr Pearce has extensive financial management experience, both locally and abroad.

Directorships: Ngodwana Energy (RF) (Pty) Ltd; Sappi Southern Africa Limited; Sappi Limited; Sappi International Holdings (Pty) Limited; Sappi Holding GmbH; Sappi North America Inc.; SDW Holdings Corporation; Sappisure Försäkrings AB; and Sappi International SA.

FOR THE YEAR ENDED SEPTEMBER 2022

Alex Thiel
Chief Executive Officer Sappi Southern Africa Limited

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

Nationality: South African

Appointed: 1 December 2010

Skills and experience: Mr Thiel joined Sappi in December 1989 and was appointed Chief Executive Officer of Sappi Southern Africa Limited in December 2010. His experience and expertise includes marketing, logistics, procurement, strategy and operations across Europe and Southern Africa.

Directorships: Ngodwana Energy (RF) (Pty) Limited; Sappi Southern Africa Limited; Sappi Pulp Asia Limited.

Pramy Moodley
Chief Financial Officer
Sappi Southern Africa Limited

Qualifications: BAcc, CA(SA)

Nationality: South African

Appointed: 1 January 2017

Skills and experience: Ms Moodley joined Sappi Southern Africa Limited in June 2002 and subsequently held various finance roles before being promoted to Chief Financial Officer and Executive Director of Sappi Southern Africa Limited in January 2017.

Directorships: Tugela Energy (RF) (Pty) Limited; Sappi International Holdings (Pty) Limited; Waterton Timber Company (Pty) Limited; Sappi Southern Africa Limited; Umkomaas Energy (RF) (Pty) Limited; Sappi Forests (Pty) Limited; Ngodwana Cogen Energy (RF) (Pty) Limited; Canonbrae Development Company (Pty) Limited; Bagasse Moulded Fibre (Pty) Limited; Sappi Property Company (Pty) Limited; Sarprasel Estates; and G R Farms; Mkomazi Alien Fuels (Pty) Limited.

DEBT OFFICER

Name: Serena McGinn
Appointed: 15 October 2020
Address: 108 Oxford Road
Houghton Estate
2198
South Africa
Telephone: +27 11 407 8164
email: serena.mcginn@sappi.com

SECRETARIES

Sappi Limited
108 Oxford Road
Houghton Estate 2198
South Africa
Telephone +27 (0) 11 407 8111
Telefax +27 (0) 11 339 1881
email: Ami.Mahendranath@sappi.com

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED SEPTEMBER 2022

TO THE SHAREHOLDER OF SAPPI SOUTHERN AFRICA LIMITED
REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated and separate financial statements of Sappi Southern Africa Limited (the Group and Company) set out on pages 12 to 69, which comprise the consolidated and company balance sheets as at September 2022, and the consolidated and company income statements and consolidated and company statements of comprehensive income, consolidated and company statements of changes in equity and the consolidated and company statements of cash flows for the year then ended, and notes to the audited group and company annual financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Sappi Southern Africa Limited as at September 2022, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report. We are independent of the group and 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 consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of plantations

Refer to note 2.3.4 for the accounting policies applied and note 8 to the consolidated and separate financial statements.

Key audit matter	How the matter was addressed in our audit
Plantations are stated at fair value less costs to sell and is considered to be a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 – *Fair Value Measurement* (IFRS 13). The valuation of plantations requires complex measurements and involves estimation uncertainty. The key inputs and assumptions involving significant estimation, judgement and having the most significant impact on the fair value of the plantations are: • Volume and growth assumptions (to determine standing tons); and • Discount rate for immature timber. Given the complexity and the significant estimation and judgement involved in the determination of the fair value of plantations, this was considered a key audit matter for the consolidated and separate financial statements.	Our team included senior audit team members and valuation specialists, who understand the business and industry. Our audit procedures related to the valuation of plantations included: • Critically evaluating the fair value methodology against the criteria in IAS 41– *Agriculture* and IFRS 13 and evaluating the key measurements and assumptions applied by management in determining the fair value of the plantations; • Challenging the consistency, reasonableness and appropriateness of the underlying measurements and assumptions used by comparing to external observable data, where possible, and considering management's historical accuracy in determining these measurements and estimations; • Assessing the reasonableness of the Group's and Company's fair value estimates, and the related sensitivity disclosures, by performing our own sensitivity analysis of the plantation valuations. We also considered the adequacy and appropriateness of the disclosures in respect of the valuation of plantations in accordance with IAS 41 and IFRS 13.

INDEPENDENT AUDITOR'S REPORT continued

FOR THE YEAR ENDED SEPTEMBER 2022

Other information

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

Our opinion on the consolidated and 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 consolidated and 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 consolidated and 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 consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group and 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 group and/or company or to cease operations, or have no realistic alternative but to do so.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and 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 Southern Africa Limited for six years.

KPMG Inc.

Per Mohammed Hassan
Chartered Accountant (SA)
Registered Auditor
Director

30 January 2023

CONSOLIDATED AND COMPANY INCOME STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 2022

		Group		Company	
ZAR million	Note	2022	2021	2022	2021
Sales	33	21,981	16,752	21,981	16,752
Cost of sales	3.1	18,973	14,618	18,973	14,618
Gross profit		3,008	2,134	3,008	2,134
Selling, general and administrative expenses	3.1	353	708	353	708
Equity-accounted investee profits net of tax	10	(8)	(36)	(8)	(36)
Operating profit	3	2,663	1,462	2,663	1,462
Net finance costs (income)	4	424	(93)	424	(93)
Finance costs		458	305	458	305
Finance income		(91)	(105)	(91)	(105)
Fair value loss on financial instruments		–	(321)	–	(321)
Net foreign exchange losses		57	28	57	28
Profit before taxation		2,239	1,555	2,239	1,555
Taxation charge	5	367	242	367	242
Profit for the year		1,872	1,313	1,872	1,313

CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED SEPTEMBER 2022

		Group		Company	
ZAR million	Note	2022	2021	2022	2021
Profit for the year		1,872	1,313	1,872	1,313
Other comprehensive income net of tax	15	112	95	112	95
Item that will not be reclassified subsequently to profit or loss	15	204	69	204	69
Actuarial gain on post-employment benefit funds		289	96	289	96
Deferred tax on above item		(85)	(27)	(85)	(27)
Items that may be reclassified subsequently to profit or loss		(92)	26	(92)	26
Movement in hedging reserves		(128)	36	(128)	36
Tax on above items		36	(10)	36	(10)
Total comprehensive income for the year		1,984	1,408	1,984	1,408

CONSOLIDATED AND COMPANY BALANCE SHEETS

AS AT SEPTEMBER 2022

		Group		Company	
ZAR million	Note	2022	2021	2022	2021
ASSETS					
Non-current assets		**33,385**	32,428	**33,384**	32,427
Property, plant and equipment	6	**20,226**	19,184	**20,231**	19,189
Right-of-use assets	7	**513**	603	**513**	603
Plantations	8	**6,940**	7,136	**6,940**	7,136
Equity-accounted investee	10	**11**	39	**11**	39
Other non-current assets	11	**722**	383	**716**	377
Amounts owing by related parties	29	**4,960**	5,083	**4,960**	5,083
Derivative financial instruments	27	**13**	–	**13**	–
Current assets		**9,109**	7,227	**9,109**	7,227
Inventories	12	**2,957**	2,650	**2,957**	2,650
Trade and other receivables	13	**1,083**	583	**1,083**	583
Derivative financial instruments	27	**56**	23	**56**	23
Amounts owing by related parties	29	**3,453**	1,630	**3,453**	1,630
Taxation receivable		**–**	13	**–**	13
Cash and cash equivalents		**1,560**	2,328	**1,560**	2,328
Total assets		**42,494**	39,655	**42,493**	39,654
EQUITY AND LIABILITIES					
Shareholders' equity		**27,442**	25,466	**27,440**	25,464
Ordinary share capital and share premium	14	**221**	221	**221**	221
Non-distributable reserves	16	**169**	177	**167**	175
Hedging reserves		**(155)**	(63)	**(154)**	(62)
Retained earnings		**27,207**	25,131	**27,206**	25,130
Non-current liabilities		**8,446**	9,322	**8,446**	9,322
Interest-bearing borrowings	18	**2,558**	3,687	**2,558**	3,687
Lease liability long term		**530**	598	**530**	598
Derivative financial instruments	27	**–**	88	**–**	88
Deferred tax liabilities	9	**5,022**	4,604	**5,022**	4,604
Other non-current liabilities	19	**336**	345	**336**	345
Current liabilities		**6,606**	4,867	**6,607**	4,868
Interest-bearing borrowings	18	**1,373**	293	**1,373**	293
Lease liability short term		**84**	80	**84**	80
Derivative financial instruments	27	**233**	14	**233**	14
Trade and other payables	17	**4,608**	4,229	**4,608**	4,229
Amounts owing to related parties	29	**308**	251	**309**	252
Total equity and liabilities		**42,494**	39,655	**42,493**	39,654

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 2022

		Group		Company	
ZAR million	Note	2022	2021	2022	2021
Cash retained from operating activities		**1,729**	2,987	**1,729**	2,987
Cash generated from operations	20.1	**4,225**	2,794	**4,225**	2,794
– (Increase) decrease in working capital	20.2	**(2,096)**	586	**(2,096)**	586
Cash generated from operating activities		**2,129**	3,380	**2,129**	3,380
– Finance costs paid	20.3	**(503)**	(465)	**(503)**	(465)
– Finance income received		**90**	103	**90**	103
– Taxation received (paid)	20.4	**13**	(31)	**13**	(31)
Cash utilised in investing activities		**(2,434)**	(3,005)	**(2,434)**	(3,005)
Investment to maintain operations		**(1,642)**	(1,970)	**(1,642)**	(1,970)
Investment to expand operations		**(834)**	(1,084)	**(834)**	(1,084)
Proceeds on disposal of property, plant and equipment	20.5	**22**	7	**22**	7
Decrease in amounts owing by related parties		**26**	59	**26**	59
Other decrease in non-current assets		**(6)**	(17)	**(6)**	(17)
Cash effects of financing activities		**(63)**	1,335	**(63)**	1,335
Repayment of interest-bearing borrowings	20.6	**–**	(700)	**–**	(700)
Increase in interest-bearing borrowings	20.6	**–**	2,100	**–**	2,100
Lease repayments	7	**(63)**	(65)	**(63)**	(65)
Net movement in cash and cash equivalents		**(768)**	1,317	**(768)**	1,317
Cash and cash equivalents at beginning of year		**2,328**	1,011	**2,328**	1,011
Cash and cash equivalents at end of year		**1,560**	2,328	**1,560**	2,328

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED SEPTEMBER 2022

Consolidated ZAR million	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Hedging reserves	Retained earnings	Total equity
Balance – September 2020	12	209	221	173	(89)	23,749	**24,054**
Share-based payments	–	–	–	(23)	–	–	**(23)**
Sappi Limited Share Incentive Trust	–	–	–	27	–	–	**27**
Profit for the year	–	–	–	–	–	1,313	**1,313**
Other comprehensive income	–	–	–	–	26	69	**95**
Balance – September 2021	12	209	221	177	(63)	25,131	**25,466**
Share-based payments	–	–	–	(32)	–	–	**(32)**
Sappi Limited Share Incentive Trust	–	–	–	24	–	–	**24**
Profit for the year	–	–	–	–	–	1,872	**1,872**
Other comprehensive loss	–	–	–	–	(92)	204	**112**
Balance – September 2022	12	209	221	169	(155)	27,207	**27,442**
Note			*14*	*16*			

Company ZAR million	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Hedging reserves	Retained earnings	Total equity
Balance – September 2020	12	209	221	172	(88)	23,748	**24,053**
Share-based payments	–	–	–	(23)	–	–	**(23)**
Sappi Limited Share Incentive Trust	–	–	–	26	–	–	**26**
Profit for the year	–	–	–	–	–	1,313	**1,313**
Other comprehensive income	–	–	–	–	26	69	**95**
Balance – September 2021	12	209	221	175	(62)	25,130	**25,464**
Share-based payments	–	–	–	(32)	–	–	**(32)**
Sappi Limited Share Incentive Trust	–	–	–	24	–	–	**24**
Profit for the year	–	–	–	–	–	1,872	**1,872**
Other comprehensive loss	–	–	–	–	(92)	204	**112**
Balance – September 2022	12	209	221	167	(154)	27,206	**27,440**
Note			*14*	*16*			

NOTES TO THE AUDITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 2022

1. BASIS OF PREPARATION

The Group and Company Financial Statements of Sappi Southern Africa Limited (the company) as at and for the year ended September 2022 comprise the company and its subsidiaries (together referred to as the group and individually as group entities or group entity) as well as the group's interests in associates and joint ventures.

The Group Annual Financial Statements were approved by the board of directors on 30 January 2023.

The Group and Company Financial Statements (the Group Annual Financial Statements) have been prepared in accordance with:
- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
- The SAICA Financial Reporting Guides as issued by the Accounting Practices Committee
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council
- The Debt Listings Requirements of the JSE Limited
- The requirements of the Companies Act 2008 of South Africa.

The Group and Company Annual Financial Statements are prepared on the historical cost basis, except as set out in the accounting policies which follow. Certain items, including derivatives, are stated at their fair value while plantations are stated at fair value less costs to sell.

Fair value is determined in accordance with IFRS 13 *Fair Value Measurement* and is categorised as follows:
- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices that are observable, either directly or indirectly
- Level 3: Inputs for the asset or liability that are unobservable.

Transfers between fair value hierarchies are recorded when that change occurs.

The Group and Company Annual Financial Statements are presented in South African Rand (ZAR), which is the functional currency of Sappi Southern Africa Limited and is rounded to the nearest million except as otherwise indicated.

The preparation of the Group and Company Annual Financial Statements was supervised by P Moodley CA(SA).

The group's financial year-end is on the Sunday closest to the last day of September. Accordingly, the last two financial years were as follows:
- 27 September 2021 to 2 October 2022 (53 weeks)
- 28 September 2020 to 26 September 2021 (52 weeks).

The Group and Company Annual Financial Statements are prepared on the going concern basis.

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

Going concern

The group and company generated a profit of ZAR1,872 million for the year ended September 2022 (2021: ZAR1,313 million). The directors have reviewed the group's and company's financial position, existing borrowing facilities and cash on hand, and are satisfied that the group and company will continue as a going concern for the foreseeable future.

2. ACCOUNTING POLICIES

The following principal accounting policies have been consistently applied in dealing with items that are considered material in relation to the Group and Company Annual Financial Statements. Adoption of new accounting standards and changes to accounting standards are dealt with in sections 2.4 and 2.5.

Changes in accounting estimates are recognised prospectively in profit or loss, except to the extent that they give rise to changes in the carrying amount of recognised assets and liabilities where the change in estimate is recognised immediately.

2.1 Significant accounting policy elections

The group and company have made the following significant accounting policy elections in terms of IFRS:
- Regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting
- Cumulative gains or losses recognised in other comprehensive income (OCI) for cash flow hedge relationships are transferred from equity and included in the initial measurement of the non-financial asset or liability when the hedged item is recognised
- The net interest on post-employment benefits is included in finance costs
- Property, plant and equipment is accounted for using the cost model.

The elections are explained further in each specific policy in sections 2.2 and 2.3.

2. ACCOUNTING POLICIES continued

2.2 Summary of accounting policies

2.2.1 Foreign currencies

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Subsequent to initial recognition, monetary assets and liabilities denominated in foreign currencies are translated at the earlier of reporting or settlement date and the resulting foreign currency exchange gains or losses are recognised in profit or loss for the period.

2.2.2 Group accounting

(i) Subsidiaries

An entity is consolidated when the group can demonstrate power over the investee, is exposed or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are consolidated into the group's results from acquisition date until disposal date.

Intra-group and company balances and transactions and, profits or losses arising from intra-group transactions are eliminated in the preparation of the Group Annual Financial Statements.

(ii) Equity-accounted investees

The financial results of associates and joint ventures are incorporated in the group's and company's results using the equity method of accounting from acquisition date until disposal date. Under the equity method, associates and joint ventures are carried at cost and adjusted for the post-acquisition changes in the group's share of the associates' and joint ventures' net assets. The share of the associates' or joint ventures' profit after tax is determined from their latest financial statements or, if their year-ends are different to those of the group, from their unaudited management accounts that correspond to the group's financial year-end.

Where there are indicators of impairment, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised, which the group records in other operating expenses in profit or loss, is deducted from the carrying amount of the investment. Any reversal of an impairment loss increases the carrying amount of the investment to the extent recoverable, but not higher than the historical amount.

2.2.3 Financial instruments

(i) Initial recognition

Financial instruments are recognised on the balance sheet when the group becomes a party to the contractual provisions of a financial instrument. All purchases of financial assets that require delivery within the time frame established by regulation or market convention ('regular way' purchases) are recognised at trade date.

(ii) Initial measurement

A financial asset (unless it is a trade receivable without a significant financing component) or a financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(iii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified and measured at: amortised cost, fair value through other comprehensive income (FVOCI) – debt investment, FVOCI – equity instrument or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- It is held within a business model whose objective is to hold assets to collect contractual cash flows; 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 group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. ACCOUNTING POLICIES continued

2.2 Summary of accounting policies continued

2.2.3 Financial instruments continued

(iii) Classification and subsequent measurement continued

Financial assets – Business model assessment

The group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets
- How the performance of the portfolio is evaluated and reported to the group's management
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the group's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (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 group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the group considers:
- Contingent events that would change the amount or timing of cash flows
- Terms that may adjust the contractual coupon rate, including variable-rate features
- Prepayment and extension features
- Terms that limit the group's claim to cash flows from specified assets (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 FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

- Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

- Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

- Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

2. ACCOUNTING POLICIES continued

2.2 Summary of accounting policies continued

2.2.3 Financial instruments continued

(iii) Classification and subsequent measurement continued

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iv) Embedded derivatives

Certain derivatives embedded in financial and host contracts are treated as separate derivatives and recognised on a standalone basis when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. Gains or losses on these embedded derivatives are reported in profit or loss.

(v) Derecognition

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

A financial liability is derecognised when and only when the liability is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or has expired. The group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. The difference in the respective carrying amounts is recognised in profit or loss for the period.

(vi) Impairment of financial assets

The group measures loss allowances at an amount equal to lifetime expected credit losses using a simplified approach. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the group's historical experience and informed credit assessment and including forward-looking information. Forward-looking information incorporates actual and expected significant changes in the political, regulatory and technological environment of the debtor and its business activities.

Impairment losses are calculated taking into account the lifetime expected credit losses of trade and other receivables. The group's trade and other receivables are managed on a collective basis irrespective of the nature of its customers. The group does not have a history of significant trade receivables write-offs as the contractual terms entered with the customers help ensure that these balances are recoverable.

The group establishes an allowance for impairment that represents its estimate of credit losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individual significant exposures and a collective loss component in respect of losses that may be incurred but have not yet been identified. The collective loss allowances are determined based on historical write-offs data over the last five years. This takes into account past circumstances which resulted in trade and other receivable balances that were not recovered. Individual significant exposures refer to customers that are under business rescue, in liquidation or unable to pay their obligations. These customers are credit impaired irrespective of their ageing. This takes into account forward-looking circumstances. Five years is considered to be a reasonable timeframe on which to calculate a loss rate given the nature of the group's operations and the contractual terms agreed to with its customers.

(vii) Finance income and finance costs

Finance income and finance costs are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to that asset's or liability's net carrying amount on initial recognition.

(viii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

NOTES TO THE AUDITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

2. ACCOUNTING POLICIES continued

2.2 Summary of accounting policies continued

2.2.4 Intangible assets

(i) Research activities

Expenditures on research activities and internally generated goodwill are recognised in profit or loss as an expense as incurred.

(ii) Development activities

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation of engineering projects, computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, not exceeding five years.

(iii) Brands, customer relationships and customer technology

Brands, customer relationships and customer technology acquired are capitalised and amortised on a straight-line basis over their estimated useful lives which, on average, is 10 years.

(iv) Other intangible assets

Other intangible assets comprise licence fees, trademarks and carbon certificates which are amortised on a straight-line basis over their useful lives between three and 20 years.

2.2.5 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost is determined on the following basis:

Classification	Cost formula
Finished goods	First in first out (FIFO)
Raw materials, work in progress and consumable stores	Weighted average
Cost of items that are not interchangeable	Specific identification inventory valuation basis

Net realisable value is the estimated selling price in the ordinary course of business less necessary costs to make the sale.

2.2.6 Leases

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

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

As a lessee

The group's leasing activities mainly relate to the lease of premises, plant and equipment. Information about leases to which the group is a lessee is presented in note 7.

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

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

2. ACCOUNTING POLICIES continued

2.2 Summary of accounting policies continued

2.2.6 Leases continued

As a lessee continued

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

The lease term is the non-cancellable period of a lease, together with both:
- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option
- Periods after an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

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

Short-term leases and leases of low-value assets

The group has elected not to recognise right-of-use assets and lease liabilities of low value assets and short-term leases. The group recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term. Low value leases are deemed to be below that of ZAR80,000 and mainly relate to IT equipment.

2.2.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of those assets.

Borrowing costs capitalised are calculated at the group's average funding cost other than to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2.2.8 Revenue

Revenue is recognised when a customer obtains control of the goods. Revenue is recognised at a point in time, with no deferral of revenue. Control of goods passes to the customer when the performance obligations are satisfied. Sappi primarily has one performance obligation, which is the delivery of the goods to the customer. Control is dependent on shipping inco terms where goods are sold to customers overseas. The transaction price is the expected consideration to be received, to the extent that it is highly probable that there will not be a significant reversal of revenue in future, after deducting discounts, volume rebates, value added tax and other sales taxes. When the period of time between delivery of goods and subsequent payment by the customer is less than one year, no adjustment for a financing component is made. Depending on the shipping terms used, shipping and handling activities may be a separate performance obligation where these activities are performed after revenue is recognised from the sale of the goods. In these instances, revenue is recognised from the shipping and handling activities when these activities are fulfilled, which is at the same time revenue is recognised from the sale of goods. Sappi acts as an agent in the fulfilment of these shipping and handling performance obligations, and as such recognises revenue from this performance obligation net of the costs incurred to fulfil it. When shipping and handling activities are not a separate performance obligation, these costs are included in cost of sales.

2.2.9 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.

NOTES TO THE AUDITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

2. ACCOUNTING POLICIES continued

2.2 Summary of accounting policies continued

2.2.10 Share-based payments

(i) Equity-settled share-based payment transactions

The services or goods received in an equity-settled share-based payment transaction with counterparties are measured at the fair value of the equity instruments at grant date.

If the equity instruments granted vest immediately and the beneficiary is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the benefit received is recognised in profit or loss for the period in full on grant date with a corresponding increase in equity.

Where the equity instruments do not vest until the beneficiary has completed a specified period of service, it is assumed that the benefit received by the group as consideration for those equity instruments will be received over the vesting period. These benefits are accounted for in profit or loss as they are received with a corresponding increase in equity. Share-based payment expenses are adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met.

(ii) Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at the measurement date using either the modified binomial option pricing or the Monte-Carlo simulation model. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

(iii) Broad-based black economic empowerment transaction

The group accounts for the transaction in accordance with IFRS 2 *Share-based payment* and the South African Institute of Chartered Accountants Financial Reporting Guide 2 as issued by the Accounting Practices Committee and the fair value of the services rendered by employees are recorded in profit or loss as they are rendered during the service period.

In accounting for the group's share-based payment transactions, management uses estimates and assumptions to determine share-based payment expenses. Key inputs, which are necessary in determining the grant date fair value, include the volatility of the group's share price, employee turnover rate, and dividend payout rates.

Note 26 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of the year.

2.2.11 Derivatives and hedge accounting

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss. For the purpose of hedge accounting, hedges are classified as follows:

(i) Fair value hedges

Fair value hedges are designated when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment. Changes in the fair value of derivatives that are designated as hedging instruments are recognised in profit or loss immediately together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument is recognised in the same line of profit or loss as the change in the hedged item.

(ii) Cash flow hedges

Cash flow hedges are designated when hedging the exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction, or the foreign currency risk in an unrecognised firm commitment. In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in OCI and the ineffective portion is recognised in profit or loss.

The gains or losses recognised in OCI are transferred to profit or loss in the same period in which the hedged transaction affects profit or loss.

If the forecast transaction results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is transferred from OCI to the underlying asset or liability on the transaction date.

2. ACCOUNTING POLICIES continued

2.2 Summary of accounting policies continued

2.2.11 Derivatives and hedge accounting continued

(iii) Discontinuance of hedge accounting

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised and when, for cash flow hedges, the designation is revoked and the forecast transaction is no longer expected to occur. Where a forecast transaction is no longer expected to occur, the cumulative gain or loss deferred in OCI is transferred to profit or loss.

The financial instruments that are used in hedging transactions are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in either the fair value or cash flows of the related underlying exposures. Hedge ineffectiveness is recognised immediately in profit or loss.

Refer to notes 27 and 28 for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

2.2.12 Provisions

A provision is recognised when the group has a legal or constructive obligation arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and which can be reliably measured. Where the effect of discounting (time value) is material, provisions are discounted and the discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The establishment and review of the provisions requires judgement by management as to whether or not there is a probable obligation and as to whether or not a reliable estimate of the amount of the obligation can be made.

Restructuring provisions are recognised when the group has developed a detailed formal plan for restructuring and has raised a valid expectation that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and is recorded in other operating expenses in profit or loss.

2.2.13 Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.2.14 Share capital

Share capital comprises ordinary shares and are classified as equity. Issued ordinary shares are measured at the fair value of the proceeds received less any directly attributable issue costs. An amount equal to the par value of the shares issued is presented as share capital. The amount by which the fair value exceeds par value is presented as share premium. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12. Treasury shares are excluded from equity.

2.2.15 Insurance recoveries

Sappi Southern Africa is insured through the Sappi Group. Insurance proceeds may compensate Sappi Southern Africa for asset damage or business interruption. The ability to claim these proceeds will depend on the specific terms of the insurance contract. Sappi Southern Africa recognises the compensation through insurance proceeds as a receivable when it has an unconditional right to receive the compensation.

A company would have an unconditional contractual right to receive compensation if:

- It has an insurance contract under which it can make a claim for compensation
- The loss event that creates a right for the company to assert a claim at the reporting date has occurred and the claim is not disputed by the insurer.
- It is virtually certain the compensation will be received.

NOTES TO THE AUDITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

2. ACCOUNTING POLICIES continued

2.3 Critical accounting policies and key sources of estimation uncertainty

2.3.1 Impairment of assets other than goodwill and financial instruments

The group assesses all assets other than goodwill at each balance sheet date for indications of impairment or whether an impairment reversal is required.

In assessing assets for impairment, the group estimates the asset's useful life, discounted future cash flows, including appropriate bases for future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, the planned use of machinery or equipment or closing of facilities. The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. Additionally, assets are also assessed against their fair value less costs of disposal.

Where impairment exists, the losses are recognised in other operating expenses in profit or loss for the period.

A previously recognised impairment loss will be reversed through profit or loss if the recoverable amount increases as a result of a change in the estimates that were previously used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods.

2.3.2 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes, where specifically required in terms of legislative requirements or where a constructive obligation exists, the estimated cost of dismantling and removing the assets, professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy. In addition, spare parts whose expected useful lives are anticipated to be more than 12 months are treated as property, plant and equipment.

Expenditure incurred to replace a component of property, plant and equipment is capitalised to the cost of related property, plant and equipment and the part replaced is derecognised.

Depreciation, which commences when the assets are ready for their intended use, is recognised in profit or loss over their estimated useful lives to estimated residual values using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Land is not depreciated.

Management judgement and assumptions are necessary in estimating the methods of depreciation, useful lives and residual values. The residual value for the majority of items of property, plant and equipment has been deemed to be zero by management due to the underlying nature of the property, plant and equipment.

The following methods and rates are used to depreciate property, plant and equipment to estimated residual values:

Buildings	Straight-line	10 to 40 years
Plant and equipment	Straight-line	3 to 30 years

The group reassesses the estimated useful lives and residual values of components of property, plant and equipment on an ongoing basis. As a result, depending on economic and other circumstances, a component of property, plant and equipment could exceed the estimated useful life as indicated in the categories above.

2. ACCOUNTING POLICIES continued

2.3 Critical accounting policies and key sources of estimation uncertainty continued

2.3.3 Taxation

Taxation on the profit or loss for the year comprises current and deferred taxation. Taxation is recognised in profit or loss except to the extent that it relates to items recognised directly in OCI, in which case it is also recognised in OCI.

(i) Current taxation

Current taxation is the expected taxation payable on the taxable income, which is based on the results for the period after taking into account necessary adjustments, using taxation rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxation payable in respect of previous years.

The group estimates its income taxes in each of the jurisdictions in which it operates. This process involves estimating its current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes.

The various group entities are subject to examination by tax authorities. The outcome of tax audits cannot be predicted with certainty. If any matters addressed in these tax audits are resolved in a manner not consistent with management's expectations or tax positions taken in previously filed tax returns, then the provision for income tax could be required to be adjusted in the period that such resolution occurs.

(ii) Deferred taxation

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the balance sheet date. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

Before recognising a deferred tax asset, the group assesses the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent recovery is not probable, a deferred tax asset is not recognised. In recognising deferred tax assets, the group considers profit forecasts, including the effect of exchange rate fluctuations on sales, external market conditions and restructuring plans.

2. ACCOUNTING POLICIES continued

2.3 Critical accounting policies and key sources of estimation uncertainty continued

2.3.4 Plantations

Plantations are stated at fair value less costs to sell with all changes in fair value being recognised in profit or loss. The fair value of forestry assets is a Level 3 measure in terms of the fair value measurement hierarchy. The group uses the income approach in determining fair value as it believes that this method yields the most appropriate valuation.

The key inputs are the selling prices, costs to sell, discount rates, volume and growth estimations. The impact of these inputs are disclosed in note 8.

Selling prices and costs to sell

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

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

Discount rate

The discount rate used is the real pre-tax discount rate for valuing immature timber.

Volume and growth estimations

The group focuses on good husbandry techniques which include ensuring that the rotation of plantations is met with adequate planting activities for future harvesting. The age threshold used for quantifying immature timber is dependent on the rotation period of the specific timber genus which varies between five and 18 years. In the Southern African region, softwood less than eight years and hardwood less than five years are classified as immature timber.

Trees are generally felled at the optimum age when ready for intended use. At the time the tree is felled, it is taken out of plantations and accounted for under inventory and reported as a depletion cost (fellings).

Depletion costs includes harvesting (fellings) and damages. The fair value of timber felled is determined on the actual method while damages is calculated on the average method. Damages are written off against standing timber to record loss or damage caused by fire, storms, disease and stunted growth. Harvesting (fellings) depletion costs are accounted for as actual tons multiplied by the actual fair value. Damages depletion costs are accounted for as actual damaged tons multiplied by the actual 12 quarter rolling historical average price. Damaged tons are calculated using the projected growth to rotation age and are extrapolated to current age on a straight-line basis.

The group has projected growth estimation over a period of five to 18 years per rotation. In deriving this estimate, the group established a long-term sample plot network which is representative of the species and sites on which trees are grown and the measured data from these permanent sample plots were used as input into the group's growth estimation. Periodic adjustments are made to existing models for new genetic material.

Volume and growth assumptions are used in determining standing tons at valuation date.

The associated costs for managing plantations are recognised as silviculture costs in cost of sales (see note 3.1).

2. ACCOUNTING POLICIES continued

2.3 Critical accounting policies and key sources of estimation uncertainty continued

2.3.5 Post-employment benefits

Defined benefit and defined contribution plans have been established for eligible employees of the group, with the assets held in separate trustee-administered funds.

The present value of the defined benefit obligations and related current service costs are calculated annually by independent actuaries using the projected unit credit method.

These actuarial models use an attribution approach that generally spread individual events over the service lives of the employees in the plan.

Estimates and assumptions used in the actuarial models include the discount rate, return on assets, salary increases, healthcare cost trends, longevity and service lives of employees.

The group's policy is to recognise actuarial gains or losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in OCI. Any increase in the present value of plan liabilities expected to arise due to current service costs is charged to profit or loss.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in profit or loss when the group is demonstrably committed to the curtailment or settlement. Past service costs or credits are recognised immediately.

Net interest for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, adjusted for any changes as a result of contributions and benefit payments, to the net defined benefit liability and recorded in finance costs in profit or loss.

The net liability recognised in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of the plan assets. Where the calculation results in a benefit to the group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Refer to note 24 for the key estimates, assumptions and other information on post-employment benefits.

2.4 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 group's reported results or financial position:
- IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Interest Rate Benchmark Reform Phase 2*
- IFRS 16 – *Covid-19-Related Rent Concessions.*

2.5 Accounting standards, interpretations and amendments to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective and which have not yet been adopted by the group. The adoption of these standards will not have a significant impact on the group. The effective date denotes the fiscal year-end in which it will be adopted.

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

NOTES TO THE AUDITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

3. OPERATING PROFIT

3.1 Cost of sales and selling, general and admin

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

ZAR million	Consolidated 2022 Cost of sales	Consolidated 2022 Selling, general and administrative expenses	Consolidated 2021 Cost of sales	Consolidated 2021 Selling, general and administrative expenses
Raw materials, energy and other direct input costs	**11,259**	**–**	8,058	–
Fair value adjustment on plantations	**295**	**–**	21	–
Employment costs	**2,351**	**552**	2,299	541
Depreciation	**1,226**	**103**	1,040	90
Delivery charges	**1,475**	**–**	974	–
Maintenance	**1,048**	**–**	980	–
Other overheads	**1,319**	**–**	1,246	–
Marketing and selling expenses	**–**	**19**	–	17
Administrative and general (income) expenses[1]	**–**	**(321)**	–	60
	18,973	**353**	14,618	708

ZAR million	Group 2022	Group 2021	Company 2022	Company 2021
Fair value gains on plantations (note 8)				
Changes in volumes				
– Fellings	**868**	994	**868**	994
– Growth	**(1,172)**	(1,169)	**(1,172)**	(1,169)
	(304)	(175)	**(304)**	(175)
Plantation price fair value adjustment	**599**	196	**599**	196
	295	21	**295**	21
Silviculture costs (included within cost of sales)	**1,166**	1,113	**1,166**	1,113
Cost on derecognition of trade receivables	**67**	59	**67**	59
Remuneration paid other than to *bona fide* employees of the company in respect of:	**23**	21	**23**	21
– Technical services	**16**	16	**16**	16
– Administration services	**7**	5	**7**	5
Audit and related services	**12**	13	**12**	13
Research and development costs	**125**	125	**125**	

[1] *Included in administrative and general (income) expenses in the current year are insurance claims and recoveries relating to the floods that occurred in KwaZulu-Natal. Insurance claims of ZAR502 million relating to inventory damaged in the floods are included as losses, and insurance recoveries of ZAR772 million including lost contribution claims are included as income in administrative and general (income) expenses. Other insurance claims relating to Saiccor and Ngodwana of ZAR154 million and insurances recoveries thereof of ZAR292 million are also included in administrative and general (income) expenses in the current year.*

Company			
2022		2021	
Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses
11,259	–	8,058	–
295	–	21	–
2,351	552	2,299	541
1,226	103	1,040	90
1,474	–	975	–
1,048	–	980	–
1,320	–	1,245	–
–	19	–	17
–	(321)	–	60
18,973	353	14,618	708

NOTES TO THE AUDITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

		Group		Company	
	ZAR million	2022	2021	2022	2021
3.	**OPERATING PROFIT continued**				
3.2	**Employee costs**				
	Employment costs consist of:	2,903	2,840	2,903	2,840
	Wages and salaries	2,121	2,111	2,121	2,111
	Defined contribution plan expense (refer to note 24)	196	169	196	169
	Defined benefit pension plan expense (refer to note 24)	47	51	47	51
	Other defined benefit subsidy expense (refer to note 25)	7	6	7	6
	Other company contributions	151	169	151	169
	Overtime	176	143	176	143
	Share-based payment expense	24	26	24	26
	Other	181	165	181	165
	Other (income) expenses include				
	Profit on disposal of assets	(16)	(7)	(16)	(7)
	Other insurance (recoveries) expense	(292)	9	(292)	9
	Insurance recoveries relating to the KZN floods	(772)	–	(772)	–
	(Reversal) impairment of property, plant and equipment	(8)	109	(8)	109
	Impairment reversal of equity investments	(43)	–	(43)	–

		Group		Company	
	ZAR million	2022	2021	2022	2021
4.	**NET FINANCE (INCOME) COSTS**				
	Gross interest and other finance costs on liabilities carried at amortised cost	426	265	426	265
	– Interest on bank overdrafts	2	2	2	2
	– Interest capitalised	–	(174)	–	(174)
	– Interest on redeemable bonds and other loans	372	381	372	381
	– Interest cost on finance lease obligations	52	56	52	56
	Net interest on employee benefit liabilities	32	40	32	40
	Finance income received on assets carried at amortised cost	(91)	(105)	(91)	(105)
	– Interest income on bank accounts	(89)	(102)	(89)	(102)
	– Interest income on other loans and investments	(2)	(3)	(2)	(3)
	Fair value loss on financial instruments	–	(321)	–	(321)
	Net foreign exchange losses	57	28	57	28
		424	(93)	424	(93)

ZAR million	Group 2022	Group 2021	Company 2022	Company 2021
5. TAXATION CHARGE				
Current taxation		(13)		(13)
Prior year overprovision	–	(13)	–	(13)
Deferred taxation				
Current year	584	254	584	254
Prior year underprovision	(24)	1	(24)	1
Attributable to tax rate changes	(193)	–	(193)	–
	367	242	367	242

In addition to income taxation charges to profit and loss, a deferred taxation charge of ZAR45.0 million (2021: ZAR37.0 million charge) has been recognised directly in other comprehensive income (refer to note 9).

%	Group 2022	Group 2021	Company 2022	Company 2021
Reconciliation of the tax rate				
Statutory tax rate	28.0	28.0	28.0	28.0
Non-taxable income	(0.5)	(1.8)	(0.5)	(1.8)
Special tax allowances	(1.4)	(9.9)	(1.4)	(9.9)
Tax rate changes (1)	(8.6)	–	(8.6)	–
Prior year adjustments	(1.1)	(0.8)	(1.1)	(0.8)
Effective taxation rate for the year	16.4	15.5	16.4	15.5

(1) *Tax rate changes relate to the decrease in the tax rate from 28% to 27%.*

ZAR million	Group 2022	Group 2021	Company 2022	Company 2021
6. PROPERTY, PLANT AND EQUIPMENT				
Land and buildings(1)				
At cost	3,763	3,282	3,792	3,312
Accumulated depreciation and impairments	(1,345)	(1,232)	(1,369)	(1,256)
	2,418	2,050	2,423	2,056
Plant and equipment(2), (3)				
At cost	29,657	28,043	29,657	28,043
Accumulated depreciation and impairments	(11,849)	(10,909)	(11,849)	(10,910)
	17,808	17,134	17,808	17,133
Aggregate cost	33,420	31,325	33,449	31,355
Aggregate accumulated depreciation and impairments	(13,194)	(12,141)	(13,218)	(12,166)
Aggregate book value	20,226	19,184	20,231	19,189

(1) *Details of land and buildings are available at the registered offices of the respective companies that own the assets.*
(2) *Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.*
(3) *Included within plant and equipment is an amount of ZAR1,017 million (2021: ZAR6,954 million) which relates to assets under construction.*

6. PROPERTY, PLANT AND EQUIPMENT continued

The movement of property, plant and equipment is reconciled as follows:

	Group		
ZAR million	Land and buildings	Plant and equipment	Total
Net book value at September 2020	2,004	15,363	**17,367**
Additions	158	2,657	**2,815**
Finance costs capitalised	–	174	**174**
Disposals	–	(40)	**(40)**
Depreciation	(112)	(911)	**(1,023)**
Impairments	–	(109)	**(109)**
Net book value at September 2021	2,050	17,134	**19,184**
Additions	497	1,800	**2,297**
Disposals and scrappings	(6)	(31)	**(37)**
Depreciation	(123)	(1,103)	**(1,226)**
Impairments (refer to note 3.3)		8	**8**
Net book value at September 2022	2,418	17,808	**20,226**

	Company		
ZAR million	Land and buildings	Plant and equipment	Total
Net book value at September 2020	2,011	15,363	**17,374**
Additions	158	2,657	**2,815**
Finance costs capitalised	–	174	**174**
Disposals	–	(40)	**(40)**
Depreciation	(113)	(912)	**(1,025)**
Impairments	–	(109)	**(109)**
Net book value at September 2021	2,056	17,133	**19,189**
Additions	497	1,800	**2,297**
Disposals and scrappings	(6)	(31)	**(37)**
Depreciation	(123)	(1,103)	**(1,226)**
Impairments (refer to note 3.3)		8	**8**
Net book value at September 2022	2,424	17,807	**20,231**

	Group			Company		
ZAR million	Land and buildings	Plant and equip-ment	Total	Land and buildings	Plant and equip-ment	Total
7. RIGHT-OF-USE ASSETS						
Net book value at 1 October 2020	489	54	**543**	489	54	**543**
Additions	136	30	**166**	136	30	**166**
Depreciation	(84)	(22)	**(106)**	(84)	(22)	**(106)**
Net book value at September 2021	541	62	**603**	541	62	**603**
Additions	–	21	**21**	–	21	**21**
Disposals: Scrapping	–	(8)	**(8)**	–	(8)	**(8)**
Depreciation	(84)	(19)	**(103)**	(84)	(19)	**(103)**
Net book value at September 2022	457	56	**513**	457	56	**513**

	Group	Company

ZAR million	Group 2022	Group 2021	Company 2022	Company 2021
7. RIGHT-OF-USE ASSETS continued				
Amounts recognised in profit (loss)				
Interest on lease liabilities	**52**	56	**52**	56
Expenses related to short-term and low-value asset leases	**49**	52	**49**	52
Amounts recognised in the statement of cash flows				
Total cash flows for leases	**(63)**	(65)	**(63)**	(65)

	Group		Company	
ZAR million	2022	2021	2022	2021
8. PLANTATIONS				
Fair value of plantations at beginning of year	**7,136**	7,179	**7,136**	7,179
Additions	**117**	–	**117**	–
Fire, flood, storms and related events	**(11)**	(24)	**(11)**	(24)
In-field inventory	**(7)**	2	**(7)**	2
Gains arising from growth	**1,172**	1,169	**1,172**	1,169
Gain arising from fair value price changes	**(599)**	(196)	**(599)**	(196)
Harvesting – agriculture produce (fellings)	**(868)**	(994)	**(868)**	(994)
Fair value of plantations at end of the year	**6,940**	7,136	**6,940**	7,136

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

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

The following assumptions have a significant impact on the valuation of the forestry assets:
- The average 12 quarter net selling price was ZAR305 per ton (2021: ZAR293 per ton) which also approximates the current average
- A real pre-tax discount rate of 14.49% was used for immature timber (2021: 12.99%)
- Approximately 29 million standing tons of timber (2021: 28 million standing tons) were valued
- The average annual growth is measured at approximately 17 tons (2021: 17 tons) of timber per hectare.

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

ZAR million	2022	2021
Effect of 1% impact in gross selling price	**42**	38
Effect of 1% impact in costs to sell	**(28)**	(26)
Effect of 1% impact in net selling price	**14**	12
Effect of 1% impact in discount rate	**(35)**	(40)
Effect of 1% impact in volume	**68**	71
Effect of 1% impact in rate of growth	**19**	20

NOTES TO THE AUDITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

	Group			
	2022		2021	
ZAR million	Assets	Liabilities	Assets	Liabilities
9. DEFERRED TAX				
Other non-current liabilities	**–**	**(85)**	–	(195)
Accrued and other liabilities	**–**	**(166)**	–	(87)
Property, plant and equipment	**–**	**3,723**	–	3,323
Plantations	**–**	**1,870**	–	2,016
Tax loss carry forward	**–**	**(320)**	–	(453)
	–	**5,022**	–	4,604

	Company			
	2022		2021	
ZAR million	Assets	Liabilities	Assets	Liabilities
Other non-current liabilities	**–**	**(85)**	–	(195)
Accrued and other liabilities	**–**	**(166)**	–	(87)
Property, plant and equipment	**–**	**3,723**	–	3,323
Plantations	**–**	**1,870**	–	2,016
Tax loss carry forward	**–**	**(320)**	–	(453)
	–	**5,022**	–	4,604

	Group		Company	
ZAR million	2022	2021	2022	2021
Reconciliation of deferred tax				
Deferred tax balances at beginning of year				
Deferred tax liabilities	**4,604**	4,312	**4,604**	4,312
	4,604	4,312	**4,604**	4,312
Deferred tax benefit (charge) for the year (refer to note 5)	**560**	255	**560**	255
Other non-current liabilities	**(2)**	30	**(2)**	30
Accrued and other liabilities	**(84)**	(25)	**(84)**	(25)
Property, plant and equipment	**538**	707	**538**	707
Plantations	**(77)**	(4)	**(77)**	(4)
Tax loss carry forward	**185**	(453)	**185**	(453)
Amounts recorded directly in other comprehensive income	**45**	37	**45**	37
Rate adjustments	**(187)**	–	**(187)**	–
Deferred tax balances at end of year	**5,022**	4,604	**5,022**	4,604
Deferred tax liabilities	**5,022**	4,604	**5,022**	4,604

	2022	2021
10. EQUITY-ACCOUNTED INVESTEES		
Group's share of carrying amount of equity-accounted investees		
Umkomaas Lignin Proprietary Limited	–	39
Other	11	–
	11	39

Umkomaas Lignin Proprietary Limited

A 50% joint venture agreement with Borregaard AS for the construction and operation of a lignin plant at Umkomaas, South Africa and the development, production and sale of products based on lignosulphonate in order to build a sustainable lignin business. The financial statements of Umkomaas Lignin Proprietary Limited are to 31 December of each year which is the year-end of Borregaard AS. The unaudited management accounts which are prepared in accordance with IFRS are used to account for the joint venture's income to Sappi's year-end. During the current year there was an impairment reversal in the investment in Umkomaas Lignin Proprietary Limited of ZAR43 million, and a dividend issued of ZAR82 million by Umkomaas Lignin Proprietary Limited.

Details of other equity-accounted investees

The group has entered into various joint venture agreements for the common benefit of the venturers. The financial year-end of each of these joint ventures is 31 December which is a common date for entities operating in the joint ventures countries of incorporation and which is also the year-end of the other venturers. The financial information for the joint ventures are not in aggregate or individually material.

Aggregate financial information for joint ventures that are not individually material:

ZAR million	2022	2021
Profit from continuing operations	8	36
Total comprehensive income	8	36

	Group		Company	
ZAR million	2022	2021	2022	2021
11. OTHER NON-CURRENT ASSETS				
Advances to tree growers	72	58	72	58
Defined benefit pension plan assets (refer to note 24)	334	84	334	84
Unlisted investment	30	30	24	24
Shareholder loans (refer to note 29)	276	201	276	201
Other	10	10	10	10
	722	383	716	377

	Group		Company	
ZAR million	2022	2021	2022	2021
12. INVENTORIES				
Raw materials	563	593	563	593
Work in progress	95	68	95	68
Finished goods	1,810	1,539	1,810	1,539
Consumable stores and spares	489	450	489	450
	2,957	2,650	2,957	2,650

The charge to the income statement relating to the write-down of inventories to net realisable value amounted to ZAR33.1 million (2021: ZAR58.3 million).

The cost of inventories recognised as an expense and included in cost of sales amounted to ZAR16,911.9 million (2021: ZAR13,511.8 million).

ZAR million	Group 2022	Group 2021	Company 2022	Company 2021
13. TRADE AND OTHER RECEIVABLES				
Trade accounts receivable	**371**	345	**371**	345
Allowance for credit losses	**–**	–	**–**	–
Trade accounts receivable, net	**371**	345.27	**371**	345.27
Receiver of revenue	**159**	124	**159**	124
Prepaid insurance	**45**	41	**45**	41
Prepayments and other receivables[(1)]	**508**	73	**508**	73
	1,083	583	**1,083**	583

[(1)] Included in Prepayments and other receivables in the current year is an insurance receivable of ZAR372 million relating to the impact of adverse weather and flooding experienced in KwaZulu-Natal.

Management rates the quality of trade and other receivables periodically against its internal credit rating parameters. The quality of these trade receivables is such that management believes no additional allowance for credit losses, other than as provided, is necessary. No significant risk has been identified within the trade accounts receivables not past due nor impaired. Trade receivables (including securitised trade receivables) represent 5.9% (2021: 9.6%) of turnover.

13.1 Analysis of amounts past due

The following provides an analysis of the amounts that are past the contractual maturity dates:

ZAR million	Group 2022 Not impaired	Group 2021 Impaired	Company 2022 Not impaired	Company 2021 Impaired
Less than seven days overdue	**–**	–	**–**	–
Between seven and 30 days overdue	**1**	–	**–**	–
Between 30 and 60 days overdue	**–**	–	**–**	–
More than 60 days overdue	**–**	(1)	**–**	–
	1	(1)	**–**	–

ZAR million	Group 2022 Not impaired	Group 2021 Impaired	Company 2022 Not impaired	Company 2021 Impaired
Less than seven days overdue	**–**	–	**–**	–
Between seven and 30 days overdue	**1**	–	**–**	–
Between 30 and 60 days overdue	**–**	–	**–**	–
More than 60 days overdue	**–**	(1)	**–**	–

The group holds collateral of ZAR37 million (2021: ZAR32.6 million) against trade receivables past contractual repayment terms.

13.2 Fair value

Due to the short maturities of trade and other receivables, the carrying amount of these trade and other receivables approximates their fair value.

13. TRADE AND OTHER RECEIVABLES continued

13.3 Off-balance sheet structures

Sappi sells the majority of its ZAR receivables to Rand Merchant Bank Limited, a division of FirstRand Bank Limited. In terms of the agreement, Sappi is required to maintain a credit insurance policy with a reputable insurance provider and, while the company does not guarantee the recoverability of any amounts, it carries 15% of the credit risk (and Rand Merchant Bank Limited the remainder) of each underlying receivable, after all recoveries, including insurance recoveries. As a result, no additional liability has been recognised as this would be insignificant to the financial statements.

Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is the Johannesburg Inter-bank Agreed Rate (JIBAR) plus a spread. This structure is treated as an off-balance sheet arrangement.

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

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

Bank	Value	Facility[1]	Discount charges
2022			
Rand Merchant Bank Limited	**ZAR1,142 million**	**Unlimited**	**Linked to three-month JIBAR**
2021			
Rand Merchant Bank Limited	ZAR1,484 million	Unlimited	Linked to three-month JIBAR

[1] *The facility in respect of the securitisation facility is unlimited, but subject to the sale of qualifying receivables to the bank.*

Refer to note 28 for further details on credit risks.

13.4 Concentration of credit risk

A significant portion of the group's and company's sales and accounts receivable are from a small number of customers. None of the group's and company's significant customers represented more than 10% of our sales and trade receivables during the years ended September 2022 and September 2021.

Where appropriate, credit insurance has been taken out over the group's and company's trade receivables.

None of the group's other receivables represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers worldwide.

At balance sheet date, the carrying amount of ZAR1,083 million (2021: ZAR582 million) represents the group's and company's maximum credit risk exposure from trade and other receivables.

The group has the following trade receivable amounts due from single customers:

	2022		2021	
Threshold	Number of customers	ZAR million	Number of customers	ZAR million
Less than ZAR75 million	**31**	**70**	33	97
	31	**70**	33	97

	Group 2022	Group 2021	Company 2022	Company 2021
14. ORDINARY SHARE CAPITAL AND SHARE PREMIUM				
Authorised share capital:				
6,052,500 Ordinary shares of ZAR2 each	**12**	12	**12**	12
19,520 Class A cumulative preference shares[(1), (2)]	**–**	–	**–**	–
221,107 Class B cumulative preference shares[(1), (2)]	**–**	–	**–**	–
831 Class C cumulative preference shares[(1), (2)]	**–**	–	**–**	–
123,321 Class D cumulative preference shares[(1), (2)]	**–**	–	**–**	–
	12	12	**12**	12
Issued share capital:				
6,015,769 (2021: 6,015,769) Ordinary shares of ZAR2 each	**12**	12	**12**	12
19,520 (2021: 19,520) Class A cumulative preference shares of ZAR0.01 each[(1), (2), (3)]	**–**	–	**–**	–
219,733 (2021: 219,733) Class B cumulative preference shares of ZAR0.01 each[(1), (2), (3)]	**–**	–	**–**	–
831 (2021: 831) Class C cumulative preference shares of ZAR0.01 each[(1), (2), (3)]	**–**	–	**–**	–
118,153 (2021: 118,161) Class D cumulative preference shares of ZAR0.01 each[(1), (2), (3)]	**–**	–	**–**	–
Sappi Property Company (Pty) Limited[(2), (3)]	**–**	–	**–**	–
	12	–	**12**	–
Share premium	**209**	209	**209**	209
Share premium on new preference shares issued	**–**	–	**–**	223
362,418 Investment in Sappi Property Company Proprietary Limited preference shares[(1), (2)]	**–**	–	**–**	(223)
Closing balance	**221**	–	**221**	221

[(1)] *The variable coupon rate based upon Sappi Southern Africa Limited's (SSA) long-term borrowing rate.*

[(2)] *The Class "A","B","C" and "D" preference share were issued to Sappi Property Company Proprietary Limited (SPC) for no cash consideration on 30 June 2008. SSA subsequently acquired all the ordinary shares of SPC on 11 June 2010. Sappi Southern Africa Limited holds 362,418 preference shares in SPC. A legal right to off-set these preference shares exists.*

[(3)] *Issued at nominal value.*

Capital risk management

The capital structure of the group and company consists of:

- Issued share capital and share premium and accumulated profits disclosed above and in the statement of changes in equity respectively
- Debt, which includes interest-bearing borrowings as disclosed in note 16
- Cash and cash equivalents.

The objectives of the group and company in managing capital are:

- To safeguard the group's ability to continue as a going concern, to be flexible and to take advantage of opportunities that are expected to provide an adequate return to shareholders
- To ensure sufficient resilience against economic turmoil
- To maximise returns to stakeholders by optimising the weighted average cost of capital, given inherent constraints
- To ensure appropriate access to equity and debt.

The group and company monitors its gearing through a ratio of net debt (interest-bearing borrowings and overdrafts less cash and cash equivalents) to total capitalisation (shareholders' equity plus net debt).

The group and company have entered into a number of debt facilities which contain certain terms and conditions in respect of capital management.

The group and company were in compliance with the financial covenants relating to the loans payable during both the current and prior fiscal years.

The group's and company's strategy with regard to capital risk management remains unchanged from the prior year.

The group and company manages its capital and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the current period.

ZAR million	Group 2022	Group 2021	Company 2022	Company 2021
15. OTHER COMPREHENSIVE INCOME				
Item that will not be reclassified subsequently to profit or loss				
Actuarial gains on post-employment benefit funds	**204**	69	**204**	69
Gross amount	**289**	96	**289**	96
Tax	**(85)**	(27)	**(85)**	(27)
Items that may be reclassified subsequently to profit or loss				
Hedging reserves	**(92)**	26	**(92)**	26
(Loss) gains during the year	**(200)**	144	**(200)**	144
Reclassified to profit or loss	**65**	(130)	**65**	(130)
Reclassified to property, plant and equipment	**7**	22	**7**	22
Tax	**36**	(10)	**36**	(10)
Other comprehensive gain recorded directly in equity	**112**	95	**112**	95
Profit for the year	**1,872**	1,313	**1,872**	1,313
Total comprehensive income for the year	**1,984**	1,408	**1,984**	1,408

ZAR million	Group 2022	Group 2021	Company 2022	Company 2021
16. NON-DISTRIBUTABLE RESERVES				
Share-based payment reserve	**(47)**	(39)	**(49)**	(41)
Share-based payment reserve – BBBEE	**216**	216	**216**	216
	169	177	**167**	175

ZAR million	Group 2022	Group 2021	Company 2022	Company 2021
17. TRADE AND OTHER PAYABLES AND PROVISIONS				
Trade payables	**3,383**	2,887	**3,383**	2,887
Employee-related liabilities	**451**	481	**451**	481
Capital expenditure accruals	**19**	84	**19**	84
Accrued interest	**35**	61	**35**	61
Rebates	**401**	376	**401**	376
Other payables	**319**	340	**319**	340
	4,608	4,229	**4,608**	4,229

NOTES TO THE AUDITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

	Group		Company	
ZAR million	2022	2021	2022	2021
18. INTEREST-BEARING BORROWINGS				
Unsecured borrowings	**3,931**	3,980	**3,931**	3,980
Less: Current portion included in current liabilities	**(1,373)**	(293)	**(1,373)**	(293)
Total non-current interest-bearing borrowings	**2,558**	3,687	**2,558**	3,687
The repayment profile of the interest-bearing borrowings is as follows:				
Payable in the year ended September:				
2022	**–**	293	**–**	293
2023	**1,373**	1,073	**1,373**	1,073
2024	**1,495**	1,494	**1,495**	1,494
2025	**–**	(6)	**–**	(6)
2026	**1,063**	1,126	**1,063**	1,126
	3,931	3,980	**3,931**	3,980

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

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/cession	Expiry[8]	Financial covenants
Redeemable bonds							
Public bond	ZAR	Variable	ZAR1,080 million	ZAR1,080 million[1]	Unsecured	May 2023	No financial covenants
Convertible bond	ZAR	Fixed	ZAR1,219 million	ZAR1,052 million[1, 2]	Unsecured	Nov 2025	No financial covenants
Public bond	ZAR	Fixed	ZAR1,500 million	ZAR1,499 million[1]	Unsecured	May 2024	No financial covenants
Unsecured bank term loans							
Commercial Paper Programmes							
Commercial Paper	ZAR	Variable	ZAR300 million	ZAR300 million	Unsecured	August 2023	No financial covenants

(1) *The principal value of the loans/bonds corresponds to the amount of the facility; however, the balance sheet value has been adjusted by the discounts and capitalised transaction costs paid upfront.*

(2) *On 25 November 2020, Sappi Southern Africa, issued a ZAR1.8 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 ZAR33.16 was set at a premium of 32.5% above the reference share price of ZAR25.03. The convertible bond and the rights attached to it represent a contract that can be settled by the delivery of a fixed number of Sappi Limited shares for a fixed amount of cash. As Sappi Southern Africa is not settling this contract using its own shares, this does not meet the definition of an equity instrument. The bondholder has the right to convert the bond into new and/or existing (as determined by the issuer) ordinary shares of Sappi Limited based on a fixed conversion price. The conversion right represents a derivative for SSA. This is because the option conveys a right to the bondholder to convert the bond into shares of Sappi Limited.*

A detailed analysis of total interest-bearing borrowings has been disclosed in note 28.

Other restrictions

In addition to the above borrowings, the group and company operates an off-balance sheet securitisation facility. Please refer to note 13 for further detail on this facility and related restrictions.

As is the norm for bank loan debt, a portion of the group's and company's financial indebtedness is subject to cross default provisions above certain *de minimis* amounts. Breaches in bank covenants in Sappi Southern Africa, if not corrected in time, might result in a default in group and company debt, and in this case, a portion of the group's and company's consolidated liabilities might eventually become payable on demand.

The group was in compliance with its financial covenants during the 2022 financial year.

18. INTEREST-BEARING BORROWINGS continued

Unutilised facilities

The group and company monitors its availability of funds on a daily basis. The group treasury committee monitors the amount of unutilised facilities to assess the headroom available. The net cash balances included in current assets and current liabilities are included in the determination of the headroom available.

ZAR million	Currency	Interest rate	2022	2021
Unutilised committed facilities				
Syndicate loan/revolving credit facility[1]	ZAR	Variable (JIBAR)	**2,000**	1,750
			616	782
Unutilised uncommitted facilities				
Cash management overdraft facility/ short-term banking facilities	ZAR	Variable (ZAR bank prime rate)	**275**	375
Total unutilised facilities (committed and uncommitted) excluding cash			**2,275**	2,125

[1] *Syndicated loans with a consortium of banks with revolving facilities available of ZAR2,000 million which are unutilised at year-end. The ZAR2,000 million revolving credit facility matures in August 2027, is unsecured, subject to financial covenants relating to Sappi Southern Africa and certain sustainability key performance indicators.*
During the year, the group and company paid an amount of ZAR11.9 million (2021: ZAR9.4 million) in respect of commitment fees for this facility.

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 28.

	Group		Company	
ZAR million	2022	2021	2022	2021
19. OTHER NON-CURRENT LIABILITIES				
Post-employment benefits other than pension liability (refer to note 24)	**299**	304	**299**	304
Other	**37**	41	**37**	41
	336	345	**336**	345

	Group		Company	
ZAR million	2022	2021	2022	2021
20. NOTES TO THE STATEMENTS OF CASH FLOWS				
20.1 Cash generated from operations				
Profit for the year	**1,872**	1,313	**1,872**	1,313
Adjustment for:				
– Depreciation	**1,329**	1,129	**1,329**	1,129
– Fellings	**868**	994	**868**	994
– Impairment reversals of property, plant and equipment	**(8)**	109	**(8)**	109
– Impairment reversal of equity-accounted investee	**(43)**	–	**(43)**	–
– Taxation charge	**367**	242	**367**	242
– Net finance costs (income)	**424**	(93)	**424**	(93)
– Equity accounted profits	**(8)**	(36)	**(8)**	(36)
– Pension fund income statement movement and benefits paid	**(30)**	58	**(30)**	58
– Profit on disposal of property, plant and equipment	**(16)**	(7)	**(16)**	(7)
– Loss on written off assets	**32**	40	**32**	40
– Plantation fire, drought and other damages	**11**	24	**11**	24
– Fair value adjustment gains and growth on plantations	**(573)**	(973)	**(573)**	(973)
– Other non-cash items	**–**	(6)	**–**	(6)
	4,225	2,794	**4,225**	2,794

NOTES TO THE AUDITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

		Group		Company	
	ZAR million	2022	2021	2022	2021
20.	**NOTES TO THE STATEMENTS OF CASH FLOWS** continued				
20.2	**(Increase) decrease in working capital**				
	Increase in inventories	**(301)**	(479)	**(301)**	(479)
	(Increase) decrease in receivables	**(542)**	15	**(542)**	15
	Increase in amounts owed by group companies	**(1,823)**	(153)	**(1,823)**	(153)
	Increase in payables	**513**	1,083	**513**	1,083
	Increase in amounts owed to group companies	**57**	120	**57**	120
		(2,096)	586	**(2,096)**	586
20.3	**Finance costs paid**				
	Interest and other finance costs on liabilities carried at amortised cost	**(458)**	(305)	**(458)**	(305)
	Net foreign exchange losses	**(57)**	(28)	**(57)**	(28)
	Interest capitalised	**–**	(174)	**–**	(174)
	Non-cash movements included in items above	**12**	42	**12**	42
		(503)	(465)	**(503)**	(465)
20.4	**Taxation received (paid)**				
	Net amounts payable at beginning of year	**13**	(31)	**13**	(31)
	Taxation (charge) to profit or loss	**–**	13	**–**	13
	Less: Net amounts payable at end of year	**–**	(13)	**–**	(13)
		13	(31)	**13**	(31)
20.5	**Proceeds on disposal of property, plant and equipment**				
	Book value of property, plant and equipment disposed of	**6**	–	**6**	–
	Profit (loss) on disposal of property, plant and equipment	**16**	7	**16**	7
		22	7	**22**	7

20.6 Reconciliation of liabilities arising from financing activities

ZAR million	2020	Cash flows	Non-cash flows [1]	2021
Interest-bearing borrowings	3,276	1,400	(696)	3,980

ZAR million	2021	Cash flows	Non-cash flows [1]	2022
Interest-bearing borrowings	3,980	–	(49)	3,931

[1] *Non-cash flows include; convertible bond conversions of ZAR(97) million, accretion interest between the coupon and effective interest rate of ZAR42 million and ZAR6 million relating to the capitalisation and amortisation of upfront fees.*

21. ENCUMBERED ASSETS

At financial year-end, none of the group's and company's assets were encumbered.

	Group		Company	
ZAR million	2022	2021	2022	2021
22. COMMITMENTS				
Capital commitments				
Contracted but not provided	**248**	595	**248**	595
Approved but not contracted	**534**	1,277	**534**	1,277
	782	1,872	**782**	1,872
Future forecast cash flows of capital commitments at September:				
2022		1,872		1,872
2023	**752**	–	**752**	–
2024	**30**	–	**30**	–
	782	1,872	**782**	1,872

These projects are expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group and company.

23. CONTINGENT LIABILITIES

Contingent liabilities mainly relate to environmental queries in respect of the group and company.

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these lawsuits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that the possibility of a material outflow of resources in connection with these lawsuits and administrative proceedings is considered to be remote.

	Group		Company	
ZAR million	2022	2021	2022	2021
24. POST-EMPLOYMENT BENEFITS – PENSIONS				
Summary of results				
Reconciliation of balance sheet				
Pension plan asset recognised on balance sheet prior year	**84**	4	**84**	4
Post-employment plan cost recognised in profit or loss	**(49)**	(55)	**(49)**	(55)
Employer contributions	**35**	33	**35**	33
Actuarial gain recognised in other comprehensive income	**263**	102	**263**	102
Pension plan asset recognised on balance sheet	**333**	84	**333**	84

24. POST-EMPLOYMENT BENEFITS – PENSIONS continued

Summary of results continued

Defined contribution plans

The group participates in an umbrella defined contribution plan for all qualifying employees throughout the group. The assets of the plan are held separately from those of the group and company, in funds under the control of umbrella fiduciaries (trustees). The group and company also participate in a local union industry multi-employer plan, open to eligible employees as a voluntary alternative to the group and company's own sponsored plan. There are no obligations on the group other than to pay contributions according to the rules of each plan.

The total cost charged to the income statement of ZAR196 million (2021: ZAR169 million) represents contributions payable to these plans by the group and company based on rates specified in the rules of these plans. Expected contributions (total cost charged) to be paid in the next financial year is ZAR190 million.

Defined benefit pension plans

The group operates a defined benefit pension plan and a defined benefit disability plan. These plans are closed to new entrants. Both plans have been established in accordance with applicable legal requirements, customs and existing circumstances in South Africa.

The assets of our funded plans are held in separate trustee-administered funds and are subject to statutory requirements. The trusts are required by law to act in the interests of the fund and its stakeholders, i.e. members and sponsoring companies. The plans comprise management and member-appointed trustees including an independent trustee, who collectively are responsible for the management of the trusts.

Benefits are formula-driven, based on final average salary

Exposure to risks

The major risks faced by the group and company as a result of the defined benefit obligation can be summarised as follows:
- **Discount rate:** given the defined benefit nature of the liabilities, there is a risk that bond yields (and therefore the discount rate) reduce in future leading to higher liabilities. This risk has largely been mitigated by the implementation of a liability matching investment strategy
- **Inflation:** The risk that future inflation is higher than expected, which will affect the size of the benefits
- **Future changes in legislation:** The risk that changes to legislation with respect to the post-employment liability may increase the liability for the group
- **Future changes in the tax environment:** The risk that changes in the tax legislation governing employee benefits may increase the liability for the group
- **Longevity:** The risk that pensioners live longer than expected and thus the value of their pension benefit is larger than expected
- **Administration:** Administration of this liability poses a burden to the group and company, or that data is incomplete or incorrect
- **Investment:** the risk that the return earned by plan assets is lower than expected, although this risk has been partially mitigated by the implementation of a liability matching investment strategy
- **Default:** The risk of default on the instruments underpinning the plan assets.

Since the pension liabilities are adjusted to respective local consumer price indices, the plans are exposed to local inflation, interest rate risks and changes in life expectancies of members. The plans' assets include investments in quoted equity shares, and high yield local bonds and cash. The group and company is exposed to losses from equity and high yield bond market risk and depreciation from local inflationary effects. Debt instruments typically comprise local investment grade corporate and government debt, primarily held to match counter-movements in plan liabilities of the same value. The group and company are also exposed to losses from the effects of credit grade re-ratings on debt instruments in bond markets. A breakdown of the actual assets is shown further below.

The main strategic choices that are formulated in the actuarial and technical policies of our plans across the group and company are as follows:

Strategic asset mix based on
- 6% equity instruments
- 70% debt instruments, and
- 24% cash.

Local regulations impose minimum funding targets and maximum asset class holdings that significantly influence the strategic asset allocation of individual plans.

24. POST-EMPLOYMENT BENEFITS – PENSIONS continued

Summary of results continued

Investment management and strategic asset allocation

Plan fiduciaries are responsible for investment policies and strategies for local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment. Plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Plan fiduciaries also make use of fiduciary managers, multi-asset manager mandates and 'flight path' assessment tools to assist with strategic asset allocation. Such reviews include asset-liability modelling studies to analyse risk-and-return profiles. Investment and contribution policies are integrated within this study.

Funding policy

Members contribute a fixed percentage of pensionable salary to the pension plan and the group's subsidiaries fund the balance of the cost of the entitlements expected to be earned on an annual basis, and cover the entire cost of the disability plan. The funding requirements are based on local actuarial measurement frameworks. As prefunded plans, contributions are determined using current pensionable salary. Additional liabilities resulting from *ad hoc* past service amendments are normally funded immediately as part of the overall agreed contribution rate to restore plan deficits.

Expected contributions across group subsidiaries over the next financial year are ZAR32 million.

An actuarial review is performed annually, with an actuarial valuation being performed on a tri-annual basis.

	Group		Company	
ZAR million	**2022**	2021	**2022**	2021
Components of defined benefit cost recognised in profit or loss				
Current service cost	**42**	45	**42**	45
Past service cost	**1**	1	**1**	1
Interest on net defined benefit	**2**	4	**2**	4
Fund administration costs	**4**	5	**4**	5
Net amount recognised in profit or loss	**49**	55	**49**	55
Net amount attributed to operating cost	**47**	51	**47**	51
Net amount attributed to finance cost	**2**	4	**2**	4
Components of defined benefit cost recognised in other comprehensive income				
Actuarial gain arising from membership experience	**138**	83	**138**	83
Actuarial gain arising from changes in financial assumptions	**145**	(75)	**145**	(75)
Actuarial gain (loss) arising on assets	**(20)**	94	**(20)**	94
Actuarial gain recognised in other comprehensive income	**263**	102	**263**	102

NOTES TO THE AUDITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

24. POST-EMPLOYMENT BENEFITS – PENSIONS continued

Summary of results continued

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

	Group		Company	
ZAR million	2022	2021	2022	2021
Defined benefit obligation at beginning of year	**1,342**	1,531	**1,342**	1,531
Current service cost	**42**	45	**42**	45
Past service cost	**1**	1	**1**	1
Interest cost	**124**	132	**124**	132
Plan participants' contributions	**16**	16	**16**	16
Remeasurements	**(283)**	(8)	**(283)**	(8)
– Membership experience losses	**(138)**	(83)	**(138)**	(83)
– Financial assumption losses	**(145)**	75	**(145)**	75
Benefits paid	**(150)**	(375)	**(150)**	(375)
Defined benefit obligation at end of year	**1,092**	1,342	**1,092**	1,342
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	**1,426**	1,535	**1,426**	1,535
Interest income	**122**	128	**122**	128
Employer contributions	**35**	33	**35**	33
Plan participants' contributions	**16**	16	**16**	16
Remeasurements	**(20)**	94	**(20)**	94
– Actuarial loss arising on assets	**(20)**	94	**(20)**	94
Benefits paid	**(150)**	(375)	**(150)**	(375)
Fund administration costs	**(4)**	(5)	**(4)**	(5)
Fair value of plan assets at end of year	**1,425**	1,426	**1,425**	1,426
Recognised pension plan assets	**(333)**	(84)	**(333)**	(84)

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

	Group		Company	
ZAR million	2022	2021	2022	2021
Investments quoted in active markets				
– Equity and high-yield investments				
– Domestic	**80**	258	**80**	258
– Investment grade debt instruments				
– Nominal	**250**	274	**250**	274
– Index linked	**748**	820	**748**	820
Cash and cash equivalents	**351**	74	**351**	74
	1,429	1,426	**1,429**	1,426

Plan assets do not include any investments in the group's and company's own quoted shares. However, Sappi shares will be held by appointed investment managers as part of the routine mandates investing in domestic equities.

The fair values of the various equity and debt instruments are determined based on quoted market prices in active markets, whereas the fair values of certain property and derivatives are not based on quoted market prices in active markets. Plans generally buy and hold bonds as a hedge against interest rate and inflation rate risk.

24. POST-EMPLOYMENT BENEFITS – PENSIONS continued

Summary of results continued

The principal assumptions used in determining pension subsidies for the group's and company's plans are shown below

	Group		Company	
ZAR million	2022	2021	2022	2021
Discount rate (%)	**11.13**	9.39	**11.13**	9.39
Future salary increases (%)	**7.70**	6.49	**7.70**	6.49
Cost of living adjustment for pensions in payment (%)	**5.36**	4.39	**5.36**	4.39
Average life expectancy in years				
– For current beneficiaries (male of 60 years)	**19.20**	19.20	**19.20**	19.20
– Future retiree (male of 60 years in 20 years' time)	**20.20**	20.20	**20.20**	20.20

A quantitative sensitivity analysis for significant assumptions as at financial year-end is disclosed below

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, expected salary increase, cost of living adjustments to pensions in payment and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, whilst holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by ZAR138 million (increase by ZAR159 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by ZAR82 million (decrease by ZAR77 million)
- If the expected cost of living adjustment (pension increase) rate is 100 basis points higher (lower), the defined benefit obligation would increase by ZAR78 million (decrease by ZAR74 million)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by ZAR21 million (decrease ZAR19 million).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the sensitivity analysis above, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating that applied in calculating the defined benefit obligation recognised in the balance sheet. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The average duration of the defined benefit plan obligations at the end of the reporting period is eight years.

NOTES TO THE AUDITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

ZAR million	Group 2022	Group 2021	Company 2022	Company 2021
25. POST-EMPLOYMENT BENEFITS – POST-RETIREMENT HEALTHCARE SUBSIDY				
Reconciliation of balance sheet				
Healthcare subsidy liability recognised on balance sheet prior year	**(304)**	(262)	**(304)**	(262)
Post-employment cost recognised in profit or loss	**(44)**	(42)	**(44)**	(42)
Employer contributions	**21**	7	**21**	7
Actuarial (loss) gain recognised in other comprehensive income	**27**	(7)	**27**	(7)
Healthcare subsidy liability recognised on balance sheet	**(300)**	(304)	**(300)**	(304)

Post-employment benefits – post-retirement healthcare subsidy

The company sponsors a defined benefit post-employment plan that provides certain healthcare and life insurance benefits to eligible retired employees. Employees who joined the company before 1 October 1999 and maintain uninterrupted membership of eligible medical aid schemes are then generally eligible for the subsidy upon retirement.

Expected contributions across group subsidiaries over the next financial year are ZAR10 million.

ZAR million	Group 2022	Group 2021	Company 2022	Company 2021
Components of defined benefit cost recognised in profit or loss				
Current service cost	**7**	6	**7**	6
Interest on net defined benefit	**36**	36	**36**	36
Gains on settlements	**1**	–	**1**	–
Net amount recognised in profit or loss	**44**	42	**44**	42
Net amount attributed to operating cost	**7**	8	**7**	6
Net amount attributed to finance cost	**36**	36	**36**	36
Components of defined benefit cost recognised in other comprehensive income				
Actuarial gain arising from membership experience	**33**	32	**33**	32
Actuarial gain (loss) arising from changes in financial assumptions	**27**	(34)	**27**	(34)
Actuarial gain (loss) arising on assets	**(33)**	(5)	**(33)**	(5)
Actuarial gain (loss) recognised in other comprehensive income	**27**	(7)	**27**	(7)

25. POST-EMPLOYMENT BENEFITS – POST-RETIREMENT HEALTHCARE SUBSIDY continued

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

	Group		Company	
ZAR million	2022	2021	2022	2021
Defined benefit obligation at beginning of year	**397**	356	**397**	356
Current service cost	**7**	6	**7**	6
Interest expense	**46**	48	**46**	48
Remeasurements (gain) loss	**(60)**	2	**(60)**	2
– Membership experience loss	**(33)**	(32)	**(33)**	(32)
– Financial assumption gain	**(27)**	34	**(27)**	34
Non-routine settlements	**(11)**	–	**(11)**	–
Benefits paid	**(16)**	(15)	**(16)**	(15)
Defined benefit obligation at end of year	**363**	397	**363**	397
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	**93**	94	**93**	94
Interest income	**10**	12	**10**	12
Employer contributions	**21**	7	**21**	7
Remeasurements (loss) gain	**(33)**	(5)	**(33)**	(5)
– Actuarial (loss) gain arising on assets	**(33)**	(5)	**(33)**	(5)
Non-routine plan settlements	**(12)**	–	**(12)**	–
Benefits paid	**(16)**	(15)	**(16)**	(15)
Fair value of plan assets at end of year	**63**	93	**63**	93
Net balance sheet defined benefit liability	**300**	304	**300**	304

The main strategic choices that are formulated in the actuarial and technical policies of our plans across the group and company are as follows:

Strategic asset mix based on
- 84% debt (annuity) instruments, and
- 16% cash.

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

	Group		Company	
ZAR million	2022	2021	2022	2021
Unquoted investments				
– Annuities	**53**	83	**53**	83
Cash and cash equivalents	**10**	10	**10**	10
	63	93	**63**	93

Assets consist of an annuity policy of insurance and money market funds. The fair value of the annuity policy is assessed by the insurer using established methods based on observable bond yields.

25. POST-EMPLOYMENT BENEFITS – POST-RETIREMENT HEALTHCARE SUBSIDY continued

The principal assumptions used in determining post-employment medical aid subsidies for the group's and company's plans are shown below

	Group		Company	
ZAR million	2022	2021	2022	2021
Discount rate (%)	12.70	11.80	12.70	11.80
Healthcare cost trend rate (%)	8.60	8.35	8.60	8.35
Average expectancy in years				
– For current beneficiaries (male of 60 years)	19.50	19.50	19.50	19.50

A quantitative sensitivity analysis for significant assumptions as at financial year-end is disclosed below

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, expected salary increase, healthcare cost trends and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, whilst holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by ZAR36 million (increase by ZAR43 million)
- If the expected healthcare cost trend rate is 100 basis points higher (lower), the defined benefit obligation would increase by ZAR45 million (decrease by ZAR38 million)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by ZAR10 million (decrease ZAR10 million).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the sensitivity analysis above, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The average duration of the defined benefit plan obligations at the end of the reporting period is 13 years.

26. SHARE-BASED PAYMENTS

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

In March 2005, shareholders fixed the aggregate number of shares which may be acquired by all participants under The Sappi Limited Share Incentive Trust (the Scheme) and The Sappi Limited Performance Share Incentive Trust (the Plan) at 42,700,870 shares of which 5,615,753 shares are outstanding as at September 2022. A further 27,402,673 shares were approved by shareholders in February 2020 of which 10,138,202 are outstanding as at September 2022. The Scheme was liquidated in February 2020 upon expiry of the last options in December 2019.

The Sappi Limited Performance Share Incentive Trust (the Plan)

Under the rules of the Plan, participants may be awarded conditional contracts to acquire ordinary shares for no cash consideration. The conditional contracts are subject to performance criteria being met or exceeded after the fourth anniversary date. Should the performance criteria not be met, the number of shares allotted are adjusted downwards from 100% to 25%, or none depending on the degree of not meeting the criteria. The performance criteria, which entails a benchmarking of the company's performance against an appropriate peer group of companies, is set by the board at the offer date for each conditional share award.

The Plan rules provide that appropriate adjustments are made to the rights of participants in the event that the company, *inter alia*, undertakes:

- A rights offer, or
- Is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital.

The Plan rules also provide that if:

- The company undergoes a change in control after an allocation date other than a change in control initiated by the board itself, or
- The persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action, the effect of which is to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action;

then the company is obliged to notify every participant thereof that such participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the performance criteria been achieved.

26. SHARE-BASED PAYMENTS continued

The Sappi Limited Performance Share Incentive Trust (the Plan) 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	2,407,964
– Offered and accepted	1,469,000
– Paid for/vested	(278,290)
– Returned, lapsed and forfeited	(394,546)
Outstanding at September 2021	3,204,128
– Offered and accepted	1,050,300
– Paid for/vested	(66,388)
– Returned, lapsed and forfeited	(594,413)
Outstanding at September 2022	**3,593,627**

[1] *Performance shares are issued in terms of the Plan and are for no cash consideration. The value is determined on the day the shares vest.*

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

	2022	2021	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Performance shares:						
4 December 2017	–	545,011	Performance	4 December 2021	n/a	ZARnil
19 November 2018	565,232	580,603	Performance	19 November 2022	n/a	ZARnil
19 November 2019	635,089	660,458	Performance	19 November 2023	n/a	ZARnil
18 November 2020	1,354,155	1,418,056	Performance	18 November 2024	n/a	ZARnil
18 November 2021	1,039,151	–	Performance	19 November 2025	n/a	ZARnil
	3,593,627	3,204,128				

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

	Issue 47	Issue 47
Date of grant	19 November 2021	19 November 2021
Type of award	Performance	Performance
Share price at grant date	ZAR41.58	ZAR41.58
Vesting period	Four years	Four years
Vesting conditions	Market-related – relative to peers	Cash flow return on net assets relative to peers
Life of options	n/a	n/a
Market-related vesting conditions	Yes	No
Percentage expected to vest	77.4%	80.0%
Number of shares offered	2,262,800	2,262,800
Volatility	49%	n/a
Risk-free discount rate	7.56% (ZAR yield)	n/a
Expected dividend yield	3.0%	n/a
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR28.80	ZAR29.47

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

Refer to note 29 for more information on directors' and prescribed officers' participation in the Plan.

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FOR THE YEAR ENDED SEPTEMBER 2022

		Group		Company	
ZAR million		2022	2021	2022	2021
27. DERIVATIVE FINANCIAL INSTRUMENTS					
Hedging instrument	**Hedged item**				
Non-current assets					
Interest rate swap	ZAR1,500 million unsecured loan	13	–	13	–
		13	–	13	–
Current assets					
Forward exchange contracts	Various	56	23	56	23
		56	23	56	23
Non-current liabilities					
Interest rate swap (IRS)	ZAR1,500 million public bond	–	88	–	88
		–	88	–	88
Current liabilities					
Forward exchange contracts	Various	233	14	233	14
		233	14	233	14

Refer to note 28 for more detail on financial instruments.

28. FINANCIAL INSTRUMENTS

The group's and company's financial instruments consist mainly of cash and cash equivalents, trade receivables, trade payables, borrowings and derivative instruments.

Introduction

The group's and company's main financial risk management objectives are to identify, measure and manage, through financial instruments, the following principal risks to which the group and company are exposed to:

(a) Market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:
- Interest rate risk
- Currency risk

(b) Liquidity risk
(c) Credit risk.

Sappi's Treasury is primarily responsible for managing the group's and company's interest rate, foreign currency, liquidity and credit risk (in so far as it relates to deposits of cash, cash equivalents and financial investments).

Credit risk, in so far as it relates to trade receivables, is primarily managed centrally as well as commodity price risk.

The group and company's limits of authority framework delegates responsibility and approval authority to various officers, committees and boards based on the nature, duration and size of the various transactions entered into by, and exposures of, the group including the exposures and transactions relating to those financial instruments and risks referred to in this note.

(a) Market risk

Interest rate risk

Interest rate risk is the risk that the value of a borrowing or an investment will change due to a change in the absolute level of interest rates, the spread between two rates, the shape of the yield curve or any other interest rate relationship.

The group and company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The group and company monitors the market conditions and may utilise approved interest rate derivatives to alter the existing balance between fixed and variable interest rate loans in response to changes in the interest rate environment. Hedging of interest rate risk for periods greater than one year is only allowed if income statement volatility can be minimised by means of hedge accounting, fair value accounting or other means. The group and company's exposure to interest rate risk is set out below.

28. FINANCIAL INSTRUMENTS continued

(a) Market risk continued

Interest rate risk continued

Interest-bearing borrowings

The following table provides information about Sappi's principal amounts of current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows of the carrying value by expected maturity dates and the estimated fair value of borrowings. The information is presented in ZAR, which is the group's reporting currency.

	Expected maturity date					2022		2021	
ZAR equivalent in millions	2023	2024	2025	2026	2027	Carrying value	Fair value	Carrying value	Fair value
Fixed rate debt	–	1,495	–	1,063	–	**2,558**	**3,282**	2,601	3,404
Average interest rate (%)	–	9.25	–	5.25	–	**7.64**		7.61	
Variable rate debt	1,373	–	–	–		**1,373**	**1,380**	1,379	1,380
Average interest rate (%)	6.87	–	–	–	–	**6.87**		6.03	
Fixed and variable	1,373	1,495	–	1,063	–	**3,931**	**4,662**	3,980	4,784
Current portion						**1,373**	**1,380**	300	300
Long-term portion						**2,558**	**3,282**	3,680	4,484
Total interest-bearing borrowings (refer to note 18)						**3,931**	**4,662**	3,980	4,784

For disclosure purposes, the fair value of non-current borrowings is estimated by Sappi based on rates from market quotations for non-current borrowings with fixed interest rates and on quotations provided by internationally recognised pricing services for notes, exchange debentures and revenue bonds.

The abovementioned fair values include Sappi's own credit risk. Please refer to the sensitivity analysis on interest rate risk in this note for additional information regarding Sappi's rating.

A detailed analysis of the group's and company's borrowings is presented in note 18.

Hedging of interest rate risk

Depending on the market conditions, Sappi uses interest rate derivatives as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. Sappi does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period or in OCI, depending on the hedge designation as described in a documented hedging strategy.

Cash flow hedges

The effective gains or losses from changes in fair value of the derivatives designated in a cash flow hedge are recorded in OCI. These accumulated gains or losses will be recycled to profit or loss in the same account as the hedged item when the hedged item affects profit or loss.

Hedge effectiveness is assessed at inception of the hedge relationship and on a quarterly basis or upon a significant change in circumstances affecting the hedge effectiveness requirements. The hedge effectiveness requirements are principles-based, so there is no determined precise quantitative threshold of effectiveness. The hedge effectiveness assessment is only forward looking using the critical terms match.

Retrospective measurement is based on the hypothetical derivative approach which is a type of ratio analysis comparing changes in fair value or cash flows of the hedging instrument with the changes in fair value or cash flows of the perfect hypothetical derivative. The hypothetical derivative exactly mirrors the features of the underlying hedged item.

The valuation of the hedging instruments includes an adjustment for credit risk, i.e. an asset includes a counterparty credit risk spread, whereas the fair value measurement of a liability includes Sappi's own credit risk spread.

28. FINANCIAL INSTRUMENTS continued

(a) Market risk continued

Interest rate risk continued

Interest rate swaps floating to fixed

In May 2019, Sappi contracted a floating rate term loan in the total amount of ZAR1.5 billion maturing in 2024 and swapped the floating rates into fixed rates. This liability and the corresponding interest rate swap are designated in a cash flow hedging relationship, allowing all mark-to-market valuations of the swaps to be booked to equity. As all critical terms of the hedged item and the hedging instrument match perfectly, the hedge is expected to continue being highly effective.

At September 2022, the hedge was highly effective and the swap had a net positive fair value of ZAR13 million which was deferred to equity.

Summary of outstanding cash flow hedges

ZAR million	Interest rate	Maturity date	Nominal value	Total fair value(1)	Recorded in OCI	Recorded in Profit or loss
September 2022						
Cash flow hedges						
IRS	ZAR variable (3-M JIBAR + 180bps) to ZAR9.2484% fixed	May 2024	ZAR1,500 million	**13**	**13**	**–**
				13	**13**	**–**

ZAR million	Interest rate	Maturity date	Nominal value	Total fair value(1)	Recorded in OCI	Recorded in Profit or loss
September 2021						
Cash flow hedges						
IRS	ZAR variable (3-M JIBAR + 180bps) to ZAR9.2484% fixed	May 2024	ZAR1,500 million	88	88	–
				88	88	–

(1) *This refers to the carrying value.*

The total fair value of the IRS is the estimated amounts that Sappi would pay or receive to terminate the agreements at balance sheet date after taking into account current interest rates and the current creditworthiness of the counterparties as well as the specific relationships of the group with those counterparties. However, this amount excludes the possible breakage and other fees that would be incurred in case of a sale before the maturity date.

Sensitivity analyses

Sensitivity analysis: interest rate risk – in case of a credit rating change of Sappi Southern Africa Limited

To the extent of any downgrade on the group's revolving credit facility, a change in the group's own credit rating will affect the funding rate. A one notch downgrade will negatively impact profit before tax by ZAR0.7 million (2021: ZAR0.5 million) and a one notch upgrade will have a ZARnil (2021: ZARnil) positive impact The revolving credit facility was undrawn at financial year-end.

Sensitivity analysis: interest rate risk of floating rate debt

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

ZAR million	Total	Fixed rate debt	Floating rate debt	Impact on profit or loss of 50bps interest
Total debt	3,931	2,558	1,373	7
Ratio fixed/floating to total debt		65%	35%	

The floating rate debt represents 35% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by ZAR7 million.

28. FINANCIAL INSTRUMENTS continued

(a) Market risk continued

Currency risk

The objective of the group and company in managing currency risk is to ensure that foreign exchange exposures are identified as early as possible and actively managed. Sappi is exposed to the following currency risks:

- Economic exposures which consist of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders, and
- Transaction exposures arise from transactions entered into which result in a flow of cash in foreign currency such as payments under foreign currency long and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts.

In managing currency risk, the group first makes use of internal hedging techniques with external hedging being applied thereafter. External hedging techniques consist primarily of foreign currency forward exchange contracts. Foreign currency capital expenditure on projects must be covered as soon as practical (subject to regulatory approval).

Currency risk analysis

In the preparation of the currency risk analysis, derivative instruments are allocated to the currency of the hedged item.

The following tables for the 2022 and 2021 financial years disclose financial instruments as determined by IFRS 9 *Financial Instruments: Recognition and Measurement*, classified by underlying currency, and does not indicate the group's foreign currency exchange exposure.

Group and company

	Total	Total in scope	US$	EUR	ZAR	GBP	Other
September 2022							
Classes of financial instruments							
Non-current assets							
Other non-current assets	722	310	–	–	310	–	–
Derivative financial instruments	13	13			13		
Amounts owing by related parties	4,960	4,960	–	–	4,960	–	–
Current assets							
Trade and other receivables	1,083	855			855	–	–
Derivative financial instruments	56	56	53	3		–	–
Amounts owing by group related parties	3,453	3,453	–	–	3,453		
Cash and cash equivalents	1,560	1,560	–	–	1,560	–	–
		11,207	53	3	11,151	–	–
Non-current liabilities							
Interest-bearing borrowings	2,558	2,558			2,558		
Lease liability	530	530			530		
Other non-current liabilities	336	37			37		
Current liabilities							
Interest-bearing borrowings	1,373	1,373	–	–	1,373	–	–
Trade and other payables	4,608	4,164	–	–	4,164	–	–
Derivative financial instruments	233	233	217	16	–	–	–
Amounts owing to the related parties	308	308	–	–	308	–	–
Lease liability	84	80	–	–	80	–	–
		9,283	217	16	9,050	–	–
Foreign exchange gap		1,924	(164)	(13)	2101	–	–

28. FINANCIAL INSTRUMENTS continued

(a) Market risk continued

Currency risk continued

Currency risk analysis continued

ZAR million	Total	Total in scope	US$	EUR	ZAR	GBP	Other
September 2021							
Classes of financial instruments							
Non-current assets							
Other non-current assets	383	234	–	–	234	–	–
Amounts owing by related parties	5,083	5,083	–	–	5,083	–	–
Current assets							
Trade and other receivables	583	412	–		412	–	–
Derivative financial instruments	23	23	11	3	9	–	–
Amounts owing by related parties	1,630	1,630	–	–	1,630		
Cash and cash equivalents	2,328	2,328	–	–	2,328	–	–
		9,710	11	3	9,696	–	–
Non-current liabilities							
Interest-bearing borrowings	3,687	3,687	–	–	3,687	–	–
Lease liability	598	598	–	–	598		
Derivative financial instruments	88	88	–	–	88		
Other non-current liabilities	345	41	–	–	41		
Current liabilities							
Interest-bearing borrowings	293	293	–	–	293	–	–
Lease liability	80	80	–	–	80	–	–
Derivative financial instruments	14	14	4	10	–	–	–
Trade and other payables	4,229	3,738	–	–	3,738	–	–
Amounts owing to related parties	251	251	–	–	251	–	–
		8,790	4	10	8,776	–	–
Foreign exchange gap		920	7	(7)	920	–	–

Hedging of foreign currency risk

Foreign currency forward exchange contracts

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

ZAR million		2022 Contract amount (notional amount)	2022 Fair value	2021 Contract amount (notional amount)	2021 Fair value
Foreign currency					
Bought:	US Dollar	**737**	**687**	370	360
	Euro	**76**	**73**	217	223
	Swedish Krona	**3**	**3**	7	7
	Japanese yen	**52**	**52**	–	–
Sold:	Euro	**(500)**	**(490)**	(44)	(43)
	US Dollar	**(1,711)**	**(1,601)**	(708)	(705)
		(1,343)	**(1,276)**	(158)	(158)

The fair value of foreign currency contracts has been computed by the group and company using the market data at the end of the 2022 financial year.

All forward exchange contracts are valued at fair value with the resultant profit or loss included in net finance costs for the year.

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being 30 November 2023.

As at September 2022, there was an open exposure of ZAR95 million that has since been hedged.

28. FINANCIAL INSTRUMENTS continued

(a) Market risk continued

Currency risk continued

Sensitivity analysis – (loss) gain

Base currency	Exposure (ZAR million)	+10 %	–10 %
EUR	(16)	(1)	2
USD	(79)	(7)	9
Total	(95)	(8)	11

Based on the exposure at the end of September 2022, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a loss of ZAR8 million or a gain of ZAR11 million respectively.

Cash flow hedges

Export sales

In Southern Africa, Sappi is exposed to an economic risk arising from its export sales of its dissolving wood pulp product. As sales prices are linked to a US Dollar price but sales are invoiced in ZAR, any change in the foreign currency exchange rate between the US Dollar and the ZAR would result in a different ZAR selling price. This results in an economic foreign currency exchange rate exposure between the order date and invoicing date.

Sappi therefore enters into cash flow hedges with the objective to eliminate this economic foreign exchange rate exposure by entering into non-deliverable forward exchange contracts and zero cost foreign exchange collars which were designated as hedging instruments. Only the spot movements of the FECs and the intrinsic value of the zero cost foreign exchange collar is designated as the hedging instrument. The forward points of the FECs and the time value of the zero cost collars are not included in the hedge designation and will be reported as cost of hedging in OCI.

The hedging instruments are recorded at fair value on the balance sheet with changes in fair value recorded through OCI. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

During the 2022 financial year, the hedges were highly effective. A realised loss of ZAR48 million relating to the realised fair value movements of non-deliverable forward exchange contracts (including cost of hedging) was transferred from OCI to revenue in profit or loss and at the financial year-end, a loss of ZAR112 million was deferred in equity. A realised loss of ZAR17 million relating to the settled zero cost foreign exchange collars (including cost of hedging) was transferred from OCI to revenue in profit or loss and at the financial year-end, a loss of ZAR110 million was deferred to equity.

Mill expansion and maintenance capital expenditure projects

Sappi Southern Africa has approved several capex projects requiring the acquisition of property plant and equipment for the maintenance and expansion of its South African mills Saiccor and Ngodwana. An important part of the equipment was ordered in foreign currency, predominantly in EUR and in SEK which created a foreign exchange exposure as SSA is a ZAR functional entity. To cover these foreign exchange exposures either as highly probable forecast transactions or as firm commitments, SSA entered into forward foreign exchange contracts (FECs) which were designated as hedging instruments in a cash flow hedge. The full fair value of the FECs, including forward points, have been designated as hedging instruments.

The hedging instruments are recorded at fair value on the balance sheet with changes in fair value recorded through OCI. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

(b) Liquidity risk

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

The group's and company's objective is to manage its liquidity risk by:
- Managing its bank balances, cash concentration methods and cash flows
- Managing its working capital and capital expenditure
- Ensuring the availability of a minimum amount of short-term borrowing facilities at all times, to meet any unexpected funding requirements
- Ensuring appropriate long-term funding is in place to support the group and company's long-term strategy.

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 18.

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

28. FINANCIAL INSTRUMENTS continued

(b) Liquidity risk continued

Liquidity risk management

The following tables for the 2022 and 2021 financial years disclose financial instruments, as determined by IFRS 9 *Financial Instruments: Recognition and Measurement*, are classified by liquidity and do not necessarily indicate the group's and company's actual cash flows.

Group and company

			Undiscounted cash flows					
ZAR million	Total financial assets and liabilities	Fair value of financial instruments	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years	Total
September 2022								
Non-current assets								
Other non-current assets	310	310				–	310	310
Derivative financial instruments	13	13			13			13
Amounts owing by related parties	4,960	4,960					4,960	4,960
Current assets								
Trade and other receivables	855	855	855	–	–	–	–	855
Derivative financial instruments	56	56	55	1	–	–	–	56
Amounts owing by related parties	3,453	3,453	3,453	–	–	–	–	3,453
Cash and cash equivalents	1,560	1,560	1,560	–	–	–	–	1,560
			5,923	1	13	–	5,270	11,207
Non-current liabilities								
Interest-bearing borrowings	2,558	3,282			1,495	1,063		2,558
Lease liability	530	530			90	247	193	530
Other non-current liabilities	37	37	–	–	–	37	–	37
Current liabilities								
Interest-bearing borrowings	1,373	1,404		1,373	–	–	–	1,373
Trade and other payables	4,164	4,164	4,164	–	–	–	–	4,164
Derivative financial instruments	233	233	225	8	–	–	–	233
Amounts owing to related parties	308	308	308	–	–	–	–	308
Lease liability	84	84	44	40	–	–	–	84
			4,737	1,425	1,585	1,347	193	9,287
Liquidity surplus (gap)			1,186	(1,424)	(1,572)	(1,347)	5,077	1,920

28. FINANCIAL INSTRUMENTS continued

(b) Liquidity risk continued

Liquidity risk management continued

Group and company

ZAR million	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows 0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years	Total
September 2021								
Non-current assets								
Other non current assets	234	234				–	234	234
Amounts owing by related parties	5,083	5,083					5,083	5,083
Current assets								
Trade and other receivables	412	412	412	–	–	–	–	412
Derivative financial instruments	23	23	23	–	–	–	–	23
Amounts owing by related parties	1,630	1,630	1,630	–	–	–	–	1,630
Cash and cash equivalents	2,328	2,328	2,328	–	–	–	–	2,328
			4,393	–	–	–	5,317	9,710
Non-current liabilities								
Interest-bearing borrowings	3,687	4,484	–	–	1,073	1,494	1,120	3,687
Lease liability	598	598			85	236	277	598
Derivative financial instruments	88	88			–	88	–	88
Other non-current liabilities	41	41	–	–	–	41	–	41
Current liabilities								
Interest-bearing borrowings	293	300	293	–	–	–	–	293
Lease liability	80	80	–	80	–	–	–	80
Trade and other payables	3,738	3,738	3,738	–	–	–	–	3,738
Derivative financial instruments	14	14	9	5	–	–	–	14
Amounts owing to related parties	251	–	251	–	–	–	–	251
			4,291	85	1,158	1,859	1,397	8,790
Liquidity surplus (gap)			102	(85)	(1,158)	(1,859)	3,920	920

28. FINANCIAL INSTRUMENTS continued

(b) Liquidity risk continued

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for the 2022 and 2021 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

September 2022

Group and Company

ZAR million	Total	Maturity analysis Undiscounted cash flows 0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years
Classes of derivative financial instruments						
Assets						
Fair value of derivatives by risk factor						
Interest rate risk						
Long term – Interest rate swaps	**13**	–	–	13	–	–
Foreign exchange risk						
Short term – FECs	**56**	55	1	–	–	–
– Paying leg	**2**	2	–	–	–	–
– Receiving leg	**54**	53	1	–	–	–
Liabilities						
Fair value of derivatives by risk factor						
Foreign exchange risk						
Short term – FECs	**233**	225	8	–	–	–
– Paying leg	**1**	1	–	–	–	–
– Receiving leg	**232**	224	8	–	–	–

September 2021

ZAR million	Total	Maturity analysis Undiscounted cash flows 0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years
Classes of derivative financial instruments						
Assets						
Fair value of derivatives by risk factor						
Foreign exchange risk						
Short term – FECs	23	23	–	–	–	–
– Paying leg	2	2	–	–	–	–
– Receiving leg	21	21	–	–	–	–
Liabilities						
Fair value of derivatives by risk factor						
Interest rate risk						
Interest rate swaps	88	–	–	–	88	–
Foreign exchange risk						
Short term – FECs	14	9	5	–	–	–
– Paying leg	1	1	–	–	–	–
– Receiving leg	13	8	5	–	–	–

28. FINANCIAL INSTRUMENTS continued

(b) Liquidity risk continued

Fair values

The group's financial instruments are initially recognised at fair value. The carrying amounts of other financial instruments which include cash and cash equivalents, trade receivables, certain investments, bank overdraft, trade payables and the current portion of interest-bearing borrowings approximate their fair values due to their short-term nature.

The fair value of all financial instruments measured at fair value, are measured based on a market exit price incorporating credit risk, by using standard valuation techniques based on observable market data inputs.

The fair value of all external over-the-counter derivatives and material non-current borrowings (for disclosure purposes only) is calculated based on the discount rate adjustment technique. The discount rate used is derived from observable rates of return for comparable assets or liabilities traded in the market. The credit risk of the external counterparty is incorporated into the calculation of fair values of financial assets and own credit risk is incorporated in the measurement of financial liabilities. The change in fair value is therefore impacted by the move of the interest rate curves, by the volatility of the applied credit spreads, and by any changes of the credit profile of the involved parties.

There are no financial assets and liabilities that have been remeasured to fair value on a non-recurring basis.

Group and Company
September 2022

ZAR million	Total balance	Total out of scope	Categories in accordance with IFRS 9 Total in scope	Fair value through profit or loss	Amortised cost	Fair value through OCI	Fair value
Classes of financial instruments							
Non-current assets							
Other non-current assets	**722**	412	310	–	310	–	310
Derivative financial instruments[1]	**13**	–	13	13			13
Amounts owing by related parties	**4,960**	–	4,960		4,960	–	4,960
	5,695	412	5,283	13	5,270		5,283
Current assets							
Trade and other receivables	**1,083**	228	855		855		855
Derivative financial instruments[1]	**56**	–	56	56			56
Amounts owing by related parties	**3,453**	–	3,453		3,453		3,453
Cash and cash equivalents	**1,560**	–	1,560		1,560		1,560
	6,152	228	5,924	56	5,868		5,924

ZAR million	Total balance	Categories in accordance with IFRS 9 Total out of scope	Total in scope	Fair value through profit or loss	Amortised cost	Fair value
Classes of financial instruments						
Non-current liabilities						
Interest-bearing borrowings	**2,558**	–	2,558		2,558	3,282
Lease liability	**530**	–	530		530	530
Other non-current liabilities	**336**	299	37		37	37
	3,424	299	3,125	–	3,125	3,849
Current liabilities						
Interest-bearing borrowings	**1,373**	–	1,373	–	1,373	1,404
Derivative financial instruments[1]	**233**	–	233	233		233
Trade and other payables	**4,608**	444	4,164		4,164	4,164
Amounts owing to related parties	**308**	–	308		308	308
Lease liability	**84**	–	84	–	84	84
	6,606	444	6,162	233	5,929	6,193

[1] *The derivative financial instruments are measured at fair value hierarchy level 2.*

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28. FINANCIAL INSTRUMENTS continued

(b) Liquidity risk continued

Fair values continued

September 2021

ZAR million	Total balance	Total out of scope	Total in scope	Categories in accordance with IFRS 9: Fair value through profit or loss	Amortised cost	Fair value through OCI	Fair value
Classes of financial instruments							
Non-current assets							
Other non-current assets	383	149	234	–	234		234
Amounts owing by related parties	5,083	–	5,083		5,083		5,083
	5,466	149	5,317	–	5,317	–	5,317
Current assets							
Trade and other receivables	583	171	412		412		412
Derivative financial instruments[1]	23	–	23	23	–		23
Amounts owing by related parties	1,630	–	1,630		1,630		1,630
Cash and cash equivalents	2,328	–	2,328		2,328		2,328
	4,564	171	4,393	23	4,370	–	4,393

ZAR million	Total balance	Total out of scope	Total in scope	Categories in accordance with IFRS 9: Fair value through profit or loss	Amortised cost	Fair value
September 2021						
Non-current liabilities						
Interest-bearing borrowings	3,687	–	3,687		3,687	4,484
Lease liability	598	–	598		598	598
Derivative financial instruments[1]	88	–	88	88	–	88
Other non-current liabilities	345	304	41		41	41
	4,718	304	4,414	88	4,326	5,211
Current liabilities						
Interest-bearing borrowings	293	–	293	–	293	300
Lease liability	80	–	80	–	80	80
Trade and other payables	4,229	491	3,738		3,738	3,738
Derivative financial instruments[1]	14	–	14	14	–	14
Amounts owing to related parties	251	–	251		251	251
	4,867	491	4,376	14	4,362	4,383

[1] *The derivative financial instruments are measured at fair value hierarchy level 2.*

28. FINANCIAL INSTRUMENTS continued

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group and company. The group faces credit risk in relation to trade receivables, cash deposits and financial investments.

Credit risk relating to trade receivable management is the responsibility of management and is coordinated on a group's basis.

The group's and company's objective in relation to credit risk is to limit the exposure to credit risk through specific groupwide policies and procedures. Credit control procedures are designed to ensure the effective implementation of best trade receivable practices, the comprehensive maintenance of all related records, and effective management of credit risk for the group and company.

The group and company assesses the creditworthiness of potential and existing customers in line with its credit policies and procedures. Collateral is obtained to minimise risk. Exposures are monitored on an ongoing basis utilising various reporting tools which highlight potential risks when considered appropriate.

In the event of deterioration of credit risk, the appropriate measures are taken by the credit management team. All known risks are required to be fully disclosed, accounted for, and provided for as bad debts in accordance with the applicable accounting standards.

Overall, 91% (2021: 91%) of the group's total trade receivables, both on and off-balance sheet, are insured or covered by letters of credit and bank guarantees.

Quantitative disclosures on credit risk are included in note 13.

29. RELATED PARTY TRANSACTIONS

Details of transactions between the group and other related parties are disclosed below:

Group

	Income and sales to related parties		Purchases and charges from related parties		Amounts owed by related parties		Amounts owed to related parties	
ZAR million	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Sappi Europe SA**	**–**	–	**–**	–	**4**	–		81
Sappi International SA**		–	**–**	–	**6**	–		–
Sappi Limited***^	**10**	11	**127**	93	**4,960**	5,083		–
Sappi Papier Holding GmbH**	**13,190**	9,132	**316**	239	**3,381**	1,550	**114**	8
Sappi Trading Hong Kong Limited**		–		–	**–**	33		–
The Sappi Limited Performance Share Incentive Trust		–	**32**	23		–	**194**	162
Sappi North America (SD Warren Company)**	**394**	292		–	**52**	47		–
Sappisure Försäkrings AB**	**1,064**	–	**118**	101	**10**	–		–
	14,658	9,435	**593**	456	**8,413**	6,713	**308**	251

***Fellow subsidiary of Sappi Limited.*

****Holding company of Sappi Southern Africa.*

^ *Management of the Sappi Group will not call on this receivable in the short term. Sappi Limited is the holding company of the Sappi group, and Sappi Limited is able to receive dividends from subsidiary companies to the extent that it requires additional funding. The total assets of the Sappi group exceed total liabilities by US$2.4 billion (2021: US$2 billion).*

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FOR THE YEAR ENDED SEPTEMBER 2022

29. RELATED PARTY TRANSACTIONS

Company

	Income and sales to related parties		Purchases and charges from related parties		Amounts owed by related parties		Amounts owed to related parties	
ZAR million	2022	2021	2022	2021	2022	2021	2022	2021
Lereko Property Company Proprietary Limited*		–		–		–	1	1
Sappi Europe SA**	–	–	–	–	4	–		81
Sappi International SA**		–	–	–	6	–		–
Sappi Limited***^	10	11	127	93	4,960	5,083		–
Sappi Papier Holding GmbH	13,190	9,132	316	239	3,381	1,550	114	8
Sappi Trading Hong Kong Limited**		–		–	–	33		–
The Sappi Limited Performance Share Incentive Trust**		–	32	23		–	194	162
Sappisure Försäkrings AB **	1,064	–	118	101	10	–		–
Sappi North America (SD Warren Company)**	394	292		–	52	47		–
	14,658	9435	593	456	8,413	6,713	309	252

Subsidiary.

***Fellow subsidiary.*

****Holding company of Sappi Southern Africa.*

^ *Management of the Sappi Group will not call on this receivable in the short term. Sappi Limited is the holding company of the Sappi group, and Sappi Limited is able to receive dividends from subsidiary companies to the extent that it requires additional funding. The total assets of the Sappi group exceed total liabilities by US$2.4 billion (2021: US$2 billion).*

Amount due from Ngodwana energy of ZAR27 million (2021: ZAR 29 million) and shareholder loans to Ngodwana energy of ZAR143 million (2021: ZAR143 million) and Tugela Fuel Rods of ZAR63 million (2021: ZAR58 million) and Bagasse Moulded Fibre of ZAR43 million (2021: nil) provided by Sappi Southern Africa. The loans are repayable 60 months from the first advance date. Refer to note 11.

All loans are interest free and repayable on demand except for shareholder loans referred to above.

The amounts outstanding at balance sheet date are unsecured and will be settled in cash.

Broad-based Black Economic Empowerment (BBBEE) transaction

Refer to note 26 for details of the BBBEE transaction.

Shareholders

The company's shares are held by Sappi Limited which has a primary listing on the JSE Limited.

29. RELATED PARTY TRANSACTIONS

Key management personnel

The details of key management personnel including emoluments is disclosed below:

Group and Company:

ZAR 000	Salary	Bonuses and performance related payments granted for the year	Sums paid by way of expense allowance	Contributions paid under pension and medical aid scheme	Total
Steve Binnie	**8,669**	**10,627**	**252**	**1,277**	**20,825**
Glen Pearce	**5,010**	**6,139**	**143**	**927**	**12,219**
Alex Thiel	**5,216**	**4,394**	**177**	**894**	**10,681**
Pramy Moodley	**2,608**	**1,744**	**–**	**462**	**4,814**
Key management remuneration – 2022	**21,503**	**22,904**	**572**	**3,560**	**48,539**
Steve Binnie	8,387	9,025	244	1,250	18,906
Glen Pearce	4,847	5,214	139	915	11,115
Alex Thiel	5,046	4,560	172	877	10,655
Pramy Moodley	2,510	1,543	–	455	4,508
Key management remuneration – 2021	20,790	20,342	555	3,497	45,184

Interest of directors in contracts

None of the directors have material interests in any transaction with the company or any of its subsidiaries, other than those on a normal employment basis.

Subsidiaries

Details of investments in subsidiaries are disclosed in note 32.

30. COMPENSATION OF KEY MANAGEMENT PERSONNEL

Changes in key management personnel share options, allocations and performance shares

	SR Binnie Number of shares	G Pearce Number of shares	A Thiel Number of shares	P Moodley Number of shares	Total 2022 Number of shares	Total 2021 Number of shares
Outstanding at beginning of year						
Number of shares	685,000	314,000	379,000	110,000	**1,488,000**	1,294,000
Performance shares 42	–	–	–	–	**–**	–
Performance shares 43	137,000	63,000	76,000	22,000	**298,000**	349,000
Performance shares 44	142,000	65,000	79,000	23,000	**309,000**	298,000
Performance shares 45	156,000	71,000	86,000	25,000	**338,000**	309,000
Performance shares 46	250,000	115,000	138,000	40,000	**543,000**	338,000
Offered and accepted during the year						
Performance shares 46						543,000
Performance shares 47	180,000	85,000	100,000	30,000	**395,000**	–
Vested during the year						
Number of shares	(17,125)	(7,875)	(9,500)	(2,750)	**(37,250)**	(150,800)
Forfeited during the year						
Number of shares	(119,875)	(55,125)	(66,500)	(19,250)	**(260,750)**	(198,200)
Outstanding at end of year						
Number of shares	728,000	336,000	403,000	118,000	**1,585,000**	1,488,000
Performance shares 43	–	–	–	–	**–**	298,000
Performance shares 44	142,000	65,000	79,000	23,000	**309,000**	309,000
Performance shares 45	156,000	71,000	86,000	25,000	**338,000**	338,000
Performance shares 46	250,000	115,000	138,000	40,000	**543,000**	543,000
Performance shares 47	180,000	85,000	100,000	30,000	**395,000**	–

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

The Plan share issue 43 vested at ZAR46.96.

31. EVENTS AFTER BALANCE SHEET DATE

There are no material subsequent events.

32. INVESTMENT IN SUBSIDIARIES

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

Name of subsidiary	Share capital (ZAR)	Principal activity	Effective holding (%) 2022	Effective holding (%) 2021
Canonbrae Development Company Proprietary Limited	1,000	Property developments	**63.2%**	63.2%
Sappi Property Company Proprietary Limited	7,000	Land holdings	**100.0%**	100.0%

The subsidiaries are immaterial in relation to the company.

NOTES TO THE AUDITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED SEPTEMBER 2022

33. SEGMENT INFORMATION

The group's and company's reportable segments comprise dissolving pulp, packaging and specialities, graphics and Forestry and Lomati which is the basis of how the group allocates resources and evaluates performance.

The group and company accounts for intra-group sales and transfers as if the sales or transfers were to third parties. All such sales and transfers are eliminated on consolidation.

The group and company regards its primary measures of segment performance as operating profit excluding special items.

Group

	Dissolving wood pulp		Packaging and specialities	
ZAR million	**2022**	**2021**	**2022**	**2021**
External sales including external forestry sales	**13,024**	9,028	**5,429**	4,857
Operating profit excluding special items	**2,477**	1,121	**785**	863
Reconciliation of operating profit excluding special items to profit before taxation				
Operating profit excluding special items	**2,477**	1,121	**785**	863
Special items*				
Net finance costs				
Profit before taxation				

Company

	Dissolving wood pulp		Packaging and specialities	
ZAR million	**2022**	**2021**	**2022**	**2021**
External sales including external forestry sales	**13,024**	9,028	**5,429**	4,857
Operating profit excluding special items	**2,477**	1,121	**785**	863
Reconciliation of operating profit excluding special items to profit before taxation				
Operating profit excluding special items	**2,477**	1,121	**785**	863
Special items*				
Net finance costs				
Profit before taxation				

	Group		Company	
ZAR million	**2022**	**2021**	**2022**	**2021**
Reconciliation of segment assets to total assets				
Net operating assets	**31,071**	28,480	**31,070**	28,479
Deferred tax liabilities	**5,022**	4,604	**5,022**	4,604
Cash and cash equivalents	**1,560**	2,328	**1,560**	2,328
Trade and other payables	**4,608**	4,229	**4,608**	4,229
Derivative financial instruments (included in current liabilities)	**233**	14	**233**	14
Taxation payable	**–**	–	**–**	–
Total assets	**42,494**	39,655	**42,493**	39,654

There is no one customer whose sales comprise more than 10% of the group's and company's turnover in the current financial year.

The operating results were reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

* *Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal on property, investments and businesses, asset impairments, restructuring charges, non recurring integration costs related to acquisitions, financial impacts of natural disasters, non- cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash.*

Graphics		Forestry and Lomati		Unallocated and eliminations		Group	
2022	2021	2022	2021	2022	2021	2022	2021
2,469	2,102	**1,391**	1,227	**(332)**	(462)	**21,981**	16,752
34	(32)	**(52)**	(69)	**211**	9	**3,455**	1,892
34	(32)	**(52)**	(69)	**211**	9	**3,455**	1,892

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