



# 2023 Sappi Southern Africa Limited Annual Financial Statements

for the year ended September 2023

Audited

**sappi**

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The audited financial statements for the year ended September 2023 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 2023

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 and company financial statements, appropriate accounting policies supported by reasonable judgements and estimates were applied. The auditors are responsible for auditing the group and company 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 and company 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 10 to 72 and were approved by the board of directors on 29 January 2024 and signed on its behalf by:



**A Thiel**

Chief Executive Officer  
Authorised director



**P Moodley**

Chief Financial Officer  
Authorised director

Sappi Limited

# Group Company Secretary's certificate

for the year ended September 2023

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 2023, 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

29 January 2024

# Directors' report

for the year ended September 2023

The directors submit their report for the year ended September 2023.

## 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 that are manufactured from woodfibre sourced from sustainably managed forests and plantations, in production facilities powered, in many cases, with bioenergy from steam and existing waste streams for our direct and indirect customer base in the Southern Africa and export markets. Together with our partners, Sappi works to build a thriving world by acting boldly to support the planet, people and prosperity.

### Sappi Southern Africa overview

The Sappi Group is one of the world's largest manufacturer of DP (branded as Verve) 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 that are renewable, biodegradable and compostable. Our DP brand, Verve, is a significant player in this market. Verve is a truly sustainable brand that encompasses people, the environment and economic prosperity. 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 660,000 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 570,000 tons of paper pulp and collect 75,000 tons of recycled waste paper. On a net basis we are approximately self-sufficient for our pulp requirements.

Sappi Southern Africa owns or leases 400,000 hectares (ha) with approximately 28 million tons of standing timber and 139,000 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 132,751 ha. Of the 261,211 ha planted at the end of FY2023, 66% was hardwood and 34% softwood, and of contracted supply, 95% is hardwood. These plantations provide approximately 60% 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.

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 FY2023. The outstanding performance was particularly noteworthy within the context of a challenging macroeconomic environment. Significant headwinds included ongoing global supply chain disruptions, local state owned ports and rail companies' inefficiencies, the deteriorating performance of Eskom, extreme weather conditions including strong winds and heavy rain at the ports in KwaZulu-Natal and flooding in Mpumalanga.

Following an upgrade to the PM1 kraft linerboard paper machine at Ngodwana Mill, in FY2023 we have steadily launched a new range of lower grammage options utilising better strength properties of the linerboard. This has resulted in lightweighting benefits for our customers in terms of less material, related transport savings and reduced CO<sub>2</sub> emissions.

Sappi Southern Africa's sales for 2023 in ZAR terms increased year on year, ZAR26,180 million compared to 2022 (ZAR21,981 million), driven mainly by the improvement in DP and containerboard pricing. Pulp volumes increased by 10% compared to the prior year due to improved plant stability and operating rates. Strong demand and improved logistics supported the increased production levels. Containerboard volumes were 5% lower as high inventory levels in the downstream value chain and competition from imports suppressed demand. The lower demand was offset by selling price increases. Increased wood, energy and chemical costs were partially offset by lower ocean freight costs. Fixed costs increased by 11% due to higher personnel, maintenance and insurance costs.

The net result of the above is an increase in ZAR EBITDA to ZAR5,527 million (ZAR4,768 million in 2022), annual operating profit of ZAR5,907 million (ZAR2,663 million in 2022).

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 fair value rate adjustments. Sappi amended its plantation valuation technique in the fourth quarter from using a 12-quarter weighted average fair value price for immature and mature timber to be felled 12 months after the reporting date to a market trend related fair value price that closely approximates the spot fair value price.

We have worked tirelessly to create a culture where safety is a priority for our employees and contractors. Again, we had an excellent safety year with the region achieving record safety performance. 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 lost-time injury frequency rate (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 the 'Stop, Think before you act' campaign. 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 has sufficient resources and expected cash flows to continue as a going concern for the next financial year.

### Events after balance sheet date

Refer note 23 – Contingent liabilities and note 31 – Events after balance sheet date.

### Outlook

Macroeconomic uncertainty is expected to persist, however, our strong balance sheet and healthy cash reserves provides us with the ability to maintain our financial health. The underlying demand for packaging and speciality papers, DP and graphic papers remains strong and offers us the opportunities to grow these segments. 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. The medium to longer-term strategy to invest in growth opportunities and achieve our sustainability goals remains intact.

### Share capital

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

#### Authorised

6,052,500 Ordinary shares of R2 each

19,520 Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate

221,107 Class "B" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate

831 Class "C" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate

123,321 Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate

#### Issued

6,015,769 Ordinary shares of R2 each

19,520 Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate

219,733 Class "B" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate

831 Class "C" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate

118,157 Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate

### Liquidity and financing

At September 2023, we had liquidity comprising ZAR1,671 million of cash on hand and ZAR5,875 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%
- The ratio of EBITDA to net interest paid is not less than 2.5 to 1.

# Directors' report continued

for the year ended September 2023

## Liquidity and financing continued

Below we show that for the year ended September 2023 the South African financial covenants were comfortably met.

South African Covenants	2023	Covenant
Net debt to equity	9.20%	<65%
EBITDA to net interest	19.09	>2.50

Sappi Southern Africa Limited currently has the following credit ratings:

– Global Credit Rating: South African national rating AAA (za)/A1 +(za)/Stable outlook (June 2023).

## 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 2023 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 2023, the annual limit for claims under our property damage and business interruption insurance policy was €729.5 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.

## 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 ZAR1,253 million was incurred during the year as per the cash flow statement. Capital expenditure decreased slightly in 2023 due to the completion of Saiccor Mill expansion project and the upgrade of the linerboard machine at Ngodwana.

## 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 2023 Annual Integrated report](#) on pages 148 to 169.

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 2023 Annual Integrated report](#) on pages 148 to 169. 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 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 2023 Annual Integrated report](#) on page 163. The issuers conflict of interest register can be found under the link above.

## Audit and Risk Committee

The Sappi Southern Africa Limited group of companies (group) is a major subsidiary of Sappi Limited, 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 2023 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 2023 Integrated Annual Report.

## Company Secretary

The Company Secretary does not fulfil executive management functions outside of the duties of Company Secretary and is not a director. During the year, the board has assessed the independence, competence, qualifications and experience of the Company Secretary and has concluded that she is sufficiently independent (ie maintained an arm's length relationship with the executive team, the board and individual directors), qualified, competent and experienced to hold this position. The Company Secretary is responsible for the duties set out in section 88 of the Companies Act 71 of 2008 (as amended) of South Africa. Specific responsibilities include providing guidance to directors on discharging their duties in the best interests, 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 effected the business of the group. The directors' register of conflicts of interest can be found on the website under the following link: <https://www.sappi.com/corporate-governance-and-risk>.

## 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' report continued

for the year ended September 2023

## 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 and 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) Proprietary Limited; Sappi Southern Africa Limited; Sappi Limited; Sappi International Holdings Proprietary Limited; Sappi Holding GmbH; Sappi North America Inc.; SDW Holdings Corporation; Sappisure Försäkrings AB; and Sappi International SA.

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

## Debt Officer

Name: Serena McGinn  
Appointed: 15 October 2020  
Address: 108 Oxford Road  
Houghton Estate  
2198  
South Africa  
Telephone: +27 (0) 11 407 8164  
Email: serena.mcginns@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 2023

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 10 to 72, which comprise the consolidated and company balance sheets as at September 2023, and the consolidated and company income statements and consolidated and company statements of comprehensive income and consolidated and company statements of changes in equity and consolidated and company statements of cash flows for the year then ended, and notes to the 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 2023, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) 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

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.

### How the matter was addressed in our audit

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 4, *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; and
- 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.

## Valuation of plantations continued

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

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.

### 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 Annual Financial Statements audited for the year ended September 2023", 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 financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting 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 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.

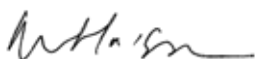
We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats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

**KPMG Inc.**



**Per Mohammed Hassan**  
Chartered Accountant (SA)  
Registered Auditor  
Director  
29 January 2024

85 Empire Road, Parktown  
Johannesburg, 2193

# Consolidated and company income statements

for the year ended September 2023

ZAR million	Note	Group		Company	
		2023	2022	2023	
<b>Sales</b>		<b>26,180</b>	21,981	<b>26,180</b>	21,981
Cost of sales	3.1	<b>19,349</b>	18,973	<b>19,349</b>	18,973
Gross profit		<b>6,831</b>	3,008	<b>6,831</b>	3,008
Selling, general and administrative expenses	3.1	<b>861</b>	353	<b>862</b>	353
Equity-accounted investee losses (profits) net of tax	10	<b>63</b>	(8)	<b>63</b>	(8)
<b>Operating profit</b>	3	<b>5,907</b>	2,663	<b>5,906</b>	5,906
Net finance costs	4	<b>300</b>	424	<b>300</b>	424
Finance costs		<b>461</b>	458	<b>461</b>	458
Finance income		<b>(169)</b>	(91)	<b>(169)</b>	(91)
Net foreign exchange loss		<b>8</b>	57	<b>8</b>	57
<b>Profit before taxation</b>		<b>5,607</b>	2,239	<b>5,606</b>	2,239
Taxation charge	5	<b>1,419</b>	367	<b>1,418</b>	367
<b>Profit for the year</b>		<b>4,188</b>	1,872	<b>4,188</b>	1,872

# Consolidated and company statements of comprehensive income

for the year ended September 2023

ZAR million	Note	Group		Company	
		2023	2022	2023	2022
Profit for the year		<b>4,188</b>	1,872	<b>4,188</b>	1,872
<b>Other comprehensive income net of tax</b>	15	<b>122</b>	112	<b>122</b>	112
<b>Item that will not be reclassified subsequently to profit or loss</b>	15	<b>(55)</b>	204	<b>(55)</b>	204
Actuarial (loss) gain on post-employment benefit funds		<b>(76)</b>	289	<b>(76)</b>	289
Deferred tax on above item		<b>21</b>	(85)	<b>21</b>	(85)
<b>Items that may be reclassified subsequently to profit or loss</b>	15	<b>177</b>	(92)	<b>177</b>	(92)
Movement in hedging reserves		<b>242</b>	(128)	<b>242</b>	(128)
Tax on above items		<b>(65)</b>	36	<b>(65)</b>	36
<b>Total comprehensive income for the year</b>		<b>4,310</b>	1,984	<b>4,310</b>	1,984

# Consolidated and company balance sheets

as at September 2023

		Group		Company	
ZAR million	Note	2023	2022	2023	2022
<b>ASSETS</b>					
<b>Non-current assets</b>		<b>30,337</b>	33,385	<b>30,337</b>	33,384
Property, plant and equipment	6	<b>19,860</b>	20,226	<b>19,866</b>	20,231
Right-of-use assets	7	<b>403</b>	513	<b>403</b>	513
Plantations	8	<b>9,240</b>	6,940	<b>9,240</b>	6,940
Equity-accounted investee	10	<b>7</b>	11	<b>7</b>	11
Other non-current assets	11	<b>818</b>	722	<b>812</b>	716
Amounts owing by related parties	29	<b>–</b>	4,960	<b>–</b>	4,960
Derivative financial instruments	27	<b>9</b>	13	<b>9</b>	13
<b>Current assets</b>		<b>8,011</b>	9,109	<b>8,011</b>	9,109
Inventories	12	<b>2,684</b>	2,957	<b>2,684</b>	2,957
Trade and other receivables	13	<b>724</b>	1,083	<b>724</b>	1,083
Derivative financial instruments	27	<b>36</b>	56	<b>36</b>	56
Amounts owing by related parties	29	<b>2,896</b>	3,453	<b>2,896</b>	3,453
Cash and cash equivalents		<b>1,671</b>	1,560	<b>1,671</b>	1,560
<b>Total assets</b>		<b>38,348</b>	42,494	<b>38,348</b>	42,493
<b>EQUITY AND LIABILITIES</b>					
<b>Shareholders' equity</b>		<b>23,340</b>	27,442	<b>23,338</b>	27,440
Ordinary share capital and share premium	14	<b>221</b>	221	<b>221</b>	221
Non-distributable reserves	16	<b>157</b>	169	<b>155</b>	167
Hedging reserves		<b>22</b>	(155)	<b>23</b>	(154)
Retained earnings		<b>22,940</b>	27,207	<b>22,939</b>	27,206
<b>Non-current liabilities</b>		<b>7,960</b>	8,446	<b>7,959</b>	8,446
Interest-bearing borrowings	18	<b>1,057</b>	2,558	<b>1,057</b>	2,558
Lease liability – Long-term		<b>431</b>	530	<b>430</b>	530
Deferred tax liabilities	9	<b>6,146</b>	5,022	<b>6,146</b>	5,022
Other non-current liabilities	19	<b>326</b>	336	<b>326</b>	336
<b>Current liabilities</b>		<b>7,048</b>	6,606	<b>7,051</b>	6,607
Interest-bearing borrowings	18	<b>2,244</b>	1,373	<b>2,244</b>	1,373
Lease liability – Short term		<b>86</b>	84	<b>86</b>	84
Derivative financial instruments	27	<b>5</b>	233	<b>5</b>	233
Trade and other payables	17	<b>4,123</b>	4,608	<b>4,123</b>	4,608
Taxation payable	20.4	<b>142</b>	–	<b>142</b>	–
Amounts owing to related parties	29	<b>448</b>	308	<b>451</b>	309
<b>Total equity and liabilities</b>		<b>38,348</b>	42,494	<b>38,348</b>	42,493

# Consolidated and company statements of cash flows

for the year ended September 2023

ZAR million	Note	Group		Company	
		2023	2022	2023	2022
<b>Cash retained from operating activities</b>		<b>3,634</b>	1,729	<b>3,634</b>	1,729
Cash generated from operations	20.1	<b>5,196</b>	4,225	<b>5,194</b>	4,225
– Decrease (increase) in working capital	20.2	<b>881</b>	(2,096)	<b>882</b>	(2,096)
Cash generated from operating activities		<b>6,077</b>	2,129	<b>6,076</b>	2,129
– Finance costs paid	20.3	<b>(412)</b>	(503)	<b>(412)</b>	(503)
– Finance income received		<b>168</b>	90	<b>168</b>	90
– Dividends paid		<b>(2,000)</b>	–	<b>(2,000)</b>	–
– Taxation (paid) received	20.4	<b>(199)</b>	13	<b>(198)</b>	13
<b>Cash utilised in investing activities</b>		<b>(2,809)</b>	(2,434)	<b>(2,809)</b>	(2,434)
Investment to maintain operations		<b>(1,032)</b>	(1,642)	<b>(1,032)</b>	(1,642)
Investment to expand operations		<b>(224)</b>	(834)	<b>(224)</b>	(834)
Proceeds on disposal of property, plant and equipment	20.5	<b>14</b>	22	<b>14</b>	22
(Repayment) Proceeds – related parties	20.7	<b>(1,486)</b>	26	<b>(1,486)</b>	26
Advance in shareholder loans and other non-current assets		<b>(81)</b>	(6)	<b>(81)</b>	(6)
<b>Cash effects of financing activities</b>		<b>(714)</b>	(63)	<b>(714)</b>	(63)
Repayment of interest-bearing borrowings	20.6	<b>(1,380)</b>	–	<b>(1,380)</b>	–
Advance in interest-bearing borrowings	20.6	<b>750</b>	–	<b>750</b>	–
Lease repayments	7	<b>(84)</b>	(63)	<b>(84)</b>	(63)
<b>Net movement in cash and cash equivalents</b>		<b>111</b>	(768)	<b>111</b>	(768)
Cash and cash equivalents at beginning of year		<b>1,560</b>	2,328	<b>1,560</b>	2,328
<b>Cash and cash equivalents at end of year</b>		<b>1,671</b>	1,560	<b>1,671</b>	1,560

# Consolidated and company statements of changes in equity

for the year ended September 2023

<b>Consolidated</b> ZAR million	<b>Ordinary share capital</b>	<b>Share premium</b>	<b>Ordinary share capital and share premium</b>	<b>Non- distributable reserves</b>	<b>Hedging reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Balance – September 2021</b>	12	209	221	177	(63)	25,131	<b>25,466</b>
Share-based payments	–	–	–	(32)	–	–	<b>(32)</b>
Sappi Limited Share Incentive Trust	–	–	–	24	–	–	<b>24</b>
Profit for the year	–	–	–	–	–	1,872	<b>1,872</b>
Other comprehensive income	–	–	–	–	(92)	204	<b>112</b>
<b>Balance – September 2022</b>	12	209	221	169	(155)	27,207	<b>27,442</b>
Share-based payments	–	–	–	(37)	–	–	<b>(37)</b>
Sappi Limited Share Incentive Trust	–	–	–	25	–	–	<b>25</b>
Profit for the year	–	–	–	–	–	4,188	<b>4,188</b>
Dividend	–	–	–	–	–	(8,400)	<b>(8,400)</b>
Other comprehensive income	–	–	–	–	177	(55)	<b>122</b>
<b>Balance – September 2023</b>	12	209	221	157	22	22,940	<b>23,340</b>

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<b>Company</b> ZAR million	<b>Ordinary share capital</b>	<b>Share premium</b>	<b>Ordinary share capital and share premium</b>	<b>Non- distributable reserves</b>	<b>Hedging reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Balance – September 2021</b>	12	209	221	175	(62)	25,130	<b>25,464</b>
Share-based payments	–	–	–	(32)	–	–	<b>(32)</b>
Sappi Limited Share Incentive Trust	–	–	–	24	–	–	<b>24</b>
Profit for the year	–	–	–	–	–	1,872	<b>1,872</b>
Other comprehensive income	–	–	–	–	(92)	204	<b>112</b>
<b>Balance – September 2022</b>	12	209	221	167	(154)	27,206	<b>27,440</b>
Share-based payments	–	–	–	(37)	–	–	<b>(37)</b>
Sappi Limited Share Incentive Trust	–	–	–	25	–	–	<b>25</b>
Profit for the year	–	–	–	–	–	4,188	<b>4,188</b>
Dividend	–	–	–	–	–	(8,400)	<b>(8,400)</b>
Other comprehensive income	–	–	–	–	177	(55)	<b>122</b>
<b>Balance – September 2023</b>	12	209	221	155	23	22,939	<b>23,338</b>

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# Notes to the Group and Company Annual Financial Statements

for the year ended September 2023

## 1. Basis of preparation

The Group and Company Financial Statements of Sappi Southern Africa Limited (the company/separate) as at and for the year ended September 2023 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 29 January 2024.

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:

- 03 October 2022 to 01 October 2023 (53 weeks)
- 27 September 2021 to 02 October 2022 (53 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 ZAR4,188 million for the year ended September 2023 (2022: ZAR1,872 million). The directors have reviewed the group 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 has made the following significant accounting policy elections in terms of IFRS:

- 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 and company 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 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.

##### (ii) Initial measurement

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

##### (iii) Classification and subsequent measurement

###### *Financial assets*

On initial recognition, a financial asset is classified and measured at: amortised cost, fair value through other comprehensive income (FVOCI) – debt investment, FVOCI – equity instrument or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

On initial recognition of an equity investment that is not held-for-trading, the group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

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

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 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
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed
- How managers of the business are compensated – eg whether compensation is based on the fair value of the assets managed or the Sappi Southern Africa Limited contractual cash flows collected
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition.

'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (eg liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the group considers:

- Contingent events that would change the amount or timing of cash flows
- Terms that may adjust the contractual coupon rate, including variable-rate features
- Prepayment and extension features
- Terms that limit the group's claim to cash flows from specified assets (eg non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

###### *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 or losses or impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in 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 assets – Subsequent measurement and gains and losses continued*

##### • Debt investments at FVOCI

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

##### • Equity investments at FVOCI

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

##### *Financial liabilities*

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

##### (iv) Embedded derivatives

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

##### (v) Derecognition

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

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

##### (vi) Impairment of financial assets

The group measures loss allowances at an amount equal to 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.

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 2. Accounting policies continued

### 2.2 Summary of accounting policies continued

#### 2.2.3 Financial instruments continued

##### (vi) Impairment of financial assets continued

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

##### (vii) Finance income and finance costs

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

##### (viii) Offsetting

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

#### 2.2.4 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

Finished goods  
Raw materials, work in progress and consumable stores  
Cost of items that are not interchangeable

##### Cost formula

First-in first-out (FIFO)  
Weighted average  
Specific identification inventory valuation basis

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

## 2. Accounting policies continued

### 2.2 Summary of accounting policies continued

#### 2.2.6 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
  - 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 is 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, eg property taxes, insurance, admin costs.

The group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any prepaid and accrued lease payments plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use asset is periodically reduced by impairment losses if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate. Generally the group uses its incremental borrowing rate at the date of initial application as determined by Group Treasury which is based on a portfolio of leases with similar lease terms. The lease liability is measured at amortised cost using the effective interest 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.

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 2. Accounting policies continued

### 2.2 Summary of accounting policies continued

#### 2.2.6 Leases continued

##### *Short-term leases and leases of low-value assets*

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

#### 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.

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. Accounting policies continued

### 2.2 Summary of accounting policies continued

#### 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.

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

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 2. Accounting policies continued

### 2.2 Summary of accounting policies continued

#### 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.

The compensation receivable would be measured based on the amount and timing of the expected cash flows discounted at the rate that reflects the credit risk of the insurer.

### 2.3 Critical accounting policies and key sources of estimation uncertainty

#### 2.3.1 Impairment of assets other than goodwill and financial instruments

The group assesses all assets other than goodwill at each balance sheet date for indications of impairment or whether an impairment reversal is required. Given the macroeconomic uncertainty, indicators of impairment were identified and, therefore, impairment tests were performed on relevant cash-generating units (CGU) to determine the CGU's recoverable amount. The recoverable amount is measured at the higher of fair value less cost of disposal and value-in-use. An impairment loss is recognised to the extent that the carrying amount of the CGU exceeds its recoverable amount.

In assessing assets for impairment, the group estimates the asset's value-in-use based on its useful life, future cash flows based on management's five-year plan, including appropriate bases for future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, the planned use of machinery or equipment or closing of facilities and the long-term growth rate. The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation. The pre-tax real discount rates used for impairment testing was 14.61% (2022: 14.49%). For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the CGU to which the asset belongs. Additionally, where required, assets are also assessed against their fair value less costs of disposal.

In cases where a revision to CGUs are required, the following key considerations are taken into account: (1) revenue separation, (2) assets separation, and (3) management's monitoring and decision-making in respect of assets and operations. There were no changes in the identification of CGUs in the current year.

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

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

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

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

## 2. Accounting policies continued

### 2.3 Critical accounting policies and key sources of estimation uncertainty continued

#### 2.3.3 Taxation

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

##### (i) Current taxation

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

The group estimates its income taxes in the jurisdiction 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 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.

#### 2.3.4 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 a combination of both the income approach and the market approach in determining fair value as it believes that these methods yield the most appropriate valuations. The income approach which uses discounted cash flows is applied to immature timber due to the extended time period required for the timber to reach maturity, whereas the market approach which is based on the selling price of similar assets is applied to mature timber due to its shorter time period to maturity.

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 during the year 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 market trend related fair value price is used for immature timber and mature timber that is expected to be felled 12 months after the reporting date.

## 2. Accounting policies continued

### 2.3 Critical accounting policies and key sources of estimation uncertainty continued

#### 2.3.4 Plantations continued

- Discount rate

The discount rate used is the real pre-tax discount rate. This is applied to pre-tax cash flows.

- 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 using the current net selling price while damages are calculated using the market trend related fair value price. Damages are written off against standing timber to record loss or damage caused by fire, storms, disease and stunted growth. Harvesting (fellings) depletion costs are accounted for as actual tonnes multiplied by the current net selling price. Damages depletion costs are accounted for as actual damaged tonnes multiplied by the market trend related fair value price. Damaged tonnes are calculated using the projected growth to rotation age and are extrapolated to current age on a straight-line basis.

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

The associated costs for managing plantations are recognised as silviculture costs in cost of sales (see note 3.1). Silviculture costs are presented as operating activities in the statement of cash flows.

#### 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 and 25 for the key estimates, assumptions and other information on post-employment benefits.

## 2. Accounting policies continued

### 2.4 Adoption of accounting standards in the current year

The following standards, interpretations, amendments and improvements to standards 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:

- IAS 16 *Proceeds before intended Use*
- IAS 37 *Onerous Contracts – Cost of Fulfilling a Contract*
- Annual Improvements to IFRS Standards 2018 – 2020
- IFRS 3 *Reference to Conceptual Framework*
- IAS 12 *International Tax Reform – Pillar Two Model Rules*

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

Certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective and which have not yet been adopted by the group. The impact of these standards is being evaluated by the group, and standards and amendments effective in the next financial year are not expected to have a material impact on the group's results or financial position. The effective dates denotes the fiscal year-end in which it will be adopted.

- IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* – September 2025
- IFRS S2 *Climate-related Disclosures* – September 2025
- 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 2025
- IAS 1 *Classification of Liabilities as Current or Non-Current* – September 2025
- IFRS 16 *Lease Liability in a Sale and Leaseback* – September 2025
- IAS 1 *Non-current Liabilities with Covenants* – September 2025
- IAS 7 and IFRS 7 *Supplier Finance Arrangements* – September 2025
- IAS 21 *Lack of Exchangeability* – September 2026

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 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			
	2023	Selling, general and administrative expenses	2022	Selling, general and administrative expenses
	Cost of sales		Cost of sales	
Raw materials, energy and other direct input costs	13,617	–	11,259	–
Fair value adjustment on plantations	(2,344)	–	295	–
Employment costs	2,477	546	2,351	552
Depreciation	1,502	93	1,226	103
Delivery charges	1,464	–	1,475	–
Maintenance	1,152	–	1,048	–
Other overheads	1,481	–	1,319	–
Marketing and selling expenses	–	23	–	19
Administrative and general expenses (income)	–	199	–	(321)
	19,349	861	18,973	353

ZAR million	Group		Company	
	2023	2022	2023	2022
Fair value gains on plantations (note 8)				
Changes in volumes				
Fellings	1,249	868	1,249	868
Growth	(1,352)	(1,172)	(1,352)	(1,172)
	(103)	(304)	(103)	(304)
Plantation price fair value adjustment	(2,241)	599	(2,241)	599
	(2,344)	295	(2,344)	295
Silviculture costs (included within cost of sales)	1,250	1,166	1,250	1,166
Cost on derecognition of trade receivables	131	67	131	67
Remuneration paid other than to bona fide employees of the company in respect of:	34	23	34	23
Technical services	30	16	30	16
Administration services	4	7	4	7
Audit and related services	13	12	13	12
Research and development costs	195	125	195	125

Company				
	2023		2022	
	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses
	13,617	–	11,259	–
	(2,344)	–	295	–
	2,477	546	2,351	552
	1,502	93	1,226	103
	1,464	–	1,474	–
	1,152	–	1,048	–
	1,481	–	1,320	–
	–	23	–	19
	–	200	–	(321)
	19,349	862	18,973	353

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 3. Operating profit continued

### 3.2 Employee costs

ZAR million	Group		Company	
	2023	2022	2023	2022
Employment costs consist of	<b>3,023</b>	2,903	<b>3,023</b>	2,903
Wages and salaries	<b>2,235</b>	2,121	<b>2,235</b>	2,121
Defined contribution plan expense (refer to note 24)	<b>208</b>	196	<b>196</b>	196
Defined benefit pension plan expense (refer to note 24)	<b>22</b>	47	<b>22</b>	47
Other defined benefit subsidy expense (refer to note 25)	<b>6</b>	7	<b>6</b>	7
Other company contributions	<b>155</b>	151	<b>155</b>	151
Overtime	<b>178</b>	176	<b>178</b>	176
Share-based payment expense	<b>25</b>	24	<b>25</b>	24
Other	<b>194</b>	181	<b>194</b>	181

### 3.3 Other expenses (income) include

Profit on disposal of assets	<b>(6)</b>	(16)	<b>(6)</b>	(16)
Other insurance recoveries	<b>(85)</b>	(292)	<b>(85)</b>	(292)
Insurance recoveries relating to the KwaZulu-Natal floods	<b>(82)</b>	(772)	<b>(82)</b>	(772)
Impairment (reversal) of property, plant and equipment	<b>61<sup>(1)</sup></b>	(8)	<b>61<sup>(1)</sup></b>	(8)
Impairment (reversal) of equity-accounted investees	<b>(8)</b>	(43)	<b>(8)</b>	(43)

<sup>(1)</sup> Due to an economic downturn and weak economic growth Sappi Southern Africa impaired Lomati using a pre-tax discount rate of 14.61%. The assets were impaired to their recoverable amounts using the value-in-use method.

## 4. Net finance (income) costs

ZAR million	Group		Company	
	2023	2022	2023	2022
Gross interest and other finance costs on liabilities carried at amortised cost	<b>412</b>	426	<b>412</b>	426
Interest on bank overdrafts	<b>7</b>	2	<b>7</b>	2
Interest on redeemable bonds and other loans	<b>351</b>	372	<b>351</b>	372
Interest cost on lease liabilities	<b>54</b>	52	<b>54</b>	52
Net interest on employee benefit liabilities	<b>49</b>	32	<b>49</b>	32
Finance income received on assets carried at amortised cost	<b>(169)</b>	(91)	<b>(169)</b>	(91)
Interest income on bank accounts	<b>(146)</b>	(89)	<b>(146)</b>	(89)
Interest income on other loans and investments	<b>(23)</b>	(2)	<b>(23)</b>	(2)
Net foreign exchange loss	<b>8</b>	57	<b>8</b>	57
	<b>300</b>	424	<b>300</b>	424

## 5. Taxation charge

	Group		Company	
ZAR million	2023	2022	2023	2022
<b>Current taxation</b>				
Current year	332	–	331	–
Prior year underprovision	3	–	3	–
<b>Deferred taxation</b>				
Current year	1 091	584	1 091	584
Prior year underprovision	(7)	(24)	(7)	(24)
Attributable to tax rate changes	–	(193)	–	(193)
	<b>1 419</b>	367	<b>1 418</b>	367
In addition to income taxation charges to profit or loss, a deferred taxation charge of ZAR40.0 million (2022: ZAR45.0 million charge) has been recognised directly in other comprehensive income (refer note 9).				
<b>Reconciliation of the tax rate</b>				
Statutory tax rate	27.0	28.0	27.0	28.0
Non-deductible expenses (non-taxable income)	0.6	(0.5)	0.6	(0.5)
Special tax allowances	(2.2) <sup>(1)</sup>	(1.4)	(2.2) <sup>(1)</sup>	(1.4)
Tax rate changes <sup>(2)</sup>	–	(8.6)	–	(8.6)
Prior year adjustments	(0.1)	(1.1)	(0.1)	(1.1)
Effective taxation rate for the year	<b>25.3</b>	16.4	<b>25.3</b>	16.4

<sup>(1)</sup> The main allowance included relates to Section 12L of the Income Tax Act

<sup>(2)</sup> Tax rate changes relate to the decrease in the tax rate from 28% to 27%.

## 6. Property, plant and equipment

	Group		Company	
ZAR million	2023	2022	2023	2022
Land and buildings <sup>(1)</sup>				
At cost	3,954	3,763	3,983	3,792
Accumulated depreciation and impairments	(1,483)	(1,345)	(1,507)	(1,369)
	<b>2,471</b>	2,418	<b>2,476</b>	2,423
Plant and equipment <sup>(2)</sup>				
At cost	29,499	28,640	29,499	28,640
Accumulated depreciation and impairments	(13,177)	(11,849)	(13,176)	(11,849)
	<b>16,322</b>	16,791	<b>16,323</b>	16,791
Assets under construction <sup>(3)</sup>				
At cost	1,067	1,017	1,067	1,017
Aggregate cost	<b>34,520</b>	33,420	<b>34,549</b>	(13,218)
Aggregate accumulated depreciation and impairments	<b>(14,660)</b>	(13,194)	<b>(14,683)</b>	(13,218)
Aggregate book value	<b>19,860</b>	20,226	<b>19,866</b>	20,231

<sup>(1)</sup> Details of land and buildings are available at the registered offices of the respective companies who own the assets.

<sup>(2)</sup> Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.

<sup>(3)</sup> In the current year assets under construction have been separately disclosed, which was previously included within plant and equipment.

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 6. Property, plant and equipment continued

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

ZAR million	Land and buildings	Plant and equipment	Assets under construction	Total
<b>Group</b>				
Net book value at September 2021	2,050	10,179	6,955	19,184
Additions	497	7,735	(5,935)	2,297
Disposals and scrapings	(6)	(31)		(37)
Depreciation	(123)	(1,103)		(1,226)
Impairments	–	8		8
Net book value at September 2022	2,418	16,788	1,020	20,226
Additions	195	986	55	1,236
Disposals and scrapings	–	(36)	(8)	(44)
Depreciation	(141)	(1,356)		(1,497)
Impairments (refer to note 3.3)		(61)		(61)
<b>Net book value at September 2023</b>	<b>2,472</b>	<b>16,321</b>	<b>1,067</b>	<b>19,860</b>
<b>Company</b>				
Net book value at September 2021	2,056	10,178	6,955	19,189
Additions	497	7,735	(5,935)	2,297
Disposals and scrapings	(6)	(31)		(37)
Depreciation	(123)	(1,103)		(1,226)
Impairments	–	8		8
Net book value at September 2022	2,424	16,787	1,020	20,231
Additions	195	986	56	1,237
Disposals and scrapings	–	(36)	(8)	(44)
Depreciation	(141)	(1,356)		(1,497)
Impairments (refer to note 3.3)		(61)		(61)
<b>Net book value at September 2023</b>	<b>2,478</b>	<b>16,320</b>	<b>1,068</b>	<b>19,866</b>

## 7. Right-of-use assets

ZAR million	Group			Company		
	Land and buildings	Plant and equipment	Total	Land and buildings	Plant and equipment	Total
Net book value at 1 October 2021	541	62	603	541	62	603
Additions	–	21	21	–	21	21
Disposals	–	(8)	(8)	–	(8)	(8)
Depreciation	(84)	(19)	(103)	(84)	(19)	(103)
Net book value at September 2022	457	56	513	457	56	513
Additions	–	26	26	–	26	26
Disposals	(37)	–	(37)	(37)	–	(37)
Depreciation	(79)	(20)	(99)	(79)	(20)	(99)
<b>Net book value at September 2023</b>	<b>341</b>	<b>62</b>	<b>403</b>	<b>341</b>	<b>62</b>	<b>403</b>

ZAR million	Group		Company	
	2023	2022	2023	2022
<b>Amounts recognised in profit (loss)</b>				
Interest on lease liabilities	54	52	54	52
Expenses related to short-term and low-value asset leases	52	49	52	49
<b>Amounts recognised in the statement of cash flows</b>				
Total cash flows for leases	(84)	(63)	(84)	(63)

## 8. Plantations

ZAR million	Note	Group		Company	
		2023	2022	2023	2022
Fair value of plantations at beginning of year		<b>6,940</b>	7,136	<b>6,940</b>	7,136
Additions		<b>–</b>	117	<b>–</b>	117
Fire, flood, storms and related events		<b>(26)</b>	(11)	<b>(26)</b>	(11)
In-field inventory		<b>(18)</b>	(7)	<b>(18)</b>	(7)
Gains arising from growth	3.1	<b>1,352</b>	1,172	<b>1,352</b>	1,172
Gain arising from fair value price changes	3.1	<b>2,241</b>	(599)	<b>2,241</b>	(599)
Harvesting – agriculture produce (fellings)	3.1	<b>(1,249)</b>	(868)	<b>(1,249)</b>	(868)
Fair value of plantations at end of year		<b>9,240</b>	6,940	<b>9,240</b>	6,940

The group has 399,996 hectares (2022: 399,996 hectares) of owned and leased land available for forestry activities. 138,785 hectares (2022: 138,391 hectares) are set aside for conservation activities. The balance of 261,211 hectares (2022: 261,605 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 have a significant impact on the valuation of the forestry assets:

- A market trend related fair value price that closely approximates the spot fair value price. At year-end the gross weighted average timber price was ZAR920 per ton (2022: ZAR813 per ton) and the costs to sell was ZAR613 per ton (2022: ZAR581 per ton)
- A real pre-tax discount rate of 14.61% was used for immature timber (2022: 14.49%)
- Approximately 29 million tons of timber (2022: 29 million tons) were valued
- The average annual growth is measured at approximately 17 tons (2022: 17 tons) of timber per hectare.

Sappi amended its plantation valuation technique in the fourth quarter from using a 12-quarter historical average fair value price for immature and mature timber to be felled more than 12 months after each reporting period to a market trend related fair value price that closely approximates the spot fair value price. The 12-quarter average rate did previously approximate the spot rate but due to changing macroeconomic conditions this was no longer the case. The effect of this change in estimate resulted in a favourable R1,423 million adjustment in the quarter which is included in the overall R2,241 million price fair value adjustment for the year. We believe that this change in valuation technique will closely approximate the spot fair value price at future measurement dates.

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

ZAR million	2023	2022
Effect of 1% impact in gross selling price	<b>80</b>	42
Effect of 1% impact in costs to sell	<b>(48)</b>	(28)
Effect of 1% impact in net selling price	<b>32</b>	14
Effect of 1% impact in discount rate	<b>(49)</b>	(35)
Effect of 1% impact in volume	<b>89</b>	68
Effect of 1% impact in rate of growth	<b>26</b>	19

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 9. Deferred tax

### Group

ZAR million	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Other non-current liabilities	–	(100)	–	(85)
Accrued and other liabilities	–	(167)	–	(166)
Property, plant and equipment	–	3,914	–	3,723
Plantations	–	2,499	–	1,870
Tax loss carry forward	–	–	–	(320)
	–	6,146	–	5,022

### Company

ZAR million	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Other non-current liabilities	–	(100)	–	(85)
Accrued and other liabilities	–	(167)	–	(166)
Property, plant and equipment	–	3,914	–	3,723
Plantations	–	2,499	–	1,870
Tax loss carry forward	–	–	–	(320)
	–	6,146	–	5,022

### Consolidated

### Company

ZAR million	2023	2022	2023	2022
<b>Reconciliation of deferred tax</b>				
Deferred tax balances at beginning of year				
Deferred tax liabilities	5,022	4,604	5,022	4,604
	5,022	4,604	5,022	4,604
Deferred tax benefit (charge) for the year (refer to note 5)	1,084	560	1,084	560
Other non-current liabilities	5	(2)	5	(2)
Accrued and other liabilities	(1)	(84)	(1)	(84)
Property, plant and equipment	191	538	191	538
Plantations	629	(77)	629	(77)
Tax loss carry forward	260	185	260	185
Amounts recorded directly in other comprehensive income	40	45	40	45
Rate adjustments	–	(187)	–	(187)
Deferred tax balances at end of year	6,146	5,022	6 146	5,022
Deferred tax liabilities	6,146	5,022	6,146	5,022

## 10. Equity-accounted investees

ZAR million	2023	2022
<b>Group's share of carrying amount of equity-accounted investees</b>		
Other	7	11
	7	11

### 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	2023	2022
(Loss) profit from continuing operations	(63)	8
Other comprehensive income	–	–
Total comprehensive (loss) income	(63)	8

## 11. Other non-current assets

	Group		Company	
ZAR million	2023	2022	2023	2022
Advances to tree growers	73	72	73	72
Defined benefit pension plan assets (refer note 24)	194	334	194	334
Unlisted investment	16	30	10	24
Shareholder loans (refer note 29)	525	276	525	276
Other	10	10	10	10
	818	722	812	716

## 12. Inventories

	Group		Company	
ZAR million	2023	2022	2023	2022
Raw materials	733	563	733	563
Work in progress	140	95	140	95
Finished goods	1,273	1,810	1,273	1,810
Consumable stores and spares	538	489	538	489
	2,684	2,957	2,684	2,957

The charge to the income statement relating to the write-down of inventories to net realisable value amounted to R53 million (2022: R33.1 million).

The cost of inventories recognised as an expense and included in cost of sales amounted to R20,210.8 million (2022: R16,911.9 million).

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 13. Trade and other receivables

	Group		Company	
ZAR million	2023	2022	2023	2022
Trade accounts receivable	279	371	279	371
Allowance for credit losses	–	–	–	–
Trade accounts receivable, net	279	371	279	371
Receiver of revenue	124	159	124	159
Prepaid insurance	64	45	64	45
Prepayment and other receivables <sup>(1)</sup>	257	508	257	508
	724	1,083	724	1,083

<sup>(1)</sup> Included in prepayments and other receivables is an insurance receivable of ZAR152 million relating to the KwaZulu-Natal floods (2022: ZAR372 million).

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 5.5% (2022: 5.9%) of turnover.

### 13.1 Analysis of amounts past due

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

	Group			
	Not impaired		Impaired	
ZAR million	2023	2022	2023	2022
Less than seven days overdue	–	–	–	–
Between seven and 30 days overdue	1	1	–	–
Between 30 and 60 days overdue	–	–	–	–
More than 60 days overdue	–	–	–	–
	1	1	–	–

	Company			
	Not impaired		Impaired	
ZAR million	2023	2022	2023	2022
Less than seven days overdue	–	–	–	–
Between seven and 30 days overdue	1	1	–	–
Between 30 and 60 days overdue	–	–	–	–
More than 60 days overdue	–	–	–	–
	1	1	–	–

The group holds collateral of R42 million (2022: R37 million) against trade receivables past contractual repayment terms.

## 13. Trade and other receivables continued

### 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.

### 13.3 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 2023 and 2022 financial years are disclosed in the table below:

Bank	Value	Facility	Discount charges
<b>2023</b>			
Rand Merchant Bank Limited	<b>ZAR1,301 million</b>	<b>Unlimited<sup>(1)</sup></b>	<b>Linked to three-month JIBAR</b>
<b>2022</b>			
Rand Merchant Bank Limited	ZAR1,142 million	Unlimited <sup>(1)</sup>	Linked to three-month JIBAR

<sup>(1)</sup> 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 and company's sales and accounts receivable are from a small number of customers. None of the group and company's significant customers represented more than 10% of our sales and trade receivables during the years ended September 2023 and September 2022.

Where appropriate, credit insurance has been taken out over the group 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 R724 million (2022: R1,083 million) represents the group and company's maximum credit risk exposure from trade and other receivables.

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

Threshold	2023		2022	
	Number of customers	ZAR million	Number of customers	ZAR million
Less than ZAR95 million	23	88	31	70
	23	88	31	70

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 14. Ordinary share capital and share premium

ZAR million	Group		Company	
	2023	2022	2023	2022
<b>Authorised share capital</b>				
6,052,500 Ordinary shares of R2 each	12	12	12	12
19,520 Class A cumulative preference shares <sup>(1)(2)</sup>	–	–	–	–
221,107 Class B cumulative preference shares <sup>(1)(2)</sup>	–	–	–	–
831 Class C cumulative preference shares <sup>(1)(2)</sup>	–	–	–	–
123,321 Class D cumulative preference shares <sup>(1)(2)</sup>	–	–	–	–
	12	12	12	12
<b>Issued share capital</b>				
6,015,769 (2022: 6,015,769) Ordinary shares of R2 each	12	12	12	12
19,520 (2022: 19,520) Class A cumulative preference shares of R0.01 each <sup>(1)(2)(3)</sup>	–	–	–	–
219,733 (2022: 219,733) Class B cumulative preference shares of R0.01 each <sup>(1)(2)(3)</sup>	–	–	–	–
831 (2022: 831) Class C cumulative preference shares of R0.01 each <sup>(1)(2)(3)</sup>	–	–	–	–
118,157 (2022: 118,153) Class D cumulative preference shares of R0.01 each <sup>(2)(3)</sup>	–	–	–	–
Sappi Property Company Proprietary Limited <sup>(2)(3)</sup>	–	–	–	–
	12	12	12	12
Share premium	209	209	209	209
Share premium on new preference shares issued	–	–	–	–
362,414 Investment in Sappi Property Company Proprietary Limited preference shares <sup>(1)(2)</sup>	–	–	–	–
<b>Closing balance</b>	<b>221</b>	<b>221</b>	<b>221</b>	<b>221</b>

<sup>(1)</sup> The variable coupon rate based upon Sappi Southern Africa Limited's (SSA) long-term borrowing rate.

<sup>(2)</sup> 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. SSA holds 362,414 preference shares in SPC. A legal right to off-set these preference shares exists.

<sup>(3)</sup> 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 18
- 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 has entered into a number of debt facilities which contain certain terms and conditions in respect of capital management.

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

The group 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.

## 15. Other comprehensive income

	Group		Company	
ZAR million	2023	2022	2023	2022
<i>Item that will not be reclassified subsequently to profit or loss</i>				
<b>Actuarial (losses) gains on post-employment benefit funds</b>	<b>(55)</b>	204	<b>(55)</b>	204
Gross amount	<b>(76)</b>	289	<b>(76)</b>	289
Tax	<b>21</b>	(85)	<b>21</b>	(85)
<i>Items that may be reclassified subsequently to profit or loss</i>				
<b>Hedging reserves</b>	<b>177</b>	(92)	<b>177</b>	(92)
Gains and losses during the year	<b>47</b>	(200)	<b>47</b>	(200)
Reclassified to profit or loss	<b>190</b>	65	<b>190</b>	65
Reclassified to property, plant and equipment	<b>5</b>	7	<b>5</b>	7
Tax	<b>(65)</b>	36	<b>(65)</b>	36
<b>Other comprehensive income recorded directly in equity</b>	<b>122</b>	112	<b>122</b>	112
Profit for the year	<b>4,188</b>	1,872	<b>4,188</b>	1,872
<b>Total comprehensive income for the year</b>	<b>4,310</b>	1,984	<b>4,310</b>	1,984

## 16. Non-distributable reserves

	Group		Company	
ZAR million	2023	2022	2023	2022
Share-based payment reserve	<b>(59)</b>	(47)	<b>(61)</b>	(49)
Share-based payment reserve – BBBEE	<b>216</b>	216	<b>216</b>	216
	<b>157</b>	169	<b>155</b>	167

## 17. Trade and other payables

	Group		Company	
ZAR million	2023	2022	2023	2022
Trade payables	<b>2,972</b>	3,383	<b>2,972</b>	3,383
Employee-related liabilities	<b>359</b>	451	<b>359</b>	451
Capital expenditure accruals	<b>–</b>	19	<b>–</b>	19
Accrued interest	<b>15</b>	35	<b>15</b>	35
Rebates	<b>356</b>	401	<b>356</b>	401
Other payables	<b>421</b>	319	<b>421</b>	319
Trade and other payables	<b>4,123</b>	4,608	<b>4,123</b>	4,608

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 18. Interest-bearing borrowings

ZAR million	Group		Company	
	2023	2022	2023	2022
Unsecured borrowings	3,301	3,931	3,301	3,931
Less: Current portion included in current liabilities	(2,244)	(1,373)	(2,244)	(1,373)
Total non-current interest-bearing borrowings	1,057	2,558	1,057	2,558
The repayment profile of the interest-bearing borrowings is as follows:				
Payable in the year ended September:				
2023	–	1 373	–	1,373
2024	2 244	1 495	2 244	1,495
2025	–	–	–	–
2026	1,057	1,063	1,057	1,063
	3,301	3,931	3,301	3,931

Set out below are details of the more significant interest-bearing borrowings in the group at September 2023:

	Currency	Interest rate	Principal amount outstanding	Balance sheet value	Security/cession	Expiry	Financial covenants
<b>Redeemable bonds</b>							
Convertible bond	ZAR	Fixed	ZAR1,063 million	ZAR1,051 million <sup>(1)(2)</sup>	Unsecured	Nov 2025	No financial covenants
Public bond	ZAR	Fixed	ZAR1,500 million	ZAR1,500million <sup>(1)</sup>	Unsecured	May 2024	No financial covenants
<b>Unsecured bank term loans</b>							
<b>Commercial paper programmes</b>							
Commercial paper	ZAR	Variable	ZAR500 million	ZAR500 million	Unsecured	December 2023	No financial covenants
Commercial paper	ZAR	Variable	ZAR250 million	ZAR250 million	Unsecured	January 2024	No financial covenants

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 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 operate 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 and company's financial indebtedness is subject to cross default provisions above certain de minimis amounts. Breaches in financial 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 and company's consolidated liabilities might eventually become payable on demand.

The group was in compliance with its financial covenants during the 2023 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	2023	2022
<b>Unutilised committed facilities</b>				
Syndicate loan/revolving credit facility <sup>(2)</sup>	ZAR	Variable (JIBAR)	2,000	2,000
<b>Unutilised uncommitted facilities</b>				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (ZAR bank prime rate)	375	275
<b>Total unutilised facilities (committed and uncommitted) excluding cash</b>			<b>2,375</b>	<b>2,275</b>

<sup>(2)</sup> 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 (2022: ZAR11.9 million) in respect of commitment fees for this facility.

### Fair value

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

## 19. Other non-current liabilities

ZAR million	Group		Company	
	2023	2022	2023	2022
Post-employment benefits other than pension liability (refer note 24)	281	299	281	299
Other	45	37	45	37
	<b>326</b>	<b>336</b>	<b>326</b>	<b>336</b>

## 20. Notes to the group statements of cash flows

### 20.1 Cash generated from operations

ZAR million	Group		Company	
	2023	2022	2023	2022
Profit for the year	4,188	1,872	4,188	1,872
Adjustment for:				
– Depreciation	1,596	1,329	1,596	1,329
– Fellings	1,249	868	1,249	868
– Impairment (reversals) of property, plant and equipment	61	(8)	61	(8)
– Impairment reversal of equity-accounted investee	(8)	(43)	(8)	(43)
– Taxation charge	1,419	367	1,418	367
– Net finance costs	300	424	300	424
– Equity-accounted losses (profits)	63	(8)	63	(8)
– Defined benefit obligation: Interest	(49)	(32)	(49)	(32)
– Defined post-employment benefits paid	(36)	(44)	(36)	(44)
– Pension fund asset income statement movement	64	46	64	46
– Profit on disposal of property, plant and equipment	(6)	(16)	(6)	(16)
– Loss on written-off assets	34	32	34	32
– Plantation fire, drought and other damages	26	11	26	11
– Fair value adjustment gains and growth on plantations	(3,593)	(573)	(3,593)	(573)
– Non-cash sales – other non-current assets <sup>(1)</sup>	(118)	–	(118)	–
– Other non-cash items	6	–	5	–
	<b>5,196</b>	<b>4,225</b>	<b>5,194</b>	<b>4,225</b>

<sup>(1)</sup> To Ngodwana Energy refer to note 29.

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 20. Notes to the group statements of cash flows continued

### 20.2 Increase in working capital

	Group		Company	
ZAR million	2023	2022	2023	2022
Decrease (increase) in inventories	292	(301)	292	(301)
Decrease (increase) in receivables	324	(542)	323	(542)
Decrease (increase) in amounts owed by group companies	557	(1 823)	557	(1 823)
(Decrease) increase in payables	(432)	513	(432)	513
Increase in amounts owed to group companies	140	57	142	57
	881	(2 096)	882	(2 096)
<b>20.3 Finance costs paid</b>				
Finance cost and net foreign exchange loss	(469)	(515)	(469)	(515)
Net interest on defined benefit obligation	49	31	49	31
Non-cash movements included in items above	8	(19)	8	(19)
	(412)	(503)	(412)	(503)
<b>20.4 Taxation (paid) received</b>				
Net amounts payable at beginning of year	–	13	–	13
Taxation charge to profit or loss	(335)	–	(334)	–
Taxation charge benefit per OCI	(6)	–	(6)	–
Less: Net amounts payable at end of year	142	–	142	–
	(199)	13	(198)	13
<b>20.5 Proceeds on disposal of property, plant and equipment</b>				
Book value of property, plant and equipment disposed of	8	6	8	6
Profit on disposal of property, plant and equipment	6	16	6	16
	14	22	14	22

### 20.6 Reconciliation of liabilities arising from financing activities

	2021	Cash flows	Non-cash flows	2022
Interest-bearing borrowings	3,980	–	(49)	3,931
	2022	Cash flows	Non-cash flows <sup>(1)</sup>	2023
Interest-bearing borrowings	3,931	(630)	–	3,301

<sup>(1)</sup> Non-cash flows include: convertible bond conversions of ZAR(46) million, accretion interest between the coupon and effective interest rate of ZAR42 million and ZAR4 million relating to the capitalisation and amortisation of upfront fees.

### 20.7 Reconciliation of related-party loans in investing activities

	2021	Cash flows	Non-cash flows	2022
Related-party loans	(5,083)	26	97	(4,960)
	2022	Cash flows	Non-cash flows <sup>(1)</sup>	2023
Related-party loans	(4,960)	(1,486)	6,446	–

<sup>(1)</sup> Non-cash flows include: convertible bond conversions of ZAR46 million, and non-cash dividends of ZAR6,400 million.

## 21. Encumbered assets

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

## 22. Commitments

	Group		Company	
ZAR million	2023	2022	2023	2022
<b>Capital commitments</b>				
Contracted but not provided	374	248	374	248
Approved but not contracted	484	534	484	534
	858	782	858	782
Future forecast cash flows of capital commitments at September:				
2023		752		752
2024	858	30	858	30
	858	782	858	782

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 and taxation 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.

## 24. Post-employment benefits – pensions

### Summary of results

	Group		Company	
ZAR million	2023	2022	2023	2022
<b>Reconciliation of balance sheet</b>				
Pension plan asset recognised on balance sheet prior year	333	84	333	84
Post-employment plan cost recognised in profit or loss	(53)	(49)	(53)	(49)
Employer contributions	14	35	14	35
Actuarial (loss) gain recognised in other comprehensive income	(100)	263	(100)	263
Pension plan asset recognised on balance sheet	194	333	194	333

## 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 is held separately from those of the group and company, in funds under the control of umbrella fiduciaries (trustees). The group and company also participates 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 ZAR208 million (2022: ZAR196 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, ie 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.

## 24. Post-employment benefits – pensions continued

### Summary of results continued

#### Exposure to risks continued

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 plan's 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 is 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

- 14% equity instruments
- 79% debt instruments
- 8% cash.

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

#### 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.

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 24. Post-employment benefits – pensions continued

**Summary of results** continued

**Funding policy** continued

ZAR million	Group		Company	
	2023	2022	2023	2022
<b>Components of defined benefit cost recognised in profit or loss</b>				
Current service cost	16	42	16	42
Past service cost	–	1	–	1
Interest on net defined benefit	11	2	11	2
Fund administration costs	6	4	6	4
Non-routine plan amendment, curtailment loss and settlement gain	20	–	20	–
Net amount recognised in profit or loss	53	49	53	49
Net amount attributed to operating cost	22	47	22	47
Net amount attributed to finance cost	11	2	11	2
<b>Components of defined benefit cost recognised in other comprehensive income</b>				
Actuarial (loss) gain arising from membership experience	(11)	138	(11)	138
Actuarial gain arising from changes in financial assumptions	41	145	41	145
Actuarial loss arising on assets	(130)	(20)	(130)	(20)
Actuarial (loss) gain recognised in other comprehensive income	(100)	263	(100)	263

## 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	2023	2022	2023	2022
Defined benefit obligation at beginning of year	1,092	1,342	1,092	1,342
Current service cost	16	42	16	42
Past service cost	–	1	–	1
Interest cost	125	124	125	124
Plan participants' contributions	11	16	11	16
Remeasurements	(30)	(283)	(30)	(283)
– Membership experience changes	11	(138)	11	(138)
– Financial assumption changes	(41)	(145)	(41)	(145)
Non-routine plan amendment, curtailment loss and settlement gain	20	–	20	–
Benefits paid	(816)	(150)	(816)	(150)
Defined benefit obligation at end of year	418	1,092	418	1,092
<b>Movement in the fair value of the plan assets in the current year</b>				
Fair value of plan assets at beginning of year	1,425	1,426	1,425	1,426
Interest income	114	122	114	122
Employer contributions	14	35	14	35
Plan participants' contributions	11	16	11	16
Remeasurement loss	(130)	(20)	(130)	(20)
– Actuarial loss arising on assets	(130)	(20)	(130)	(20)
Benefits paid	(816)	(150)	(816)	(150)
Fund administration costs	(6)	(4)	(6)	(4)
Fair value of plan assets at end of year	612	1,425	612	1,425
Recognised pension plan assets	(194)	(333)	(194)	(333)

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

	Group		Company	
ZAR million	2023	2022	2023	2022
Investments quoted in active markets				
– Equity, property and high-yield investments				
– Domestic	85	80	85	80
– Investment grade debt instruments				
– Nominal	120	250	120	250
– Index linked	361	748	361	748
Cash and cash equivalents	48	351	48	351
	614	1 429	614	1 429

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 24. Post-employment benefits – pensions continued

### Summary of results continued

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

Plan assets do not include any investments in the group 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.

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

	Group		Company	
ZAR million	2023	2022	2023	2022
Discount rate (%)	11.60	11.13	11.60	11.13
Future salary increases (%)	7.50	7.70	7.50	7.70
Cost of living adjustment for pensions in payment (%)	5.20	5.36	5.20	5.36
Average life expectancy in years				
– For current beneficiaries (male of 60 years)	19.00	19.20	19.00	19.20
– Future retiree (male of 60 years in 20 years' time)	20.00	20.20	20.00	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 was determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by ZAR52 million (increase by ZAR46 million)
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by ZAR25 million (decrease by ZAR25 million)
- If the expected cost of living adjustment (pension increase) rate is 100 basis points higher (lower), the defined benefit obligation would increase by ZAR28 million (decrease by ZAR26 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 ZAR27 million).

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

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

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

## 25. Post-employment benefits – post-retirement healthcare subsidy

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

	Group		Company	
ZAR million	2023	2022	2023	2022
<b>Reconciliation of balance sheet</b>				
Healthcare subsidy liability recognised on balance sheet prior year	(300)	(304)	(300)	(304)
Post-employment cost recognised in profit or loss	(17)	(44)	(17)	(44)
Employer contributions	11	21	11	21
Actuarial gain recognised in other comprehensive income	25	27	25	27
Healthcare subsidy liability recognised on balance sheet	(281)	(300)	(281)	(300)

The company sponsors a defined benefit post-employment plan that provides certain health care 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 ZAR12 million.

	Group		Company	
ZAR million	2023	2022	2023	2022
<b>Components of defined benefit cost recognised in profit or loss</b>				
Current service cost	6	7	6	7
Past service cost	(27)	–	(27)	–
Interest on net defined benefit	38	36	38	36
Gains (losses) on settlements	–	1	–	1
Net amount recognised in profit or loss	17	44	17	44
Net amount attributed to operating cost	6	7	6	7
Net amount attributed to finance cost	38	36	38	36
<b>Components of defined benefit cost recognised in other comprehensive income</b>				
Actuarial gain (loss) arising from membership experience	13	33	13	33
Actuarial gain (loss) arising from changes in demographic assumptions	–	–	–	–
Actuarial gain (loss) arising from changes in financial assumptions	16	27	16	27
Actuarial gain (loss) arising on assets	(4)	(33)	(4)	(33)
Actuarial gain (loss) recognised in other comprehensive income	25	27	25	27
<b>Movement in the present value of the defined benefit obligation in the current year</b>				
Defined benefit obligation at beginning of year	363	397	363	397
Current service cost	6	7	6	7
Past service cost	(27)	–	(27)	–
Interest expense	45	46	45	46
Remeasurements (gain) loss	(29)	(60)	(29)	(60)
– Membership experience loss	(13)	(33)	(13)	(33)
– Demographic assumption changes	–	–	–	–
– Financial assumption gain	(16)	(27)	(16)	(27)
Non-routine settlements	–	(11)	–	(11)
Benefits paid	(18)	(16)	(18)	(16)
Defined benefit obligation at end of year	340	363	340	363

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 25. Post-employment benefits – post-retirement healthcare subsidy continued

	Group		Company	
ZAR million	2023	2022	2023	2022
<b>Movement in the fair value of the plan assets in the current year</b>				
Fair value of plan assets at beginning of year	63	93	63	93
Interest income	7	10	7	10
Employer contributions	11	21	11	21
Remeasurements (loss) gain	(4)	(33)	(4)	(33)
– Actuarial (loss) gain arising on assets	(4)	(33)	(4)	(33)
Non-routine plan settlements	–	(12)	–	(12)
Benefits paid	(18)	(16)	(18)	(16)
Fair value of plan assets at end of year	59	63	59	63
Net balance sheet defined benefit (asset) liability	281	300	281	300

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:

- 85% debt (annuity) instruments
- 15% cash.

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

	Group		Company	
ZAR million	2023	2022	2023	2022
Unquoted investments				
– Annuities	51	53	51	53
Cash and cash equivalents	9	10	9	10
	60	63	60	63

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.

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

	Group		Company	
	2023	2022	2023	2022
Discount rate (%)	13.50	12.70	13.50	12.70
Healthcare cost trend rate (%)	9.00	8.60	9.00	8.60
Average expectancy in years				
– For current beneficiaries (male of 60 years)	19.00	19.50	19.00	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, health care cost trends and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by ZAR52 million (increase by ZAR47 million)
- If the expected health care cost trend rate is 100 basis points higher (lower), the defined benefit obligation would increase by ZAR56 million (decrease by ZAR44 million)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by ZAR11 million (decrease ZAR1 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 was 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 12 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 2,852,887 shares are outstanding as at September 2023. A further 27,402,673 shares were approved by shareholders in February 2020 of which 13,816,492 are outstanding as at September 2023.

### The Sappi Limited Performance Share Incentive Trust (the Plan)

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

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

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

The Plan rules also provide that if:

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

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

Movements in performance shares for the financial years ended September 2023 and September 2022 are as follows:

	Total performance shares <sup>(1)</sup>
Outstanding at September 2021	3,204,128
– Offered	1,050,300
– Paid for/vested	(66,388)
– Returned, lapsed, forfeited and transfers	(594,413)
Outstanding at September 2022	3,593,627
– Offered	989,600
– Paid for/vested	(272,151)
– Returned, lapsed, forfeited and transfers	(458,104)
<b>Outstanding at September 2023</b>	<b>3,852,972</b>

<sup>(1)</sup> 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.

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 26. Share-based payments continued

### The Sappi Limited Performance Share Incentive Trust (the Plan) continued

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

	2023	2022	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
<b>Performance shares:</b>						
<b>Date issued:</b>						
19 November 2018	–	565,232	Performance	19 November 2022	n/a	Rnil
19 November 2019	623,085	635,089	Performance	19 November 2023	n/a	Rnil
18 November 2020	1,261,914	1,354,155	Performance	18 November 2024	n/a	Rnil
18 November 2021	998,702	1,039,151	Performance	18 November 2025	n/a	Rnil
18 November 2022	969,271	–	Performance	18 November 2026	n/a	Rnil
	3,852,972	3,593,627				

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 48	Issue 48
Date of grant	18 November 2022	18 November 2022
Type of award	Performance	Performance
Share price at grant date	ZAR51.00	ZAR51.00
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	75.4%	80.0%
Number of shares offered	2,072,200	2,072,200
Volatility	52%	n/a
Risk-free discount rate	8.89% (ZAR yield)	n/a
Expected dividend yield	2.0%	n/a
Model used to value	Monte Carlo	Market price
Fair value of option	ZAR34.51	ZAR36.55

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

Refer note 28 for more information on directors and prescribed officers' participation in the Plan.

## 27. Derivative financial instruments

		Group		Company	
ZAR million		2023	2022	2023	2022
<b>Hedging instrument</b>	<b>Hedged item</b>				
<b>Non-current assets</b>					
Interest rate swap	ZAR1,500 million unsecured loan	9	13	9	13
		9	13	9	13
<b>Current assets</b>					
Forward exchange contracts	Various	36	56	36	56
		36	56	36	56
<b>Current liabilities</b>					
Forward exchange contracts	Various	5	233	5	233
		5	233	5	233

Refer note 28 for more detail on financial instruments.

## 28. Financial instruments

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

### Introduction

The group 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 is exposed to:

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

- Interest rate risk
- Currency risk
- Commodity price risk

(b) Liquidity risk

(c) Credit risk.

Sappi's Treasury is primarily responsible for managing the group 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 on the following page.

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 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 average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2023 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 1 October 2023.

	Group and company								
	Expected maturity date								
	2024	2025	2026	2027	2028	2023 Carrying value	2023 Fair value	2022 Carrying value	2022 Fair value
ZAR millions									
Fixed rate debt	1,494	–	–	1,057	–	2,551	3,137	2,558	3,282
Average interest rate (%)	9.25	–	–	5.31	–	7.64		7.64	
Variable rate debt	750	–	–	–	–	750	750	1,373	1,380
Average interest rate (%)	9.09	–	–	–	–	6.87		6.87	
Fixed and variable	2,244	–	–	1,057	–	3,301	3,887	3,931	662
Current portion						2,244	2,265	1,373	1,380
Long-term portion						1,057	1,622	2,558	3,282
Total interest-bearing borrowings (refer note 18)						3,301	3,887	3,931	4,662

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 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, ie 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

#### Hedging of interest rate risk continued

#### Cash flow hedges 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 2023, the hedge was highly effective and the swap had a net positive fair value of ZAR9 million which was deferred to equity.

#### Summary of outstanding cash flow hedges

ZAR million	Interest rate	Maturity date	Nominal value	Total fair value <sup>(1)</sup>	Recorded in OCI	Profit or loss
<b>September 2023</b>						
Cash flow hedges	ZAR variable (3-M JIBAR + 180bps) to ZAR					
IRS	9.2484% fixed	May 2024	ZAR1,500 million	9	9	–
				9	9	–

ZAR million	Interest rate	Maturity date	Nominal value	Total fair value <sup>(1)</sup>	Recorded in OCI	Profit or loss
<b>September 2022</b>						
Cash flow hedges	ZAR variable (3-M JIBAR + 180bps) to ZAR					
IRS	9.2484% fixed	May 2024	ZAR1,500 million	13	13	–
				13	13	–

<sup>(1)</sup> 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.

## 28. Financial instruments continued

### (a) Market risk continued

#### Interest rate risk continued

##### 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 Rnil (2022: R0.7 million) and a one notch upgrade will have a Rnil (2022: Rnil) 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 50 bps to the interest rates.

ZAR million	Total	Fixed rate debt	Floating rate debt	Impact on profit or loss of 50 bps interest
Total debt	3,301	2,551	750	4
Ratio fixed/floating to total debt		77%	23%	

The floating rate debt represents 23% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by ZAR4 million.

#### 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
- 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).

## 28. Financial instruments continued

### (a) Market risk continued

#### Currency risk continued

##### Currency risk analysis

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

The following tables for the 2023 and 2022 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						
ZAR million	Total	Total in scope	USD	EUR	ZAR	GBP	Other
<b>September 2023</b>							
<b>Classes of financial instruments</b>							
<b>Non-current assets</b>							
Other non-current assets	818	551	–	–	551	–	–
Derivative financial instruments	9	9			9		
<b>Current assets</b>							
Trade and other receivables	724	514			514	–	–
Derivative financial instruments	36	36	–	36		–	–
Amounts owing by group-related parties	2,896	2,896	–	–	2,896		
Cash and cash equivalents	1,671	1,671	–	–	1,671	–	–
		5,677	–	36	5,641	–	–
<b>Non-current liabilities</b>							
Interest-bearing borrowings	1,057	1,057			1,057		
Lease liability	431	431			431		
Other non-current liabilities	326	45			45		
<b>Current liabilities</b>							
Interest-bearing borrowings	2,244	2,244	–	–	2,244	–	–
Trade and other payables	4,123	3,565	–	–	3,565	–	–
Derivative financial instruments	5	5	–	5	–	–	–
Amounts owing to the related parties	448	448	–	–	448	–	–
Lease liability	86	80	–	–	80	–	–
		7,875	–	5	7,870	–	–
Foreign exchange gap		(2,198)	–	31	(2,229)	–	–

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 28. Financial instruments continued

(a) Market risk continued

Currency risk continued

Currency risk analysis continued

ZAR million	Group and company					
	Total	Total in scope	USD	EUR	ZAR	GBP Other
<b>September 2022</b>						
<b>Classes of financial instruments</b>						
<b>Non-current assets</b>						
Other non-current assets	722	310	–	–	310	– –
Derivative financial instruments	13	13	–	–	13	–
Amounts owing by related parties	4,960	4,960	–	–	4,960	– –
<b>Current assets</b>						
Trade and other receivables	1,083	855	–	–	855	– –
Derivative financial instruments	56	56	53	3	–	– –
Amounts owing by related parties	3,453	3,453	–	–	3,453	–
Cash and cash equivalents	1,560	1,560	–	–	1,560	– –
		11,207	53	3	11,151	– –
<b>Non-current liabilities</b>						
Interest-bearing borrowings	2,558	2,558	–	–	2,558	– –
Lease liability	530	530	–	–	530	–
Derivative financial instruments		–	–	–	–	–
Other non-current liabilities	336	37	–	–	37	–
<b>Current liabilities</b>						
Interest-bearing borrowings	1,373	1,373	–	–	1,373	– –
Lease liability	4,608	4,164	–	–	4,164	– –
Derivative financial instruments	233	233	217	16	–	– –
Trade and other payables	308	308	–	–	308	– –
Amounts owing to related parties	84	80	–	–	80	– –
		9,283	217	16	9,050	– –
Foreign exchange gap		1,924	(164)	(13)	2,101	– –

## 28. Financial instruments continued

### (a) Market risk continued

#### Currency risk continued

#### Hedging of foreign currency risk

##### Foreign currency forward exchange contracts

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

ZAR million		2023		2022	
		Contract amount (notional amount)	Fair value	Contract amount (notional amount)	Fair value
Foreign currency Bought:					
	US Dollar	399	390	737	687
	Euro	60	60	76	73
	Swiss Franc	5	5	3	3
Sold:					
	Japanese Yen	52	53	52	52
	Euro	(309)	(311)	(500)	(490)
	US Dollar	(231)	(233)	(1,711)	(1,601)
		(24)	(36)	(1,343)	(1,276)

The fair value of foreign currency contracts has been computed by the group and company using the market data at the end of the 2023 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 2023, there was an open exposure of ZAR52 million that has since been hedged.

#### Sensitivity analysis – (loss) gain

Base currency	Exposure ZAR million	+10 % ZAR million	–10 % ZAR million
EUR	(16)	(3)	–
USD	(36)	(3)	4
Total	(52)	(6)	4

Based on the exposure at the end of September 2023, 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 ZAR6 million or a gain of ZAR4 million respectively.

## 28. Financial instruments continued

### (a) Market risk continued

#### Currency risk continued

##### Currency risk analysis continued

##### Cash flow hedges

##### Export sales

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

Sappi therefore enters into cash flow hedges with the objective to eliminate this economic foreign exchange rate exposure by entering into non-deliverable forward exchange contracts (FEC) 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 2023 financial year, the hedges were highly effective. A realised loss of ZAR101 million relating to the realised fair value movements of non-deliverable FECs (including cost of hedging) was transferred from OCI to revenue in profit or loss and at the financial year-end, a gain of ZAR2 million was deferred in equity. A realised loss of ZAR90 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 gain of ZAR18 million was deferred to equity.

##### Mill expansion and maintenance capital expenditure projects

Sappi Southern Africa approves several capex projects requiring the acquisition of property plant and equipment for the maintenance and expansion of its South African mills. A majority part of the equipment for these capex projects are ordered in foreign currency, which creates 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 enters into forward FECs which are designated as hedging instruments in a cash flow hedge. The full fair value of the FECs, including forward points, are 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.

## 28. Financial instruments continued

### (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 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.

### Liquidity risk management

The following tables for the 2023 and 2022 financial years disclose financial instruments, as determined by IFRS 9 *Financial Instruments: Recognition and Measurement*, are classified by liquidity and does not necessarily indicate the group and company actual cash flows. Interest-bearing borrowings that become payable will be settled with future cash generation or refinanced. The convertible bond included in interest-bearing borrowings has been approved for early redemption subsequent to year-end. Refer to note 31.

ZAR million	Group and company						
	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
<b>September 2023</b>							
<b>Non-current assets</b>							
Other non-current assets	551	551				–	551
Derivative financial instruments	9	9			9		
<b>Current assets</b>							
Trade and other receivables	514	514	514	–	–	–	–
Derivative financial instruments	36	36	36	–	–	–	–
Amounts owing by related parties	2,896	2,896	2,896	–	–	–	–
Cash and cash equivalents	1,671	1,671	1,671	–	–	–	–
			5,117	–	9	–	551
<b>Non-current liabilities</b>							
Interest-bearing borrowings	1,057	1,622			1,063	–	
Lease liability	431	431			79	336	217
Other non-current liabilities	45	45	–	–	–	45	–
<b>Current liabilities</b>							
Interest-bearing borrowings	2,244	2,265		2,244	–	–	–
Trade and other payables	3,565	3,565	3,565	–	–	–	–
Derivative financial instruments	5	5	–	5	–	–	–
Amounts owing to related parties	448	448	448	–	–	–	–
Lease liability	86	86	42	44	–	–	–
			4,013	2,335	1,127	128	278
Liquidity surplus (gap)			1,104	(2,335)	(1,118)	(128)	273
							(2,204)

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 28. Financial instruments continued

### (b) Liquidity risk continued

#### Liquidity risk management continued

	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows					Total
ZAR million			0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years	
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
Derivative financial instruments	–	–			–	–	–	–
Other non-current liabilities	37	37	–	–	–	37	–	37
Current liabilities								
Interest-bearing borrowings	1,373	1,404	–	1,373	–	–	–	1,373
Lease liability	84	84	44	40	–	–	–	84
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
			4,741	1,421	1,585	1,347	193	9,287
Liquidity surplus (gap)			1,182	(1,420)	(1,572)	(1,347)	5,077	1,920

## 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 2023 and 2022 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

ZAR million	Group and company					
	Maturity analysis Undiscounted cash flows					
	Total	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years
<b>Classes of derivative financial instruments September 2023</b>						
<b>Assets</b>						
Fair value of derivatives by risk factor						
<b>Interest rate risk</b>						
Long term – Interest rate swaps	9	–	9	–	–	–
<b>Foreign exchange risk</b>						
Short term – FECs	36	36	–	–	–	–
– Paying leg	2	2	–	–	–	–
– Receiving leg	34	34	–	–	–	–
<b>Liabilities</b>						
Fair value of derivatives by risk factor						
<b>Foreign exchange risk</b>						
Short term – FECs	5	5	–	–	–	–
– Paying leg	5	5	–	–	–	–
– Receiving leg	–	–	–	–	–	–

ZAR million	Group and company					
	Maturity analysis Undiscounted cash flows					
	Total	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years
<b>Classes of derivative financial instruments September 2022</b>						
<b>Assets</b>						
Fair value of derivatives by risk factor						
<b>Interest rate risk</b>						
Long term – Interest rate swaps	13			13		
<b>Foreign exchange risk</b>						
Short term – FECs	56	55	1	–	–	–
– Paying leg	2	2	–	–	–	–
– Receiving leg	54	53	1		–	–
<b>Liabilities</b>						
Fair value of derivatives by risk factor						
<b>Interest rate risk</b>						
Interest rate swaps	–	–	–	–	–	–
<b>Foreign exchange risk</b>						
Short term – FECs	233	225	8	–	–	–
– Paying leg	1	1	–	–	–	–
– Receiving leg	232	224	8	–	–	–

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 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						
		Categories in accordance with IFRS 9						
ZAR million	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Amortised cost	Fair value through OCI	Fair value	Fair value hierarchy
Classes of financial instruments								
September 2022								
Non-current assets								
Other non-current assets	818	267	551	–	551	–	551	Level 1
Derivative financial instruments	9	–	9	9			9	Level 1
	827	267	560	9	551		560	
Current assets								
Trade and other receivables	724	210	514		514		514	Level 1
Derivative financial instruments	36	–	36	36			36	Level 2
Amounts owing by related parties	2,896	–	2,896		2,896		2,896	Level 1
Cash and cash equivalents	1,671	–	1,671		1,671		1,671	Level 1
	5,327	210	5,117	36	5,081		5,117	

## 28. Financial instruments continued

### (b) Liquidity risk continued

#### Fair values continued

ZAR million	Group and company						Fair value hierarchy
	Categories in accordance with IFRS 9						
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Amortised cost	Fair value	
<b>Classes of financial instruments</b>							
<b>September 2023</b>							
<b>Non-current liabilities</b>							
Interest-bearing borrowings	1,057	–	1,057		1,057	1,622	Level 1
Lease liability	431	–	431		431	431	Level 1
Other non-current liabilities	326	281	45		45	45	Level 1
	1,814	281	1 533	–	1,533	2,098	
<b>Current liabilities</b>							
Interest-bearing borrowings	2,244	–	2,244	–	2,244	2,265	Level 1
Derivative financial instruments	5	–	5	5		5	Level 2
Trade and other payables	4,123	558	3,565		3,565	3,565	Level 1
Amounts owing to related parties	448	–	448		448	448	Level 1
Lease liability	86	–	86	–	86	86	Level 1
	6,906	558	6,348	5	6,343	6,369	

ZAR million	Group and Company						
	Categories in accordance with IFRS 9						
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Amortised cost	Fair value through OCI	Fair value
Classes of financial instruments							
September 2022							
Non-current assets							
Other non-current assets	722	412	310	–	310		310
Derivative financial instruments <sup>(1)</sup>	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 <sup>(1)</sup>	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

<sup>(1)</sup> The derivative financial instruments are measured at fair value hierarchy level 2.

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 28. Financial instruments continued

### (b) Liquidity risk continued

Fair values continued

ZAR million	Group and company					
	Categories in accordance with IFRS 9					
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Amortised cost	Fair value
<b>Classes of financial instruments</b>						
<b>September 2022</b>						
<b>Non-current liabilities</b>						
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
<b>Current liabilities</b>						
Interest-bearing borrowings	1,373	–	1,373	–	1,373	1,404
Lease liability	84	–	84	–	84	84
Trade and other payables	4,608	444	4,164		4,164	4,164
Derivative financial instruments <sup>(1)</sup>	233	–	233	233	–	233
Amounts owing to related parties	308	–	308		308	308
	6,606	444	6,162	233	5,929	6,193

<sup>(1)</sup> 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 and company's objective in relation to credit risk is to limit the exposure to credit risk through specific group-wide 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% (2022: 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.

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# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 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	
	2023	2022	2023	2022
ZAR million				
Sappi Europe SA**	–	–	–	–
Sappi International SA**	–	–	–	–
Sappi Limited***	10	10	109	127
Sappi Papier Holding GmbH**	16,127	13,190	344	316
The Sappi Limited Share Incentive Trust				
The Sappi Limited Performance Share Incentive Trust		–	37	32
Sappi North America (SD Warren Company)**	431	394		–
Sappisure Försäkrings AB**	167	1,064	172	118
	16,735	14,658	663	593

\*\* Fellow subsidiary of Sappi Limited.

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

Company	Income and sales to related parties		Purchases and charges from related parties	
	2023	2022	2023	2022
ZAR million				
Lereko Property Company Proprietary Limited*		–		–
Sappi Europe SA**	–	–	–	–
Sappi International SA**	–	–	–	–
Sappi Limited***	10	10	109	127
Sappi Papier Holding GmbH	16,127	13,190	344	316
Sappi Trading Hong Kong Limited**		–		–
The Sappi Limited Performance Share Incentive Trust**		–	37	32
Sappisure Försäkrings AB**	167	1,064	172	118
Sappi North America (SD Warren Company)**	431	394		–
	16,735	14,658	663	593

\* Subsidiary.

\*\* Fellow subsidiary.

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

Amount due from Ngodwana energy of ZAR217 million (2022: ZAR27 million) including a non-cash transaction, of ZAR118 million and Shareholder loans to Ngodwana energy of ZAR143 million (2022: ZAR143 million) and Tugela Fuel Rods of ZAR67 million (2022: ZAR63 million) and Bagasse Moulded Fibre of ZAR62 million (2022: ZAR43 million) and Mkomazi Alien Fuels ZAR36 million (2022: Rnil) provided by Sappi Southern Africa. The loans are not expected to be repaid in the next 12 months. Refer note 11.

All loans are interest free and repayable on demand.

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

Amounts owed by related parties		Amounts owed to related parties	
2023	2022	2023	2022
96	4	–	–
–	6	–	–
–	4,960	237	–
2,762	3,381	–	114
–	–	–	194
38	52	–	–
–	10	211	–
2,896	8,413	448	308

Amounts owed by related parties		Amounts owed to related parties	
2023	2022	2023	2022
–	–	3	1
96	4	–	–
–	6	–	–
–	4,960	237	–
2,762	3,381	–	114
–	–	–	–
–	–	–	194
–	10	211	–
38	52	–	–
2,896	8,413	451	309

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 29. Related-party transactions continued

### Shareholders

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

### Key management personnel

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

R'000	Group and company				
	Salary	Bonuses and performance related payments granted for the year	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Steve Binnie	9,674	1,057	315	1,390	12,436
Glen Pearce	5,587	613	179	982	7,361
Alex Thiel	5,774	3,573	193	405	9,945
Pramy Moodley	2,760	1,251	–	470	4,481
Key management remuneration – 2023	23,795	6,494	687	3,247	34,223
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

### 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

Number of shares	SR Binnie	G Pearce	A Thiel	P Moodley	Total 2023	Total 2022
<b>Outstanding at beginning of year</b>						
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	–
<b>Offered and accepted during the year</b>						
Performance shares 47	–	–	–	–	–	395,000
Performance shares 48	162,000	77,000	90,000	27,000	356,000	–
<b>Vested during the year</b>						
Number of shares	(71,000)	(32,500)	(39,500)	(11,500)	(154,500)	(37,250)
<b>Forfeited during the year</b>						
Number of shares	(71,000)	(32,500)	(39,500)	(11,500)	(154,500)	(260,750)
<b>Outstanding at end of year</b>						
Number of shares	748,000	348,000	414,000	122,000	1,632,000	1,585,000
Performance shares 44	–	–	–	–	–	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	395,000
Performance shares 48	162,000	77,000	90,000	27,000	356,000	–

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

The Plan share issue 44 vested at ZAR51.00.

### 31. Events after balance sheet date

Notification was issued in January 2024 for the early redemption of the residual ZAR1,165 million 5.25% convertible bonds issued by Sappi Southern Africa on 25 November 2020. All outstanding bonds will be redeemed on 11 March 2024 at the conversion price in effect of ZAR29.4621.

### 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 (Rand)	Principal activity	Effective holding (%)	
			2023	2022
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 Group and Company Annual Financial Statements continued

for the year ended September 2023

## 33. Segment information

The group 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		Graphics	
ZAR million	2023	2022	2023	2022	2023	2022
External sales including external forestry sales	15,815	13,024	6,419	5,429	2,936	2,469
Operating profit excluding special items	2,445	2,477	1,150	785	164	34
<b>Reconciliation of operating profit excluding special items to profit before taxation</b>						
Operating profit excluding special items	2,445	2,477	1,150	785	164	34
Special items* – gains (losses)						
Net finance costs and dividends						
Profit before taxation						

### Company

	Dissolving wood pulp		Packaging and specialities		Graphics	
ZAR million	2023	2022	2023	2022	2023	2022
External sales including external forestry sales	15,815	13,024	6,419	5,429	2,936	2,469
Operating profit excluding special items	2,445	2,477	1,150	785	164	34
<b>Reconciliation of operating profit excluding special items to profit before taxation:</b>						
Operating profit excluding special items	2,445	2,477	1,150	785	164	34
Special items* – gains (losses)						
Net finance costs and dividends						
Profit before taxation						

Forestry and Lomati		Unallocated and eliminations		Group	
2023	2022	2023	2022	2023	2022
1,446	1,391	(436)	(332)	26,180	21,981
(46)	(52)	242	211	3,955	3,455
(46)	(52)	242	211	3,955	3,455
				1,952	(792)
				(300)	(424)
				5,607	2,239

Forestry and Lomati		Unallocated and eliminations		Group	
2023	2022	2023	2022	2023	2022
1,446	1,391	(436)	(332)	26,180	21,981
(46)	(52)	242	211	3,955	3,455
(46)	(52)	242	211	3,955	3,455
				1,951	(792)
				(300)	(424)
				5,606	2,239

# Notes to the Group and Company Annual Financial Statements continued

for the year ended September 2023

## 33. Segment information continued

Reconciliation of segment assets to total assets:

ZAR million	Group		Company	
	2023	2022	2023	2022
Net operating assets	26,261	31,071	26,261	31,070
Deferred tax liabilities	6,146	5,022	6,146	5,022
Cash and cash equivalents	1,671	1,560	1,671	1,560
Trade and other payables	4,123	4,608	4,123	4,608
Derivative financial instruments (included in current liabilities)	5	233	5	233
Taxation payable	142	–	142	–
<b>Total assets</b>	<b>38,348</b>	<b>42,494</b>	<b>38,348</b>	<b>42,493</b>

There is no one customer whose sales comprise more than 10% of the group 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, and non-cash gains or losses on the price fair value adjustment of plantations.*



