SECTION 5
Balance sheet

Summarised balance sheet

US$ million	2022	2021
Property, plant and equipment	2,705	3,325
Right-of-use assets	76	110
Plantations	382	477
Net working capital	670	403
Other assets	567	364
Net post-employment liabilities	(85)	(197)
Other liabilities	(794)	(566)
Employment of capital	3,521	3,916
Equity	2,358	1,970
Net debt	1,163	1,946
Capital employed	3,521	3,916

Sappi has 19 production facilities in 10 countries, capable of producing approximately 4.1 million tons of pulp and 5.5 million tons of paper. For more information on our mills, their production capacities and products, please refer to the **Where we operate** section on page 6.

During 2022, capital expenditure for property, plant and equipment was US$346 million. The capacity replacement value of property, plant and equipment for insurance purposes has been assessed at approximately US$19 billion.

Property, plant and equipment

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

Book value of property, plant and equipment US$ million	2022	2021
Cost	7,919	9,908
Accumulated depreciation and impairment	5,214	6,583
Net book value	2,705	3,325

The group incurred capital expenditure of US$346 million during the year. This was offset by depreciation of US$265 million, transfers to held for sale of US$295 million, while the stronger US Dollar resulted in foreign currency translation losses of US$401 million.

Plantations

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

The South African region has access to approximately 400,000 ha of land of which approximately 262,000 ha are planted with pine and eucalyptus. These plantations provide approximately 71% of the wood requirements for our South African mills.

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

Our plantations are valued on the balance sheet at fair value less the estimated costs of delivery, including harvesting and transport costs. In notes 2.3.4 and 12 to the financial statements, we provide more detail on our accounting policies for plantations, how we manage our plantations, as well as the major assumptions used in the calculation of fair value.

Working capital

The component parts of our working capital at the 2022 and 2021 fiscal year ends are shown in the table below:

Net working capital US$ million	2022	2021
Inventories	780	841
Trade and other receivables	939	703
Trade and other payables and provisions	(1,049)	(1,141)
Net working capital	670	403

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

Net working capital increased to US$670 million in 2022 from US$403 million in 2021. The material movements in working capital are discussed below:

- Inventories decreased by US$61 million, caused mainly due to the US$121 million held-for-sale reclassification offset by increased inventory levels due to cost inflation and a favourable currency translation impact of US$99 million
- Receivables increased by US$236 million following higher net selling prices and increased volumes in the fourth quarter, partially offset by a US$48 million reclassification to held for sale, and a favourable currency translation impact of US$104 million
- Payables decreased by US$92 million, largely due to a US$198 million reclassification to held for sale an unfavourable currency translation impact of US$154 million partially offset by increases in trade payables on higher sales volumes, increases in bonus accruals and accruals for rebates.

Post-employment liabilities

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

Defined benefit liabilities US$ million	2022	2021
Defined benefit obligation	(609)	(1,540)
Fair value of plan assets	524	1,346
Net balance sheet liability	(85)	(194)
Cash contributions to defined benefit plans/subsidies	24	50
Income statement charge/(credit) to profit or loss	4	28
Cash contributions deemed catch-up*	6	30

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

Gross liabilities from all our plans reduced by US$931 million from US$1,540 million to US$609 million over the year. The main cause of the reduction was due to a combination of the transferal of pension liabilities of US$535 million related to the North American region's retiree pension obligations to an insurance company, translation of regional currency to a strengthened US Dollar reporting currency and an increase in discount rates in regions where we hold significant liabilities.

Fair value of plan assets decreased by US$822 million from US$1,346 million to US$524 million over the year due to unfavourable investment returns of assets in our funded plans. The largest portion of the reduction relates to the transfer of assets of US$508 million associated with the 'Metlife' agreement in Sappi North America.

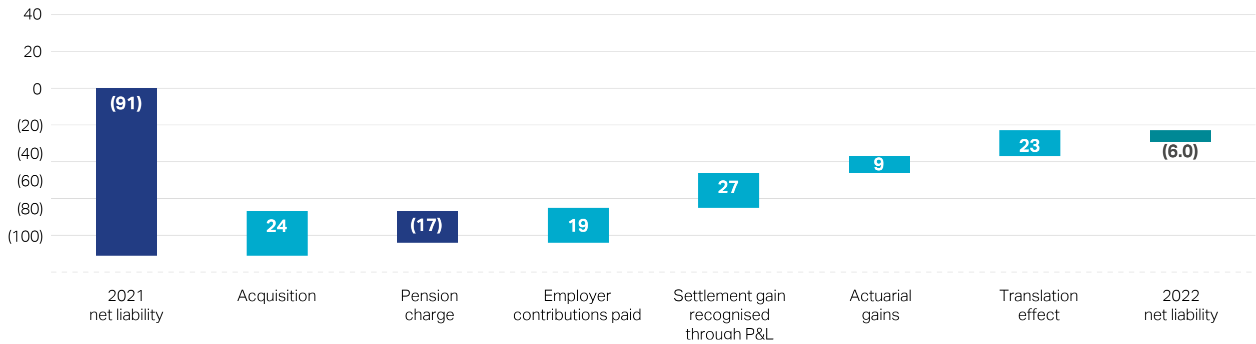
SECTION 5 continued

Balance sheet

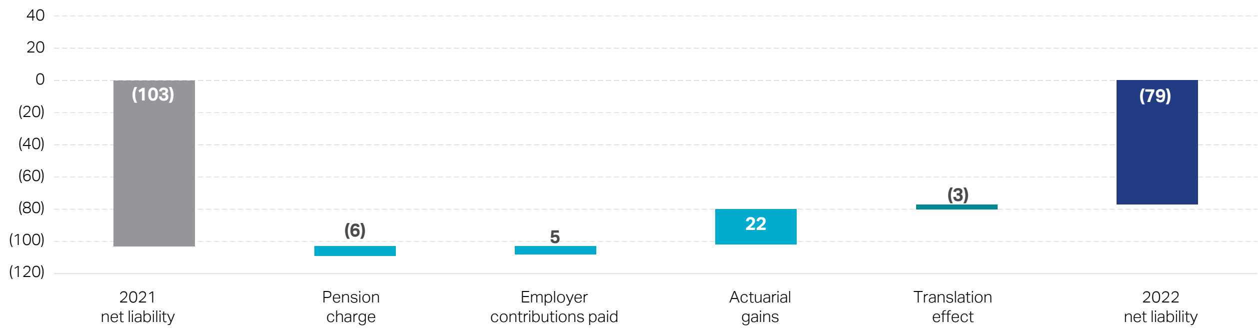
Included in the net balance sheet liability above is a net loss of US$26 million resulting from movements of local results relative to the reporting currency.

The decrease in liabilities, coupled with the reduction in assets, contributed to a reduction in the overall net liability by US$109 million from US$194 million to US$85 million over the year. A reconciliation of the movement in the balance sheet over the year is shown graphically below and disclosed in more detail in note 29 of the Annual Financial Statements.

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



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



Equity

Year-on-year, equity increased by US$388 million to US$2,358 million as summarised below:

Equity reconciliation US$ million	**2022**
Equity as at September 2021	**1,970**
Profit for the year	**536**
Actuarial gains	**35**
Issue of shares	**6**
Share-based payments	**7**
Movement in hedging reserves	**(44)**
Foreign currency movements	**(152)**
Equity as at September 2022	**2,358**

The group realised a profit for the year of US$536 million and recorded net actuarial gains of US$35 million. During the third quarter holders of the convertible bonds elected to convert and shares to the value of US$6 million were issued. Share-based payments of US$7 million, movement in hedging reserves of US$44 million and foreign currency movements of US$152 million accounted for the remainder of the movement during the year.

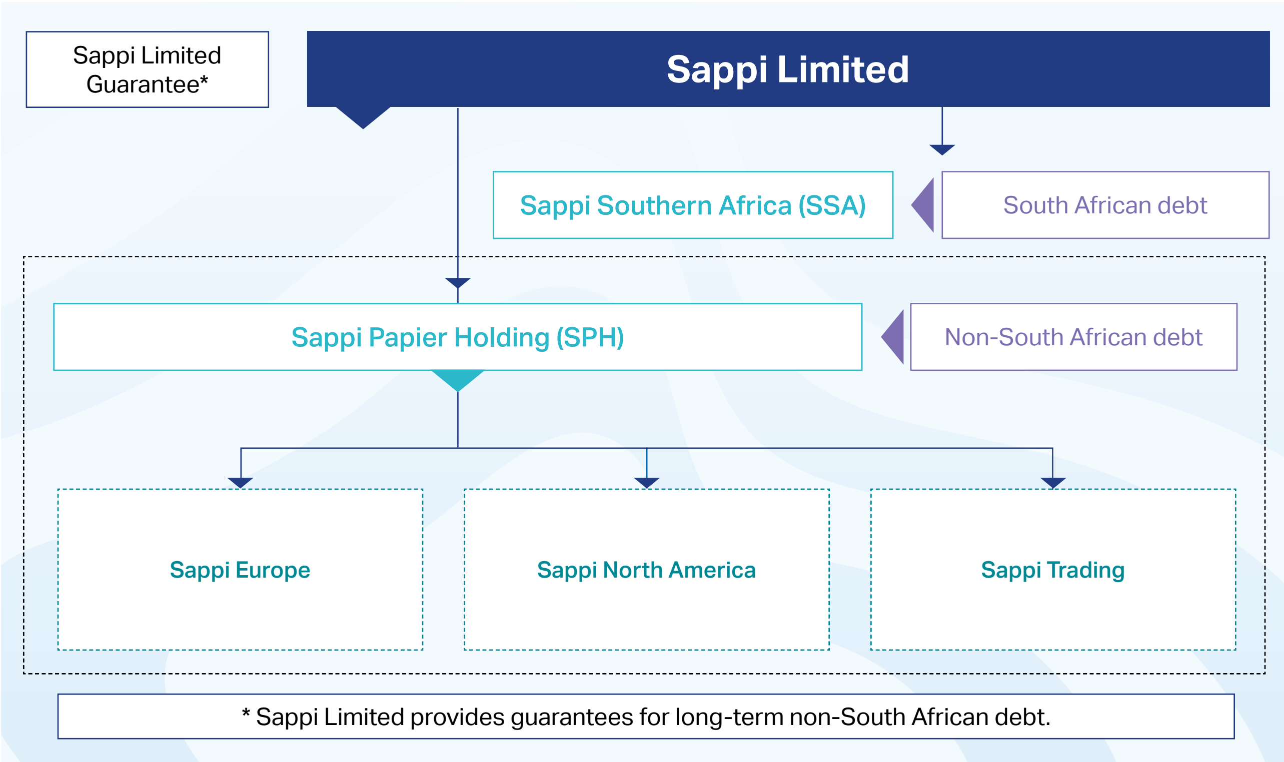
Debt

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

Debt funding structure

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

The diagram below depicts our debt funding structure.



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

- In February 2022 the previous €525 million RCF at Sappi Papier Holding maturing in February 2023 was renewed with a new €515 million facility with a maturity of February 2027
- In August 2022 the previous ZAR1.8 billion RCF at Sappi Southern Africa Limited maturing in August 2023 was renewed with a new ZAR2.0 billion facility with a maturity of August 2027
- For the first time, both the above RCFs now contain KPIs related to Sappi's long-term sustainability goals
- Shortly after year end a tender offer was launched to repurchase a portion of the outstanding Sappi Papier Holding (SPH) 2026 senior notes. SPH purchased €209.6 million of the 2026 notes, at an effective price of 92.41%, yielding a capital gain of €15.9 million.

SECTION 5 continued

Balance sheet continued

Structure of net debt and liquidity

We consider the group liquidity position to be strong, with cash holdings of US$780 million at financial year end, and US$615 million of unutilised committed RCFs.

The structure of our net debt at September 2022 and 2021 is summarised below:

US$ million	2022	2021
Long-term debt	1,754	2,157
Senior unsecured debt	1,463	1,769
Securitisation funding	322	337
IFRS 16 *Leases**	84	118
Less: Short-term portion	(115)	(67)
Net short-term debt/(cash)	(591)	(211)
Overdrafts, RCF and short-term loans	74	88
Short-term portion of long-term debt	115	67
Less: cash	(780)	(366)
Net debt	1,163	1,946

* *IFRS 16 accounting standard adopted from fiscal 2020.*

Movement in net debt

The movement of our net debt from fiscal 2021 to fiscal 2022 is summarised in the table below:

	US$ million
Net debt at September 2021	1,946
Increase of IFRS 16 *Leases*	1
Net impact of Convertible Bond conversions	(6)
Net cash generated in 2022	(506)
Currency translation, fair value and other non-cash adjustments	(272)
Net debt at September 2022	1,163

Group debt profile

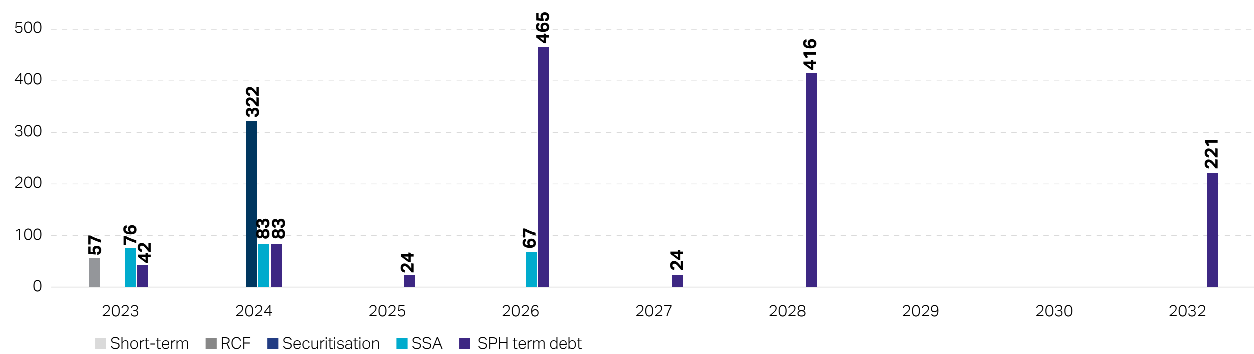
We show the major components and maturities of our net debt at September 2022 below. These are split between the debt in South Africa and the debt outside South Africa.

				Maturity (Sappi fiscal years)				
	Amount US$ million	Interest rates (local currencies)	Fixed/ variable	2023	2024	2025	2026	Thereafter
South Africa								
Short-term notes	17	8.20%	Variable	17				
SSA07 public bond	59	8.30%	Variable	59				
SAA08 public bond	83	9.25%	Fixed		83			
Convertible bond	67	5.25%	Fixed				67	
Gross debt	226							
less cash	(86)			(86)				
Net South African debt	139			(10)	83	0	67	0
Non-South African								
Securitisation (US$)	77	4.50%	Variable		77			
Securitisation (€)	245	2.10%	Variable		245			
IFRS 16 Leases	85	Various	Mixed	19	18	12	8	29
OeKB term loan 1	76	2.30%	Fixed	18	59			
OeKB term loan 2 (CAD)	80	4.10%	Fixed	13	13	13	13	27
OeKB term loan 2 (€)	62	1.50%	Fixed	10	10	10	10	21
Other bank debt (€)	57	1.90%	Variable	57				
2028 public bonds (€)	392	3.63%	Fixed					392
2026 public bonds (€)	441	3.13%	Fixed				441	
2032 bonds (US$)	221	7.50%	Fixed					221
IFRS adjustments	(20)							(20)
Gross debt	1,717							
less cash	(694)			(694)				
Net non-South African debt	1,023			(577)	423	36	473	670
Net group debt	1,163			(587)	505	36	540	670

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

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

Debt maturity profile (US$ million)



Excludes IFRS 16 leases with and average time to maturity of approximately four years.

SECTION 5 continued

Balance sheet continued

Covenants

Non-South African covenants

Financial covenants apply to US$218.6 million of our non-South African bank debt, the €515 million RCF and the non-South African securitisation facility.

In view of the uncertainty due to Covid-19, the non-South African banking group agreed in 2020 to suspend the measurement of financial covenants until September 2021. Covenant measurement commenced again with effect from the December 2021 quarter. The covenants applicable from December 2022 are described below and are calculated on a rolling last four quarter basis and must be met at the end of each quarter.

- Ratio of group net debt to EBITDA:

December 2022	March 2023 to December 2026
4.25	4.00

- Ratio of group EBITDA to net interest expense should not be less than 2.5:1.

South African covenants

Separate covenants also apply to the RCF of our Southern African business.

These covenants are calculated on a rolling last four quarter basis and require that at the end of March and September each year, with regard to Sappi Southern Africa Limited and its subsidiaries:
- The ratio of net debt to equity at the end of March and September is not greater than 65%
- The ratio of EBITDA to net interest paid is not less than 2.5:1.

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

	Sept 2022	Covenant
Non-South African covenants		
Net debt to EBITDA	**0.89**	<4.50
EBITDA to net interest	**15.29**	>2.50
South African covenants		
Net debt to equity	**10.85%**	<65%
EBITDA to net interest	**13.10**	>2.50

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

Credit ratings

Global Credit Ratings: South African national scale rating
Sappi Southern Africa Limited: AA+ (za)/A1+(za)/Positive Outlook (June 2022).

Moody's
Sappi Corporate Family Rating: Ba2 /NP/Stable Outlook (May 2022).

SPH debt rating:
- 2028/2026 bonds: Ba2/Stable Outlook (May 2022)
- 2032 bonds: B1/Stable Outlook (May 2022).

S&P Global Ratings
Corporate Credit Rating: BB-/B/Stable Outlook (July 2022).

SPH debt rating:
- 2026/2028/2032 bonds: BB- Stable Outlook (July 2022).

Conclusion

Fiscal 2022 was transformative as the group emerged with a significantly strengthened balance sheet following strong cash generated from operations and good working capital management. We were able to counter the sharp increase in input costs with selling price increases and in the process improve margins and capitalise on strong local demand in all our product segments. Strategically, the cost base in our packaging and speciality papers business benefited from the purchase of the Matane Mill in Canada. The announcement of the sale of the three graphics mills in Europe is further evidence of the advancement of our Thrive25 strategy as we reduce our exposure to declining markets.

Macro-economic uncertainties are more pronounced, increasing volatility and reducing the accuracy of forecasting. Flexibility and agility in a capital-intensive business are difficult to manage, but the strength of the balance sheet offers greater options than before. Optimising systems and processes and successfully transferring the sold operations to the new owners will utilise a major portion of our internal resources but we have built a strong foundation to measure up to the challenges.

The four key fundamentals of our Thrive25 strategy remain relevant and achievable given the significant progress accomplished during the current year. The short-term focus will be to maintain the strong balance sheet and improve operational efficiencies. The medium to longer term strategy will be to invest in growth opportunities and achieve our sustainability goals.

Glen Pearce
Chief Financial Officer

09 December 2022