

Section 5: Balance sheet

Summarised balance sheet

US\$ million	2023	2022
Property, plant and equipment	2,886	2,705
Right-of-use assets	69	76
Plantations	488	382
Net working capital	447	670
Other assets	317	567
Net post-employment liabilities	(114)	(85)
Other liabilities	(563)	(794)
Employment of capital	3,530	3,521
Equity	2,445	2,358
Net debt	1,085	1,163
Capital employed	3,530	3,521

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.

During 2023, capital expenditure for property, plant and equipment was US\$377 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 properties are set out in the table below.

Book value of property, plant and equipment US\$ million	2023	2022
Cost	9,321	7,919
Accumulated depreciation and impairment	6,435	5,214
Net book value	2,886	2,705

The group incurred capital expenditure of US\$378 million during the year. This was offset by depreciation of US\$266 million, impairments of US\$229 million whilst transfers back from held-for-sale assets amounted to US\$291 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 hectares of land of which approximately 261,000 hectares are planted with pine and eucalyptus. These plantations provide approximately 62% of the wood requirements for our South African mills.

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. The effect of this change in estimate resulted in a favourable US\$78 million adjustment included in the US\$123 million adjustment for the year. In addition to this, 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 11 to the Annual 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.

Section 5 continued

Balance sheet continued

Working capital

The component parts of our working capital at the 2023 and 2022 fiscal year-ends are shown in the table below:

Net working capital		
US\$ million	2023	2022
Inventories	777	780
Trade and other receivables	659	939
Trade and other payables and provisions	(987)	(1,049)
Net working capital	449	670

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

Net working capital decreased to US\$448 million in 2023 from US\$670 million in 2022. The material movements in working capital are discussed below:

- Inventories decreased by US\$3 million, caused mainly due to decreased inventory levels partially offset by an unfavourable currency translation impact of US\$20 million
- Receivables reduced by US\$280 million on lower sales volumes partially offset by an unfavourable currency translation impact of US\$21 million
- Payables decreased by US\$62 million largely due to lower trade payables on lower sales volumes, decreases in bonus accruals and accruals for rebates, offset by a favourable currency translation impact of US\$32 million.

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	2023	2022
Defined benefit obligation	(481)	(610)
Fair value of plan assets	373	525
Asset ceiling	(5)	–
Net balance sheet liability	(113)	(85)
Cash contributions to defined benefit plans/subsidies	28	24
Income statement charge/(credit) to profit or loss	(24)	4
Cash contributions deemed 'catch-up'	18	6

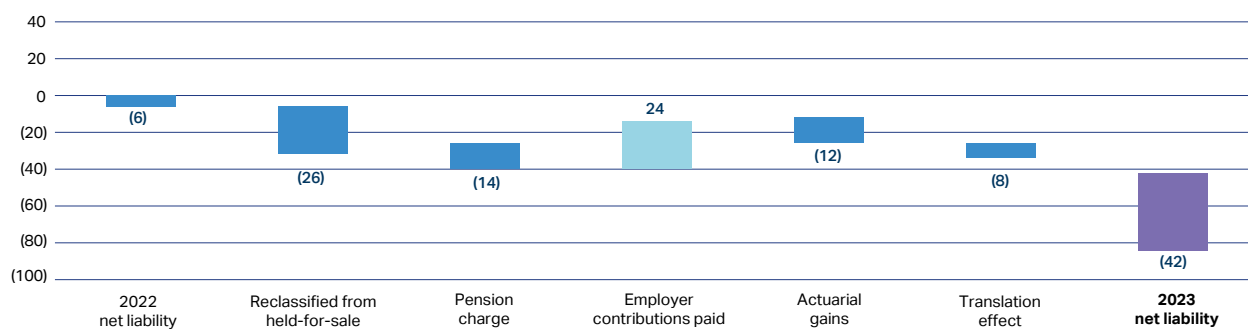
* 'Catch-up' is cash contributions paid to defined benefit plans in excess of current service cost.

Gross liabilities from all our plans reduced by US\$129 million from US\$610 million to US\$481 million over the year. The main cause of the reduction was exercising the 'buy-out' option of the UK Pension Fund. The scheme's liabilities and assets were transferred using the buy-out option to an insurance scheme.

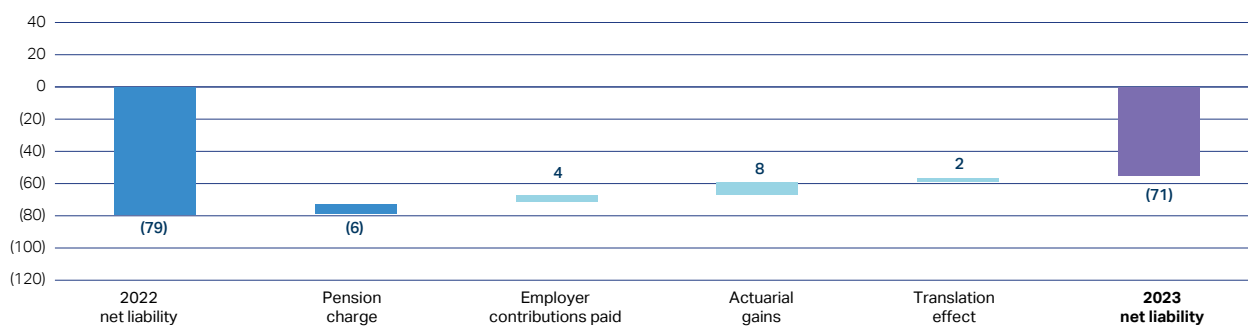
Fair value of plan assets decreased by US\$152 million from US\$525 million to US\$373 million. The main driver of this was the abovementioned exercising of the buy-out option.

Section 5 *continued* Balance sheet *continued*

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\$87 million to US\$2,445 million as summarised below.

Equity reconciliation

US\$ million

	2023
Equity as at September 2022	2,358
Profit for the year	259
Dividend paid	(85)
Share repurchases	(22)
Issue of shares	3
Share-based movements	6
Movement in hedging reserves	26
Actuarial losses	(5)
Foreign currency movements	(95)
Equity as at September 2023	2,445

The group realised a profit for the year of US\$259 million. This was offset by the dividend declared of US\$85 million, share repurchases of US\$22 million, actuarial losses of US\$5 million and foreign currency movements of US\$95 million. Share-based payments of US\$6 million were recorded and shares to the value of US\$3 million were issued during the year to holders of the convertible bonds who elected to convert.

Section 5 continued Balance sheet continued

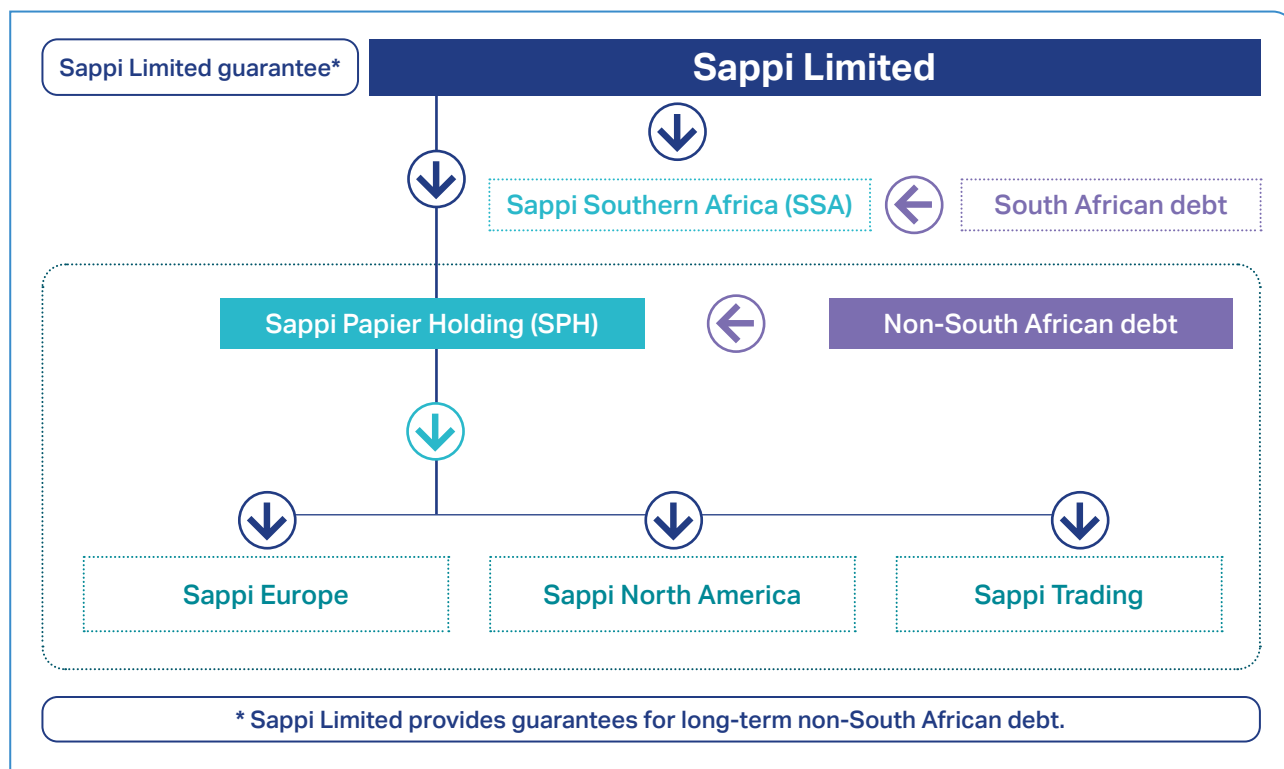
Debt

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 at two legal entities. Sappi Southern Africa Limited (SSA) 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:

- A tender offer was launched to repurchase a portion of the outstanding 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
- The €330 million SPH securitisation programme was renewed until January 2026
- The maturing SSA07 ZAR1.5 billion bond in South Africa was repaid from cash resources.

Structure of net debt and liquidity

We consider the group liquidity position to be strong, with cash holdings of US\$601 million at financial year-end, and US\$650 million of unutilised committed revolving credit facilities.

The structure of our net debt as at September 2023 and 2022 is summarised below.

US\$ million	2023	2022
Long-term debt	1,397	1,754
Senior unsecured debt	1,213	1,463
Securitisation funding	280	322
IFRS 16 Leases*	91	84
Less: Short-term portion	(187)	(115)
Net short-term debt/(cash)	(312)	(591)
Overdrafts, RCF and short-term loans	101	74
Short-term portion of long-term debt	187	115
Less: Cash	(601)	(780)
Net debt	1,085	1,163

* IFRS 16 accounting standard adopted from fiscal 2020.

Movement in net debt

The movement of our net debt from fiscal 2022 to fiscal 2023 is summarised in the table below.

	US\$ million
Net debt at September 2022	1,163
Increase of IFRS 16 Leases	31
Net impact of convertible bond conversions	(3)
Net cash generated in 2023	(210)
Sappi Limited share repurchase	22
Currency translation, fair value and other non-cash adjustments	82
Net debt at September 2023	1,085

Section 5 continued Balance sheet continued

Group debt profile

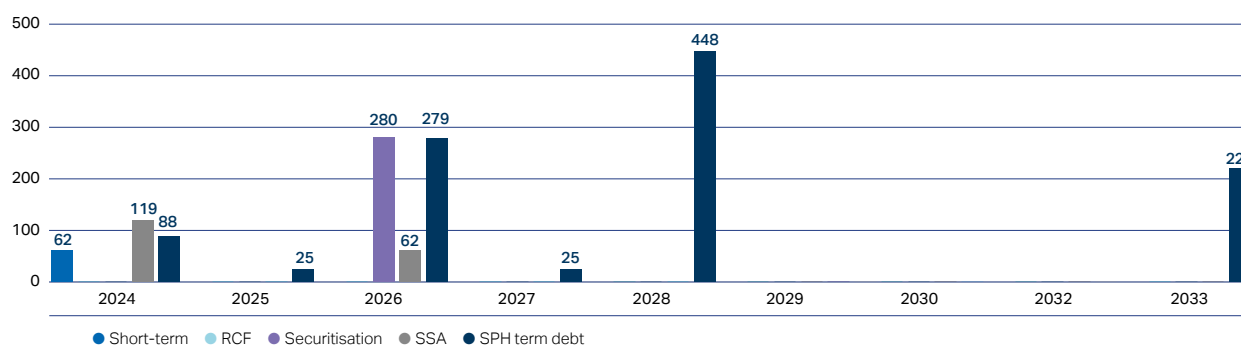
We show the major components and maturities of our net debt at September 2023 below. These are split between the debt in South Africa and the debt outside South Africa.

	Amount US\$ million	Interest rates (local currencies)	Fixed/ variable	Maturity (Sappi fiscal years)				
				2024	2025	2026	2027	Thereafter
South Africa								
Short-term notes	40	9.10%	Variable	40				
SAA08 public bond	79	9.25%	Fixed	79				
Convertible bond	62	5.25%	Fixed			62		
Gross debt	180							
Less: Cash	(88)			(88)				
Net South African debt	92			31	0	62	0	0
Non-South African								
Securitisation (US\$)	110	7.10%	Variable			110		
Securitisation (€)	170	5.40%	Variable			170		
IFRS 16 Leases	92	Various	Mixed	23	16	12	12	29
OeKB term loan 1	63	2.10%	Fixed	63				
OeKB term loan 2 (CAD)	68	3.90%	Fixed	14	14	14	14	14
OeKB term loan 2 (€)	56	1.30%	Fixed	11	11	11	11	11
Other bank debt (€)	62	4.60%	Variable	62				
2028 public bonds (€)	423	3.63%	Fixed					423
2026 public bonds (€)	254	3.13%	Fixed			254		
2032 bonds (US\$)	221	7.50%	Fixed					221
IFRS adjustments	(13)							(13)
Gross debt	1,505							
Less: Cash	(512)			(512)				
Net non-South African debt	993			(340)	41	571	37	685
Net group debt	1,085			(310)	41	632	37	685

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.

Covenants

Non-South African covenants

Financial covenants apply to US\$187 million of our non-South African bank debt, the €515 million revolving credit facility (RCF) and the non-South African securitisation facility.

The covenants applicable from December 2023 to December 2026 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 should not be more than 4.0 times
- Ratio of group EBITDA to net interest expense should not be less than 2.50 to 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 (SSA) 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.

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

	Sept 2023	Covenant
Non-South African covenants		
Net debt to EBITDA	1.41	<4.00
EBITDA to net interest	11.00	>2.50
South African covenants		
Net debt to equity	8.84%	<65%
EBITDA to net interest	19.09	>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. With regards to 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: AAA (za)/A1+(za)/Stable Outlook (June 2023)

Moody's

Sappi Corporate Family Rating: Ba2/NP/Positive Outlook (December 2022)

SPH Debt Rating:

- 2028/2026 Bonds: Ba2/Positive Outlook (December 2022)
- 2032 Bonds: B1/Positive Outlook (December 2022).

S&P Global Ratings

Corporate Credit Rating: BB/B/Positive Outlook (January 2023)

SPH Debt Rating:

- 2026/2028/2032 Bonds: BB Positive Outlook (January 2023).

Fitch Ratings

Group Long-Term Issuer Default Rating: BB+ Stable Outlook (April 2023).

SPH Unsecured Debt Rating:

- 2026/2028/2032 Bonds: BB+ Stable Outlook (April 2023).

Conclusion

The challenges experienced during fiscal 2023 demonstrated the resilience of the group and the ability to adapt to a changing environment. The suitability of the **Thrive** strategy and commitment to implement was apparent in the company's response to the lower volume demand and pricing volatility. Improved systems and processes supported decisions to counter the reduced capacity utilisation with a focus on managing operating margins and working capital requirements. The strength of the balance sheet enabled the group to comfortably manage the challenges and make decisions to address the structural market demand decline in our graphics segment. The packaging and speciality and pulp segments are projected to provide growth opportunities and the **Thrive** strategy is designed to take advantage of the opportunities.

The uncertain macroeconomic and political climate is expected to persist with the group being well placed to manage the short-term challenges without deviating from the **Thrive** strategy. The South African and North American regions are structurally sound and operating in strong market demand environments. The European region is in the process of implementing structural changes to meet the changing market demand requirements that will restore profitability to targeted levels.

The medium to longer-term strategy to invest in growth opportunities and achieve our sustainability goals remains intact.

Glen Pearce

Chief Financial Officer

08 December 2023