

Section 5: Balance sheet

Summarised balance sheet

US\$ million	2024	2023
Property, plant and equipment	3,241	2,886
Right-of-use assets	79	69
Plantations	562	488
Net working capital	489	447
Other assets	317	317
Net post-employment liabilities	(110)	(114)
Other liabilities	(661)	(563)
Employment of capital	4,000	3,530
Equity	2,578	2,445
Net debt	1,422	1,085
Capital employed	4,000	3,530

Sappi has 17 production facilities in nine countries, capable of producing approximately 3.7 million tons of pulp and 4.6 million tons of paper. For more information on our mills, their production capacities and products, please refer to the Where we operate section.

During 2024, property, plant and equipment additions amounted to US\$490 million. The capacity replacement value of property, plant and equipment for insurance purposes has been assessed at approximately US\$20 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	2024	2023
Cost	9,141	9,321
Accumulated depreciation and impairment	5,900	6,435
Net book value	3,241	2,886

Property, plant and equipment additions amounted to US\$490 million during the year. This was offset by depreciation of US\$248 million and transfers to held-for-sale assets of US\$78 million. Net impairments reversals amounted to US\$29 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 401,000 hectares of land of which approximately 262,000 hectares are planted with pine and eucalyptus. These plantations provide approximately 60% of the wood requirements for our South African mills.

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 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.

Chief Financial Officer's report continued

Section 5 *continued*

Balance sheet *continued*

Working capital

The component parts of our working capital at the 2024 and 2023 fiscal year ends are shown in the table below:

Net working capital US\$ million	2024	2023
Inventories	836	777
Trade and other receivables	771	658
Trade and other payables and provisions	(1,118)	(988)
Net working capital	489	447

Optimising working capital remains a key focus area for us and appropriate targets are incorporated into the MISs 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\$489 million in 2024 from US\$447 million in 2023. The material movements in working capital are discussed below:

- Inventories increased by US\$59 million, caused mainly due to increased inventory levels and an unfavourable currency translation impact of US\$34 million
- Receivables increased by US\$113 million on higher sales volumes and an unfavourable currency translation impact of US\$22 million
- Payables increased by US\$130 million largely due to increases in capital, bonus and rebate accruals, and a favourable currency translation impact of US\$58 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	2024	2023
Defined benefit obligation	(529)	(481)
Fair value of plan assets	422	373
Asset ceiling	(3)	(5)
Net balance sheet liability	(110)	(113)
Cash contributions to defined benefit plans/subsidies	24	28
Income statement charge/(credit) to profit or loss	(15)	(24)
Cash contributions deemed 'catch-up'*	14	18

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

Gross liabilities from all our plans increased by US\$48 million from US\$481 million to US\$529 million over the year. The main driver of the overall increase in gross liabilities was a drop in discount rates due to falling yields in respective bond markets.

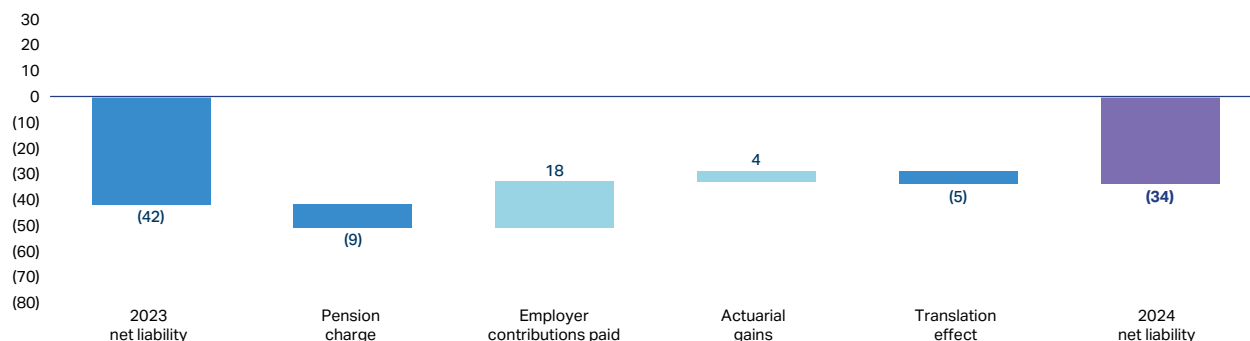
Fair value of plan assets increased by US\$49 million from US\$373 million to US\$422 million. Significant portions of our assets are held in bonds as part of liability matching strategic allocations. An equivalent increase is therefore seen in asset returns across the group, mostly relating to the North American plan assets, with higher-than-expected returns being achieved.

Included in the liability and asset movements above is a US\$7 million loss resulting from movements relative to the reporting currency.

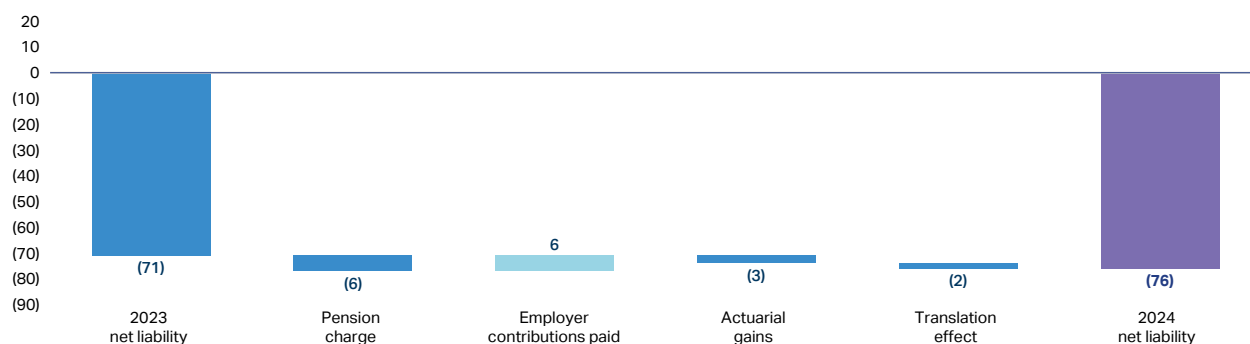
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Balance sheet *continued*

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\$133 million to US\$2,578 million as summarised below:

Equity reconciliation

US\$ million

	2024
Equity as at September 2023	2,445
Profit for the year	33
Dividend paid	(84)
Issue of shares	59
Share-based movements	6
Movement in hedging reserves	17
Actuarial losses	(1)
Foreign currency movements	103
Equity as at September 2024	2,578

The group realised a profit for the year of US\$33 million. Additionally, shares to the value of US\$59 million were issued as settlement of our residual convertible bond, a share-based charge of US\$6 million was recorded, hedging gains amounted to US\$17 million and foreign currency movements resulted in an increase of US\$103 million. These were offset by the dividend declared of US\$84 million and actuarial losses of US\$1 million.

Chief Financial Officer’s report continued

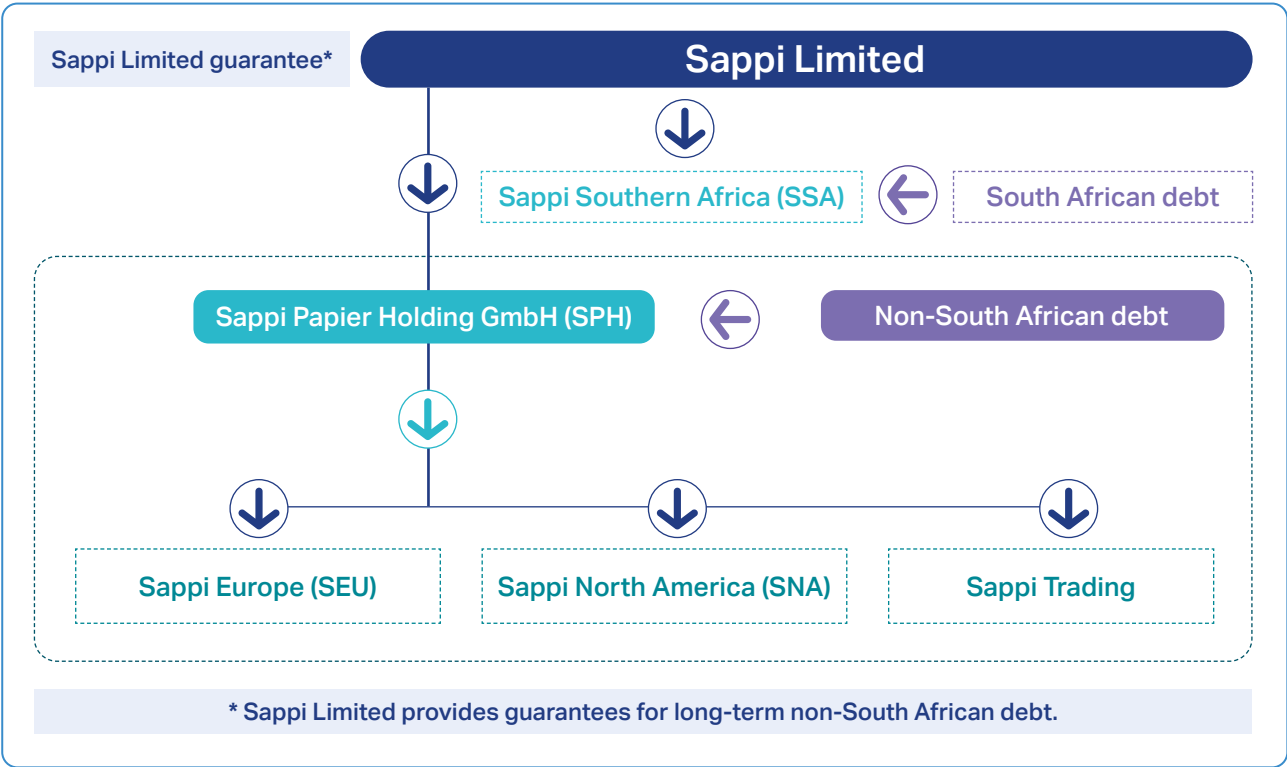
Debt

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 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:

- New €150 million seven-year OeKB bank term loan
- Conversion of the ZAR1.8 billion SSA convertible bond to equity
- Refinancing the ZAR1.5 billion SSA08 bond maturity in South Africa with a new local bond issue.

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\$317 million at financial year end, and US\$692 million of unutilised committed RCFs.

The structure of our net debt as at September 2024 and 2023 is summarised below:

US\$ million	2024	2023
Long-term debt	1,611	1,397
Senior unsecured debt	1,286	1,213
Securitisation funding	293	280
IFRS 16 <i>Leases</i> *	95	91
Less: Short-term portion	(63)	(187)
Net short-term debt/(cash)	(188)	(312)
Overdrafts, RCF and short-term loans	65	101
Short-term portion of long-term debt	63	187
Less: Cash	(317)	(601)
Net debt	1,422	1,085

* IFRS 16 accounting standard adopted from fiscal 2020.

Movement in net debt

The movement of our net debt from fiscal 2023 to fiscal 2024 is summarised in the table below:

	US\$ million
Net debt at September 2023	1,085
Increase of IFRS 16 <i>Leases</i>	23
Convertible bond conversions	(58)
Net cash utilised in 2024	306
Currency translation, fair value and other non-cash adjustments	66
Net debt at September 2024	1,422

Chief Financial Officer's report continued

Section 5 *continued*

Balance sheet *continued*

Group debt profile

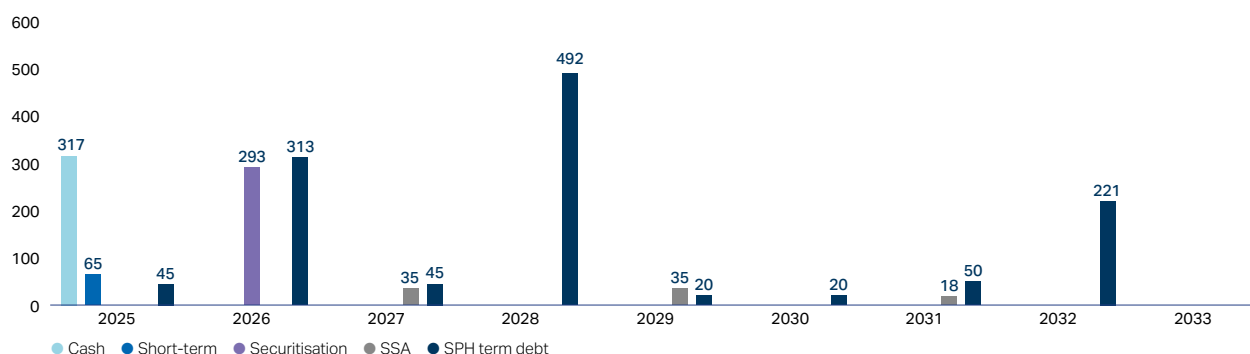
We show the major components and maturities of our net debt as at September 2024 below. These are split between the debt in South Africa and the debt outside South Africa.

MATURITY (SAPPI FISCAL YEARS)

	Amount US\$ million	Interest rates (local currencies)	Fixed/ variable	2025	2026	2027	2028	Thereafter
South Africa								
SAA10 public bond	35	9.50%	Variable			35		
SAA11 public bond	35	9.66%	Variable					35
SAA12 public bond	18	9.80%	Variable					18
Gross debt	88							
Less: Cash	(113)			(113)				
Net South African debt	(25)			(113)		35		53
Non-South African								
Securitisation (US\$)	128	6.80%	Variable		128			
Securitisation (€)	165	5.10%	Variable		165			
IFRS 16 Leases	95	Various	Mixed	21	17	15	13	29
OeKB term loan 1	167	4.80%	Fixed	20	20	20	20	89
OeKB term loan 2 (CAD)	55	3.90%	Fixed	14	14	14	14	
OeKB term loan 2 (€)	47	1.30%	Fixed	12	12	12	12	
Other bank debt (€)	65	3.60%	Variable	65				
2026 public bonds (€)	268	3.13%	Fixed		268			
2028 public bonds (€)	447	3.63%	Fixed				447	
2032 bonds (US\$)	221	7.50%	Fixed					221
IFRS adjustments	(7)							(7)
Gross debt	1,651							
Less: Cash	(204)			(204)				
Net non-South African debt	1,447			(73)	623	60	505	332
Net group debt	1,422			(186)	623	95	505	385

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

The debt maturity profile for Sappi fiscal years is shown below:



¹ Excludes IFRS 16 Leases with an average time to maturity of approximately four years.

Section 5 *continued*

Balance sheet *continued*

Covenants

Non-South African covenants

Financial covenants apply to US\$269.2 million of our non-South African bank debt, the €515 million RCF and the non-South African securitisation facility.

The covenants applicable from December 2024 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 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 2024, the group financial covenants were comfortably met.

	Sept 2024	Covenant
Non-South African covenants		
Net debt to EBITDA	1.98	<4.00
EBITDA to net interest	10.46	>2.50
South African covenants		
Net debt to equity	0.66%	<65%
EBITDA to net interest	31.04	>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: AAA (za)/A1+(za)/Stable Outlook (July 2024)

Moody's

Sappi Corporate Family Rating: Ba2/NP/Positive Outlook (December 2023)

SPH Debt Rating:

- 2026/2028 Bonds: Ba2/Positive Outlook (December 2023)
- 2032 Bonds: B1/Positive Outlook (December 2023).

S&P Global Ratings

Corporate Credit Rating: BB/B/Stable Outlook (December 2023)

SPH Debt Rating:

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

Fitch Ratings

Group Long-Term Issuer Default Rating: BB+ Stable Outlook (March 2024)

SPH Unsecured Debt Rating:

- 2026/2028/2032 Bonds: BB+ Stable Outlook (March 2024).

Conclusion

The **Thrive** strategy provides the group with the flexibility to adapt to a changing external environment. The closure of capacity in Europe reset the underlying cost base to align with the accelerated demand reduction for graphic papers. The strength of the balance sheet enabled the group to absorb the costs of the capacity closure taking into account the capital expenditure commitments of the conversion project at Somerset Mill. Improved systems and processes supported the closure decision and aided the successful transfer of production to remaining sites in Europe. The packaging and speciality papers and pulp segments are projected to provide growth opportunities and the **Thrive** strategy is designed to take advantage of the opportunities.

The conversion of the paper machine at Somerset Mill is scheduled for completion by April 2025. The short-term focus of the group will be the ramp-up of volumes on the converted machine, manage the macroeconomic uncertainties in Europe and reduce the net debt to our targeted levels.

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

GT Pearce

Chief Financial Officer

06 December 2024