sappi

Group Annual Financial Statements
for the year ended September 2016

One Sappi

2016

Through the power of One Sappi – committed to collaborating and partnering with stakeholders – we aim to be a trusted and sustainable organisation with an exciting future in woodfibre.

GROUP ANNUAL FINANCIAL STATEMENTS

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

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Directors' approval

The directors are responsible for the maintenance of adequate accounting records and the content, integrity and fair presentation of the Group Annual Financial Statements and the related financial information included in this report. These have been prepared in accordance with International Financial Reporting Standards and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and, the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. In preparing the Group Annual Financial Statements, the group applied appropriate accounting policies supported by reasonable judgements and estimates. The auditors are responsible for auditing the Group Annual 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 by the group and are committed to maintaining a strong control environment. Details relating to the group's internal control environment are set out in the corporate governance section of the Annual Integrated Report.

The directors are of the opinion, based on the information and explanations given by the company's officers and the internal auditors, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Group Annual 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's budget and cash flow forecasts. This review, together with the group's financial position, existing borrowing facilities and cash on hand, has satisfied the directors that the group will continue as a going concern for the foreseeable future. The group, therefore, continues to adopt the going concern basis in preparing its Group Annual Financial Statements.

The Directors' Report and the Group Annual Financial Statements appear on pages 5 to 86 and were approved by the board of directors on 09 December 2016 and signed on its behalf by:

SR Binnie
Chief Executive Officer

GT Pearce
Chief Financial Officer

Sappi Limited

09 December 2016

Group Company Secretary's certificate

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 2016, 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 Southern Africa Limited

Secretaries

per AJ Tregoning
Group Company Secretary

09 December 2016

Independent auditor's report

To the shareholders of Sappi Limited

We have audited the consolidated financial statements of Sappi Limited set out on pages 7 to 86, which comprise the balance sheet as at September 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sappi Limited as at September 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated financial statements for the year ended September 2016, we have read the Directors' Report, the Audit Committee's report and the Company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in *Government Gazette* Number 39475 dated 04 December 2015, we report that Deloitte & Touche has been the auditor of Sappi Limited for 80 years.

Deloitte & Touche
Registered Auditor

Per P Smit
Partner

09 December 2016

Johannesburg, South Africa

*National Executive: *LL Bam Chief Executive *TMM Jordan Deputy Chief Executive Officer *MJ Jarvis Chief Operating Officer *GM Pinnock Audit *N Sing Risk Advisory *NB Kader Tax TP Pillay Consulting S Gwala BPaaS *K Black Clients & Industries *JK Mazzocco Talent & Transformation *MJ Comber Reputation & Risk *TJ Brown Chairman of the Board*

** Partner and Registered Auditor.*

A full list of partners and directors is available on request

BBBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

Audit Committee report

for the year ended September 2016

Introduction

The Audit Committee presents its report for the financial year ended September 2016. The Audit Committee is an independent statutory committee, whose duties are delegated to it by the board of directors. The committee has conducted its affairs in compliance with a board approved terms of reference, and has discharged its responsibilities contained therein.

Objectives and scope

The overall objectives of the committee are:

- To assist the board in discharging its duties relating to the safeguarding of assets and the operation of adequate systems and control processes
- To control reporting processes and the preparation of financial statements in compliance with the applicable legal and regulatory requirements and accounting standards
- To provide a forum for the governance of risk, including control issues and developing recommendations for consideration by the board
- To oversee the internal and external audit appointments and functions, and
- To perform duties that are attributed to it by the South African Companies Act 71 of 2008 (the Companies Act), the JSE Limited Listings Requirements and King III.

Committee performance:

- Received and reviewed reports from both internal and external auditors concerning the effectiveness of the internal control environment, systems and processes
- Reviewed the reports of both internal and external audit findings and their concerns arising out of their audits and requested appropriate responses from management
- Made recommendations to the board of directors regarding the corrective actions to be taken as a consequence of audit findings
- Considered the independence and objectivity of the external auditors and ensured that the scope of their additional services provided did not impair their independence
- Received and dealt with concerns and complaints through 'whistle-blowing' mechanisms that were reported to the committee by the Group Internal Audit function
- Reviewed a documented assessment, including key assumptions, prepared by management on the going concern status of the group, and accordingly made recommendations to the board
- Reviewed and recommended for adoption by the board the financial information that is publicly disclosed, which included:
  - The Annual Integrated Report
  - The Group Annual Financial Statements, and
  - The quarterly financial results
- Considered the effectiveness of Group Internal Audit, approved the annual operational strategic internal audit plan and monitored adherence of Group Internal Audit to its plan
- Reviewed the performance and expertise of the Chief Financial Officer and confirmed his suitability for the position
- Satisfied itself that the Group Internal Audit function is efficient and effective and carried out its duties in an independent manner in accordance with a board approved Internal Audit Charter
- Undertook a full audit tender process resulting in a recommendation to the board to change the external auditors for the group.

The committee is satisfied that it has fulfilled its obligations in respect of its scope of responsibilities.

Membership

The membership of the committee comprises independent non-executive directors, all of whom are financially literate, with three members forming a quorum:

Dr D Konar (Chairman)	(Appointed in January 2004, Chairman from January 2007)
Mr GPF Beurskens	(Appointed in January 2012)
Mr MA Fallon	(Appointed in January 2012)
Mr NP Mageza	(Appointed in February 2010)
Mrs KR Osar	(Appointed in November 2007)

Mr GPF Beurskens announced his retirement as independent non-executive director and member of the Audit Committee with effect from 28 February 2017. Subject to shareholder approval, the board of Sappi Limited and the Audit Committee have resolved to appoint Mr RJAM Renders to the Audit Committee with effect from 01 March 2017 to replace Mr Beurskens.

Biographical details of the current members of the committee are set out on our website, www.sappi.com.

In addition, the Chief Executive Officer, the Chief Financial Officer, Head of Group Internal Audit, the Risk Executive and the external auditors are also permanent invitees to the meeting. The Chairman of the board attends meetings ex officio. The effectiveness of the committee is assessed every year. In terms of the Companies Act, the committee is required to be elected annually at the Annual General Meeting.

Audit Committee report continued

for the year ended September 2016

External audit

The committee, having considered all relevant matters, satisfied itself through enquiry that auditor independence, objectivity and effectiveness were maintained in 2016. Meetings were held with the auditors where management was not present.

No material non-audit services were provided by the external auditors during the year under review.

It was decided during the year, however, that in the interests of good governance, that the external audit would be put out to tender. Following a thorough audit tender process it was decided to recommend KPMG Inc. as the group's auditors for 2017 to the board, who after careful consideration, agreed with this recommendation.

The committee has consequently nominated, for approval at the Annual General Meeting, KPMG Inc. as the external auditor for the 2017 financial year of whom Mr Peter McDonald is the designated auditor. The committee confirms that the auditor and designated auditor are accredited by the JSE Limited.

Annual Integrated Report and the Group Annual Financial Statements

The Audit Committee has evaluated the Annual Integrated Report, incorporating the Group Annual Financial Statements, for the year ended September 2016. The Audit Committee has also considered the sustainability information as disclosed in the Annual Integrated Report and has assessed its consistency with operational and other information known to Audit Committee members. The committee has also considered the report and is satisfied that the information is reliable and consistent with the financial results. The Group Annual Financial Statements have been prepared using appropriate accounting policies, which conform to International Financial Reporting Standards.

The committee has therefore recommended the Annual Integrated Report and the Group Annual Financial Statements for approval to the board. The board has subsequently approved the report and the Group Annual Financial Statements, which will be open for discussion at the Annual General Meeting.

Based on the results of the formal documented review of the group's system of internal financial controls for the year which was performed by the Group Internal Audit function and external auditors, nothing has come to the attention of the Audit Committee to indicate that the internal financial controls were not operating effectively.

D Konar
Chairman of the Audit Committee

09 December 2016

Directors' report

for the year ended September 2016

The directors have pleasure in presenting their report for the year ended September 2016.

Nature of business

Sappi Limited, the holding company of the group, was formed in 1936 and is incorporated and domiciled in the Republic of South Africa.

Sappi is a global company with operations in North America, Europe and Southern Africa and is focused on providing dissolving wood pulp, paper pulp and paper-based solutions to its direct and indirect customer base across more than 150 countries. The group's dissolving wood pulp products are used worldwide by converters to create viscose fibre for clothing and textiles, acetate tow, pharmaceutical products, as well as a wide range of consumer products. The group's market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting and release papers used by suppliers to the fashion, textiles, automobile and household industries; and in the Southern African region newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products.

Financial results

The group generated a profit of US$319 million for the year ended September 2016 (basic earnings of 60 US cents) compared to US$167 million profit (32 US cents) for the prior year.

The increase in profit can be attributed to the successful delivery of the group's strategy which resulted in improved operating performances in all our regions in local currencies.

Detailed commentary on the 2016 financial results is contained in various reviews throughout this Annual Integrated Report.

Dividends

The directors have decided in light of the group's improved financial performance and its reduction in net debt/EBITDA ratio to below the targeted two times level, to declare a dividend of 11 US cents representing a five times earnings cover adjusted for non-cash items.

Going concern

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

Corporate governance

Sappi is committed to high standards of corporate governance and endorses the recommendations contained in the King Code of Corporate Governance principles. Please refer to our corporate governance section contained in our Annual Integrated Report for full details and to our website for Sappi's application of the principles of King III.

Health, safety, environment and community

Information on our health, safety and environmental performance is provided in our sustainability review in our Annual Integrated Report.

Significant announcements during the year under review and subsequent to year-end

The announcements were:

- In March 2016, the group announced the offering of a €350 million bond, the proceeds of which would be used to repay its existing US$350 million senior secured notes due 2021. The new €350 million senior secured notes due 2023 were priced at a coupon of 4% per annum. The refinancing reduced the group's annual interest charge by approximately US$8 million, and
- In August 2016, the group announced the release of its existing security granted to secure indebtedness of its senior secured notes due 2017 and 2023 as well as the group's €465 million revolving credit facility due to the group having achieved certain financial covenants in terms of the respective agreements.

Liquidity and financing

At September 2016, we had liquidity comprising US$703 million of cash on hand, which exceeds the amount of short-term interest-bearing debt (including bank overdrafts) of US$576 million, and US$595 million available from undrawn committed facilities in Europe and South Africa.

Net debt decreased to US$1,408 million (2015: US$1,771 million) largely due to an improved group operating performance resulting in net cash generation of US$359 million (2015: US$145 million). Lower net interest charges from refinancing activities were offset by higher tax payments. In addition, the proceeds from the sale of Enstra and Cape Kraft Mills of US$39 million were received.

Details of our non-current borrowings are set out in note 21.

Risks and insurance

Details of the group's risks and insurance are set out in the top risks section of our Annual Integrated Report.

Directors' report continued

for the year ended September 2016

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 for the year ended September 2016 was US$241 million (2015: US$248 million) in line with the prior year. Maintenance expenditure of US$155 million was incurred with US$86 million spent largely on efficiency projects.

Subsequent events

Details of events after the reporting period are set out in note 33.

Directorate

The composition of the board of directors is set out in our leadership section in our Annual Integrated Report. During the year (01 October 2015 to 25 September 2016), the following changes were announced:

- The appointment of Mr RJAM Renders as an independent non-executive director with effect from 01 October 2015 and his appointment as a member of the Human Resources and Compensation Committee with effect from 01 March 2016
- The retirement of Dr DC Cronjé as independent non-executive Chairman to the board from 28 February 2016 and the appointment of Sir Nigel Rudd as independent non-executive Chairman to the board with effect from 01 March 2016
- The appointment of Mr JD McKenzie as Lead Independent Director with effect from 01 March 2016
- The appointment of Mr MV Moosa as Chairman of the Social, Ethics, Transformation and Sustainability Committee with effect from 01 March 2016
- The appointment of Mr MA Fallon as Chairman of the Human Resources and Compensation Committee with effect from 01 March 2016, and
- The retirement of Mrs B Radebe as independent non-executive director and Mr GPF Beurskens as independent non-executive director with effect from 28 February 2017.

At the end of September 2016, there were 14 directors, two of whom were executive directors. Eleven of the 12 non-executive directors were considered to be independent. The independence of those directors who are designated as independent was reviewed and confirmed during the year by the Nomination and Governance Committee. This included a more rigorous review of the independence of the directors who have served more than nine years on the board, viz Dr D Konar, Mrs B Radebe, Mrs KR Osar and Sir Nigel Rudd. The conclusion was that the independence of character and judgement of Dr Konar, Mrs Radebe, Mrs Osar and Sir Nigel Rudd were not in any way affected or impaired by their respective lengths of service.

In terms of the company's Memorandum of Incorporation, Messrs MA Fallon, JD McKenzie, GT Pearce and Dr D Konar will retire by rotation from the board at the forthcoming Annual General Meeting and all being eligible, have offered themselves for re-election. Having assessed the individual performances of the directors concerned, the board recommends each of them for reappointment.

Details of the secretaries and their business and postal addresses are set out in the administration section of the Annual Integrated Report.

Details of the directors and prescribed officers' shareholding and remuneration are set out in notes 35 to 37.

Directors' and officers' disclosure of interests in contracts

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

Directors' liabilities

Directors and officers of the group are covered by directors' and officers' liability insurance.

Subsidiary companies

Details of the company's significant subsidiaries are set out in note 38.

Group income statement

for the year ended September 2016

(US$ million)	Note	2016	2015	2014
Sales		**5,141**	5,390	6,061
Cost of sales	4	**4,270**	4,693	5,370
Gross profit		**871**	697	691
Selling, general and administrative expenses	4	**336**	333	352
Other operating (income) expenses		**–**	(35)	33
Share of profit from joint ventures		**(9)**	(12)	(8)
Operating profit	4	**544**	411	314
Net finance costs	5	**121**	182	177
Finance costs		**140**	194	194
Finance revenue		**(16)**	(14)	(9)
Net foreign exchange gains		**(2)**	(11)	(7)
Net fair value (gain) loss on financial instruments		**(1)**	13	(1)
Profit before taxation		**423**	229	137
Taxation charge	6	**104**	62	2
Profit for the year		**319**	167	135
Basic earnings per share (US cents)	7	**60**	32	26
Weighted average number of ordinary shares in issue (millions)		**529.4**	525.7	522.5
Diluted earnings per share (US cents)	7	**59**	31	26
Weighted average number of ordinary shares in issue on a fully diluted basis (million)		**540.3**	531.2	526.6

Group statement of comprehensive income

for the year ended September 2016

(US$ million)	Note	2016	2015	2014
Profit for the year		**319**	167	135
Other comprehensive income (loss), net of tax	19	**30**	(208)	(247)
Item that will not be reclassified subsequently to profit or loss		**(12)**	(63)	(152)
Actuarial losses on post-employment benefit funds		**(20)**	(96)	(152)
Deferred tax on above item		**8**	33	–
Items that may be reclassified subsequently to profit or loss		**42**	(145)	(95)
Exchange differences on translation to presentation currency		**38**	(148)	(71)
Movement on available-for-sale financial assets		**–**	(1)	(2)
Movement in hedging reserves		**4**	4	(23)
Deferred tax on above items		**–**	–	1
Total comprehensive income (loss) for the year		**349**	(41)	(112)

Group balance sheet

as at September 2016

(US$ million)	Note	2016	2015
ASSETS			
Non-current assets		**3,171**	3,174
Property, plant and equipment	10	**2,501**	2,508
Plantations	11	**441**	383
Deferred tax assets	12	**152**	162
Goodwill and intangible assets	13	**17**	19
Joint ventures	14	**20**	18
Other non-current assets	15	**39**	43
Derivative financial instruments	30	**1**	41
Current assets		**2,006**	1,711
Inventories	16	**606**	595
Trade and other receivables	17	**642**	645
Derivative financial instruments	30	**44**	5
Taxation receivable		**11**	10
Cash and cash equivalents	24.6	**703**	456
Assets held for sale	9	**–**	28
Total assets		**5,177**	4,913
EQUITY AND LIABILITIES			
Shareholders' equity		**1,378**	1,015
Ordinary share capital and share premium	18	**879**	851
Non-distributable reserves	20	**114**	113
Foreign currency translation reserve		**(147)**	(170)
Hedging reserves		**(43)**	(47)
Retained earnings		**575**	268
Non-current liabilities		**2,325**	2,806
Interest-bearing borrowings	21	**1,535**	2,031
Deferred tax liabilities	12	**272**	245
Other non-current liabilities	22	**518**	530
Current liabilities		**1,474**	1,091
Interest-bearing borrowings	21	**576**	196
Derivative financial instruments	30	**2**	5
Trade and other payables		**839**	844
Taxation payable		**42**	30
Provisions	23	**15**	16
Liabilities associated with assets held for sale	9	**–**	1
Total equity and liabilities		**5,177**	4,913

Group statement of cash flows

for the year ended September 2016

(US$ million)	Note	2016	2015	2014
Cash retained from operating activities		**550**	382	437
Cash generated from operations	24.1	**693**	544	566
– Decrease (increase) in working capital	24.2	**4**	(11)	34
Cash generated from operating activities		**697**	533	600
– Finance costs paid	24.3	**(107)**	(148)	(170)
– Finance revenue received		**16**	13	8
– Taxation paid	24.4	**(56)**	(16)	(1)
Cash utilised in investing activities		**(191)**	(237)	(194)
Investment to maintain operations		**(155)**	(175)	(148)
Investment to expand operations		**(86)**	(73)	(147)
Cash outflows on disposal of business		**–**	–	(23)
Proceeds on disposal of assets held for sale	9	**39**	–	104
Proceeds on disposal of other non-current assets	24.5	**5**	1	6
Other decrease in non-current assets		**6**	10	14
Cash effects of financing activities		**(130)**	(127)	(36)
Proceeds from interest-bearing borrowings		**389**	588	–
Repayment of interest-bearing borrowings		**(499)**	(647)	(35)
Cash costs attributable to refinancing transactions		**(20)**	(68)	–
Movement in bank overdrafts		**–**	–	(1)
Net movement in cash and cash equivalents		**229**	18	207
Cash and cash equivalents at beginning of year		**456**	528	352
Translation effects		**18**	(90)	(31)
Cash and cash equivalents at end of year	24.6	**703**	456	528

Group statement of changes in equity

for the year ended September 2016

(US$ million)	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distri-butable reserves	Foreign currency trans-lation reserve	Hedging reserves	Retained earnings	**Total equity**
Balance – September 2013	521.5	52	1,096	1,148	158	(288)	(40)	166	**1,144**
Transfer to retained earnings	–	–	–	–	(15)	–	–	15	**–**
Share-based payments	–	–	–	–	7	–	–	–	**7**
Transfers of vested share options	2.6	–	12	12	(7)	–	–	–	**5**
Translation of parent company's ordinary share capital and share premium	–	(5)	(111)	(116)	–	116	–	–	**–**
Total comprehensive loss	–	–	–	–	(10)	(67)	(18)	(17)	**(112)**
Balance – September 2014	524.1	47	997	1,044	133	(239)	(58)	164	**1,044**
Share-based payments	–	–	–	–	7	–	–	–	**7**
Transfers of vested share options	2.3	–	10	10	(5)	–	–	–	**5**
Translation of parent company's ordinary share capital and share premium	–	(9)	(194)	(203)	–	203	–	–	**–**
Total comprehensive (loss) income	–	–	–	–	(22)	(134)	11	104	**(41)**
Balance – September 2015	526.4	38	813	851	113	(170)	(47)	268	**1,015**
Share-based payments	–	–	–	–	7	–	–	–	**7**
Transfers of vested share options	4.2	–	14	14	(7)	–	–	–	**7**
Translation of parent company's ordinary share capital and share premium	–	1	13	14	–	(14)	–	–	**–**
Total comprehensive income	–	–	–	–	1	37	4	307	**349**
Balance – September 2016	530.6	39	840	879	114	(147)	(43)	575	**1,378**
Note				*18*	*20*				

Notes to the Group Annual Financial Statements

for the year ended September 2016

1. Basis of preparation

The consolidated 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 Listings Requirements of the JSE Limited, and
- the requirements of the Companies Act of South Africa.

The Group 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 and non-current assets held for sale are stated at the lower of cost or 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, and
- Level 3: Inputs for the asset or liability that are unobservable.

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

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 Annual Financial Statements. Adoption of new accounting standards and changes to accounting standards are dealt with in sections 2.4 and 2.5.

2.1 Significant accounting policy elections

The group has made the following significant accounting policy elections in terms of IFRS:

- Regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting
- Cumulative gains or losses recognised in other comprehensive income (OCI) for cash flow hedge relationships are transferred from equity and included in the initial measurement of the non-financial asset or liability when the hedged item is recognised
- The net interest on post-employment benefits is included in finance costs
- Property, plant and equipment is accounted for using the cost model, and
- The step-by-step method of reclassification of foreign currency translation reserves from equity to profit or loss on disposal.

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

The Group Annual Financial Statements are presented in United States Dollar (US$) as it is the major trading currency of the pulp and paper industry and are rounded to the nearest million except as otherwise indicated.

The preparation of the Group Annual Financial Statements was supervised by the Chief Financial Officer, GT Pearce CA(SA).

(i) Financial year

The group's financial year-end is on the Sunday closest to the last day of September. Accordingly, the last three financial years were as follows:

- 28 September 2015 to 25 September 2016 (52 weeks)
- 29 September 2014 to 27 September 2015 (52 weeks), and
- 30 September 2013 to 28 September 2014 (52 weeks).

(ii) Underlying concepts

The Group 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.

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.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

2. Accounting policies continued

2.2 Summary of accounting policies

2.2.1 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Group Annual Financial Statements are presented in US Dollar, which is the group's presentation currency.

The functional currency of the parent company is Rand (ZAR). The share capital and share premium of the parent company are translated into US Dollar at the period-end rate. The exchange differences arising on this translation are included in the foreign currency translation reserve and cannot be recycled through profit or loss.

(ii) 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. Translation differences on available-for-sale financial instruments are included in OCI.

(iii) Foreign operations

The results and financial position of each group entity that has a functional currency that is different to the presentation currency of the group is translated into the presentation currency of the group as follows:

- Assets and liabilities are translated at the period-end rate, and
- Income statement items are translated at the average exchange rate for the year.

Exchange differences on translation are accounted for in OCI. These differences will be recognised in earnings on realisation of the underlying operation.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations (ie the reporting entity's interest in the net assets of that operation), and of borrowings designated as hedging instruments of such investments, are taken to OCI.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the period-end rate on each reporting date.

The group used the following exchange rates for financial reporting purposes:

	2016	2015	2014
Period-end rate			
US$1 = ZAR	**13.7139**	13.9135	11.2285
€1 = US$	**1.1226**	1.1195	1.2685
Annual average rate			
US$1 = ZAR	**14.7879**	11.9641	10.5655
€1 = US$	**1.1111**	1.1501	1.3577

2. Accounting policies continued

2.2.2 Group accounting

(i) Subsidiaries

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

Intra-group balances and transactions, and profits or losses arising from intra-group transactions are eliminated in the preparation of the Group Annual Financial Statements. Intra-group losses are not eliminated to the extent that they provide objective evidence of impairment.

(ii) Associates and joint ventures

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

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

2.2.3 Financial instruments

(i) Initial recognition

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

(ii) Initial measurement

All financial instruments are initially recognised at fair value, including transaction costs that are incremental to the group and directly attributable to the acquisition or issue of the financial asset or financial liability, except for those classified as fair value through profit or loss where the transaction costs are recognised immediately in profit or loss.

(iii) Subsequent measurement

- ***Financial assets and financial liabilities at fair value through profit or loss***
  Financial instruments at the fair value through profit and loss consist of items classified as held for trading or where they have been designated as fair value through profit or loss. All derivative instruments are classified as held for trading other than those which are designated and effective hedging instruments.

- ***Financial liabilities at amortised cost***
  All financial liabilities, other than those at fair value through profit or loss, are classified as financial liabilities at amortised cost.

- ***Loans and receivables***
  Loans and receivables are carried at amortised cost.

- ***Available-for-sale financial assets***
  Available-for-sale financial assets are measured at fair value with any gains or losses recognised directly in equity along with the associated deferred taxation. Any foreign currency translation gains or losses or interest revenue, measured on an effective-yield basis, are recognised in profit or loss.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

2. Accounting policies continued

(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 asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

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 difference in the respective carrying amounts is recognised in profit or loss for the period.

(vi) *Impairment of financial assets*

- ***Loans and receivables***
  An impairment loss is recognised in profit or loss when there is evidence that the group will not be able to collect an amount in accordance with the original terms of each receivable.

- ***Available-for-sale financial assets***
  When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains or losses recognised in equity (to the extent of any remeasurements) are reclassified to profit or loss even though the financial asset has not been derecognised.

  Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised. Impairment reversals other than available-for-sale debt securities are not reversed through profit or loss but through OCI.

(vii) *Interest income and expense*

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

2.2.4 *Government grants*

Government grants related to income are recognised in sundry income under selling, general and administrative expenses. Government grants related to assets are recognised by deducting the grant from the carrying amount of the related asset.

2.2.5 *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 and patents*

Brands and patents acquired are capitalised and amortised on a straight-line basis over their estimated useful lives which, on average, is 10 years. Patents are derecognised when legal protection relating to the patented item ceases to exist.

(iv) *Licence fees*

Licence fees are amortised on a straight-line basis over the useful life of each licence.

2. Accounting policies continued

2.2.6 *Inventories*

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

Cost is determined on the following basis:

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

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

2.2.7 *Leases*

(i) The group as lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments with the related lease obligation recognised at the same value. Lease payments are allocated between capital repayments and finance charges using the effective interest rate method.

Capitalised leased assets are depreciated on a basis consistent with those of owned assets except, where the transfer of ownership at the end of the lease period is uncertain, they are depreciated on a straight-line basis over the shorter of the lease period and the expected useful life of the asset.

Lease payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the group's benefit.

(ii) Recognition of lease of land

The land and buildings elements of a lease are considered separately for the purpose of lease classification. Where the building is a finance lease, and the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease.

2.2.8 *Assets held for sale*

Non-current assets (or disposal groups) are classified as held for sale when their carrying values will be recovered principally through a sale rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell and are not depreciated.

2.2.9 *Segment reporting*

The group's reportable segments, which have been determined in accordance with how the group allocates resources and evaluates performance, is predominantly on a geographical basis and comprise North America, Europe and Southern Africa.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for intra-segment revenues and transfers as if the transactions were with third parties at current market prices.

2.2.10 *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.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

2. Accounting policies continued

2.2.11 Revenue

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, delivery has been made and title has passed, the amount of the revenue and the related costs can be reliably measured and it is probable that the debtor will pay for the goods. For the majority of local and regional sales, transfer occurs at the point of offloading the shipment into the customer warehouse whereas for the majority of export sales, transfer occurs when the goods have been loaded into the relevant carrier unless the contract of sale specifies different terms.

Revenue is measured at the fair value of the amount received or receivable and after the deduction of trade and settlement discounts, rebates and customer returns.

Shipping and handling costs, such as freight to the group's customers' destinations, are included in cost of sales. These costs, when included in the sales price charged for the group's products, are recognised in sales.

2.2.12 Emission trading

The group recognises government grants for emission rights as intangible assets at the cost of the rights as well as a liability which equals the cost of the rights at the time of the grant.

The group does not recognise a liability for emissions to the extent that it has sufficient allowances to satisfy emission liabilities. Where there is a shortfall of allowances that the group would have to deliver for emissions, a liability is recognised at the current market value of the shortfall.

Where the group sells allowances to parties outside the group at amounts greater than the carrying amount, a gain is recognised in selling, general and administrative expenses in profit or loss for the period.

2.2.13 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.

2.2.14 Goodwill

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date.

Goodwill arising at acquisition is subsequently held at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently where there is an indication of impairment within one or more cash-generating units (CGUs) to which goodwill has been allocated.

Goodwill is tested for impairment using a cash flow valuation model based on an allocation of the goodwill to one or more CGUs. The group takes into account its ability to carousel products across different operating units in determining CGUs and in allocating goodwill to those CGUs.

2.2.15 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 for non-market-related performance conditions.

(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.

2. Accounting policies continued

(iii) Broad-based Black Economic Empowerment transaction

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

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

Note 29 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of the year.

2.3 Critical accounting policies and key sources of estimation uncertainty

Management of the group makes estimates and assumptions concerning the future in applying its accounting policies. The estimates may not equal the related actual results.

The group believes that the following accounting policies are critical due to the degree of management judgement and estimation required and/or the potential material impact they may have on the group's financial position and performance.

2.3.1 Impairment of assets other than goodwill and financial instruments

The group assesses all assets (other than goodwill and intangible assets not yet available for use) at each balance sheet date for indications of impairment or, for intangible assets other than goodwill, whether an impairment reversal is required.

Intangible assets not yet available for use are tested at least annually for impairment.

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

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 owner-occupied property or equipment is capitalised to the cost of owner-occupied property and equipment and the part replaced is derecognised.

Depreciation, which commences when the assets are ready for their intended use, is charged to write off the depreciable amount of the assets, other than land, over their estimated useful lives to estimated residual values using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Land is not depreciated.

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

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

2. Accounting policies continued

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	Straight-line	5 to 30 years
Vehicles	Straight-line	5 to 10 years
Furniture and equipment	Straight-line	3 to 6 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.

2.3.3 Taxation

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

(i) Current taxation

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

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

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

(ii) Deferred taxation

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

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

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

Refer to note 12 for the movement in unrecognised deferred tax assets.

(iii) Dividend withholding tax

Dividend withholding tax is payable on dividends distributed to certain shareholders. This tax is not attributable to the company paying the dividend but is collected by the company and paid to the tax authorities on behalf of the shareholder. On receipt of a dividend, the dividend withholding tax is recognised as part of the current tax charge in the income statement in the period in which the dividend is received.

2.3.4 Derivatives and hedge accounting

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.

2. Accounting policies continued

(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) Hedge of a net investment in a foreign operation

The effective portion of the gain or loss on the hedging instrument is recognised in OCI and is only reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

(iv) 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 30 and 31 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.

2.3.5 Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage and is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement*. The group uses the income approach in determining fair value as it believes that this method yields the most appropriate valuation.

In arriving at plantation fair values, the key assumptions are estimated prices less cost of delivery, discount rates, and volume and growth estimations. All changes in fair value are recognised in the period in which they arise.

The impact of changes in estimated prices, discount rates, and volume and growth assumptions may have on the calculated fair value and other key financial information on plantations is disclosed in note 11.

- ***Estimated prices less cost of delivery***
  The group uses a 12-quarter rolling historical average price to estimate the fair value of all immature timber and mature timber that is to be felled in more than 12 months from the reporting date. Twelve quarters is considered a reasonable period of time after taking the length of the growth cycle of the plantations into account. Expected future price trends and recent market transactions involving comparable plantations are also considered in estimating fair value.

  Mature timber that is expected to be felled within 12 months from the end of the reporting period is valued using unadjusted current market prices. Such timber is expected to be used in the short term and consequently, current market prices are considered an appropriate reflection of fair value.

  The fair value is derived by using the prices as explained above and reduced by the estimated cost of delivery. Cost of delivery includes all costs associated with getting the harvested agricultural produce to the market, including harvesting, loading, transport and allocated fixed overheads.

- ***Discount rate***
  The discount rate used is the applicable pre-tax weighted average cost of capital of the business unit.

- ***Volume and growth estimations and cost assumptions***
  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 eight and 18 years. In the Southern African region, softwood less than eight years and hardwood less than five years are classified as immature timber.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

2. Accounting policies continued

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 include the fair value of timber felled which is determined on the average method, plus amounts written off against standing timber to cover loss or damage caused by fire, disease and stunted growth. These costs are accounted for on a cost per metric ton allocation method multiplied by unadjusted current market prices. Tons are calculated using the projected growth to rotation age and are extrapolated to current age on a straight-line basis.

The group has projected growth estimation over a period of eight 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.

The group directly manages plantations established on land that is either owned or leased from third parties. Indirectly managed plantations represent plantations established on land held by independent commercial farmers where Sappi provides technical advice on the growing and tendering of trees.

The associated costs for managing plantations are recognised as silviculture costs in cost of sales (see note 4).

2.3.6 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 28 for the key estimates, assumptions and other information on post-employment benefits.

2.3.7 Provisions

A provision is recognised when the group has a legal or constructive obligation arising from a past event which can be reliably measured and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. 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 significant 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.

Environmental accruals are recorded based on current interpretation of environmental laws and regulations (refer to note 2.3.8).

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.

2. Accounting policies continued

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.

Refer to note 23 for the nature of provisions recorded.

2.3.8 Environmental restoration and decommissioning obligations

The group initially recognises a liability for management's best present value estimate of costs expected to be incurred in the dismantling and removal of non-current assets where a legal or constructive obligation exists. The liability changes over time and actual costs incurred in future periods could differ materially from estimates. Additionally, future changes to environmental laws and regulations, life-of-operation estimates and discount rates could affect the carrying amount of this liability.

Due to the uncertainty in the timing of the closure of the group's facilities, some of these obligations have an indeterminate settlement date, and the group believes that adequate information does not exist to apply an expected present value technique to estimate any such potential obligations. Accordingly, the group does not record a liability for such remediation until a decision is made that allows reasonable estimation of the timing of such remediation.

Refer to note 34 for a description of the major environmental laws and regulations that affect the group, expected new laws and regulations, and the estimated impact thereof.

2.4 Adoption of accounting standards in the current year

The group adopted the following standards and amendments to standards during the current year, all of which had no material impact on the group's reported results or financial position:

- IFRS 2 *Share-based Payment* – Classification and measurement of share-based payment transactions
- IFRS 4 *Insurance Contracts* – Applying IFRS 9 *Financial Instruments*
- IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures* – Applying the Consolidation Exception
- IFRS 11 *Joint Arrangements* – Accounting for Acquisitions of Interests in Joint Operations
- IFRS 14 *Regulatory Deferral Accounts*
- IAS 1 *Presentation of Financial Statements* – Disclosure Initiative
- IAS 12 *Income Taxes* – Recognition of Deferred Tax Assets for Unrealised Losses
- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* – Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* – Bearer Plants
- IAS 27 *Separate Financial Statements* – Equity Method in Separate Financial Statements, and
- Annual Improvements 2012 – 2014 Cycle.

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 still being evaluated by the group:

- IFRS 9 *Financial Instruments* – IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities – September 2019
- IFRS 15 *Revenue from Contracts with Customers* – provides a single, principle-based five-step model to be applied to all contracts with customers – September 2019
- IFRS 16 *Leases* – provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance substantially unchanged from its replacement standard IAS 17 *Leases* – September 2020, and
- IAS 7 *Statement of Cash Flows* – Disclosure Initiative – clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities – September 2018.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

3. Segment information

Reportable segments are components of an entity for which separate financial information, that is evaluated regularly by the chief operating decision maker in deciding on how to allocate resources and assess performance, is available. The group's reportable segments comprise the geographic regions of North America, Europe and Southern Africa as this is the basis on which financial information is reported to the chief operating decision maker for the purposes of deciding on how to allocate resources and assess performance.

The group's revenue mostly comprises the sale of dissolving wood pulp, coated paper and speciality paper in North America; coated, uncoated and speciality paper in Europe as well as dissolving wood pulp, paper pulp, and uncoated and commodity paper in Southern Africa.

The group operates a trading network called Sappi Trading for the international marketing and distribution of dissolving wood pulp and paper pulp throughout the world and of the group's other products in areas outside its core operating regions of North America, Europe and Southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

The group accounts for intra-group sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

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

	North America			Europe		
(US$ million)	**2016**	2015	2014	**2016**	2015	2014
Income statement						
External sales[1]	**1,367**	1,377	1,517	**2,582**	2,660	3,107
Operating profit excluding special items	**49**	27	18	**131**	73	75
Special items – gains (losses)[2]	**6**	–	(2)	**(6)**	47	(33)
Segment operating profit (loss)	**55**	27	16	**125**	120	42
EBITDA excluding special items[2]	**124**	102	92	**261**	209	249
Share of profit of equity investments	**–**	–	–	**1**	3	–
Depreciation and amortisation	**(75)**	(75)	(74)	**(130)**	(136)	(174)
(Impairment) impairment reversals of assets and investments	**–**	–	–	**(2)**	–	2
Profit (loss) on assets held for sale, businesses and other assets	**–**	–	–	**1**	–	(32)
Fellings	**–**	–	–	**–**	–	–
Plantation fair value adjustment	**–**	–	–	**–**	–	–
Restructuring provisions (raised) released and closure costs	**–**	–	(3)	**(3)**	(4)	11
Employee benefit liability settlement	**8**	–	–	**–**	68	21
Other non-cash items	**(14)**	(16)	(16)	**(10)**	(8)	2
Balance sheet						
Capital expenditures	**44**	50	53	**90**	127	153
Segment assets[2]	**967**	1,007	1,013	**1,256**	1,313	1,472
Property, plant and equipment	**788**	819	843	**968**	1,003	1,145

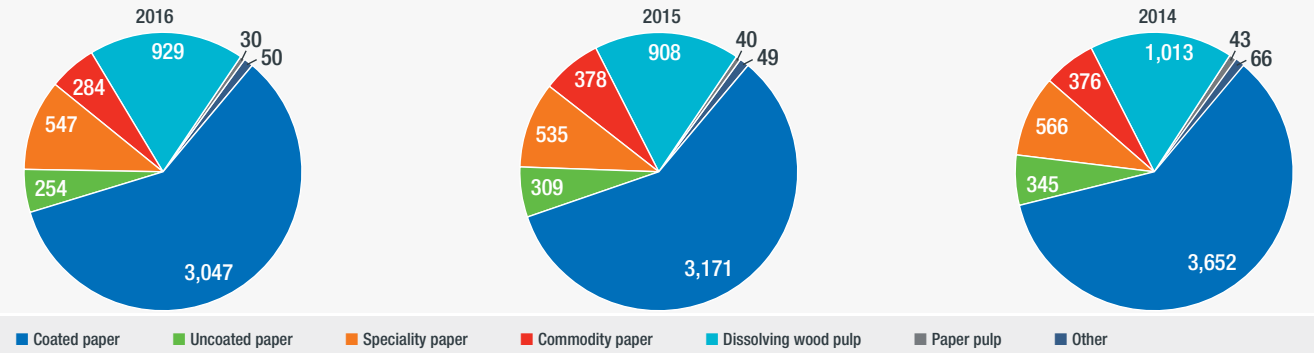
Reconciliation of operating profit excluding special items to segment operating profit (loss):

	North America			Europe		
(US$ million)	**2016**	2015	2014	**2016**	2015	2014
Operating profit excluding special items	**49**	27	18	**131**	73	75
Special items – gains (losses)[2]	**6**	–	(2)	**(6)**	47	(33)
Segment operating profit (loss)	**55**	27	16	**125**	120	42

[1] Sales of products are allocated to where the product is manufactured.
[2] Refer to the glossary in the Annual Integrated Report for the definition of the term.
[3] Primarily includes the group's treasury operations and its self-insurance captive.

Sales by products

US$ million



Southern Africa			Unallocated and eliminations[3]			Group		
2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014
1,192	1,353	1,437	**–**	–	–	**5,141**	5,390	6,061
305	256	248	**2**	1	5	**487**	357	346
62	27	12	**(5)**	(20)	(9)	**57**	54	(32)
367	283	260	**(3)**	(19)	(4)	**544**	411	314
352	313	312	**2**	1	5	**739**	625	658
8	9	8	**–**	–	–	**9**	12	8
(47)	(57)	(64)	**–**	–	–	**(252)**	(268)	(312)
–	–	(3)	**–**	–	–	**(2)**	–	(1)
14	–	3	**–**	–	–	**15**	–	(29)
(56)	(57)	(59)	**–**	–	–	**(56)**	(57)	(59)
120	106	86	**–**	–	–	**120**	106	86
(1)	(1)	(2)	**–**	(1)	–	**(4)**	(6)	6
–	–	–	**–**	–	–	**8**	68	21
(22)	(6)	4	**6**	(2)	3	**(40)**	(32)	(7)
90	70	49	**5**	1	1	**229**	248	256
1,182	1,066	1,289	**19**	13	(35)	**3,424**	3,399	3,739
738	684	852	**7**	2	1	**2,501**	2,508	2,841

Southern Africa			Unallocated and eliminations[3]			Group		
2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014
305	256	248	**2**	1	5	**487**	357	346
62	27	12	**(5)**	(20)	(9)	**57**	54	(32)
367	283	260	**(3)**	(19)	(4)	**544**	411	314

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

3. Segment information continued

Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to profit (loss) before taxation:

	North America			Europe		
(US$ million)	**2016**	2015	2014	**2016**	2015	2014
EBITDA excluding special items[1]	**124**	102	92	**261**	209	249
Depreciation and amortisation	**(75)**	(75)	(74)	**(130)**	(136)	(174)
Operating profit excluding special items	**49**	27	18	**131**	73	75
Special items – gains (losses)[1]	**6**	–	(2)	**(6)**	47	(33)
Segment operating profit (loss)	**55**	27	16	**125**	120	42
Net finance costs						
Profit before taxation						

Reconciliation of segment assets to total assets:

(US$ million)	
Segment assets[1]	
Deferred tax assets	
Cash and cash equivalents	
Derivative financial instruments (included in current liabilities)	
Trade and other payables	
Provisions	
Taxation payable	
Liabilities associated with assets held for sale	
Total assets	

In addition to regularly reviewing separate financial information by reportable segment, the chief operating decision maker also reviews certain financial information by major product category which comprise:

(US$ million)	
Sales	
Specialised cellulose	
Paper	
Forestry	
Total	
Operating profit excluding special items	
Specialised cellulose	
Paper	
Unallocated and eliminations[2]	
Total	
EBITDA excluding special items	
Specialised cellulose	
Paper	
Unallocated and eliminations[2]	
Total	

[1] *Refer to the glossary in the Annual Integrated Report for the definition of the term.*
[2] *Primarily includes the group's treasury operations and its self-insurance captive.*

Southern Africa			Unallocated and eliminations[2]			Group		
2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014
352	313	312	**2**	1	5	**739**	625	658
(47)	(57)	(64)	**–**	–	–	**(252)**	(268)	(312)
305	256	248	**2**	1	5	**487**	357	346
62	27	12	**(5)**	(20)	(9)	**57**	54	(32)
367	283	260	**(3)**	(19)	(4)	**544**	411	314
						(121)	(182)	(177)
						423	229	137

	Group	
2016	2015	2014
3,424	3,399	3,739
152	162	138
703	456	528
2	5	7
839	844	996
15	16	32
42	30	25
–	1	–
5,177	4,913	5,465

	Group	
2016	2015	2014
929	908	1,013
4,156	4,422	4,979
56	60	69
5,141	5,390	6,061
294	231	243
191	125	98
2	1	5
487	357	346
339	281	303
398	343	350
2	1	5
739	625	658

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

4. Operating profit

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

(US$ million)	2016 Cost of sales	2016 Selling, general and administrative expenses	2015 Cost of sales	2015 Selling, general and administrative expenses	2014 Cost of sales	2014 Selling, general and administrative expenses
Raw materials, energy and other direct input costs	**2,630**	**–**	2,940	–	3,355	–
Wood (includes growth and felling adjustments[1])	**624**	**–**	603	–	664	–
Energy	**355**	**–**	443	–	529	–
Chemicals	**726**	**–**	773	–	914	–
Pulp	**740**	**–**	911	–	1,039	–
Other variable costs	**185**	**–**	210	–	209	–
Plantation price fair value adjustment	**(64)**	**–**	(41)	–	(18)	–
Employment costs	**739**	**155**	770	160	860	190
Depreciation	**241**	**9**	254	12	296	14
Delivery charges	**431**	**–**	474	–	532	–
Maintenance	**201**	**–**	215	–	238	–
Other overheads	**92**	**–**	81	–	107	–
Marketing and selling expenses	**–**	**74**	–	78	–	97
Administrative and general expenses	**–**	**98**	–	83	–	51
	4,270	**336**	4,693	333	5,370	352

(US$ million)	2016	2015	2014
Silviculture costs (included within cost of sales)	**46**	52	58
Leasing charges for premises	**14**	14	13
Leasing charges for plant and equipment	**14**	15	15
Remuneration paid other than to employees of the company in respect of	**25**	25	26
Technical services	**12**	13	9
Administration services	**13**	12	17
Auditor's remuneration	**5**	6	7
Audit and related services	**5**	5	6
Tax planning and tax advice	**–**	1	1
Research and development costs	**26**	21	22
Amortisation	**2**	2	2
Cost on derecognition of loans and receivables[2]	**8**	9	9
Impairments of assets and investments	**2**	–	1
Restructuring provisions and closure costs raised (reversed)	**4**	6	(6)
(Profit) loss on assets held for sale, businesses and other assets	**(15)**	–	29
Post-retirement plan settlements and amendments	**(8)**	(68)	(21)
Broad-based Black Economic Empowerment (BBBEE) charge	**1**	2	2
Employment costs consist of	**894**	930	1,050
Wages and salaries	**814**	863	978
Defined contribution plan expense	**34**	34	34
Defined benefit pension plan expense	**12**	2	–
Post-retirement healthcare subsidy expense	**3**	–	3
Share-based payment expense	**6**	5	5
Other	**25**	26	30

[1] *Changes in plantation volumes.*

Fellings.	**56**	57	59
Growth.	**(56)**	(65)	(68)

[2] *The cost on derecognition of trade receivables relates to the derecognition of trade receivables related to the securitisation programme in Southern Africa and to the sale of letters of credit in Hong Kong.*

(US$ million)	2016	2015	2014
5. Net finance costs			
Interest and other finance costs on liabilities carried at amortised cost	**129**	183	177
Interest on overdrafts	**1**	1	1
Interest on redeemable bonds and other loans	**111**	136	175
Premium and costs on early redemption of redeemable bonds and other loans	**12**	36	–
Accelerated amortisation on early settlement of redeemable bonds and other loans	**5**	10	–
Interest cost on finance lease obligations	**–**	–	1
Net interest on employee benefit liabilities	**11**	11	17
Finance revenue received on assets carried at amortised cost	**(16)**	(14)	(9)
Interest on bank accounts	**(15)**	(13)	(7)
Interest revenue on other loans and investments	**(1)**	(1)	(2)
Net foreign exchange gains	**(2)**	(11)	(7)
Net fair value loss (gain) on financial instruments	**(1)**	13	(1)
Realised loss on termination of swaps	**–**	14	–
Hedge ineffectiveness			
Loss on hedging instrument (derivative)	**3**	4	5
Gain on hedged item	**(4)**	(5)	(6)
	121	182	177

(US$ million)	2016	2015	2014
6. Taxation charge			
Current taxation			
Current year	**63**	37	19
Prior year overprovision	**(2)**	(7)	(2)
Other company taxes	**3**	(1)	–
Deferred taxation			
Current year	**44**	33	36
Recognition of deferred tax asset	**–**	–	(53)
Prior year underprovision	**(4)**	–	2
	104	62	2
Reconciliation of the tax rate			
Profit before taxation	**423**	229	137
Profit-making regions	**423**	314	278
Loss-making regions	**–**	(85)	(141)
Taxation at the average statutory tax rate	**119**	62	35
Profit-making regions at 28% (2015: 27%; 2014: 27%)	**119**	83	74
Loss-making regions at 29% (2015: 25%; 2014: 28%)	**–**	(21)	(39)
Net exempt income and non-tax deductible expenditure	**–**	11	(53)
No tax relief on losses	**–**	18	75
No tax charge on profits	**(12)**	(21)	(2)
Recognition of deferred tax assets	**–**	–	(53)
Prior year adjustments	**(6)**	(7)	–
Other taxes	**3**	(1)	–
Taxation charge	**104**	62	2
Effective tax rate for the year	**25%**	27%	1%

In addition to income taxation charges to profit or loss, taxation relief of US$8 million (2015: US$33 million relief; 2014: US$1 million relief) has been recognised directly in other comprehensive income (refer to note 12).

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

7. Earnings per share

Basic earnings per share (EPS)

EPS is based on the group's profit for the year divided by the weighted average number of shares in issue during the year under review.

	2016			2015			2014		
	Profit US$ million	**Shares million**	**Earnings per share US cents**	Profit US$ million	Shares million	Earnings per share US cents	Profit US$ million	Shares million	Earnings per share US cents
Basic EPS calculation	**319**	**529.4**	**60**	167	525.7	32	135	522.5	26
Share options and performance shares under Sappi Limited Share Trust	**–**	**10.9**		–	5.5		–	4.1	
Diluted EPS calculation	**319**	**540.3**	**59**	167	531.2	31	135	526.6	26

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR64.88 (2015: ZAR44.62; 2014: ZAR35.98). For the 2014 and 2015 financial years, the effect of certain share options granted under the Sappi Limited Share Incentive Trust as well as share options granted under the BBBEE transaction were excluded as they were neither dilutive nor antidilutive.

In the current financial year, all share options that could potentially dilute EPS in the future are included in the calculation above. However, the calculation of the dilutive weighted average number of shares for the 2014 and 2015 financial years exclude the effect of 1.3 million and 1.7 million respective share options on ordinary shares as well as the effect of the 'A' ordinary shares as the issue price exceeds either the average market price per share or the hurdle rate. Refer to notes 18 and 29 for a discussion on the 'A' ordinary shares.

Headline earnings per share[1]

Headline earnings per share are based on the group's headline earnings divided by the weighted average number of shares in issue during the year.

Reconciliation between attributable earnings to ordinary shareholders and headline earnings:

	2016			2015			2014		
(US$ million)	**Gross**	**Tax**	**Net**	Gross	Tax	Net	Gross	Tax	Net
Attributable earnings to ordinary shareholders	**423**	**104**	**319**	229	62	167	137	2	135
Impairments of assets and investments	**2**	**–**	**2**	–	–	–	1	–	1
Profit on disposal of assets held for sale, businesses and other assets	**(15)**	**(3)**	**(12)**	–	–	–	29	1	28
Headline earnings	**410**	**101**	**309**	229	62	167	167	3	164
Weighted average number of ordinary shares in issue (millions)			**529.4**			525.7			522.5
Headline earnings per share (US cents)			**58**			32			31
Weighted average number of ordinary shares in issue on a fully diluted basis (million)			**540.3**			531.2			526.6
Diluted headline earnings per share (US cents)			**57**			31			31

[1] *Headline earnings – as defined in Circular 2/2015, issued by the South African Institute of Chartered Accountants in October 2015, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share.*

7. Earnings per share continued

EPS excluding special items

EPS excluding special items is based on the group's earnings adjusted for special items (as disclosed in note 3) and certain once-off finance and tax items, divided by the weighted average number of shares in issue during the year.

	2016			2015			2014		
(US$ million)	**Gross**	**Tax**	**Net**	Gross	Tax	Net	Gross	Tax	Net
Attributable earnings to ordinary shareholders	**423**	**104**	**319**	229	62	167	137	2	135
Special items	**(57)**	**(18)**	**(39)**	(54)	(7)	(47)	32	1	31
Refinancing costs	**23**	**–**	**23**	61	–	61	–	–	–
Certain once-off tax items	**–**	**–**	**–**	–	–	–	–	53	(53)
Earnings excluding special items	**389**	**86**	**303**	236	55	181	169	56	113
Weighted average number of ordinary shares in issue (million)			**529.4**			525.7			522.5
EPS excluding special items (US cents)			**57**			34			22
Weighted average number of ordinary shares on a fully diluted basis (million)			**540.3**			531.2			526.6
Diluted EPS excluding special items (US cents)			**56**			34			21

8. Dividends

The directors have resolved to declare a gross dividend (number 86) of 11 US cents per share, payable in ZAR at an exchange rate of (US$1 = ZAR13.56686), being ZAR149.23546 cents per share, for the year ended September 2016 out of income, in respect of Sappi ordinary shares in issue on the record date as detailed below. Holders of Sappi 'A' ordinary unlisted shares in issue on the record date are entitled to receive 5.5 US cents per share being 50% of the ordinary dividend declared.

In compliance with the requirements of STRATE, the JSE Limited's electronic settlement system which is applicable to Sappi, the salient dates in respect of the dividend will be as follows:

Last day to trade to qualify for dividend	10 January 2017
Date on which shares commence trading ex dividend	11 January 2017
Record date	13 January 2017
Payment date	17 January 2017

Dividends payable to shareholders on the South African register will be paid in South African Rand and dividends attributable to holders of ADR shares on the NYSE will be dealt with in accordance with their custody agreements in place with their local custodian.

Certificated shareholders who previously held their shares on the UK register, which has subsequently been discontinued, shall be paid in Pound Sterling at the ruling exchange rate at the time.

No currency elections are permitted.

There will not be any dematerialisation or rematerialisation of Sappi Limited share certificates from Wednesday, 11 January 2017 to Tuesday, 13 January 2017, both days inclusive.

This dividend declared after year-end is not included as a liability in these financial statements.

9. Assets held for sale

2016

During the financial year, the conditions precedent related to the sale of the group's Enstra and Cape Kraft mills were fulfilled. Proceeds of US$39 million were received and a combined profit on disposal of US$13 million was recorded.

The major classes of assets held for sale and liabilities associated with assets held for sale are as follows:

(US$ million)	**2016**	2015
Property, plant and equipment	**–**	14
Inventories	**–**	14
Assets held for sale	**–**	28
Deferred tax liabilities	**–**	1
Liabilities associated with assets held for sale	**–**	1

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

(US$ million)	2016	2015
10. Property, plant and equipment		
Land and buildings[1]		
At cost	**1,317**	1,290
Accumulated depreciation and impairments	**(800)**	(780)
	517	510
Plant and equipment[2]		
At cost	**6,401**	6,208
Accumulated depreciation and impairments	**(4,419)**	(4,212)
	1,982	1,996
Capitalised leased assets[3]		
At cost	**412**	410
Accumulated depreciation and impairments	**(410)**	(408)
	2	2
Aggregate cost	**8,130**	7,908
Aggregate accumulated depreciation and impairments	**(5,629)**	(5,400)
Aggregate book value[4]	**2,501**	2,508

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

(US$ million)	Land and buildings	Plant and equipment	Capitalised leased assets	**Total**
Net book value at September 2014	597	2,242	2	**2,841**
Additions	15	232	1	**248**
Disposals	–	(1)	–	**(1)**
Depreciation	(32)	(233)	(1)	**(266)**
Transfers to assets held for sale	(4)	(12)	–	**(16)**
Translation differences	(66)	(232)	–	**(298)**
Net book value at September 2015	510	1,996	2	**2,508**
Additions	10	218	1	**229**
Disposals	–	(2)	–	**(2)**
Depreciation	(28)	(221)	(1)	**(250)**
Transfers	22	(22)	–	**–**
Translation differences	3	13	–	**16**
Net book value at September 2016	517	1,982	2	**2,501**

[1] Details of land and buildings are available at the registered offices of the respective companies that own the assets.
[2] Plant and equipment include vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.
[3] Capitalised leased assets consist primarily of plant and equipment.
[4] An amount of US$124 million (2015: US$170 million) relates to assets under construction.

Refer to note 25 for details of encumbrances.

(US$ million)	2016	2015
11. Plantations		
Fair value of plantations at beginning of year	**383**	430
Gains arising from growth	**56**	65
Fire, flood, storms and related events	**(13)**	(7)
In-field inventory	**(1)**	(1)
Gain arising from fair value price changes	**64**	41
Harvesting – agriculture produce (fellings)	**(56)**	(57)
Disposals	**(1)**	–
Translation differences	**9**	(88)
Fair value of plantations at end of year	**441**	383

Sappi manages the establishment, maintenance and harvesting of its plantations on a compartmentalised basis. These plantations comprise pulpwood and sawlogs and are managed to ensure that the optimum fibre balance is supplied to its paper and pulping operations in Southern Africa.

The group manages its plantations on a rotational basis. As such, increases by means of growth are negated by fellings, for the group's own use or for external sales, over the rotation period.

The group manages plantations on land that the group owns, as well as on land that the group leases. The group discloses both of these as directly managed plantations. With regard to indirectly managed plantations, the group has several different types of agreements with many independent farmers. The terms of the agreements depend on the type and specific needs of the farmer as well as the areas planted and range in duration from one to more than 20 years. In certain circumstances, the group provides loans to farmers that are disclosed as other non-current assets on the group balance sheet (these loans are considered, individually and in aggregate, immaterial to the group). If the group provides seedlings, silviculture and/or technical assistance, the costs are expensed when incurred by the group.

The group is exposed to financial risks arising from climatic changes, disease and other natural risks such as fire, flooding and storms as well as human-induced losses arising from strikes, civil commotion and malicious damage. These risks are covered by an appropriate level of insurance as determined by management. The plantations have an integrated management system that complies with FSCTM standards.

Plantations are stated at fair value less estimated cost to sell at the harvesting stage and is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement* which is consistent with the prior year.

The fair value of plantations has been calculated using a real pre-tax discount rate of 9.95%. The group currently values approximately 29 million tons of timber using selling prices and delivery costs that are benchmarked against industry norms. The average annual growth is measured at approximately 17 tons of timber per hectare while immature timber comprises approximately 105,000 hectares of plantations. As changes to estimated prices, the discount rate, costs to sell, and volume and growth assumptions applied in the valuation of immature timber may impact the calculated fair value, the group has calculated the sensitivity of a change in each of these assumptions as tabled below:

(US$ million)	2016	2015	2014
Market price changes			
1% increase in market prices	**2**	2	2
1% decrease in market prices	**(2)**	(2)	(2)
Discount rate (for immature timber)			
1% increase in rate	**(2)**	(2)	(2)
1% decrease in rate	**2**	2	2
Volume assumption			
1% increase in estimate of volume	**4**	4	4
1% decrease in estimate of volume	**(4)**	(4)	(4)
Costs to sell			
1% increase in costs to sell	**(2)**	(1)	(2)
1% decrease in costs to sell	**2**	1	2
Growth assumptions			
1% increase in rate of growth	**1**	1	1
1% decrease in rate of growth	**(1)**	(1)	(1)

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

(US$ million)	2016 Assets	2016 Liabilities	2015 Assets	2015 Liabilities
12. Deferred tax				
Other liabilities, accruals and prepayments	**(63)**	**(63)**	(53)	(20)
Inventory	**10**	**2**	9	2
United States of America (USA) tax credits carry forward	**20**	**–**	55	–
Tax loss carry forward	**119**	**30**	119	36
Property, plant and equipment	**(5)**	**(207)**	(14)	(206)
Plantations	**–**	**(48)**	–	(66)
Other non-current assets	**40**	**2**	5	–
Other non-current liabilities	**31**	**12**	41	9
	152	**(272)**	162	(245)

Negative asset and liability positions

These balances reflect the impact of tax assets and liabilities arising in different tax jurisdictions, which cannot be netted against tax assets and liabilities arising in other tax jurisdictions.

Deferred tax assets recognised on the balance sheet

The recognised deferred tax assets relate mostly to available unused tax losses. It is expected that there will be sufficient future taxable profits against which these losses can be recovered. In the estimation of future taxable profits, future product pricing and production capacity utilisation are taken into account.

Unrecognised deferred tax assets

Deferred tax assets arising from unused tax losses and unused tax credits are not recognised for carry forward when it cannot be demonstrated that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

(US$ million)	2016	2015
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	**36**	97
Tax losses	**712**	680
USA tax credits carry forward[1]	**–**	59
	748	836
Attributable to the following tax jurisdictions:		
Austria	**552**	566
Belgium	**115**	124
Finland	**38**	41
The Netherlands	**43**	46
USA	**–**	59
	748	836
Expiry between one and five years	**86**	166
Expiry after five years	**24**	9
Indefinite life	**638**	661
	748	836
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	**836**	937
No tax relief on losses	**–**	10
No tax charge on profits	**(31)**	(8)
Expired[1]	**(59)**	–
Movement in foreign exchange rates	**2**	(103)
Balance at end of year	**748**	836

[1] *Our North American region applied for a cellulosic biofuel tax credit (CBTC) for black liquor consumed during the 2009 calendar year. The group did not recognise the majority of this tax benefit as existing tax losses had to be utilised prior the utilisation of the CBTC. As the CBTC expired unused at the end of the 2016 financial year, the company has recharacterised the tax effected amount of the credit as a net tax loss carry forward of US$35 million, and reduced the tax credit carry forward of US$94 million and related unrecognised deferred tax asset of US$59 million. This has no impact on the net tax expense.*

(US$ million)	2016	2015
12. Deferred tax continued		
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**162**	138
Deferred tax liabilities	**(245)**	(272)
	(83)	(134)
Deferred tax benefit (charge) for the year	**(40)**	(33)
Other liabilities, accruals and prepayments	**(38)**	(46)
Inventory	**–**	3
USA tax credits	**–**	(1)
Tax loss carry forward	**(53)**	136
Property, plant and equipment	**11**	8
Plantations	**18**	16
Other non-current assets	**(27)**	(34)
Other non-current liabilities	**49**	(115)
Amounts recorded directly in other comprehensive income	**8**	33
Transfer to assets held for sale	**–**	1
Translation differences	**(5)**	50
Deferred tax balances at end of year	**(120)**	(83)
Deferred tax assets	**152**	162
Deferred tax liabilities	**(272)**	(245)

13. Goodwill and intangible assets

	2016					2015				
(US$ million)	**Goodwill**	**Licence fees**	**Brands**	**Other[1]**	**Total**	Goodwill	Licence fees	Brands	Other[1]	Total
Net carrying amount at beginning of year	**4**	**3**	**7**	**5**	**19**	4	3	10	–	17
Additions	**–**	**–**	**–**	**4**	**4**	–	–	–	5	5
Amortisation	**–**	**–**	**(2)**	**–**	**(2)**	–	–	(2)	–	(2)
Impairment[1]	**–**	**–**	**–**	**(2)**	**(2)**	–	–	–	–	–
Translation difference	**(1)**	**–**	**–**	**(1)**	**(2)**	–	–	(1)	–	(1)
Net carrying amount	**3**	**3**	**5**	**6**	**17**	4	3	7	5	19
Cost (gross carrying amount)	**3**	**3**	**20**	**9**	**35**	5	3	20	5	33
Accumulated amortisation and impairments	**–**	**–**	**(15)**	**(3)**	**(18)**	(1)	–	(13)	–	(14)
Net carrying amount	**3**	**3**	**5**	**6**	**17**	4	3	7	5	19

[1] *Other intangible assets comprise (i) development costs of US$5 million (2015: US$2 million); and (ii) costs incurred in acquiring emission rights to meet the shortfall of allowances in our European reporting segment of US$1 million (2015: US$3 million). During the 2016 financial year, a reduction in the market value of these allowances resulted in an impairment loss of US$2 million being recognised.*

The net carrying amount of goodwill relates to the coated woodfree cash-generating unit in Sappi Europe. The goodwill is not significant but has been assessed for impairment by comparing the carrying amount with the recoverable amount.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

(US$ million)	2016	2015
14. Joint ventures		
Group's share of carrying amount of joint ventures		
Material joint venture	**14**	13
Joint ventures that are not individually material	**6**	5
	20	18

Dividends received from joint ventures for the 2016 financial year were US$7 million (2015: US$7 million; 2014: US$9 million).

Details of material joint venture

Umkomaas Lignin Proprietary Limited

A 50% joint venture agreement with Borregaard AS for the construction and operation of a lignin plant at Umkomaas, South Africa, and the development, production and sale of products based on lignosulphonate in order to build a sustainable lignin business. The financial statements of Umkomaas Lignin Proprietary Limited are to 31 December of each year which is the year-end of Borregaard AS. The unaudited management accounts which are prepared in accordance with International Financial Reporting Standards are used to account for the joint venture's income to Sappi's year-end.

Summarised financial information of Umkomaas Lignin Proprietary Limited:

(US$ million)	2016	2015
Current assets	**21**	20
Non-current assets	**14**	11
Current liabilities	**(6)**	(3)
Non-current liabilities	**(1)**	(2)
The above assets and liabilities include the following:		
Cash and cash equivalents	**6**	4
Current financial liabilities (excluding trade and other payables, and provisions)	**(6)**	(6)
Non-current financial liabilities (excluding trade and other payables, and provisions)	**(1)**	(2)

(US$ million)	2016	2015	2014
Sales	**56**	64	67
Depreciation and amortisation	**1**	2	2
Finance costs	**–**	–	–
Finance revenue	**–**	–	–
Taxation charge	**7**	7	6
Profit from continuing operations	**16**	18	16
Other comprehensive income	**–**	–	–
Total comprehensive income	**16**	18	16

Reconciliation of the financial information to the carrying amount of the joint venture:

(US$ million)	2016	2015
Net assets of the joint venture	**28**	26
Proportion of the group's ownership interest	**50%**	50%
Carrying amount of the joint venture	**14**	13

14. Joint ventures continued

Details of joint ventures that are not individually material

The group has entered into various joint venture agreements primarily for the purchase of wood and wood chips 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.

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

(US$ million)	**2016**	2015	2014
Profit from continuing operations	**1**	1	–
Profit from discontinued operations	**–**	–	–
Other comprehensive income	**–**	–	1
Total comprehensive income	**1**	1	1

(US$ million)	**2016**	2015
Carrying amount of these joint ventures	**6**	5

Included in the carrying value above is a small investment made during the year in a forestry company in Colombia.

(US$ million)	**2016**	2015
15. Other non-current assets		
Investment funds	**7**	8
Defined benefit pension plan assets (refer to note 28)	**23**	26
Advances to tree growers	**3**	3
Other financial assets	**4**	5
Other	**2**	1
	39	43

(US$ million)	**2016**	2015
16. Inventories		
Raw materials	**134**	124
Work in progress	**56**	56
Finished goods	**281**	285
Consumable stores and spares	**135**	130
	606	595

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US$8 million (2015: US$11 million; 2014: US$9 million). There were no reversals of any inventory write-downs for the periods presented.

The cost of inventories recognised as an expense and included in cost of sales amounted to US$3,896 million (2015: US$4,262 million; 2014: US$4,854 million).

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

(US$ million)	2016	2015
17. Trade and other receivables		
Trade accounts receivable, gross	**531**	561
Allowance for credit losses	**(14)**	(11)
Trade accounts receivable, net	**517**	550
Prepayments and other receivables	**125**	95
	642	645

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.

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

Prepayments and other receivables primarily represent prepaid insurance, prepaid taxes and other sundry receivables.

Trade receivables (including securitised trade receivables) represent 12.1% (2015: 12.2%) of turnover.

(US$ million)	2016	2015
17.1 Reconciliation of the allowance for credit losses		
Balance at beginning of year	**11**	9
Raised during the year	**8**	7
Released during the year	**(1)**	(1)
Utilised during the year	**(4)**	(3)
Translation differences	**–**	(1)
Balance at end of year	**14**	11

The allowance for credit losses has been determined by reference to specific customer delinquencies.

17.2 Analysis of amounts past due

September 2016

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

(US$ million)	Not impaired	Impaired	Total
Less than 7 days overdue	**7**	**–**	**7**
Between 7 and 30 days overdue	**7**	**–**	**7**
Between 30 and 60 days overdue	**2**	**1**	**3**
More than 60 days overdue	**2**	**12**	**14**
	18	**13**	**31**

September 2015

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

(US$ million)	Not impaired	Impaired	Total
Less than 7 days overdue	12	–	12
Between 7 and 30 days overdue	10	1	11
Between 30 and 60 days overdue	2	–	2
More than 60 days overdue	–	10	10
	24	11	35

All amounts which are due but beyond their contractual repayment terms are reported to divisional management on a regular basis. Any provision for impairment is required to be approved in line with the group's limits of authority framework.

The group holds collateral of US$1 million (2015: US$2 million) against trade receivables past contractual repayment terms.

17. Trade and other receivables continued

17.3 Trade receivables securitisation

The group operates on- and off-balance sheet trade receivables securitisation programmes in order to improve working capital and to utilise the cost effectiveness of such structures.

On-balance sheet structure

The group operates an on-balance sheet securitisation programme with UniCredit Bank AG which ends in August 2018. This programme has a limit of US$370 million (€330 million). The trade receivables sold in terms of this programme are disclosed on the group balance sheet together with a corresponding liability.

At financial year-end, trade receivables with a value of US$392 million (2015: US$434 million) have been pledged as collateral for amounts received as funding under the programme of US$314 million (2015: US$343 million). The group is restricted from selling or repledging the trade receivables that have been pledged as collateral for this liability. For more detail on this programme, refer to note 21.

Off-balance sheet structures

Southern African securitisation facility

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 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.

The total amount of trade receivables sold at the end of September 2016 amounted to US$91 million (2015: US$98 million).

Details of the securitisation programme at the end of the 2016 and 2015 financial years are disclosed in the table below:

Bank	Currency	Value	Facility	Discount charges
2016				
Rand Merchant Bank Limited	**ZAR**	**ZAR1,249 million**	**Unlimited[1]**	**Linked to 3-month JIBAR**
2015				
Rand Merchant Bank Limited	ZAR	ZAR1,368 million	Unlimited[1]	Linked to 3-month JIBAR

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

Letters of credit discounting

At the end of each financial month and on a non-recourse basis, the group sells certain letters of credit to Citibank (Hong Kong) and KBC Bank (Hong Kong) and, similarly, discounts certain trade receivables with Union Bancaire Privee (Switzerland), Erste Bank Austria (Erste), HSBC (Mexico) and Citibank (São Paulo) by utilising the customers' credit facilities with the discounting bank.

Scheckwechsel

The Scheckwechsel is a financial guarantee supplied by Sappi to the bank of certain customers (trade receivables) that wish to obtain a loan to finance early payment of specified trade receivables (thereby benefiting from an early settlement discount). By signing the Scheckwechsel, Sappi provides a financial guarantee to the bank of the customer.

This financial guarantee contract is initially recognised at fair value. The fair value at inception is zero as the risk of Sappi having to reimburse the bank is nil (there is no evidence that the customer will not reimburse its loan to the bank), there is no guarantee fee payable by the bank and the Scheckwechsel is a short-term instrument (maximum 90 days). Subsequently, the financial guarantee contract is measured at the higher of:
(i) The amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and
(ii) The amount initially recognised less any cumulative amortisation.

As no event of default has occurred, no provision has been set up and the fair value at year-end remains at zero. However, according to IAS 37, a contingent liability of US$10 million (2015: US$12 million) has been disclosed in this respect.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

17. Trade and other receivables continued

17.4 Concentration of credit risk

A significant portion of the group's sales and accounts receivable are from a small number of customers. None of the group's significant customers represented more than 10% of our sales and trade receivables during the years ended September 2016 and September 2015.

Where appropriate, credit insurance has been taken out over the group'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 US$642 million (2015: US$645 million) represents the group's maximum credit risk exposure from trade and other receivables.

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

	2016			2015		
Threshold	**Number of customers**	**US$ million**	**Percentage**	Number of customers	US$ million	Percentage
Greater than US$10 million	**5**	**96**	**19**	7	103	19
Between US$5 million and US$10 million	**8**	**49**	**9**	6	39	7
Less than US$5 million	**2,315**	**372**	**72**	2,360	408	74
	2,328	**517**	**100**	2,373	550	100

At balance sheet date, none of the group's customers with balances equal to or greater than US$5 million had breached their contractual maturity terms and thus no impairment charges have been recognised in respect of such customers.

Refer to note 31 for further details on credit risk.

18. Ordinary share capital and share premium

	2016		2015	
	Number of shares	**US$ million**	Number of shares	US$ million
Authorised share capital:				
Ordinary shares of ZAR1 each	**725,000,000**		725,000,000	
'A' ordinary shares of ZAR1 each[1]	**19,961,476**		19,961,476	
Issued share capital:				
Fully paid ordinary shares of ZAR1 each	**541,446,223**	**40**	541,446,223	39
Fully paid 'A' ordinary shares of ZAR1 each[1]	**19,961,476**	**1**	19,961,476	1
Treasury shares[2]	**(30,844,098)**	**(2)**	(35,002,688)	(2)
Share premium		**840**		813
	530,563,601	**879**	526,405,011	851
The movement in ordinary share capital and share premium is reconciled as follows:				
Opening balance		**851**		1,044
Transfers from Sappi Limited Share Incentive Trust		**14**		10
Translation movements		**14**		(203)
Closing balance		**879**		851

[1] *The 'A' ordinary shares are unlisted but rank pari passu with the ordinary shares in all respects except for dividend entitlements where the 'A' ordinary shares are entitled to 50% of the dividends payable on the ordinary shares. The 'A' ordinary shares have the same voting rights as ordinary shares but are not listed on the JSE Limited. Sappi will have the option to repurchase a number of 'A' ordinary shares in August 2019. The number of any 'A' ordinary shares that Sappi elects to buy back on the repurchase date will depend on the price performance of the ordinary shares over the period of the transaction with the remaining 'A' ordinary shares being distributed to the beneficiaries and converted into ordinary shares. The 'A' ordinary shares' rights, terms, conditions of conversion and privileges are contained in Article 38 of Sappi's existing Memorandum of Incorporation, details of which are available for inspection at the company's registered offices.*

[2] *Includes 10,882,622 (2015: 15,041,212) ordinary shares as well as 19,961,476 (2015: 19,961,476) 'A' ordinary shares that are held by group entities, including the Sappi Limited Share Incentive Trust and the trusts set up to house the Broad-based Black Economic Empowerment transaction. These shares may be utilised to meet the requirements of the trusts.*

18. Ordinary share capital and share premium continued

The movement in the number of treasury shares is set out in the table below:

Number of shares	2016	2015
Ordinary treasury shares:		
Ordinary treasury shares at beginning of year (including Scheme shares)	**15,041,212**	17,286,615
Treasury shares issued to participants of the Scheme	**(4,158,590)**	(2,245,403)
Share options (refer to note 29)	**(3,396,445)**	(1,687,520)
Share plan options (refer to note 29)	**(762,145)**	(557,883)
Ordinary treasury shares at end of year	**10,882,622**	15,041,212
'A' ordinary treasury shares:		
'A' ordinary shares issued to the Broad-based Black Economic Empowerment trusts	**19,961,476**	19,961,476
	30,844,098	35,002,688

Included in the issued and unissued share capital of 725,000,000 shares, is a total of 42,700,870 shares which may be used to meet the requirements of the Sappi Limited Share Incentive Trust (the Scheme) and/or the Sappi Limited Performance Share Incentive Trust (the Plan). In terms of the rules of the Scheme and the Plan, the maximum number of shares which may be acquired in aggregate by the Scheme and/or the Plan, and allocated to participants of the Scheme and/or the Plan, is 42,700,870 shares subject to adjustment of Sappi's issued share capital arising from any conversion, redemption, consolidation, sub-division and/or any rights or capitalisation issue of shares. Sappi is, at all times, obliged to reserve and keep available such number of shares (together with any treasury shares held by Sappi subsidiaries which may be used for the purposes of the Scheme and/or the Plan) as shall then be required in terms of the Scheme and/or the Plan out of its authorised but unissued share capital. Authority to use treasury shares for the purposes of the Scheme and/or the Plan was granted by shareholders at the Annual General Meeting held on 07 March 2005.

Capital risk management

The capital structure of the group 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 21, and
- Cash and cash equivalents.

The objectives of the group 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, and
- To ensure appropriate access to equity and debt.

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

During the 2016 and 2015 financial years, the group was in compliance with the financial covenants relating to the loans payable.

The group 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.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

(US$ million)	2016	2015	2014
19. Other comprehensive income (loss)			
Item that will not be reclassified subsequently to profit or loss			
Actuarial losses on post-employment benefit funds	**(12)**	(63)	(152)
Gross amount	**(20)**	(96)	(152)
Tax[1]	**8**	33	–
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation to presentation currency	**38**	(148)	(71)
Translation of foreign operations	**37**	(134)	(67)
Exchange differences arising on non-distributable reserves	**1**	(21)	(8)
Exchange differences arising on hedging reserves	**–**	7	4
Tax	**–**	–	–
Fair value adjustment on available-for-sale financial instruments	**–**	(1)	(2)
Gross amount	**–**	(1)	(2)
Tax	**–**	–	–
Hedging reserves	**4**	4	(22)
Movements during the year	**4**	(28)	(26)
Reclassified to profit or loss	**–**	32	3
Reclassified to property, plant and equipment	**–**	–	–
Tax[1]	**–**	–	1
Other comprehensive income (loss) recorded directly in equity	**30**	(208)	(247)
Profit for the year	**319**	167	135
Total comprehensive income (loss) for the year	**349**	(41)	(112)

[1] *Due to the effect of different effective tax rates being applied in different tax jurisdictions, the net tax relief for the 2016 financial year is US$8 million (2015: US$33 million relief; 2014: US$1 million charge).*

(US$ million)	2016	2015
20. Non-distributable reserves		
Legal reserves in subsidiaries	**58**	58
Share-based payment reserve	**53**	52
Other	**3**	3
Capital reduction	**1**	1
Capitalisation of distributable reserves	**1**	1
Revaluation of available-for-sale financial assets	**1**	1
	114	113

(US$ million)	2016 Legal reserves[1]	2016 Share-based payment reserve	2016 Other	2016 Total	2015 Legal reserves[1]	2015 Share-based payment reserve	2015 Other	2015 Total
20. Non-distributable reserves continued								
Opening balance	**58**	**52**	**3**	**113**	65	64	4	133
Transfers of vested share options	**–**	**(7)**	**–**	**(7)**	–	(5)	–	(5)
Share-based payment expense	**–**	**7**	**–**	**7**	–	7	–	7
Movement on available-for-sale financial assets	**–**	**–**	**–**	**–**	–	–	(1)	(1)
Translation differences	**–**	**1**	**–**	**1**	(7)	(14)	–	(21)
	58	**53**	**3**	**114**	58	52	3	113

[1] *Represents equity of the group that is not available for distribution to shareholders other than on liquidation. This is a legal requirement in certain countries which require a percentage of profit (loss) for the year to be transferred to a legal reserve until a certain threshold is reached. This threshold varies from country to country.*

(US$ million)	2016	2015
21. Interest-bearing borrowings		
Secured borrowings[1][2]	**314**	1,638
Unsecured borrowings[2]	**1,797**	589
Total borrowings (refer to note 31)	**2,111**	2,227
Less: Current portion included in current liabilities	**(576)**	(196)
Total non-current interest-bearing borrowings	**1,535**	2,031
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2016		196
2017	**576**	509
2018	**350**	380
2019	**–**	–
2020	**83**	82
2021 (September 2015: thereafter)	**–**	1,060
Thereafter	**1,102**	
	2,111	2,227

[1] *Consists of mortgage and pledge over trade receivables and certain assets (refer to note 25 for details of encumbered assets).*
[2] *In August 2016, Sappi released security previously granted to secure certain indebtedness.*

Capitalised lease liabilities

As at financial year-end, the group had no material capitalised finance lease liabilities.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

21. Interest-bearing borrowings continued

Set out below are details of the more significant interest-bearing borrowings in the group at September 2016:

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	US$	Fixed[2]	US$400 million	US$398 million[3][4][5]	Unsecured	July 2017	No financial covenants
Public bond	EUR	Fixed	€450 million	€442 million[3][4][5]	Unsecured	April 2022	No financial covenants
Public bond	EUR	Fixed	€350 million	€343 million[3][4][5]	Unsecured	April 2023	No financial covenants
Public bond	US$	Fixed	US$221 million	US$219 million[4][5][6]	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed[7]	ZAR500 million	ZAR500 million[4]	Unsecured	April 2018	No financial covenants
Public bond	ZAR	Fixed	ZAR745 million	ZAR744 million[4]	Unsecured	April 2020	No financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€183 million	€183 million[4]	Trade receivables (securitisation programme)	August 2018	EBITDA to net interest and net debt to EBITDA[8]
UniCredit Bank	US$	Variable	US$109 million	US$109 million[4]	Trade receivables (securitisation programme)	August 2018	EBITDA to net interest and net debt to EBITDA[8]
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million		December 2016	No financial covenants
Österreichische Kontrollbank	EUR	Variable	€101 million	€100 million[4][9]		June 2017	EBITDA to net interest and net debt to EBITDA[8]
GroCapital Financial Services	ZAR	Fixed[7]	ZAR400 million	ZAR400 million		May 2020	No financial covenants

[1] The nature of the rates for the group bonds are explained in note 31. The nature of the interest rates is determined with reference to the underlying economic hedging instrument.

[2] US Dollar fixed interest rates have been swapped into Euro fixed interest rates. These swaps are subject to hedge accounting.

[3] Under the relevant indenture, certain limitations exist including dividend distributions and other payments, indebtedness, asset sales, liens, guarantees, and mergers and consolidations. In case of a change of control, holders have a right to require the relevant issuer to repurchase all or any part of their bonds at a purchase price of 101% of the principal amount of bonds.

[4] 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 paid upfront and the fair value adjustments relating to hedge accounting.

[5] Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time redeem any public bonds (the securities), in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus a premium, as defined in the bond indentures, together with interest calculated on the principal amount of the securities to be redeemed up to the date of redemption.

[6] Under the relevant indenture, limitations exist on liens, sale and leaseback transactions, and mergers and consolidations. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH group.

[7] ZAR variable interest rates have been swapped into fixed ZAR interest rates. These swaps are subject to hedge accounting.

[8] Financial covenants relate to the Sappi Limited group.

[9] The OeKB provides the funding for this facility but the majority of the credit risk is guaranteed by some of Sappi's relationship banks.

	Local currency million	US$ million
21. Interest-bearing borrowings continued		
The analysis of the currency per debt is:		
US Dollar[1]	726	**726**
Euro	1,128	**1,266**
Rand	1,644	**119**
		2,111

[1] *This amount includes debt of US$400 million that is swapped into Euro.*

A detailed analysis of total interest-bearing borrowings has been disclosed in note 31.

Other restrictions

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

During the 2016 and 2015 financial years, the group was in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institutions before such breach occurs.

Borrowing facilities secured by trade receivables

The on-balance sheet securitisation programme with UniCredit Bank AG has a limit of US$370 million (€330 million) and, to the extent utilised, is disclosed on the balance sheet together with a corresponding trade receivable. The interest arising on this programme is recorded within finance costs.

In terms of the programme, the securitisation sellers being Sappi Lanaken NV on behalf of Europe, Sappi NA Finance LLC (a special purpose entity) on behalf of Sappi North America, and Sappi Papier Holding GmbH on behalf of Sappi Trading sell certain eligible trade receivables to Elektra Purchase N° 29 Limited (Elektra), a securitisation special purpose entity, that is consolidated by the Sappi group. Elektra has a commissioning agreement with Arabella Finance Limited (Arabella), an entity belonging to UniCredit Bank AG that issues commercial paper to fund the purchase of the trade receivables (alternative funding resources are available should the market for commercial paper be disrupted). The funding is settled in US Dollar and Euro.

As at September 2016, a funding reserve, that is reset on a monthly basis, amounted to 19.75% (2015: 20.31%).

The cost of the programme includes a variable component based on the cost of funding of Arabella, a fixed margin and a commitment fee computed on the difference between US$337 million (€300 million) and the used portion of the programme limit.

The trade receivables are legally transferred; however, these receivables do not qualify for derecognition under IAS 39 as most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi.

Further detail of the value of trade receivables pledged as security for this programme is included in notes 17 and 25.

Notes to the Group Annual Financial Statements continued

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21. Interest-bearing borrowings continued

Unutilised facilities

The group 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.

(US$ million)	Currency	Interest rate	2016	2015
Unutilised committed facilities				
Syndicated loan/revolving credit facility[1]	EUR/ZAR	Variable (EURIBOR/ JIBAR)	**595**	536
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**56**	26
			651	562
Unutilised uncommitted facilities				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (ZAR bank prime rate)	**20**	20
Cash management overdraft facility	EUR	Variable (EURIBOR)	**20**	20
			40	40
Total unutilised facilities (committed and uncommitted) excluding cash			**691**	602

[1] *Two syndicated loans with a consortium of banks with revolving facilities available of €465 million (2015: €465 million) and ZAR1,000 million (2015: ZAR1,000 million). Both facilities were unutilised as at financial year-end. The €465 million facility matures in April 2020, is subject to financial covenants relating to the Sappi Limited group and is unsecured. The ZAR1,000 million facility is an evergreen facility with a 15-month notice period and is subject to financial covenants relating to the financial position of Sappi Southern Africa Limited. The group has paid a total combined commitment fee of US$4.7 million (2015: US$4.3 million) in respect of the two facilities.*

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 31.

(US$ million)	2016	2015
22. Other non-current liabilities		
Defined benefit pension plan liabilities (refer to note 28)	**326**	341
Post-employment healthcare subsidy (refer to note 28)	**108**	107
Long-term employee benefits	**1**	1
Workmen's compensation	**20**	22
Long service awards	**21**	20
Land restoration obligation	**13**	13
Restructuring provisions	**9**	11
Deferred income	**1**	1
Other	**19**	14
	518	530

(US$ million)	2016	2015
23. Provisions		
Restructuring provisions	**23**	26
Long-term (refer to note 22)	**9**	11
Short-term	**14**	15
Other provisions	**1**	1
Balance at September	**24**	27

Details of restructuring provisions are provided below:

(US$ million)	Severance, retrenchment and related costs	Other closure costs	Total
Balance at September 2014	44	1	45
Increase in provisions	8	1	9
Utilised	(16)	(2)	(18)
Released during the year	(3)	–	(3)
Other movements	(3)	–	(3)
Translation effect	(4)	–	(4)
Balance at September 2015	26	–	26
Increase in provisions	6	–	6
Utilised	(8)	–	(8)
Released during the year	(2)	–	(2)
Other movements	–	1	1
Balance at September 2016	**22**	**1**	**23**

Sappi North America

In May 2014, Sappi North America announced that it would reduce its central overhead costs resulting in a restructuring provision of US$3 million for severance and retrenchment costs being raised. The US$1 million that remained unutilised at the 2015 financial year-end was utilised during the 2016 financial year.

Sappi Europe

Due to the decline in demand for coated paper, Sappi Europe has embarked on various cost-saving measures during the current and prior financial years. These measures include the centralisation of certain services such as sales and procurement, improving production efficiencies, disposals and closures of non-core assets as well as plant conversions to produce speciality products which are growing market segments. As a result, provisions for severance, retrenchment and related costs have been raised with the majority of the costs expected to be incurred by September 2017 with the long-term provisions expected to be fully utilised by September 2024.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

	(US$ million)	2016	2015	2014
24.	Notes to the group statement of cash flows			
24.1	**Cash generated from operations**			
	Profit for the year	**319**	167	135
	Adjustment for:			
	Depreciation	**250**	266	310
	Fellings	**56**	57	59
	Amortisation	**2**	2	2
	Taxation charge	**104**	62	2
	Net finance costs	**121**	182	177
	Restructuring provisions and closure costs raised (reversed)	**4**	6	(6)
	Fair value adjustment gains and growth on plantations	**(120)**	(106)	(86)
	Post-employment benefits funding	**(51)**	(56)	(70)
	Non-cash post-retirement plan settlements and amendments	**(8)**	(68)	(21)
	Profit (loss) on disposal of assets and businesses	**(15)**	–	29
	Other non-cash items	**31**	32	35
		693	544	566
24.2	**Decrease (increase) in working capital**			
	(Increase) decrease in inventories	**(2)**	12	(9)
	Decrease (increase) in receivables	**9**	29	(24)
	(Decrease) increase in payables	**(3)**	(52)	67
		4	(11)	34
24.3	**Finance costs paid**			
	Interest and other finance costs on liabilities carried at amortised cost	**(123)**	(148)	(194)
	Premium and costs on early redemption of redeemable bonds and other loans	**(17)**	(46)	–
	Net foreign exchange gains	**2**	11	7
	Net fair value gain (loss) on financial instruments	**1**	(13)	1
	Transfers to financing activities and non-cash items	**30**	48	16
		(107)	(148)	(170)
24.4	**Taxation paid**			
	Net amounts (payable) receivable at beginning of year	**(20)**	(11)	6
	Translation effects	**(2)**	4	(1)
	Amounts recognised directly in other comprehensive income	**(1)**	–	–
	Taxation charge to profit or loss	**(64)**	(29)	(17)
	Less: Net amounts payable (receivable) at end of year	**31**	20	11
		(56)	(16)	(1)
24.5	**Proceeds on disposal of other non-current assets**			
	Book value of non-current assets disposed of	**3**	1	11
	Gain (loss) on disposal	**2**	–	(5)
		5	1	6
24.6	**Cash and cash equivalents**			
	Cash and deposits on call	**697**	449	517
	Money market instruments	**6**	7	11
		703	456	528

(US$ million)	2016	2015

25. Encumbered assets

The book values of assets which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third-party ownership in terms of capitalised leases or suspensive sale agreements, are as follows:

	2016	2015
Trade receivables	**392**	434
Land and buildings	**–**	215
Plant and equipment	**–**	1,019
Inventory	**–**	195
	392	1,863

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of US$370 million (€330 million), of which US$314 million (€280 million) was utilised at financial year-end (refer to notes 17 and 21).

In the prior year, the US$400 million, US$350 million and €450 million public high yield bonds as well as the €465 million revolving credit facility were secured by land and buildings, plant and equipment and inventory. During the current year, the group completed a refinancing transaction whereby the US$350 million high yield bond was replaced by a €350 million public bond due in 2023. Subsequent to the refinancing, the security provided in terms of the above high yield bonds was released due to the group having achieved certain financial covenants in terms of the respective agreements.

(US$ million)	2016	2015

26. Commitments

	2016	2015
Capital commitments		
Contracted but not provided	**42**	60
Approved but not contracted	**71**	73
	113	133
Future forecast cash flows of capital commitments at September:		
2016		116
2017	**90**	11
2018	**15**	6
2019	**4**	–
2020	**4**	–
	113	133

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

Lease commitments

Future undiscounted minimum operating lease obligations payable in the year ended September:

	2016	2015
2016		20
2017	**20**	13
2018	**13**	8
2019	**7**	4
2020	**4**	3
2021 (2015: thereafter)	**2**	5
Thereafter	**4**	
	50	53

Further information on capital commitments relating to environmental matters can be found in note 34.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

(US$ million)	2016	2015
27. Contingent liabilities		
Guarantees and suretyships	**10**	13
Other contingent liabilities	**11**	11
	21	24

Included under guarantees and suretyships are bills of exchange where Sappi has guaranteed third-party funding of payments to Sappi for certain German accounts receivable. Refer to note 17.3 for further detail.

Other contingent liabilities mainly relate to environmental and other taxation queries in respect of certain group companies.

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.

In September 2012, the Competition Commission of South Africa notified the group that it has initiated an investigation into alleged anti-competitive behaviour between Sappi and a competitor in the South African pulp and paper market. At that time, we reported that the investigation was still in the early stages. As at the end of the 2016 financial year, the investigation remains in its early stages as the dispute is one of a procedural nature.

28. Post-employment benefits

Summary of results

	Defined contribution plans		Defined benefit pension plans		Post-employment healthcare subsidy	
(US$ million)	2016	2015	2016	2015	2016	2015
Post-employment plan costs (credits) recognised in profit or loss	**34**	34	**10**	(48)	**7**	5
Employer contributions paid during the financial year			**38**	45	**8**	7
Amounts presented in the group balance sheet are as follows:						
Net pension/healthcare subsidy liabilities (refer to note 22)			**326**	341	**108**	107
Net pension assets (refer to note 15)[1]			**(23)**	(26)	**–**	–
Net balance sheet liabilities			**303**	315	**108**	107
Development in the balance sheet for the pension/ healthcare subsidy						
Net pension/healthcare subsidy liabilities at beginning of year			**(315)**	(341)	**(107)**	(113)
Net pension/healthcare subsidy costs for the year			**(18)**	5	**(7)**	(8)
Settlement gains for the year[2]			**8**	43	**–**	3
Employer contributions			**38**	45	**8**	7
Net actuarial losses for the year			**(17)**	(96)	**(3)**	–
Translation differences			**1**	29	**1**	4
Net pension/healthcare subsidy liabilities at end of year			**(303)**	(315)	**(108)**	(107)

[1] Defined benefit plans in South Africa.

[2] During the year, regional management undertook various settlement projects, as follows:

- *A vested-member settlement offer was made to deferred members of our plans in North America. The acceptance by 50% of the members resulted in a gain of US$8 million being recorded in profit or loss.*
- *Management in Southern Africa undertook further tranches of settlement offers to active and pensioner members in qualifying for the post-employment healthcare subsidy. This resulted in a negligible amount being recorded in profit or loss.*

Actuarial valuations of all plans are performed annually with the exception of our Southern African and United Kingdom defined benefit pension plans where actuarial reviews are performed annually and formal actuarial funding valuations are performed tri-annually.

28. Post-employment benefits continued

Defined contribution plans

The group operates defined contribution plans of various sizes for all qualifying employees in most regions throughout the group. The assets of the plans are held separately from those of the group in funds under the control of trustees or administered by insurance companies. The group also participates in various local industry (multi-employer) plans, open to eligible employees often as a voluntary alternative to company sponsored plans. 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 US$34 million (2015: US$34 million; 2014: US$34 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans. Expected contributions to be paid in the next financial year is US$33 million.

In addition to company-sponsored plans across the group, employees commonly participate in local state plans wherever they exist. State plans exist in most regions to provide such benefits as disability, unemployment income protection, basic state pension, topups thereon, and spousal benefits. Eligibility and participation is generally mandatory to local tax payers, usually on residence-based criteria in accordance with domestic laws.

State benefits vary widely in value and accrual formulae from country to country. Contributions are normally paid with domestic taxation or as supplemental national insurance contributions (or the like), at rates set by domestic governments. Participation in state plans involves no obligations on group companies other than to pay contributions according to the rates specified by domestic governments. Costs, where incurred, are included with other employee costs reported elsewhere in the group accounts, and excluded from figures reported in this note.

Defined benefit pension or retirement lump sum plans

The group operates several principal defined benefit pension and/or lump sum plans in all regions plus a number of smaller plans. The extent of employee access to these plans vary. Plans open to new entrants or future accrual cover all qualifying employees. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country.

With the exception of our German and Austrian plans, which are unfunded, the assets of our funded plans are held in separate trustee-administered funds which are subject to varying statutory requirements in the particular countries concerned. Generally, the trusts are required by local legislation as well as their respective articles of association to act in the interests of the fund and its stakeholders (ie members and the various local sponsoring companies across the group). The pension funds comprise management and member-appointed trustees, including (in some instances) an independent trustee, who collectively are responsible for the administration and governance of the trusts.

Benefits are formula-driven, comprising a variety of earnings definitions (such as final average salary or career average revalued earnings) and years of service. Exceptions are certain plans in Germany and Austria that provide fixed value Euro benefits and certain plans in North America that provide benefits based on years of service and a '$ multiplier' (a nominal US Dollar value which increases from time to time only by collective bargaining agreement). The table below briefly illustrates the nature of defined benefits and their link with earnings.

Type of benefit revaluation rate/pensionable salary definition	Location of scheme
Final average salary	South Africa, Austria, Germany
Career average revalued earnings	Belgium, The Netherlands
Frozen benefit	United Kingdom, North America (salaried plan)
Fixed €-value	Germany
Nominal US$-value (periodically revalued)	North America (works plans)

Plans remain open to new hires except for plans in North America, Southern Africa, Austria and some in Germany. Plans in the United Kingdom and one in North America are closed to future accrual.

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 in each region. 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 with varying degrees of complexity according to the needs of each plan, analysing risk and return profiles in order to help set investment and contribution policies for our plans.

The main strategic asset allocation choices that are formulated in the actuarial and technical policies of our plans across the group are shown below. Local regulations impose minimum funding targets which significantly influence the strategic asset allocation of individual plans.

- **Southern Africa:** Asset mix based on 20% equity instruments, 55% debt instruments, 20% multi-asset and other instruments, 5% cash.
- **Europe including United Kingdom (UK)[1]:** Asset mix based on 35% equity and real estate instruments, 47% debt instruments, 18% multi-asset and other instruments.
- **North America:** Asset mix based on 38% equity instruments, 44% debt instruments, 18% multi-asset and other instruments.

[1] *Weighted average of plans in this region.*

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

28. Post-employment benefits continued

Exposure to risks

The major risks faced by the group as a result of the defined benefit obligation can be summarised as follows:

- **Inflation:** The risk that future inflation indices is higher than expected and uncontrolled
- **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 their pension benefit is payable for longer than expected, and
- **Administration:** Administration of this liability poses a burden to the group.

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. As the plan assets include significant investments in quoted equity shares, property and high yield bonds in various markets around the globe, the group is exposed to equity, property, high yield bond market risk and for non-domestic holdings, currency risk. Debt instruments typically comprise investment grade corporate and government debt (nominal coupon and index-linked coupon) in markets around the globe, primarily held to match counter-movements in plan liabilities of the same value. The group is also exposed to losses from the effects of credit grade re-ratings on debt instruments in bond markets across the globe.

Funding policy

The group's subsidiaries fund the entire cost of the entitlements expected to be earned on an annual basis, with the exception of one plan in South Africa, where employees contribute a fixed percentage of pensionable salary. The funding requirements are based on local actuarial measurement frameworks. For prefunded plans, contributions are determined on a current salary base or fixed nominal amounts and, for unfunded plans, contributions are paid to meet ongoing pension payroll. Additional liabilities stemming from past service due to salary increases are paid immediately to the plans as part of the overall agreed contribution rate to restore individual plan deficits where these occur.

Apart from paying the costs of the entitlements, the group's subsidiaries are, to various extents, liable to pay additional contributions in cases where the plans do not hold sufficient assets. These range from enforcement by local regulators, reducing accrued entitlements, or a charge over assets.

Expected company contributions for our defined benefit pension/lump sum plans across group subsidiaries over the next financial year are US$33 million.

Post-employment healthcare subsidy

The group sponsors two defined benefit post-employment plans that provide certain healthcare and life insurance benefits to eligible retired employees of the North American and Southern African operations. Employees are generally eligible for benefits upon retirement and on completion of a specified number of years of service, or joining the company prior to a certain date.

Our healthcare subsidy plan in Southern Africa is partially funded with assets held in a local cell captive. Our subsidy plan in North America is wholly unfunded.

Expected company contributions to fund these subsidies over the next financial year are US$6 million.

Other employee benefits

Group companies have no significant post-employment defined benefit obligations other than the following:

(US$ million)	**2016**	2015
Jubilee (long service award) in continental Europe in other long-term liabilities	**21**	20
Early retirement (temporary pension) benefit in Belgium[1]	**1**	6
ATZ (early retirement – temporary salary supplement) obligations in Germany and Austria	**13**	12
Workmen's compensation benefit obligations in North America	**20**	22

[1] *This benefit was reduced significantly due to a change in local agreements.*

28. Post-employment benefits continued

(US$ million)	Defined benefit pension plans			Post-employment healthcare subsidy		
	2016	2015	2014	**2016**	2015	2014
Components of defined benefit cost recognised in profit or loss						
Current service cost	**16**	19	23	**3**	3	3
Past service credit	**(6)**	(31)	(23)	**–**	–	–
Interest on net defined benefit	**6**	5	8	**4**	5	7
Fund administration costs	**2**	2	3	**–**	–	–
Non-routine settlement gain	**(8)**	(43)	(3)	**–**	(3)	–
Net amount recognised in profit or loss	**10**	(48)	8	**7**	5	10
Components of defined benefit cost recognised in other comprehensive income						
Actuarial gains (losses) arising from membership experience	**6**	2	3	**5**	3	(1)
Actuarial (losses) gains arising from changes in demographic assumptions	**(2)**	(57)	–	**(2)**	(2)	–
Actuarial (losses) gains arising from changes in financial assumptions	**(145)**	(57)	(286)	**(6)**	–	(5)
Return on plan assets (excluding amounts included in interest income)	**124**	16	137	**–**	(1)	–
Net amount recognised in other comprehensive income	**(17)**	(96)	(146)	**(3)**	–	(6)

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

28. Post-employment benefits continued

(US$ million)	Defined benefit pension plans 2016	Defined benefit pension plans 2015	Post-employment healthcare subsidy 2016	Post-employment healthcare subsidy 2015
Movement in the present value of the defined benefit obligation in the current year				
Defined benefit obligation at beginning of year	**1,365**	2,005	**118**	150
Current service cost	**16**	19	**3**	3
Past service credit	**(6)**	(31)	**–**	–
Interest expense	**53**	57	**5**	6
Plan participants' contributions	**1**	2	**–**	–
Remeasurements	**141**	112	**3**	(1)
Membership experience changes	**(6)**	(2)	**(5)**	(3)
Demographic assumption changes	**2**	57	**2**	2
Financial assumption changes	**145**	57	**6**	–
Non-routine plan settlements	**(46)**	(586)	**(7)**	(27)
Benefits paid	**(80)**	(71)	**(5)**	(5)
Translation difference	**(35)**	(142)	**(1)**	(8)
Defined benefit obligation at end of year	**1,409**	1,365	**116**	118
– Present value of wholly unfunded obligation	**157**	171	**92**	89
– Present value of wholly or partially funded obligation	**1,252**	1,194	**24**	29
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	**1,050**	1,664	**11**	37
Interest income	**47**	52	**1**	1
Employer contributions	**38**	45	**8**	7
Plan participants' contributions	**1**	2	**–**	–
Remeasurements				
Return (loss) on plan assets net of interest income	**124**	16	**–**	(1)
Non-routine plan settlements	**(38)**	(543)	**(7)**	(24)
Benefits paid	**(80)**	(71)	**(5)**	(5)
Fund administration costs	**(2)**	(2)	**–**	–
Translation difference	**(34)**	(113)	**–**	(4)
Fair value of plan assets at end of year	**1,106**	1,050	**8**	11
Net balance sheet defined benefit liability	**303**	315	**108**	107

28. Post-employment benefits continued

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

(US$ million)	Funded pension plans 2016	Funded pension plans 2015	Funded subsidy plans 2016	Funded subsidy plans 2015
Investments quoted in active markets				
– Equity and high yield investments	**409**	413	**–**	–
– Investment grade debt instruments	**207**	157	**–**	–
– Property investment funds	**15**	15	**–**	–
Unquoted investments				
– Equity and high yield investments[1]	**445**	439	**7**	10
Cash	**30**	26	**1**	1
	1,106	1,050	**8**	11

[1] *Funded plans consist of commingled funds that are not quoted in active markets. However, the underlying securities held by these funds are quoted in active markets or the prices of these underlying securities are determined by other observable market data. Funded subsidy plans consist of with-profit annuities where distributable income is subject to the discretion of the insurer's investment returns.*

As at financial year-end, there were no investments in the group's own quoted equity instruments (2015: US$1 million).

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 and post-employment medical aid subsidies for the group's plans (weighted average per region) are shown below:

(US$ million)	2016 North America	2016 Europe (incl UK)	2016 Southern Africa	2015 North America	2015 Europe (incl UK)	2015 Southern Africa
Discount rate – pension (%)	**3.24**	**1.60**	**9.40**	4.00	2.80	8.60
Discount rate – post-employment healthcare subsidy (%)	**3.01**	**n/a**	**9.50**	3.70	n/a	9.25
Future salary increase rate – pension (%)	**–**	**0.90**	**8.50**	–	0.90	7.40
Cost of living adjustment for pensions in payment (%)[1]	**–**	**2.00**	**6.00**	–	2.30	5.10
Healthcare cost trend rate (%)[2]	**7.80 – >5.00**	**n/a**	**8.50**	8.10 – >5.00	n/a	8.25
Sample rate average life expectancy from retirement (years)[3]						
– For current beneficiaries	**26.00**	**23.80**	**19.20**	26.00	24.20	19.20
– For future retiring beneficiaries	**28.00**	**25.70**	**20.20**	28.00	26.20	20.10

[1] *Weighted average for plans granting cost of living adjustment whether fixed or variable.*
[2] *North America: Initial rate – > long-term rate trend over nine years (2015: nine years).*
[3] *Based on local mortality tables in use (with modifications to reflect expected changes in mortality over time) for males at age 60.*

Notes to the Group Annual Financial Statements continued

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28. Post-employment benefits continued

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, healthcare cost trends and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation (pension and healthcare subsidy) would decrease by US$188 million (increase by US$235 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation (pension and healthcare subsidy) would increase by US$36 million (decrease by US$30 million).
- If the expected cost of living adjustment rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$56 million (decrease by US$47 million).
- If the expected healthcare cost trend rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$6 million (decrease by US$5 million).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation (pension and healthcare subsidy) would increase by US$43 million (decrease by US$39 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 (per region) is as follows:

	Pension plans	Healthcare subsidy
North America	13 years	10 years
Europe (including UK)	14 years	–
Southern Africa	18 years	16 years

Regional split of results

	2016			2015		
(US$ million)	**North America**	**Europe (incl UK)**	**Southern Africa**	North America	Europe (incl UK)	Southern Africa
Defined benefit obligation (pension)	**(763)**	**(510)**	**(136)**	(733)	(492)	(140)
Defined benefit obligation (healthcare)	**(92)**	**n/a**	**(24)**	(89)	n/a	(29)
Fair value of plan assets (pension)	**667**	**280**	**159**	626	258	166
Fair value of plan assets (healthcare)	**–**	**n/a**	**8**	–	n/a	11
Net defined benefit liability	**(188)**	**(230)**	**7**	(196)	(234)	8
Net defined benefit cost (credit) recognised in profit or loss (pension)	**4**	**3**	**3**	11	(63)	4
Net defined benefit cost recognised in profit or loss (healthcare)	**5**	**n/a**	**2**	5	n/a	–
Total	**9**	**3**	**5**	16	(63)	4
Net (loss) gain recognised in other comprehensive income (pension)	**(4)**	**(8)**	**(5)**	(87)	(12)	3
Net (loss) gain recognised in other comprehensive income (healthcare)	**(3)**	**n/a**	**–**	1	n/a	(1)
Total	**(7)**	**(8)**	**(5)**	(86)	(12)	2

29. Share-based payments

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

Shareholders, at prior Annual General Meetings, fixed the aggregate number of shares which may be acquired by all participants under The Sappi Limited Share Incentive Trust (Scheme) and The Sappi Limited Performance Share Incentive Trust (Plan) at 42,700,870 shares (equivalent to 7.89% of the ordinary shares in issue).

The Sappi Limited Share Incentive Trust (Scheme)

Certain managerial employees are eligible to participate in the Scheme. Under the rules of the Scheme, participants (a) may be offered options to acquire ordinary shares (share options) and (b) may be offered the opportunity to acquire ordinary shares (scheme shares).

Under the rules of the Scheme:
- Share options entitle the participant to purchase one ordinary share per share option, and
- Scheme shares entitle the participant to enter into a loan with the Scheme to acquire Sappi Limited shares at a specific issue price.

The scheme shares are registered in the participant's name and pledged to the Scheme as security for the loan. Upon payment of the loan, the scheme shares become unsecured Sappi Limited shares owned by the participant.

The amount payable by a participant is the closing price at which shares are traded on the JSE Limited on the trading date immediately preceding the date upon which the board authorised the grant of the opportunity to acquire relevant share options or scheme shares, as the case may be.

The share options and scheme shares vest in blocks of 25% per annum on the anniversary date of the offer and expire eight years after the offer date. Only once the options vest, may share options be exercised by the participants and may scheme shares be released from the Scheme to participants.

The Scheme rules provide that appropriate adjustments are to be made to the rights of participants in the event that the company, inter alia, undertakes a rights offer, a capitalisation issue, or consolidation of ordinary shares or any reduction in its ordinary share capital.

The Sappi Limited Performance Share Incentive Trust (Plan)

Under the rules of the Plan, participants who are officers and other employees of the company 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 for ordinary shares to be allotted or transferred to the participants of the Plan. Should the performance criteria not be met, the number of shares allotted are adjusted downwards from 100% to 75%, or 50%, 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.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

29. Share-based payments continued

Movements in share options and performance shares for the financial year ended September 2016 and September 2015 are as follows:

	Performance shares[1]	Share options	Weighted average share option exercise price (ZAR)	Total shares
Outstanding at September 2014	11,132,725	8,266,958	34.29	**19,399,683**
– Offered	3,410,100	–	–	**3,410,100**
– Paid for/vested	(557,883)	(1,687,520)	31.40	**(2,245,403)**
– Returned, lapsed and forfeited	(1,970,799)	(146,190)	43.57	**(2,116,989)**
Outstanding at September 2015	12,014,143	6,433,248	34.77	**18,447,391**
– Offered	3,765,350	–	–	**3,765,350**
– Paid for/vested	(762,145)	(3,396,445)	37.93	**(4,158,590)**
– Returned, lapsed and forfeited	(985,574)	(211,124)	48.90	**(1,196,698)**
Outstanding at September 2016	14,031,774	2,825,679	30.23	**16,857,453**
Exercisable at September 2014	–	5,956,994	37.28	
Exercisable at September 2015	–	5,785,544	36.10	
Exercisable at September 2016	–	2,825,679	30.23	

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

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

	2016	2015	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
12 December 2007		742,200	Time	Vested	12 December 2015	52.57
19 March 2008		442,860	Time	Vested	19 March 2016	55.97
22 December 2008	**347,140**	824,460	Time	Vested	22 December 2016	35.50
09 December 2009	**629,540**	1,142,050	Time	Vested	09 December 2017	33.85
03 December 2010	**768,450**	1,368,450	Time	Vested	03 December 2018	35.20
02 December 2011	**1,080,549**	1,913,228	Time	Vested	02 December 2019	22.90
Performance shares:						
02 December 2011		1,524,287	Performance	02 December 2015	n/a	n/a
07 December 2012	**3,226,303**	3,274,042	Performance	07 December 2016	n/a	n/a
13 December 2013	**3,750,723**	3,839,389	Performance	13 December 2017	n/a	n/a
04 December 2014	**3,307,105**	3,376,425	Performance	04 December 2018	n/a	n/a
07 December 2015	**3,747,643**		Performance	07 December 2019	n/a	n/a
	16,857,453	18,447,391				

29. Share-based payments continued

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

	Issue 41	Issue 41
Date of grant	07 December 2015	07 December 2015
Type of award	Performance	Performance
Share price at grant date	ZAR59.92	ZAR59.92
Vesting period	4 years	4 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	78%	80%
Number of shares offered	1,882,675	1,882,675
Volatility	31%	n/a
Risk-free discount rate	1.7% (US yield)	n/a
Expected dividend yield	2.4%	2.4%
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR53.29	ZAR47.94

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

Refer to note 37 for more information on directors' and prescribed officers' participation in the Scheme and the Plan.

No new loans have been granted to the executive directors since 28 March 2002.

Broad-based Black Economic Empowerment

In June 2010, Sappi completed a Broad-based Black Economic Empowerment (BBBEE) transaction (the BBBEE transaction) that enabled Sappi to meet its BBBEE targets in respect of BBBEE equity ownership. The South African government has through the years promulgated various pieces of legislation to increase the participation of Historically Disadvantaged South Africans (HDSAs) in the South African economy and, through BBBEE legislation, formalised the country's approach in this regard. Sappi views BBBEE as a key requirement for sustainable growth and social development in South Africa.

In April 2006, Sappi announced a BBBEE transaction (the Plantation BBBEE transaction) that included a consortium of investors and certain categories of Sappi's South African employees. However, the Plantation BBBEE transaction did not meet Sappi's undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for BBBEE in the forestry industry and includes the BBBEE scorecard and targets to be applied, as well as certain undertakings by government and South African forestry companies to assist the forestry industry to achieve its BBBEE targets). Accordingly, Sappi decided to unwind the Plantation BBBEE transaction and to implement the BBBEE transaction, a new sustainable transaction of equivalent value using its listed securities.

The BBBEE transaction has resulted in potentially 4.5% of the issued share capital of Sappi being held as follows:
- Sappi's South African employees (62.5%)
- South African black managers (15%)
- Strategic partners (12.5%) (refer below for more detail), and
- Communities surrounding the Southern African mill operations and plantations (10%).

The BBBEE transaction

The BBBEE transaction comprised two distinct parts:
- The value created through the Plantation BBBEE transaction was settled by the issue of 4.3 million fully paid-up ordinary shares at a price based on the 30-day volume weighted average share price (VWAP) of Sappi as at Friday, 05 February 2010 of ZAR33.50, and
- The creation and issuance of a new class of unlisted equity shares referred to as 'A' ordinary shares. The 'A' ordinary shares were issued at their par value of ZAR1 to a trust formed for the benefit of certain Sappi employees including HDSAs (the ESOP Trust), a trust formed for the benefit of certain Sappi managers that are HDSAs (the MSOP Trust) and a trust formed for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in Southern Africa (the Sappi Foundation Trust, and together with the ESOP Trust and the MSOP Trust, the BBBEE trusts). The issuance of the 'A' ordinary shares was financed through notional non-interest-bearing loans extended by Sappi to the BBBEE trusts. The BBBEE transaction resulted in the BBBEE trusts and the strategic partners holding, collectively, ordinary and 'A' ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's Southern African business under the Forestry Charter and BBBEE legislation in general.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

29. Share-based payments continued

The BBBEE transaction continued

The number of ordinary shares allocated to the strategic partners and Sappi employees who were participants of the Plantation BBBEE transaction are as follows:

Entity	Ordinary share allocation
Strategic partners	
Lereko Investments Proprietary Limited	1,971,693
Malibongwe Women Development Trust	432,842
AMB Capital Limited	643,227
	3,047,762
Employees (Through the ESOP Trust)	1,280,597
Total	4,328,359

The number of 'A' ordinary shares allocated to the BBBEE trusts are as follows:

Entity	'A' ordinary share allocation
ESOP Trust	13,889,195
MSOP Trust	3,642,969
Sappi Foundation Trust	2,429,312
Total	19,961,476

The group incurred a share-based payment expense of US$1 million (2015: US$2 million, 2014: US$2 million) during the 2016 financial year that related to the 'A' ordinary shares that were awarded.

The following assumptions were utilised to determine the fair value of the 'A' ordinary shares granted:

Base price for hurdle rate price	ZAR32.50
Share price hurdle rate	9.1%
Hurdle rate price	ZAR75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	7.1%
Management turnover (annual)	3.6%
Model used to value	Black Scholes model

Both the ESOP Trust and MSOP Trust have been set up with rules that detail the way in which the shares are allocated and how they are forfeited.

The vesting schedule for the ESOP Trust and MSOP Trust is illustrated below:

Completed months of service after effective date	Incremental vesting of entitlements (%)	Cumulative vesting of entitlements (%)
0 – 35	–	–
36 – 48	40	40
49 – 60	10	50
61 – 72	10	60
73 – 84	10	70
85 – 96	10	80
97 – 108	10	90
109 – termination date	10	100

Refer to note 18 for further details regarding the 'A' ordinary shares.

(US$ million)		2016	2015
30. Derivative financial instruments			
Hedging instrument	**Hedged item**		
Non-current assets			
Interest rate currency swap	Secured notes due July 2017	–	39
Interest rate swap	Unsecured ZAR500 million bond due April 2018	1	1
Interest rate swap	Unsecured ZAR400 million loan due May 2020	–	1
		1	41
Current assets			
Fair value hedge	Secured notes due April 2021[1]	–	4
Interest rate currency swap	Secured notes due July 2017	38	–
Forward exchange contracts	Various	6	1
		44	5
Current liabilities			
Pulp swaps	Raw materials	1	–
Foreign exchange contracts	Various	1	5
		2	5

[1] *This fair value hedging instrument was settled as part of the refinancing transaction undertaken during the year.*

Refer to note 31 for more details on financial instruments.

31. Financial instruments

The group's financial instruments consist mainly of cash and cash equivalents, accounts receivable, certain investments, accounts payable, borrowings and derivative instruments.

Introduction

The group's main financial risk management objectives are to identify, measure and manage, through financial instruments, the following principal risks to which the group 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, and
   - Commodity price risk

b) Liquidity risk, and

c) Credit risk.

Sappi's Group Treasury comprises two components: Sappi International SA, located in Brussels, which manages the group's non-South African treasury activities and, for local regulatory reasons, the operations based in Johannesburg which manage the group's Southern African treasury activities. These two operations collaborate closely and are primarily responsible for managing the group'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 regionally but is coordinated on a group basis, while commodity price risk is managed regionally.

The group'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.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

31. Financial instruments continued

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 is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The group monitors 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's exposure to interest rate risk is set out below.

Interest-bearing borrowings

The following table provides information about Sappi's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows 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 2016 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 25 September 2016. The information is presented in US Dollar, which is the group's reporting currency.

	Expected maturity date									
(US$ equivalent in millions)	2017	2018	2019	2020	2021	2022+	**2016 Carrying value**	**2016 Fair value**	2015 Carrying value	2015 Fair value
US Dollar										
Fixed rate debt[1]	398	–	–	–	–	219	**617**	**643**	614	687
Average interest rate (%)	7.78	–	–	–	–	7.61	**7.72**		7.75	
Variable rate debt[2]	–	109	–	–	–	–	**109**	**109**	468	504
Average interest rate (%)	–	2.71	–	–	–	–	**2.71**		6.05	
Euro										
Fixed rate debt	1	–	–	–	–	883	**884**	**971**	496	495
Average interest rate (%)	1.41	–	–	1.34	–	3.72	**3.71**		3.44	
Variable rate debt[3]	177	205	–	–	–	–	**382**	**383**	477	476
Average interest rate (%)	2.22	1.37	–	–	–	–	**1.76**		2.25	
Rand										
Fixed rate debt[4]	–	36	–	83	–	–	**119**	**125**	172	178
Average interest rate (%)	–	7.46	–	7.99	–	–	**7.83**		8.09	
Total										
Fixed rate debt	399	36	–	83	–	1,102	**1,620**	**1,739**	1,282	1,360
Average interest rate (%)	7.77	7.42	–	7.98	–	4.49	**5.54**		6.13	
Variable rate debt	177	314	–	–	–	–	**491**	**492**	945	980
Average interest rate (%)	2.22	1.84	–	–	–	–	**1.97**		4.13	
Fixed and variable	576	350	–	83	–	1,102	**2,111**	**2,231**	2,227	2,340
Current portion							**576**	**600**	196	182
Long-term portion							**1,535**	**1,631**	2,031	2,158
Total interest-bearing borrowings (refer to note 21)							**2,111**	**2,231**	2,227	2,340

[1] US Dollar fixed rates of US$400 million debt have been swapped into Euro fixed rates. These swaps are subject to hedge accounting.
[2] The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).
[3] The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).
[4] ZAR floating rates of ZAR900 million debt have been swapped into ZAR fixed rates. These swaps are subject to hedge accounting.

31. Financial instruments continued

a) Market risk continued

Interest-bearing borrowings continued

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 above mentioned 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.

The range of interest rates in respect of all non-current borrowings, comprising both fixed and floating rate obligations, is between 1.37% and 7.99% (depending on currency). At September 2016, after giving effect to interest rate swaps, 76.74% of Sappi's borrowings were at fixed rates of interest and 23.26% were at floating rates. Fixed rates of interest are based on contract rates.

A detailed analysis of the group's borrowings is presented in note 21.

Hedging of interest rate risk

Sappi uses interest rate swaps (IRSs) and interest rate and currency swaps (IRCSs) 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 other comprehensive income (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.

At inception and at the beginning of each quarterly reporting period, the future effectiveness of the hedge relationship is assessed by using the linear regression analysis.

In order to measure retrospective hedge effectiveness, a hypothetical derivative with identical critical terms as the hedged item has been built as a perfect hedge. The periodic Dollar-offset retrospective hedge effectiveness test is based on the comparison of the actual past periodical changes in fair value between the hedging derivative and the hypothetical derivative. For effectiveness, the ratio of the periodic change in fair value of the hedging instrument since inception or since the last quarterly measurement divided by the periodic change in fair value of the hypothetical derivative since inception or since the last quarterly measurement for the hedge must fall within the range of 80% to 125%. If, however, both changes in fair value are less than 1% of the notional amount of the IRCS, these changes in fair value are considered to be both immaterial and the hedge effectiveness test is met.

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.

Interest rate and currency swaps

In July 2012, Sappi entered into fixed for fixed IRCS which have been designated as cash flow hedges of future cash flows linked to fixed rate debt denominated in foreign currency. The swaps correspond to the underlying US$400 million Senior Secured Notes due 2017 (the US$300 million Senior Secured Notes due 2019 and the corresponding swaps have been early redeemed in March 2015). The swaps convert all future US Dollar cash flows to Euro cash flows.

As at September 2016, the above mentioned hedges were effective. The swaps showed a total positive fair value of US$37.8 million. The positive fair value of the currency leg of the swaps related to the principal amount of US$40.5 million was booked to profit or loss to offset the unrealised corresponding foreign currency loss on the revaluation of the underlying hedged item, whereas the remaining negative fair value of the interest leg of the swaps of US$2.7 million was deferred in OCI for the negative effective portion of US$3.5 million and due to the inclusion of the credit risk, a positive ineffective portion of US$0.8 million was booked to the income statement.

Interest rate swaps floating to fixed

In April and May 2013, Sappi issued floating rate debt to the total amount of ZAR1,155 million maturing in 2016, 2018 and 2020 and swapped the floating rates into fixed rates. These liabilities and the corresponding interest rate swaps are designated in cash flow hedging relationships, allowing all mark-to-market valuations of the swaps to be booked to equity. As all critical terms of the hedged items and the hedging instruments match perfectly, the hedges are expected to continue being highly effective. In April 2016, ZAR255 million floating rate debt and the corresponding swaps came to maturity.

At September 2016, the remaining hedges were highly effective and the swaps had in total a net positive fair value of US$1.5 million which was deferred to equity.

Notes to the Group Annual Financial Statements continued

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31. Financial instruments continued

a) Market risk continued

Fair value hedge

In April 2011, Sappi Papier Holding issued US$350 million Senior Secured Notes due 2021. The fixed rate of 6.625% on the bonds was swapped into six-month US Dollar LIBOR set in advance. The hedge qualifies for fair value hedge accounting as all the material terms of the swaps match the terms of the underlying bond. Changes in the fair value of the underlying debt attributable to changes in the credit spread are excluded from the hedging relationship. The carrying value of the hedged debt is adjusted to reflect the changes in fair value related to changes in interest rates only. This is offset by the change in fair value of the derivative which reflects changes in fair value related to both interest rate risk and credit risk. Sappi has determined at inception and in subsequent periods that the derivative is highly effective in offsetting the fair value exposure of the designated debt.

The bonds and the swaps are revalued on a monthly basis and show movements in line with changing market conditions. All market movements are reversed over time and the fair value of the bonds will revert to the nominal amount of the bonds at maturity. As the swaps were contracted at the same time as the issuance of the bonds, the designated benchmark value of the bonds corresponds to the nominal amount. The only income statement impact will be any residual ineffectiveness, which is not expected to be material. The initial mark-to-market value of the swaps of US$2 million is reflecting the pricing of the swap and the difference between the mid-market curve, used for marking-to-market, and the effective market curve at which the swaps were contracted.

The statistical method chosen to measure prospective and retrospective effectiveness is the linear regression analysis. Past data is used to demonstrate that the hedge relationship is expected to be highly effective in a prospective hedge effectiveness test.

In order to create a complete set of data for the regression analysis, both the hedging instrument and the hedged item are back-dated at inception date by creating a proxy trade. Actual historical three-month US Dollar LIBOR curves are used to generate net present values of the proxy trades. As time passes, the regression will be updated by adding new actual observations and excluding the same number of the oldest simulated observations from the data set.

Changes in fair value will represent period-to-period changes in 'clean' fair value (accruals of interest excluded).

On 31 March 2016, the 2021 bond and the corresponding interest rate swap have been early redeemed. The unwinding of the swap resulted in a net positive settlement amount of US$0.2 million (excluding any interest accruals).

Summary of outstanding cash flow and fair value hedges

(US$ million)	Interest rate	Maturity date	Nominal value	Total fair value[1]	Recorded in OCI	Recorded in Profit or loss
September 2016						
Cash flow hedges						
IRCS	**US Dollar 7.75% into EUR 7.56%**	**July 2017**	**US$400 million**	**38**	**(3)**	**41**
IRS	**ZAR variable (JIBAR) to ZAR 7.46% fixed**	**April 2018**	**ZAR500 million**	**1**	**1**	**–**
IRS	**ZAR variable (JIBAR) to ZAR 7.85% fixed**	**May 2018**	**ZAR400 million**	**–**	**1**	**–**
				39	**(1)**	**41**
September 2015						
Cash flow hedges						
IRCS	US Dollar 7.75% into EUR 7.56%	July 2017	US$400 million	39	(3)	42
IRS	ZAR variable (JIBAR) to ZAR 6.74% fixed	April 2016	ZAR255 million	–	–	–
IRS	ZAR variable (JIBAR) to ZAR 7.46% fixed	April 2018	ZAR500 million	1	1	–
IRS	ZAR variable (JIBAR) to ZAR 7.85% fixed	May 2018	ZAR400 million	1	1	–
Fair value hedges						–
IRS	US Dollar 6.63% fixed to variable (LIBOR)	April 2016	US$350 million	4	–	–
				45	(1)	42

[1] *This refers to the carrying value.*

31. Financial instruments continued

a) Market risk continued

Summary of outstanding cash flow and fair value hedges continued

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

Sensitivity analyses

The following are sensitivity analyses, in US Dollar, of the impact on profit or loss or OCI arising from:

IRCS converting fixed US Dollar rates into fixed Euro rates in US$ million

For the period outstanding, a decrease in the US Dollar LIBOR adds to the fair value, as does an increase of the EURIBOR. When the Euro and the US Dollar interest rates move the same way, the one roughly compensates the other. If the rates would drift in opposite directions, a shift of 50 basis points (bps) would result in an impact of approximately US$3 million.

IRS converting floating ZAR rates into fixed rates

For the period outstanding, a shift of 50 bps on the JIBAR curve would have an impact on the fair value of the instrument of US$0.5 million.

Sensitivity analysis: interest rate risk – in case of a credit rating downgrade of Sappi

The table below shows the sensitivity of certain debt to changes in the group's own credit rating. The agreements of these specific external loans (including the on-balance sheet securitisation programme) stipulate that if the company were downgraded below its current rating, an additional margin would be added to the contractual funding rate.

(US$ million)	Notional	Impact on profit or loss of downgrade below BB 'secured' credit rating
Securitisation – Elektra N°29 Limited	314	1
Commitment fee on unused revolving credit facility	522	1
Interest on utilised bank syndicated loans	113	1
	949	3
Impact calculated on total portfolio amounts to	0.32%	

Sensitivity analysis: interest rate risk of floating rate debt

(US$ million)	Total	Fixed rate	Floating rate	Impact on profit or loss of 50 bps interest
Total debt	2,111	1,620	491	2
Ratio fixed/floating to total debt		76.74%	23.26%	

The floating rate debt represents 23.26% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by US$2.45 million.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

31. Financial instruments continued

a) Market risk continued

Currency risk

The objective of the group 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 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, and
- Translation exposures arise from translating the group's assets, liabilities, income and expenditure into the group's presentation currency. Borrowings are taken out in a range of currencies which are based on the group's preferred ratios of gearing and interest cover based on a judgement of the best financial structure for the group. This gives rise to translation exposure on consolidation.

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

Currency risk analysis

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

The following tables for the 2016 and 2015 financial years disclose financial instruments as determined by IAS 39 *Financial Instruments: Recognition and Measurement,* classified by underlying currency, and does not indicate the group's foreign currency exchange exposure.

(US$ million)	Total	Total in scope	USD	EUR	ZAR	GBP	Other
September 2016							
Classes of financial instruments							
Non-current assets							
Other non-current assets	**39**	**10**	–	10	–	–	–
Derivative financial instruments	**1**	**1**	–	–	1	–	–
Current assets							
Trade receivables	**517**	**517**	224	226	11	29	27
Prepayments and other receivables	**125**	**39**	9	17	13	–	–
Derivative financial instruments	**44**	**44**	(420)	421	42	1	–
Cash and cash equivalents	**703**	**703**	309	94	279	1	20
		1,314	122	768	346	31	47
Non-current liabilities							
Interest-bearing borrowings	**1,535**	**1,535**	327	1,088	120	–	–
Other non-current liabilities	**518**	**1**	1	–	–	–	–
Current liabilities							
Interest-bearing borrowings	**576**	**576**	398	178	–	–	–
Derivative financial instruments	**2**	**2**	(15)	1	16	–	–
Trade payables	**455**	**455**	161	162	130	–	2
Other payables and accruals	**384**	**164**	25	99	39	–	1
		2,733	897	1,528	305	–	3
Foreign exchange gap		**(1,419)**	(775)	(760)	41	31	44

31. Financial instruments continued

a) Market risk continued

Currency risk analysis continued

(US$ million)	Total	Total in scope	USD	EUR	ZAR	GBP	Other
September 2015							
Classes of financial instruments							
Non-current assets							
Other non-current assets	43	10	–	10	–	–	–
Derivative financial instruments	41	41	(407)	446	2	–	–
Current assets							
Trade receivables	550	550	232	245	9	36	28
Prepayments and other receivables	95	27	7	12	7	–	1
Derivative financial instruments	5	5	4	–	–	1	–
Cash and cash equivalents	456	456	174	26	241	2	13
		1,089	10	739	259	39	42
Non-current liabilities							
Interest-bearing borrowings	2,031	2,031	1,082	831	118	–	–
Other non-current liabilities	530	–	–	–	–	–	–
Current liabilities							
Interest-bearing borrowings	196	196	–	142	54	–	–
Derivative financial instruments	5	5	27	–	(22)	–	–
Trade payables	461	461	129	197	120	4	11
Other payables and accruals	384	180	42	97	36	–	5
		2,873	1,280	1,267	306	4	16
Foreign exchange gap		(1,784)	(1,270)	(528)	(47)	35	26

Hedging of foreign currency risk

Foreign currency forward exchange contracts

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

(US$ million)		**2016** Contract amount (notional amount)	**2016** Fair value (unfavourable) favourable	2015 Contract amount (notional amount)	2015 Fair value (unfavourable) favourable
Foreign currency					
Bought:	USD	**5**	**–**	8	–
	EUR	**72**	**1**	44	1
	ZAR	**49**	**2**	33	(1)
Sold:	USD	**(95)**	**3**	(128)	(4)
	EUR	**–**	**–**	(38)	–
	ZAR	**(23)**	**(1)**	(11)	–
		8	**5**	(92)	(4)

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

31. Financial instruments continued

a) Market risk continued

Foreign currency forward exchange contracts continued

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2016 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 May 2017.

As at September 2016, there was an open exposure of US$18 million that has since been hedged.

Sensitivity analysis – (loss) gain

Base currency	Exposure (US$ million)	+10%	-10%
AUD	9.2	0.8	(1.0)
DKK	1.5	(0.1)	0.1
EUR	(11.4)	(1.0)	1.3
GBP	3.2	0.3	(0.4)
USD	5.4	0.5	(0.6)
ZAR	(24.3)	(2.2)	2.7
Other currencies	(1.3)	0.1	(0.1)
Total	(17.7)	(1.6)	2.0

Based on the exposure at the end of September 2016, 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 US$1.6 million or a gain of US$2 million respectively.

During 2016, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$271 million which were used as an overlay hedge of export sales from Southern Africa. The total impact on profit or loss amounted to a gain of US$7 million (including positive forward points of US$4 million).

Cash flow hedges

Saiccor Mill 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 which were designated as hedging instruments.

The hedging instrument is 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 2016 financial year, the hedge was highly effective and a net realised gain of US$3.1 million relating to the realised non-deliverable forward exchange contracts was transferred from OCI to sales in profit or loss. At the financial year-end, a positive amount of US$1.7 million was deferred in equity.

31. Financial instruments continued

a) Market risk continued

Foreign currency forward exchange contracts continued

Net investment hedges

The hedge of the net investment designated in February 2010 has been de-designated in March 2016. At the moment of the de-designation, the life-to-date negative foreign exchange differences amounting to €36.9 million (US$41.5 million) will remain into equity until the disposal or liquidation of the foreign operation.

In March 2016, Sappi designated a new net investment hedge for an indeterminate period of Sappi Papier Holding GmbH (SPH) in SD Warren Holdings Corporation (Sappi North America) including all its subsidiaries and incorporating all net assets. The hedged risk is the currency risk associated with the spot retranslation of the net assets of the foreign operation into the functional currency of the consolidating parent entities at the level of which the hedge is designated, ie SPH for US Dollar/Euro spot exchange rate risk and Sappi Limited for US Dollar/Rand spot exchange rate risk. The hedging instrument is a non-derivative foreign currency external debt instrument. At the inception of the hedge (or on hedge designation date), both the designated portion of the net investment in the foreign operation (as hedged item) and the foreign currency denominated debt (as hedging instrument) were recorded at the spot rate.

To the extent that the hedge is effective, foreign exchange rate differences linked to the subsequent revaluation of the foreign currency debt in the books of the entity holding the debt are deferred in OCI until the foreign operation is disposed of or liquidated. These foreign exchange currency differences are recognised in profit or loss on disposal or liquidation of the foreign operation as part of the gain or loss on disposal.

Ineffectiveness can only occur if the net investment carrying value of the foreign operation would fall below the designated amount of the hedging instruments. The net investment value of the foreign operation is validated each quarter. Ineffective gains or losses are booked directly to the group income statement. As at the end of the 2016 financial year, the hedge was 100% effective.

	2016		2015	
(US$ million)	**Hedged notional**	**Foreign exchange result deferred in OCI**	Hedged notional	Foreign exchange result deferred in OCI
Bond 2021	**–**	**–**	29	(5)
Bond 2032	**49**	**(1)**	217	(40)
Previous designations	**–**	**(41)**	–	–
	49	**(42)**	246	(45)
Net investment value of Sappi North America	**733**		577	

Commodity price risk

Commodity price risk arises mainly from price volatility and threats to supply of raw material and other inputs to the production process.

A combination of contract and spot deals are used to manage price volatility and contain costs. Contracts are limited to the group's own use requirements.

During 2016, pulp swaps in Sappi Europe were contracted for a limited volume of pulp (24,000 tons). Sappi Europe buys pulp from external suppliers at a variable price consisting of a reference price linked to the Pix Pulp Index which is adjusted with a premium depending on the pulp market conditions. As Sappi Europe expected pulp prices to increase, it was decided to fix the pulp price for one year by entering into a pulp swap whereby the variable price was swapped for an annual fixed price.

The group's pulp swap contracts outstanding at September 2016 are detailed below:

		2016		2015	
(US$ million)	Base currency	**Contract amount (notional amount)**	**Fair value (unfavour-able) favourable**	Contract amount (notional amount)	Fair value (unfavour-able) favourable
Bleached Hardwood Kraft Pulp (BHKP)					
Bought	Euro	**6**	**(1)**	9	–
		6	**(1)**	9	–

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

31. Financial instruments continued

b) Liquidity risk

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

The group'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, and
- Ensuring appropriate long-term funding is in place to support the group'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 21.

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

Liquidity risk management

The following tables for the 2016 and 2015 financial years disclose financial instruments, as determined by IAS 39 *Financial Instruments: Recognition and Measurement*, are classified by liquidity and does not necessarily indicate the group's actual cash flows.

(US$ million)	Total financial assets and liabilities	Fair value of financial instru-ments	Undiscounted cash flows					
			0–6 months	6–12 months	1–2 years	2–5 years	>5 years	Total
September 2016								
Non-current assets								
Other non-current assets	**10**	**10**	2	2	–	5	1	10
Derivative financial instruments	**1**	**1**	–	–	1	–	–	1
Current assets								
Trade receivables	**517**	**517**	517	–	–	–	–	517
Prepayments and other receivables	**39**	**39**	38	1	–	–	–	39
Derivative financial instruments	**44**	**44**	8	42	–	–	–	50
Cash and cash equivalents	**703**	**703**	703	–	–	–	–	703
			1,268	45	1	5	1	1,320
Non-current liabilities								
Interest-bearing borrowings	**1,535**	**1,632**	16	30	393	247	1,351	2,037
Other non-current liabilities	**1**	**1**	–	–	1	–	–	1
Current liabilities								
Interest-bearing borrowings	**576**	**576**	105	508	–	–	–	613
Derivative financial instruments	**2**	**2**	2	–	–	–	–	2
Trade payables	**455**	**455**	455	–	–	–	–	455
Other payables and accruals	**164**	**164**	165	–	–	–	–	165
			743	538	394	247	1,351	3,273
Liquidity surplus (gap)			525	(493)	(393)	(242)	(1,350)	(1,953)

31. Financial instruments continued

b) Liquidity risk continued

Liquidity risk management continued

(US$ million)	Total financial assets and liabilities	Fair value of financial instru-ments	Undiscounted cash flows 0–6 months	6–12 months	1–2 years	2–5 years	>5 years	Total
September 2015								
Non-current assets								
Other non-current assets	10	10	–	–	7	1	6	14
Derivative financial instruments	41	41	2	2	4	43	–	51
Current assets								
Trade receivables	550	550	550	–	–	–	–	550
Prepayments and other receivables	27	27	26	1	–	–	–	27
Derivative financial instruments	5	5	5	3	–	–	–	8
Cash and cash equivalents	456	456	456	–	–	–	–	456
			1,039	6	11	44	6	1,106
Non-current liabilities								
Interest-bearing borrowings	2,031	2,163	20	51	614	657	64	1,406
Current liabilities								
Interest-bearing borrowings	196	197	143	56	–	–	–	199
Derivative financial instruments	5	5	5	–	–	–	–	5
Trade payables	461	461	461	–	–	–	–	461
Other payables and accruals	180	180	180	–	–	–	–	180
			809	107	614	657	64	2,251
Liquidity surplus (gap)			230	(101)	(603)	(613)	(58)	(1,145)

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for the 2016 and 2015 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

(US$ million)	**Total**	**Fair value hedge**	**Cash flow hedge**	**No hedge accounting**	Maturity analysis Undiscounted cash flows 0–6 months	6–12 months	1–2 years	2–5 years	>5 years
September 2016									
Classes of derivative financial instruments									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	**1**	**–**	**1**	**–**	–	1	1	1	–
receiving leg	**10**	**–**	**10**	**–**	3	3	6	5	–
paying leg	**(9)**	**–**	**(9)**	**–**	(3)	(2)	(5)	(4)	–
Foreign exchange risk									
IRCS and FX forward contracts	**44**	**–**	**38**	**6**	7	47	–	–	–
receiving leg	**344**	**–**	**421**	**(77)**	(62)	297	–	–	–
paying leg	**(300)**	**–**	**(383)**	**83**	69	(250)	–	–	–
Liabilities									
Fair value of derivatives by risk factor									
Foreign exchange risk									
IRCS and FX forward contracts	**1**	**–**	**–**	**1**	1	–	–	–	–
receiving leg	**39**	**–**	**–**	**39**	41	52	–	–	–
paying leg	**(38)**	**–**	**–**	**(38)**	(40)	(52)	–	–	–
Commodity price risk	**1**	**–**	**–**	**1**	1	–	–	–	–

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

31. Financial instruments continued

b) Liquidity risk continued

Derivative financial instruments with maturity profile continued

(US$ million)	Total	Fair value hedge	Cash flow hedge	No hedge accounting	Maturity analysis Undiscounted cash flows 0–6 months	6–12 months	1–2 years	2–5 years	>5 years
September 2015									
Classes of derivative financial instruments									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	6	4	2	–	4	4	1	1	10
receiving leg	36	20	16	–	15	15	6	5	41
paying leg	(30)	(16)	(14)	–	(11)	(11)	(5)	(4)	(31)
Foreign exchange risk									
IRCS and FX forward contracts	40	–	39	1	3	3	3	42	51
receiving leg	372	–	446	(74)	(58)	(58)	31	400	315
paying leg	(332)	–	(407)	75	61	61	(28)	(358)	(264)
Liabilities									
Fair value of derivatives by risk factor									
Foreign exchange risk									
IRCS and FX forward contracts	5	–	–	5	5	5	–	–	10
receiving leg	(156)	–	–	(156)	(158)	(131)	–	–	(289)
paying leg	161	–	–	161	163	136	–	–	299

Fair values

All financial instruments are carried at fair value. The carrying amounts for cash and cash equivalents, accounts receivable, certain investments, accounts payable and the current portion of interest-bearing borrowings approximate fair value due to their short-term nature.

As a result of the implementation of IFRS 13 *Fair Value Measurement*, 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 group's financial instruments that are measured at fair value on a recurring basis consist of derivative financial instruments and available-for-sale financial assets.

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. The carrying value of assets and liabilities (excluding plantations) which are held for sale, are considered to be below their net recoverable amount.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

31. Financial instruments continued

b) Liquidity risk continued

Fair values continued

(US$ million)	As determined by IAS 39			Categories in accordance with IAS 39				
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Loans and re-ceivables	Held to maturity	Available-for-sale	Fair value
September 2016								
Classes of financial instruments								
Non-current assets								
Other non-current assets	**39**	29	10	–	3	–	7	10
Derivative financial instruments	**1**	–	1	1	–	–	–	1
	40	29	11	1	3	–	7	11
Current assets								
Trade receivables	**517**	–	517	–	517	–	–	517
Prepayments and other receivables	**125**	86	39	–	39	–	–	39
Derivative financial instruments	**44**	–	44	44	–	–	–	44
Cash and cash equivalents	**703**	–	703	–	703	–	–	703
	1,389	86	1,303	44	1,259	–	–	1,303

(US$ million)	As determined by IAS 39			Categories in accordance with IAS 39		
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Other financial liabilities	Fair value
September 2016						
Classes of financial instruments						
Non-current liabilities						
Interest-bearing borrowings	**1,535**	–	1,535	–	1,535	1,632
Other non-current liabilities	**518**	517	1	–	–	1
	2,053	517	1,536	–	1,535	1,633
Current liabilities						
Interest-bearing borrowings	**576**	–	576	–	576	576
Derivative financial instruments	**2**	–	2	2	–	2
Trade payables	**455**	–	455	–	455	455
Other payables and accruals	**384**	220	164	–	164	164
	1,417	220	1,197	2	1,195	1,197

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

31. Financial instruments continued

b) Liquidity risk continued

Fair values continued

(US$ million)	As determined by IAS 39			Categories in accordance with IAS 39				
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Loans and re-ceivables	Held to maturity	Available-for-sale	Fair value
September 2015								
Classes of financial instruments								
Non-current assets								
Other non-current assets	43	33	10	–	2	–	8	10
Derivative financial instruments	41	–	41	41	–	–	–	41
	84	33	51	41	2	–	8	51
Current assets								
Trade receivables	550	–	550	–	550	–	–	550
Prepayments and other receivables	95	68	27	–	27	–	–	27
Derivative financial instruments	5	–	5	5	–	–	–	5
Cash and cash equivalents	456	–	456	–	449	7	–	456
Assets held for sale	28	28	–	–	–	–	–	–
	1,134	96	1,038	5	1,026	7	–	1,038

(US$ million)	As determined by IAS 39			Categories in accordance with IAS 39		
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Other financial liabilities	Fair value
September 2015						
Classes of financial instruments						
Non-current liabilities						
Interest-bearing borrowings	2,031	–	2,031	–	2,031	2,163
Other non-current liabilities	530	530	–	–	–	–
	2,561	530	2,031	–	2,031	2,163
Current liabilities						
Interest-bearing borrowings	196	–	196	–	196	197
Derivative financial instruments	5	–	5	5	–	5
Trade payables	461	–	461	–	461	461
Other payables and accruals	384	204	180	–	180	180
Liabilities associated with assets held for sale	1	1	–	–	–	–
	1,047	205	842	5	837	843

31. Financial instruments continued

b) Liquidity risk continued

Fair values continued

The level in the fair value hierarchy into which financial instruments that are measured at fair value are categorised is disclosed below. There have been no transfers between the categories of the fair value hierarchy.

	2016				2015			
	Total fair value	**Fair value hierarchy**			Total fair value	Fair value hierarchy		
(US$ million)		**Level 1**	**Level 2**	**Level 3**		Level 1	Level 2	Level 3
Non-current assets								
Other non-current assets	**7**	**7**	**–**	**–**	8	8	–	–
Derivative financial instruments	**1**	**–**	**1**	**–**	41	–	41	–
Current assets								
Derivative financial instruments	**44**	**–**	**44**	**–**	5	–	5	–
	52	**7**	**45**	**–**	54	8	46	–
Current liabilities								
Derivative financial instruments	**2**	**–**	**2**	**–**	5	–	5	–
	2	**–**	**2**	**–**	5	–	5	–

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. 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 regional management and is coordinated on a group basis.

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

The group 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 regional 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, 64% 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 17.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

32. Related-party transactions

Transactions between group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

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

	Sales of goods			Purchases of goods			Amounts owed by related parties		Amounts owed to related parties	
(US$ million)	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	**2016**	2015
Joint ventures and associates:										
– Sapin SA[1]	**–**	0.4	0.6	**–**	24.9	31.2	**–**	–	**–**	0.8
– proNARO GmbH	**–**	–	–	**125.8**	138.3	162.7	**–**	–	**1.2**	5.9
– Umkomaas Lignin Proprietary Limited	**4.8**	6.3	7.2	**0.1**	–	–	**0.5**	0.7	**–**	–
– Papierholz Austria GmbH	**–**	–	–	**82.5**	60.1	115.7	**–**	–	**4.8**	4.3
	4.8	6.7	7.8	**208.4**	223.3	309.6	**0.5**	0.7	**6.0**	11.0

[1] *During the financial year, Sapin SA became a wholly owned subsidiary of the group.*

Sales of goods and purchases to and from related parties were on an arm's length basis. The amounts outstanding at balance sheet date are unsecured and will be settled in cash. Guarantees given by the group are disclosed in note 27. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Broad-based Black Economic Empowerment (BBBEE) transaction

Refer to notes 18 and 29 for details of the BBBEE transaction.

Key management personnel

Key management personnel include our executive directors and prescribed officers. The details of key management personnel, including emoluments, interests in contracts and participation in the Sappi Limited share schemes are disclosed in notes 35 to 37.

Shareholders

Ordinary shares in issue	Number of shareholders	%	Number of shares[1]	% of shares in issue
1 – 5,000	4,936	80.0	3,216,409	0.6
5,001 – 10,000	226	3.7	1,666,025	0.3
10,001 – 50,000	432	7.0	10,714,561	2.0
50,001 – 100,000	169	2.7	12,092,738	2.3
100,001 – 1,000,000	332	5.4	111,204,159	21.0
Over 1,000,000	74	1.2	391,669,709	73.8
	6,169	100.0	530,563,601	100.0

[1] *The number of shares excludes 10,882,622 treasury shares held by the group.*

32. Related-party transactions continued

Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.2
Group directors	0.2
Associates of group directors	–
Trustees of the company's share and retirement funding schemes	–
Share owners who, by virtue of any agreement, have the right to nominate board members	–
Share owners interested in 10% or more of the issued shares	–
Public (the number of public shareholders as at September 2016 was 6,157)	99.8
	100.0

Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter market in the United States.

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to section 56(7) of the Companies Act 71 of 2008 of South Africa, the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 2016 that the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	79,107,397	14.9
Allan Gray Balanced Fund (ZA)	27,903,157	5.3

Further, as a result of these investigations, the directors have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of September 2016, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

Fund manager	Shares	%
Allan Gray Limited	75,999,266	14.3
Public Investment Corporation	71,078,778	13.4
Prudential Portfolio Advisors	45,094,666	8.5
Old Mutual Plc	31,403,199	5.9
Dimensional Fund Advisors	27,309,408	5.1

33. Events after balance sheet date

The directors declared a gross dividend of 11 US cents per share, payable in ZAR at an exchange rate of US$1 = ZAR13.56686 being ZAR149.23546 cents per share on 10 November 2016. See note 8 for further details.

Other than the non-adjusting event as described above, there have been no reportable events that occurred between financial year-end and the date of authorisation for issue of these financial statements.

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for the year ended September 2016

34. Environmental matters

The group is subject to a wide range of environmental laws and regulations in the various jurisdictions in which it operates and these have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration for the group's businesses, and the group expects to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions such as carbon dioxide (CO_2) and other greenhouse gasses (GHG), wastewater discharges and solid and hazardous wastes. The group closely monitors the potential for changes in pollution control laws and takes actions with respect to its operations accordingly.

Sappi North America

Sappi North America (SNA) is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act as well as their respective state counterparts and implementing regulations.

On 29 June 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the Commissioner), issued a decision requiring SNA to install a fish passage at the Cumberland Mills dam, associated with the Westbrook Mill, the most downriver dam on the Presumpscot River. Pursuant to a final order issued by the Commissioner, construction of the fish passage is substantially complete and overall costs are approximately US$5 million.

Pursuant to the US Federal Energy Regulatory Commission (FERC) licence for the Saccarappa hydrofacility (the next dam upstream), the fish passage at this dam was required to be operational two years after the Cumberland Mills dam fish passage was completed (ie during the spring of 2015). Since 2013, SNA has entered into discussions with certain interested non-governmental organisations (the NGOs), and state and federal regulators, including US Fish and Wildlife Service and the Maine Department of Marine Resources in order to consider the removal of the dam as well as the design and timing of construction of the fish passage. In December 2016, the parties reached agreement on surrender of the Saccarappa hydro facility, removal of the dam, and design and construction of fish passage in exchange for a significant extension of fish passage deadlines at the upriver dams. The parties have also requested FERC to extend the deadline for the construction of fish passage at Saccarappa to May 2019.

Installation of the Cumberland Mill's and Saccarappa fish passages may also trigger, over a period of approximately 10 years, the obligation to install fishways at some of the other upstream hydrofacilities. Construction of additional fishways depends on several future contingencies, including the results of data gathering on fish populations in the river. The total cost of all fishways associated with Sappi's dams along the Presumpscot River over a number of years is estimated to range from approximately US$18 million to approximately US$28 million.

The group closely monitors state, regional and federal GHG initiatives and other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol and has not yet adopted a federal programme for regulating GHG emissions, Congress has considered comprehensive federal legislation regarding climate change and various regional initiatives regarding emissions associated with climate change that are either in effect or proposed. The Environmental Protection Agency (EPA) has finalised several rules relating to emissions reporting and emissions reductions, including rules finalised in January 2013 known as 'Boiler MACT'. These establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers including particulate matter, hydrogen chloride, mercury and carbon monoxide. Under the rules, companies had three years to comply, but individual states have the authority to allow an additional year for compliance. The states where SNA's mills are located have authorised an additional year, with compliance required by January 2017, and Sappi's boilers currently meet all limits under the rules due to past capital investments and optimisation of fuel mix. On 29 July 2016, the US Court of Appeals for the District of Columbia Circuit (the Court) issued a ruling on the consolidated cases challenging Boiler MACT. The Court vacated key portions of the rule, including emission limits for certain subcategories of solid fuel boilers, and remanded other issues to the EPA for further rulemaking. At this time, Sappi cannot predict with certainty how the recent decision will impact its existing Boiler MACT strategies or whether Sappi will incur additional costs to comply with any revised Boiler MACT standards.

Sappi Europe

The group's European facilities are subject to extensive environmental regulation in the various countries from which it operates. The air emissions, water discharges and pollution control requirements of the permits of our mill operations in the European Union are based on Best Available Techniques (BAT). These are defined in the BAT reference documents (BREFs) of the Integrated Pollution Prevention and Control directive (IPPC). The BAT conclusions for the production of pulp, paper and board were published on 30 September 2014. Within four years, our European mills will need to have considered the new requirements through their permits.

Other laws and regulations that apply to all of the group's facilities in the European Union include:

- The national European laws that regulate the waste disposal framework and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, reuse and recycling (material or refuse derived fuel) are the preferred waste management methods. Consequently most of the waste material generated at our facilities is recycled. The small share of waste material that is still placed in landfills is inert material (ash or building rubble)
- The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonise existing European and national regulations to provide better protection of human health and the environment is not directly applicable to the pulp and paper industry. It does, however, apply to a number of raw materials that we source. The group also registered some intermediate substances in its pulp production processes and some wastes to ensure future possible material use

34. Environmental matters continued

Sappi Europe continued

- A timber and timber product regulation has been adopted by the European Commission, the obligations of which, will also apply to the group's European operations. The group believes that it meets these requirements as it has an effective certification and risk assessment system in place
- The European Emission Trading System, in which all our European mills participate, is exposed to decisions that further increase the risk of carbon leakage. For 2014 to 2016, the European Commission decided to postpone the auctioning of 900 million allowances until 2019 to 2020 (back-loading). The Commission also intends to increase the annual reduction of the allowance caps of our mills from 1.74% annually today to 2.2% annually as of 2021, and
- The German Federal Ministry for Food and Agriculture (BMEL) published a report in 2012 on the migration of mineral oil hydrocarbons from recycled paper and board packaging into food which concluded that the introduction of functional barriers will be necessary. The European Food Safety Authority published a scientific opinion on mineral oil hydrocarbons and concluded that exposure to these mineral oil hydrocarbons via food is of potential concern and that the acceptable daily intake should be revised. Sappi has developed a paper-based solution called AlgroGuard M that can serve as a functional barrier, advancing packaging legislation.

The countries within which Sappi operates in Europe have all ratified the Kyoto Protocol and Sappi Europe has developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reductions cost effectively.

Sappi Southern Africa

In Southern Africa, our operations are regulated by various environmental laws, regulations as well as norms and standards. The primary statutes affecting our operations are:

- The National Water Act recognises that water is a scarce resource. The Act ensures allocation is first for human consumption and then to agriculture, industry and forestry. It affects both the group's manufacturing and forestry operations. Abstraction of water, discharge of effluent and the growing and management of forests are all regulated through a general authorisation and/or licensing system in terms of this Act
- The National Environmental Management Act establishes the procedures and institutions to facilitate and promote cooperative government and inter-governmental relations with regard to the environment, as well as establishes the procedures and institutions to facilitate and promote public participation in environmental governance. It provides for the issuance of environmental authorisations and imposes a duty of care regarding environmental harm
- The National Environmental Management: Air Quality Act imposed more stringent compliance limits on the South African operations in 2020. The potential impact of these stricter standards as per the Air Quality Act are being evaluated and where possible quantified, and
- The National Environmental Management: Waste Act regulates the use, reuse, recycling and disposal of waste and regulates waste management by way of a licensing system, with the storage of waste being regulated by norms and standards.

South Africa has signed the COP21 Paris Agreement on Climate Change in April 2016. South Africa had been identified as the swing vote, the last realistic country that could push the agreement over the 55% carbon emission threshold needed for the deal to take full binding effect. Government is developing a broad mitigation system which include:

- The assessment of mitigation potential
- Setting carbon budgets for companies
- Pollution prevention plans for companies with carbon budgets and annual GHG reporting, and
- Implementation of carbon tax.

Sappi Southern Africa's proposed carbon budget has been accepted by government and voluntary reporting will commence in 2017. The implementation date of the carbon tax legislation is uncertain, the latest indication is end of 2017 or more likely beginning of 2018. Work is progressing well in terms of developing a carbon intensity factor for members of our industry representative, the Paper Manufacturers Association of South Africa and more critically, the recognition of carbon sequestration as part of the carbon tax calculation methodology.

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

35. Directors' and prescribed officers' remuneration

Non-executive directors

Directors are normally remunerated in the currency of the country in which they live or work from. Their remuneration is translated into US Dollar, the group's reporting currency, at the average exchange rate prevailing during the financial year. Directors' fees are established in local currencies to reflect market conditions in those countries.

Non-executive directors' fees reflect their services as directors and services on various sub-committees on which they serve. The quantum of committee fees depends on whether the director is an ordinary member or a chairman of the committee. Non-executive directors do not earn attendance fees; however, additional fees are paid for attendance at board meetings in excess of the five scheduled meetings per annum.

The chairman of the Sappi Limited board receives a flat director's fee and does not earn committee fees.

Non-executive directors do not participate in any incentive schemes or plans of any kind.

In determining the fees for non-executive directors, due consideration is given to the fee practice of companies of similar size and complexity in the countries in which the directors are based.

The extreme volatility of currencies, in particular the Rand/US Dollar exchange rate in the past few years, caused distortions of the relative fees in US Dollar paid to individual directors.

Non-executive directors' fees are proposed by the Executive Committee, agreed by the Compensation Committee, recommended by the board and approved at the Annual General Meeting by the shareholders.

	2016			
(US$)	Board fees	Committee fees	Travel allowance	Total
D Konar	25,031	47,228	10,200	82,459
B Radebe[1]	25,031	8,132	3,400	36,563
KR Osar	64,840	65,640	17,000	147,480
JD McKenzie	32,277	19,387	10,200	61,864
DC Cronje[2]	71,480	–	–	71,480
ANR Rudd[3]	286,549	26,495	6,800	319,844
NP Mageza	25,031	21,128	10,200	56,359
R Thummer	65,603	27,722	6,800	100,125
MV Moosa	25,031	12,504	10,200	47,735
MA Fallon	61,973	64,373	6,800	133,146
GPF Beurskens[1]	65,603	67,761	3,400	136,764
RJ DeKoch	64,840	23,455	13,600	101,895
RJAM Renders[4]	65,603	16,047	6,800	88,450
	878,892	399,872	105,400	1,384,164

[1] Subsequent to year-end, it was announced that Mrs B Radebe and Mr GPF Beurskens will retire from the board at the end of February 2017.
[2] Retired as independent Chairman of the board at the end of February 2016.
[3] Appointed as independent Chairman of the board from March 2016.
[4] Appointed to the board from October 2015.

35. Directors' and prescribed officers' remuneration continued

(US$)	2015 Board fees	Committee fees	Travel allowance	Total
D Konar	29,187	55,069	6,600	90,856
B Radebe	29,187	9,483	6,600	45,270
KR Osar	62,350	63,100	16,500	141,950
JD McKenzie	29,187	27,704	6,600	63,491
DC Cronje	200,040	–	3,300	203,340
ANR Rudd	99,136	67,741	9,900	176,777
NP Mageza	29,187	24,636	6,600	60,423
R Thummer	66,039	27,916	9,900	103,855
MV Moosa	29,187	9,483	6,600	45,270
MA Fallon	66,039	61,632	9,900	137,571
GPF Beurskens	66,039	68,205	6,600	140,844
RJ DeKoch	62,350	22,550	16,500	101,400
	767,928	437,519	105,600	1,311,047

(US$)	2014 Board fees	Committee fees	Travel allowance	Total
D Konar	31,033	58,544	6,400	95,977
B Radebe	31,033	10,080	3,200	44,313
KR Osar	61,080	61,805	12,800	135,685
JD McKenzie	31,033	29,447	6,400	66,880
DC Cronje	212,693	–	3,200	215,893
ANR Rudd	104,011	71,066	9,600	184,677
NP Mageza	31,033	26,191	6,400	63,624
R Thummer	69,692	29,437	9,600	108,729
MV Moosa	31,033	10,080	6,400	47,513
MA Fallon	69,310	64,623	9,600	143,533
GPF Beurskens	69,692	71,849	9,600	151,141
RJ DeKoch	61,080	22,070	12,800	95,950
	802,723	455,192	96,000	1,353,915

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

35. Directors' and prescribed officers' remuneration continued

Executive directors

Our pay policy is to pay our executive directors a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

	2016				
(US$)	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
SR Binnie[1]	386,767	438,082	12,050	91,638	928,537
GT Pearce[2]	269,960	300,613	8,249	69,630	648,452
	656,727	738,695	20,299	161,268	1,576,989

	2015				
(US$)	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
SR Binnie	433,014	351,842	12,265	128,333	925,454
GT Pearce	303,510	240,923	16,114	89,513	650,060
	736,524	592,765	28,379	217,846	1,575,514

	2014				
(US$)	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
RJ Boëttger[3]	5,264,892	501,857	–	151,225	5,917,974
SR Binnie[4]	375,121	355,990	–	109,229	840,340
GT Pearce[5]	333,053	201,486	58,843	64,551	657,933
	5,973,066	1,059,333	58,843	325,005	7,416,247

[1] SR Binnie received a 5.5% increase on the South African portion (70% of total salary), and a 1% increase on the off-shore portion of his salary (30% of total salary). Both percentage increases were below that of the budgeted mandate for general staff in the respective countries.

[2] GT Pearce received a 5% increase on the South African portion (70% of total salary), and a 1% increase on the off-shore portion of his salary (30% of total salary).

[3] RJ Boëttger retired due to ill health on 30 June 2014 and, in terms of the guidance per the company's permanently disabled policy, received a lump sum payment of US$4,738,717.

[4] SR Binnie was promoted to group Chief Executive Officer on 01 July 2014 resulting in a further adjustment to his salary package as from this date.

[5] GT Pearce was promoted to group Chief Financial Officer on 01 July 2014. Earnings disclosed cover the whole financial year, including the period prior to his promotion. His expense allowance comprise a relocation allowance and a schooling allowance for his children.

The remuneration figures shown above are affected by the translation into US Dollar.

Please see the compensation report in the Annual Integrated Report for further information.

Details of directors' service contracts

The executive directors have service contracts with notice periods of 12 months or less. These notice periods are in line with international norms for executive directors.

None of the non-executive directors have service contracts with the company.

None of the directors have provisions for predetermined compensation on termination of their contracts exceeding 12 months' gross remuneration and benefits-in-kind.

35. Directors' and prescribed officers' remuneration continued

Prescribed officers[1]

As with our executive directors, our pay policy is to pay our prescribed officers a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

	2016				
(US$)	Salary	Bonuses and performance-related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	706,507	660,006	2,773	219,964	1,589,250
Officer 2	519,115	373,598	–	51,258	943,971
Officer 3	282,526	215,780	9,187	69,215	576,708
Officer 4	288,804	171,064	9,581	–	469,449
Officer 5	141,784	122,025	4,862	44,061	312,732
Officer 6	183,583	169,402	6,220	84,861	444,066
Officer 7	157,701	134,583	5,111	47,917	345,312
	2,280,020	1,846,458	37,734	517,276	4,681,488

	2015				
(US$)	Salary	Bonuses and performance-related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	720,488	525,808	2,875	203,344	1,452,515
Officer 2	505,179	67,472	–	51,623	624,274
Officer 3	315,241	221,675	7,030	87,934	631,880
Officer 4	312,053	134,546	8,543	–	455,142
Officer 5	153,876	94,511	4,916	49,785	303,088
Officer 6	205,448	184,337	6,331	93,294	489,410
Officer 7	104,229	61,797	2,882	33,346	202,254
Officer 8	89,972	–	83,319	26,184	199,475
	2,406,486	1,290,146	115,896	545,510	4,358,038

	2014				
(US$)	Salary	Bonuses and performance-related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	837,782	525,051	3,394	138,668	1,504,895
Officer 2	494,541	–	–	49,631	544,172
Officer 3	333,243	281,892	–	64,124	679,259
Officer 4	453,945	179,854	–	46,104	679,903
Officer 5	163,453	118,682	–	51,638	333,773
Officer 6	226,368	199,020	341	100,942	526,671
Officer 8	305,845	217,871	409	86,863	610,988
	2,815,177	1,522,370	4,144	537,970	4,879,661

[1] *The prescribed officers of the group consist of G Bowles, M Gardner, F Marupen (appointed 01 March 2015), A Rossi (retired 28 February 2014, but retained on contract until December 2016), L Swartz (resigned 31 January 2015), A Thiel, M van Hoven and B Wiersum. They form the group Executive Committee together with the executive directors. The salaries of prescribed officers are affected by the translation into US Dollar.*

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

36. Directors' and prescribed officers' interests

The following table sets out each director's and prescribed officer's interests in shares and other securities in Sappi Limited. For the purposes of this table, each director's and prescribed officer's interests include shares that are owned either directly or indirectly as well as those shares in which directors and prescribed officers have vested obligations to purchase or to repay loans in terms of The Sappi Limited Share Incentive Trust.

	2016			2015		
	Direct interests		Indirect interests	Direct interests		Indirect interests
Director	Beneficial	Vested obligations to purchase or repay loans	Beneficial	Beneficial	Vested obligations to purchase or repay loans	Beneficial
Non-executive directors						
R Thummer	**7,542**	**–**	**–**	7,542	–	–
MV Moosa[1]	**–**	**–**	**576,542**	–	–	626,998
MA Fallon	**5,000**	**–**	**–**	5,000	–	–
Executive directors						
SR Binnie	**40,022**	**–**	**–**	22,762	–	–
GT Pearce	**30,162**	**–**	**–**	3,681	–	–
Prescribed officers						
Officer 1	**181,194**	**–**	**–**	134,678	–	–
Officer 2	**70,964**	**–**	**–**	70,964	–	–
Officer 3	**192,434**	**–**	**–**	142,434	–	–
Officer 4	**76,668**	**–**	**–**	62,115	–	–
Officer 5	**19,789**	**–**	**–**	5,689	–	–
Officer 6	**19,540**	**–**	**–**	9,540	–	–
Officer 7	**2,234**	**–**	**–**	–	–	–
	645,549	**–**	**576,542**	464,405	–	626,998

[1] *In June 2016, there was an off-market unbundling by Lereko Investment Proprietary Limited of 1,971,693 Sappi Limited shares in which Mr MV Moosa held a 31.8% to Lereko's underlying shareholders including to Amathabo Proprietary Limited.*

Subsequent to year-end and as per our SENS announcements to the date of this report, the directors and prescribed officers have acquired a net 428,494 Sappi shares.

Directors' interests in contracts

The directors have certified that they do not have any material interest in any significant transaction with either the company or any of its subsidiaries, other than those on a normal employment basis.

37. Directors' and prescribed officers' participation in the Sappi Limited share schemes

Changes in executive directors' and prescribed officers' share options and performance shares before financial year-end

Executive directors

	SR Binnie		GT Pearce		**Total 2016**	Total 2015
	Allocated price	Number of shares	Allocated price	Number of shares	**Number of shares**	Number of shares
Outstanding at beginning of year						
Number of shares held		585,000		215,100	**800,100**	564,250
Share option issue 32		–	ZAR52.57	6,600		
Performance shares 37		–		55,500		
Performance shares 38		100,000		35,000		
Performance shares 39		310,000		33,000		
Performance shares 40		175,000		85,000		
Offered and accepted during the year						
Performance shares 40						260,000
Performance shares 41		190,000		90,000	**280,000**	
Exercised during the year						
Number of shares		–		(34,350)	**(34,350)**	(12,075)
Returned, lapsed and forfeited during the year						
Number of shares		–		(27,750)	**(27,750)**	(12,075)
Outstanding at end of year						
Number of shares		775,000		243,000	**1,018,000**	800,100
Performance shares 38		100,000		35,000		
Performance shares 39		310,000		33,000		
Performance shares 40		175,000		85,000		
Performance shares 41		190,000		90,000		

Performance shares are issued when all conditions per note 29 are met.

Vesting dates	
Performance shares 38	07 December 2016
Performance shares 39	13 December 2017
Performance shares 40	04 December 2018
Performance shares 41	07 December 2019

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

37. Directors' and prescribed officers' participation in the Sappi Limited share schemes continued

Changes in executive directors' and prescribed officers' share options and performance shares before financial year-end

Prescribed officers

	Officer 1		Officer 2		Officer 3	
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares
Outstanding at beginning of year						
Number of shares held		415,000		429,000		610,000
Share option issue 32		–		–		–
Performance shares 37		105,000		105,000		100,000
Performance shares 38		100,000		114,000		100,000
Performance shares 39		110,000		110,000		310,000
Performance shares 40		100,000		100,000		100,000
Offered and accepted during the year						
Performance shares 40						
Performance shares 41		105,000		105,000		105,000
Exercised during the year						
Number of shares		(52,500)		(52,500)		(50,000)
Returned, lapsed and forfeited during the year						
Number of shares		(52,500)		(52,500)		(50,000)
Outstanding at end of year						
Number of shares		415,000		429,000		615,000
Performance shares 38		100,000		114,000		100,000
Performance shares 39		110,000		110,000		310,000
Performance shares 40		100,000		100,000		100,000
Performance shares 41		105,000		105,000		105,000

Performance shares are issued when all conditions per note 29 are met.

Vesting dates	
Performance shares 38	07 December 2016
Performance shares 39	13 December 2017
Performance shares 40	04 December 2018
Performance shares 41	07 December 2019

Officer 4		Officer 5		Officer 6		Officer 7		**Total 2016**	Total 2015
Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	**Number of shares**	Number of shares
	134,551		275,000		284,700		–	**2,148,251**	2,350,700
	–		–	ZAR52.57	7,700		–		
	49,051		45,000		53,000		–		
	85,500		60,000		39,000		–		
	–		90,000		100,000		–		
	–		80,000		85,000		–		
									465,000
	–		85,000		90,000		70,000	**560,000**	
	(24,526)		(22,500)		(34,200)		–	**(236,226)**	(177,768)
	(24,525)		(22,500)		(26,500)		–	**(228,525)**	(489,681)
	85,500		315,000		314,000		70,000	**2,243,500**	2,148,251
	85,500		60,000		39,000		–		
	–		90,000		100,000		–		
	–		80,000		85,000		–		
	–		85,000		90,000		70,000		

Notes to the Group Annual Financial Statements continued

for the year ended September 2016

37. Directors' and prescribed officers' participation in the Sappi Limited share schemes

		Exercised	Number of shares	Allocation price	Market value at date of payment
Executive directors					
September 2016					
GT Pearce	Performance plan 37	02 December 2015	27,750	ZAR0.00	ZAR62.95
	Share option issue 32	10 December 2015	6,600	ZAR52.57	ZAR58.38
September 2015					
GT Pearce	Performance plan 36	03 December 2014	12,075	ZAR0.00	ZAR40.93
Prescribed officers					
September 2016					
Officer 1	Performance plan 37	02 December 2015	52,500	ZAR0.00	ZAR62.95
Officer 2	Performance plan 37	02 December 2015	52,500	ZAR0.00	ZAR62.95
Officer 3	Performance plan 37	02 December 2015	50,000	ZAR0.00	ZAR62.95
Officer 4	Performance plan 37	02 December 2015	24,526	ZAR0.00	ZAR62.95
Officer 5	Performance plan 37	02 December 2015	22,500	ZAR0.00	ZAR62.95
Officer 6	Performance plan 37	02 December 2015	26,500	ZAR0.00	ZAR62.95
	Share option issue 32	10 December 2015	7,700	ZAR52.57	ZAR57.71
September 2015					
Officer 1	Performance plan 36	03 December 2014	44,000	ZAR0.00	ZAR40.93
Officer 2	Performance plan 36	03 December 2014	44,000	ZAR0.00	ZAR40.93
Officer 3	Performance plan 36	03 December 2014	32,500	ZAR0.00	ZAR40.93
Officer 4	Performance plan 36	03 December 2014	22,268	ZAR0.00	ZAR40.93
Officer 6	Performance plan 36	03 December 2014	10,000	ZAR0.00	ZAR40.93

38. Investments

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

Name of subsidiary	Country of incorporation	Principal activity	Effective holding (%) 2016	Effective holding (%) 2015
Elektra Purchase Nº 29 Limited	Ireland	Securitisation of receivables	–	–
Sappi Alfeld GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappi Austria Produktions GmbH and CoKG	Austria	Manufacture of paper and paper pulp	**100**	100
Sappi Cloquet LLC	United States of America	Manufacture of paper, paper pulp and dissolving wood pulp/paper pulp	**100**	100
Sappi Deutschland GmbH	Germany	Sales	**100**	100
Sappi Ehingen GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappi Europe SA	Belgium	Sales	**100**	100
Sappi Finland Operations Oy and Sappi Finland I Oy	Finland	Manufacture of paper and paper pulp	**100**	100
Sappi International Holdings Proprietary Limited	South Africa	Treasury	**100**	100
Sappi International SA	Belgium	Treasury	**100**	100
Sappi Lanaken NV	Belgium	Manufacture of paper	**100**	100
Sappi Lanaken Press Paper NV	Belgium	Manufacture of paper and paper pulp	**100**	100
Sappi Maastricht BV	The Netherlands	Manufacture of paper	**100**	100
Sappi Papier Holding GmbH	Austria	Holding company/sales	**100**	100
Sappi Southern Africa Limited	South Africa	Production of paper and paper pulp, dissolving wood pulp and forestry	**100**	100
Sappi Stockstadt GmbH	Germany	Manufacture of paper and paper pulp	**100**	100
Sappisure Försäkrings AB	Sweden	Insurance	**100**	100
SD Warren Company	United States of America	Manufacture of paper and paper pulp	**100**	100

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