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sappi

2018 Group Annual Financial Statements

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## 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 the Financial Reporting Standards Council, the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. In preparing the Group Financial Statements, the group applied appropriate accounting policies supported by reasonable judgements and estimates. The auditors are responsible for auditing the Group 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 Financial Statements that are free from material misstatements, whether due to fraud or error. 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 4 to 91 and were approved by the board of directors on 07 December 2018 and signed on its behalf by:

**SR Binnie**  
Chief Executive Officer

**GT Pearce**  
Chief Financial Officer

Sappi Limited

07 December 2018

# 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 2018, 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 A Mahendranath  
Group Company Secretary

07 December 2018



# Audit and Risk Committee Report

for the year ended September 2018

## Introduction

The Audit and Risk Committee presents its report for the financial year ended September 2018. The 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 of 2008 (the Companies Act), the JSE Limited Listings Requirements and King IV.

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
- Ensured that appropriate financial reporting procedures are being maintained and are operating effectively
- 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
  - The quarterly financial results
- Considered the effectiveness of internal audit, approved the annual operational strategic internal audit plan and monitored adherence of internal audit to its plan
- Reviewed the performance and expertise of the Chief Financial Officer and confirmed his suitability for the position, and
- Satisfied itself that the 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.

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

## Membership

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

Mr NP Mageza	(Appointed in February 2010, Chairman from February 2018)
Mr RJAM Renders	(Appointed in March 2017)
Mr MA Fallon	(Appointed in January 2012)
Mrs KR Osar	(Appointed in November 2007)
Dr D Konar	(Retired January 2018)

Biographical details of the current members of the committee are set out in **Our leadership** in the Annual Integrated Report.

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.

### External audit

The committee, having considered all relevant matters, satisfied itself through enquiry that auditor independence, objectivity and effectiveness were maintained in 2018. 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.

The committee has given adequate consideration to the information presented by the external auditor as required by the JSE Listings requirements. The committee has consequently nominated, for approval at the Annual General Meeting, KPMG as the external auditor for the 2019 financial year of whom Mr Coenie Basson is the designated auditor for Sappi Limited and Safeera Loonat is the designated auditor for Sappi Southern Africa Limited. The committee confirms that the auditors are accredited by the JSE Limited and the designated auditors do not appear on the JSE Limited's list of disqualified individual auditors.

### Annual Integrated Report and the Group Annual Financial Statements

The committee has evaluated the Annual Integrated Report, incorporating the Group Annual Financial Statements, for the year ended September 2018. The 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 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 internal audit function and external auditors, nothing has come to the attention of the committee to indicate that the internal financial controls were not operating effectively.

### **P Mageza**

*Chairman*

*Audit and Risk Committee*

07 December 2018

# Directors' Report

for the year ended September 2018

The directors have pleasure in presenting their report for the year ended September 2018.

## Nature of business

Sappi Limited ('Sappi'), 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 160 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 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\$323 million for the year ended September 2018 (60 US cents) compared to US\$338 million profit (63 US cents) for the prior year.

Detailed commentary on the 2018 financial results is contained in various reviews throughout our Annual Integrated Report.

## Dividends

The directors have declared a dividend of 17 US cents per share, payable in ZAR using the exchange rate at the date of declaration, representing a three 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 **Corporate Governance** in our Annual Integrated Report for full details and to our website ([www.sappi.com](http://www.sappi.com)) for Sappi's application of the principles of King IV.

## Health, safety, environment and community

Information on our health, safety and environmental performance is provided in **Performance during the year** in our Annual Integrated Report.

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

There was one significant announcement:

- In December 2017 the group announced the proposed acquisition of the speciality paper business of the Cham Paper Group Holding AG whereby Sappi would acquire two mills in Italy producing a combined 160,000 tons of paper and a digital imaging business in Switzerland for a consideration of CHF146.5 million. This acquisition was concluded on 28 February 2018.

## Liquidity and financing

At September 2018, we had liquidity comprising US\$363 million of cash on hand, which exceeds the amount of short-term interest-bearing debt (including bank overdrafts) of US\$113 million by US\$250 million, and US\$680 million available from undrawn committed facilities in Europe and South Africa.

Net debt increased to US\$1,568 million from US\$1,322 million as the group utilised net cash of US\$254 million during the year (2017: Net cash generated US\$108 million). The utilisation arose from the Cham Paper Group acquisition of US\$132 million combined with increases in capital expenditure, dividends and working capital.

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 **Risk management** in our Annual Integrated Report.

## 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 2018 of US\$541 million (2017: US\$357 million) was greater than the prior year due to various upgrade and expansion projects throughout the group. Maintenance expenditure of US\$167 million (2017: US\$140 million) was in line with the prior year and largely incurred on efficiency projects.

## Subsequent events

The dividend of 17 US cents per share was declared on 14 November 2018 being after the reporting date.

## Directorate

The composition of the board of directors is set out in **Our leadership** in our Annual Integrated Report. During the year, the following changes were announced:

- The retirement of Dr Rudolf Thummer as an independent non-executive director with effect from 31 December 2017.
- The retirement of Dr Len Konar as an independent non-executive director with effect from 31 January 2018.
- The retirement of Mr Bob DeKoch as an independent non-executive director with effect from 16 August 2018.
- The appointment of Ms Zola Malinga as an independent non-executive director with effect from 01 October 2018.

At the end of September 2018, there were 10 directors, two of whom are executive directors. Seven of the eight non-executive directors are 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. The committee further assessed the independence of Mr Moosa in detail following the termination of a lock-in restriction on the disposal of shares from Sappi's Black Economic Empowerment transaction on 31 October 2018 concluded that in their view, and after taking steps to become reasonably informed themselves, that Mr Moosa can be regarded as independent.

In terms of the company's Memorandum of Incorporation, Ms K Osar, Mr RJ Renders and Mr S Binnie 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 34 to 36.

## 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 37.

# Independent Auditor's Report

## To the shareholders of Sappi Limited

### Report on the consolidated financial statements

#### Opinion

We have audited the consolidated financial statements of Sappi Limited and its subsidiaries (the Group) set out on pages 9 to 91, which comprise the Group balance sheet as at September 2018, and the Group income statement and the Group statement of comprehensive income, the group statement of changes in equity and the Group statement of cash flows for the year then ended, and notes to the Group Financial Statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sappi Limited as at September 2018, and its consolidated financial performance and 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.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* ("IRBA Code") and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed in our audit
<p><b>Valuation of plantations</b></p> <p>Refer to note 2.3.4 for the accounting policies applied and note 11 to the Group Financial Statements.</p> <p>Plantations are valued in terms of IAS 41 <i>Agriculture</i> and are stated at fair value less cost to sell at the harvesting stage, using the income approach, and is a level 3 measure in terms of IFRS 13 <i>Fair Value Measurement</i>.</p> <p>The valuation of plantations requires complex measurements and involves estimation uncertainty. The key measurement and assumptions having the most significant impact on the fair value of the plantations include:</p> <ul style="list-style-type: none"> <li>• Estimated prices less cost of delivery;</li> <li>• Volume and growth estimations;</li> <li>• Cost assumptions; and</li> <li>• Discount rate.</li> </ul> <p>Given the complexity and the significant amount of estimation and judgement involved in the determination of fair value of the plantations, this matter was considered a key audit matter.</p>	<p>Our audit procedures related to the valuation of plantations included, amongst others:</p> <ul style="list-style-type: none"> <li>• Critically evaluating the fair value methodology against the criteria in IAS 41 <i>Agriculture</i> and IFRS 13 <i>Fair Value Measurement</i>, measurements and key assumptions applied by management in determining the fair value of the plantations. This was performed by our valuation specialists, that formed part of the audit team, by applying their knowledge of the industry to assess the appropriateness of the valuations;</li> <li>• Challenging the consistency and appropriateness of the underlying measurements and assumptions used by comparing to external observable data, where possible, and considering management's historical accuracy in determining these measurements and estimations; and</li> <li>• Assessing the reasonableness of the Group's fair value estimates, and the related sensitivity disclosures, by performing our own sensitivity analysis of the plantation valuations.</li> </ul> <p>We considered the adequacy and appropriateness of the Group's disclosures on the valuation of plantations.</p>



The key audit matter	How the matter was addressed in our audit
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Taxation	
<p>Refer to note 2.3.3 for the accounting policies applied and notes 6 and 12 to the Group Financial Statements.</p> <p>The Group has operations in a number of geographical locations and as such is subject to examination by tax authorities in the jurisdictions in which they operate, giving rise to complexity in the accounting for the Group's taxation.</p> <p>As detailed in note 12, the existence of historical unused tax losses, particularly in the European tax jurisdictions, requires significant judgement to be applied in determining how much of these tax losses should be recognised as deferred tax assets. The recognition is based on forecasts of future taxable profits, the reversal of taxable temporary differences and the application of existing tax laws in each jurisdiction.</p> <p>Given the complexity and judgement involved in the accounting for income and deferred taxation, taxation has been identified as a key audit matter.</p>	<p>We involved our tax specialists, with local and international tax knowledge, who formed part of the audit team.</p> <p>Our audit procedures included an assessment of the Group's taxation assets and liabilities with particular consideration given to the judgements applied by management in accounting for uncertain tax positions and the recognition and measurement of deferred tax assets. This more specifically included:</p> <ul style="list-style-type: none"> <li>• Evaluating the basis of accounting for recognising deferred tax assets based on our knowledge of the tax environment in which the Group operates and work performed on the forecasts of future taxable profits and the reversal of taxable temporary differences;</li> <li>• Considering the application of the relevant accounting standards in respect of recognising deferred tax assets for entities with a history of unused tax losses; and</li> <li>• Evaluating the Group's assessment of its exposure to tax risks and accounting for related uncertain tax positions. We also reviewed correspondence with tax authorities in this regard to support the Group's assessments made.</li> </ul> <p>We considered the adequacy and appropriateness of the Group's taxation disclosures, including the recognised and unrecognised deferred tax assets in the consolidated financial statements.</p>

### Other information

The directors are responsible for the other information. The other information comprises the Group Company Secretary's certificate, the Audit and Risk Committee Report and the Directors' Report as required by the Companies Act of South Africa and the Directors' approval and the Annual Integrated Report. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

# Independent Auditor's Report continued

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and, therefore, are the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of Sappi Limited for two years.

### **KPMG Inc.**

*Registered Auditor*

### **Per Coenie Basson**

*Chartered Accountant (SA)*

*Registered Auditor*

*Director*

85 Empire Road, Parktown  
Johannesburg, 2193

07 December 2018

# Group income statement

for the year ended September 2018

(US\$ million)	Note	2018	2017
<b>Revenue</b>		<b>5,806</b>	5,296
Cost of sales	4	<b>4,928</b>	4,429
Gross profit		<b>878</b>	867
Selling, general and administrative expenses	4	<b>396</b>	334
Other operating (income) expenses		<b>(4)</b>	14
Share of profit from equity accounted investees		<b>(3)</b>	(7)
<b>Operating profit</b>	4	<b>489</b>	526
Net finance costs	5	<b>68</b>	80
Finance costs		<b>92</b>	107
Finance income		<b>(18)</b>	(15)
Net foreign exchange gains		<b>(6)</b>	(12)
<b>Profit before taxation</b>		<b>421</b>	446
Taxation charge	6	<b>98</b>	108
<b>Profit for the year</b>		<b>323</b>	338
<b>Basic earnings per share (US cents)</b>	7	<b>60</b>	63
Weighted average number of ordinary shares in issue (millions)		<b>538.1</b>	533.9
<b>Diluted earnings per share (US cents)</b>	7	<b>59</b>	62
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)		<b>550.0</b>	547.4

# Group statement of comprehensive income

for the year ended September 2018

(US\$ million)	Note	2018	2017
Profit for the year		<b>323</b>	338
<b>Other comprehensive income (loss), net of tax</b>	19	<b>(57)</b>	78
<b>Item that will not be reclassified subsequently to profit or loss</b>		<b>-</b>	68
Actuarial gains (losses) on post-employment benefit funds		<b>28</b>	101
Deferred tax on above items and changes in tax rates		<b>(28)</b>	(33)
<b>Items that may be reclassified subsequently to profit or loss</b>		<b>(57)</b>	10
Exchange differences on translation to presentation currency		<b>(61)</b>	(1)
Gains (losses) on hedging reserves		<b>8</b>	10
Fair value adjustments on available-for-sale financial instruments		<b>(1)</b>	-
Tax effect on above items		<b>(3)</b>	1
<b>Total comprehensive income for the year</b>		<b>266</b>	416

# Group balance sheet

as at September 2018

(US\$ million)	Note	2018	2017
<b>Assets</b>			
<b>Non-current assets</b>		<b>3,766</b>	3,378
Property, plant and equipment	10	3,010	2,681
Plantations	11	466	458
Deferred tax assets	12	106	123
Goodwill and intangible assets	13	63	39
Equity accounted investees	14	33	26
Other non-current assets	15	88	51
<b>Current assets</b>		<b>1,904</b>	1,869
Inventories	16	741	636
Trade and other receivables	17	767	668
Derivative financial instruments	30	21	3
Taxation receivable		12	12
Cash and cash equivalents		363	550
<b>Total assets</b>		<b>5,670</b>	5,247
<b>Equity and liabilities</b>			
<b>Shareholders' equity</b>		<b>1,947</b>	1,747
Ordinary share capital and share premium	18	858	894
Non-distributable reserves	20	133	123
Foreign currency translation reserve		(180)	(158)
Hedging reserves		(28)	(34)
Retained earnings		1,164	922
<b>Non-current liabilities</b>		<b>2,550</b>	2,457
Interest-bearing borrowings	21	1,818	1,739
Deferred tax liabilities	12	335	295
Defined benefit liabilities	28	329	344
Other non-current liabilities	22	68	79
<b>Current liabilities</b>		<b>1,173</b>	1,043
Interest-bearing borrowings	21	97	133
Overdrafts		16	–
Trade and other payables		1,009	858
Provisions	23	6	10
Derivative financial instruments	30	6	5
Taxation payable		39	37
<b>Total equity and liabilities</b>		<b>5,670</b>	5,247

# Group statement of cash flows

for the year ended September 2018

(US\$ million)	Note	2018	2017
<b>Cash retained from operating activities</b>		<b>410</b>	481
Cash generated from operations	24.1	709	748
– Decrease (increase) in working capital	24.2	(79)	(27)
Cash generated from operating activities		<b>630</b>	721
– Finance costs paid	24.3	(84)	(96)
– Finance income received		18	15
– Taxation paid	24.4	(73)	(100)
– Dividends paid		(81)	(59)
<b>Cash utilised in investing activities</b>		<b>(664)</b>	(373)
Investment to maintain operations		(167)	(140)
Investment to expand operations		(374)	(217)
Proceeds on disposal of other non-current assets	24.5	11	4
Investment in equity accounted investees		(10)	(5)
Dividends received from equity accounted investees		6	7
Decrease (increase) in other non-current assets		2	(11)
Acquisition of subsidiary	9	(132)	(11)
<b>Cash effects of financing activities</b>		<b>68</b>	(279)
Proceeds from interest-bearing borrowings		137	186
Repayment of interest-bearing borrowings		(69)	(465)
<b>Net movement in cash and cash equivalents</b>		<b>(186)</b>	(171)
Cash and cash equivalents at beginning of year		550	703
Translation effects		(1)	18
<b>Cash and cash equivalents at end of year</b>		<b>363</b>	550



# Group statement of changes in equity

for the year ended September 2018

(US\$ million)	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Foreign currency translation reserve	Hedging reserves <sup>(1)</sup>	Retained earnings	Total equity
<b>Balance – September 2016</b>	530.6	39	840	879	114	(147)	(43)	575	<b>1,378</b>
Share-based payments	–	–	–	–	9	–	–	–	<b>9</b>
Transfers of vested share options	4.4	1	4	5	(2)	–	–	–	<b>3</b>
Dividend paid – 11 US cents per share	–	–	–	–	–	–	–	(59)	<b>(59)</b>
Translation of parent company's ordinary share capital and share premium	–	–	10	10	–	(10)	–	–	<b>–</b>
Profit for the year	–	–	–	–	–	–	–	338	<b>338</b>
Other comprehensive (loss) income	–	–	–	–	2	(1)	9	68	<b>78</b>
<b>Balance – September 2017</b>	535.0	40	854	894	123	(158)	(34)	922	<b>1,747</b>
Share-based payments	–	–	–	–	11	–	–	–	<b>11</b>
Transfers of vested share options and other	4.3	–	1	1	3	–	–	–	<b>4</b>
Translation of parent company's ordinary share capital and share premium	–	(2)	(35)	(37)	–	37	–	–	<b>–</b>
Dividend paid – 15 US cents per share	–	–	–	–	–	–	–	(81)	<b>(81)</b>
Profit for the year	–	–	–	–	–	–	–	323	<b>323</b>
Other comprehensive (loss) income	–	–	–	–	(4)	(59)	6	–	<b>(57)</b>
<b>Balance – September 2018</b>	539.3	38	820	858	133	(180)	(28)	1,164	<b>1,947</b>

Note

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<sup>(1)</sup> Includes available-for-sale financial assets amounting to US\$ Nil (2017: US\$1 million).

# Notes to the Group Annual Financial Statements

for the year ended September 2018

## 1. Basis of preparation

The consolidated financial statements of Sappi Limited (the 'Company') as at and for the year ended September 2018 comprise the Company and its subsidiaries (together referred to as the 'group' and individually as 'group entities' or 'group entity') as well as the Group's interests in associates and joint ventures.

The 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 2008 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.

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.

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).

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:

- 02 October 2017 to 30 September 2018 (52 weeks)
- 26 September 2016 to 01 October 2017 (53 weeks)
- 28 September 2015 to 25 September 2016 (52 weeks)

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.

## 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.

Changes in accounting estimates are recognised prospectively in profit or loss, except to the extent that they give rise to changes in the carrying amount of recognised assets and liabilities where the change in estimate is recognised immediately.

### 2.1 Significant accounting policy elections

The group 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.

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 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 Dollars, which is the group's presentation currency.

The functional currency of the parent company is ZAR (Rand). 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, intangible assets 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 at each reporting date.

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

	2018	2017
<i>Period-end rate</i>		
US\$1 = ZAR	14,147	13,556
EUR1 = US\$	1,161	1,181
<i>Annual average rate</i>		
US\$1 = ZAR	13,052	13,381
EUR1 = US\$	1,190	1,106

## 2. Accounting policies continued

### 2.2 Summary of 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.

##### (ii) Associates and joint ventures (equity accounted investees)

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 of disposal) 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 time frame 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 fair value through profit or 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 2018

### 2. Accounting policies continued

#### 2.2 Summary of accounting policies continued

##### 2.2.3 Financial instruments 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, i.e. 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) Finance income and finance costs

Finance income and finance costs are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to that 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, customer relationships and customer technology

Brands, customer relationships and customer technology acquired are capitalised and amortised on a straight-line basis over their estimated useful lives which, on average, is 10 years.

###### (iv) Other intangible assets

Other intangible assets comprise license fees, trademarks and carbon certificates which are amortised on a straight-line basis over their useful lives between three and 20 years.



## 2. Accounting policies continued

### 2.2 Summary of 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, conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost is determined on the following basis:

<i>Classification</i>	<i>Cost formula</i>
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

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.

#### 2.2.8 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.

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 2. Accounting policies continued

#### 2.2 Summary of accounting policies continued

##### 2.2.9 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of those assets.

Borrowing costs capitalised are calculated at the group's average funding cost other than to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

##### 2.2.10 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.

##### 2.2.11 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.

##### 2.2.12 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.

##### 2.2.13 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 produce products across different operating units in determining CGUs and in allocating goodwill to those CGUs.

## 2. Accounting policies continued

### 2.2 Summary of accounting policies continued

#### 2.2.14 Share-based payments

##### (i) Equity-settled share-based payment transactions

The services or goods received in an equity-settled share-based payment transaction with counterparties are measured at the fair value of the equity instruments at grant date.

If the equity instruments granted vest immediately and the beneficiary is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the benefit received is recognised in profit or loss for the period in full on grant date with a corresponding increase in equity.

Where the equity instruments do not vest until the beneficiary has completed a specified period of service, it is assumed that the benefit received by the group as consideration for those equity instruments will be received over the vesting period. These benefits are accounted for in profit or loss as they are received with a corresponding increase in equity. Share-based payment expenses are adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met.

##### (ii) Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at the measurement date using either the modified binomial option pricing or the Monte-Carlo simulation model. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

##### (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.

#### 2.2.15 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.

##### (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.

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 2. Accounting policies continued

#### 2.2 Summary of accounting policies continued

##### 2.2.15 Derivatives and hedge accounting continued

###### (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 hedging relationships as well as the impact of the hedge on the pretax profit or loss for the period.

##### 2.2.16 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 pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The establishment and review of the provisions requires judgement by management as to whether or not there is a probable obligation and as to whether or not a reliable estimate of the amount of the obligation can be made.

Environmental accruals are recorded based on current interpretation of environmental laws and regulations.

Restructuring provisions are recognised when the group has developed a detailed formal plan for restructuring and has raised a valid expectation that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and is recorded in other operating expenses in profit or loss.

Refer to note 23 for the nature of provisions recorded.

##### 2.2.17 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.

##### 2.2.18 Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## 2. Accounting policies continued

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

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

The group assesses all assets other than goodwill at each balance sheet date for indications of impairment or whether an impairment reversal is required.

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 of disposal.

Where impairment exists, the losses are recognised in other operating expenses in profit or loss for the period.

A previously recognised impairment loss will be reversed through profit or loss if the recoverable amount increases as a result of a change in the estimates that were previously used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods.

#### 2.3.2 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes, where specifically required in terms of legislative requirements or where a constructive obligation exists, the estimated cost of dismantling and removing the assets, professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy. In addition, spare parts whose expected useful lives are anticipated to be more than 12 months are treated as property, plant and equipment.

Expenditure incurred to replace a component of property, plant and equipment is capitalised to the cost of related property, plant and equipment and the part replaced is derecognised.

Depreciation, which commences when the assets are ready for their intended use, is recognised in profit or loss over their estimated useful lives to estimated residual values using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Land is not depreciated.

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

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

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

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



# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 2. Accounting policies continued

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

##### 2.3.3 Taxation

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

##### (i) Current taxation

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

The group estimates its income taxes in 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. Accounting policies continued

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

#### 2.3.4 Plantations

Plantations are stated at fair value less 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 profit or loss 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 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 discount rate.

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

Trees are generally felled at the optimum age when ready for intended use. At the time the tree is felled, it is taken out of plantations and accounted for under inventory and reported as a depletion cost (fellings).

Depletion costs 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 tonne allocation method multiplied by unadjusted current market prices. Tonnes are calculated using the projected growth to rotation age and are extrapolated to current age on a straight-line basis.

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

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).

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 2. Accounting policies continued

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

##### 2.3.5 Post-employment benefits

Defined benefit and defined contribution plans have been established for eligible employees of the group, with the assets held in separate trustee-administered funds.

The present value of the defined benefit obligations and related current service costs are calculated annually by independent actuaries using the projected unit credit method.

These actuarial models use an attribution approach that generally spread individual events over the service lives of the employees in the plan.

Estimates and assumptions used in the actuarial models include the discount rate, return on assets, salary increases, healthcare cost trends, longevity and service lives of employees.

The group recognises 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.

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

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

- IAS 12 *Income Taxes* – Recognition of Deferred Tax Assets for Unrealised Losses
- 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, and
- Annual Improvements 2014 – 2016 Cycle.

## 2. Accounting policies continued

### 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. These are listed below together with their effective dates\*.

- IFRS 9 *Financial Instruments* – IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities – Effective October 2018. Management has implemented and concluded a project to assess the revised classification and measurement impact of this standard IFRS 9 has set out a new classification and measurement approach for financial assets that reflect the business model in which the assets are managed and their cash flow characteristics. The three principal classification categories for financial assets are: measured at amortised cost, fair value through profit or loss and fair value through other comprehensive income (FVOCI). Based on management's assessment, the new classification will not have a significant impact compared to the current accounting for financial assets in terms of IAS 39. IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The group will apply the practical expedient in IFRS 9 to calculate the ECL on trade receivables using a provision matrix. Based on management's assessment, application of the ECL model will not result in a material impact compared to the current accounting for in terms of IAS 39. With respect to hedging, on transition a new class of non-distributable equity reserve will be created called Cost of hedging reserve. This reserve will be used to separate all time value of money and forward point valuations on hedged instruments, as required per IFRS 9, which is not material at transition.

The overall impact on retained earnings on transition to IFRS 9 is expected to be immaterial. Additional disclosures will be required for financial instruments in terms of IFRS 9.

- IFRS 15 *Revenue from Contracts with Customers* – provides a single, principles-based five-step model to be applied to all contracts with customers – Effective October 2018. Management has reviewed the significant customer contracts to determine the recognition, measurement and disclosure impact of the new standard. Adoption of IFRS 15 is not expected to have a material impact on the recognition and measurement of revenue when compared to the current application of IAS 18.

Under IAS 18, Sappi derives revenue from contracts with customers from one revenue stream being the sale of 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.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. Management's assessment indicates that this will not result in a material change in timing of revenue recognition with revenue being recognised at a point in time, with no deferral of revenue. As a result, the impact on retained earnings on transition to IFRS 15 is expected to be immaterial. Additional disclosures will be required for revenue in terms of IFRS 15.

The group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (ie October 2018). As a result, the group will not apply the requirements of IFRS 15 to the comparative periods presented.

- 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* – Effective October 2019.

Management is currently reviewing the operating lease contracts in place to determine the impact of this standard.

The following standards are not expected to have a material impact:

- IFRS 2 – *Classification and Measurement of Share-based Payment Transactions* – Effective October 2018.
- IFRIC 22 – *Foreign Currency Transactions and Advance Consideration* – Effective October 2018.
- IFRIC 23 – *Uncertainty over Income Tax Treatments* – Effective October 2019.
- IAS 19 – *Plan Amendment, Curtailment or Settlement* – Effective October 2019.
- IAS 28 – *Long-term Interests in Associates and Joint Ventures* – Effective October 2019.
- Annual Improvements 2015 – 2017 Cycle – Amendments to IFRS 1 and IAS 28 – Effective October 2019.

\* Effective date refers to annual period beginning on or after said date.

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 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 (and which have remained unchanged from the prior year) 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 is comprised mostly of 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.

(US\$ million)	North America		Europe	
	2018	2017	2018	2017
<b>Income statement</b>				
Total sales	1 485	1 408	3 094	2 683
Intersegmental sales	(53)	(48)	(124)	(119)
External sales <sup>(1)</sup>	1,432	1,360	2,970	2,564
Operating profit (loss) excluding special items	49	47	163	140
Special items – gains (losses) <sup>(2)</sup>	(2)	–	3	(4)
Segment operating profit (loss)	47	47	166	136
EBITDA excluding special items <sup>(2)</sup>	126	126	299	262
Share of profit of equity investments	–	–	–	–
Depreciation and amortisation	(77)	(79)	(136)	(122)
Net asset (impairments) reversals	–	–	–	(1)
Profit (loss) on disposal and written off assets	–	–	–	(1)
Fellings	–	–	–	–
Plantation fair value adjustment	–	–	–	–
Restructuring provisions (raised) released and closure costs	–	–	–	–
Other non-cash items	(4)	(16)	(7)	(15)
<b>Balance sheet</b>				
Capital expenditures	196	132	121	131
Segment assets <sup>(2)</sup>	1,137	1,026	1,574	1,373
Property, plant and equipment	960	841	1,112	1,042

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

US\$ million	North America		Europe	
	2018	2017	2018	2017
Operating profit excluding special items	49	47	163	140
Special items – gains (losses) <sup>(2)</sup>	(2)	–	3	(4)
Segment operating profit (loss)	47	47	166	136

<sup>(1)</sup> Sales of products are allocated to where the product is manufactured.

<sup>(2)</sup> Refer to the definitions below.

<sup>(3)</sup> Primarily includes the group's treasury operations and its self-insurance captive.

**EBITDA excluding special items** – Earnings before interest (net finance costs), taxation, depreciation, amortisation and special items.

**Net operating assets** – Total assets (excluding deferred tax assets and cash) less current liabilities (excluding interest-bearing borrowings and overdraft). Net operating assets equate to segment assets.

**Special items** – Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash.



Southern Africa		Unallocated and eliminations <sup>(3)</sup>		Group	
2018	2017	2018	2017	2018	2017
<b>1 404</b>	1 372	-	-	<b>5 983</b>	5 463
-	-	-	-	<b>(177)</b>	(167)
<b>1,404</b>	1,372	-	-	<b>5,806</b>	5,296
<b>270</b>	337	<b>(2)</b>	2	<b>480</b>	526
<b>25</b>	10	<b>(17)</b>	(6)	<b>9</b>	-
<b>295</b>	347	<b>(19)</b>	(4)	<b>489</b>	526
<b>337</b>	396	-	1	<b>762</b>	785
<b>4</b>	6	<b>(1)</b>	1	<b>3</b>	7
<b>(67)</b>	(59)	<b>(2)</b>	1	<b>(282)</b>	(259)
<b>3</b>	(3)	-	-	<b>3</b>	(4)
<b>4</b>	(1)	-	-	<b>4</b>	(2)
<b>(66)</b>	(63)	-	-	<b>(66)</b>	(63)
<b>96</b>	79	-	-	<b>96</b>	79
-	-	<b>(1)</b>	(1)	<b>(1)</b>	(1)
<b>(2)</b>	6	<b>(3)</b>	-	<b>(16)</b>	(25)
<b>261</b>	105	<b>1</b>	2	<b>579</b>	370
<b>1,392</b>	1,263	<b>38</b>	2	<b>4,141</b>	3,664
<b>930</b>	789	<b>8</b>	9	<b>3,010</b>	2,681

Southern Africa		Unallocated and eliminations <sup>(3)</sup>		Group	
2018	2017	2018	2017	2018	2017
<b>270</b>	337	<b>(2)</b>	2	<b>480</b>	526
<b>25</b>	10	<b>(17)</b>	(6)	<b>9</b>	-
<b>295</b>	347	<b>(19)</b>	(4)	<b>489</b>	526

# Notes to the Group Annual Financial Statements

continued

for the year ended September 2018

### 3. Segment information continued

Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to profit (loss) before taxation:

(US\$ million)	North America		Europe	
	2018	2017	2018	2017
EBITDA excluding special items <sup>(2)</sup>	126	126	299	262
Depreciation and amortisation	(77)	(79)	(136)	(122)
Operating profit excluding special items	49	47	163	140
Special items – gains (losses) <sup>(2)</sup>	(2)	–	3	(4)
Segment operating profit (loss)	47	47	166	136

Net finance costs

Profit before taxation

Reconciliation of segment assets to total assets:

(US\$ million)

Segment assets<sup>(2)</sup>

Deferred tax assets

Cash and cash equivalents

Trade and other payables

Provisions

Derivative financial instruments (included in current liabilities)

Taxation payable

#### 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 is shown below. The group has however changed the financial information by major product category, as reviewed by the chief operating decision maker during the quarter ended December 2017. Accordingly the group has restated the financial information presented by major product category for the prior year.

(US\$ million)

#### Sales

Dissolving wood pulp

Specialities and packaging papers

Printing and writing papers

Forestry

Total

#### Operating profit excluding special items

Dissolving wood pulp

Specialities and packaging papers

Printing and writing papers

Unallocated and eliminations<sup>(3)</sup>

Total

#### EBITDA excluding special items

Dissolving wood pulp

Specialities and packaging papers

Printing and writing papers

Unallocated and eliminations<sup>(3)</sup>

Total

<sup>(1)</sup> Sales of products are allocated to where the product is manufactured.<sup>(2)</sup> Refer to the definitions below.<sup>(3)</sup> Primarily includes the group's treasury operations and its self-insurance captive.

**EBITDA excluding special items** – Earnings before interest (net finance costs), taxation, depreciation, amortisation and special items.

**Net operating assets** – Total assets (excluding deferred tax assets and cash) less current liabilities (excluding interest-bearing borrowings and overdraft). Net operating assets equate to segment assets.

**Special items** – Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash.

Southern Africa		Unallocated and eliminations <sup>(3)</sup>		Group	
2018	2017	2018	2017	2018	2017
337	396	-	1	762	785
(67)	(59)	(2)	1	(282)	(259)
270	337	(2)	2	480	526
25	10	(17)	(6)	9	-
295	347	(19)	(4)	489	526
				(68)	(80)
				421	446

Group	
2018	2017
4,141	3,664
106	123
363	550
1,009	858
6	10
6	5
39	37
5,670	5,247

Group	
2018	2017
1,043	1,059
1,087	833
3,600	3,339
76	65
5,806	5,296
251	334
78	76
153	114
(2)	2
480	526
306	386
138	117
318	281
-	1
762	785

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 4. Operating profit

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

(US\$ million)	2018		2017	
	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses
Raw materials, energy and other direct input costs	3,030	–	2,705	–
Wood (includes growth and felling adjustments) <sup>(1)</sup>	666	–	603	–
Energy	411	–	372	–
Chemicals	851	–	787	–
Pulp	1,001	–	753	–
Other variable costs	101	–	190	–
Plantation price fair value changes	(27)	–	(21)	–
Employment costs	858	185	769	160
Depreciation	261	12	247	8
Delivery charges	490	–	441	–
Maintenance	236	–	213	–
Other overheads	80	–	75	–
Marketing and selling expenses	–	85	–	81
Administrative and general expenses	–	114	–	85
	<b>4,928</b>	<b>396</b>	<b>4,429</b>	<b>334</b>

(US\$ million)	2018	2017
Silviculture costs (included within cost of sales)	65	58
Leasing charges for premises	14	13
Leasing charges for plant and equipment	15	14
Remuneration paid other than to employees of the company in respect of	24	27
Technical services	9	11
Administration services	15	16
Auditor's remuneration	4	4
Tax planning and advice	1	1
Research and development costs	42	29
Amortisation	9	4
Cost on derecognition of loans and receivables <sup>(2)</sup>	15	11
Net asset impairment of assets and investments	(3)	4
Restructuring provisions and closure costs raised (reversed)	1	1
(Profit) loss on sale/scrapping of assets	(4)	2
Post-retirement plan settlements and amendments	(11)	–
Broad-based Black Economic Empowerment (BBBEE) charge	1	1
Employment costs consist of	<b>1,043</b>	<b>929</b>
Wages and salaries	952	838
Defined contribution plan expense	39	36
Defined benefit pension plan expense	10	21
Other defined benefit plan expense	3	2
Share-based payment expense	11	9
Other	28	23
<sup>(1)</sup> Changes in plantation volumes		
Fellings	66	63
Growth	(69)	(58)

<sup>(2)</sup> The cost on derecognition of trade receivables relates to the derecognition of trade receivables related to the securitisation programme in South Africa and to the sale of letters of credit in Hong Kong.

(US\$ million)	2018	2017
<b>5. Net finance costs</b>		
Interest and other finance costs on liabilities carried at amortised cost	89	100
Interest on redeemable bonds and other loans	89	100
Net interest on employee benefit liabilities	5	7
Interest capitalised to property, plant and equipment <sup>(1)</sup>	(2)	–
Finance costs	92	107
Finance income received on assets carried at amortised cost	(18)	(15)
Interest income on bank accounts	(14)	(12)
Interest income on other loans and investments	(4)	(3)
Net foreign exchange gains	(6)	(12)
	68	80

<sup>(1)</sup> Borrowing costs incurred on the conversion project at the Somerset Mill in North America were capitalised at a rate of 2.65%.

(US\$ million)	2018	2017
<b>6. Taxation charge</b>		
Current taxation		
Current year	70	99
Prior year	2	(5)
Other company taxes	2	1
Deferred taxation		
Current year	14	12
Prior year	(3)	1
Attributable to tax rate changes	13	–
	98	108
<b>Reconciliation of the tax rate</b>		
Profit before taxation	421	446
Profit-making regions	421	447
Loss-making regions	–	(1)
Taxation at the average statutory tax rate	113	125
Profit-making regions at 27% (2017: 28%)	113	125
Non taxable income <sup>(1)</sup>	(18)	(26)
Non-deductible expenditure <sup>(2)</sup>	21	29
Effect of tax rate changes <sup>(3)</sup>	13	–
No tax relief on losses	5	3
No tax charge on profits	(10)	(4)
Derecognition of deferred tax assets	17	–
Recognition of deferred tax assets	(44)	(16)
Prior year adjustments	(1)	(4)
Other taxes	2	1
Taxation charge	98	108
Effective tax rate for the year	23%	24%

In addition to income taxation charges to profit or loss, a taxation charge of US\$28 million (2017: US\$33 million charge) has been recognised directly in other comprehensive income (refer to note 12).

<sup>(1)</sup> This includes income in foreign jurisdictions, notional interest deductions and dividends received.

<sup>(2)</sup> This includes mainly provisions for uncertain tax positions and non-deductible interest.

<sup>(3)</sup> The effect of tax rate changes relate primarily to the reduction of the federal corporate income tax rate in the USA where the rate changed from 35% in 2017 to 21% in 2018.

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 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.

	2018			2017		
	Profit US\$ million	Shares million	Earnings per share US cents	Profit US\$ million	Shares million	Earnings per share US cents
<i>Basic EPS calculation</i>	323	538.1	60	338	533.9	63
Share options and performance shares under Sappi Limited Share Trust	-	11.9		-	13.5	
<i>Diluted EPS calculation</i>	323	550.0	59	338	547.4	62

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR87.95 (2017: ZAR85.47). In the current and prior financial year, all share options that could potentially dilute EPS in the future are included in the calculation above.

#### Headline earnings per share<sup>(1)</sup>

Headline earnings per share is 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:

(US\$ million)	2018			2017		
	Gross	Tax	Net	Gross	Tax	Net
Attributable earnings to ordinary shareholders	421	98	323	446	108	338
Impairments of assets and investments	-	-	-	6	-	6
Profit on disposal and written off assets	(4)	1	(3)	2	(1)	1
Asset impairment reversals	(3)	-	(3)	(2)	-	(2)
Headline earnings	414	97	317	454	107	343
Weighted average number of ordinary shares in issue (millions)			538.1			533.9
Headline earnings per share (US cents)			59			64
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			550.0			547.4
Diluted headline earnings per share (US cents)			58			63

<sup>(1)</sup> **Headline earnings** – As defined in Circular 4/2018, 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.

(US\$ million)	2018			2017		
	Gross	Tax	Net	Gross	Tax	Net
Attributable earnings to ordinary shareholders	421	98	323	446	108	338
Special items	(9)	(7)	(2)	–	(2)	2
Tax special items	–	(3)	3	–	–	–
Earnings excluding special items	412	88	324	446	106	340
Weighted average number of ordinary shares in issue (millions)			538.1			533.9
EPS excluding special items (US cents)			60			64
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			550.0			547.4
Diluted EPS excluding special items (US cents)			59			62

**8. Dividends**

The directors have resolved to declare a gross dividend (number 88) of 17 US cents per share on 14 November 2018, payable in ZAR at an exchange rate (US\$1 = ZAR) of 14.43176, being ZAR245.33992 cents per share, for the year ended September 2018 out of income, in respect of Sappi ordinary shares in issue on the record date. Holders of Sappi "A" ordinary unlisted shares in issue on the record date shall be entitled to receive 8.5 US cents per share being 50% of the ordinary dividend declared.

**9. Acquisition of subsidiary**

**9a.** On 28 February 2018, Sappi acquired the speciality paper business of Cham Paper Group Holding AG (CPG) for CHF132 million (US\$139 million). The transaction includes all brands and know-how, the Carmignano and Condino mills in Italy, as well as their digital imaging business and facility situated in Cham, Switzerland. The acquisition was financed from internal resources. The acquisition increases Sappi's relevance in specialities and packaging papers, opening up new customers and markets to Sappi's existing products and generating economies of scale and synergies. It will improve near-term profitability and serve as a platform for organic growth and further acquisitions.

The fair values of assets acquired and liabilities assumed as at 28 February 2018 were as follows:

	EURO'm	US\$m
Property, plant and equipment	81	98
Intangible assets	32	39
Inventories	25	31
Trade receivables	28	36
Prepayments and other assets	2	3
Cash and cash equivalents	6	7
Trade payables	(23)	(29)
Pension liabilities	(4)	(5)
Provisions	(1)	(2)
Other payables and accruals	(9)	(11)
Deferred tax liabilities	(15)	(18)
Non-current interest-bearing borrowings	(5)	(7)
Current interest-bearing borrowings	(5)	(6)
Net asset value acquired	112	136
Goodwill	2	3
Purchase consideration	114	139
Less: Cash and cash equivalents acquired	(6)	(7)
Net cash outflow on acquisition	108	132

CPG earned revenues of €118 million and profit after tax of €4 million since acquisition.

**9b.** In the prior year the group acquired a 100% interest in Rockwell Solutions Limited for a purchase consideration of US\$23 million (GBP18 million) of which US\$12 million (GBP10 million) was a contingent consideration and US\$11 million was paid in cash. The net assets acquired included tangible net assets of US\$7 million, goodwill of US\$3 million and identified intangible assets of US\$13 million. US\$6 million of the contingent consideration was released through profit or loss in 2018.

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

(US\$ million)	2018	2017
<b>10. Property, plant and equipment</b>		
Land and buildings <sup>(1)</sup>		
At cost	1,403	1,385
Accumulated depreciation and impairments	(863)	(860)
	540	525
Plant and equipment <sup>(2)</sup>		
At cost	7,674	7,296
Accumulated depreciation and impairments	(5,204)	(5,140)
	2,470	2,156
Aggregate cost	9,077	8,681
Aggregate accumulated depreciation and impairments	(6,067)	(6,000)
Aggregate book value <sup>(3)</sup>	3,010	2,681

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

(US\$ million)	Land and buildings	Plant and equipment	Total
Net book value at September 2016	517	1,984	2,501
Additions	20	350	370
Acquisition	5	5	10
Disposals	(1)	(5)	(6)
Depreciation	(29)	(226)	(255)
Translation differences	13	48	61
Net book value at September 2017	525	2,156	2,681
Additions	22	557	579
Acquisition <sup>(4)</sup>	38	60	98
Finance costs capitalised	–	2	2
Disposals	(2)	(6)	(8)
Depreciation	(32)	(241)	(273)
Translation differences	(11)	(58)	(69)
Net book value at September 2018	540	2,470	3,010

<sup>(1)</sup> Details of land and buildings are available at the registered offices of the respective companies that own the assets.<sup>(2)</sup> Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.<sup>(3)</sup> Includes an amount of US\$285 million (2017: US\$298 million) relates to assets under construction.<sup>(4)</sup> Acquisition relates to the Cham Paper Group Holding AG (CPG) acquisition on 28 February 2018

(US\$ million)	2018	2017
<b>11. Plantations</b>		
Fair value of plantations at beginning of year	458	441
Gains arising from growth	69	58
Fire, flood, storms and related events	–	(5)
In-field inventory	1	1
Gain arising from fair value price changes	27	21
Harvesting – agriculture produce (fellings)	(66)	(63)
Translation differences	(23)	5
Fair value of plantations at end of year	466	458

Sappi manages the establishment, maintenance and harvesting of its plantations on a compartmentalised basis. These plantations are comprised of 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 Forest Stewardship Council™ standards.

Plantations are stated at fair value less 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 11.04% (2017: 9.77%). The group currently values approximately 28 million tons of timber using selling prices and delivery costs that are benchmarked against industry norms. The average annual growth is measured at approximately 16 tons of timber per hectare while immature timber comprise approximately 107,000 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)	2018	2017
<b>Market price changes</b>		
1% increase in market prices	2	2
1% decrease in market prices	(2)	(2)
<b>Discount rate (for immature timber)</b>		
1% increase in rate	(3)	(3)
1% decrease in rate	3	3
<b>Volume assumption</b>		
1% increase in estimate of volume	4	4
1% decrease in estimate of volume	(4)	(4)
<b>Costs to sell</b>		
1% increase in costs to sell	(2)	(2)
1% decrease in costs to sell	2	2
<b>Growth assumptions</b>		
1% increase in rate of growth	1	1
1% decrease in rate of growth	(1)	(1)

# Notes to the Group Annual Financial Statements

 continued

for the year ended September 2018

(US\$ million)	2018		2017	
	Assets	Liabilities	Assets	Liabilities
<b>12. Deferred tax</b>				
Other liabilities, accruals and prepayments	(51)	(117)	(69)	(90)
Inventory	7	2	10	2
United States of America (USA) tax credits carry forward	12	–	16	–
Tax loss carry forward	113	12	127	29
Property, plant and equipment	(19)	(222)	(64)	(209)
Plantations	–	(14)	–	(32)
Other non-current assets	5	(2)	18	2
Other non-current liabilities	39	6	85	3
	<b>106</b>	<b>(335)</b>	123	(295)

### 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 probable 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)	2018	2017
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	21	29
Tax losses	579	682
	<b>600</b>	711
Attributable to the following tax jurisdictions:		
Austria	457	529
Belgium	57	115
Finland	39	40
The Netherlands	47	27
	<b>600</b>	711
Expiry between one and five years	54	70
Expiry after five years	24	24
Indefinite life	522	617
	<b>600</b>	711

(US\$ million)	2018	2017
<b>12. Deferred tax continued</b>		
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	711	748
No tax relief on losses	2	1
No tax charge on profits	(46)	(60)
Derecognition of deferred tax assets	17	–
Recognition of deferred tax assets	(44)	(16)
Prior year adjustments	(10)	4
Rate adjustments	(20)	–
Movement in foreign exchange rates	(10)	34
Balance at end of year	600	711
<b>Reconciliation of deferred tax</b>		
Deferred tax balances at beginning of year		
Deferred tax assets	123	152
Deferred tax liabilities	(295)	(272)
	(172)	(120)
Deferred tax charge for the year	(24)	(13)
Other liabilities, accruals and prepayments	(12)	(28)
Inventory	(3)	1
USA tax credits carry forward	(4)	(3)
Tax loss carry forward	(27)	–
Property, plant and equipment	35	(58)
Plantations	17	17
Other non-current assets	(22)	(30)
Other non-current liabilities	(8)	88
Amounts recorded directly in other comprehensive income	(28)	(33)
Acquisition of subsidiary	(18)	(3)
Translation differences	13	(3)
Deferred tax balances at end of year	(229)	(172)
Deferred tax assets	106	123
Deferred tax liabilities	(335)	(295)

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 13. Goodwill and intangible assets

(US\$ million)	2018					Total
	Goodwill	Brands	Customer relationship	Customer technology	Other <sup>(1)</sup>	
Net carrying amount at beginning of year	7	13	7	6	6	39
Additions	-	-	-	-	-	-
Acquisitions	3	-	27	5	7	42
Amortisation	-	(3)	(2)	(2)	(2)	(9)
Utilisation	-	-	-	-	(4)	(4)
Impairment	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Translation difference	(2)	(1)	-	-	(2)	(5)
Net carrying amount	8	9	32	9	5	63
Cost (gross carrying amount)	8	31	34	11	10	94
Accumulated amortisation and impairments	-	(22)	(2)	(2)	(5)	(31)
Net carrying amount	8	9	32	9	5	63

Goodwill increased by US\$3 million during the year due to the acquisition of Cham Paper Group Holding AG. Goodwill is attributable to the cash-generating units of specialities of US\$4 million (2017: US\$3 million) and coated woodfree of US\$4 million (2017: US\$4 million) in Sappi Europe. The goodwill has been assessed for impairment by comparing the carrying amount against the recoverable amount.

<sup>(1)</sup> Included in other intangible assets is licence fees, trademarks and carbon certificates.

(US\$ million)	2018	2017
<b>14. Equity accounted investees</b>		
Group's share of carrying amount of equity accounted investees		
Umkomaas Lignin Proprietary Limited	11	14
Other equity accounted investees	22	12
	<b>33</b>	26

Dividends received from joint ventures for the 2018 financial year were US\$6 million (2017: US\$7 million).

#### 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 IFRS are used to account for the joint venture's income to Sappi's year-end.

Goodwill	Brands	2017		Other <sup>(1)</sup>	Total
		Customer relationship	Customer technology		
3	5	–	–	9	17
–	–	–	–	2	2
3	9	7	6	–	25
–	(2)	–	–	(4)	(6)
–	–	–	–	–	–
–	–	–	–	(1)	(1)
–	–	–	–	(1)	(1)
1	1	–	–	1	3
7	13	7	6	6	39
7	32	7	6	7	59
–	(19)	–	–	(1)	(20)
7	13	7	6	6	39



# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 14. Equity accounted investees continued

Summarised financial information of Umkomaas Lignin Proprietary Limited:

(US\$ million)	2018	2017
Current assets	19	25
Non-current assets	18	19
Current liabilities	(7)	(7)
Non-current liabilities	(7)	(9)
The above assets and liabilities include the following:		
Cash and cash equivalents	5	10
Current financial liabilities (excluding trade and other payables, and provisions)	(7)	(7)
Non-current financial liabilities (excluding trade and other payables, and provisions)	(7)	(9)

(US\$ million)	2018	2017
Sales	49	49
Depreciation and amortisation	2	2
Taxation charge	2	4
Profit from continuing operations	7	13
Total comprehensive income	7	13

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

(US\$ million)	2018	2017
Net assets of the joint venture	23	28
Proportion of the group's ownership interest	50%	50%
Carrying amount of the joint venture	11	14

#### Details of other equity accounted investees

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)	2018	2017
Profit (loss) from continuing operations	(1)	3
Other comprehensive income	-	-
Total comprehensive income	(1)	3

(US\$ million)	2018	2017
Carrying amount of these other equity accounted investees	22	12

(US\$ million)	2018	2017
<b>15. Other non-current assets</b>		
Investment funds	7	7
Defined benefit pension plan assets (refer to note 28)	68	35
Advances to tree growers	3	3
Ngodwana energy loan	5	–
Other non-financial assets	2	4
Financial assets	3	2
	<b>88</b>	51

US\$ million	2018	2017
<b>16. Inventories</b>		
Raw materials	173	134
Work in progress	65	56
Finished goods	355	311
Consumable stores and spares	148	135
	<b>741</b>	636

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US\$2 million (2017: US\$6 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\$4,432 million (2017: US\$3,995 million).

(US\$ million)	2018	2017
<b>17. Trade and other receivables</b>		
Trade receivable, gross	649	581
Allowance for credit losses	(15)	(10)
Trade accounts receivable, net	634	571
Prepayments and other receivables	133	97
	<b>767</b>	668

Management rates the quality of trade and other receivables periodically against its internal credit rating parameters. The quality of these trade and other receivables is such that management believes no additional allowance for credit losses, other than as provided, is necessary. No significant risk has been identified within the trade receivables not past due but not impaired. 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 12.4% (2017: 12.3%) of turnover.

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

(US\$ million)	2018	2017
<b>17. Trade and other receivables</b> continued		
<b>17.1 Reconciliation of the allowance for credit losses</b>		
Balance at beginning of year	10	14
Raised during the year	16	8
Released during the year	(7)	(8)
Utilised during the year	(3)	(5)
Translation differences	(1)	1
Balance at end of year	15	10

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

### 17.2 Analysis of amounts past due September 2018

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	10	–	10
Between 7 and 30 days overdue	15	–	15
Between 30 and 60 days overdue	3	–	3
More than 60 days overdue	4	15	19
	32	15	47

### September 2017

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	21	1	22
Between 7 and 30 days overdue	11	–	11
Between 30 and 60 days overdue	3	–	3
More than 60 days overdue	1	9	10
	36	10	46

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

The group holds collateral of US\$ Nil million (2017: US\$1 million) against trade receivables past contractual repayment terms.

### 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 2020. This programme has a limit of US\$383 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\$438 million (2017: US\$432 million) have been pledged as collateral for amounts received as funding under the programme of US\$376 million (2017: US\$364 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.

**17. Trade and other receivables** continued**17.3 Trade receivables securitisation** continued**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, the group 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 2018 amounted to US\$71 million (2017: US\$72 million).

Details of the securitisation programme at the end of the 2018 and 2017 financial years are disclosed in the table below:

Bank	Currency	Value	Facility <sup>(1)</sup>	Discount charges
<b>2018</b>				
Rand Merchant Bank Limited	ZAR	ZAR1,004 million	Unlimited	Linked to 3-month JIBAR
<b>2017</b>				
Rand Merchant Bank Limited	ZAR	ZAR980 million	Unlimited	Linked to 3-month JIBAR

<sup>(1)</sup> 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), Citibank (São Paulo) and Citibank (New York) by utilising the customers' credit facilities with the discounting bank. The total charge related to this discounting amounted to US\$7 million (2017: US\$5 million).

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 17. Trade and other receivables continued

#### 17.4 Concentration of credit risk

A significant portion of the group's sales and trade receivables 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 2018 and September 2017.

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\$767 million (2017: US\$668 million) represents the group's maximum credit risk exposure from trade and other receivables.

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

Threshold	2018			2017		
	Number of customers	US\$ million	Percentage	Number of customers	US\$ million	Percentage
Greater than US\$10 million	6	103	16%	6	109	19%
Between US\$5 million and US\$10 million	9	63	10%	8	50	9%
Less than US\$5 million	2,497	468	74%	2,450	412	72%
	<b>2,512</b>	<b>634</b>	<b>100%</b>	<b>2,464</b>	<b>571</b>	<b>100%</b>

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

#### Authorised share capital:

Ordinary shares of ZAR1 each

725,000,000

725,000,000

'A' ordinary shares of ZAR1 each<sup>(1)</sup>

19,961,476

19,961,476

#### Issued share capital:

Fully paid ordinary shares of ZAR1 each

557,202,573

557,202,573

39

41

Fully paid 'A' ordinary shares of ZAR1 each<sup>(1)</sup>

19,961,476

19,961,476

2

2

Treasury shares<sup>(2)</sup>

(37,909,932)

(42,143,854)

(3)

(3)

Share premium

820

854

858

894

The movement in ordinary share capital and share premium is reconciled as follows:

Opening balance

894

879

Transfers from Sappi Limited Share Incentive Trust

1

4

Translation movements

(37)

11

Closing balance

858

894

<sup>(1)</sup> 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 Memorandum of Incorporation, details of which are available for inspection at the company's registered offices.

<sup>(2)</sup> Includes 17,948,456 (2017: 22,182,378) ordinary shares as well as 19,961,476 (2017: 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	2018	2017
<b>Ordinary treasury shares:</b>		
Opening balance	22,182,378	10,882,622
Issue of treasury shares	–	15,756,350
Treasury shares issued to participants	(4,233,922)	(4,456,594)
– Scheme shares (refer to note 29)	(583,804)	(1,218,849)
– Plan shares (refer to note 29)	(3,650,118)	(3,237,745)
Closing balance	17,948,456	22,182,378
<b>'A' ordinary treasury shares:</b>		
'A' ordinary shares issued to the Broad-based Black Economic Empowerment trusts	19,961,476	19,961,476
	37,909,932	42,143,854

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 2018 and 2017 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 2018

(US\$ million)	2018	2017
<b>19. Other comprehensive income (loss)</b>		
<b>Item that will not be reclassified subsequently to profit or loss</b>		
<b>Actuarial gains (losses) on post-employment benefit funds</b>	-	68
Gross amount	28	101
Tax on above	(9)	(33)
Tax rate change <sup>(1)</sup>	(19)	-
<b>Items that may or are being reclassified subsequently to profit or loss</b>		
<b>Exchange gains (losses) on translation to presentation currency</b>	(61)	(1)
Translation of foreign operations	(58)	(1)
Exchange differences arising on non-distributable reserves	(4)	2
Exchange differences arising on hedging reserves	1	(2)
<b>Fair value adjustment on available-for-sale financial instruments</b>	(1)	-
Gross amount	(1)	-
<b>Hedging reserves</b>	5	11
Gains (losses) during the year	(2)	30
Reclassified to profit or loss	2	(19)
Reclassified to property, plant and equipment	8	
Tax	(3)	1
<b>Other comprehensive income (loss) recorded directly in equity</b>	(57)	78
Profit for the year	323	338
<b>Total comprehensive income for the year</b>	266	416

<sup>(1)</sup> The effect of tax rate changes relate primarily to the reduction of the federal corporate income tax rate in the USA where the rate changed from 35% in 2017 to 21% in 2018.



(US\$ million)	2018				2017			
	Legal reserves <sup>(1)</sup>	Share-based payment reserve	Other	Total	Legal reserves <sup>(1)</sup>	Share-based payment reserve	Other	Total
<b>20. Non-distributable reserves</b>								
Opening balance	60	61	2	123	58	53	3	114
Transfers of vested share options	-	(1)	-	(1)	-	(2)	-	(2)
Share-based payment expense	-	11	-	11	-	9	-	9
Other movements <sup>(2)</sup>	-	4	-	4	-	-	-	-
Translation differences	(1)	(3)	-	(4)	2	1	(1)	2
	<b>59</b>	<b>72</b>	<b>2</b>	<b>133</b>	60	61	2	123

<sup>(1)</sup> 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.

<sup>(2)</sup> Other movements include deferred tax effect on IFRS 2 charges in some regions and other share based payment transactions.

(US\$ million)	2018	2017
<b>21. Interest-bearing borrowings</b>		
Secured borrowings <sup>(1)</sup>	376	364
Unsecured borrowings	1,539	1,508
Total borrowings (refer to note 31)	1,915	1,872
Less: Current portion included in current liabilities	(97)	(133)
Total non-current interest-bearing borrowings	1,818	1,739
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2018		133 <sup>(2)</sup>
2019	97	24
2020	504 <sup>(2)</sup>	481
2021	46	32
2022	538	533
2023 (September 2017: Thereafter)	443	669
Thereafter	287	-
	<b>1,915</b>	1,872

<sup>(1)</sup> Consists of pledge over securitised trade receivables (refer to note 25 for details of encumbered assets).

<sup>(2)</sup> Includes securitisation debt.

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

**21. Interest-bearing borrowings continued**

Set out below are details of the more significant interest-bearing borrowings in the group at September 2018:

	Currency	Interest rate <sup>(1)</sup>	Principal amount outstanding	Balance sheet value	Security/cession	Expiry <sup>(8)</sup>	Financial covenants
<b>Redeemable bonds</b>							
Public bond	EUR	Fixed	€450 million	€445 million <sup>(3)(4)(5)</sup>	Unsecured	April 2022	No financial covenants
Public bond	EUR	Fixed	€350 million	€345 million <sup>(3)(4)(5)</sup>	Unsecured	April 2023	No financial covenants
Public bond	US\$	Fixed	US\$221 million	US\$218 million <sup>(4)(5)(6)</sup>	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed	ZAR745 million	ZAR745 million <sup>(4)</sup>	Unsecured	April 2020	No financial covenants
<b>Secured loans</b>							
UniCredit Bank	EUR	Variable	€208 million	€208 million	Trade receivables (securitisation programme)	August 2020	EBITDA to net interest and net debt to EBITDA <sup>(7)</sup>
UniCredit Bank	US\$	Variable	US\$134 million	US\$134 million	Trade receivables (securitisation programme)	August 2020	EBITDA to net interest and net debt to EBITDA <sup>(7)</sup>
<b>Unsecured bank term loans</b>							
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million		December 2018	No financial covenants
Österreichische Kontrollbank	EUR	Fixed	€61 million	€61 million <sup>(4)(2)</sup>		June 2021	EBITDA to net interest and net debt to EBITDA <sup>(7)</sup>
Österreichische Kontrollbank	EUR	Fixed	€150 million	€149 million <sup>(4)(2)</sup>		March 2024	EBITDA to net interest and net debt to EBITDA <sup>(7)</sup>
GroCapital Financial Services	ZAR	Variable	ZAR400 million	ZAR400 million		May 2020	No financial covenants

<sup>(1)</sup> The nature of the rates for the group bonds are explained in note 31.<sup>(2)</sup> The OeKB provides the funding for this facility but the majority of the credit risk is guaranteed by some of Sappi's relationship banks.<sup>(3)</sup> 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.<sup>(4)</sup> The principal value of the loans/bonds corresponds to the amount of the facility; however, the balance sheet value has been adjusted by the discounts paid upfront.<sup>(5)</sup> 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.<sup>(6)</sup> 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.<sup>(7)</sup> Financial covenants relate to the Sappi Limited group.<sup>(8)</sup> The expiry date reflects the final repayment date of the borrowings. Certain borrowings have separate instalment payments prior to the expiry date which is reflected in the repayment profile of the borrowings.

The majority of the non-Southern African long-term debt is guaranteed by Sappi Limited.

	Local currency million	US\$ million
<b>21. Interest-bearing borrowings continued</b>		
The analysis of the currency per debt is:		
US Dollar	352	<b>352</b>
Euro	1,277	<b>1,482</b>
ZAR	1,145	<b>81</b>
		<b>1,915</b>

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 Sappi Southern Africa, 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 2018 and 2017 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\$383 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 North America, and Sappi Papier Holding GmbH on behalf of Trading sell certain eligible trade receivables to Elektra Purchase N° 29 DAC (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 2018, a funding reserve, that is reset on a monthly basis, amounted to 13.89% (2017: 14.80%).

The cost of the programme includes a variable component based on Euribor/Libor (floor 0%), a fixed margin and a commitment fee computed on the difference between US\$348 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

for the year ended September 2018

### 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	2018	2017
<b>Unutilised committed facilities</b>				
Syndicated loan/revolving credit facility <sup>(1)</sup>	EUR/ZAR	Variable (EURIBOR/JIBAR)	680	623
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	8	26
			<b>688</b>	649
<b>Unutilised uncommitted facilities</b>				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (ZAR bank prime rate)	19	20
Cash management overdraft facility	USD	Variable (LIBOR)	20	20
			<b>39</b>	40
<b>Total unutilised facilities (committed and uncommitted) excluding cash</b>			<b>727</b>	689

<sup>(1)</sup> Two syndicated loans with a consortium of banks with revolving facilities available of €525 million (2017: €465 million) and ZAR1,000 million (2017: ZAR1,000 million). Both facilities were unutilised as at financial year-end. The €525 million facility matures in February 2023, 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\$4.5 million (2017: US\$4.7 million) in respect of the two facilities.

#### Fair value

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

(US\$ million)	2018	2017
<b>22. Other non-current liabilities</b>		
Long-term employee benefits	4	1
Workmen's compensation	14	16
Long service awards	19	20
Land restoration obligation	14	15
Restructuring provisions	3	4
Contingent consideration liability	7	11
Other	7	12
	<b>68</b>	79

(US\$ million)	2018	2017
<b>23. Provisions</b>		
Restructuring provisions	9	13
Long-term	3	4
Short-term	6	9
Other provisions	-	1
	<b>9</b>	<b>14</b>

Details of restructuring provisions are provided below:

(US\$ million)	Severance, retrenchment and related costs
Balance at September 2016	23
Increase in provisions	1
Utilised	(7)
Released during the year	(5)
Translation effect	1
Balance at September 2017	13
Increase in provisions	4
Utilised	(5)
Released during the year	(3)
<b>Balance at September 2018</b>	<b>9</b>

#### Europe

Due to the decline in demand for coated paper, Sappi Europe has embarked on various cost savings 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 2019 with the long-term provisions expected to be fully utilised by September 2025.

# Notes to the Group Annual Financial Statements

 continued

for the year ended September 2018

(US\$ million)	2018	2017					
<b>24. Notes to the group statement of cash flows</b>							
<b>24.1 Cash generated from operations</b>							
Profit for the year	323	338					
Adjustment for:							
Depreciation	273	255					
Fellings	66	63					
Amortisation	9	4					
Taxation charge	98	108					
Net finance costs	68	80					
Impairments of assets and investments	(3)	–					
Restructuring provisions and closure costs raised	1	1					
Fair value adjustment gains and growth on plantations	(96)	(79)					
Post-employment benefits funding	(45)	(43)					
Profit (loss) on disposal of assets	(4)	2					
Share-based payment charges	13	10					
Other non-cash items	6	9					
	<b>709</b>	<b>748</b>					
<b>24.2 Decrease (increase) in working capital</b>							
(Increase) decrease in inventories	(92)	(19)					
Decrease (increase) in receivables	(87)	(4)					
(Decrease) increase in payables	100	(4)					
	<b>(79)</b>	<b>(27)</b>					
<b>24.3 Finance costs paid</b>							
Interest and other finance costs on liabilities carried at amortised cost	(92)	(107)					
Net foreign exchange gains	6	12					
Transfers to financing activities and non-cash items	2	(1)					
	<b>(84)</b>	<b>(96)</b>					
<b>24.4 Taxation paid</b>							
Net amounts payable at beginning of year	(25)	(31)					
Taxation charge to profit or loss	(74)	(95)					
Translation and other	(1)	1					
Less: Net amounts payable at end of year	27	25					
	<b>(73)</b>	<b>(100)</b>					
<b>24.5 Proceeds on disposal of property, plant and equipment</b>							
Book value of non-current assets disposed of	8	6					
Gain (loss) on disposal	3	(2)					
	<b>11</b>	<b>4</b>					
<b>24.6 Reconciliation of liabilities arising from financing activities</b>							
(US\$ million)	2017	Cash flows	Transfers between long-term and short-term	Acquisition	Foreign exchange movements	Other changes	2018
Long-term borrowings	1,739	124	(25)	7	(30)	3	<b>1,818</b>
Short-term borrowings <sup>(1)</sup>	133	(56)	25	6	5	–	<b>113</b>
Total	1,872	68	–	13	(25)	3	<b>1,931</b>

<sup>(1)</sup> Includes overdraft.

(US\$ million)	2018	2017
<b>25. Encumbered assets</b>		
The carrying value of trade receivables 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:		
Trade receivables	438	432
The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of US\$383 million (EUR330 million), of which US\$376 million (EUR324 million) was utilised at financial year-end (refer to notes 17 and 21).		

(US\$ million)	2018	2017
<b>26. Commitments</b>		
<b>Capital commitments</b>		
Contracted but not provided	293	253
Approved but not contracted	381	219
	674	472
Future forecast cash flows of capital commitments in the year ended:		
2018	–	435
2019	432	26
2020	208	3
2021	24	–
2022	2	–
2023 (2017: Thereafter)	–	8
Thereafter	8	–
	674	472
These projects are expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group.		
<b>Lease commitments</b>		
Future undiscounted minimum operating lease obligations payable in the year ended:		
2017		
2018	–	22
2019	26	14
2020	18	11
2021	14	8
2022	8	5
2023 (2017: Thereafter)	6	17
Thereafter	19	–
	91	77

The group enters into a number of leases, mainly relating to property, plant and equipment and vehicles. Leased terms range between three to 10 years and may be renegotiated on expiry.

## 27. Contingent liabilities

Contingent liabilities mainly relate to environmental and 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.



# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 28. Post-employment benefits

#### Summary of results

(US\$ million)	Defined contribution plans		Defined benefit pension plans		Post-employment healthcare subsidy	
	2018	2017	2018	2017	2018	2017
Post-employment plan costs recognised in profit and loss	<b>39</b>	36	<b>11</b>	24	<b>7</b>	6
Employer contributions paid during the financial year			<b>37</b>	36	<b>3</b>	3
<b>Amounts presented in the group balance sheet are as follows:</b>						
Net pension/healthcare subsidy liabilities			<b>232</b>	238	<b>97</b>	106
Net pension assets (refer to note 15) <sup>(1)</sup>			<b>(68)</b>	(35)	<b>-</b>	-
Net balance sheet liabilities			<b>164</b>	203	<b>97</b>	106
<b>Movement in the balance sheet for the pension/healthcare subsidy</b>						
Net pension/healthcare subsidy liabilities at beginning of year			<b>(203)</b>	(303)	<b>(106)</b>	(108)
Acquisitions			<b>(5)</b>	-	<b>-</b>	-
Net pension/healthcare subsidy costs for the year			<b>(11)</b>	(24)	<b>(7)</b>	(6)
Employer contributions			<b>37</b>	36	<b>3</b>	3
Net actuarial gains for the year			<b>16</b>	96	<b>12</b>	5
Translation differences			<b>2</b>	(8)	<b>1</b>	-
Net pension/healthcare liabilities at end of year			<b>(164)</b>	(203)	<b>(97)</b>	(106)

<sup>(1)</sup> Defined benefit plans in South Africa, United Kingdom and certain defined benefit plans in North America.

Actuarial valuations of all plans are performed annually with the exception of our South 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\$39 million (2017: US\$36 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\$41 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, top-ups thereon, and spousal benefits. Eligibility and participation is generally mandatory to local taxpayers, 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 in employee costs reported in note 4 and are excluded from the figures reported in this note.

### Defined benefit pension/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, Austrian and Italian 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 associations to act in the interests of the fund and its stakeholders (i.e. members and the various local sponsoring companies across the group). The pension funds comprise of 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), Italy
Fixed EUR-value	Germany, Austria
Nominal USD-value (periodically revalued)	North America (works plans)
Old age accounts with minimum guarantees	Switzerland

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

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 28. Post-employment benefits continued

#### 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.

- **South Africa:** Asset mix based on 20% equity instruments, 55% debt instruments, 20% multi-asset and other instruments, 5% cash.
- **Europe including United Kingdom (UK)<sup>(1)</sup>:** Asset mix based on 42% equity and real estate instruments, 38% debt instruments, 20% multi-asset and other instruments.
- **North America:** Asset mix based on 23% equity instruments, 60% debt instruments, 17% multi-asset and other instruments.

<sup>(1)</sup> Weighted average of plans in this region.

#### 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 (including medical aid inflation) 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 South 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 South 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.

**28. Post-employment benefits** continued**Other employee benefits**

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

(US\$ million)	2018	2017
Jubilee (long service award) in continental Europe in other non-current liabilities	19	20
Early retirement (temporary pension) benefit in Belgium	4	1
ATZ (early retirement – temporary salary supplement) obligations in Germany and Austria	10	11
Workmen's compensation benefit obligations in North America	14	16

(US\$ million)	Defined benefit pension plans		Post-employment healthcare subsidy	
	2018	2017	2018	2017
<b>Components of defined benefit cost recognised in profit or loss</b>				
Current service cost	18	19	3	2
Past service credit	(9)	–	–	–
Interest on net defined benefit	1	3	4	4
Fund administration costs	2	2	–	–
Non-routine settlement gain	(1)	–	–	–
Net amount recognised in profit or loss	11	24	7	6
Charge attributed to operating cost	10	21	3	2
Charge attributed to finance cost	1	3	4	4
<b>Components of defined benefit cost recognised in OCI</b>				
Actuarial gains (losses) arising from membership experience	(6)	7	8	2
Actuarial gains (losses) arising from changes in demographic assumptions	5	27	(2)	(1)
Actuarial gains (losses) arising from changes in financial assumptions	50	63	7	4
Return on plan assets (excluding amounts included in interest income)	(33)	(1)	(1)	–
Gain (loss) recognised in other comprehensive income	16	96	12	5

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

**28. Post-employment benefits** continued

(US\$ million)	Defined benefit pension plans		Post-employment healthcare subsidy	
	2018	2017	2018	2017
<b>Movement in the present value of the defined benefit obligation in the current year</b>				
Defined benefit obligation at beginning of year	1,334	1,409	114	116
Current service cost	18	19	3	2
Past service credit	(9)	–	–	–
Interest expense	46	45	5	5
Plan participants' contributions	2	2	–	–
Remeasurements	(49)	(97)	(13)	(5)
Membership experience changes	6	(7)	(8)	(2)
Demographic assumption changes	(5)	(27)	2	1
Financial assumption changes	(50)	(63)	(7)	(4)
Acquisition <sup>(1)</sup>	78	13	–	–
Non-routine plan settlements	(1)	–	–	–
Benefits paid	(77)	(77)	(4)	(4)
Translation difference	(15)	20	(1)	–
Defined benefit obligation at end of year	1,327	1,334	104	114
– Present value of wholly unfunded obligation	176	177	77	88
– Present value of wholly or partially funded obligation	1,151	1,157	27	26
<b>Movement in the fair value of the plan assets in the current year</b>				
Fair value of plan assets at beginning of year	1,131	1,106	8	8
Interest income	45	42	1	1
Employer contributions	37	36	3	3
Plan participants' contributions	2	2	–	–
Remeasurements				
Return (loss) on plan assets net of interest income	(33)	(1)	(1)	–
Acquisitions <sup>(1)</sup>	73	13	–	–
Benefits paid	(77)	(77)	(4)	(4)
Fund administration costs	(2)	(2)	–	–
Translation difference	(13)	12	–	–
Fair value of plan assets at end of year	1,163	1,131	7	8
Net balance sheet defined benefit liability	164	203	97	106

<sup>(1)</sup> Acquisitions: Refers to assets and liabilities acquired with Cham Paper Group.

## 28. Post-employment benefits continued

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

(US\$ million)	Funded pension plans		Funded subsidy plans	
	2018	2017	2018	2017
Investments quoted in active markets				
– Equity and high yield investments	232	399	–	–
– Investment grade debt instruments	215	201	–	–
– Property investment funds	16	14	–	–
Unquoted investments				
– Equity and high yield investments <sup>(1)</sup>	680	501	6	7
Cash	20	16	1	1
	<b>1,163</b>	<b>1,131</b>	<b>7</b>	<b>8</b>
Total investment return on plan assets	12	41	–	1

<sup>(1)</sup> 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.

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:

	2018			2017		
	North America	Europe (incl UK)	Southern Africa	North America	Europe (incl UK)	Southern Africa
Discount rate – pension (%)	4,02	1,70	9,69	3,53	1,90	9,28
Discount rate – post-employment healthcare subsidy (%)	3,93	n/a	10,00	3,35	n/a	9,75
Future salary increase rate – pension (%)	–	1,00	7,09	–	1,00	7,28
Cost of living adjustment for pensions in payment (%) <sup>(1)</sup>	–	1,80	4,87	–	2,00	5,03
Healthcare cost trend rate (%) <sup>(2)</sup>	8.00 – >4.50	n/a	7,75	8.20 – >4.50	n/a	8,25
Sample rate average life expectancy from retirement (years) <sup>(3)</sup>						
– For current beneficiaries	25,40	24,40	19,20	25,60	23,90	19,20
– For future retiring beneficiaries	27,10	26,20	20,20	27,30	25,70	20,20

<sup>(1)</sup> Weighted average for plans granting cost of living adjustment whether fixed or variable.

<sup>(2)</sup> North America: Initial rate – > long-term rate trend over nine years (2017: 10 years).

<sup>(3)</sup> 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

for the year ended September 2018

### 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, whilst holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by US\$149 million (increase by US\$182 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by US\$20 million (decrease by US\$16 million).
- If the post-retirement pension increase (cost of living adjustment) rate is 100 basis points higher (lower), the defined benefit obligation would increase by US\$38 million (decrease by US\$32 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 would increase by US\$35 million (decrease by US\$35 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	11 years	9 years
Europe (including UK)	12 years	n/a
Southern Africa	9 years	15 years

#### Regional split of results

(US\$ million)	2018			2017		
	North America	Europe (incl UK)	Southern Africa	North America	Europe (incl UK)	Southern Africa
Defined benefit obligation (pension)	(665)	(547)	(115)	(710)	(496)	(128)
Defined benefit obligation (healthcare)	(77)	n/a	(27)	(88)	n/a	(26)
Fair value of plan assets (pension)	675	355	133	696	290	145
Fair value of plan assets (healthcare)	-	n/a	7	-	n/a	8
Net defined benefit liability	(67)	(192)	(2)	(102)	(206)	(1)
<b>Reconciliation of the regional balance sheets</b>						
Net defined benefit liability at beginning of year	(102)	(206)	(1)	(188)	(230)	7
Defined benefit cost recognised in profit or loss (pension)	(9)	2	(4)	(12)	(8)	(4)
Defined benefit cost recognised in profit or loss (healthcare)	(4)	n/a	(3)	(5)	n/a	(1)
Balance sheet take-on of Cham acquisition plans		(5)			-	
Net gain (loss) recognised in OCI (pension)	18	(2)	-	80	23	(7)
Net gain (loss) recognised in OCI (healthcare)	12	n/a	-	6	n/a	(1)
Company contributions paid during the year	18	17	5	17	17	5
Translation differences	-	2	1	-	(8)	-
Net defined benefit liability at end of year	(67)	(192)	(2)	(102)	(206)	(1)

## 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 (the Scheme) and The Sappi Limited Performance Share Incentive Trust (the Plan) at 42,700,870 shares.

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

Under the rules of the Plan, participants may be awarded conditional contracts to acquire ordinary shares for no cash consideration. The conditional contracts are subject to performance criteria being met or exceeded after the fourth anniversary date. Should the performance criteria not be met, the number of shares allotted are adjusted downwards from 100% to 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 2018

**29. Share-based payments continued**

Movements in share options and performance shares for the financial years ended September 2018 and September 2017 are as follows:

	Performance shares <sup>(1)</sup>	Share options	Weighted average share option exercise price (ZAR)	Total shares
Outstanding at September 2016	14,031,774	2,825,679	30,23	<b>16,857,453</b>
– Offered	3,021,770	–	–	<b>3,021,770</b>
– Paid for/vested	(3,237,745)	(1,218,849)	31,48	<b>(4,456,594)</b>
– Returned, lapsed and forfeited	(331,044)	(181,041)	34,88	<b>(512,085)</b>
Outstanding at September 2017	13,484,755	1,425,789	28,99	<b>14,910,544</b>
– Offered	2,755,650	–	–	<b>2,755,650</b>
– Paid for/vested	(3,650,118)	(583,804)	31,63	<b>(4,233,922)</b>
– Returned, lapsed and forfeited	(280,117)	(126,350)	32,95	<b>(406,467)</b>
Outstanding at September 2018	12,310,170	715,635	26,67	<b>13,025,805</b>
Exercisable at September 2016	–	2,825,679	30,23	
Exercisable at September 2017	–	1,425,789	28,99	
Exercisable at September 2018	–	715,635	26,67	

<sup>(1)</sup> Performance shares are issued in terms of the Plan and are for no cash consideration. The value is determined on the day the shares vest.

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

	2018	2017	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
<b>Share options:</b>						
09 December 2009	–	272,550	Time	Vested	09 December 2017	33,85
03 December 2010	<b>214,200</b>	462,825	Time	Vested	03 December 2018	35,20
02 December 2011	<b>501,435</b>	690,414	Time	Vested	02 December 2019	22,90
<b>Performance shares:</b>						
13 December 2013	–	3,658,024	Performance	13 December 2017	n/a	Rnil
04 December 2014	<b>3,130,645</b>	3,190,630	Performance	04 December 2018	n/a	Rnil
07 December 2015	<b>3,548,110</b>	3,644,447	Performance	07 December 2019	n/a	Rnil
09 December 2016	<b>2,889,604</b>	2,991,654	Performance	09 December 2020	n/a	Rnil
04 December 2017	<b>2,741,811</b>	–	Performance	04 December 2021	n/a	Rnil
	<b>13,025,805</b>	14,910,544				

## 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 Plan:

	Issue 43	Issue 43
Date of grant	04 December 2017	04 December 2017
Type of award	Performance	Performance
Share price at grant date	ZAR95,64	ZAR95,64
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	61%	61%
Number of shares offered	1,377,825	1,377,825
Volatility	31%	n/a
Risk-free discount rate	2.148% (US yield)	n/a
Expected dividend yield	2,2%	n/a
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR68,40	ZAR58,44

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

Refer to note 36 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 South 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.
- 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 South 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 South African business under the Forestry Charter and BBBEE legislation in general.

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 29. Share-based payments continued

#### Broad-based Black Economic Empowerment 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
<b>Strategic partners</b>	
Lereko Investments Proprietary Limited	1,971,693
Malibongwe Women Development Trust	432,842
AMB Capital Limited	643,227
	3,047,762
<b>Employees (through the ESOP Trust)</b>	
Total	1,280,597
	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 (2017: US\$1 million) during the 2018 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	ZAR72,18
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)		2018	2017
<b>30. Derivative financial instruments</b>			
<b>Hedging instrument</b>	<b>Hedged item</b>		
<b>Current assets</b>			
Pulp swaps	Raw materials	4	1
Forward exchange contracts	Various	17	2
		<b>21</b>	<b>3</b>
<b>Current liabilities</b>			
Forward exchange contracts	Various	2	3
FX zero cost collar	Highly probable forecast sales	4	2
		<b>6</b>	<b>5</b>

Refer to note 31 for more detail on financial instruments.

### 31. Financial instruments

The group's financial instruments consist mainly of cash and cash equivalents, trade receivables, certain investments, trade payables, 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 is 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, whilst commodity price risk is managed regionally within the overall commodity group policy.

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 2018

### 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 principal amounts of current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows of the carrying value by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2018 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 30 September 2018. The information is presented in US Dollar, which is the group's reporting currency.

(US\$ equivalent in millions)	Expected maturity date						2018	2018	2017	2017
	2019	2020	2021	2022	2023	2024+	Carrying value	Fair <sup>(4)</sup> value	Carrying value	Fair value
<b>US Dollar</b>										
Fixed rate debt	–	–	–	–	–	218	<b>218</b>	<b>223</b>	218	237
Average interest rate (%)	–	–	–	–	–	7.60	<b>7.60</b>		7.61	
Variable rate debt <sup>(1)</sup>	–	134	–	–	–	–	<b>134</b>	<b>134</b>	127	127
Average interest rate (%)	–	4.46	–	–	–	–	<b>4.46</b>		3.49	
<b>Euro</b>										
Fixed rate debt	28	46	46	538	443	69	<b>1,170</b>	<b>1,249</b>	1,100	1,214
Average interest rate (%)	1.21	1.67	1.68	3.36	3.88	2.24	<b>3.30</b>		3.36	
Variable rate debt <sup>(2)</sup>	69	243	–	–	–	–	<b>312</b>	<b>313</b>	306	306
Average interest rate (%)	0.33	1.38	–	–	–	–	<b>1.15</b>		1.51	
<b>Rand</b>										
Fixed rate debt	–	53	–	–	–	–	<b>53</b>	<b>55</b>	121	127
Average interest rate (%)	–	8.06	–	–	–	–	<b>8.06</b>		7.83	
Variable rate debt <sup>(3)</sup>	–	28	–	–	–	–	<b>28</b>	<b>30</b>		
Average interest rate (%)	–	9.46	–	–	–	–	<b>9.46</b>			
<b>Total</b>										
Fixed rate debt	28	99	46	538	443	287	<b>1,441</b>	<b>1,527</b>	1,439	1,578
Average interest rate (%)	1.21	5.07	1.68	3.36	3.88	6.32	<b>4.13</b>		4.38	
Variable rate debt	69	405	–	–	–	–	<b>474</b>	<b>477</b>	433	433
Average interest rate (%)	0.33	2.96	–	–	–	–	<b>2.57</b>		2.09	
<b>Fixed and variable</b>	<b>97</b>	<b>504</b>	<b>46</b>	<b>538</b>	<b>443</b>	<b>287</b>	<b>1,915</b>	<b>2,004</b>	<b>1,872</b>	<b>2,011</b>
Current portion							<b>97</b>	<b>98</b>	133	135
Long-term portion							<b>1,818</b>	<b>1,906</b>	1,739	1,876
Total interest-bearing borrowings (refer to note 21)							<b>1,915</b>	<b>2,004</b>	1,872	2,011

<sup>(1)</sup> The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).

<sup>(2)</sup> The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).

<sup>(3)</sup> The ZAR floating interest rates are based on the Johannesburg Inter-bank Agreed Rate (JIBAR).

<sup>(4)</sup> The method used to measure fair value is the net present value method using a yield curve plus an appropriate credit spread for Sappi. The fair value hierarchy that these instruments would fall into are level 2 instruments.

**31. Financial instruments continued****(a) Market risk continued****Interest rate 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 abovementioned fair values include Sappi's own credit risk. Please refer to the sensitivity analysis on interest rate risk in this note for additional information regarding Sappi's rating.

The range of interest rates in respect of all non-current borrowings, comprising both fixed and floating rate obligations, is between 0.88% and 9.46% (depending on currency). At September 2018, 75.20% of Sappi's borrowings were at fixed rates of interest and 24.80% 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**

Depending on the market conditions, Sappi uses interest rate derivatives as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. Sappi does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period or in other comprehensive income (OCI), depending on the hedge designation as described in a documented hedging strategy. As per September 2018 there are no remaining interest rate hedges.

**Sensitivity analyses**

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

**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 current credit rating
Securitisation – Elektra N°29 DAC (only if double notch downgrade below BB-)	376	1.39
Commitment fee on unused revolving credit facility	609	0.53
Interest on utilised bank syndicated loans	245	0.62
	1,230	2.54
Impact calculated on total portfolio amounts to	0.21%	

**Sensitivity analysis: interest rate risk of floating rate debt**

The table below shows the sensitivity of the floating rate debt to a move by 50 bps to the interest rates.

(US\$ million)	Total	Fixed rate debt	Floating rate debt	Impact on profit or loss of 50 bps interest
Total debt	1,915	1,440	475	2
<b>Ratio fixed/floating to total debt</b>		75.20%	24.80%	

The floating rate debt represents 24.80% 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\$2.375 million.

# Notes to the Group

## Annual Financial Statements continued

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### 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 which consist of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders
- Transaction exposures arise from transactions entered into which result in a flow of cash in foreign currency such as payments under foreign currency long- and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts, 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 2018 and 2017 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
<b>September 2018</b>							
<b>Classes of financial instruments</b>							
<b>Non-current assets</b>							
Other non-current assets	88	10	–	10	–	–	–
<b>Current assets</b>							
Trade receivables	634	634	272	285	8	32	37
Prepayments and other receivables	133	36	8	13	14	–	1
Derivative financial instruments	21	21	8	–	13	–	–
Cash and cash equivalents	363	363	218	41	74	1	29
		<b>1,064</b>	506	349	109	33	67
<b>Non-current liabilities</b>							
Interest-bearing borrowings	1,818	1,818	352	1,385	81	–	–
Other non-current liabilities	68	8	1	–	–	7	–
<b>Current liabilities</b>							
Interest-bearing borrowings	97	97	–	97	–	–	–
Overdrafts	16	16	–	16	–	–	–
Derivative financial instruments	6	6	–	–	6	–	–
Trade payables	637	637	187	268	179	2	1
Other payables and accruals	372	163	31	77	54	–	1
		<b>2,745</b>	571	1,843	320	9	2
Foreign exchange gap		<b>(1,681)</b>	(65)	(1,494)	(211)	24	65

## 31. Financial instruments continued

## (a) Market risk continued

## Currency risk continued

Currency risk analysis continued

(US\$ million)	Total	Total in scope	USD	EUR	ZAR	GBP	Other
<b>September 2017</b>							
<b>Classes of financial instruments</b>							
<b>Non-current assets</b>							
Other non-current assets	51	9	–	9	–	–	–
<b>Current assets</b>							
Trade receivables	571	571	262	240	8	29	32
Prepayments and other receivables	97	32	11	12	8	–	1
Derivative financial instruments	3	3	(100)	18	81	–	4
Cash and cash equivalents	550	550	268	47	215	–	20
		1,165	441	326	312	29	57
<b>Non-current liabilities</b>							
Interest-bearing borrowings	1,739	1,739	345	1,309	85	–	–
Other non-current liabilities	79	1	1	–	–	–	–
<b>Current liabilities</b>							
Interest-bearing borrowings	133	133	–	96	37	–	–
Derivative financial instruments	5	5	1	–	2	2	–
Trade payables	502	502	168	217	115	1	1
Other payables and accruals	356	157	33	81	42	–	1
		2,537	548	1,703	281	3	2
Foreign exchange gap		(1,372)	(107)	(1,377)	31	26	55

## 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)		2018		2017	
		Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value (unfavourable) favourable
Foreign currency					
Bought:					
	US Dollar	4	–	3	–
	Euro	83	–	93	(1)
	Rand	93	4	118	–
Sold:					
	US Dollar	(130)	4	(97)	(2)
	Euro	(36)	–	(11)	–
	Rand	(160)	7	(39)	1
		(146)	15	67	(2)



# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 31. Financial instruments continued

#### (a) Market risk continued

##### Currency 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 2018 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 31 August 2020.

As at September 2018, there was an open exposure of US\$12 million that has since been hedged.

##### Sensitivity analysis – (loss) gain

Base currency	Exposure (US\$ million)	+10%	-10%
AUD	4,7	0,4	(0,5)
CHF	(1,6)	(0,1)	0,2
EUR	(6,8)	(0,6)	0,8
GBP	3,8	0,3	(0,4)
USD	(3,2)	(0,3)	0,4
ZAR	(9,0)	(0,8)	1,0
Other currencies	(0,1)	(0,0)	0,0
Total	(12,2)	(1,1)	1,4

Based on the exposure at the end of September 2018, 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\$1.1 million or a gain of US\$1.4 million respectively.

During 2018, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US\$301 million which were used as an overlay hedge of export sales from Southern Africa. The total impact on profit or loss amounted to a net gain of US\$1.8 million (net of US\$3.5 million positive forward points and US\$1.7 negative spot-to-spot movement). We also contracted zero cost foreign exchange collars for a total nominal value of US\$220 million. This collar complements the other strip cover hedges (using non-deliverable FX forwards) by covering a different portion of the economic FX exposure.

As at September 2018 the impact on profit or loss of the marking to market relating to the time value of the collar amounted to a loss of US\$4.1 million.

### 31. Financial instruments continued

#### (a) Market risk continued

##### Cash flow hedges

###### Export sales

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

Sappi therefore enters into cash flow hedges with the objective to eliminate this economic foreign exchange rate exposure by entering into non-deliverable forward exchange contracts and zero cost foreign exchange collars which were designated as hedging instruments. Only the intrinsic value of the zero cost foreign exchange collar is designated as the hedging instrument.

The hedging instruments are recorded at fair value on the balance sheet with changes in fair value recorded through OCI. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

During the 2018 financial year, the hedges were highly effective. A realised loss of US\$5.2 million relating to the realised spot-to-spot movements of non-deliverable forward exchange contracts was transferred from OCI to revenue in profit or loss and at the financial year-end, a positive amount of US\$2.4 million was deferred in equity. A realised gain of US\$3.5 million relating to the settled zero cost foreign exchange collars was transferred from OCI to revenue in profit or loss and at the financial year-end, a negative intrinsic value in the amount of US\$0.65 million was deferred to equity.

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

Sappi Southern Africa (SSA) has approved several capex projects requiring the acquisition of property, plant and equipment for the maintenance and expansion of its South African mills Saiccor and Ngodwana. An important part of the equipment was ordered in foreign currency, predominantly in EUR and in USD which created a foreign exchange exposure as SSA is a ZAR functional entity. To cover these foreign exchange exposures either as highly probable forecast transactions or as firm commitments, SSA entered into forward foreign exchange contracts (FECs) which were designated as hedging instruments in a cash flow hedge. The full fair value of the FECs, including forward points, have been designated as hedging instruments.

The hedging instruments are recorded at fair value on the balance sheet with changes in fair value recorded through OCI. In assessing the effectiveness of the hedge of the foreign currency risk, Sappi compares the critical terms (expected maturity dates, underlying foreign currencies and the notional amounts) of the hedging instrument to the hedged item. An assessment is then performed on a cumulative basis at each reporting period. Throughout the hedge designation, the hedge relationship has been assessed to be highly effective in offsetting changes in the cash flows attributable to the hedged risk.

During the 2018 financial year, most of the hedges were highly effective, some ineffective hedges were terminated prospectively and the related positive foreign exchange result of US\$2.9 million was transferred from other comprehensive income to profit or loss into the foreign exchange result.

A realised foreign exchange loss of US\$1.1 million of the designated FECs was transferred from OCI as a basis adjustment to fixed assets, a positive amount of US\$8.3 million was deferred in equity.

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 31. Financial instruments continued

#### (a) Market risk 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 EUR36.9 million (US\$41.5 million), will remain in 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 (North America) including all its subsidiaries and incorporating all net assets.

During 2017 several de- and re-designations took place in line with the evolving net USD exposure linked to the net investment. As at September 2018 the hedged notional amount at amortised cost amounted to US\$103 million.

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 2018 financial year, the hedge was 100% effective.

(US\$ million)	2018		2017	
	Hedged notional	Foreign exchange result deferred in OCI	Hedged notional	Foreign exchange result deferred in OCI
Bond 2032	103	(1)	102	0,2
Previous designations	–	(34)	–	(34)
	103	(35)	102	(34)
Net investment value of North America	815		798	

### 31. Financial instruments continued

#### (a) Market risk continued

##### 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 2018, pulp swaps, pulp futures and pulp zero-cost options in Europe were contracted for a total volume of 100,500 tons of pulp.

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, future and pulp zero rated options whereby the variable price was swapped for an annual fixed price.

A realised gain of US\$12.2 million resulting from the settled pulp contracts was booked into the income statement.

The group's pulp contracts (swaps and zero-cost options) outstanding at September 2018 are detailed below:

(US\$ million)	Base currency	2018		2017	
		Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value (unfavourable) favourable
Northern Bleached Softwood Kraft Pulp (NBSK)					
Bought:	USD	16	2	–	–
Bleached Hardwood Kraft Pulp (BHKP)					
Bought:	USD	13	2	4	1
		29	4	4	1

#### (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.

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 31. Financial instruments continued

#### (b) Liquidity risk

##### Liquidity risk management

The following tables for the 2018 and 2017 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 instruments	Undiscounted cash flows					Total
			0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years	
<b>September 2018</b>								
<b>Non-current assets</b>								
Other non-current assets	10	10	–	–	9	–	1	10
<b>Current assets</b>								
Trade receivables	634	634	634	–	–	–	–	634
Prepayments and other receivables	36	36	36	–	–	–	–	36
Derivative financial instruments	21	21	21	–	–	–	–	21
Cash and cash equivalents	363	363	363	–	–	–	–	363
			1,054	–	9	–	1	1,064
<b>Non-current liabilities</b>								
Interest-bearing borrowings	1,818	1,906	93	9	478	1,181	441	2,202
Other non-current liabilities	8	8	–	–	8	–	–	8
<b>Current liabilities</b>								
Interest-bearing borrowings	97	98	98	–	–	–	–	98
Overdrafts	16	16	–	16	–	–	–	16
Derivative financial instruments	6	6	6	–	–	–	–	6
Trade payables	637	637	637	–	–	–	–	637
Other payables and accruals	163	163	163	–	–	–	–	163
			997	25	486	1,181	441	3,130
Liquidity surplus (gap)			57	(25)	(477)	(1,181)	(440)	(2,066)

The liquidity gaps will be funded by cash generated from operations and existing unutilised facilities as well as refinancing of borrowings when due.

**31. Financial instruments** continued  
**(b) Liquidity risk** continued  
**Liquidity risk management** continued

(US\$ million)	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows					Total
			0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years	
<b>September 2017</b>								
<b>Non-current assets</b>								
Other non-current assets	9	9	–	1	3	5	1	10
<b>Current assets</b>								
Trade receivables	571	571	571	–	–	–	–	571
Prepayments and other receivables	32	32	31	1	–	–	–	32
Derivative financial instruments	3	3	1	2	–	–	–	3
Cash and cash equivalents	550	550	550	–	–	–	–	550
			1,153	4	3	5	1	1,166
<b>Non-current liabilities</b>								
Interest-bearing borrowings	1,739	1,871	27	28	62	1,248	922	2,287
Other non-current liabilities	1	1	–	–	1	–	–	1
<b>Current liabilities</b>								
Interest-bearing borrowings	133	133	72	61	–	–	–	133
Derivative financial instruments	5	5	5	–	–	–	–	5
Trade payables	502	502	502	–	–	–	–	502
Other payables and accruals	157	157	157	–	–	–	–	157
			763	89	63	1,248	922	3,085
Liquidity surplus (gap)			390	(85)	(60)	(1,243)	(921)	(1,919)

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 31. Financial instruments continued

#### (b) Liquidity risk continued

##### Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for the 2018 and 2017 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	Maturity analysis Undiscounted cash flows				
		0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years
<b>September 2018</b>						
<b>Assets</b>						
Fair value of derivatives by risk factor						
<b>Foreign exchange risk</b>						
IRCS and FX forward contracts	17	17	–	–	–	–
– receiving leg	220	220	–	–	–	–
– paying leg	(203)	(203)	–	–	–	–
<b>Commodity price risk</b>	4	4	–	–	–	–
<b>Liabilities</b>						
Fair value of derivatives by risk factor						
<b>Foreign exchange risk</b>						
IRCS and FX forward contracts	6	6	–	–	–	–
– receiving leg	(51)	(51)	–	–	–	–
– paying leg	57	57	–	–	–	–

## 31. Financial instruments continued

## (b) Liquidity risk continued

## Derivative financial instruments with maturity profile continued

(US\$ million)	Total	Maturity analysis Undiscounted cash flows				
		0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years
<b>September 2017</b>						
<b>Assets</b>						
Fair value of derivatives by risk factor						
<b>Interest rate risk</b>						
Interest rate swaps						
– receiving leg	5	3	2	–	–	–
– paying leg	(5)	(3)	(2)	–	–	–
<b>Foreign exchange risk</b>						
IRCS and FX forward contracts						
– receiving leg	150	161	(11)	–	–	–
– paying leg	(148)	(160)	12	–	–	–
<b>Commodity price risk</b>						
	1	1	–	–	–	–
<b>Liabilities</b>						
Fair value of derivatives by risk factor						
<b>Foreign exchange risk</b>						
IRCS and FX forward contracts						
– receiving leg	134	134	–	–	–	–
– paying leg	(129)	(129)	–	–	–	–

**Fair values**

The group's financial instruments are initially recognised at fair value. The carrying amounts of other financial instruments which include cash and cash equivalents, trade receivables, certain investments, bank overdraft, trade payables and the current portion of interest-bearing borrowings approximate their fair values due to their short-term nature.

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 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.



# Notes to the Group Annual Financial Statements

 continued

for the year ended September 2018

**31. Financial instruments** continued**(b) Liquidity risk** continued**Fair values** continued

(US\$ million)	<b>Total balance</b>	As determined by IAS 39		Categories in accordance with IAS 39				
		Total out of scope	Total in scope	Fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Fair value
<b>September 2018</b>								
<b>Non-current assets</b>								
Other non-current assets	<b>88</b>	78	10	–	3	–	7	10
	<b>88</b>	78	10	–	3	–	7	10
<b>Current assets</b>								
Trade receivables	<b>634</b>	–	634	–	634	–	–	634
Prepayments and other receivables	<b>133</b>	97	36	–	36	–	–	36
Derivative financial instruments	<b>21</b>	–	21	21	–	–	–	21
Cash and cash equivalents	<b>363</b>	–	363	–	363	–	–	363
	<b>1,151</b>	97	1,054	21	1,033	–	–	1,054

(US\$ million)	<b>Total balance</b>	As determined by IAS 39		Categories in accordance with IAS 39		
		Total out of scope	Total in scope	Fair value through profit or loss	Other financial liabilities	Fair value
<b>September 2018</b>						
<b>Non-current liabilities</b>						
Interest-bearing borrowings	<b>1,818</b>	–	1,818	–	1,818	1,906
Other non-current liabilities	<b>68</b>	60	8	7	1	8
	<b>1,886</b>	60	1,826	7	1,819	1,914
<b>Current liabilities</b>						
Interest-bearing borrowings	<b>97</b>	–	97	–	97	98
Overdrafts	<b>16</b>	–	16	–	16	16
Derivative financial instruments	<b>6</b>	–	6	6	–	6
Trade payables	<b>637</b>	–	637	–	637	637
Other payables and accruals	<b>372</b>	209	163	–	163	163
	<b>1,128</b>	209	919	6	913	920

## 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 receivables	Held to maturity	Available for sale	Fair value
<b>September 2017</b>								
<b>Non-current assets</b>								
Other non-current assets	51	42	9	–	2	–	7	9
	51	42	9	–	2	–	7	9
<b>Current assets</b>								
Trade receivables	571	–	571	–	571	–	–	571
Prepayments and other receivables	97	65	32	–	32	–	–	32
Derivative financial instruments	3	–	3	3	–	–	–	3
Cash and cash equivalents	550	–	550	–	550	–	–	550
	1,221	65	1,156	3	1,153	–	–	1,156

(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	
<b>September 2017</b>							
<b>Non-current liabilities</b>							
Interest-bearing borrowings	1,739	–	1,739	–	1,739	1,871	
Other non-current liabilities	79	78	1	–	1	1	
	1,818	78	1,740	–	1,740	1,872	
<b>Current liabilities</b>							
Interest-bearing borrowings	133	–	133	–	133	133	
Derivative financial instruments	5	–	5	5	–	5	
Trade payables	502	–	502	–	502	502	
Other payables and accruals	356	199	157	–	157	157	
	996	199	797	5	792	797	

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 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.

(US\$ million)	Total fair value	2018 Fair value hierarchy			Total fair value	2017 Fair value hierarchy		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>Non-current assets</b>								
Other non-current assets	10	7	3	–	7	7	–	–
	10	7	3	–	7	7	–	–
<b>Current assets</b>								
Derivative financial instruments	21	–	21	–	3	–	3	–
	21	–	21	–	3	–	3	–
<b>Non-current liabilities</b>								
Contingent consideration liability	7	–	–	7	11	–	–	11
	7	–	–	7	11	–	–	11
<b>Current liabilities</b>								
Contingent consideration liability	–	–	–	–	2	–	–	2
Derivative financial instruments	6	–	6	–	5	–	5	–
	6	–	6	–	7	–	5	2

#### (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, 71% 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.

### 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:

(US\$ million)	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	2018	2017	2018	2017	2018	2017	2018	2017
– proNARO GmbH	–	–	118.0	117.3	–	–	–	–
– Umkomaas Lignin (Pty) Ltd	5.2	5.2	–	–	0.6	0.7	–	–
– Papierholz Austria GmbH	–	–	91.5	82.9	–	–	–	5.0
– The Boldt Company (Boldt)	–	–	88.0	8.0	–	–	25.7	–
	5.2	5.2	297.5	208.2	0.6	0.7	25.7	5.0

The related-party arrangement with Boldt ended August 2018. There are ongoing disputes over amounts billed and arbitration has been requested by Boldt.

The amounts outstanding at balance sheet date are unsecured and will be settled in cash or, in the case of Boldt, may be adjusted by the arbitration panel or a negotiated settlement. 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 total key management personnel emoluments amounted to US\$10 million (2017: US\$8.5 million). The details of key management personnel, including emoluments, interests in contracts and participation in The Sappi Limited share schemes are disclosed in notes 34 to 36.

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 2018, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	81 263 256	15,1

### 33. Events after balance sheet date

The directors declared a gross dividend of 17 US cents per share, payable in ZAR at an exchange rate of US\$1 = ZAR14.43176 being ZAR245.33992 cents per share on 14 November 2018. See note 8 for further details.

Other than the non-adjusting event as described above, there have been no subsequent events that occurred between financial year-end and the date of authorisation for issue of these financial statements that require disclosure or adjustment to the Group Annual Financial Statements.

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 34. 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 Human Resources and Compensation Committee, recommended by the board and approved at the Annual General Meeting by the shareholders.

(US\$)	2018			Total
	Board fees	Committee fees	Travel allowance	
D Konar <sup>(1)</sup>	13,686	14,344	–	28,030
KR Osar	74,140	34,100	18,000	126,240
JD McKenzie	50,394	20,511	7,200	78,105
ANR Rudd	419,684	–	10,800	430,484
NP Mageza	34,729	37,569	7,200	79,498
R Thummer <sup>(2)</sup>	24,700	7,478	7,000	39,178
MV Moosa	34,729	24,834	7,200	66,763
MA Fallon	66,335	67,223	10,800	144,358
RJ DeKoch <sup>(3)</sup>	65,806	21,357	14,400	101,563
RJAM Renders	78,937	67,022	10,800	156,759
B Mehlomakulu <sup>(4)</sup>	31,565	10,255	7,200	49,020
	<b>894,705</b>	<b>304,693</b>	<b>100,600</b>	<b>1,299,998</b>

<sup>(1)</sup> Retired from the board in January 2018.

<sup>(2)</sup> Retired from the board in December 2017.

<sup>(3)</sup> Retired from the board in August 2018.

<sup>(4)</sup> Appointed to the board in March 2017.

**34. Directors' and prescribed officers' remuneration** continued**Non-executive directors** continued

(US\$)	2017			Total
	Board fees	Committee fees	Travel allowance	
D Konar	35,200	43,811	7,000	86,011
B Radebe <sup>(5)</sup>	15,156	3,969	–	19,125
KR Osar	79,360	41,800	10,500	131,660
JD McKenzie	49,751	19,053	7,000	75,804
ANR Rudd	395,427	–	14,000	409,427
NP Mageza	35,200	24,750	7,000	66,950
R Thummer	78,745	27,781	14,000	120,526
MV Moosa	35,200	18,305	7,000	60,505
MA Fallon	67,177	62,446	14,000	143,623
GPF Beurskens <sup>(5)</sup>	27,384	22,570	–	49,954
RJ DeKoch	79,360	23,920	7,000	110,280
RJAM Renders	78,745	53,070	14,000	145,815
B Mehlomakulu	20,043	5,557	7,000	32,600
	996,748	347,032	108,500	1,452,280

<sup>(5)</sup> Retired from the board in February 2017.

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 34. 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.

(US\$)	2018					
	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share based payment benefit	Total
SR Binnie <sup>(1)</sup>	558,318	525,830	14,907	85,129	701,472	1,885,656
GT Pearce <sup>(2)</sup>	322,878	303,971	8,473	63,461	292,857	991,640
	<b>881,196</b>	<b>829,801</b>	<b>23,380</b>	<b>148,590</b>	<b>994,329</b>	<b>2,877,296</b>

(US\$)	2017					
	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share based payment benefit	Total
SR Binnie	464,563	440,139	12,944	76,580	561,595	1,555,821
GT Pearce	302,683	283,986	8,295	61,090	212,657	868,711
	<b>767,246</b>	<b>724,125</b>	<b>21,239</b>	<b>137,670</b>	<b>774,252</b>	<b>2,424,532</b>

<sup>(1)</sup> 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). Overall salary expressed in reporting currency was 20% higher in 2018 than in 2017.

<sup>(2)</sup> GT Pearce 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). Overall salary expressed in reporting currency was 7% higher in 2018 than in 2017.

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

#### Prescribed officers

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.

(US\$)	2018					
	Salary	Bonuses and performance-related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share based payment benefit	Total
B Wiersum	779,507	511,203	2,976	261,304	353,023	1,908,013
M Gardner	548,690	442,734	–	56,125	353,023	1,400,572
A Thiel	336,541	230,261	9,435	61,199	384,436	1,021,872
A Rossi	84,049	43,391	2,460	–	–	129,900
M van Hoven	173,061	123,824	4,994	47,087	279,116	628,082
G Bowles	250,935	183,597	7,534	104,581	297,682	844,329
F Marupen	188,705	134,788	5,250	50,189	196,818	575,750
M Mansoor	205,370	152,653	115,083	73,390	66,188	612,684
Total – 2018	<b>2,566,858</b>	<b>1,822,451</b>	<b>147,732</b>	<b>653,875</b>	<b>1,930,286</b>	<b>7,121,202</b>
B Wiersum	713,361	522,618	2,764	233,429	275,892	1,748,064
M Gardner	534,626	276,294	–	54,754	275,892	1,141,566
A Thiel	315,836	224,665	9,237	59,159	360,039	968,936
A Rossi	325,362	162,220	9,682	–	–	497,264
M van Hoven	161,408	115,370	4,888	44,891	220,367	546,924
G Bowles	204,802	160,033	6,254	87,767	235,990	694,846
F Marupen	176,898	125,925	5,140	48,381	125,608	481,952
M Mansoor	–	–	–	–	–	–
Total – 2017	<b>2,432,293</b>	<b>1,587,125</b>	<b>37,965</b>	<b>528,381</b>	<b>1,493,788</b>	<b>6,079,552</b>

**34. Directors' and prescribed officers' remuneration** continued**Executive directors** continued**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.



# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 35. 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.

Director	2018		2017	
	Direct interests Beneficial	Indirect interests Beneficial	Direct interests Beneficial	Indirect interests Beneficial
<b>Non-executive directors</b>				
MV Moosa	–	576,542	–	576,542
MA Fallon	5,000	–	5,000	–
<b>Executive directors</b>				
SR Binnie	217,522	–	97,522	–
GT Pearce	67,067	–	49,412	–
<b>Prescribed officers</b>				
B Wiersum	1,006,800	–	842,295	–
M Gardner	352,929	–	275,429	–
A Thiel	124,164	–	84,164	–
A Thiel	361,664	–	267,902	–
A Rossi	–	–	125,831	–
M van Hoven	107,618	–	56,289	–
G Bowles	26,040	–	26,040	–
F Marupan	9,385	–	6,640	–
M Mansoor	25,000	–	–	–
	<b>1,296,389</b>	<b>576,542</b>	994,229	576,542

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 739,721 Sappi shares.

### 36. 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

	SR Binnie		GT Pearce		Executive directors	
	Allocated price	Number of shares	Allocated price	Number of shares	Total 2018 Number of shares	Total 2017 Number of shares
<b>Outstanding at beginning of year</b>						
Number of shares held		837,000		283,000	<b>1,120,000</b>	1,018,000
'A' ordinary shares		–		–	–	–
Performance shares 38		–		–	–	135,000
Performance shares 39		310,000		33,000	<b>343,000</b>	343,000
Performance shares 40		175,000		85,000	<b>260,000</b>	260,000
Performance shares 41		190,000		90,000	<b>280,000</b>	280,000
Performance shares 42		162,000		75,000	<b>237,000</b>	–
<b>Offered and accepted during the year</b>						
Performance shares 42						237,000
Performance shares 43		137,000		63,000	<b>200,000</b>	–
<b>Vested during the year</b>						
Number of shares		(310,000)		(33,000)	<b>(343,000)</b>	(135,000)
<b>Appointment during the year</b>						
Number of shares		–		–	–	–
<b>Outstanding at end of year</b>						
Number of shares		664,000		313,000	<b>977,000</b>	1,120,000
'A' ordinary shares		–		–	–	–
Performance shares 39		–		–	–	343,000
Performance shares 40		175,000		85,000	<b>260,000</b>	260,000
Performance shares 41		190,000		90,000	<b>280,000</b>	280,000
Performance shares 42		162,000		75,000	<b>237,000</b>	237,000
Performance shares 43		137,000		63,000	<b>200,000</b>	–

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 36. 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 continued

	B Wiersum		M Gardner		A Thiel	
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares
<b>Outstanding at beginning of year</b>						
Number of shares held		405,000		405,000		605,000
'A' ordinary shares		–		–		–
Performance shares 38		–		–		–
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 42		90,000		90,000		90,000
<b>Offered and accepted during the year</b>						
Performance shares 42						
Performance shares 43		76,000		76,000		76,000
<b>Vested during the year</b>						
Number of shares		(110,000)		(110,000)		(310,000)
<b>Appointment during the year</b>						
Number of shares		–		–		–
<b>Outstanding at end of year</b>						
Number of shares		371,000		371,000		371,000
'A' ordinary shares		–		–		–
Performance shares 39		–		–		–
Performance shares 40		100,000		100,000		100,000
Performance shares 41		105,000		105,000		105,000
Performance shares 42		90,000		90,000		90,000
Performance shares 43		76,000		76,000		76,000

**36. 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** continued

	A Rossi		M v Hoven		G Bowles	
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares
<b>Outstanding at beginning of year</b>						
Number of shares held		–		325,000		350,000
'A' ordinary shares		–		–		–
Performance shares 38		–		–		–
Performance shares 39		–		90,000		100,000
Performance shares 40		–		80,000		85,000
Performance shares 41		–		85,000		90,000
Performance shares 42		–		70,000		75,000
<b>Offered and accepted during the year</b>						
Performance shares 42						
Performance shares 43		–		59,000		63,000
<b>Vested during the year</b>						
Number of shares		–		(90,000)		(100,000)
<b>Appointment during the year</b>						
Number of shares		–		–		–
<b>Outstanding at end of year</b>						
Number of shares		–		294,000		313,000
'A' ordinary shares		–		–		–
Performance shares 39		–		–		–
Performance shares 40		–		80,000		85,000
Performance shares 41		–		85,000		90,000
Performance shares 42		–		70,000		75,000
Performance shares 43		–		59,000		63,000

# Notes to the Group

## Annual Financial Statements continued

for the year ended September 2018

### 36. 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 continued

	F Marupen		M Mansoor		Prescribed officers	
	Allocated price	Number of shares	Allocated price	Number of shares	Total 2018 Number of shares	Total 2017 Number of shares
<b>Outstanding at beginning of year</b>						
Number of shares held		148,213		–	<b>2,238,213</b>	2,261,713
'A' ordinary shares		18,213		–	<b>18,213</b>	18,213
Performance shares 38		–		–	–	498,500
Performance shares 39		–		–	<b>720,000</b>	720,000
Performance shares 40		–		–	<b>465,000</b>	465,000
Performance shares 41		70,000		–	<b>560,000</b>	560,000
Performance shares 42		60,000		–	<b>475,000</b>	–
<b>Offered and accepted during the year</b>						
Performance shares 42						475,000
Performance shares 43		51,000		–	<b>401,000</b>	
<b>Vested during the year</b>						
Number of shares		–		–	<b>(720,000)</b>	(498,500)
<b>Appointment during the year</b>						
Number of shares		–		79,100	<b>79,100</b>	–
<b>Outstanding at end of year</b>						
Number of shares		199,213		79,100	<b>1,998,313</b>	2,238,213
'A' ordinary shares		18,213		–	<b>18,213</b>	18,213
Performance shares 39		–		–	–	720,000
Performance shares 40		–		11,000	<b>476,000</b>	465,000
Performance shares 41		70,000		15,000	<b>575,000</b>	560,000
Performance shares 42		60,000		15,100	<b>490,100</b>	475,000
Performance shares 43		51,000		38,000	<b>439,000</b>	–

Performance shares are issued for Rnil and vest after four years subject to performance criteria being achieved. Plan share issue 39 vested at R96.99.

The 'A' ordinary shares are issued for Nil and vesting conditions are described in note 28. The total IFRS 2 charge in respect of key management personnel amounted to US\$2.9 million (2017: US\$2.3 million).

#### Vesting dates

Performance shares 40	04 December 2018
Performance shares 41	07 December 2019
Performance shares 42	09 December 2020
Performance shares 43	04 December 2021
'A' ordinary shares	28 August 2019

### 37. Investments

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

Name of subsidiary	Country of incorporation	Principal activity	Effective holding (%)	
			2018	2017
Elektra Purchase No 29 Limited	Ireland	Securitisation of receivables	–	–
Rockwell Solutions Limited	Scotland	Manufacture of paper	100	100
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 Italy Operations SpA <sup>(1)</sup>	Italy	Manufacture of paper	100	–
Sappi International Holdings (Pty) Ltd	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
Sappi North America Inc <sup>(2)</sup>	United States of America	Manufacture of paper and paper pulp	100	100

<sup>(1)</sup> Acquired during the year. Refer note 9a.

<sup>(2)</sup> Renamed from SD Warren Company during the year.









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