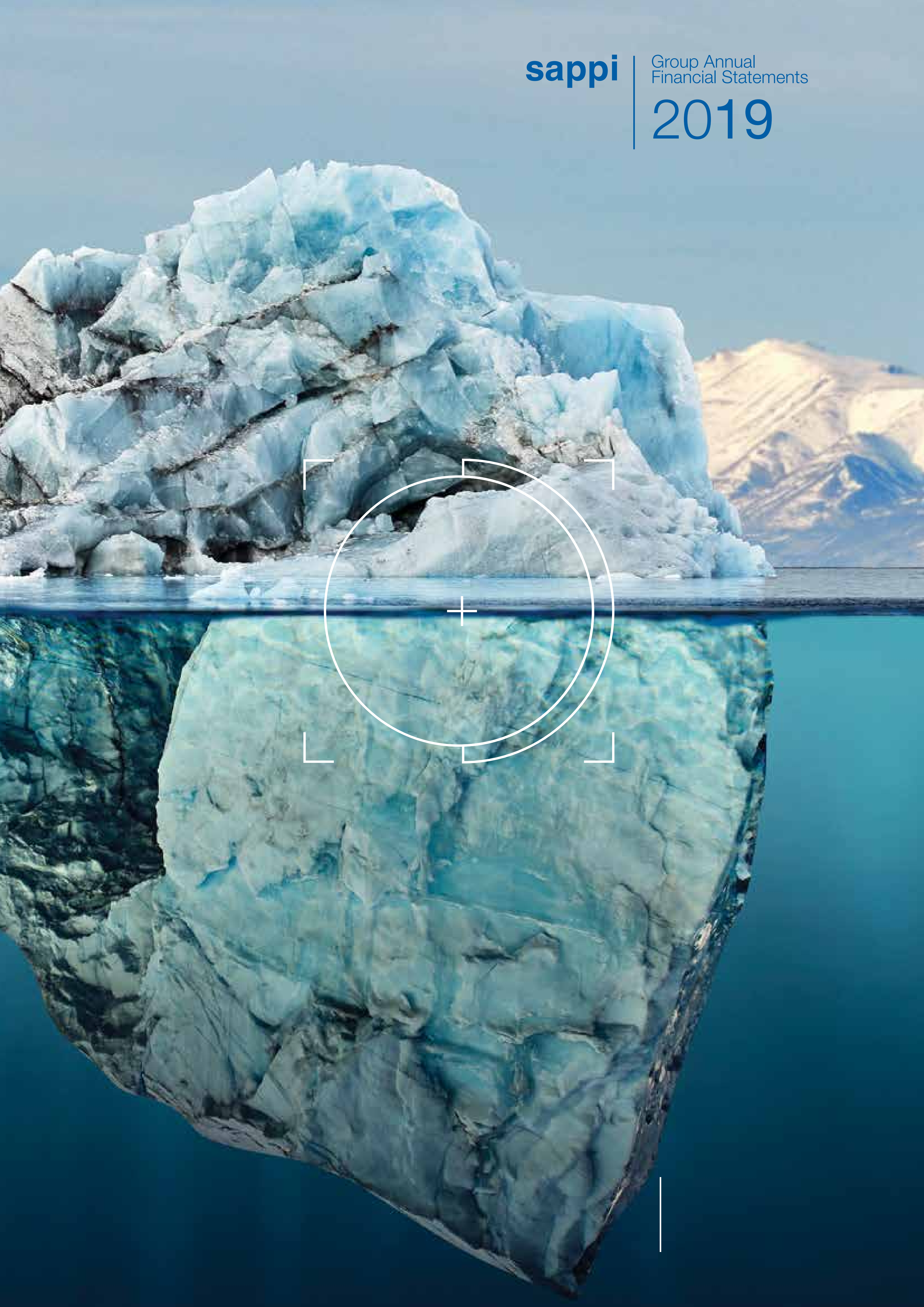
sappi

Group Annual Financial Statements 2019



CONTENTS

The audited financial statements for the year ended September 2019 have been prepared by the corporate accounting staff of Sappi Limited headed by John Shaw, Group Financial Manager. This process was supervised by Glen Pearce, Chief Financial Officer.

The financial statements have been audited in compliance with section 30 of the Companies Act of South Africa.

This report is printed on GalleriaArt silk 135 and 250 g/m²

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 Annual 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 Annual 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 92 and were approved by the board of directors on 06 December 2019 and signed on its behalf by:

SR Binnie
Chief Executive Officer
Authorised director

GT Pearce
Chief Financial Officer
Authorised director

Sappi Limited

06 December 2019

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 2019, 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

06 December 2019

AUDIT AND RISK COMMITTEE REPORT

for the year ended September 2019

Introduction

The Audit and Risk Committee presents its report for the financial year ended September 2019. 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; and
  - 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
- 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)
Ms Z Malinga	(appointed in October 2018)
Ms JE Stipp	(appointed in June 2019)

Biographical details of the current members of the committee are set out in our Leadership section of the Annual Integrated Report.

In addition, the Chief Executive Officer, the Chief Financial Officer, Head of Group Internal Audit, the Group Internal Control and Risk Manager 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 2019. 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 2020 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 2019. 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, 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

06 December 2019

DIRECTORS' REPORT

for the year ended September 2019

The directors have pleasure in presenting their report for the year ended September 2019.

Nature of business

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

Sappi is a global company with operations in North America, Europe and Southern Africa and is focused on providing dissolving wood pulp, packaging and speciality papers, printing and writing papers as well as biomaterials and biochemicals to our direct and indirect customer base across more than 150 countries.

The group's dissolving wood pulp products are used worldwide mainly by converters to create viscose fibre for fashionable clothing and textiles, as well as other consumer products; quality packaging and speciality papers are used in the manufacture of such products as soup sachets, luxury carry bags, cosmetic and confectionery packaging, boxes for agricultural products for export, tissue wadding for household tissue products and casting release papers used by suppliers to the fashion, textiles, automobile and household industries; our market-leading range of printing and writing papers are used by printers in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; biomaterials include nanocellulose, fibre composites and lignosulphonate; biochemicals include second generation sugars.

Financial results

The group generated a profit of US$211 million for the year ended September 2019 (39 US cents) compared to US$323 million profit (60 US cents) for the prior year.

Detailed commentary on the 2019 financial results is contained in various reviews throughout the Annual Integrated Report.

Dividends

The directors have decided that in light of the uncertain future market conditions and low dissolving wood pulp prices that it would be prudent to temporarily halt dividends until such time as market conditions improve.

Going concern

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

Corporate governance

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

Health, safety, environment and community

Information on our health, safety and environmental performance is provided in our sustainability report in our annual integrated report.

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

The following significant announcements were made:

- In March 2019 the group raised an aggregate principal amount of €450 million (US$505 million) in new senior unsecured notes due 2026 at a coupon of 3.125% per annum. The proceeds from these notes were used to redeem the full amount of the group's €450 million senior (US$505 million) unsecured notes due 2022 on 10th April as the group exercised its option to early redeem these notes. The coupon on the notes redeemed was 3.375%.
- In August 2019 the group announced that it had signed an agreement, subject to conditions precedent, to acquire the 270,000 ton Matane high yield hardwood pulp mill, in Quebec, Canada, from Rayonier Advanced Materials Inc., for US$175 million. The acquisition will increase Sappi's pulp integration for its packaging businesses and lower Sappi's costs of pulp, reduce its volatility of earnings throughout the pulp cycle and provide certainty of supply.
- In November 2019 the group announced that it had concluded the Matane mill acquisition for US$158 million.

Liquidity and financing

At September 2019, we had liquidity comprising US$393 million of cash on hand, which exceeds the amount of short-term interest-bearing debt of US$181 million by US$212 million and US$640 million available from undrawn committed facilities in Europe and South Africa.

Net debt decreased from US$1,568 million to US$1,501 million as the group generated net cash of US$1 million during the year (2018: Net cash utilised US$254 million, which included the US$132 million acquisition of the Cham Paper Group). Although the group had lower profitability this was mitigated by tight working capital control, lower capital expenditure and a decrease in finance payments.

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

Risks and insurance
Details of the groups' risks and insurance are set out in the Top Risks section of 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 2019 of US$471 million (2018: US$541 million). Of the above expansion expenditure was US$323 million (2018: US$374 million) with maintenance expenditure of US$148 million (2018: US$167 million).

Subsequent events
In November 2019 the group announced that it had concluded the Matane mill acquisition for US$158 million which had been announced in August 2019 subject to conditions precedent as set out in note 33.

Directorate
The composition of the board of directors is set out in Our Leadership section in our annual integrated report. During the year, the following changes were announced:
- The appointment of Mr Brian Beamish as an independent non-executive director with effect from 01 March 2019.
- The appointment of Mr James Lopez as an independent non-executive director with effect from 01 March 2019.
- The appointment of Ms Janice Stipp as an independent non-executive director with effect from 01 June 2019.

At the end of September 2019, there were 14 directors, two of whom are executive directors. All 12 of the 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.

In terms of the company's Memorandum of Incorporation, Mr MA Fallon, Mr NP Mageza, Dr B Mehlomakulu and Mr GT Pearce 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 re-appointment.

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 audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sappi Limited and its subsidiaries (the group) set out on pages 10 to 92, which comprise the group balance sheet as at September 2019, the group income statement, 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 and its subsidiaries as at September 2019, 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 sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' International *Code of Ethics for Professional Accountants* (including International Independence Standards) respectively. 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 of 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.

Key audit matter	How the matter was addressed in our audit
Valuation of plantations	
Refer to note 2.3.4 for the accounting policies applied and note 11 to the group financial statements. Plantations are valued in terms of IAS 41 *Agriculture* (IAS 41) 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 *Fair Value Measurement* (IFRS 13). The valuation of plantations requires complex measurements and involves estimation uncertainty. The key inputs and assumptions involving significant estimation, judgement and having the most significant impact on the fair value of the plantations are: • Volume and growth estimations (standing tons); and • Discount rate. 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.	Our audit procedures related to the valuation of plantations included: • Critically evaluating the fair value methodology, key measurements and assumptions applied by management in determining the fair value of the plantations against the criteria in terms of IAS 41 and IFRS 13. This was performed by the audit team, by applying their knowledge of the industry to assess the appropriateness of the valuations. • 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. • 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. • We considered the adequacy and appropriateness of the group's disclosures in respect of the valuation of plantations in accordance with IAS 41 and IFRS 13.

Key audit matter	How the matter was addressed in our audit
Impairment of property, plant and equipment	
Refer to note 2.3.1 for the accounting policies applied and note 10 to the group financial statements. **Composition of European cash-generating units (CGUs)** The completion of the capital expenditure project in Europe resulted in the need for management to revise the European CGU composition in accordance with IAS 36 *Impairment of Assets* (IAS 36). The determination of the revised CGU composition requires judgement and was based on the following key considerations: • Revenue separation; • Assets separation; and • Management's monitoring and decision making in respect of assets and operations in Europe. Based on the results of the revised CGU composition, impairment assessments were performed by management. No impairment losses were recognised based on the revised CGU composition. **Westbrook CGU impairment** The continued decline in profitability and product demand in respect of the Westbrook CGU resulted in an impairment trigger requiring management to perform a detailed impairment assessment in accordance with IAS 36, which resulted in an impairment loss of US$18 million recognised in the income statement. The calculation of the value in use as part of the impairment assessment requires the determination and application of the following key assumptions: • Future cash flow projections • Discount rate; and • Long-term growth rate. Given the judgement involved in the determination of the revised CGU composition in Europe and the impairment of the Westbrook CGU, impairment of property, plant and equipment was considered a key audit matter.	Our team included senior engagement team members and valuation specialists who understand the group's business, industry and the economic environment in which it operates. Our audit procedures related to impairment of property, plant and equipment included: • Critically evaluating management's revised CGU composition to ensure that it complies with IAS 36 by comparing management's conclusion with our own independent analysis and expectations. • Critically evaluating the appropriateness of management's impairment models applied. • Challenging the assumptions used by management in their value-in-use calculations by: – assessing the reasonableness of cash flow projections based on historical trends, current year performance and our knowledge of the business and the industry – assessing the reasonableness of the long-term growth rates in relation to external market data – assessing the reasonableness of the discount rate applied by independently calculating the rate and comparing to the rate used by management; and – assessing the reasonableness of the key assumptions and the related sensitivity analyses by performing our own sensitivity analyses. • We also considered the adequacy and appropriateness of the group's disclosures in respect of impairment of property, plant and equipment, in accordance with IAS 36.

INDEPENDENT AUDITOR'S REPORT continued

Other information
The directors are responsible for the other information. The other information comprises the information included in the document titled 2019 Annual Integrated Report and in the document titled Sappi 2019 Group Annual Financial Statements, which includes the Directors' Report, the Audit and Risk Committee Report and the Group Company Secretary's certificate as required by the Companies Act of South Africa. The 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, 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.

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.
- 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 are therefore 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 04 December 2015, we report that KPMG Inc. has been the auditor of Sappi Limited for three years.

KPMG Inc.
Registered Auditor

Per Coenie Basson
Chartered Accountant (SA)
Registered Auditor
Director

85 Empire Road, Parktown
Johannesburg, 2193

06 December 2019

GROUP INCOME STATEMENT

for the year ended September 2019

(US$ million)	Note	2019	2018
Revenue		**5,746**	5,806
Cost of sales	4	**4,969**	4,928
Gross profit		**777**	878
Selling, general and administrative expenses	4	**368**	396
Other operating (income) expenses		**30**	(4)
Share of profit from equity accounted investees net of tax		**(4)**	(3)
Operating profit	4	**383**	489
Net finance costs	5	**85**	68
Finance costs		**98**	92
Finance income		**(9)**	(18)
Net foreign exchange gains		**(4)**	(6)
Profit before taxation		**298**	421
Taxation charge	6	**87**	98
Profit for the year		**211**	323
Basic earnings per share (US cents)	7	**39**	60
Weighted average number of ordinary shares in issue (millions)		**542.0**	538.1
Diluted earnings per share (US cents)	7	**39**	59
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)		**546.3**	550.0

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended September 2019

(US$ million)	Note	2019	2018
Profit for the year		**211**	323
Other comprehensive income (loss), net of tax	19	**(127)**	(57)
Item that will not be reclassified subsequently to profit or loss		**(49)**	–
Actuarial gains (losses) on post-employment benefit funds		**(59)**	28
Deferred tax on above items and changes in tax rates		**10**	(28)
Items that may be reclassified subsequently to profit or loss		**(78)**	(57)
Exchange differences on translation to presentation currency		**(67)**	(61)
Gains (losses) on hedging reserves		**(14)**	8
Fair value adjustments on financial assets at fair value through other comprehensive income (FVOCI)		**–**	(1)
Tax effect on above items		**3**	(3)
Total comprehensive income for the year		**84**	266

GROUP BALANCE SHEET

as at September 2019

(US$ million)	Note	2019	2018
Assets			
Non-current assets		**3,789**	3,766
Property, plant and equipment	10	**3,061**	3,010
Plantations	11	**451**	466
Deferred tax assets	12	**106**	106
Goodwill and intangible assets	13	**54**	63
Equity accounted investees	14	**31**	33
Other non-current assets	15	**86**	88
Current assets		**1,834**	1,904
Inventories	16	**709**	741
Trade and other receivables	17	**718**	767
Derivative financial instruments	30	**3**	21
Taxation receivable		**11**	12
Cash and cash equivalents		**393**	363
Total assets		**5,623**	5,670
Equity and liabilities			
Shareholders' equity		**1,948**	1,947
Ordinary share capital and share premium	18	**802**	858
Non-distributable reserves	20	**99**	133
Foreign currency translation reserve		**(184)**	(180)
Hedging reserves		**(41)**	(28)
Retained earnings		**1,272**	1,164
Non-current liabilities		**2,461**	2,550
Interest-bearing borrowings	21	**1,713**	1,818
Deferred tax liabilities	12	**328**	335
Derivative financial instruments	30	**2**	–
Defined benefit liabilities	28	**356**	329
Other non-current liabilities	22	**62**	68
Current liabilities		**1,214**	1,173
Interest-bearing borrowings	21	**181**	97
Overdrafts		**–**	16
Trade and other payables	23	**969**	1,009
Provisions	23	**6**	6
Derivative financial instruments	30	**7**	6
Taxation payable		**51**	39
Total equity and liabilities		**5,623**	5,670

GROUP STATEMENT OF CASH FLOWS

for the year ended September 2019

(US$ million)	Note	2019	2018
Cash retained from operating activities		**473**	410
Cash generated from operations	24.1	**673**	709
– Decrease (increase) in working capital	24.2	**(15)**	(79)
Cash generated from operating activities		**658**	630
– Finance costs paid	24.3	**(51)**	(84)
– Finance income received		**9**	18
– Taxation paid	24.4	**(51)**	(73)
– Dividends paid		**(92)**	(81)
Cash utilised in investing activities		**(472)**	(664)
Investment to maintain operations		**(148)**	(167)
Investment to expand operations		**(323)**	(374)
Proceeds on disposal of property, plant and equipment	24.5	**3**	11
Investment in equity accounted investees		**–**	(10)
Dividends received from equity accounted investees		**3**	6
Decrease (increase) in other non-current assets		**(7)**	2
Acquisition of subsidiary	9	**–**	(132)
Cash effects of financing activities		**56**	68
Proceeds from interest-bearing borrowings		**616**	137
Repayment of interest-bearing borrowings		**(560)**	(69)
Net movement in cash and cash equivalents		**57**	(186)
Cash and cash equivalents at beginning of year		**363**	550
Translation effects		**(27)**	(1)
Cash and cash equivalents at end of year		**393**	363

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended September 2019

(US$ million)	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distri-butable reserves	Foreign currency trans-lation reserve	Hedging reserves	Retained earnings	**Total equity**
Balance – September 2017	535,0	40	854	894	123	(158)	(34)	922	**1,747**
Share-based payments	–	–	–	–	11	–	–	–	**11**
Transfers of vested share options	4,3	–	1	1	3	–	–	–	**4**
Dividend paid – 15 US cents per share	–	–	–	–	–	–	–	(81)	**(81)**
Translation of parent company's ordinary share capital and share premium	–	(2)	(35)	(37)	–	37	–	–	**–**
Profit for the year	–	–	–	–	–	–	–	323	**323**
Other comprehensive (loss) income	–	–	–	–	(4)	(59)	6	–	**(57)**
Balance – September 2018	539,3	38	820	858	133	(180)	(28)	1,164	**1,947**
Adoption of IFRS 9	–	–	–	–	–	–	(4)	4	**–**
Share-based payments[1]	–	–	–	–	10	–	–	–	**10**
Transfers of vested share options	3,5	–	1	1	(2)	–	–	–	**(1)**
Transfers between reserves	–	–	–	–	(34)	–	–	34	**–**
Translation of parent company's ordinary share capital and share premium	–	(2)	(55)	(57)	–	57	–	–	**–**
Dividend paid – 17 US cents per share	–	–	–	–	–	–	–	(92)	**(92)**
Profit for the year	–	–	–	–	–	–	–	211	**211**
Other comprehensive (loss) income	–	–	–	–	(8)	(61)	(9)	(49)	**(127)**
Balance – September 2019	542,8	36	766	802	99	(184)	(41)	1,272	**1,948**
Note				*18*	*20*				

[1] Share-based payments net of US$2 million distribution to beneficiaries.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended September 2019

1. Basis of preparation

The consolidated financial statements of Sappi Limited (the 'company') as at and for the year ended September 2019 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 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 were authorised for issue by the Board of Directors on 06 December 2019.

The Group 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
- Level 3: Inputs for the asset or liability that are unobservable

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

The Group 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 group's financial year-end is on the Sunday closest to the last day of September. Accordingly, the last two financial years were as follows:
- 01 October 2018 to 29 September 2019 (52 weeks)
- 02 October 2017 to 30 September 2018 (52 weeks)

The Group 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 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.
- The step-by-step method of reclassification of foreign currency translation reserves from equity to profit or loss on disposal is applied.

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

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 Financial Statements are presented in US Dollar, 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.

(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.
- 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:

	2019	2018
Period-end rate		
US$1 = ZAR	**15,1563**	14,1474
EUR1 = US$	**1,0939**	1,1609
Annual average rate		
US$1 = ZAR	**14,3464**	13,0518
EUR1 = US$	**1,1282**	1,1902

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.2 Group accounting

(i) Business combinations

The group accounts for business combinations using the acquisition method when control is transferred to the group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the income statement immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement. Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in the income statement.

(ii) 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.

(iii) 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 (In the current year IFRS 9 has been adopted, refer to note 2.4 for the policy of adoption for this standard)

Policy applicable after 1 October 2018

(i) Initial recognition

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

(ii) Initial measurement

A financial asset (unless it is a trade receivable without a significant financing component) or a financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(iii) Classification and subsequent measurement

- *Financial assets*

  On initial recognition, a financial asset is classified and measured at: amortised cost, fair value through other comprehensive income (FVOCI) – debt investment, FVOCI – equity instrument or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
  - it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
  - its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.3 Financial instruments (In the current year IFRS 9 has been adopted, refer to note 2.4 for the policy of adoption for this standard) continued

Policy applicable after 1 October 2018 continued

(iii) Classification and subsequent measurement continued

- *Financial assets continued*

  A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
  - it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
  - its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  On initial recognition of an equity investment that is not held for trading, the group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

  All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

- *Financial assets – Business model assessment:*

  The group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
  - the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
  - how the performance of the portfolio is evaluated and reported to the group's management;
  - the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
  - how managers of the business are compensated – eg whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
  - the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

  Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the group's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

- *Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest:*

  For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (eg liquidity risk and administrative costs), as well as a profit margin.

  In assessing whether the contractual cash flows are solely payments of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the group considers:
  - contingent events that would change the amount or timing of cash flows;
  - terms that may adjust the contractual coupon rate, including variable-rate features;
  - prepayment and extension features; and
  - terms that limit the group's claim to cash flows from specified assets (eg non-recourse features).

  A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.3 Financial instruments (In the current year IFRS 9 has been adopted, refer to note 2.4 for the policy of adoption for this standard) continued

Policy applicable after 1 October 2018 continued

(iii) Classification and subsequent measurement continued

Financial assets – subsequent measurement and gains and losses

- *Financial assets at FVTPL*
  These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

- *Financial assets at amortised cost*
  These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

- *Debt investments at FVOCI*
  These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

- *Equity investments at FVOCI*
  These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss.

Any gain or loss on derecognition is also recognised in profit or loss.

Policy applicable prior to 1 October 2018

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

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

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

- *Available-for-sale financial assets*
  Available-for-sale financial assets were 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, were recognised in profit or loss.

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

A financial liability is derecognised when and only when the liability is extinguished, ie when the obligation specified in the contract is discharged, cancelled or has expired. The group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. The difference in the respective carrying amounts is recognised in profit or loss for the period.

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.3 Financial instruments (In the current year IFRS 9 has been adopted, refer to note 2.4 for the policy of adoption for this standard) continued

(vi) Impairment of financial assets

Policy applicable after 1 October 2018

The group measures loss allowances at an amount equal to lifetime expected credit losses using a simplified approach. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the group's historical experience and informed credit assessment and including forward looking information. Forward looking information incorporates actual and expected significant changes in the political, regulatory and technological environment of the debtor and its business activities.

Impairment losses are calculated taking into account the life time expected credit losses of trade and other receivables. The group's trade and other receivables are managed on a collective basis irrespective of the nature of its customers. The group does not have a history of significant trade receivables write-offs as the contractual terms entered with the customers help ensure that these balances are recoverable.

The group establishes an allowance for impairment that represents its estimate of credit losses in respect of trade and other receivables. The main components of this allowance is a specific loss component that relates to individual significant exposures and a collective loss component in respect of losses that may be incurred but have not yet been identified. The collective loss allowances are determined based on historical write-offs data over the last five years. This takes into account past circumstances which resulted in trade and other receivable balances that were not recovered. Individual significant exposures refer to customers that are under business rescue, in liquidation or unable to pay their obligations. These customers are credit impaired irrespective of their ageing. This takes into account forward looking circumstances. Five years is considered to be a reasonable timeframe on which to calculate a loss rate given the nature of the group's operations and the contractual terms agreed to with its customers.

Policy applicable prior to 1 October 2018

- *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.

(viii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

2. Accounting policies continued

2.2 Summary of accounting policies continued

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 ten years.

(iv) Other intangible assets

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

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:

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

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

2.2.7 Leases

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.

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. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.10 Revenue (In the current year IFRS 15 has been adopted, refer to note 2.4 for the policy of adoption for this standard)

Policy applicable after 1 October 2018

Revenue is recognised when a customer obtains control of the goods. Revenue is recognised at a point in time, with no deferral of revenue. Control of goods passes to the customer when the performance obligations are satisfied. Sappi primarily has one performance obligation, which is the delivery of the goods to the customer. Control is dependent on shipping incoterms where goods are sold to customers overseas. Depending on the shipping terms used, shipping and handling activities may be a separate performance obligation where these activities are performed after revenue is recognised from the sale of the goods. In these instances, revenue is recognised from the shipping and handling activities when these activities are fulfilled, which is at the same time revenue is recognised from the sale of goods. Sappi acts as an agent in the fulfilment of these shipping and handling performance obligations, and as such recognises revenue from this performance obligation net of the costs incurred to fulfil it. When shipping and handling activities are not a separate performance obligation, these costs are included in cost of sales.

Policy applicable prior to 1 October 2018

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. Cash and cash equivalents are measured at amortised cost.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

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 (In the current year IFRS 9 has been adopted refer to note 2.4 for the policy of adoption for this standard)

Policy applicable after 1 October 2018

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are generally recognised in profit or loss. 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.

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.15 Derivatives and hedge accounting (In the current year IFRS 9 has been adopted, refer to note 2.4 for the policy of adoption for this standard) continued

Policy applicable after 1 October 2018 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 hedges on the pre-tax profit or loss for the period.

Policy applicable prior to 1 October 2018

The accounting policy in the comparative information presented for 2018 is similar to that applied for 2019. The only changes as a result of the application of IFRS 9 was that changes in the fair value of the forward element of forward exchange contracts is recorded as a cost of hedging reserve as a separate component of OCI, whereby under IAS 39 it was recognised immediately in profit or loss.

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 pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The establishment and review of the provisions requires 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.

2.2.19 Share capital

Share capital comprises ordinary shares and are classified as equity. Issued ordinary shares are measured at the fair value of the proceeds received less any directly attributable issue costs. An amount equal to the par value of the shares issued is presented as share capital. The amount by which the fair value exceeds par value is presented as share premium. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12. Treasury shares are excluded from equity.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

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, 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 and the long-term growth rate. 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 cash-generating unit (CGU) to which the asset belongs. Additionally, assets are also assessed against their fair value less costs of disposal.

In cases where a revision to CGUs are required, the following key considerations are taken into account: (1) revenue separation; (2) assets separation; and (3) management's monitoring and decision making in respect of assets and operations.

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.

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.

2. Accounting policies continued

2.3 Critical accounting policies and key sources of estimation uncertainty continued

2.3.3 Taxation continued

(ii) Deferred taxation

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

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

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

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

(iii) Dividend withholding tax

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

2.3.4 Plantations

Plantations are stated at fair value less costs 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 inputs are market prices, costs to sell, discount rates, and volume and growth estimations. Of these key inputs, discount rates and the volume and growth estimations are key assumptions that have significant estimation and judgement.

All changes in fair value are recognised in profit or loss in the period in which they arise.

The impact that changes in market prices, costs to sell, discount rates, and volume and growth assumptions may have on the calculated fair value on plantations is disclosed in note 11.

- *Market prices and costs to sell*

  The fair value is derived by using the prices explained below less costs to sell. Costs to sell includes all costs associated with getting the harvested agricultural produce to the market, including harvesting, loading, transport and allocated fixed overheads.

  The group uses a 12 quarter rolling historical average fair value to value all immature timber and mature timber which is to be felled more than 12 months from the reporting date. In total 12 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 for reasonability when 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 less costs to sell. Such timber is expected to be used in the short term and consequently, current market prices are considered an appropriate reflection of fair value.

- *Discount rate*

  The discount rate used is the applicable real pre-tax discount rate.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

2. Accounting policies continued

2.3 Critical accounting policies and key sources of estimation uncertainty continued

2.3.4 Plantations continued

- *Volume and growth estimations*

  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 includes harvesting (fellings) and damages. The fair value of timber felled is determined on the actual method while damages is calculated on the average method. Damages are written off against standing timber to record loss or damage caused by fire, storms, disease and stunted growth. Harvesting (fellings) depletion costs are accounted for as actual tonnes multiplied by the actual fair value. Damages depletion costs are accounted for as actual damaged tonnes multiplied by the actual 12 quarter rolling historical average price. Damaged 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.

  Volume and growth assumptions are used in determining standing tons at valuation date.

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

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, 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. Accounting policies continued

2.4 Adoption of accounting standards in the current year

The group adopted IFRS 9 (refer to 2.4.1) and IFRS 15 (refer to 2.4.2) from 1 October 2018. The following standards, interpretations, amendments and improvements to standards were also effective and adopted in the current fiscal year, all of which had no material impact on the group's reported results or financial position:

- IFRS 2 *Classification and Measurement of Share-based Payment Transactions*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- Annual Improvements 2014 – 2016 Cycle

2.4.1 IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, the entity has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2019, but have not been generally applied to comparative information.

2.4.1.1 Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the group's accounting policies related to financial liabilities and derivative financial instruments. The only adjustment was US$4 million that was reclassified from cash flow hedge reserves to retained income. (Refer to derivatives that are used as hedging instruments, see 2.4.1.3.)

The changes in classification and measurement from IAS 39 to IFRS 9 are as follows:

September 2018	**Total balance**	**Total in scope**	**Categories in accordance with IAS 39**			**Categories in accordance with IFRS 9**		
US$ million			Fair value through profit or loss	Loans and receivables	Available for sale	Fair value through profit or loss	Amortised cost	Fair value through OCI
Non-current assets								
Other non-current assets	88	10	–	3	7	–	3	7
	88	10	–	3	7	–	3	7
Current assets								
Trade receivables	634	634	–	634	–	–	634	–
Prepayments and other receivables	133	36	–	36	–	–	36	–
Derivative financial instruments	21	21	21	–	–	21	–	–
Cash and cash equivalents	363	363	–	363	–	–	363	–
	1,115	1,054	21	1,033	–	21	1,033	–

2. Accounting policies continued

2.4 Adoption of accounting standards in the current year continued

2.4.1 IFRS 9 *Financial Instruments* continued

2.4.1.2 Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The group has determined that the application of IFRS 9's impairment requirements at 1 October 2018 results in no significant increase in an impairment allowance.

2.4.1.3 Hedge accounting

The group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings, sales and capital expenditure. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity. Under IAS 39, the change in fair value of the forward element of the forward exchange contracts ('forward points') was recognised immediately in profit or loss. However, under IFRS 9 the forward points are separately accounted for as a cost of hedging; they are recognised in OCI and accumulated in a cost of hedging reserve as a separate component within equity. Under IAS 39, for all cash flow hedges the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affected profit or loss. However, under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast PPE purchases, the amounts accumulated in the cash flow hedge reserve are instead included directly in the initial cost of the PPE item when it is recognised. The same approach also applies under IFRS 9 to the amounts accumulated in the cost of hedging reserve.

2.4.2 IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control at a point in time or over time requires judgement.

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The group has reviewed the significant customer contracts, and the adoption of IFRS 15 does not have a material impact on the recognition and measurement of revenue when compared to that of the application of IAS 18.

Under IAS 18 Sappi derived revenue from contracts with customers from one revenue stream being the sale of goods. For the majority of local and regional sales, transfer occurred at the point of offloading the shipment into the customer warehouse whereas for the majority of export sales, transfer occurred when the goods have been loaded into the relevant carrier unless the contract of sale specified different terms. Revenue was 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 destination, were included in cost of sales. Under IFRS 15 revenue is recognised when a customer obtains control of the goods. There has not been 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 there has not been an impact in retained earnings on transition to IFRS 15. The application of IFRS 15 has had the effect on the group to the extent that there have been instances where revenue has been recognised prior to the shipping of the goods, where the shipping of the goods is still the responsibility of Sappi. This has created a separate performance obligation, where Sappi is acting as an agent for the fulfilment of the shipping activities. As there is no margin earned on the shipping of the goods, the net revenue recognised for the shipping is nil. This has resulted in revenue being recognised at a lower value net of the shipping costs, and operating expenses also reducing by the corresponding value as a result of the re-allocation of the shipping costs from operating costs to sales. Sappi has adopted IFRS 15 using the cumulative effect method without practical expedients applied, with the effect of initially applying this standard recognised at the date of initial application (ie 1 October 2018). Accordingly, the information presented for 2018 has not been restated. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

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. The impact of these standards is still being evaluated by the group. The effective date denotes the fiscal year end in which it will be adopted.

- IFRS 9 *Financial Instruments* – Prepayment Features with Negative Compensation – September 2020

- IFRS 16 *Leases*

  Management have substantially completed their assessment of IFRS 16 *Leases* which it will adopt from its mandatory adoption date of 30 September 2019 being the beginning of the 2020 financial year. IFRS 16 introduces a single on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. The group intends to apply the modified retrospective transition approach and will not restate comparative amounts. The group expects to recognise right-of-use assets measured at the amount of the lease liability on adoption between the range of US$85 million and US$100 million. The group's leasing activities mainly relate to the lease of premises, vehicles and equipment.

  Sappi is planning to elect the following practical expedients as allowed by IFRS 16:
  - relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 29 September 2019
  - accounting for operating leases with a remaining lease term of less than 12 months as at the adoption date as short-term leases
  - excluding initial direct costs for the measurement of the right-of-use asset at the adoption date
  - using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

  The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

- IFRIC 23 *Uncertainty over Income Tax Treatments* – September 2020

- IAS 19 *Plan Amendment, Curtailment or Settlement* – September 2020

- IAS 28 *Long-term Interests in Associates and Joint Ventures* – September 2020

- IFRS 3 A*mendment Definition of a Business* – September 2020

- IAS 1 and 8 *Amendments to the Definition of Material* – September 2020

- Annual Improvements 2015 – 2017 Cycle – Amendments to IFRS 1 and IAS 28 – September 2020

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

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 the reportable segments.

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

	North America		Europe	
(US$ million)	**2019**	2018	**2019**	2018
Income statement				
Total sales	**1,516**	1,485	**3,056**	3,094
Intersegmental sales	**(50)**	(53)	**(138)**	(124)
External sales[1]	**1,466**	1,432	**2,918**	2,970
Operating profit (loss) excluding special items	**27**	49	**104**	163
Special items – (gains) losses[2]	**25**	2	**(1)**	(3)
Segment operating profit (loss)	**2**	47	**105**	166
EBITDA excluding special items[2]	**110**	126	**232**	299
Share of profit of equity investments net of tax	**–**	–	**–**	–
Depreciation and amortisation	**(83)**	(77)	**(128)**	(136)
Net asset (impairments) reversals	**(18)**	–	**–**	–
Profit (loss) on disposal and write off of property, plant and equipment	**–**	–	**(4)**	–
Fellings	**–**	–	**–**	–
Plantation fair value adjustment	**–**	–	**–**	–
Restructuring provisions (raised) released and closure costs	**–**	–	**–**	–
Balance sheet				
Capital expenditures	**65**	196	**175**	121
Net operating assets[2]	**1,135**	1,137	**1,518**	1,574
Property, plant and equipment	**923**	960	**1,098**	1,112

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

Operating profit excluding special items	**27**	49	**104**	163
Special items – gains (losses)[2]	**(25)**	(2)	**1**	3
Operating profit (loss) by segment	**2**	47	**105**	166

[1] Sales of products are allocated to where the product is manufactured.
[2] Refer to the definitions below.
[3] Primarily includes the group's treasury operations, its self-insurance captive and the delivery cost revenue adjustment (refer to note 2.4.2).

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).*
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[3]		Group	
2019	2018	**2019**	2018	**2019**	2018
1,422	1,404	**(60)**	–	**5,934**	5,983
–	–	**–**	–	**(188)**	(177)
1,422	1,404	**(60)**	–	**5,746**	5,806
267	270	**4**	(2)	**402**	480
(16)	(25)	**11**	17	**19**	(9)
283	295	**(7)**	(19)	**383**	489
339	337	**6**	–	**687**	762
4	4	**–**	(1)	**4**	3
(72)	(67)	**(2)**	(2)	**(285)**	(282)
–	3	**8**	–	**(10)**	3
(7)	4	**–**	–	**(11)**	4
(71)	(66)	**–**	–	**(71)**	(66)
92	96	**–**	–	**92**	96
–	–	**–**	(1)	**–**	(1)
246	261	**1**	1	**487**	579
1,430	1,392	**8**	38	**4,091**	4,141
1,032	930	**8**	8	**3,061**	3,010
267	270	**4**	(2)	**402**	480
16	25	**(11)**	(17)	**(19)**	9
283	295	**(7)**	(19)	**383**	489

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

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) for the period:

	Group		North America	
(US$ million)	**2019**	2018	**2019**	2018
EBITDA excluding special items[2]	**687**	762	**110**	126
Depreciation and amortisation	**(285)**	(282)	**(83)**	(77)
Operating profit excluding special items	**402**	480	**27**	49
Special items – gains (losses)[2]	**(19)**	9	**(25)**	(2)
Plantation price fair value adjustment	**19**	27		
Acquisition costs	**(2)**	(2)		
Net restructuring provisions	**–**	(1)		
Profit (loss) on disposal and write off of property, plant and equipment	**(11)**	4		
PPE impairments	**(18)**	–		
PPE impairment reversals	**8**	3		
Black Economic Empowerment charge	**–**	(1)		
Fire, flood, storm and other events	**(15)**	(21)		
Segment operating profit (loss)	**383**	489	**2**	47
Net finance costs	**(85)**	(68)		
Profit before taxation	**298**	421		
Taxation charge	**(87)**	(98)		
Profit for the year	**211**	323		
Reconciliation of segment assets to total assets:				
Net operating assets[2]	**4,091**	4,141		
Deferred tax assets	**106**	106		
Cash and cash equivalents	**393**	363		
Trade and other payables	**969**	1,009		
Provisions	**6**	6		
Derivative financial instruments (included in current liabilities)	**7**	6		
Taxation payable	**51**	39		
Total assets	**5,623**	5,670		

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:

Sales		
Dissolving wood pulp	**1,095**	1,043
Packaging and specialities	**1,249**	1,087
Graphics[4]	**3,382**	3,600
Forestry	**80**	76
Delivery cost adjustment[3]	**(60)**	–
Total	**5,746**	5,806
Operating profit excluding special items		
Dissolving wood pulp	**245**	251
Packaging and specialities	**52**	78
Graphics[4]	**101**	153
Unallocated and eliminations[3]	**4**	(2)
Total	**402**	480
EBITDA excluding special items		
Dissolving wood pulp	**304**	306
Packaging and specialities	**126**	138
Graphics[4]	**251**	318
Unallocated and eliminations[3]	**6**	–
Total	**687**	762

[2] *Refer to the definitions below.*
[3] *Primarily includes the group's treasury operations, its self-insurance captive and the delivery cost revenue adjustment (refer to note 2.4.2).*
[4] *Graphics was previously referred to as printing and writing papers.*

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).*
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.*

Europe		Southern Africa		Unallocated and eliminations[3]	
2019	2018	**2019**	2018	**2019**	2018
232	299	**339**	337	**6**	–
(128)	(136)	**(72)**	(67)	**(2)**	(2)
104	163	**267**	270	**4**	(2)
1	3	**16**	25	**(11)**	(17)
105	166	**283**	295	**(7)**	(19)

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

4. Operating profit

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

(US$ million)	2019 Cost of sales	2019 Selling, general and administrative expenses	2018 Cost of sales	2018 Selling, general and administrative expenses
Raw materials, energy and other direct input costs	**3,097**	**–**	3,030	–
Wood (includes growth and felling adjustments)[(1)]	**697**	**–**	666	–
Energy	**417**	**–**	411	–
Chemicals	**811**	**–**	851	–
Pulp	**1,048**	**–**	1,001	–
Other variable costs	**124**	**–**	101	–
Plantation price fair value changes	**(19)**	**–**	(27)	–
Employment costs	**850**	**165**	858	185
Depreciation	**268**	**9**	261	12
Delivery charges	**435**	**–**	490	–
Maintenance	**235**	**–**	236	–
Other overheads	**103**	**–**	80	–
Marketing and selling expenses	**–**	**80**	–	85
Administrative and general expenses	**–**	**114**	–	114
	4,969	**368**	4,928	396

(US$ million)	2019	2018
Silviculture costs (included within cost of sales)	**67**	65
Leasing charges for premises	**16**	14
Leasing charges for plant and equipment	**16**	15
Auditor's remuneration	**5**	4
Research and development costs	**42**	42
Amortisation	**8**	9
Cost on derecognition of loans and receivables[(2)]	**15**	15
Impairment of property, plant and equipment	**18**	–
Impairment reversal of property, plant and equipment and investments	**(8)**	(3)
Allowance for credit losses	**16**	16
Restructuring provisions and closure costs raised (reversed)	**–**	1
(Profit) loss on disposal and write-off of property, plant and equipment	**11**	(4)
Release of contingent consideration	**(7)**	(6)
Black Economic Empowerment (BEE) charge	**–**	1
Employment costs consist of	**1 015**	1 043
Wages and salaries	**911**	952
Defined contribution plan expense	**40**	39
Defined benefit pension plan expense	**19**	10
Other defined benefit plan expense	**3**	3
Share-based payment expense	**12**	11
Other	**30**	28
[(1)] Changes in plantation volumes		
Fellings	**71**	66
Growth	**(73)**	(69)

[(2)] 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)	2019	2018
5. Net finance costs		
Interest and other finance costs on liabilities carried at amortised cost	**95**	89
Interest on redeemable bonds and other loans	**86**	89
Premium and costs on early redemption of redeemable bonds and other loans	**9**	–
Net interest on employee benefit liabilities	**5**	5
Interest capitalised to property, plant and equipment	**(2)**	(2)
Finance costs	**98**	92
Finance income received on assets carried at amortised cost	**(9)**	(18)
Interest income on bank accounts	**(6)**	(14)
Interest income on other loans and investments	**(3)**	(4)
Net foreign exchange gains	**(4)**	(6)
	85	68

(US$ million)	2019	2018
6. Taxation charge		
Current taxation		
Current year	**65**	70
Prior year	**(2)**	2
Other company taxes	**8**	2
Deferred taxation		
Current year	**16**	14
Prior year	**–**	(3)
Attributable to tax rate changes	**–**	13
	87	98
Reconciliation of the tax rate		
Profit before taxation	**298**	421
Profit-making regions	**319**	421
Loss-making regions	**(21)**	–
Taxation at the average statutory tax rate	**78**	113
Profit-making regions at 26% (2018: 27%)	**83**	113
Loss-making regions at 23% (2018: N/A)	**(5)**	–
Non-taxable income(1)	**(12)**	(18)
Non-deductible expenditure(2)	**10**	21
Effect of tax rate changes(3)	**–**	13
No tax relief on losses	**20**	5
No tax charge on profits	**–**	(10)
Derecognition of deferred tax assets	**(1)**	17
Recognition of deferred tax assets	**(14)**	(44)
Prior year adjustments	**(2)**	(1)
Other taxes(4)	**8**	2
Taxation charge	**87**	98
Effective tax rate for the year	**29%**	23%

In addition to income taxation charges to profit or loss, a taxation relief of US$11 million (2018: US$28 million charge) has been recognised directly in other comprehensive income (refer to note 12).

(1) *This includes income in foreign jurisdictions, notional interest deductions and dividends received.*
(2) *This includes mainly provisions for uncertain tax positions and non-deductible interest.*
(3) *The effect of tax rate changes relates 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.*
(4) *This includes mainly Controlled Foreign Company taxes in South Africa.*

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

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.

	2019			2018		
	Profit US$ million	**Shares million**	**Earnings per share US cents**	Profit US$ million	Shares million	Earnings per share US cents
Basic EPS calculation	**211**	**542,0**	**39**	323	538,1	60
Share options and performance shares under Sappi Limited Share Trust	**–**	**4,3**	**–**	–	11,9	–
Diluted EPS calculation	**211**	**546,3**	**39**	323	550,0	59

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR65.20 (2018: ZAR87.95). 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[(1)]

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:

	2019			2018		
(US$ million)	**Gross**	**Tax**	**Net**	Gross	Tax	Net
Attributable earnings to ordinary shareholders	**298**	**87**	**211**	421	98	323
Impairments of property, plant and equipment	**18**	**(4)**	**14**	3	–	3
Profit on disposal of equity investments	**–**	**–**	**–**	(3)	–	(3)
Profit on disposal and write-off of property, plant and equipment	**11**	**(2)**	**9**	(4)	1	(3)
Property, plant and equipment impairment reversals	**(8)**	**2**	**(6)**	(3)	–	(3)
Headline earnings	**319**	**91**	**228**	414	97	317
Weighted average number of ordinary shares in issue (millions)			**542.0**			538.1
Headline earnings per share (US cents)			**42**			59
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**546.3**			550.0
Diluted headline earnings per share (US cents)			**42**			58

[(1)] ***Headline earnings –*** *As defined in Circular 4/2018, issued by the South African Institute of Chartered Accountants in March 2018, 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.

	2019			2018		
(US$ million)	**Gross**	**Tax**	**Net**	Gross	Tax	Net
Attributable earnings to ordinary shareholders	**298**	**87**	**211**	421	98	323
Special items	**19**	**(3)**	**16**	(9)	(7)	(2)
Refinancing costs	**9**	**–**	**9**	–	–	–
Tax special items	**–**	**–**	**–**	–	(3)	3
Earnings excluding special items	**326**	**84**	**236**	412	88	324
Weighted average number of ordinary shares in issue (millions)			**542.0**			538.1
EPS excluding special items (US cents)			**44**			60
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**546.3**			550.0
Diluted EPS excluding special items (US cents)			**43**			59

8. Dividends

No dividends were declared for the current year (2018: US17 cents per share).

9. Acquisition of subsidiary

In the prior year the group acquired the speciality paper business of Cham Paper Group Holding AG (CPG) for CHF132 million (US$139 million). The fair value of the net assets acquired was US$136 million, with goodwill arising on the acquisition of US$3 million. The net cash outflow on acquisition was US$132 million.

At the end of the current year the group was still finalising the purchase of the Matane mill in Quebec, Canada, which was concluded subsequent to year end. Refer to note 33.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

(US$ million)		2019	2018
10.	**Property, plant and equipment**		
	Land and buildings[1]		
	At cost	**1,348**	1,403
	Accumulated depreciation and impairments	**(851)**	(863)
		497	540
	Plant and equipment[2]		
	At cost	**7,685**	7,674
	Accumulated depreciation and impairments	**(5,121)**	(5,204)
		2,564	2,470
	Aggregate cost	**9,033**	9,077
	Aggregate accumulated depreciation and impairments	**(5,972)**	(6,067)
	Aggregate book value[3]	**3,061**	3,010

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 2017	525	2,156	**2,681**
Additions	22	557	**579**
Acquisition	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**
Additions	19	468	**487**
Finance costs capitalised	–	2	**2**
Disposals	(5)	(7)	**(12)**
Depreciation	(32)	(245)	**(277)**
Impairments[4]	(4)	(14)	**(18)**
Impairment reversals[4]	–	8	**8**
Transfers between categories	4	(4)	**–**
Translation differences	(25)	(114)	**(139)**
Net book value at September 2019	497	2,564	**3,061**

(1) *Details of land and buildings are available at the registered offices of the respective companies that own the assets.*
(2) *Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.*
(3) *Includes an amount of US$287 million (2018: US$285 million) which relates to assets under construction.*
(4) *The impairment reversal of US$8 million relates to the Tugela and Stanger mills within the South African segment and the PPE impairment of US$18 million relates to the Westbrook CGU in the North American segment which was necessitated due to a decline in demand for release paper products and the related impact on profitability. A pre-tax discount rate of 10% and a terminal growth rate of 2.6% were used. These amounts are recorded in other operating expenses.*

Following the completion of a capital expenditure project in Europe during the year, management revised its CGU composition for the European segment. Impairment assessments were performed by management for each of the revised CGUs which resulted in no impairment losses.

(US$ million)		2019	2018
11.	**Plantations**		
	Fair value of plantations at beginning of year	**466**	458
	Additions	**2**	–
	Gains arising from growth	**73**	69
	Fire, flood, storms and related events	**(4)**	–
	In-field inventory	**(3)**	1
	Gain arising from fair value price changes	**19**	27
	Harvesting – agriculture produce (fellings)	**(71)**	(66)
	Translation differences	**(31)**	(23)
	Fair value of plantations at end of year	**451**	466

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 twenty 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 costs 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 12.35% (2018: 11.04%). The group currently values approximately 28 million tons of timber (2018: 28 million tons) using selling prices and delivery costs that are benchmarked against industry norms. The average annual growth is measured at approximately 18 tons (2018: 16 tons) of timber per hectare while immature timber comprise approximately 107,000 hectares (2018: 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)	2019	2018
Market price changes		
1% increase in market prices	**2**	2
1% decrease in market prices	**(2)**	(2)
Discount rate (for immature timber)		
1% increase in rate	**(2)**	(3)
1% decrease in rate	**2**	3
Volume assumption		
1% increase in estimate of volume	**4**	4
1% decrease in estimate of volume	**(4)**	(4)
Costs to sell		
1% increase in costs to sell	**(2)**	(2)
1% decrease in costs to sell	**2**	2
Growth assumptions		
1% increase in rate of growth	**1**	1
1% decrease in rate of growth	**(1)**	(1)

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

(US$ million)	2019 Assets	2019 Liabilities	2018 Assets	2018 Liabilities
12. Deferred tax				
Other liabilities, accruals and prepayments	**(39)**	**(133)**	(51)	(117)
Inventory	**9**	**2**	7	2
United States of America (USA) tax credits carry forward	**4**	**–**	12	–
Tax losses	**110**	**3**	113	12
Property, plant and equipment	**(26)**	**(208)**	(19)	(222)
Plantations	**–**	**5**	–	(14)
Other non-current assets	**(6)**	**(2)**	5	(2)
Other non-current liabilities	**54**	**5**	39	6
	106	**(328)**	106	(335)

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)	2019	2018
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	**12**	21
Tax losses	**525**	579
	537	600
Attributable to the following tax jurisdictions:		
Austria	**414**	457
Belgium	**49**	57
Finland	**34**	39
The Netherlands	**40**	47
	537	600
Expiry between one and five years	**41**	54
Expiry after five years	**18**	24
Indefinite life	**478**	522
	537	600

(US$ million)	2019	2018
12. Deferred tax continued		
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	**600**	711
No tax relief on losses	**16**	2
No tax charge on profits	**–**	(46)
Derecognition of deferred tax assets	**(1)**	17
Recognition of deferred tax assets	**(14)**	(44)
Expiry of tax losses	**(15)**	–
Prior year adjustments	**(7)**	(10)
Rate adjustments	**(8)**	(20)
Movement in foreign exchange rates	**(34)**	(10)
Balance at end of year	**537**	600
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**106**	123
Deferred tax liabilities	**(335)**	(295)
	(229)	(172)
Deferred tax charge for the year	**(16)**	(24)
Other liabilities, accruals and prepayments	**(21)**	(12)
Inventory	**2**	(3)
USA tax credits carry forward	**1**	(4)
Tax losses	**2**	(27)
Property, plant and equipment	**(7)**	35
Plantations	**20**	17
Other non-current assets	**(20)**	(22)
Other non-current liabilities	**7**	(8)
Amounts recorded directly in other comprehensive income	**11**	(28)
Acquisition of subsidiary	**–**	(18)
Reclassification of deferred tax to receivables[1]	**(8)**	–
Translation differences	**20**	13
Deferred tax balances at end of year	**(222)**	(229)
Deferred tax assets	**106**	106
Deferred tax liabilities	**(328)**	(335)

[1] *This relates to a reclassification of alternative minimum taxes to receivables*

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

13. Goodwill and intangible assets

(US$ million)	2019 Goodwill	Brands	Customer relationship	Customer technology	Other(1)	Total
Net carrying amount at beginning of year	8	9	32	9	5	63
Additions	–	–	–	–	10	10
Acquisitions	–	–	–	–	–	–
Amortisation	–	(1)	(3)	(2)	(2)	(8)
Utilisation	–	–	–	–	(8)	(8)
Disposals	–	–	–	–	–	–
Translation differences	(1)	(1)	–	–	(1)	(3)
Net carrying amount	7	7	29	7	4	54
Cost (gross carrying amount)	7	29	34	11	19	100
Accumulated amortisation and impairments	–	(22)	(5)	(4)	(15)	(46)
Net carrying amount	7	7	29	7	4	54

Goodwill is attributable to the cash generating units of specialities of US$4 million (2018: US$4 million) and coated woodfree of US$3 million (2018: US$4 million) in Sappi Europe. The goodwill has been assessed for impairment by comparing the carrying amount against the recoverable amount.

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

(US$ million)	2019	2018
14. Equity accounted investees		
Group's share of carrying amount of equity accounted investees		
Umkomaas Lignin Proprietary Limited	10	11
Other equity accounted investees	21	22
	31	33

Dividends received from equity accounted investees for the 2019 financial year were US$3 million (2018: US$6 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.

	2018					
	Goodwill	Brands	Customer relationship	Customer technology	Other	Total
	7	13	7	6	6	39
	–	–	–	–	–	–
	3	–	27	5	7	42
	–	(3)	(2)	2	(2)	(9)
	–	–	–	–	(4)	(4)
	–	–	–	–	–	–
	(2)	(1)	–	–	(2)	(5)
	8	9	32	9	5	63
	8	31	34	11	10	94
	–	(22)	(2)	(2)	(5)	(31)
	8	9	32	9	5	63

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

14. Equity accounted investees continued

Summarised financial information of Umkomaas Lignin Proprietary Limited:

(US$ million)	2019	2018
Current assets	**17**	19
Non-current assets	**16**	18
Current liabilities	**(7)**	(7)
Non-current liabilities	**(5)**	(7)
The above assets and liabilities include the following:		
Cash and cash equivalents	**3**	5
Current financial liabilities (excluding trade and other payables and provisions)	**(4)**	(7)
Non-current financial liabilities (excluding trade and other payables and provisions)	**(3)**	(7)

(US$ million)	2019	2018
Sales	**44**	49
Depreciation and amortisation	**2**	2
Taxation charge	**2**	2
Profit from continuing operations	**6**	7
Total comprehensive income	**6**	7

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

(US$ million)	2019	2018
Net assets of the joint venture	**21**	23
Proportion of the group's ownership interest	**50%**	50%
Carrying amount of the joint venture	**10**	11

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)	2019	2018
Profit (loss) from continuing operations	**1**	(1)
Other comprehensive income	**–**	–
Total comprehensive income (loss)	**1**	(1)

(US$ million)	2019	2018
Carrying amount of these other equity accounted investees	**21**	22

(US$ million)	2019	2018
15. Other non-current assets		
Investment funds	**7**	7
Defined benefit pension plan assets (refer to note 28)	**58**	68
Advances to tree growers	**3**	3
Ngodwana energy loan	**8**	5
Other non-financial assets	**7**	2
Financial assets at amortised cost	**3**	3
	86	88

US$ million	2019	2018
16. Inventories		
Raw materials	**168**	173
Work in progress	**60**	65
Finished goods	**327**	355
Consumable stores and spares	**154**	148
	709	741

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US$6 million (2018: US$2 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$4,538million (2018: US$4,432 million).

(US$ million)	2019	2018
17. Trade and other receivables		
Trade receivable, gross	**605**	649
Allowance for credit losses	**(15)**	(15)
Trade accounts receivable, net	**590**	634
Prepayments and other receivables	**128**	133
	718	767

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 expected 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 12.5% (2018: 12.4%) of turnover.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

(US$ million)	2019	2018
17. Trade and other receivables continued		
17.1 Reconciliation of the allowance for credit losses		
Balance at beginning of year	**15**	10
Raised during the year	**16**	16
Released during the year	**(14)**	(7)
Utilised during the year	**(2)**	(3)
Translation differences	**–**	(1)
Balance at end of year	**15**	15

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

17.2 Analysis of amounts past due

September 2019

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

(US$ million)	Not impaired	Impaired	Total
Less than seven days overdue	**11**	**–**	**11**
Between seven and 30 days overdue	**10**	**–**	**10**
Between 30 and 60 days overdue	**3**	**–**	**3**
More than 60 days overdue	**3**	**15**	**18**
	27	**15**	**42**

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 seven days overdue	10	–	10
Between seven 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

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.

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 January 2022. This programme has a limit of US$416 million (€380 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$429 million (2018: US$438 million) have been pledged as collateral for amounts received as funding under the programme of US$366 million (2018: US$376 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 2019 amounted to US$114 million (2018: US$71 million).

Details of the securitisation programme at the end of the 2019 and 2018 financial years are disclosed in the table below:

Bank	**Currency**	**Value**	**Facility[1]**	**Discount charges**
2019				
Rand Merchant Bank Limited	**ZAR**	**ZAR1,723 million**	**Unlimited**	**Linked to 3-month JIBAR**
2018				
Rand Merchant Bank Limited	ZAR	ZAR1,004 million	Unlimited	Linked to 3-month JIBAR

[1] *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), Bancolombia and Citibank (New York) by utilising the customers' credit facilities with the discounting bank.

The total charge related to this discounting amounted to US$8 million (2018: US$7 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

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 sales and trade receivables during the years ended September 2019 and September 2018.

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$718 million (2018: US$767 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:

	2019			2018		
Threshold	**Number of customers**	**US$ million**	**Percentage**	Number of customers	US$ million	Percentage
Greater than US$10 million	**6**	**107**	**18%**	6	103	16%
Between US$5 million and US$10 million	**8**	**55**	**9%**	9	63	10%
Less than US$5 million	**2,735**	**428**	**73%**	2,497	468	74%
	2,749	**590**	**100%**	2,512	634	100%

Refer to note 31 for further details on credit risk.

	2019		2018	
	Number of shares	**US$ million**	Number of shares	US$ million
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(1)	**19,961,476**		19,961,476	
Issued share capital:				
Fully paid ordinary shares of ZAR1 each	**548,053,463**	**36**	557,202,573	39
Fully paid 'A' ordinary shares of ZAR1 each(1)	**–**	**–**	19,961,476	2
Treasury shares(2)	**(5,278,023)**	**–**	(37,909,932)	(3)
Share premium	**–**	**766**	–	820
	542,775,440	**802**	539,254,117	858
The movement in ordinary share capital and share premium is reconciled as follows:				
Opening balance		**858**		894
Transfers from Sappi Limited Share Incentive Trust		**1**		1
Translation movements		**(57)**		(37)
Closing balance		**802**		858

(1) Sappi repurchased the full 19,961,476 'A' ordinary shares in August 2019 at par value upon their vesting date. The 'A' ordinary shares were unlisted but ranked pari passu with the ordinary shares in all respects except for dividend entitlements where the 'A' ordinary shares were entitled to 50% of the dividends payable on the ordinary shares. The 'A' ordinary shares had the same voting rights as ordinary shares but were not listed on the JSE Limited.

(2) Includes 5,278,023 ordinary shares (2018: 17,948,456) as well as nil (2018: 19,961,476) 'A' ordinary shares that are held by group entities including The Sappi Limited Performance 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	2019	2018
Ordinary treasury shares:		
Opening balance	**17,948,456**	22,182,378
Repurchase and delisting of treasury shares from wholly owned subsidiary	**(9,149,110)**	–
Treasury shares issued to participants	**(3,521,323)**	(4,233,922)
– Scheme shares (refer to note 29)	**(424,291)**	(583,804)
– Plan shares (refer to note 29)	**(3,097,032)**	(3,650,118)
Closing balance	**5,278,023**	17,948,456
'A' ordinary treasury shares:		
'A' ordinary shares issued to the Broad-based Black Economic Empowerment trusts	**–**	19,961,476
	5,278,023	37,909,932

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 2019 and 2018 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 FINANCIAL STATEMENTS continued

for the year ended September 2019

(US$ million)	2019	2018
19. Other comprehensive income (loss)		
Item that will not be reclassified subsequently to profit or loss		
Actuarial gains (losses) on post-employment benefit funds	**(49)**	–
Gross amount	**(59)**	28
Tax on above	**10**	(9)
Tax rate change[1]	**–**	(19)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**(67)**	(61)
Translation of foreign operations	**(61)**	(58)
Exchange differences arising on non-distributable reserves	**(8)**	(4)
Exchange differences arising on hedging reserves	**2**	1
Tax	**–**	–
Fair value adjustment on financial instruments at FVOCI	**–**	(1)
Gross amount	**–**	(1)
Tax	**–**	–
Hedging reserves	**(11)**	5
Gains (losses) during the year	**2**	(2)
Reclassified to profit or loss	**1**	2
Reclassified to property, plant and equipment	**(13)**	8
Adoption of IFRS 9	**(4)**	–
Tax	**3**	(3)
Other comprehensive income (loss) recorded directly in equity	**(127)**	(57)
Profit for the year	**211**	323
Total comprehensive income for the year	**84**	266

[1] *The effect of tax rate changes relates 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)	2019 Legal reserves[1]	2019 Share-based payment reserve	2019 Other	2019 Total	2018 Legal reserves[1]	2018 Share-based payment reserve	2018 Other	2018 Total
20. Non-distributable reserves								
Opening balance	**59**	**72**	**2**	**133**	60	61	2	123
Transfer to retained earnings	**(34)**	**–**	**–**	**(34)**	–	–	–	–
Transfers of vested share options	**–**	**(2)**	**–**	**(2)**	–	(1)	–	(1)
Share-based payment expense	**–**	**10**	**–**	**10**	–	11	–	11
Other movements	**–**	**–**	**–**	**–**	–	4	–	4
Translation differences	**(2)**	**(5)**	**(1)**	**(8)**	(1)	(3)	–	(4)
	23	**75**	**1**	**99**	59	72	2	133

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

(US$ million)	2019	2018
21. Interest-bearing borrowings		
Secured borrowings[1]	**366**	376
Total secured borrowings	**366**	376
Unsecured borrowings	**1,528**	1,539
Total borrowings (refer to note 31)	**1,894**	1,915
Less: Current portion included in current liabilities	**(181)**	(97)
Total non-current interest-bearing borrowings	**1,713**	1,818
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2019	**–**	97
2020	**181**	504[2]
2021	**42**	46
2022	**386[2]**	538
2023	**398**	443
2024 (September 2018: Thereafter)	**184**	287
Thereafter	**703**	–
	1,894	1,915

[1] Consists of pledge over securitised trade receivables (refer to note 25 for details of encumbered assets).
[2] Includes securitisation debt.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

21. Interest-bearing borrowings continued

Set out below are details of the more significant interest-bearing borrowings in the group at September 2019:

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry[8]	Financial covenants
Redeemable bonds							
Public bond	EUR	Fixed	€450 million	€443 million[3][4][5]	Unsecured	April 2023	No financial covenants
Public bond	EUR	Fixed	€350 million	€346 million[3][4][5]	Unsecured	April 2023	No financial covenants
Public bond	US$	Fixed	US$221 million	US$218 million[4][5][6]	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed	ZAR745 million	ZAR745 million[4]	Unsecured	April 2020	No financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€216 million	€216 million	Trade receivables (securitisation programme)	January 2022	EBITDA to net interest and net debt to EBITDA[7]
UniCredit Bank	US$	Variable	US$130 million	US$130 million	Trade receivables (securitisation programme)	January 2022	EBITDA to net interest and net debt to EBITDA[7]
Unsecured bank term loans							
Österreichische Kontrollbank (OeKB)	EUR	Variable	€58 million	€58 million		December 2019	No financial covenants
Österreichische Kontrollbank	EUR	Fixed	€41 million	€41 million[4][2]		June 2021	EBITDA to net interest and net debt to EBITDA[7]
Österreichische Kontrollbank	EUR	Fixed	€150 million	€149 million[4][2]		March 2024	EBITDA to net interest and net debt to EBITDA[7]
GroCapital Financial Services	ZAR	Variable	€400 million	€400 million		May 2020	No financial covenants
Nedbank	ZAR	Variable	ZAR1,500 million	ZAR1,498 million[4]		May 2024	No financial covenants

[1] The nature of the rates for the group bonds are explained in note 31.
[2] The OeKB provides the funding for this facility but the majority of the credit risk is guaranteed by some of Sappi's relationship banks.
[3] Under the relevant indenture, certain limitations exist including dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations. In case of a change of control, holders have a right to require the relevant issuer to repurchase all or any part of their bonds at a purchase price of 101% of the principal amount of bonds.
[4] The principal value of the loans/bonds corresponds to the amount of the facility; however, the balance sheet value has been adjusted by the discounts and capitalised transaction costs paid upfront.
[5] Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time redeem any public bonds (the 'securities'), in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus a premium, as defined in the bond indentures, together with interest calculated on the principal amount of the securities to be redeemed up to the date of redemption.
[6] Under the relevant indenture, limitations exist on liens, sale and leaseback transactions and mergers and consolidations. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH group.
[7] Financial covenants relate to the Sappi Limited group.
[8] 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
21. Interest-bearing borrowings continued		
The analysis of the currency per debt is:		
US Dollar	348	**348**
Euro	1,254	**1,371**
ZAR	2,642	**175**
		1,894

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 2019 and 2018 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$416 million (€380 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 Papier Holding GbmH on behalf of Europe and Trading, and Sappi NA Finance LLC (a special purpose entity) on behalf of North America, 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 2019, a funding reserve, that is reset on a monthly basis, amounted to 14.40% (2018: 13.89%).

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$383 million (€350 million) and the used portion of the programme limit.

The trade receivables are legally transferred; however, these receivables do not qualify for derecognition under IFRS 9 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 FINANCIAL STATEMENTS continued

for the year ended September 2019

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	2019	2018
Unutilised committed facilities				
Syndicated loan/revolving credit facility[1]	EUR/ZAR	Variable (EURIBOR/JIBAR)	**640**	680
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	**50**	8
			690	688
Unutilised uncommitted facilities				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (ZAR bank prime rate)	**38**	19
Cash management overdraft facility	USD	Variable (LIBOR)	**20**	20
			58	39
Total unutilised facilities (committed and uncommitted) excluding cash			**748**	727

(1) *Two syndicated loans with a consortium of banks with revolving facilities available of €525 million (2018: €525 million) and ZAR1,000 million (2018: 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$3.6 million (2018: US$4.5 million) in respect of the two facilities.*

Fair value

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

22. Other non-current liabilities

(US$ million)	2019	2018
Long-term employee benefits	**6**	4
Workmen's compensation	**13**	14
Long service awards	**20**	19
Land restoration obligation	**15**	14
Restructuring provisions	**2**	3
Deferred income	**1**	7
Other	**5**	7
	62	68

(US$ million)	2019	2018
23. Trade and other payables and provisions		
Trade payables	**596**	637
Employee-related liabilities	**111**	139
Capital expenditure accruals	**37**	26
Accrued interest	**28**	9
Rebates	**73**	73
Value added tax	**31**	35
Other payables	**93**	90
Trade and other payables	**969**	1,009
Provisions	**6**	6

Details of restructuring provisions are provided below:

(US$ million)	Severance, retrenchment and related costs
Balance at September 2017	13
Increase in provisions	4
Utilised	(5)
Released during the year	(3)
Balance at September 2018	9
Utilised	(3)
Balance at September 2019	**6**

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

	(US$ million)	2019	2018
24.	**Notes to the group statement of cash flows**		
24.1	**Cash generated from operations**		
	Profit for the year	**211**	323
	Adjustment for:		
	Depreciation	**277**	273
	Fellings	**71**	66
	Amortisation	**8**	9
	Taxation charge	**87**	98
	Net finance costs	**85**	68
	Impairments (reversals) of property, plant and equipment and investments	**10**	(3)
	Restructuring provisions and closure costs raised	**–**	1
	Fair value adjustment gains and growth on plantations	**(92)**	(96)
	Defined post-employment benefits paid	**(41)**	(45)
	(Profit) loss on disposal and written off assets	**11**	(4)
	Share-based payment charges	**12**	13
	Other non-cash items	**34**	6
		673	709
	Other non-cash items for the year ended September 2019 mainly relate to defined benefit liabilities and plan assets of US$33 million (2018: US$18 million) offset by a release of the contingent consideration of US$7 million (2018: US$6 million).		
24.2	**Decrease (increase) in working capital**		
	(Increase) decrease in inventories	**4**	(92)
	Decrease (increase) in receivables	**34**	(87)
	(Decrease) increase in payables	**(53)**	100
		(15)	(79)
24.3	**Finance costs paid**		
	Interest and other finance costs on liabilities carried at amortised cost	**(89)**	(92)
	Premium and costs on early redemption of redeemable bonds and other loans	**(9)**	–
	Net foreign exchange gains	**4**	6
	Accrued interest and non-cash items	**43**	2
		(51)	(84)
24.4	**Taxation paid**		
	Net amounts payable at beginning of year	**(27)**	(25)
	Taxation charge to profit or loss	**(71)**	(74)
	Translation and other	**7**	(1)
	Less: Net amounts payable at end of year	**40**	27
		(51)	(73)
24.5	**Proceeds on disposal of property, plant and equipment**		
	Book value of non-current assets disposed of	**12**	8
	Gain (loss) on disposal	**(9)**	3
		3	11

24.6 Reconciliation of liabilities arising from financing activities

(US$ million)	2018	Cash flows	Transfers between long-term and short-term	Acquisition	Foreign exchange move-ments	Other changes	2019
Long-term borrowings	1,818	100	(123)	–	(93)	11	**1,713**
Short-term borrowings[(1)]	113	(44)	123	–	(11)	–	**181**
Total	1,931	56	–	–	(104)	11	**1,894**
	2017						2018
Long-term borrowings	1 739	124	(25)	7	(30)	3	1 818
Short-term borrowings[(1)]	133	(56)	25	6	5	–	113
Total	1 872	68	–	13	(25)	3	1 931

[(1)] *Includes overdraft.*

(US$ million)		2019	2018
25.	**Encumbered assets**		
	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	**429**	438

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of US$416 million (EUR380 million), of which, US$366 million (EUR335 million) was utilised at financial year-end (refer to notes 17 and 21).

(US$ million)		2019	2018
26.	**Commitments**		
	Capital commitments		
	Contracted but not provided	**194**	293
	Approved but not contracted	**167**	381
		361	674
	The above figures exclude the post-balance sheet acquisition (refer to note 33).		
	Future forecast cash flows of capital commitments in the year ended:		
	2019	**–**	432
	2020	**347**	208
	2021	**6**	24
	2022	**–**	2
	2023	**–**	–
	2024 (2018: Thereafter)	**–**	8
	Thereafter	**8**	–
		361	674
	These projects are expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group.		
	Lease commitments		
	Future undiscounted minimum operating lease obligations payable in the year ended September:		
	2019	**–**	26
	2020	**28**	18
	2021	**24**	14
	2022	**17**	8
	2023	**14**	6
	2024 (2018: Thereafter)	**11**	19
	Thereafter	**16**	–
		110	91

The group enters into a number of leases, mainly relating to premises, vehicles and equipment. Lease terms range between 3 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 FINANCIAL STATEMENTS continued

for the year ended September 2019

28. Post-employment benefits

Summary of results

	Defined contribution plans[1]		Defined benefit pension plans		Post-employment healthcare subsidy	
(US$ million)	**2019**	2018	**2019**	2018	**2019**	2018
Post-employment plan costs recognised in profit or loss	**40**	39	**19**	11	**7**	7
Employer contributions paid during the financial year	**40**	39	**32**	37	**4**	3
Amounts presented in the group balance sheet are as follows:						
Net pension/healthcare subsidy liabilities (refer to balance sheet)			**253**	232	**103**	97
Net pension assets (refer to note 15)[2]			**(58)**	(68)	**–**	–
Net balance sheet liabilities			**195**	164	**103**	97
Movement in the balance sheet for the pension/healthcare subsidy						
Net pension/healthcare subsidy liabilities at beginning of year			**(164)**	(203)	**(97)**	(106)
Acquisitions			**–**	(5)	**–**	–
Net pension/healthcare subsidy costs for the year			**(19)**	(11)	**(7)**	(7)
Employer contributions			**32**	37	**4**	3
Net actuarial gains for the year			**(54)**	16	**(5)**	12
Translation differences			**10**	2	**2**	1
Net pension/healthcare liabilities at end of year			**(195)**	(164)	**(103)**	(97)

[1] Defined contribution plans: Employer contributions paid is the amount charged to profit or loss.
[2] 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$40 million (2018: US$39 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$40 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 tax payers, usually on residence-based criteria in accordance with domestic laws. State benefits vary widely in value and accrual formulae from country to country. Contributions are normally paid with domestic taxation or as supplemental national insurance contributions (or the like), at rates set by domestic governments. Participation in state plans involves no obligations on group companies other than to pay contributions according to the rates specified by domestic governments. Costs, where incurred, are included 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 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 include 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 FINANCIAL STATEMENTS continued

for the year ended September 2019

28. Post-employment benefits continued

Investment management and strategic asset allocation

Plan fiduciaries are responsible for investment policies (including ESG) and strategies for local trusts. Long-term strategic investment objectives includes 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)[(1)]:** 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 26% equity instruments, 60% debt instruments, 12% multi-asset and other instruments, 2% cash

(1) 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.

- **Assets**: 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, fully or partially, counter-movements in plan liabilities. The group is also exposed to losses from the effects of credit grade re-ratings on debt instruments across the globe. Changes in tax status of dividends and coupons will also affect investment income.

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 plans where employees contribute a fixed percentage of pensionable salary (or equivalent definition). 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 are normally resolved as voluntary payment agreements with plan fiduciaries but could evolve into enforcement actions by local regulators, reducing accrued entitlements, or a charge over company assets.

Expected company contributions for our defined benefit pension/lump sum plans across group subsidiaries over the next financial year are US$28 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$7 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)	2019	2018
Jubilee (long service award) in continental Europe	**20**	19
Early retirement (temporary pension) benefit in Belgium	**6**	4
ATZ (early retirement – temporary salary supplement) obligations in Germany and Austria	**9**	10
Workmen's compensation benefit obligations in North America	**13**	14

These (unfunded) liabilities are reported under other long-term liabilities and other payables.

	Defined benefit pension plans		Post-employment healthcare subsidy	
(US$ million)	2019	2018	2019	2018
Components of defined benefit cost recognised in profit or loss				
Current service cost	**16**	18	**3**	3
Past service cost (credit)	**2**	(9)	**–**	–
Interest on net defined benefit	**–**	1	**4**	4
Fund administration costs	**2**	2	**–**	–
Non-routine settlement gain	**(1)**	(1)	**–**	–
Net amount recognised in profit or loss	**19**	11	**7**	7
Charge attributed to operating cost	**19**	10	**3**	3
Charge attributed to finance cost	**–**	1	**4**	4
Components of defined benefit cost recognised in OCI				
Actuarial gains (losses) arising from membership experience	**(6)**	(6)	**1**	8
Actuarial gains (losses) arising from changes in demographic assumptions	**7**	5	**–**	(2)
Actuarial gains (losses) arising from changes in financial assumptions	**(147)**	50	**(6)**	7
Return on plan assets (excluding amounts included in interest income)	**92**	(33)	**–**	(1)
Gain (loss) recognised in other comprehensive income	**(54)**	16	**(5)**	12

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

28. Post-employment benefits continued

(US$ million)	Defined benefit pension plans 2019	2018	Post-employment healthcare subsidy 2019	2018
Movement in the present value of the defined benefit obligation in the current year				
Defined benefit obligation at beginning of year	**1,327**	1,334	**104**	114
Current service cost	**16**	18	**3**	3
Past service cost (credit)	**2**	(9)	**–**	–
Interest expense	**47**	46	**5**	5
Plan participants' contributions	**2**	2	**–**	–
Remeasurements	**146**	(49)	**5**	(13)
– Membership experience changes	**6**	6	**(1)**	(8)
– Demographic assumption changes	**(7)**	(5)	**–**	2
– Financial assumption changes	**147**	(50)	**6**	(7)
Acquisition[1]	**–**	78	**–**	–
Non-routine plan settlements	**(9)**	(1)	**–**	–
Benefits paid	**(79)**	(77)	**(4)**	(4)
Translation difference	**(37)**	(15)	**(3)**	(1)
Defined benefit obligation at end of year	**1,415**	1,327	**110**	104
– Present value of wholly unfunded obligation	**183**	176	**84**	77
– Present value of wholly or partially funded obligation	**1,232**	1,151	**26**	27
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	**1,163**	1,131	**7**	8
Interest income	**47**	45	**1**	1
Employer contributions	**32**	37	**4**	3
Plan participants' contributions	**2**	2	**–**	–
Remeasurements				
– Return (loss) on plan assets net of interest income	**92**	(33)	**–**	(1)
Acquisition[1]	**–**	73	**–**	–
Non-routine plan settlements	**(8)**	–	**–**	–
Benefits paid	**(79)**	(77)	**(4)**	(4)
Fund administration costs	**(2)**	(2)	**–**	–
Translation difference	**(27)**	(13)	**(1)**	–
Fair value of plan assets at end of year	**1,220**	1,163	**7**	7
Net balance sheet defined benefit liability	**195**	164	**103**	97

[1] *Acquisition: Refers to assets and liabilities acquired with Cham.*

28. Post-employment benefits continued

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

(US$ million)	Funded pension plans 2019	2018	Funded subsidy plans 2019	2018
Investments quoted in active markets				
– Equity and high yield investments	**191**	232	**–**	–
– Investment grade debt instruments	**197**	215	**–**	–
– Property investment funds	**16**	16	**–**	–
Unquoted investments				
– Equity and high yield investments[1]	**789**	680	**6**	6
Cash	**27**	20	**1**	1
	1,220	1,163	**7**	7

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

	Funded pension plans 2019	2018	Funded subsidy plans 2019	2018
Total investment return on plan assets	**139**	12	**1**	–

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:

	2019			2018		
	North America	**Europe (incl UK)**	**Southern Africa**	North America	Europe (incl UK)	Southern Africa
Discount rate – pension (%)	**2.88**	**0.90**	**9.09**	4.02	1.70	9.69
Discount rate – post-employment healthcare subsidy (%)	**2.76**	**n/a**	**10.44**	3.93	n/a	10.00
Future salary increase rate – pension (%)	**–**	**0.90**	**6.19**	–	1.00	7.09
Cost of living adjustment for pensions in payment (%)[1]	**–**	**1.50**	**4.15**	–	1.80	4.87
Healthcare cost trend rate (%)[2]	**7.60 – >4.5**	**n/a**	**7.58**	8.00 – >4.50	n/a	7.75
Sample rate average life expectancy from retirement (years)[3]						
– For current beneficiaries	**25.40**	**24.30**	**19.20**	25.40	24.40	19.20
– For future retiring beneficiaries	**27.10**	**26.10**	**20.20**	27.10	26.20	20.20

[1] Weighted average for plans granting cost of living adjustment whether fixed or variable.
[2] North America: Initial rate – > long term rate trend over 8 years (2018: 9 years).
[3] Based on local mortality tables in use (with modifications to reflect expected changes in mortality over time) for males at age 60.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

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$170 million (increase by US$207 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$26 million (decrease by US$22 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$51 million (decrease by US$48 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	12 years	10 years
Europe (including UK)	12 years	n/a
Southern Africa	8 years	14 years

Regional split of results

(US$ million)	2019 North America	2019 Europe (including UK)	2019 Southern Africa	2018 North America	2018 Europe (including UK)	2018 Southern Africa
Defined benefit obligation (pension)	**(757)**	**(551)**	**(107)**	(665)	(547)	(115)
Defined benefit obligation (healthcare)	**(84)**	**n/a**	**(26)**	(77)	n/a	(27)
Fair value of plan assets (pension)	**752**	**353**	**115**	675	355	133
Fair value of plan assets (healthcare)	**–**	**n/a**	**7**	–	n/a	7
Net defined benefit liability	**(89)**	**(198)**	**(11)**	(67)	(192)	(2)
Reconciliation of the regional balance sheets						
Net defined benefit liability at beginning of year	**(67)**	**(192)**	**(2)**	(102)	(206)	(1)
Defined benefit cost recognised in profit or loss (pension)	**(8)**	**(8)**	**(3)**	(9)	2	(4)
Defined benefit cost recognised in profit or loss (healthcare)	**(5)**	**n/a**	**(2)**	(4)	n/a	(3)
Balance sheet take-on of Cham acquisition plans	**–**	**–**	**–**	–	(5)	–
Net gain (loss) recognised in OCI (pension)	**(16)**	**(28)**	**(10)**	18	(2)	–
Net gain (loss) recognised in OCI (healthcare)	**(5)**	**n/a**	**–**	12	n/a	–
Company contributions paid during the year	**12**	**19**	**5**	18	17	5
Translation differences	**–**	**11**	**1**	–	2	1
Net defined benefit liability at end of year	**(89)**	**(198)**	**(11)**	(67)	(192)	(2)

29. Share-based payments

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

Shareholders, at prior annual general meetings, fixed the aggregate number of shares which may be acquired by all participants under The Sappi Limited Share Incentive Trust (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 FINANCIAL STATEMENTS continued

for the year ended September 2019

29. Share-based payments continued

Movements in share options and performance shares for the financial years ended September 2019 and September 2018 are as follows:

	Performance shares[1]	Share options	Weighted average share option exercise price (ZAR)	Total shares
Outstanding at September 2017	13,484,755	1,425,789	28.99	**14,910,544**
– Offered	2,755,650	–	–	**2,755,650**
– Paid for/vested	(3,650,118)	(583,804)	31.63	**(4,233,922)**
– Returned, lapsed and forfeited	(280,117)	(126,350)	32.95	**(406,467)**
Outstanding at September 2018	12,310,170	715,635	26.67	**13,025,805**
– Offered	3,088,150	–	–	**3,088,150**
– Paid for/vested	(3,097,032)	(424,291)	28.07	**(3,521,323)**
– Returned, lapsed and forfeited	(256,198)	(56,898)	31.95	**(313,096)**
Outstanding at September 2019	12,045,090	234,446	22.90	**12,279,536**
Exercisable at September 2017	–	1,425,789	28.99	
Exercisable at September 2018	–	715,635	26.67	
Exercisable at September 2019	–	234,446	22.90	

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

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

	2019	2018	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
03 December 2010	**–**	214,200	Time	Vested	03 December 2018	35.20
02 December 2011	**234,446**	501,435	Time	Vested	02 December 2019	22.90
Performance shares:						
04 December 2014	**–**	3,130,645	Performance	04 December 2018	n/a	Rnil
07 December 2015	**3,487,930**	3,548,110	Performance	07 December 2019	n/a	Rnil
09 December 2016	**2,831,414**	2,889,604	Performance	09 December 2020	n/a	Rnil
04 December 2017	**2,671,378**	2,741,811	Performance	04 December 2021	n/a	Rnil
19 November 2018	**3,054,368**	–	Performance	19 November 2022	n/a	Rnil
	12,279,536	13,025,805				

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 44	Issue 44
Date of grant	19 November 2018	19 November 2018
Type of award	Performance	Performance
Share price at grant date	ZAR 82.49	ZAR 82.49
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	68.5%	80.0%
Number of shares offered	1,544,075	1,544,075
Volatility	30%	n/a
Risk-free discount rate	7.8% (ZAR yield)	n/a
Expected dividend yield	2.5%	n/a
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR 61.79	ZAR 59.46

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

Sappi's BBBEE transaction vested in August 2019 with the "A" ordinary shares vesting at Rnil value as the 30-day volume-weighted average share price of R46.91 was below the share price hurdle rate of R72.18. As a result Sappi Limited repurchased and cancelled all the 19,961,476 "A" ordinary shares from the BBBEE trusts at par value. The 1,280,597 ordinary shares held within the ESOP trust for certain Sappi employees vested at R42.70 per share.

The group incurred a share-based payment expense of US$1 million (2018: US$1 million) during the 2019 financial year that related to the 'A' ordinary shares that were awarded.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

(US$ million)		2019	2018
30. Derivative financial instruments			
Hedging instrument	**Hedged item**		
Current assets			
Pulp swaps	Raw materials	**–**	4
Forward exchange contracts	Various	**3**	17
		3	21
Non-current liabilities			
Interest rate currency swap	ZAR1,500 million unsecured loan	**2**	–
		2	–
Current liabilities			
Forward exchange contracts	Various	**1**	2
Pulp swaps	Raw materials	**2**	–
FX zero cost collar	Highly probable forecast sales	**4**	4
		7	6

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.

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 2019 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 29 September 2019. The information is presented in US Dollar, which is the group's reporting currency.

	Expected maturity date									
(US$ equivalent in millions)	2020	2021	2022	2023	2024	2025+	**2019 Carrying value**	**2019 Fair value[4]**	2018 Carrying value	2018 Fair value
US Dollar										
Fixed rate debt	–	–	–	–	–	219	**219**	**244**	218	223
Average interest rate (%)	–	–	–	–	–	7.59	**7.59**		7.60	
Variable rate debt[1]	–	–	130	–	–	–	**130**	**130**	134	134
Average interest rate (%)	–	–	2.80	–	–	–	**2.80**		4.46	
Euro										
Fixed rate debt	42	42	20	398	85	484	**1,071**	**1,146**	1,170	1,249
Average interest rate (%)	1.69	1.69	2.19	3.95	2.23	3.18	**3.25**		3.30	
Variable rate debt[2]	64	–	236	–	–	–	**300**	**301**	312	313
Average interest rate (%)	0.30	0.88	1.38	0.88	0.88	0.88	**1.15**		1.15	
Rand										
Fixed rate debt	49	–	–	–	99	–	**148**	**158**	53	55
Average interest rate (%)	8.06	–	–	–	9.26	–	**8.86**		8.06	
Variable rate debt[3]	26	–	–	–	–	–	**26**	**28**	28.00	30
Average interest rate (%)	9.74	–	–	–	–	–	**9.74**		9.46	
Total										
Fixed rate debt	91	42	20	398	184	703	**1,438**	**1,548**	1,441	1,527
Average interest rate (%)	5.12	1.69	2.19	3.87	6.47	4.55	**4.49**		4.13	
Variable rate debt	90	–	366	–	–	–	**456**	**459**	474	477
Average interest rate (%)	3.07	0.88	1.88	0.88	0.88	0.88	**2.12**		2.57	
Fixed and variable	181	42	386	398	184	703	**1,894**	**2,007**	1,915	2,004
Current portion							**181**	**189**	97	98
Long-term portion							**1,713**	**1,818**	1,818	1,906
Total interest-bearing borrowings (refer to note 21)							**1,894**	**2,007**	1,915	2,004

[1] The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).
[2] The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).
[3] The ZAR floating interest rates are based on the Johannesburg Inter-bank Agreed Rate (JIBAR).
[4] The method used to measure fair value is the net present value method using a yield curve plus an appropriate credit spread. 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

31. Financial instruments continued

(a) Market risk continued

Interest rate risk continued

Interest-bearing borrowings continued

The range of interest rates in respect of all non-current borrowings, comprising both fixed and floating rate obligations, is between 0.30% and 9.74% (depending on currency). At September 2019 75.88% of Sappi's borrowings were at fixed rates of interest and 24.12% 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.

Cash flow hedges

The effective gains or losses from changes in fair value of the derivatives designated in a cash flow hedge are recorded in OCI. These accumulated gains or losses will be recycled to profit or loss in the same account as the hedged item when the hedged item affects profit or loss.

Hedge effectiveness is assessed at inception of the hedge relationship and on a quarterly basis or upon a significant change in circumstances affecting the hedge effectiveness requirements. The hedge effectiveness requirements are principles-based, so there is no determined precise quantitative threshold of effectiveness. The hedge effectiveness assessment is only forward looking using the critical terms match.

Retrospective measurement is based on the hypothetical derivative approach which is a type of ratio analysis comparing changes in fair value or cash flows of the hedging instrument with the changes in fair value or cash flows of the perfect hypothetical derivative. The hypothetical derivative exactly mirrors the features of the underlying hedged item.

The valuation of the hedging instruments includes an adjustment for credit risk, ie an asset includes a counterparty credit risk spread, whereas the fair value measurement of a liability includes Sappi's own credit risk spread.

Interest rate swaps floating to fixed

In May 2019, Sappi contracted a floating rate term loan in the total amount of ZAR1.5 billion maturing in 2024 and swapped the floating rates into fixed rates. This liability and the corresponding interest rate swap are designated in a cash flow hedging relationship, allowing all mark-to-market valuations of the swaps to be booked to equity. As all critical terms of the hedged item and the hedging instrument match perfectly, the hedge is expected to continue being highly effective.

At September 2019, the hedge was highly effective and the swap had a net negative fair value of US$2.03 million which was deferred to equity.

Summary of outstanding cash flow hedges

September 2019

US$ million	Interest rate	Maturity date	Nominal value	Total fair value[1]	Recorded in OCI	Recorded in Profit or loss
Cash flow hedges						
IRS	ZAR variable (3-M JIBAR + 180 BPS) to ZAR 9.2484% fixed	May 2024	ZAR1,500 million	(2)	(2)	–
				(2)	**(2)**	**–**

September 2018

None outstanding

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

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

31. Financial instruments continued

(a) Market risk continued

Interest rate risk continued

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-)	366	1.35
Commitment fee on unused revolving credit facility	574	0.50
Interest on utilised bank syndicated loans	209	0.52
	1,149	2.38
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	1,894	1,438	456	2
Ratio fixed/floating to total debt		75.88%	24.12%	

The floating rate debt represents 24.12% 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$2.285 million.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

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 and zero cost foreign exchange collars. 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 2019 and 2018 financial years disclose financial instruments as determined by IFRS 9 *Financial Instruments: Recognition and Measurement*, classified by underlying currency, and does not indicate the group's foreign currency exchange exposure.

(US$ million)	**Total**	**Total in scope**	USD	EUR	ZAR	GBP	Other
September 2019							
Classes of financial instruments							
Non-current assets							
Other non-current assets	**86**	**18**	–	8	10	–	–
Current assets							
Trade receivables	**590**	**590**	265	261	11	29	24
Prepayments and other receivables	**128**	**35**	2	17	16	–	–
Derivative financial instruments	**3**	**3**	1	–	2	–	–
Cash and cash equivalents	**393**	**393**	215	26	122	3	27
		1 039	483	312	161	32	51
Non-current liabilities							
Interest-bearing borrowings	**1,713**	**1,713**	348	1,266	99	–	–
Derivative financial instruments	**2**	**2**	–	–	2	–	–
Other non-current liabilities	**418**	**–**	–	–	–	–	–
Current liabilities							
Interest-bearing borrowings	**181**	**181**	–	105	76	–	–
Derivative financial instruments	**7**	**7**	4	–	2	1	–
Trade payables	**596**	**596**	185	237	172	1	1
Other payables and accruals	**373**	**186**	29	71	86	–	–
		2,685	566	1,679	437	2	1
Foreign exchange gap		**(1,646)**	(83)	(1,367)	(276)	30	50

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
September 2018							
Classes of financial instruments							
Non-current assets							
Other non-current assets	88	10	–	10	–	–	–
Current assets							
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
		1,064	506	349	109	33	67
Non-current liabilities							
Interest-bearing borrowings	1,818	1,818	352	1,385	81	–	–
Other non-current liabilities	68	8	1	–	–	7	–
Current liabilities							
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
		2,745	571	1,843	320	9	2
Foreign exchange gap		(1,681)	(65)	(1,494)	(211)	24	65

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)		**2019** Contract amount (notional amount)	**2019** Fair value (unfavourable) favourable	2018 Contract amount (notional amount)	2018 Fair value (unfavourable) favourable
Foreign currency					
Bought:	US Dollar	**178**	**–**	4	–
	Euro	**89**	**(1)**	83	–
	Rand	**44**	**–**	93	4
Sold:	US Dollar	**(122)**	**–**	(130)	4
	Euro	**(54)**	**1**	(36)	–
	Rand	**(95)**	**1**	(160)	7
		41	**1**	(146)	15

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

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 2019 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 30 October 2020.

As at September 2019, there was an open exposure of US$37 million that has since been hedged.

Sensitivity analysis – (loss) gain

Base currency	Exposure (US$ million)	+10%	–10%
AUD	6.5	0.6	(0.7)
CAD	79.7	(1.0)	1.2
CHF	(11.0)	(0.2)	0.2
JPY	2.1	0.2	(0.2)
USD	(17.9)	(1.6)	2.0
ZAR	(22.8)	(2.1)	2.5
Other currencies	0.3	7.5	(9.1)
Total	36.9	3.4	(4.1)

Based on the exposure at the end of September 2019, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a gain of US$3.4 million or a loss of US$4.1 million respectively.

During 2019, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$203 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$2.7 million. We also contracted zero cost foreign exchange collars for a total nominal value of US$250 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 2019 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$2.3 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 spot movements of the FECs and the intrinsic value of the zero cost foreign exchange collar is designated as the hedging instrument. The forward points of the FECs and the time value of the zero cost collars are not included in the hedge designation and will be reported as cost of hedging in OCI.

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 2019 financial year, the hedges were highly effective. A realised gain of US$2.7 million relating to the realised fair value movements of non-deliverable forward exchange contracts (including cost of hedging) was transferred from OCI to revenue in profit or loss and at the financial year-end, a negative amount of US$0.2 million was deferred in equity. A realised loss of US$2.3 million relating to the settled zero cost foreign exchange collars (including cost of hedging) was transferred from OCI to revenue in profit or loss and at the financial year-end, a positive value in the amount of US$1.2 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 2019 financial year, most of the hedges were highly effective. A realised foreign exchange loss of US$3 million of the designated FECs was transferred from OCI as a basis adjustment to fixed assets, a positive amount of US$0.2 million was deferred in equity.

Firm commitment regarding the acquisition of a business

Sappi Canada having a CAD functional currency, decided to acquire a business located in Canada from a US timber company in the amount of US$175 million. The Offer to Purchase in USD was signed in July 2019 with the acquisition flow of funds scheduled to take place on 30 October 2019. In order to cover the foreign exchange risk relating to the economic FX exposure as early as possible, Sappi Canada decided to contract a forward foreign exchange contract (FEC) selling forward CAD and buying forward USD. The spot element of the FEC has been designated as a hedging instrument in a cash flow hedge. The difference between the full fair value of the FEC and its spot element will not form part of the hedging instrument for hedge accounting purposes. The forward points portion of the FEC will be reported as hedging cost.

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 2019 financial year, the hedge was highly effective. An unrealised foreign exchange loss of US$0.3 million of the designated FEC including cost of hedging was deferred in equity.

31. Financial instruments continued

(a) Market risk continued

Net investment hedges

The hedge of the net investment designated in February 2010, was 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 2019 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 profit or loss. As at the end of the 2019 financial year, the hedge was 100% effective.

	2019		2018	
(US$ million)	**Hedged notional**	**Foreign exchange result deferred in OCI**	Hedged notional	Foreign exchange result deferred in OCI
Bond 2032	**103**	**(7)**	103	(1.0)
Previous designations	**–**	**(32)**	–	(34)
	103	**(39)**	103	(35)
Net investment value of North America	**781**		815	

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 2019, pulp futures and pulp zero-cost options in Europe were contracted for a total volume of 33,000 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 futures and pulp zero rated options whereby the variable price was swapped for an annual fixed price. A realised gain of US$0.5 million resulting from the settled pulp futures and options was booked directly to profit or loss.

The group's pulp contracts (zero-cost options) outstanding at September 2019 are detailed below:

		2019		2018	
(US$ million)	Base currency	**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	**12**	**(2)**	13	2
		12	**(2)**	29	4

(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 FINANCIAL STATEMENTS continued

for the year ended September 2019

31. Financial instruments continued

(b) Liquidity risk

Liquidity risk management

The following tables for the 2019 and 2018 financial years disclose financial instruments, as determined by IFRS 9 *Financial Instruments: Recognition and Measurement*, are classified by liquidity and does not necessarily indicate the group's actual cash flows.

			Undiscounted cash flows					
(US$ million)	**Total financial assets and liabilities**	**Fair value of financial instruments**	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years	Total
September 2019								
Non-current assets								
Other non-current assets	**18**	**18**	–	–	8	–	10	18
Current assets								
Trade receivables	**590**	**590**	590	–	–	–	–	590
Prepayments and other receivables	**35**	**35**	35	–	–	–	–	35
Derivative financial instruments	**3**	**3**	3	–	–	–	–	3
Cash and cash equivalents	**393**	**393**	393	–	–	–	–	393
			1,021	–	8	–	10	1,039
Non-current liabilities								
Interest-bearing borrowings	**1,713**	**1,722**	–	–	144	1,006	984	2,134
Derivative financial instruments	**2**	**2**	–	–	–	2	–	2
Current liabilities								
Interest-bearing borrowings	**181**	**185**	159	22	–	–	–	181
Derivative financial instruments	**7**	**7**	7	–	–	–	–	7
Trade payables	**596**	**596**	596	–	–	–	–	596
Other payables and accruals	**186**	**186**	186	–	–	–	–	186
			948	22	144	1,008	984	3,106
Liquidity surplus (gap)			73	(22)	(136)	(1,008)	(974)	(2,067)

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 0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	>5 years	Total
September 2018								
Non-current assets								
Other non-current assets	10	10	–	–	9	–	1	10
Current assets								
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
Non-current liabilities								
Interest-bearing borrowings	1,818	1,906	93	9	478	1,181	441	2,202
Other non-current liabilities	8	8	–	–	8	–	–	8
Current liabilities								
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)

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

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 2019 and 2018 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
September 2019						
Assets						
Fair value of derivatives by risk factor						
Foreign exchange risk						
FX forward contracts	**3**	3	–	–	–	–
– receiving leg	**198**	198	–	–	–	–
– paying leg	**(195)**	(195)	–	–	–	–
Liabilities						
Fair value of derivatives by risk factor						
Interest rate risk						
Interest rate swaps	**2**	–	–	–	2	–
– receiving leg	**–**	–	–	–	–	–
– paying leg	**2**	–	–	–	2	–
Foreign exchange risk						
FX forward contracts	**5**	5	–	–	–	–
– receiving leg	**(324)**	(324)	–	–	–	–
– paying leg	**329**	329	–	–	–	–
Commodity price risk	**2**	2	–	–	–	–

31. Financial instruments continued

(b) Liquidity risk continued

Derivative financial instruments with maturity profile continued

(US$ million)	Total	0 – 6 months	6 – 12 months	1– 2 years	2 – 5 years	>5 years
		Maturity analysis Undiscounted cash flows				
September 2018						
Assets						
Fair value of derivatives by risk factor						
Foreign exchange risk						
FX forward contracts	17	17	–	–	–	–
– receiving leg	220	220	–	–	–	–
– paying leg	(203)	(203)	–	–	–	–
Commodity price risk	4	4	–	–	–	–
Liabilities						
Fair value of derivatives by risk factor						
Foreign exchange risk						
FX forward contracts	6	6	–	–	–	–
– receiving leg	(51)	(51)	–	–	–	–
– paying leg	57	57	–	–	–	–

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

31. Financial instruments continued

(b) Liquidity risk continued

Fair values continued

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.

		As determined by IFRS 9		Categories in accordance with IFRS 9			
(US$ million)	**Total balance**	Total out of scope	Total in scope	Fair value through profit or loss	Amortised cost	Fair value through OCI	Fair value
September 2019							
Non-current assets							
Other non-current assets	**86**	68	18	–	11	7	18
	86	68	18	–	11	7	18
Current assets							
Trade receivables	**590**	–	590	–	590	–	590
Prepayments and other receivables	**128**	93	35	–	35	–	35
Derivative financial instruments	**3**	–	3	3	–	–	3
Cash and cash equivalents	**393**	–	393	–	393	–	393
	1,114	93	1,021	3	1,018	–	1,021

		As determined by IFRS 9		Categories in accordance with IFRS 9		
(US$ million)	**Total balance**	Total out of scope	Total in scope	Fair value through profit or loss	Amortised cost	Fair value
September 2019						
Non-current liabilities						
Interest-bearing borrowings	**1,713**	–	1,713	–	1,713	1,722
Derivative financial instruments	**2**	–	2	2	–	2
Other non-current liabilities	**418**	418	–	–	–	–
	2,133	418	1,715	2	1,713	1,724
Current liabilities						
Interest-bearing borrowings	**181**	–	181	–	181	185
Derivative financial instruments	**7**	–	7	7	–	7
Trade payables	**596**	–	596	–	596	596
Other payables and accruals	**373**	187	186	–	186	186
	1,157	187	970	7	963	974

31. Financial instruments continued

(b) Liquidity risk continued

Fair values continued

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

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.

	2019				2018			
	Total fair value	**Fair value hierarchy**			Total fair value	Fair value hierarchy		
(US$ million)		**Level 1**	**Level 2**	**Level 3**		Level 1	Level 2	Level 3
Non-current assets								
Other non-current assets	**18**	**7**	**11**	**–**	10	7	3	–
	18	**7**	**11**	**–**	10	7	3	–
Current assets								
Derivative financial instruments	**3**	**–**	**3**	**–**	21	–	21	–
	3	**–**	**3**	**–**	21	–	21	–
Non-current liabilities								
Derivative financial instruments	**2**	**–**	**2**	**–**	–	–	–	–
Contingent consideration liability	**–**	**–**	**–**	**–**	7	7	–	–
	–	**–**	**–**	**–**	7	7	–	–
Current liabilities								
Derivative financial instruments	**7**	**–**	**7**	**–**	6	–	6	–
	7	**–**	**7**	**–**	6	–	6	–

(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, 74% 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:

	Sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
(US$ million)	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
– proNARO GmbH	–	–	**121.1**	118.0	**–**	–	**–**	–
– Umkomaas Lignin (Pty) Ltd	**5.2**	5.2	**–**	–	**0.7**	0.6	**–**	–
– Papierholz Austria GmbH	**–**	–	**87.6**	91.5	**–**	–	**–**	–
– The Boldt Company (Boldt)	**–**	–	**–**	88.0	**–**	–	**–**	25.7
	5.2	5.2	**208.7**	297.5	**0.7**	0.6	**–**	25.7

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$7.6 million (2018: US$10.0 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 2019, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	81,646,282	15.0

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

33. Events after balance sheet date

On 3 November 2019, Sappi acquired the 270,000 ton Matane high yield hardwood pulp mill, in Quebec, Canada, from Rayonier Advanced Materials Inc for US$158 million. The acquisition will increase Sappi's pulp integration for its packaging businesses and lower Sappi's costs of pulp, reduce its volatility of earnings throughout the pulp cycle and provide certainty of supply. The last 12 months' annual sales were US$159 million. The acquisition will be financed from internal cash resources and available debt facilities.

Provisional fair values of assets acquired and liabilities assumed as at the acquisition date are as follows:

	US$ million
Property, plant and equipment, intangibles and goodwill	145
Inventories	19
Trade receivables	14
Prepayments and other assets	1
Cash and cash equivalents	–
Trade payables	(9)
Pension liabilities	(8)
Other payables and accruals	(4)
Net cash outflow on acquisition	158

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 ZAR/US Dollar exchange rate in the past few years, caused distortions of the relative fees in US Dollar paid to individual directors.

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

	2019			
(US$)	Board fees	Committee fees	Travel allowance	Total
KR Osar	69,320	35,050	18,500	122,870
JD McKenzie	44,944	19,518	7,400	71,862
ANR Rudd	402,325	–	11,100	413,425
NP Mageza	30,037	40,950	7,400	78,387
MV Moosa	30,037	28,512	7,400	65,949
MA Fallon	58,687	65,376	11,100	135,163
RJAM Renders	69,238	64,601	11,100	144,939
B Mehlomakulu	30,037	9,759	7,400	47,196
Z Malinga(1)	30,037	15,596	7,400	53,033
BR Beamish(2)	34,235	8,271	–	42,506
JM Lopez(2)	40,419	4,175	7,400	51,994
JE Stipp(3)	23,097	5,842	3,700	32,639
	862,413	297,650	99,900	1,259,963

(1) *Appointed to the board in October 2018.*
(2) *Appointed to the board in March 2019.*
(3) *Appointed to the board in June 2019.*

Note: Fees paid in Fiscal 2019 are generally less than fiscal 2018 because of an extra meeting during fiscal 2018.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

34. Directors' and prescribed officers' remuneration continued

Non-executive directors continued

(US$)	2018 Board fees	Committee fees	Travel allowance	Total
D Konar[(4)]	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[(5)]	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[(6)]	65,806	21,357	14,400	101,563
RJAM Renders	78,937	67,022	10,800	156,759
B Mehlomakulu	31,565	10,255	7,200	49,020
	894,705	304,693	100,600	1,299,998

(4) Retired from the board in January 2018.
(5) Retired from the board in December 2017.
(6) Retired from the board in August 2018.

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$)	2019 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[(1)]	**539,629**	**–**	**14,819**	**82,317**	**635,321**	**1,272,086**
GT Pearce[(2)]	**312,014**	**–**	**8,422**	**60,185**	**301,641**	**682,262**
	851,643	**–**	**23,241**	**142,502**	**936,962**	**1,954,348**

(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	558,318	525,830	14,907	85,129	701,472	1,885,656
GT Pearce	322,878	303,971	8,473	63,461	292,857	991,640
	881,196	829,801	23,380	148,590	994,329	2,877,296

(1) SR Binnie received a 5% increase on the South African portion (70% of total salary), and a 1.5% increase on the off-shore portion of his salary (30% of total salary). Overall salary expressed in reporting currency was 3% lower in 2019 than in 2018.
(2) GT Pearce received a 5% increase on the South African portion (70% of total salary), and a 1.5% increase on the off-shore portion of his salary (30% of total salary). Overall salary expressed in reporting currency was 3% lower in 2019 than in 2018.

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

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.

34. Directors' and prescribed officers' remuneration continued

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$)	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	**756,218**	**–**	**2,820**	**258,045**	**360,596**	**1,377,679**
M Gardner[1]	**564,133**	**–**	**–**	**57,222**	**360,596**	**981,951**
A Thiel	**325,447**	**189,876**	**9,379**	**57,939**	**360,596**	**943,237**
M van Hoven	**167,871**	**–**	**4,964**	**43,939**	**282,976**	**499,750**
G Bowles	**253,087**	**–**	**7,865**	**106,199**	**301,641**	**668,792**
F Marupen	**182,354**	**–**	**5,219**	**47,238**	**235,658**	**470,469**
M Mansoor	**276,886**	**106,828**	**157,904**	**105,498**	**111,072**	**758,188**
Total – 2019	**2,525,996**	**296,704**	**188,151**	**676,080**	**2,013,135**	**5,700,066**
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[2]	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[3]	205,370	152,653	115,083	73,390	66,188	612,684
Total – 2018	2,566,858	1,822,451	147,732	653,875	1,930,286	7,121,202

[1] *Retired in September 2019.*
[2] *Retired in December 2017.*
[3] *Appointed in January 2018.*

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

35. Directors' and prescribed officers' interests

The following table sets out each director's and prescribed officer's direct and indirect interests in shares in Sappi Limited.

	2019		2018	
	Direct interests	**Indirect interests**	Direct interests	Indirect interests
Director	**Beneficial**	**Beneficial**	Beneficial	Beneficial
Non-executive directors				
MV Moosa	**–**	**576,542**	–	576,542
MA Fallon	**5,000**	**–**	5,000	–
Executive directors				
SR Binnie	**285,000**	**–**	217,522	–
GT Pearce	**112,542**	**–**	67,067	–
Prescribed officers				
B Wiersum	**420,929**	**–**	352,929	–
M Gardner	**177,664**	**–**	124,164	–
A Thiel	**461,664**	**–**	361,664	–
M van Hoven	**150,418**	**–**	107,618	–
G Bowles	**46,040**	**–**	26,040	–
F Marupan	**13,106**	**–**	9,385	–
M Mansoor	**36,000**	**–**	25,000	–
	1,708,363	**576,542**	1,296,389	576,542

Subsequent to year-end and as per SENS announcements to the date of this report, the directors and prescribed officers have acquired 250,000 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

	Executive directors				Prescribed officers								
	SR Binnie	GT Pearce	**Total 2019**	Total 2018	B Wiersum	M Gardner	A Thiel	M v Hoven	G Bowles	F Marupen	M Mansoor	**Total 2019**	Total 2018
Outstanding at beginning of year													
Number of shares held	664,000	313,000	**977,000**	1,120,000	371,000	371,000	371,000	294,000	313,000	199,213	79,100	**1,998,313**	2,238,213
'A' ordinary shares	–	–	**–**	–	–	–	–	–	–	18,213	–	**18,213**	18,213
Performance shares 39	–	–	**–**	343,000	–	–	–	–	–	–	–	**–**	720,000
Performance shares 40	175,000	85,000	**260,000**	260,000	100,000	100,000	100,000	80,000	85,000	–	11,000	**476,000**	465,000
Performance shares 41	190,000	90,000	**280,000**	280,000	105,000	105,000	105,000	85,000	90,000	70,000	15,000	**575,000**	560,000
Performance shares 42	162,000	75,000	**237,000**	237,000	90,000	90,000	90,000	70,000	75,000	60,000	15,100	**490,100**	475,000
Performance shares 43	137,000	63,000	**200,000**	–	76,000	76,000	76,000	59,000	63,000	51,000	38,000	**439,000**	–
Offered and accepted during the year													
Performance shares 43				200,000									401,000
Performance shares 44	142,000	65,000	**207,000**	–	79,000	79,000	79,000	61,000	65,000	53,000	39,000	**455,000**	–
Vested during the year													
Number of shares	(175,000)	(85,000)	**(260,000)**	(343,000)	(100,000)	(100,000)	(100,000)	(80,000)	(85,000)	(18,213)	(11,000)	**(494,213)**	(720,000)
Appointment during the year													
Number of shares	–	–	**–**	–	–	–	–	–	–	–	–	**–**	79,100
Outstanding at end of year													
Number of shares	631,000	293,000	**924,000**	977,000	350,000	350,000	350,000	275,000	293,000	234,000	107,100	**1,959,100**	1,998,313
'A' ordinary shares	–	–	**–**	–	–	–	–	–	–	–	–	**–**	18,213
Performance shares 40	–	–	**–**	260,000	–	–	–	–	–	–	–	**–**	476,000
Performance shares 41	190,000	90,000	**280,000**	280,000	105,000	105,000	105,000	85,000	90,000	70,000	15,000	**575,000**	575,000
Performance shares 42	162,000	75,000	**237,000**	237,000	90,000	90,000	90,000	70,000	75,000	60,000	15,100	**490,100**	490,100
Performance shares 43	137,000	63,000	**200,000**	200,000	76,000	76,000	76,000	59,000	63,000	51,000	38,000	**439,000**	439,000
Performance shares 44	142,000	65,000	**207,000**	–	79,000	79,000	79,000	61,000	65,000	53,000	39,000	**455,000**	–

Performance shares are issued for Rnil and vest after four years subject to performance criteria being achieved. The 'A' ordinary shares did not vest and the plan share issue 40 vested at R77.

Vesting dates

Performance shares 41	07 December 2019
Performance shares 42	09 December 2020
Performance shares 43	04 December 2021
Performance shares 44	19 November 2022

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

for the year ended September 2019

37. Investments in subsidiaries

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 (%) 2019	Effective holding (%) 2018
Elektra Purchase No 29 Limited	Ireland	Securitisation of receivables	**–**	–
Sappi 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	Italy	Manufacture of paper	**100**	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	United States of America	Manufacture of paper and paper pulp	**100**	100


sappi
www.sappi.com