



2020
Group Annual
Financial
Statements

sappi

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The audited financial statements for the year ended September 2020 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.

Directors' approval

for the year ended September 2020

The directors are responsible for the maintenance of adequate accounting records and the content, integrity and fair presentation of the Group Annual Financial Statements and the related financial information included in this report. These have been prepared in accordance with International Financial Reporting Standards and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. In preparing the Group Annual Financial Statements, the group applied appropriate accounting policies supported by reasonable judgements and estimates. The auditors are responsible for auditing the Group Annual Financial Statements in the course of executing their statutory duties.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and are committed to maintaining a strong control environment. Details relating to the group's internal control environment are set out in the corporate governance section of the Annual Integrated Report.

The directors are of the opinion, based on the information and explanations given by the Company's officers and the internal auditors, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Group Annual Financial Statements 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 5 to 86 and were approved by the board of directors on 07 December 2020 and signed on its behalf by:

SR Binnie

*Chief Executive Officer
Authorised director*

GT Pearce

*Chief Financial Officer
Authorised director*

Sappi Limited

07 December 2020

Group Company Secretary's certificate

for the year ended September 2020

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 2020, all such returns as are required of a public company in terms of this Act and that such returns appear to be true, correct and up to date.

Sappi Southern Africa Limited

Secretaries

per A Mahendranath
Group Company Secretary

07 December 2020

Audit and Risk Committee report

for the year ended September 2020

Introduction

The Audit and Risk Committee presents its report for the financial year ended September 2020. 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
- 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:

- Reviewed reports by management setting out the group's risk management approach, including an overview of the main risks, and emerging risks, the trends and key risk indicators, as well as the risk appetite and tolerance per risk, and mitigations
- Considered feedback from the group's combined assurance processes, in respect of key risk topics
- Received and reviewed reports from internal audit concerning the effectiveness of the internal control environment, systems and processes
- Reviewed the reports of both internal and external audit findings and their concerns arising out of their audits and requested appropriate responses from management
- Made recommendations to the board of directors regarding the corrective actions to be taken as a consequence of audit findings
- Ensured that appropriate financial reporting procedures are being maintained and are operating effectively
- Considered the independence and objectivity of the external auditors and ensured that the scope of their additional services provided did not impair their independence
- Received and dealt with concerns and complaints through 'whistle-blowing' mechanisms that were reported to the committee by the group internal audit function
- Reviewed a documented assessment, including key assumptions, prepared by management on the going concern status of the group, and accordingly made recommendations to the board
- Reviewed and recommended for adoption by the board the financial information that is publicly disclosed, which included:
 - The Annual Integrated Report
 - The Group Annual Financial Statements
 - The quarterly financial results
- Considered the effectiveness of internal audit, approved the annual operational strategic internal audit plan and monitored adherence of internal audit to its plan
- Reviewed the performance and expertise of the Chief Financial Officer and confirmed his suitability for the position
- 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, resigned December 2019)
Mrs KR Osar	(appointed in November 2007, retired December 2019)
Ms Z Malinga	(appointed in October 2018)
Ms JE Stipp	(appointed in June 2019)
Dr B Mehlomakulu	(appointed January 2020)

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.

Audit and Risk Committee report continued

for the year ended September 2020

External audit

The committee, having considered all relevant matters, satisfied itself through enquiry that auditor independence, objectivity and effectiveness were maintained in 2020. 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 2021 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 2020. 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

07 December 2020

Directors' report

for the year ended September 2020

The directors have pleasure in presenting their report for the year ended September 2020.

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 incurred a loss of US\$135 million for the year ended September 2020 (25 US cents) compared to a US\$211 million profit (39 US cents) for the prior year.

Detailed commentary on the 2020 financial results is contained in various reviews throughout the Annual Integrated Report.

Dividends

The directors have decided that, in light of the current economic environment due to the Covid-19 pandemic, continued low dissolving pulp prices and to preserve liquidity, not to declare a dividend.

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 November 2019, Sappi announced that all conditions precedent regarding the acquisition of the Matane high-yield hardwood pulp mill in Quebec, Canada from Rayonier Advanced Materials Inc were fulfilled with a final purchase price of US\$160 million.
- In March 2020, Sappi announced that it had declared force majeure on the Vulindlela expansion and upgrade project at its Saiccor Mill in alignment with the South African Government's declaration of a nation-wide lockdown to combat the Covid-19 pandemic.
- In March 2020, Sappi provided an update on the impact of Covid-19 on its operations which included receiving notification from some of its major customers of their intention to reduce dissolving pulp volumes in the next quarter. In addition, Sappi's banking group had agreed in principle to suspend Sappi's covenant measurements for four quarters from June 2020 to March 2021 subject to the completion of various documentation. The suspension is subject to normal conditions for this kind of assistance, which only apply during the suspension period, and include no dividend payments, maximum capex spending limits, a minimum liquidity requirement and no M&A activity without prior bank approval.
- In April 2020, Sappi announced that in recognition of the uncertain trading environment which will persist for some time, the board of directors and the group and regional leadership teams (Europe, North America, Southern Africa and Trading) have volunteered a 10 percent reduction in salaries or fees for the three months ending June 2020. In addition, the leadership teams will receive no short-term incentive bonuses for the 2020 financial year.
- In May 2020, Sappi announced the offering of a EUR250 million aggregate principal amount of senior notes due 2025 to strengthen its liquidity headroom and balance sheet.
- In May 2020, Sappi announced that it had decided not to proceed with the proposed EUR250 million senior notes at this time due to unsatisfactory market conditions.

Directors' report continued

for the year ended September 2020

- In July 2020, Sappi announced the closures of Paper Machine 2 (PM2) at its Stockstadt Mill in Germany as well as Paper Machine 9 (PM9) and the majority of the energy complex at its Westbrook Mill in the USA. In respect of Stockstadt's PM2, once-off restructuring charges amount to approximately EUR27 million. The estimated annual savings will be approximately EUR15 million. In respect of Westbrook's PM9 and the energy complex, once-off restructuring charges amount to approximately US\$14 million in addition to accelerated depreciation of approximately US\$8 million to be recorded during the second half of calendar 2020. The estimated annual savings will be approximately US\$10 million.
- In October 2020, Sappi announced that it had successfully renegotiated the covenant suspension period applicable to its credit facility financial covenants. The banking group provided unanimous support and the covenant suspension period has now been extended to September 2021, with the first measurement due at the end of December 2021. The extended suspension period continues to be subject to the same customary conditions and we expect to sign the agreement in the next few days.
- On 18 November 2020, Sappi Limited announced the completion and final terms of an offering of senior, unsecured, convertible bonds due in 2025 with an aggregate principal amount of ZAR1,800,000,000 by Sappi Southern Africa Limited. The bonds will, subject to certain conditions including the passing of shareholder resolutions, be convertible into ordinary shares of Sappi Limited. The bonds will be issued at par and carry a fixed term interest rate coupon of 5.25% per annum. The initial conversion price of ZAR33.16 was set at a premium of 32.5% above the reference share price of ZAR25.03.

Liquidity and financing

At September 2020, we had liquidity comprising US\$279 million of cash on hand and US\$584 million available committed facilities in Europe and South Africa.

Net debt increased from US\$1,501 million to US\$1,957 million as the group utilised net cash of US\$257 million during the year (2019: Net cash generated US\$1 million). The lower cash generation was largely due to the impact that Covid-19 had on sales volumes, the acquisition of the Matane pulp mill for US\$160 million and an increase in finance costs. Reduced capital expenditure and a reduction in working capital helped mitigate these impacts.

Details of our non-current borrowings are set out in note 22.

Risks and insurance

Details of the group's 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 amounted to US\$351 million (2019: US\$471 million). Of the above expansion expenditure was US\$225 million (2019: US\$323 million) with maintenance expenditure of US\$126 million (2019: US\$148 million).

Subsequent events

Details of subsequent events are as set out in note 34.

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 retirement of Mr Jock McKenzie as lead independent non-executive director with effect from 31 December 2019.
- The retirement of Mrs Karen Osar as an independent non-executive director with effect from 31 December 2019.

At the end of September 2020, there were 12 directors, two of whom are executive directors. All 10 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, Ms Z Malinga, Mr V Moosa, Mr RJAM Renders and Sir Nigel Rudd 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 35 to 37.

Directors' and officers' disclosure of interests in contracts

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

Directors' liabilities

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

Subsidiary companies

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

Independent auditor's report

for the year ended September 2020

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 (the group) set out on pages 10 to 86, which comprise the group balance sheet as at September 2020, 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 as at September 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. 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.

Valuation of plantations

Refer to note 2.3.4 for the accounting policies applied and note 12 to the group financial statements.

Key audit matter	How the matter was addressed in our audit
<p>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, <i>Fair Value Measurement</i> (IFRS 13).</p> <p>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:</p> <ul style="list-style-type: none"> • Volume and growth estimations (together as standing tons); and • Discount rate. <p>Given the complexity and the significant amount of estimation and judgement involved in the determination of fair value of the plantations, this matter was considered a key audit matter.</p>	<p>Our team included senior audit team members and valuation specialists, who understand the group's business and industry.</p> <p>Our audit procedures related to the valuation of plantations included:</p> <ul style="list-style-type: none"> • Critically evaluating the fair value methodology against the criteria in IAS 41, <i>Agriculture</i> (IAS 41) and IFRS 13 and the key measurements and assumptions applied by management in determining the fair value of the plantations. • Challenging the consistency, reasonableness 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. <p>We also 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.</p>

Independent auditor's report continued

for the year ended September 2020

Impairment of property, plant and equipment

Refer to note 2.3.1 for the accounting policies applied, note 4 and note 10 to the group financial statements.

Key audit matter

The adverse economic conditions largely related to the Covid-19 pandemic and the related impact on demand and profitability resulted in an impairment indicator for all the group's cash-generating units requiring management to perform impairment assessments in accordance with IAS 36, *Impairment of assets* (IAS 36).

The calculation of the value-in-use as part of the impairment assessments 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 impairment assessments, impairment of property, plant and equipment has been identified as a key audit matter.

How the matter was addressed in our audit

Our team included senior audit 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 the appropriateness of management's impairment models applied based on the requirements of IAS 36.
- Challenging the assumptions used by management in their value-in-use calculations by:
 - assessing the reasonableness of the future cash flow projections with reference to historical trends, current year performance, the anticipated business impact of Covid-19, with reference to external market and industry data and our knowledge of the business and the industry,
 - assessing the reasonableness of the discount rates applied by independently calculating the rate and comparing to the rate used by management,
 - assessing the reasonableness of the long-term growth rates in relation to external market data, 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "2020 Annual Integrated Report" and in the document titled "Sappi 2020 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 4 December 2015, we report that KPMG Inc. has been the auditor of Sappi Limited for four years.

KPMG Inc.

Registered Auditor

Per Coenie Basson

Chartered Accountant (SA)

Registered Auditor

Director

85 Empire Road, Parktown
Johannesburg, 2193

7 December 2020

Group income statement

for the year ended September 2020

(US\$ million)	Note	2020	2019
Revenue	3	4,609	5,746
Cost of sales	4	4,210	4,969
Gross profit		399	777
Selling, general and administrative expenses	4	337	368
Other operating (income) expenses	4	100	30
Share of profit from equity accounted investees net of tax		–	(4)
Operating profit (loss)	4	(38)	383
Net finance costs	5	88	85
Finance costs		93	98
Finance income		(5)	(9)
Net foreign exchange gains		–	(4)
Profit (loss) before taxation		(126)	298
Taxation charge	6	9	87
Profit (loss) for the year		(135)	211
Basic earnings per share (US cents)	7	(25)	39
Weighted average number of ordinary shares in issue (millions)		545.5	542.0
Diluted earnings per share (US cents)	7	(25)	39
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)		547.7	546.3

Group statement of comprehensive income

for the year ended September 2020

(US\$ million)	Note	2020	2019
Profit (loss) for the year		(135)	211
Other comprehensive income net of tax	20	(190)	(127)
Item that will not be reclassified subsequently to profit or loss		(31)	(49)
Actuarial gains (losses) on post-employment benefit funds		1	(59)
Tax effect on above item and other tax items		(32)	10
Items that may be reclassified subsequently to profit or loss		(159)	(78)
Exchange differences on translation to presentation currency		(162)	(67)
Movements in hedging reserves		2	(14)
Tax effect on above items		1	3
Total comprehensive income for the year		(325)	84

Group balance sheet

as at September 2020

(US\$ million)	Note	2020	2019
ASSETS			
Non-current assets		3,891	3,789
Property, plant and equipment	10	3,103	3,061
Right-of-use assets	11	101	–
Plantations	12	419	451
Deferred tax assets	13	59	106
Goodwill and intangible assets	14	113	54
Equity accounted investees	15	11	31
Other non-current assets	16	85	86
Current assets		1,564	1,834
Inventories	17	673	709
Trade and other receivables	18	584	718
Derivative financial instruments	31	3	3
Taxation receivable		19	11
Cash and cash equivalents		279	393
Assets held for sale		6	–
Total assets		5,455	5,623
EQUITY AND LIABILITIES			
Shareholders' equity		1,632	1,948
Ordinary share capital and share premium	19	710	802
Non-distributable reserves	21	101	99
Foreign currency translation reserve		(245)	(184)
Hedging reserves		(40)	(41)
Retained earnings		1,106	1,272
Non-current liabilities		2,700	2,461
Interest-bearing borrowings	22	1,861	1,713
Lease liabilities		81	–
Deferred tax liabilities	13	304	328
Derivative financial instruments	31	9	2
Defined benefit liabilities	29	364	356
Other non-current liabilities	23	81	62
Current liabilities		1,123	1,214
Interest-bearing borrowings	22	270	181
Lease liabilities		24	–
Trade and other payables	24	797	969
Provisions	24	19	6
Derivative financial instruments	31	2	7
Taxation payable		11	51
Total equity and liabilities		5,455	5,623

Group statement of cash flows

for the year ended September 2020

(US\$ million)	Note	2020	2019
Cash retained from operating activities		260	473
Cash generated from operations ⁽¹⁾	25.1	323	673
– Decrease (increase) in working capital	25.2	65	(15)
Cash generated from operating activities		388	658
– Finance costs paid	25.3	(103)	(51)
– Lease interest	25.3	(5)	–
– Finance income received		6	9
– Taxation paid	25.4	(26)	(51)
– Dividends paid		–	(92)
Cash utilised in investing activities		(517)	(472)
Investment to maintain operations		(126)	(148)
Investment to expand operations		(225)	(323)
Proceeds on disposal of property, plant and equipment	25.5	1	3
Dividends received from equity accounted investees		1	3
Decrease (increase) in other non-current assets		(8)	(7)
Acquisition of subsidiary	9	(160)	–
Cash effects of financing activities	25.6	138	56
Proceeds from interest-bearing borrowings		1,065	616
Repayment of interest-bearing borrowings		(905)	(560)
Lease repayments		(22)	–
Net movement in cash and cash equivalents		(119)	57
Cash and cash equivalents at beginning of year		393	363
Translation effects		5	(27)
Cash and cash equivalents at end of year		279	393

⁽¹⁾ Includes US\$7 million for short-term lease payments, low-value assets and variable lease payments not included in the measurement of lease liabilities.

Group statement of changes in equity

for the year ended September 2020

(US\$ million)	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Foreign currency translation reserve	Hedging reserves	Retained earnings	Total equity
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
Share-based payments	–	–	–	–	10	–	–	–	10
Transfers of vested share options	3.3	–	–	–	(1)	–	–	–	(1)
Translation of parent company's ordinary share capital and share premium	–	(4)	(88)	(92)	–	92	–	–	–
Profit (loss) for the year	–	–	–	–	–	–	–	(135)	(135)
Other comprehensive (loss) income	–	–	–	–	(7)	(153)	1	(31)	(190)
Balance – September 2020	546.1	32	678	710	101	(245)	(40)	1,106	1,632

Note

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⁽¹⁾ Share-based payments net of US\$2 million distribution to beneficiaries.

Notes to the Group Financial Statements

for the year ended September 2020

1. Basis of preparation

The consolidated financial statements of Sappi Limited (the 'company') as at and for the year ended September 2020 comprise the company and its subsidiaries (together referred to as the 'group' and individually as 'group entities' or 'group entity') as well as the group's interests in associates and joint ventures.

The consolidated financial statements (the 'Group Annual Financial Statements') have been prepared in accordance with:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB),
- the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee,
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council,
- the Listings Requirements of the JSE Limited, and
- the requirements of the Companies Act 2008 of South Africa.

The Group Annual Financial Statements were authorised for issue by the board of directors on 07 December 2020.

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, and
- Level 3: Inputs for the asset or liability that are unobservable.

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

The Group 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:

- 30 September 2019 to 27 September 2020 (52 weeks)
- 01 October 2018 to 29 September 2019 (52 weeks).

Assets and liabilities and, income and expenses are not offset in the income statement or balance sheet unless specifically permitted by IFRS.

Going concern

The group incurred a loss of US\$135 million for the year (2019: Profit of US\$211 million). The group's performance for the year was impacted severely by the Covid-19 pandemic, related lockdowns and the economic aftereffect which is expected to continue into the new financial year. As a result, the group has focused and continues to focus on the preservation of liquidity and cash flow, and implemented various cost saving measures across all operations, curtailed excess production and where possible deferred non-essential capital expenditure and applied measures to optimise working capital. The group has also agreed an extension of the covenant waiver applicable to its debt facilities financial covenants until September 2021 with the first measurement due at the end of December 2021. The directors have reviewed the group's budget and cash flow forecasts, financial position, existing borrowing facilities and cash on hand, and are satisfied that the group will continue as a going concern for the foreseeable future.

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. Accounting policies continued

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.

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

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Subsequent to initial recognition, monetary assets and liabilities denominated in foreign currencies are translated at the earlier of reporting or settlement date and the resulting foreign currency exchange gains or losses are recognised in profit or loss for the period.

(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:

	2020	2019
<i>Period-end rate</i>		
US\$1 = ZAR	17,1312	15,1563
EUR1 = US\$	1,1632	1,0939
<i>Annual average rate</i>		
US\$1 = ZAR	16,2264	14,3464
EUR1 = US\$	1,1195	1,1282

Notes to the Group Financial Statements continued

for the year ended September 2020

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.

2.2.2 Group accounting

(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

(i) Initial recognition

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

(ii) Initial measurement

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 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.

The group has concluded that it holds its financial assets to collect the contractual cash flows.

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 2020

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.3 Financial instruments 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.

(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, i.e. 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.

(vi) Impairment of financial assets

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 lifetime 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.

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.3 Financial instruments continued

(vi) Impairment of financial assets continued

The main component 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.

(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.

2.2.5 Intangible assets

(i) Research activities

Expenditures on research activities and internally generated goodwill are recognised in profit or loss as an expense as incurred.

(ii) Development activities

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation of engineering projects, computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, not exceeding five years.

(iii) Brands, customer relationships and customer technology

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

(iv) Other intangible assets

Other intangible assets comprise 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.

Notes to the Group Financial Statements continued

for the year ended September 2020

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.7 Leases (in the current year IFRS 16 has been adopted, refer to note 2.4 for the policy of adoption for this standard)

Policy applicable after 30 September 2019

At inception of a contract, the group assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of the identified asset, the group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the group has the right to direct the use of the asset. The group has the right when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the group has the right to direct the use of the asset if either:
 - the group has the right to operate the asset; or
 - the group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 30 September 2019.

As a lessee

The group's leasing activities mainly relate to the lease of premises, plant and equipment. Information about leases to which the group is a lessee is presented in note 11.

The group applies the practical expedient not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. This expedient is applied by class of underlying assets. Current identified class to which the practical expedient is applied to building leases. For all other leases, the non-lease components are separated.

Contracts sometimes include amounts payable by the lessee for activities and costs that do not transfer a good or service to the lessee. For example, a lessor may include in the total amount payable a charge for administrative tasks or other costs it incurs associated with the lease, that do not transfer a good or service to the lessee. Such amounts payable do not give rise to a separate component of the contract, but are considered to be part of the total consideration that is allocated to the separately identified components of the contract, eg property taxes, insurance, admin costs.

The group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any prepaid and accrued lease payments plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The right-of-use asset is periodically reduced by impairment losses if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate. Generally the group uses its incremental borrowing rate at the date of initial application as determined by Group Treasury which is based on a portfolio of leases with similar lease terms.

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, or if there is a change in the group's assessment of the amount expected to be payable under a residual value guarantee if the group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or it is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease term is the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods after an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.7 Leases (in the current year IFRS 16 has been adopted, refer to note 2.4 for the policy of adoption for this standard) continued

Policy applicable after 30 September 2019 continued

As a lessee continued

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the group is reasonably certain to exercise, lease payments in an optional renewal period if the group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the group is reasonably certain not to terminate early.

Short-term leases and leases of low-value assets

The group has elected not to recognise right-of-use assets and lease liabilities of low-value assets and short-term leases. The group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. Low-value leases are deemed to be below that of US\$5,000 and mainly relate to IT equipment.

Policy applicable prior to 30 September 2019

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.

2.2.10 Revenue

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. The transaction price is the expected consideration to be received, to the extent that it is highly probable that there will not be a significant reversal of revenue in future, after deducting discounts, volume rebates, value added tax and other sales taxes. When the period of time between delivery of goods and subsequent payment by the customer is less than one year, no adjustment for a financing component is made. Depending on the shipping terms used, shipping and handlings 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.

Notes to the Group Financial Statements continued

for the year ended September 2020

2. Accounting policies continued

2.2 Summary of accounting policies continued

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.

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

2. Accounting policies continued

2.2 Summary of accounting policies continued

2.2.15 Derivatives and hedge accounting

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 forecasted transaction results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is transferred from OCI to the underlying asset or liability on the transaction date.

(iii) Hedge of a net investment in a foreign operation

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

(iv) Discontinuance of hedge accounting

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised and when, for cash flow hedges, the designation is revoked and the forecast transaction is no longer expected to occur. Where a forecast transaction is no longer expected to occur, the cumulative gain or loss deferred in OCI is transferred to profit or loss.

The financial instruments that are used in hedging transactions are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in either the fair value or cash flows of the related underlying exposures. Hedge ineffectiveness is recognised immediately in profit or loss.

Refer to notes 31 and 32 for details of the hedging relationships as well as the impact of hedges on the pretax profit or loss for the period.

2.2.16 Provisions

A provision is recognised when the group has a legal or constructive obligation arising from a past event which can be reliably measured and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the effect of discounting (time value) is material, provisions are discounted and the discount rate used is a pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

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

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

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

Refer to note 24 for the nature of provisions recorded.

Notes to the Group Financial Statements continued

for the year ended September 2020

2. Accounting policies continued

2.2 Summary of accounting policies continued

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.

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. Given the results in the current year and related macroeconomic uncertainty created by Covid-19, indicators of impairment were identified and, therefore, impairment tests were performed for all cash-generating units (CGU) to determine each CGU's recoverable amount.

The recoverable amount is measured at the higher of fair value less cost of disposal and value in use. An impairment loss is recognised to the extent that the carrying amount of the CGU exceeds its recoverable amount.

In assessing assets for impairment, the group estimates the asset's value in use based on its useful life, future cash flows based on management's five-year plan, including appropriate bases for future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, the planned use of machinery or equipment or closing of facilities, the anticipated business impact of Covid-19 and the long-term growth rate. The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation. The pre-tax real discount rates used for impairment testing ranged from 6.06% to 12.99% (2019: 5.75% to 12.35%). For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the CGU to which the asset belongs. Additionally, where required, 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. There were no changes in the identification of CGUs in the current year.

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

As 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. Accounting policies continued

2.3 Critical accounting policies and key sources of estimation uncertainty continued

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.

Notes to the Group Financial Statements continued

for the year ended September 2020

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 13 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 12.

Market prices and costs to sell

The fair value is derived by using market prices less costs to sell. Costs to sell include 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. Twelve quarters is considered a reasonable period of time after taking the length of the growth cycle of the plantations into account. Expected future price trends and recent market transactions involving comparable plantations are also considered 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 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.

2. Accounting policies continued

2.3 Critical accounting policies and key sources of estimation uncertainty continued

2.3.4 Plantations continued

Discount rate

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

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 include harvesting (fellings) and damages. The fair value of timber felled is determined on the actual method while damages are 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 tons multiplied by the actual fair value. Damages depletion costs are accounted for as actual damaged tons multiplied by the actual 12 quarter rolling historical average price. Damaged tons are calculated using the projected growth to rotation age and are extrapolated to current age on a straight-line basis.

The group has projected growth estimation over a period of 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 29 for the key estimates, assumptions and other information on post-employment benefits.

Notes to the Group Financial Statements continued

for the year ended September 2020

2. Accounting policies continued

2.4 Adoption of accounting standards in the current year

The group adopted IFRS 16 (refer to 2.4.1) from 30 September 2019. 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:

- IFRIC 23 – *Uncertainty over Income Tax Treatments*
- IAS 19 – *Plan Amendment, Curtailment or Settlement*
- IAS 28 – *Long-term Interests in Associates and Joint Ventures*
- IFRS 9 *Financial Instruments – Prepayment Features with Negative Compensation* – September 2020
- Annual Improvements 2015-2017 Cycle – Amendments to IFRS 1 and IAS 28

2.4.1 IFRS 16 Leases

The group adopted IFRS 16 *Leases* on 30 September 2019 applying the modified retrospective transition approach and has not restated comparatives. IFRS 16 introduced 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. The group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any prepaid and accrued lease payments plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located, less any lease incentives received. There has been no impact on retained earnings on transition date. There are recognition exemptions for short-term leases and leases of low-value items. The group's leasing activities mainly relate to the lease of premises, plant and equipment.

In applying IFRS 16 for the first time, the group has used the following practical expedients as permitted by the standard:

- 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
- accounting for operating leases with low values below US\$5,000 as at the adoption date as low-value 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 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

The change in accounting policy affected the following items in the balance sheet on 30 September 2019:

- Property, plant and equipment – decrease of US\$1 million*
- Right-of-use assets – increase of \$91 million
- Other long-term liabilities – decrease of US\$2 million*
- Lease liabilities – increase of US\$92 million

* *Finance leases, previously recognised under IAS 17 Leases, were reclassified to right-of-use assets and lease liabilities.*

When measuring lease liabilities for leases that were classified as operating leases, the group discounted lease payments using its incremental borrowing rate.

	US\$ million
Operating lease commitments at 29 September 2019 as disclosed under IAS 17 in the group's consolidated financial statements	110
Discounted using the incremental borrowing rate	94
Finance lease liabilities recognised as at 29 September 2019	–
Recognition exemption for leases of low-value assets	(4)
Recognition exemption for leases with less than 12 months of lease term at transition	(2)
Lease components included in the lease liability	4
Lease liabilities recognised at 30 September 2019	92

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.

- Amendments to References to the Conceptual Framework in IFRS Standards – September 2021
- IFRS 3 *Amendment Definition of a Business* – September 2021
- IAS 1 and 8 Amendments to the Definition of Material – September 2021
- IFRS 9, IAS 13 and IFRS 7 *Interest Rate Benchmark Reform* – September 2021
- IFRS 9, IAS 13 and IFRS 7, IFRS 16 and IFRS 4 *Interest Rate Benchmark Reform Phase 2* – September 2022
- IFRS 16 *Covid-19-Related Rent Concessions* – September 2021
- IAS 1 *Classification of Liabilities as Current or Non-Current* – September 2024
- IAS 16 *Proceeds before intended Use* – September 2023
- IAS 37 *Onerous Contracts – Cost of Fulfilling a Contract* – September 2023
- Annual Improvements to IFRS Standards 2018-2020 – September 2023

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 from contracts with customers is comprised mostly of the sale of dissolving pulp, coated paper and speciality paper in North America; coated, uncoated and speciality paper in Europe as well as dissolving pulp, paper pulp, and uncoated and commodity paper in Southern Africa. Revenue is recognised at a point in time when the goods are delivered to the customer. Customer payment terms do not contain significant financing components. Sappi acts as an agent for the fulfilment of shipping activities and as there is no margin earned on the shipping of the goods, the net revenue recognised for shipping is Nil (2019: Nil).

The group operates a trading network called Sappi Trading for the international marketing and distribution of dissolving 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.

Notes to the Group Financial Statements continued

for the year ended September 2020

3. Segment information continued

	North America		Europe	
(US\$ million)	2020	2019	2020	2019
Income statement				
Total sales	1,439	1,516	2,430	3,056
Intersegmental sales	(54)	(50)	(116)	(138)
External sales ⁽¹⁾	1,385	1,466	2,314	2,918
Operating profit (loss) excluding special items	(27)	27	8	104
Special items – (gains) losses ⁽²⁾	24	25	45	(1)
Operating profit (loss) by segment	(51)	2	(37)	105
EBITDA excluding special items ⁽²⁾	79	110	143	232
Share of profit of equity investments net of tax	–	–	–	–
Depreciation and amortisation	(106)	(83)	(135)	(128)
Net asset (impairments) reversals	(4)	(18)	(11)	–
Profit (loss) on disposal and write-off of property, plant and equipment	–	–	–	(4)
Fellings	–	–	–	–
Plantation fair value adjustment	–	–	–	–
Net restructuring provisions	(13)	–	(21)	–
Balance sheet				
Capital expenditures	40	65	101	175
Net operating assets ⁽²⁾	1,284	1,135	1,494	1,518
Property, plant and equipment	941	923	1,136	1,098

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

Operating profit excluding special items	(27)	27	8	104
Special items – gains (losses) ⁽²⁾	(24)	(25)	(45)	1
Operating profit (loss) by segment	(51)	2	(37)	105

Special items cover those items which management believes 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:

EBITDA excluding special items ⁽²⁾	79	110	143	232
Depreciation and amortisation	(106)	(83)	(135)	(128)
Operating profit (loss) excluding special items	(27)	27	8	104
Special items – gains (losses) ⁽²⁾	(24)	(25)	(45)	1
Plantation price fair value adjustment				
Acquisition costs				
Net restructuring provisions				
Profit (loss) on disposal and write-off of property, plant and equipment				
PPE impairments				
PPE impairment reversals				
Equity accounted investees impairments				
Fire, flood, storm and other events				
Segment operating profit (loss)	(51)	2	(37)	105
Net finance costs				
Profit (loss) before taxation				
Taxation charge				
Profit (loss) for the year				

⁽¹⁾ Sales of products are allocated to where the product is manufactured.

⁽²⁾ Refer to the definitions below.

⁽³⁾ Includes the Group's Treasury operations, insurance captive and delivery costs netted off against revenue.

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, lease liabilities and overdraft).

Special items – special items cover those items which management believes 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	
2020	2019	2020	2019	2020	2019
1,003 (22)	1,422 –	(71) –	(60) –	4,801 (192)	5,934 (188)
981	1,422	(71)	(60)	4,609	5,746
75 1	267 (16)	1 25	4 11	57 95	402 19
74	283	(24)	(7)	(38)	383
151 1 (76) – 1 (63) 92 –	339 4 (72) – (7) (71) 92 –	5 (1) (4) – – – – –	6 – (2) 8 – – – –	378 – (321) (15) 1 (63) 92 (34)	687 4 (285) (10) (11) (71) 92 –
181 1,500 1,018	246 1,430 1,032	(5) 10 8	1 8 8	317 4,288 3,103	487 4,091 3,061
75 (1)	267 16	1 (25)	4 (11)	57 (95)	402 (19)
74	283	(24)	(7)	(38)	383
151 (76) 75 (1)	339 (72) 267 16	5 (4) 1 (25)	6 (2) 4 (11)	378 (321) 57 (95) 20 (6) (34) 1 (15) – (19) (42)	687 (285) 402 (19) 19 (2) – (11) (18) 8 – (15)
74	283	(24)	(7)	(38)	383
				(88)	(85)
				(126) (9)	298 (87)
				(135)	211

Notes to the Group Financial Statements continued

for the year ended September 2020

3. Segment information continued

Reconciliation of segment assets to total assets:

	Group	
(US\$ million)	2020	2019
Net operating assets ⁽²⁾	4,288	4,091
Deferred tax assets	59	106
Cash and cash equivalents	279	393
Trade and other payables	797	969
Provisions	19	6
Derivative financial instruments	2	7
Taxation payable	11	51
Total assets	5,455	5,623

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.

	Group	
(US\$ million)	2020	2019
Sales		
Dissolving pulp	802	1,095
Packaging and specialities	1,248	1,249
Graphics	2,569	3,382
Forestry	61	80
Delivery cost adjustment ⁽³⁾	(71)	(60)
Total	4,609	5,746
Operating profit excluding special items		
Dissolving pulp	(2)	245
Packaging and specialities	88	52
Graphics	(30)	101
Unallocated and eliminations ⁽³⁾	1	4
Total	57	402
EBITDA excluding special items		
Dissolving pulp	63	304
Packaging and specialities	179	126
Graphics	131	251
Unallocated and eliminations ⁽³⁾	5	6
Total	378	687

⁽¹⁾ Sales of products are allocated to where the product is manufactured.

⁽²⁾ Refer to the definitions below.

⁽³⁾ Includes the Group's Treasury operations, insurance captive and delivery costs netted off against revenue.

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 believes 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.

4. Operating profit

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

(US\$ million)	2020		2019	
	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses
Raw materials, energy and other direct input costs	2,443	–	3,097	–
Wood (includes growth and felling adjustments) ⁽¹⁾	634	–	697	–
Energy	352	–	417	–
Chemicals	679	–	811	–
Pulp	585	–	1,048	–
Other variable costs	193	–	124	–
Plantation price fair value changes	(20)	–	(19)	–
Employment costs	799	160	850	165
Depreciation	289	24	268	9
Delivery charges	395	–	435	–
Maintenance	217	–	235	–
Other overheads	87	–	103	–
Marketing and selling expenses	–	64	–	80
Administrative and general expenses	–	89	–	114
	4,210	337	4,969	368

(US\$ million)	2020	2019
Silviculture costs (included within cost of sales)	60	67
Auditors' remuneration	5	5
Research and development costs	39	42
Amortisation	8	8
Cost on derecognition of loans and receivables ⁽²⁾	8	15
Impairment of property, plant and equipment and intangibles ⁽³⁾	15	18
Impairment reversal of property, plant and equipment and investments ⁽³⁾	–	(8)
Equity accounted investee impairments ⁽³⁾	19	–
Allowance for credit losses	12	16
Net restructuring provisions ⁽³⁾	34	–
(Profit) loss on disposal and write-off of property, plant and equipment	(1)	11
Release of contingent consideration	–	(7)
Employment costs consist of	959	1,015
Wages and salaries	875	911
Defined contribution plan expense	39	40
Defined benefit pension plan expense	18	19
Other defined benefit plan expense	2	3
Share-based payment expense	10	12
Other	15	30
⁽¹⁾ Changes in plantation volumes		
Fellings	63	71
Growth	(72)	(73)

⁽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.

⁽³⁾ In light of adverse economic conditions largely related to Covid-19, the group announced the closure of Stockstadt PM2 within our European segment which resulted in restructuring charges of US\$18 million and asset impairment charges of US\$11 million and the announced closure of Westbrook's PM9 and energy complex within the North American segment resulted in restructuring charges of US\$12 million and asset impairment charges of US\$4 million. Additionally, equity accounted investments within the South African and Corporate segments were impaired by US\$10 million and US\$9 million respectively due to the difficult economic environment. For the year ended September 2019, asset impairments of US\$18 million were recorded, mainly relating to the Westbrook Mill within the North American segment, partially offset by impairment reversals of US\$8 million at our Tugela and Stanger Mills within the South African segment. Impairments are disclosed within other operating expenses.

Notes to the Group Financial Statements continued

for the year ended September 2020

(US\$ million)	2020	2019
5. Net finance costs		
Interest and other finance costs on liabilities carried at amortised cost	95	95
Interest on redeemable bonds and other loans	89	86
Premium and costs on early redemption of redeemable bonds and other loans	–	9
Interest cost on lease liabilities	5	–
Net interest on employee benefit liabilities	5	5
Interest capitalised to property, plant and equipment ⁽¹⁾	(7)	(2)
Finance costs	93	98
Finance income received on assets carried at amortised cost	(5)	(9)
Interest income on bank accounts	(3)	(6)
Interest income on other loans and investments	(2)	(3)
Net foreign exchange gains	–	(4)
	88	85

⁽¹⁾ Relates to interest on specific borrowings.

(US\$ million)	2020	2019
6. Taxation charge		
Current taxation		
Current year	10	65
Prior year	(25)	(2)
Other company taxes	–	8
Deferred taxation		
Current year	19	16
Prior year	4	–
Attributable to tax rate changes	1	–
	9	87
Reconciliation of the tax rate		
Profit before taxation	(126)	298
Profit-making regions	74	319
Loss-making regions	(200)	(21)
Taxation at the average statutory tax rate	(33)	78
Profit-making regions at 27% (2019: 26%)	20	83
Loss-making regions at 26% (2019: 23%)	(53)	(5)
Non-taxable income ⁽¹⁾	–	(12)
Non-deductible expenditure ⁽²⁾	8	10
Effect of tax rate changes ⁽³⁾	1	–
No tax relief on losses	28	20
Derecognition of deferred tax assets ⁽⁴⁾	54	–
Recognition of deferred tax assets	(28)	(14)
Prior year adjustments ⁽⁵⁾	(21)	(2)
Other taxes ⁽⁶⁾	–	8
Taxation charge	9	87
Effective tax rate for the year	(7%)	29%

In addition to income taxation charges to profit or loss, a taxation charge of US\$32 million (2019: US\$11 million relief) has been recognised directly in other comprehensive income (refer to note 13).

⁽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. This includes mainly provisions for uncertain tax positions, equity accounted investee impairments and non-deductible interest.

⁽³⁾ The effect of tax rate changes relate to the increase in the tax rate from 17% to 19% in the UK.

⁽⁴⁾ The North American segment derecognised its net deferred tax asset of US\$68 million of which US\$38 million is included in the US\$54 million and US\$30 million is recognised directly in other comprehensive income.

⁽⁵⁾ The prior year adjustments primarily relate to prior year disputes with revenue authorities settled in favour of the group.

⁽⁶⁾ This includes mainly Controlled Foreign Company taxes in South Africa.

7. Earnings per share

Basic earnings per share (EPS)

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

(US\$ million)	2020			2019		
	Loss US\$ million	Shares million	Earnings per share US cents	Profit US\$ million	Shares million	Earnings per share US cents
Basic EPS calculation	(135)	545.5	(25)	211	542.0	39
Performance shares		2.2			4.3	
Diluted EPS calculation	(135)	547.7	(25)	211	546.3	39

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR30.94 (2019: ZAR65.20). 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:

(US\$ million)	2020			2019		
	Gross	Tax	Net	Gross	Tax	Net
Attributable earnings to ordinary shareholders	(126)	9	(135)	298	87	211
Impairments of property, plant and equipment	15	(4)	11	18	(4)	14
Equity accounted investees impairments	19	–	19	–	–	–
Profit (loss) on disposal and written off assets	(1)	–	(1)	11	(2)	9
Property, plant and equipment impairment reversals	–	–	–	(8)	2	(6)
Headline earnings	(93)	13	(106)	319	91	228
Weighted average number of ordinary shares in issue (millions)			545.5			542.0
Headline earnings per share (US cents)			(19)			42
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			547.7			546.3
Diluted headline earnings per share (US cents)			(19)			42

⁽¹⁾ **Headline earnings** – as defined in Circular 1/2019, issued by the South African Institute of Chartered Accountants in December 2019, 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.

Notes to the Group Financial Statements continued

for the year ended September 2020

7. Earnings per share continued

EPS excluding special items

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

(US\$ million)	2020			2019		
	Gross	Tax	Net	Gross	Tax	Net
Attributable earnings to ordinary shareholders	(126)	9	(135)	298	87	211
Special items	95	(20)	75	19	(3)	16
Refinancing costs	–	–	–	9	–	9
Tax special items	–	34	34	–	–	–
Earnings excluding special items	(31)	23	(26)	326	84	236
Weighted average number of ordinary shares in issue (millions)			545.5			542.0
EPS excluding special items (US cents)			(5)			44
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			547.7			546.3
Diluted EPS excluding special items (US cents)			(5)			43

8. Dividends

No dividends were declared for the current year (2019: Nil).

9. Acquisition of subsidiary

On 3 November 2019, Sappi acquired the 270,000 ton Matane high yield hardwood pulp mill, in Quebec, Canada, from Rayonier Advanced Materials Inc ('Rayonier') for US\$160 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 acquisition was financed with long-term interest-bearing borrowings. Matane will form part of the North America segment and external high yield pulp sales will be reported as part of dissolving pulp and internal sales will be incorporated into packaging and specialities.

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

	US\$ million
Property, plant and equipment	82
Intangibles	20
Goodwill	47
Inventories	17
Trade receivables	14
Prepayments and other assets	1
Trade payables	(5)
Pension liabilities (refer to note 29)	(8)
Other payables and accruals	(8)
Net cash outflow on acquisition	160

Revenue of US\$79 million has been earned from the acquisition date.

(US\$ million)	2020	2019
10. Property, plant and equipment		
Land and buildings ⁽¹⁾		
At cost	1,391	1,348
Accumulated depreciation and impairments	(903)	(851)
	488	497
Plant and equipment ⁽²⁾		
At cost	7,955	7,685
Accumulated depreciation and impairments	(5,340)	(5,121)
	2,615	2,564
Aggregate cost	9,346	9,033
Aggregate accumulated depreciation and impairments	(6,243)	(5,972)
Aggregate book value ⁽³⁾	3,103	3,061

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 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)	(14)	(18)
Impairment reversals	–	8	8
Transfers between categories	4	(4)	–
Translation differences	(25)	(114)	(139)
Net book value at September 2019	497	2,564	3,061
Additions	13	304	317
Acquisition	12	70	82
Finance costs capitalised	–	7	7
Depreciation	(31)	(256)	(287)
Impairments ⁽⁴⁾	–	(15)	(15)
Transfers to assets held for sale	–	(5)	(5)
Translation differences	(3)	(54)	(57)
Net book value at September 2020	488	2,615	3,103

⁽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\$383 million (2019: US\$287 million) which relates to assets under construction.

⁽⁴⁾ The impairment relates to SEU's Stockstadt closure on PM2 of US\$11 million and SNA's Westbrook asset impairment of US\$4 million.

Notes to the Group Financial Statements continued

for the year ended September 2020

(US\$ million)	Land and buildings	Plant and equipment ⁽¹⁾	Total
11. Leases			
Right-of-use assets			
Net book value at 1 October 2019	–	–	–
IFRS 16 adoption	49	43	92
Additions	26	10	36
Disposals	(1)	–	(1)
Depreciation	(13)	(13)	(26)
Translation differences	(1)	1	–
Net book value at September 2020	60	41	101

⁽¹⁾ Plant and equipment includes vehicles, the book value of which does not warrant disclosure as a separate class of assets.

Refer to note 2.4.1, IFRS 16 Leases adoption.

	2020
Amounts recognised in profit (loss)	
Interest on lease liabilities	5
Expenses related to short-term and low-value asset leases	7
Amounts recognised in the statement of cash flows	
Total cash flows for leases	(22)

(US\$ million)	2020	2019
12. Plantations		
Fair value of plantations at beginning of year	451	466
Additions	2	2
Gains arising from growth	72	73
Fire, flood, storms and related events	(11)	(4)
In-field inventory	1	(3)
Gain arising from fair value price changes	20	19
Harvesting – agriculture produce (fellings)	(63)	(71)
Translation differences	(53)	(31)
Fair value of plantations at end of year	419	451

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

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

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

12. Plantations continued

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 12.99% (2019: 12.35%). The group currently values approximately 28 million tons of timber (2019: 28 million tons) using market prices and costs to sell that are in line with industry norms.

The average annual growth is measured at approximately 17 tons (2019: 18 tons) of timber per hectare while immature timber comprise approximately 112,000 hectares (2019: 113,000 hectares) of plantations. As changes to market prices, costs to sell, the discount rate, and volume and growth assumptions applied in the valuation of plantations 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)	2020	2019
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)	(2)
1% decrease in rate	2	2
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	(1)	(2)
1% decrease in costs to sell	1	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 2020

(US\$ million)	2020		2019	
	Assets	Liabilities	Assets	Liabilities
13. Deferred tax				
Other liabilities, accruals and prepayments	(38)	6	(39)	(133)
Inventory	9	3	9	2
United States of America (USA) tax credits carry forward	4	–	4	–
Tax losses	79	6	110	3
Property, plant and equipment	(33)	(224)	(26)	(208)
Plantations	–	(118)	–	5
Other non-current assets	(23)	16	(6)	(2)
Other non-current liabilities	61	7	54	5
	59	(304)	106	(328)

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 among others.

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)	2020	2019
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	30	12
Tax losses	606	525
	636	537
Attributable to the following tax jurisdictions:		
Austria	411	414
Belgium	84	49
Finland	24	34
The Netherlands	49	40
USA	68	–
	636	537
Expiry between one and five years	50	41
Expiry after five years	55	18
Indefinite life	531	478
	636	537

(US\$ million)	2020	2019
13. Deferred tax continued		
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	537	600
No tax relief on losses	29	16
Derecognition of deferred tax assets	84	(1)
Recognition of deferred tax assets	(28)	(14)
Expiry of tax losses	(17)	(15)
Prior year adjustments	–	(7)
Rate adjustments	(2)	(8)
Movement in foreign exchange rates	33	(34)
Balance at end of year	636	537
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	106	106
Deferred tax liabilities	(328)	(335)
	(222)	(229)
Deferred tax charge for the year	(24)	(16)
Other liabilities, accruals and prepayments	3	(21)
Inventory	–	2
USA tax credits carry forward	–	1
Tax losses	(20)	2
Property, plant and equipment	(21)	(7)
Plantations	(7)	20
Other non-current assets	14	(20)
Other non-current liabilities	7	7
Amounts recorded directly in other comprehensive income	(30)	11
Reclassification of deferred tax to receivables ⁽¹⁾	–	(8)
Translation differences	31	20
Deferred tax balances at end of year	(245)	(222)
Deferred tax assets	59	106
Deferred tax liabilities	(304)	(328)
⁽¹⁾ This relates to a reclassification of alternative minimum taxes to receivables.		

Notes to the Group Financial Statements continued

for the year ended September 2020

14. Goodwill and intangible assets

(US\$ million)	2020					Total
	Goodwill	Brands	Customer relationships	Customer technology	Other ⁽¹⁾	
Net carrying amount at beginning of year	7	7	29	7	4	54
Additions	–	–	–	–	–	–
Acquisitions ⁽²⁾	47	–	20	–	–	67
Amortisation	–	(1)	(5)	(2)	–	(8)
Utilisation	–	–	–	–	–	–
Impairment	–	–	–	–	(1)	(1)
Translation differences	–	1	(1)	–	1	1
Net carrying amount	54	7	43	5	4	113
Cost (gross carrying amount)	54	10	53	11	7	135
Accumulated amortisation and impairments	–	(3)	(10)	(6)	(3)	(22)
Net carrying amount	54	7	43	5	4	113

Goodwill is attributable to the cash-generating units of specialities of US\$4 million (2019: US\$4 million), coated woodfree of US\$3 million (2019: US\$3 million) in Sappi Europe and high yield pulp of US\$47 million (2019: US\$Nil million) in Sappi North America. The goodwill has been assessed for impairment by comparing the carrying amount against the recoverable amount.

⁽¹⁾ Included in other intangible assets are licence fees and trademarks.

⁽²⁾ Refer to note 9.

(US\$ million)	2020	2019
15. Equity accounted investees		
Group's share of carrying amount of equity accounted investees		
Umkomaas Lignin Proprietary Limited	–	10
Other equity accounted investees ⁽¹⁾	11	21
	11	31

Dividends received from equity accounted investees for the 2020 financial year were US\$1 million (2019: US\$3 million).

⁽¹⁾ The group impaired its equity accounted investment in Forestry First by US\$9 million due to the difficult economic environment.

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. The investment was fully impaired in the current year due to adverse economic conditions largely related to Covid-19.

2019					
Goodwill	Brands	Customer relationships	Customer technology	Other	Total
8	9	32	9	5	63
–	–	–	–	10	10
–	–	–	–	–	–
–	(1)	(3)	(2)	(2)	(8)
–	–	–	–	(8)	(8)
–	–	–	–	–	–
(1)	(1)	–	–	(1)	(3)
7	7	29	7	4	54
7	29	34	11	19	100
–	(22)	(5)	(4)	(15)	(46)
7	7	29	7	4	54

Notes to the Group Financial Statements continued

for the year ended September 2020

15. Equity accounted investees continued

Interest cost on lease liabilities

Summarised financial information of Umkomaas Lignin Proprietary Limited:

(US\$ million)	2020	2019
Current assets	17	17
Non-current assets	17	16
Current liabilities	(10)	(7)
Non-current liabilities	(4)	(5)
The above assets and liabilities include the following:		
Cash and cash equivalents	2	3
Current financial liabilities (excluding trade and other payables, and provisions)	(4)	(4)
Non-current financial liabilities (excluding trade and other payables, and provisions)	(4)	(3)
Sales	21	44
Depreciation and amortisation	2	2
Finance costs	–	–
Finance revenue	1	–
Taxation charge	1	2
Profit from continuing operations	1	6
Total comprehensive income	1	6
Reconciliation of the financial information to the carrying amount of the joint venture:		
Net assets of the joint venture	20	21
Proportion of the group's ownership interest	50%	50%
Carrying amount of the joint venture before impairment	10	10
Impairment	10	–
Carrying amount of the joint venture	–	10

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 venture's 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)	2020	2019
Profit (loss) from continuing operations	(1)	1
Other comprehensive income	–	–
Total comprehensive income (loss)	(1)	1
Carrying amount of these other equity accounted investees	11	21

(US\$ million)	2020	2019
16. Other non-current assets		
Investment funds	6	7
Defined benefit pension plan assets (refer to note 29)	58	58
Advances to tree growers	3	3
Equity investees loans	11	8
Other non-financial assets	3	5
Prepaid insurance premiums	2	2
Financial assets at amortised cost	2	3
	85	86
17. Inventories		
Raw materials	145	168
Work in progress	50	60
Finished goods	324	327
Consumable stores and spares	154	154
	673	709
<p>The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US\$2 million (2019: US\$6 million). There were no reversals of any inventory write-downs for the periods presented.</p> <p>The cost of inventories recognised as an expense and included in cost of sales amounted to US\$3,815 million (2019: US\$4,538 million).</p>		

(US\$ million)	2020	2019
18. Trade and other receivables		
Trade receivables, gross	478	605
Allowance for credit losses	(20)	(15)
Trade accounts receivable, net	458	590
Prepayments and other receivables	126	128
	584	718
<p>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.</p> <p>Prepayments and other receivables primarily represent prepaid insurance, prepaid taxes and other sundry receivables.</p> <p>Trade receivables (including securitised trade receivables) represent 12% (2019: 12.5%) of turnover.</p>		
18.1 Reconciliation of the allowance for credit losses		
Balance at beginning of year	15	15
Raised during the year	12	16
Released during the year	(5)	(14)
Utilised during the year	(2)	(2)
Translation differences	–	–
Balance at end of year	20	15

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

Notes to the Group Financial Statements continued

for the year ended September 2020

18. Trade and other receivables continued

18.2 Analysis of amounts past due

September 2020

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

(US\$ million)	Not impaired	Impaired	Total
Less than 7 days overdue	9	–	9
Between 7 and 30 days overdue	8	–	8
Between 30 and 60 days overdue	6	–	6
More than 60 days overdue	6	20	26
	29	20	49

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 7 days overdue	11	–	11
Between 7 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

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.

18.3 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\$442 million (EUR380 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\$319 million (2019: US\$429 million) have been pledged as collateral for amounts received as funding under the programme of US\$256 million (2019: US\$366 million). The group is restricted from selling or pledging the trade receivables that have been pledged as collateral for this liability. For more detail on this programme, refer to note 22.

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 Interbank 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 2020 amounted to US\$76 million (2019: US\$114 million).

18. Trade and other receivables continued**18.3 Trade receivables securitisation continued****Off-balance sheet structures continued****Southern African securitisation facility continued**

Details of the securitisation programme at the end of the 2020 and 2019 financial years are disclosed in the table below:

Bank	Currency	Value	Facility ⁽¹⁾	Discount charges
2020				
Rand Merchant Bank Limited	ZAR	ZAR1,302 million	Unlimited	Linked to 3-month JIBAR
2019				
Rand Merchant Bank Limited	ZAR	ZAR1,723 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 Privée (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\$4 million (2019: US\$8 million).

18.4 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 2020 and September 2019. 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\$584 million (2019: US\$718 million) represents the group's maximum credit risk exposure from trade and other receivables.

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

Threshold	2020			2019		
	Number of customers	US\$ million	Percentage	Number of customers	US\$ million	Percentage
Greater than US\$10 million	4	58	13%	6	107	18%
Between US\$5 million and US\$10 million	5	35	7%	8	55	9%
Less than US\$5 million	2,649	365	80%	2,735	428	73%
	2,658	458	100%	2,749	590	100%

Refer to note 32 for further details on credit risk.

Notes to the Group Financial Statements continued

for the year ended September 2020

	2020		2019	
	Number of shares	US\$ million	Number of shares	US\$ million
19. 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	19,961,476		19,961,476	
Issued share capital:				
Fully paid ordinary shares of ZAR1 each	547,860,538	32	548,053,463	36
Treasury shares	(1,761,527)	–	(5,278,023)	–
Share premium	–	678	–	766
	546,099,011	710	542,775,440	802
The movement in ordinary share capital and share premium is reconciled as follows:				
Opening balance		802		858
Transfers from Sappi Limited Share Incentive Trust		–		1
Translation movements		(92)		(57)
Closing balance		710		802

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

Number of shares	2020	2019
Ordinary treasury shares:		
Opening balance	5,278,023	17,948,456
Repurchase and delisting of treasury shares from wholly owned subsidiary	(192,925)	(9,149,110)
Treasury shares issued to participants	(3,323,571)	(3,521,323)
– Scheme shares (refer to note 30)	(210,620)	(424,291)
– Plan shares (refer to note 30)	(3,112,951)	(3,097,032)
Closing balance	1,761,527	5,278,023
'A' ordinary treasury shares:		
'A' ordinary shares issued to the Broad-based Black Economic Empowerment trusts	–	–
	1,761,527	5,278,023

Included in the issued and unissued share capital of 725,000,000 shares, is a total of 38,723,686 shares (11,321,013 shares allocated to participants under prior shareholder approval in March 2005 and 27,402,673 shares approved by shareholders in February 2020 and yet to be allocated) which may be used to meet the requirements of The Sappi Limited Performance Share Incentive Trust (the 'Plan'). In terms of the rules of the Plan, the maximum number of shares which may be acquired in aggregate by the Plan, and allocated to participants of the Plan, is 38,723,686 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 as shall be required in terms of the Plan out of its authorised but unissued share capital. Authority to use treasury shares for the purposes of the Plan was granted by shareholders at the Annual General Meeting held on 05 February 2020.

19. Ordinary share capital and share premium continued**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 22, 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 leased liabilities, bank 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 2020 financial year, the group negotiated a covenant waiver, due to the adverse economic conditions largely related to Covid-19, applicable to all credit facility financial covenants to March 2021. This was extended to September 2021 with the first measurement due at the end of December 2021. The group was in compliance with its financial covenants during the 2019 financial year.

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.

(US\$ million)	2020	2019
20. Other comprehensive income		
<i>Item that will not be reclassified subsequently to profit or loss</i>		
Actuarial gains (losses) on post-employment benefit funds	(31)	(49)
Gross amount (refer to note 29)	1	(59)
Tax effect on above and other tax items	(32)	10
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences on translation of foreign operations	(162)	(67)
Translation of foreign operations	(153)	(61)
Exchange differences arising on non-distributable reserves	(7)	(8)
Exchange differences arising on hedging reserves	(2)	2
Tax	–	–
Hedging reserves	3	(11)
Gains (losses) during the year	(4)	2
Reclassified to profit or loss	12	1
Reclassified to property, plant and equipment	(6)	(13)
Adoption of IFRS 9	–	(4)
Tax	1	3
Other comprehensive income recorded directly in equity	(190)	(127)
Profit (loss) for the year	(135)	211
Total comprehensive income for the year	(325)	84

Notes to the Group Financial Statements continued

for the year ended September 2020

(US\$ million)	2020				2019			
	Legal reserves ⁽¹⁾	Share-based payment reserve	Other	Total	Legal reserves ⁽¹⁾	Share-based payment reserve	Other	Total
21. Non-distributable reserves								
Opening balance	23	75	1	99	59	72	2	133
Transfer to retained earnings	–	–	–	–	(34)	–	–	(34)
Transfers of vested share options	–	(1)	–	(1)	–	(2)	–	(2)
Share-based payment expense	–	10	–	10	–	10	–	10
Other movements	2	–	–	2	–	–	–	–
Translation differences	–	(9)	–	(9)	(2)	(5)	(1)	(8)
	25	75	1	101	23	75	1	99

⁽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)	2020	2019
22. Interest-bearing borrowings		
Secured borrowings ⁽¹⁾	257	366
Total secured borrowings	257	366
Unsecured borrowings	1,874	1,528
Total borrowings	2,131	1,894
Less: Current portion included in current liabilities	(270)	(181)
Total non-current interest-bearing borrowings	1,861	1,713
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2020		181
2021	270	42
2022	304 ⁽²⁾	386 ⁽²⁾
2023	535	398
2024	183	184
2025 (September 2019: Thereafter)	26	703
Thereafter	813	–
	2,131	1,894

⁽¹⁾ Consists of pledge over securitised trade receivables (refer to note 26 for details of encumbered assets).

⁽²⁾ Includes securitisation debt.

22. Interest-bearing borrowings continued

Set out below are details of the more significant interest-bearing borrowings in the group at September 2020:

	Currency	Interest rate ⁽¹⁾	Principal amount outstanding	Balance sheet value	Security/cession	Expiry ⁽⁶⁾	Financial covenants
Redeemable bonds							
Public bond	EUR	Fixed	€450 million	€445 million ⁽³⁾⁽⁴⁾⁽⁵⁾	Unsecured	April 2026	No financial covenants
Public bond	EUR	Fixed	€350 million	€347 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	Variable	ZAR1,080 million	ZAR1,078 million ⁽⁴⁾	Unsecured	May 2023	No financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€136 million	€136 million	Trade receivables (securitisation programme)	January 2022	EBITDA to net interest and net debt to EBITDA ⁽⁷⁾
UniCredit Bank	US\$	Variable	US\$98 million	US\$98 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 2020	No financial covenants
Österreichische Kontrollbank	EUR	Fixed	€20 million	€20 million ⁽⁴⁾⁽²⁾		June 2021	EBITDA to net interest and net debt to EBITDA ⁽⁷⁾
Österreichische Kontrollbank	EUR	Fixed	€132 million	€131 million ⁽⁴⁾⁽²⁾		March 2024	EBITDA to net interest and net debt to EBITDA ⁽⁷⁾
Österreichische Kontrollbank	EUR	Fixed	€74 million	€74 million		December 2027	EBITDA to net interest and net debt to EBITDA ⁽⁷⁾
Österreichische Kontrollbank	CAD	Fixed	CAD129 million	CAD129 million		December 2027	EBITDA to net interest and net debt to EBITDA ⁽⁷⁾
Revolving credit facility	EUR	Variable	€100 million	€100 million		October 2020	EBITDA to net interest and net debt to EBITDA ⁽⁷⁾
Sanlam	ZAR	Variable	ZAR300 million	ZAR300 million		February 2021	No financial covenants
Futuregrowth	ZAR	Variable	ZAR400 million	ZAR400 million		August 2021	No financial covenants
Nedbank	ZAR	Fixed	ZAR1,500 million	ZAR1,498 million ⁽⁴⁾		May 2024	No financial covenants

	Local currency million	US\$ million
The analysis of the currency per debt is:		
US Dollar	317	317
Euro	1,311	1,527
ZAR	3,276	191
CAD	129	96
		2,131

⁽¹⁾ The nature of the rates for the group bonds are explained in note 32.

⁽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; however, a covenant waiver has been negotiated with lenders until December 2021.

⁽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.

Notes to the Group Financial Statements continued

for the year ended September 2020

22. Interest-bearing borrowings continued

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

A detailed analysis of total interest-bearing borrowings has been disclosed in note 32.

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 2020 financial year, the group negotiated a covenant waiver, due to the adverse economic conditions largely related to Covid-19, applicable to all credit facility financial covenants to March 2021. This was extended to September 2021 with the first measurement due at the end of December 2021. The group was in compliance with its financial covenants during the 2019 financial year.

Borrowing facilities secured by trade receivables

The on-balance sheet securitisation programme with UniCredit Bank AG has a limit of US\$442 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 2020, a funding reserve, that is reset on a monthly basis, amounted to 20% (2019: 14.40%).

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\$407 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 18 and 26.

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	2020	2019
Unutilised committed facilities				
Syndicated loan/revolving credit facility ⁽¹⁾	EUR/ZAR	Variable (EURIBOR/JIBAR)	582	640
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	186	50
			768	690
Unutilised uncommitted facilities				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (ZAR bank prime rate)	21	38
Cash management overdraft facility	USD	Variable (LIBOR)	20	20
			41	58
Total unutilised facilities (committed and uncommitted) excluding cash			809	748

⁽¹⁾ Two syndicated loans with a consortium of banks with revolving facilities available of €525 million (2019: €525 million) and ZAR1,500 million (2019: ZAR1,000 million), of which €100 million, and ZARnil were utilised at 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 ZAR1,500 million revolving credit facilities are 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 million (2019: US\$4 million) in respect of the two facilities.

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 32.

(US\$ million)	2020	2019
23. Other non-current liabilities		
Long-term employee benefits (refer to note 29)	–	6
Workmen's compensation (refer to note 29)	14	13
Long service awards (refer to note 29)	21	20
Land restoration obligation	20	15
Restructuring provisions	16	2
Deferred income	5	1
Other	5	5
	81	62

Details of restructuring provisions are provided below:

(US\$ million)	Severance, retrenchment and related costs
Balance at September 2018	3
Utilised	(1)
Balance at September 2019	2
Increase in provisions	2
Other movements	12
Balance at September 2020	16

Provisions relate primarily to the machine closures at Stockstadt.

(US\$ million)	2020	2019
24. Trade and other payables and provisions		
Trade payables	467	596
Employee-related liabilities	96	111
Capital expenditure accruals	27	37
Accrued interest	26	28
Rebates	60	73
Valued added tax	26	31
Other payables	95	93
Trade and other payables	797	969
Provisions	19	6

Details of restructuring provisions are provided below:

(US\$ million)	Severance, retrenchment and related costs
Balance at September 2018	9
Utilised	(3)
Balance at September 2019	6
Increase in provisions	28
Utilised	(9)
Other movements	(6)
Balance at September 2020	19

Provisions relate primarily to the machine closures at Stockstadt and Westbrook.

Notes to the Group Financial Statements continued

for the year ended September 2020

(US\$ million)	2020	2019
25. Notes to the group statement of cash flows		
25.1 Cash generated from operations		
Profit (loss) for the year	(135)	211
Adjustment for:		
– Depreciation	313	277
– Fellings	63	71
– Amortisation	8	8
– Taxation charge	9	87
– Net finance costs	88	85
– Impairments (reversals) of property, plant and equipment and equity accounted investees	34	10
– Net restructuring provisions	34	–
– Fair value adjustment gains and growth on plantations	(92)	(92)
– Defined employment benefits paid	(40)	(41)
– (Profit) loss on disposal and written off assets	(1)	11
– Share-based payment charges	10	12
– Other non-cash items ⁽¹⁾	32	34
	323	673
25.2 Decrease (increase) in working capital		
(Increase) decrease in inventories	50	4
Decrease (increase) in receivables	164	34
(Decrease) increase in payables	(149)	(53)
	65	(15)
25.3 Finance costs paid		
Interest and other finance costs on liabilities carried at amortised cost	(93)	(89)
Premium and costs on early redemption of redeemable bonds and other loans	–	(9)
Net foreign exchange gains	–	4
Accrued interest and non-cash items	(15)	43
	(108)	(51)
25.4 Taxation paid		
Net amounts payable at beginning of year	(40)	(27)
Taxation charge to profit or loss	15	(71)
Translation and other	7	7
Less: Net amounts (receivable) payable at end of year	(8)	40
	(26)	(51)
25.5 Proceeds on disposal of property, plant and equipment		
Book value of non-current assets disposed of	–	12
Gain (loss) on disposal	1	(9)
	1	3

⁽¹⁾ Other non-cash items for the year ended September 2020 primarily relate to non-cash movements in the defined benefit liabilities and plan assets of US\$25 million (2019: US\$33 million) offset by a release of the contingent consideration of US\$Nil million (2019: US\$7 million).

25. Notes to the group statement of cash flows continued**25.6 Reconciliation of liabilities arising from financing activities**

(US\$ million)	2019	Cash flows	Transfers between long-term and short-term	IFRS 16 adoption	New leases and remeasurements	Foreign exchange movements	Other changes	2020
Long-term borrowings	1,713	119	(43)	–	–	68	4	1,861
Short-term borrowings ⁽¹⁾	181	41	43	–	–	5	–	270
Lease liabilities	–	(22)	–	92	36	(1)	–	105
Total	1,894	138	–	92	36	72	4	2,236

(US\$ million)	2018	Cash flows	Transfers between long-term and short-term	Acquisition	New leases and remeasurements	Foreign exchange movements	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

⁽¹⁾ Includes overdraft.

(US\$ million)	2020	2019
26. 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	319	429

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of US\$442 million (EUR380 million), of which US\$257 million (EUR220 million) was utilised at financial year-end (refer to notes 18 and 22).

Notes to the Group Financial Statements continued

for the year ended September 2020

(US\$ million)	2020	2019
27. Commitments		
Capital commitments		
Contracted but not provided	89	194
Approved but not contracted	232	167
	321	361
Future forecasted cash flows of capital commitments in the year ended:		
2020	–	347
2021	313	6
2025 (2019: Thereafter)	–	8
Thereafter	8	–
	321	361
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⁽¹⁾		
Future undiscounted minimum operating lease obligations payable in the year ended September:		
2020	–	28
2021	–	24
2022	–	17
2023	–	14
2024	–	11
2025 (2019: Thereafter)	–	16
Thereafter	–	–
	–	110

⁽¹⁾ The group adopted IFRS 16 Leases in fiscal 2020. Refer to note 2.4.1.

28. 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.

29. Post-employment benefits**Summary of results**

	Defined contribution plans⁽¹⁾		Defined benefit pension plans		Post-employment healthcare subsidy	
(US\$ million)	2020	2019	2020	2019	2020	2019
Post-employment plan costs recognised in profit or loss	39	40	19	19	6	7
Employer contributions paid during the financial year	39	40	33	32	3	4
Amounts presented in the group balance sheet are as follows:						
Net pension/healthcare subsidy liabilities (refer to balance sheet)			261	253	103	103
Net pension assets (refer to note 16) ⁽²⁾			(58)	(58)	–	–
Net balance sheet liabilities			203	195	103	103
Movement in the balance sheet for the pension/healthcare subsidy						
Net pension/healthcare subsidy liabilities at beginning of year			(195)	(164)	(103)	(97)
Acquisitions			(8)	–	–	–
Net pension/healthcare subsidy costs for the year			(19)	(19)	(6)	(7)
Employer contributions			33	32	3	4
Net actuarial gains for the year			(1)	(54)	2	(5)
Translation differences			(13)	10	1	2
Net pension/healthcare liabilities at end of year			(203)	(195)	(103)	(103)

⁽¹⁾ Defined contribution plans: Employer contributions paid is the amount charged to profit or loss.

⁽²⁾ Defined benefit plans in United Kingdom and certain defined benefit plans in North America and one in South Africa.

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.

Defined contribution plans

The group operates defined contribution plans of various sizes for all qualifying employees in most regions throughout the group. The assets of the plans are held separately from those of the group in funds under the control of trustees or administered by insurance companies. The group also participates in various local industry (multi-employer) plans, open to eligible employees often as a voluntary alternative to company sponsored plans. There are no obligations on the group other than to pay contributions according to the rules of each plan.

The total cost charged to the income statement of US\$39 million (2019: US\$40 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.

Notes to the Group Financial Statements continued

for the year ended September 2020

29. Post-employment benefits continued

Summary of results continued

Defined contribution plans continued

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 association 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, Canada
Career average revalued earnings	Belgium, The Netherlands
Frozen benefit and/or pensioners only	United Kingdom, United States (salaried plan), Italy, Switzerland
Fixed EUR value	Germany, Austria
Nominal USD value (periodically revalued)	United States (works plans)

Plans remain open to new hires in some locations. Plans in the United States, South Africa, Austria and some in Germany continue accrual but are closed to new hires.

Plans in the United Kingdom, one in the United States, Italy and Switzerland are closed to future accrual.

29. Post-employment benefits continued

Summary of results 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 include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment in each region. Plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Plan fiduciaries also make use of fiduciary managers, multi-asset manager mandates and 'flight path' assessment tools to assist with strategic asset allocation. Such reviews include asset-liability modelling studies with varying degrees of complexity according to the needs of each plan, analysing risk-and-return profiles in order to help set investment and contribution policies for our plans.

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

- **South Africa pension:** Asset mix based on 10% equities, 75% debt instruments, 15% cash
- **South Africa post-retirement medical aid:** Asset mix based on 90% with-profit annuities, 10% cash
- **Europe including United Kingdom (UK)⁽¹⁾:** Asset mix based on 20% equities, 40% debt instruments, 40% multi-asset and other mandates
- **North America:** Asset mix based on 30% equities, 57% debt instruments, 11% multi-asset and other mandates, 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:

- 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.
- **Inflation:** The risk that future inflation indices (including medical aid inflation) is higher than expected leading to higher ultimate benefit costs
- **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 will increase the cost of the ultimate benefits
- **Administration:** Administration of this liability poses a burden to the group
- **Investment:** The risk that the return earned by plan assets is lower than expected. 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
- **Default:** The risk of default on the instruments underpinning plan assets

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 models. 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 on accrued service are funded according to agreed contribution rates to restore plan deficits.

Apart from paying the costs of entitlements, the group's subsidiaries are liable to pay additional contributions in cases where plans hold insufficient assets. These are normally voluntary payment agreements with plan fiduciaries but could evolve into enforcement actions by local regulators, reduced entitlements or a charge over company assets.

Expected normal company contributions for our defined benefit pension/lump sum plans across group subsidiaries over the next financial year are US\$35 million. Expected abnormal contributions, to cover special settlement events are US\$20 million.

Notes to the Group Financial Statements continued

for the year ended September 2020

29. Post-employment benefits continued

Summary of results continued

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.

Other employee benefits

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

(US\$ million)	2020	2019
Jubilee (long service award) in continental Europe	21	20
Early retirement (temporary pension) benefit in Belgium	–	6
ATZ (early retirement – temporary salary supplement) obligations in Germany and Austria	9	9
Workmen's compensation benefit obligations in North America	14	13

Refer to note 23.

(US\$ million)	Defined benefit pension plans		Post-employment healthcare subsidy	
	2020	2019	2020	2019
Components of defined benefit cost recognised in profit or loss				
Current service cost	18	16	2	3
Past service cost (credit)	(1)	2	–	–
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	19	6	7
Charge attributed to operating cost (refer to note 4)	18	19	2	3
Charge attributed to finance cost (refer to note 5)	1	–	4	4
Components of defined benefit cost recognised in OCI				
Actuarial gains (losses) arising from membership experience	(2)	(6)	3	1
Actuarial gains (losses) arising from changes in demographic assumptions	4	7	1	–
Actuarial gains (losses) arising from changes in financial assumptions	(65)	(147)	(1)	(6)
Return on plan assets (excluding amounts included in interest income)	62	92	(1)	–
Gain (loss) recognised in other comprehensive income ⁽¹⁾	(1)	(54)	2	(5)

⁽¹⁾ Refer to note 20.

29. Post-employment benefits continued**Summary of results continued****Movement in the present value of the defined benefit obligation in the current year**

(US\$ million)	Defined benefit pension plans		Post-employment healthcare subsidy	
	2020	2019	2020	2019
Defined benefit obligation at beginning of year	1,415	1,327	110	104
Current service cost	18	16	2	3
Past service cost (credit)	(1)	2	–	–
Interest expense	37	47	5	5
Plan participants' contributions	2	2	–	–
Remeasurements	63	146	(3)	5
– Membership experience changes	2	6	(3)	(1)
– Demographic assumption changes	(4)	(7)	(1)	–
– Financial assumption changes	65	147	1	6
Acquisition ⁽¹⁾	30	–	–	–
Non-routine plan settlements	(1)	(9)	–	–
Benefits paid	(87)	(79)	(4)	(4)
Translation difference	16	(37)	(2)	(3)
Defined benefit obligation at end of year	1,492	1,415	108	110
– Present value of wholly unfunded obligation	175	183	87	84
– Present value of wholly or partially funded obligation	1,317	1,232	21	26
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	1,220	1,163	7	7
Interest income	36	47	1	1
Employer contributions	33	32	3	4
Plan participants' contributions	2	2	–	–
Remeasurements	–	–	–	–
– Return (loss) on plan assets net of interest income	62	92	(1)	–
Acquisition ⁽¹⁾	22	–	–	–
Non-routine plan settlements	–	(8)	–	–
Benefits paid	(87)	(79)	(4)	(4)
Fund administration costs	(2)	(2)	–	–
Translation difference	3	(27)	(1)	(1)
Fair value of plan assets at end of year	1,289	1,220	5	7
Net balance sheet defined benefit liability	203	195	103	103

⁽¹⁾ Acquisition: Refers to assets and liabilities acquired with Matane. Includes very small healthcare subsidy. Combined (with rounding), the total net liability acquired was \$8 million. (Refer to note 9).

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

(US\$ million)	Funded pension plans		Funded subsidy plans	
	2020	2019	2020	2019
Investments quoted in active markets				
– Equity and high yield investments	211	191	–	–
– Investment grade debt instruments	215	197	–	–
– Property investment funds	1	16	–	–
Unquoted investments				
– Equity and high yield investments ⁽¹⁾	831	789	4	6
Cash	31	27	1	1
	1,289	1,220	5	7
Total investment return on plan assets	98	139	–	1

⁽¹⁾ Commingled funds not quoted in active markets, but with assets consisting of securities quoted in active markets or 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.

Notes to the Group Financial Statements continued

for the year ended September 2020

29. Post-employment benefits continued

Summary of results continued

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:

	2020			2019		
	North America	Europe (incl UK)	Southern Africa	North America	Europe (incl UK)	Southern Africa
Discount rate – pension (%)	2.23	0.80	9.47	2.88	0.90	9.09
Discount rate – post-employment healthcare subsidy (%)	2.05	n/a	13.70	2.76	n/a	10.44
Future salary increase rate – pension (%)	–	0.90	6.18	–	0.90	6.19
Cost of living adjustment for pensions in payment (%) ⁽¹⁾	–	1.40	4.14	–	1.50	4.15
Healthcare cost trend rate (%) ⁽²⁾	7.20 – >4.5	n/a	9.40	7.60 – >4.5	n/a	7.58
Sample rate average life expectancy from retirement (years) ⁽³⁾						
– For current beneficiaries	25.20	24.50	19.20	25.40	24.30	19.20
– For future retiring beneficiaries	26.90	26.30	20.20	27.10	26.10	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 7 years (2019: 8 years).

⁽³⁾ Based on local mortality tables in use (with modifications to reflect expected changes in mortality over time) for males at age 60.

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\$181 million (increase by US\$222 million)
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by US\$20 million (decrease by US\$18 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\$37 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\$4 million (decrease by US\$4 million)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by US\$49 million (decrease by US\$49 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.

29. Post-employment benefits continued**Summary of results continued**

The weighted average duration of the defined benefit obligations at the end of the reporting period (per region) is as follows:

	Pension plans	Healthcare subsidy
North America	12 years	9 years
Europe (including UK)	12 years	n/a
Southern Africa	8 years	13 years

Regional split of results

(US\$ million)	2020			2019		
	North America	Europe (incl UK)	Southern Africa	North America	Europe (incl UK)	Southern Africa
Defined benefit obligation (pension)	(837)	(566)	(89)	(757)	(551)	(107)
Defined benefit obligation (healthcare)	(87)	n/a	(21)	(84)	n/a	(26)
Fair value of plan assets (pension)	838	362	89	752	353	115
Fair value of plan assets (healthcare)	–	n/a	5	–	n/a	7
Net defined benefit liability	(86)	(204)	(16)	(89)	(198)	(11)
Reconciliation of the regional balance sheets						
Net defined benefit liability at beginning of year	(89)	(198)	(11)	(67)	(192)	(2)
Defined benefit cost recognised in profit or loss (pension)	(11)	(5)	(3)	(8)	(8)	(3)
Defined benefit cost recognised in profit or loss (healthcare)	(4)	n/a	(2)	(5)	n/a	(2)
Balance sheet take-on of Matane acquisition	(8)	–	–	–	–	–
Net gain (loss) recognised in OCI (pension)	16	(9)	(8)	(16)	(28)	(10)
Net gain (loss) recognised in OCI (healthcare)	(2)	n/a	4	(5)	n/a	–
Company contributions paid during the year	11	21	4	12	19	5
Translation differences	1	(13)	–	–	11	1
Net defined benefit liability at end of year	(86)	(204)	(16)	(89)	(198)	(11)

Notes to the Group Financial Statements continued

for the year ended September 2020

30. Share-based payments

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

In March 2005, shareholders 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 of which 11,321,013 shares are allocated and outstanding as at September 2020. As the allocation of shares under the above approval had almost been fully utilised, so approval was sought and obtained in February 2020 to allocate a further 27,402,673 shares to participants under the Plan for the years ahead. The Scheme was liquidated in February 2020 upon expiry of the last options in December 2019.

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.

Movements in share options and performance shares for the financial years ended September 2020 and September 2019 are as follows:

	Performance shares ⁽¹⁾	Share options	Weighted average share option exercise price (ZAR)	Total shares
Outstanding at September 2018	12,310,170	715,635	26.67	13,025,805
– Offered and accepted	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
– Offered and accepted	3,435,400	–	–	3,435,400
– Paid for/vested	(3,112,951)	(210,620)	22.90	(3,323,571)
– Returned, lapsed and forfeited	(1,046,526)	(23,826)	22.90	(1,070,352)
Outstanding at September 2020	11,321,013	–	–	11,321,013
Exercisable at September 2018	–	715,635	26.67	
Exercisable at September 2019	–	234,446	22.90	
Exercisable at September 2020	–	–	–	

⁽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.

30. Share-based payments continued

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

	2020	2019	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
02 December 2011	–	234,446	Time	Vested	02 December 2019	22,90
Performance shares:						
07 December 2015	–	3,487,930	Performance	07 December 2019	n/a	Rnil
09 December 2016	2,700,552	2,831,414	Performance	09 December 2020	n/a	Rnil
04 December 2017	2,505,422	2,671,378	Performance	04 December 2021	n/a	Rnil
19 November 2018	2,822,675	3,054,368	Performance	19 November 2022	n/a	Rnil
19 November 2019	3,292,364	–	Performance	19 November 2023	n/a	Rnil
	11,321,013	12,279,536				

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 45	Issue 45
Date of grant	19 November 2019	19 November 2019
Type of award	Performance	Performance
Share price at grant date	ZAR39.92	ZAR39.92
Vesting period	4 years	4 years
Vesting conditions	Market-related – relative to peers	Cash flow return on net assets relative to peers
Life of options	n/a	n/a
Market-related vesting conditions	Yes	No
Percentage expected to vest	68.5%	80.0%
Number of shares offered	1,718,800	1,718,800
Volatility	34%	n/a
Risk-free discount rate	7.59% (ZAR yield)	n/a
Expected dividend yield	3.5%	n/a
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR20.62	ZAR27.78

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

Refer to note 37 for more information on directors' and prescribed officers' participation in the 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 in 2019. 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\$Nil million for 2020 (2019: US\$1 million).

Notes to the Group Financial Statements continued

for the year ended September 2020

31. Derivative financial instruments

(US\$ million)		2020	2019
Hedging instrument	Hedged item		
Current assets			
Forward exchange contracts	Various	3	3
		3	3
Non-current liabilities			
Interest rate currency swap	ZAR1,500 million unsecured loan	9	2
		9	2
Current liabilities			
Forward exchange contracts	Various	2	5
Pulp swaps	Raw materials	–	2
		2	7

Refer to note 32 for more detail on financial instruments.

32. 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.

(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 information is presented in US Dollar, which is the group's reporting currency.

32. Financial instruments continued**(a) Market risk continued****Interest rate risk**

Expected maturity date							2020 Carrying value	2020 Fair value ⁽⁴⁾	2019 Carrying value	2019 Fair value
(US\$ equivalent in millions)	2021	2022	2023	2024	2025	2026+				
US Dollar										
Fixed rate debt	–	–	–	–	–	218	218	271	219	244
Average interest rate (%)	–	–	–	–	–	7.6	7.59		7.59	
Variable rate debt ⁽¹⁾	–	98	–	–	–	–	98	98	130	130
Average interest rate (%)	–	1.5	–	–	–	–	1.54		2.80	
Euro										
Fixed rate debt	45	33	458	82	12	554	1,184	1,245	1,071	1,146
Average interest rate (%)	1.8	2.0	3.8	2.2	1.5	3.1	3.20		3.25	
Variable rate debt ⁽²⁾	184	159	–	–	–	–	343	343	300	301
Average interest rate (%)	1.2	1.4	–	–	–	–	1.30		1.15	
Rand										
Fixed rate debt	–	–	–	87	–	–	87	93	148	158
Average interest rate (%)	–	–	–	9.3	–	–	9.26		8.86	
Variable rate debt ⁽³⁾	41	–	63	–	–	–	104	108	26	28
Average interest rate (%)	4.8	–	6.0	–	–	–	5.49		9.74	
Canadian Dollar										
Fixed rate debt	–	14	14	14	14	41	97	122	–	–
Average interest rate (%)	–	4.1	4.1	4.1	4.1	4.2	4.12		–	
Total										
Fixed rate debt	45	47	472	183	26	813	1,586	1,731	1,438	1,548
Average interest rate (%)	1.8	2.6	3.8	5.7	2.9	4.3	4.19		4.49	
Variable rate debt	225	257	63	–	–	–	545	549	456	459
Average interest rate (%)	1.9	1.4	6.0	–	–	–	2.14		2.12	
Fixed and variable	270	304	535	183	26	813	2,131	2,280	1,894	2,007
Current portion							270	270	181	189
Long-term portion							1,861	2,010	1,713	1,818
Total interest-bearing borrowings (refer to note 22)							2,131	2,280	1,894	2,007

⁽¹⁾ The US Dollar floating interest rates are based on the London Interbank Offered Rate (LIBOR).

⁽²⁾ The Euro floating interest rates are based on the European Interbank Offered Rate (EURIBOR).

⁽³⁾ The ZAR floating interest rates are based on the Johannesburg Interbank 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.

Notes to the Group Financial Statements continued

for the year ended September 2020

32. Financial instruments continued

(a) Market risk continued

Interest rate risk continued

The abovementioned fair values include Sappi's own credit risk. Please refer to the sensitivity analysis on interest rate risk in this note for additional information regarding Sappi's rating.

The range of interest rates in respect of all non-current borrowings, comprising both fixed and floating rate obligations, is between 0.88% and 9.25% (depending on currency). At September 2020, 75% of Sappi's borrowings were at fixed rates of interest and 25% 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 22.

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, i.e. 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 2020, the hedge was highly effective and the swap had a net negative fair value of US\$9 million which was deferred to equity.

32. Financial instruments continued**(a) Market risk continued****Interest rate risk continued****Summary of outstanding cash flow hedges**

(US\$ million)	Interest rate	Maturity date	Nominal value	Total fair value ⁽¹⁾	Recorded in OCI	Profit or loss
September 2020						
Cash flow hedges						
IRS	ZAR variable (3-M JIBAR + 180 bps) to ZAR9.2484% fixed	May 2024	ZAR1,500 million	(9)	(9)	–
				(9)	(9)	–
September 2019						
Cash flow hedges						
IRS	ZAR variable (3-M JIBAR + 180 bps) to ZAR9.2484% fixed	May 2024	ZAR1,500 million	(2)	(2)	–
				(2)	(2)	–

⁽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.

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-)	256	0.95
Commitment fee on unused revolving credit facility	494	0.52
Interest on utilised bank syndicated loans	477	1.56
	1,227	3.03
Impact calculated on total portfolio amounts to	0.25%	

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	2,131	1,586	545	3
Ratio fixed/floating to total debt		75%	25%	

The floating rate debt represents 25% 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\$2.7 million.

Notes to the Group Financial Statements continued

for the year ended September 2020

32. 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 2020 and 2019 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 2020							
Classes of financial instruments							
Non-current assets							
Other non-current assets	85	21	–	8	13	–	–
Current assets							
Trade receivables	458	458	219	197	11	17	14
Prepayments and other receivables	126	31	8	9	13	–	1
Derivative financial instruments	3	3	1	–	2	–	–
Assets held for sale	6	6	6	–	–	–	–
Cash and cash equivalents	279	279	165	18	62	6	28
		798	399	232	101	23	43
Non-current liabilities							
Interest-bearing borrowings	1,861	1,861	317	1,298	150	–	96
Derivative financial instruments	9	9	–	–	9	–	–
Other non-current liabilities	445	6	5	–	1	–	–
Lease liabilities	81	81	30	19	30	–	2
Current liabilities							
Interest-bearing borrowings	270	270	–	229	41	–	–
Derivative financial instruments	2	2	2	–	–	–	–
Trade payables	467	467	117	215	124	1	10
Lease liabilities	24	24	11	8	4	–	1
Other payables and accruals	330	165	26	79	57	–	3
		2,885	508	1,848	416	1	112
Foreign exchange gap		(2,087)	(109)	(1,616)	(315)	22	(69)

32. 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 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	–	–
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

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)		2020		2019	
		Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value (unfavourable) favourable
Bought:	US Dollar	99	(1)	178	–
	Euro	64	–	89	(1)
	Rand	34	–	44	–
Sold:	US Dollar	(2)	–	(121)	–
	Euro	(77)	1	(54)	1
	Rand	(25)	1	(95)	1
		93	1	41	1

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2020 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 29 April 2022.

As at September 2020, there was an open exposure of US\$3.5 million that has since been hedged.

Notes to the Group Financial Statements continued

for the year ended September 2020

32. Financial instruments continued

(a) Market risk continued

Sensitivity analysis – (loss) gain

Base currency	Exposure (US\$ million)	+10 %	– 10 %
AUD	8.2	0.9	(0.9)
CAD	(2.1)	(0.0)	0.0
EUR	(1.6)	(0.1)	0.2
GBP	1.8	0.2	(0.2)
USD	2.7	0.3	(0.3)
ZAR	(13.0)	(1.1)	1.5
Other currencies	0.5	(0.1)	0.1
Total	(3.5)	(0.3)	0.4

Based on the exposure at the end of September 2020, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a loss of US\$0.3 million or a gain of US\$0.4 million respectively.

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.

Hedging of foreign currency risk

Export sales

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 2020 financial year, the hedges were highly effective. A realised loss of US\$4.6 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, an amount of US\$0.3 million was deferred in equity. A realised loss of US\$7 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\$0.1 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 SEK 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 2020 financial year, most of the hedges were highly effective. A realised foreign exchange gain of US\$3 million of the designated FECs was transferred from OCI as a basis adjustment to fixed assets, a positive amount of US\$1.5 million was deferred in equity.

32. Financial instruments continued**(a) Market risk continued****Sensitivity analysis – (loss) gain continued****Hedging of foreign currency 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 2020 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, i.e. 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 2020 financial year, the hedge was 100% effective.

(US\$ million)	2020		2019	
	Hedged notional	Foreign exchange result deferred in OCI	Hedged notional	Foreign exchange result deferred in OCI
Bond 2032	103	(1)	103	(7)
Previous designations	–	(34)	–	(32)
	103	(35)	103	(39)
Net investment value of North America	746		781	

Notes to the Group Financial Statements continued

for the year ended September 2020

32. 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.

During the current year all of the pulp zero-cost options had matured. There were 3,000 tons of pulp futures open at year-end, for which there was a realised gain of US\$3.5 million to the income statement during the year.

The group's pulp contracts (zero-cost options) outstanding at September 2020 are detailed below:

(US\$ million)	Base currency	2020		2019	
		Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value (unfavourable) favourable
Northern Bleached Softwood Kraft Pulp (NBSK)					
Bought:	USD	–	–	–	–
Bleached Hardwood Kraft Pulp (BHKP)					
Bought:	USD	–	–	12	(2)
		–	–	12	(2)

(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 22.

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

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

The following tables for the 2020 and 2019 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 2020								
Non-current assets								
Other non-current assets	21	21	–	–	7	–	14	21
Current assets								
Trade receivables	458	458	458	–	–	–	–	458
Prepayments and other receivables	31	31	31	–	–	–	–	31
Derivative financial instruments	3	3	3	–	–	–	–	3
Cash and cash equivalents	279	279	279	–	–	–	–	279
Assets held for sale	6	6	6	–	–	–	–	6
			777	–	7	–	14	798
Non-current liabilities								
Interest-bearing borrowings	1,861	2,010	–	–	419	877	959	2,255
Lease liabilities	81	81	–	–	18	40	23	81
Derivative financial instruments	9	9	–	–	–	9	–	9
Other non-current liabilities	6	6	–	–	4	2	–	6
Current liabilities								
Interest-bearing borrowings	270	270	270	–	–	–	–	270
Lease liabilities	24	24	7	17	–	–	–	24
Derivative financial instruments	2	2	2	–	–	–	–	2
Trade payables	467	467	467	–	–	–	–	467
Other payables and accruals	165	165	165	–	–	–	–	165
			911	17	441	928	982	3,279
Liquidity surplus (gap)			(134)	(17)	(434)	(928)	(968)	(2,481)

Notes to the Group Financial Statements continued

for the year ended September 2020

32. 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 2020 and 2019 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)		Maturity analysis Undiscounted cash flows				
		0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years
September 2020						
Assets						
Fair value of derivatives by risk factor						
Foreign exchange risk						
FX forward contracts		3	3	–	–	–
– receiving leg		151	151	–	–	–
– paying leg		(148)	(148)	–	–	–
Liabilities						
Fair value of derivatives by risk factor						
Interest rate risk						
Interest rate swaps		9	–	–	9	–
– receiving leg		–	–	–	–	–
– paying leg		9	–	–	9	–
Foreign exchange risk						
FX forward contracts		2	2	–	–	–
– receiving leg		(90)	(90)	–	–	–
– paying leg		92	92	–	–	–

(US\$ million)		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	–	–	–

32. Financial instruments continued

(b) Liquidity risk

Fair values

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

As a result of the implementation of IFRS 13 *Fair Value Measurement*, the fair value of all financial instruments measured at fair value, are measured based on a market exit price incorporating credit risk, by using standard valuation techniques based on observable market data inputs.

The fair value of all external over-the-counter derivatives and material non-current borrowings (for disclosure purposes only) is calculated based on the discount rate adjustment technique. The discount rate used is derived from observable rates of return for comparable assets or liabilities traded in the market. The credit risk of the external counterparty is incorporated into the calculation of fair values of financial assets and own credit risk is incorporated in the measurement of financial liabilities. The change in fair value is therefore impacted by the move of the interest rate curves, by the volatility of the applied credit spreads, and by any changes of the credit profile of the involved parties.

There are no financial assets and liabilities that have been remeasured to fair value on a non-recurring basis. The carrying value of assets and liabilities which are held for sale, are considered to be below their net recoverable amount.

(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 2020							
Non-current assets							
Other non-current assets	85	64	21	–	15	6	21
	85	64	21	–	15	6	21
Current assets							
Trade receivables	458	–	458	–	458	–	458
Prepayments and other receivables	126	95	31	–	31	–	31
Derivative financial instruments	3	–	3	3	–	–	3
Cash and cash equivalents	279	–	279	–	279	–	279
Assets held for sale	6	–	6	6	–	–	6
	872	95	777	9	768	–	777

(US\$ million)	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Amortised cost	Fair value
September 2020						
Non-current liabilities						
Interest-bearing borrowings	1,861	–	1,861	–	1,861	2,010
Derivative financial instruments	9	–	9	9	–	9
Lease liabilities	81	–	81	–	81	81
Other non-current liabilities	445	439	6	–	6	6
	2,396	439	1,957	9	1,948	2,075
Current liabilities						
Interest-bearing borrowings	270	–	270	–	270	270
Derivative financial instruments	2	–	2	2	–	2
Trade payables	467	–	467	–	467	467
Lease liabilities	24	–	24	–	24	24
Other payables and accruals	330	165	165	–	165	165
	1,093	165	928	2	926	928

Notes to the Group Financial Statements continued

for the year ended September 2020

32. 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	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

(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

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

The level in the fair value hierarchy into which financial instruments that are measured at fair value are categorised is disclosed below.

There have been no transfers between the categories of the fair value hierarchy.

(US\$ million)	2020				2019			
	Total fair value	Fair value hierarchy			Total fair value	Fair value hierarchy		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Non-current assets								
Other non-current assets	7	7	–	–	18	7	11	–
Derivative financial instruments	–	–	–	–	–	–	–	–
	7	7	–	–	18	7	11	–
Current assets								
Assets held for sale	6	–	6	–	–	–	–	–
Derivative financial instruments	3	–	3	–	3	–	3	–
	9	–	9	–	3	–	3	–
Non-current liabilities								
Derivative financial instruments	9	–	9	–	2	–	2	–
	9	–	9	–	2	–	2	–
Current liabilities								
Derivative financial instruments	2	–	2	–	7	–	7	–
	2	–	2	–	7	–	7	–

(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, 70% 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 18.

Notes to the Group Financial Statements continued

for the year ended September 2020

33. 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)	2020	2019	2020	2019	2020	2019	2020	2019
– proNARO GmbH	–	–	97.4	121.1	–	–	–	–
– Umkomaas Lignin (Pty) Ltd	2.6	5.2	–	–	–	0.7	–	–
– Papierholz Austria GmbH	–	–	76.4	87.6	–	–	–	–
– Ngodwana Energy	–	–	–	–	8.3	–	–	–
– Tugela Fuel Rods	–	–	–	–	2.7	–	–	–
	2.6	5.2	173.8	208.7	11.0	0.7	–	–

The amounts outstanding at balance sheet date are unsecured and will be settled in cash. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties. The dispute that arose in fiscal 2018 with The Boldt Company was resolved in the current fiscal year.

Key management personnel

Key management personnel include our executive directors and prescribed officers. The total key management personnel emoluments amounted to US\$6.2 million (2019: US\$7.6 million). The details of key management personnel, including emoluments, interests in contracts and participation in The Sappi Limited share schemes are disclosed in notes 35 to 37.

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 2020, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	109,237,995	20.0
Allan Gray Balanced Fund	35,321,140	6.5
Alexander Forbes Investments	27,399,324	5.0

34. Events after balance sheet date

On 18 November 2020, Sappi Limited announced the completion and final terms of an offering of senior, unsecured, convertible bonds due in 2025 with an aggregate principal amount of ZAR1,800,000,000 by Sappi Southern Africa Limited. The bonds will, subject to certain conditions including the passing of shareholder resolutions, be convertible into ordinary shares of Sappi Limited. The bonds will be issued at par and carry a fixed term interest rate coupon of 5.25% per annum. The initial conversion price of ZAR33.16 was set at a premium of 32.5% above the reference share price of ZAR25.03.

35. Directors' and prescribed officers' remuneration

Non-executive directors

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

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

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

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

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

The extreme volatility of currencies, in particular the 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.

(US\$)	2020			
	Board fees	Committee fees	Travel allowance	Total
KR Osar ⁽¹⁾	17,635	8,920	7,600	34,155
JD McKenzie ⁽¹⁾	10,391	4,513	–	14,904
ANR Rudd	397,582	–	11,400	408,982
NP Mageza	27,084	36,923	–	64,007
MV Moosa	37,079	25,708	–	62,787
MA Fallon	57,996	60,818	11,400	130,214
RJAM Renders	67,988	63,436	11,400	142,824
B Mehlomakulu	27,084	19,256	–	46,340
Z Malinga	27,084	14,062	–	41,146
BR Beamish	57,996	49,036	11,400	118,432
JM Lopez	68,777	24,863	11,400	105,040
JE Stipp	68,777	34,788	11,400	114,965
	865,473	342,323	76,000	1,283,796

⁽¹⁾ Retired from the board in December 2019.

Notes to the Group Financial Statements continued

for the year ended September 2020

35. Directors' and prescribed officers' remuneration continued

(US\$)	2019			Total
	Board fees	Committee fees	Travel allowance	
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 ⁽²⁾	30,037	15,596	7,400	53,033
BR Beamish ⁽³⁾	34,235	8,271	–	42,506
JM Lopez ⁽³⁾	40,419	4,175	7,400	51,994
JE Stipp ⁽⁴⁾	23,097	5,842	3,700	32,639
	862,413	297,650	99,900	1,259,963

⁽²⁾ Appointed to the board in October 2018.

⁽³⁾ Appointed to the board in March 2019.

⁽⁴⁾ Appointed to the board in June 2019.

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\$)	2020					Total
	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share-based payment benefit	
SR Binnie ⁽¹⁾	504,410	–	15,531	74,296	488,441	1,082,678
GT Pearce ⁽²⁾	291,478	–	8,827	56,126	224,951	581,382
	795,888	–	24,358	130,422	713,392	1,664,060

(US\$)	2019					Total
	Salary	Performance-related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share-based payment benefit	
SR Binnie	539,629	–	14,819	82,317	635,321	1,272,086
GT Pearce	312,014	–	8,422	60,185	301,641	682,262
	851,643	–	23,241	142,502	936,962	1,954,348

⁽¹⁾ SR Binnie received a 4.6% increase on the South African portion (70% of total salary), and a 1% increase on the off-shore portion of his salary (30% of total salary). Overall salary expressed in reporting currency was 6.5% lower in 2020 than in 2019.

⁽²⁾ GT Pearce received a 4.6% increase on the South African portion (70% of total salary), and a 1% increase on the off-shore portion of his salary (30% of total salary). Overall salary expressed in reporting currency was 3% lower in 2020 than in 2019.

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.

35. 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 performance- related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Share- based payment benefit	Total
B Wiersum	750,723	–	2,799	268,369	271,074	1,292,965
M Haws ⁽¹⁾	401,458	–	–	43,891	96,212	541,561
A Thiel	304,729	–	9,830	54,040	271,074	639,673
M van Hoven	157,111	–	5,203	42,245	210,798	415,357
G Bowles	237,651	–	8,243	65,910	224,951	536,755
F Marupen	173,079	–	5,469	43,656	181,546	403,750
M Mansoor	294,155	–	142,860	86,582	69,111	592,708
Total – 2020	2,318,906	–	174,404	604,693	1,324,766	4,422,769
B Wiersum	756,218	–	2,820	258,045	360,596	1,377,679
M Gardner ⁽²⁾	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

⁽¹⁾ Appointed in October 2019.

⁽²⁾ Retired in September 2019.

36. 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.

Director	2020		2019	
	Direct interests Beneficial	Indirect interests Beneficial	Direct interests Beneficial	Indirect interests Beneficial
Non-executive directors				
ANR Rudd	250,000	–	–	–
MV Moosa	–	576,542	–	576,542
MA Fallon	5,000	–	5,000	–
Executive directors				
SR Binnie	360,000	–	285,000	–
GT Pearce	155,877	–	112,542	–
Prescribed officers				
B Wiersum	515,429	–	420,929	–
M Gardner	–	–	177,664	–
M Haws	27,000	–	–	–
A Thiel	516,902	–	461,664	–
M van Hoven	184,678	–	150,418	–
G Bowles	89,375	–	46,040	–
F Marupen	56,811	–	13,106	–
M Mansoor	49,500	–	36,000	–
	2,210,572	576,542	1,708,363	576,542

Subsequent to year-end and up to the date of this report, no shares were acquired by the directors and prescribed officers.

Notes to the Group Financial Statements continued

for the year ended September 2020

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

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

			Executive directors	
	SR Binnie	GT Pearce	Total 2020	Total 2019
Outstanding at beginning of year				
Number of shares held	631,000	293,000	924,000	977,000
'A' ordinary shares	–	–	–	–
Performance shares 40	–	–	–	260,000
Performance shares 41	190,000	90,000	280,000	280,000
Performance shares 42	162,000	75,000	237,000	237,000
Performance shares 43	137,000	63,000	200,000	200,000
Performance shares 44	142,000	65,000	207,000	–
Offered and accepted during the year				
Performance shares 44			–	207,000
Performance shares 45	156,000	71,000	227,000	–
Vested during the year				
Number of shares	(171,000)	(81,000)	(252,000)	(260,000)
Forfeited during the year				
Number of shares	(19,000)	(9,000)	(28,000)	–
Appointment/(retirement) during the year				
Number of shares	–	–	–	–
Outstanding at end of year				
Number of shares	597,000	274,000	871,000	924,000
Performance shares 41	–	–	–	280,000
Performance shares 42	162,000	75,000	237,000	237,000
Performance shares 43	137,000	63,000	200,000	200,000
Performance shares 44	142,000	65,000	207,000	207,000
Performance shares 45	156,000	71,000	227,000	–

Performance shares are issued for Rnil and vest after four years subject to performance criteria being achieved.

The Plan share issue 41 vested at R42.50.

Vesting dates

Performance shares 42

Performance shares 43

Performance shares 44

Performance shares 45

								Prescribed officers	
B Wiersum	M Gardner	M Haws	A Thiel	M v Hoven	G Bowles	F Marupen	M Mansoor	Total 2020	Total 2019
350,000	350,000	–	350,000	275,000	293,000	234,000	107,100	1,959,100	1,998,313
–	–	–	–	–	–	–	–	–	18,213
–	–	–	–	–	–	–	–	–	476,000
105,000	105,000	–	105,000	85,000	90,000	70,000	15,000	575,000	575,000
90,000	90,000	–	90,000	70,000	75,000	60,000	15,100	490,100	490,100
76,000	76,000	–	76,000	59,000	63,000	51,000	38,000	439,000	439,000
79,000	79,000	–	79,000	61,000	65,000	53,000	39,000	455,000	–
								–	455,000
86,000	–	86,000	86,000	67,000	71,000	58,000	50,000	504,000	–
(94,500)	(94,500)	(27,000)	(94,500)	(76,500)	(81,000)	(63,000)	(13,500)	(544,500)	(494,213)
(10,500)	(10,500)	(3,000)	(10,500)	(8,500)	(9,000)	(7,000)	(1,500)	(60,500)	–
–	(245,000)	101,000	–	–	–	–	–	(144,000)	–
331,000	–	157,000	331,000	257,000	274,000	222,000	142,100	1,714,100	1,959,100
–	–	–	–	–	–	–	–	–	575,000
90,000	–	26,000	90,000	70,000	75,000	60,000	15,100	426,100	490,100
76,000	–	22,000	76,000	59,000	63,000	51,000	38,000	385,000	439,000
79,000	–	23,000	79,000	61,000	65,000	53,000	39,000	399,000	455,000
86,000	–	86,000	86,000	67,000	71,000	58,000	50,000	504,000	–

09 December 2020

04 December 2021

19 November 2022

19 November 2023

Notes to the Group Financial Statements continued

for the year ended September 2020

38. 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 (%)	
			2020	2019
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 Co. KG	Austria	Manufacture of paper and paper pulp	100	100
Sappi Canada Enterprises Inc	Canada	Manufacture of paper pulp	100	100
Sappi Cloquet LLC	United States of America	Manufacture of paper, paper pulp and dissolving 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 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



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