

**sappi**

2017 Sappi  
Southern Africa Annual Report



## Our businesses

Sappi Southern Africa has a tradition of innovating and developing new products to meet the demand for dissolving wood pulp, specialities and packaging papers, printing and writing papers, as well as biomaterials and biochemicals to our direct and indirect customer base.

Our dissolving wood pulp (specialised cellulose) products are used worldwide by converters to create viscose fibre for fashionable clothing and textiles, pharmaceutical products as well as a wide range of consumer and household products. Quality specialities and packaging papers are used in the manufacture of such products as soup sachets, cosmetic and confectionery packaging, boxes for agricultural products for export, tissue wadding for household tissue products and casting and release papers used by suppliers to the fashion, textile, automobile and household industries. Our range of

printing and writing papers include paper products used by printers in the production of books, brochures, magazines, catalogues, direct mail, stationery and newspapers.

The wood and pulp needed for our products is either produced within Sappi or brought from accredited suppliers. Across the group, Sappi is close to 'pulp neutral', meaning that we sell almost as much pulp as we buy.

Sappi Forests supplies over 64% of the wood requirements of Sappi Southern Africa from both our own and committed commercial timber plantations of 479,000 hectares. This equates to approximately 27.4 million tons of standing timber. All wood grown on Sappi-owned land and a large proportion grown on plantations managed by us, is Forest Stewardship Council® (FSC®) and ISO 9000 certified. Approximately

139,200 hectares of our land is set aside and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there including indigenous forests and wetlands.

We have a strong focus on social responsibility in South Africa. This is an economic imperative in the region. Our plantations and most of our mills are located in rural areas and we therefore have an important influence on development in these areas. We continue to make progress on each of the elements of our Broad-based Black Economic Empowerment (BBBEE) scorecard.

Full details of our education, training, health and environmental initiatives can be found on our website [www.sappi.com](http://www.sappi.com).

## Southern Africa

Plantations*	Products produced	Capacity <sup>(1)</sup> ('000)			
		Ha	Standing tons	m <sup>3</sup>	Employees
<b>KwaZulu-Natal</b>	Plantations (pulpwood and sawlogs)**	221	11,017		
<b>Mpumalanga</b>	Plantations (pulpwood and sawlogs)**	258	16,380		
<b>Sawmills</b>	Sawn timber (m <sup>3</sup> )			102	
	<b>Total Sappi Forests</b>	<b>479</b>	<b>27,397</b>	<b>102</b>	

Capacity <sup>(1)</sup> ('000 tons)				
Mills	Products produced	Paper	Pulp	
<b>Ngodwana Mill</b>	Unbleached chemical pulp for own consumption		220	
	Mechanical pulp for own consumption		110	
	Kraft linerboard	240		
	Newsprint	140		
<b>Stanger Mill</b>	Bleached bagasse pulp for own consumption		60	
	Office paper and tissue paper	110		
<b>Tugela Mill</b>	Neutral sulfite semi-chemical pulp for own consumption		135	
	Corrugating medium	195		
<b>Sappi ReFibre***</b>	Waste paper collection and recycling for own consumption		140	
	<b>Total Sappi Paper and Paper Packaging</b>	<b>685</b>	<b>665</b>	
<b>Ngodwana Mill</b>	Dissolving wood pulp		210	
<b>Saiccor Mill</b>	Dissolving wood pulp		800	
	<b>Total Sappi Specialised Cellulose</b>		<b>1,010</b>	
	<b>Total Sappi Southern Africa</b>	<b>685</b>	<b>1,675</b>	<b>4,701</b>

<sup>(1)</sup> Capacity at maximum continuous run rate.

\* Approximately 139,200ha of our land is set aside and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there.

\*\* Plantations include owned and leased areas as well as projects.

\*\*\* Sappi ReFibre collects waste paper in the South African market which is used to produce packaging papers.

# **Sappi Southern Africa Limited**

(Incorporated in the Republic of South Africa)

Registration number 1951/003180/06

## **Audited Annual Financial Statements**

September 2017

# Sappi Southern Africa Limited

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year ended September 2017

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## Sappi Southern Africa Limited

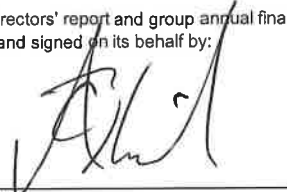

### Directors' approval year ended September 2017

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, 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 Debt Listings Requirements and the requirements of the Companies Act of South Africa. In preparing the group financial statements, appropriate accounting policies supported by reasonable judgments and estimates were applied. The auditors are responsible for auditing the group financial statements in the course of executing their statutory duties.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established and are committed to maintaining a strong control environment. The directors are of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the group financial statements. 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, have 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 the preparation of the group financial statements.

The directors' report and group annual financial statements appear on pages 10 to 63 and were approved by the board of directors on 25 January 2018 and signed on its behalf by:

  
**A Thiel**  
*Chief Executive Officer*  
**P Moodley**  
*Finance Director*

### Company secretary's certificate

In terms of section 88(2)(e) of the Companies Act 71 of 2008 of South Africa, I hereby certify that, to the best of my knowledge and belief, the company has lodged with the Companies and Intellectual Property Commission of South Africa, for the financial year ended September 2017, 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 Limited  
Secretaries  
per AJ Tregoning  
Group Secretary

25 January 2018



**KPMG Inc.**  
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Private Bag 9, Parkview, 2122, South Africa

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## **Independent auditor's report**

*To the shareholders of Sappi Southern Africa Limited*

### **Report on the consolidated financial statements**

#### *Opinion*

We have audited the consolidated financial statements of Sappi Southern Africa Limited ("the Group") set out on pages 13 to 64, which comprise the Group balance sheet as at September 2017, and the Group income statement and the Group statement of comprehensive income, the Group statement of changes in equity and the Group statement of cash flows for the year then ended, and notes to the 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 Southern Africa Limited as at September 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

#### *Basis for opinion*

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

#### *Key audit matters*

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

KPMG Inc. is a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG Inc. is a Registered Auditor in public practice, in terms of the Auditing Profession Act, 26 of 2005.

Registration number 1999/021543/21

Chief Executive: N Dlomu  
Directors: Full list on website

The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.

The key audit matter	How the matter was addressed in our audit
<p><b>Valuation of property, plant and equipment</b></p> <p>Refer to note 2.3.1 and 2.3.2 for the accounting policies applied and note 6 in the consolidated financial statements.</p> <p>The Group is required to assess the recoverable amount of property, plant and equipment if any impairment indicators are identified. In calculating the recoverable amount, key assumptions are made by the Directors over the cash flow forecasts and discount rates.</p> <p>Significant judgement is required in determining the residual values.</p> <p>Based on the value of the balance and the judgement used in determining the useful lives and residual values, this was considered a key audit matter.</p>	<p>Our audit procedures related to the property, plant and equipment, amongst others:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over the impairment assessment and residual values assessment of property, plant and equipment;</li> <li>• we assessed whether indicators of impairment existed at year-end based on our knowledge of the business and industry;</li> <li>• we assessed the competency of the experts used by management in assessing the residual values;</li> <li>• we compared the useful lives of each class of asset in the current year to the prior year to determine if there were any significant changes to the useful lives of the assets, and considered the reasonableness of the changes based on our knowledge of the business and industry;</li> <li>• assessing the Group's capitalisation policy for expenditure relating to property, plant and equipment with reference to the requirements of the prevailing accounting standards;</li> <li>• assessing the appropriateness of the disclosures in the consolidated financial statements.</li> </ul>
<p><b>Valuation of plantations</b></p> <p>Refer to note 2.3.5 for the accounting policies applied and note 7 in the consolidated financial statements.</p> <p>Plantations are stated at fair value less estimated cost to sell at the harvesting stage, using the income approach, and is a level 3 measure in terms of IFRS 13 <i>Fair Value Measurement</i>.</p> <p>The valuation of plantations requires complex measurements and involves estimation uncertainty. The key measurements and assumptions having the most significant impact on the fair value of the plantations include:</p> <ul style="list-style-type: none"> <li>• market prices;</li> </ul>	<p>Our audit procedures related to the valuation of plantations included, amongst others:</p> <ul style="list-style-type: none"> <li>• critically evaluating the fair value methodology, measurements and key assumptions applied by management in determining the fair value of the plantations. This was performed by our valuation specialists, that formed part of the audit team, by applying their knowledge of the industry to assess the appropriateness of the valuations;</li> <li>• challenging the consistency and appropriateness of the underlying measurements and assumptions used by comparing to external observable data, where possible, and considering management's</li> </ul>

The key audit matter	How the matter was addressed in our audit
<ul style="list-style-type: none"> <li>• discount rates;</li> <li>• volumes; and</li> <li>• growth.</li> </ul> <p>Given the complexity and estimation involved in the determination of fair value of the plantations, this matter was considered a key audit matter.</p>	<p>historical accuracy in determining these measurements and estimations; and</p> <ul style="list-style-type: none"> <li>• assessing the reasonableness of the Group's fair value calculation, and the related sensitivity disclosures, by performing our own sensitivity analysis of the plantation valuations.</li> </ul>
<p><b>Valuation of post-employment benefit obligations</b></p> <p>Refer to note 2.3.6 for the accounting policies applied and note 28 in the consolidated financial statements.</p> <p>The Group operates several principal defined pension and/or retirement lump sum plans in all regions which have been established in accordance with applicable legal requirements, customs and existing circumstances in each country.</p> <p>Accounting for post-employment benefit obligations, particularly defined benefit plans, is inherently complex and requires significant actuarial assumptions to be applied and involves estimation uncertainty. Benefits are formula-driven comprising a variety of earnings definitions, as indicated in note 28. The valuation of the defined benefit obligations requires the application of the following key assumptions:</p> <ul style="list-style-type: none"> <li>- discount rates;</li> <li>- salary increases;</li> <li>- cost of living adjustments;</li> <li>- healthcare cost trends; and</li> <li>- average life expectancy of employees.</li> </ul> <p>In the case of net assets, recognised assets are limited to the present value of any future refunds from the plan or reductions in future contributions to the plan, considered in the context of the relevant scheme rules and local regulations.</p> <p>Due to the complexity, significant actuarial assumptions and estimation uncertainty involved in the recognition, measurement and disclosure of the defined benefit pension and/or retirement lump sum plans, this was considered a key audit matter.</p>	
<p>Our audit procedures related to the defined pension and/or retirement lump sum plans included, amongst others:</p> <ul style="list-style-type: none"> <li>• obtaining actuarial reports and using our actuarial specialists in the respective regions, that formed part of the audit team, to determine the reasonableness of the key assumptions applied within the valuations based on their industry knowledge and experience;</li> <li>• critically assessing the appropriateness of the accounting treatment adopted in respect of net assets recognised by understanding the relevant scheme rules and local regulations and applying the relevant accounting standards and interpretations; and</li> <li>• assessing the appropriateness of the disclosures in the consolidated financial statements.</li> </ul>	





#### *Other matter*

The financial statements for Sappi Southern Africa Limited for the year ended September 2016, were audited by another auditor who expressed an unmodified opinion on those statements dated 23 March 2017.

#### *Other information*

The Directors are responsible for the other information. The other information comprises the Group company secretary's certificate, the Audit committee report and the Directors' report as required by the Companies Act of South Africa and the Directors' approval and the Annual Integrated Report, which we obtained prior to the date of this report. Other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

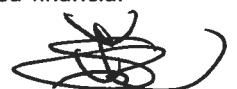
#### *Responsibilities of the directors for the consolidated financial statements*

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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





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

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

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

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

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



#### **Report on other legal and regulatory requirements**

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. was appointed as the auditor of Sappi Southern Africa Limited in the current year.

**KPMG Inc.**

Registered Auditor

A handwritten signature in black ink, which appears to be 'Safeera Loonat', is enclosed within a large, hand-drawn oval.

Per Safeera Loonat

Chartered Accountant (SA)

Registered Auditor

Director

85 Empire Road, Parktown

Johannesburg, 2193

29 January 2018



# Sappi Southern Africa Limited

## Director's report year ended September 2017

The directors submit their report for the year ended September 2017.

Sappi Southern Africa Limited has been audited in compliance with the applicable requirements of the Companies Act.

### Business of Sappi Southern Africa Limited ("Sappi Southern Africa" or "the company") and its operating companies ("Group")

The company is based in South Africa and produces dissolving wood pulp (DWP), paper grade pulp, paper and wood products for use in the Southern Africa and export markets.

#### Sappi Southern Africa overview

The Sappi Group is the world's largest manufacturer of DWP and exports almost all of the 1010 000 tons produced by Sappi Southern Africa at the Saiccor and Ngodwana Mills. When converted to viscose staple fibre (VSF), DWP is a natural substitute in many applications for cotton and polyester and this is used in the manufacture of a wide range of consumer products, including in textiles for fashion clothing and household linen. DWP can also be processed into products used in food and beverages, health and hygiene products, wrapping and packaging, pharmaceuticals and many more applications that touch our daily lives.

The South African paper business produces 685 000 tons of kraft linerboard, corrugating medium, newsprint, office paper and tissue paper which are largely sold regionally, where we have strong market positions in most of these products. We also produce 526 000 tons of paper pulp and collect 142 000 tons of recycled waste paper. On a net basis we are approximately self-sufficient for our pulp requirements.

Sappi Southern Africa owns or leases 387,000 hectares (ha) with approximately 27.4 million tons of standing timber and 139,000ha being used for other purposes such as conservation. Contracted supply covers almost 92,000ha. Of the 233,600ha planted at the end of FY2017, 58% was hardwood and 42% softwood, and of contracted supply, 90% is hardwood. These plantations provide approximately 64% of the wood requirements for the Southern Africa mills. Our aim is to produce low-cost wood with the required pulping characteristics and increase yield per hectare. We actively pursue this aim, particularly through genetic improvement of planting stock.

The government's Renewable Energy Independent Power Producer Programme (REIPPP) is the result of the national need to increase energy capacity and reduce carbon emissions. Sappi Southern Africa submitted an Energy Biomass Project at Ngodwana Mill to REIPPP and was selected as preferred bidder. The project involves the supply of biomass from local plantations to Ngodwana Mill. This is then used as boiler fuel to produce steam which in turn would generate 25MW of electrical energy which would be fed into the national grid.

#### Markets and operations

Growing demand for DWP, constrained cotton supply, and good customer operating rates continue to support our specialised cellulose business. Demand for VSF, and therefore DWP, continued to be linked to the growth in the overall textile market. Sappi Southern Africa's sales volumes in 2017 were approximately 8% higher than those in 2016 due to increased production at Saiccor and Ngodwana Mill, following the drought that was experienced in KwaZulu-Natal and the extended annual maintenance shut at Ngodwana Mill which impacted 2016 production rates. The US Dollar spot prices for DWP increased year on year by approximately 5% to the current level of US\$913/ton.

The South African paper business enjoyed record profitability in financial year 2017. Sales demand was strong and the average net sales prices rose during the year.

The average rate of the ZAR strengthened by 10% to the US Dollar for the year, and had a significant negative impact on the company's results. Increased selling prices, strong local market conditions and higher sales volumes in DWP reversed the effect of the stronger R/US\$. Volumes in both the DWP and paper businesses. The cost of imported variable cost items increased in local currency terms however a lower energy cost helped offset the import price component of chemical inputs. Fixed cost increased by 7% year-on-year mainly due to higher manpower and maintenance cost.

The net result of the above is a Rand annual operating profit of ZAR4 048 million.

Sappi Southern Africa's sales for 2017 in Rand terms increased by 3% to R17 839 million compared to 2016 (R17 262 million).

Sappi Southern Africa's EBITDA reduced to R4 831 million in 2017 from R5 541 million in 2016, while the EBITDA margin declined to 27% from the prior year's 32% margin. Operating profit decreased to R4 048 million in 2016 (R4 848 million in 2016). In 2017 Sappi Southern Africa achieved a 21% "Return on Net Operating Assets", compared to the 30% it achieved in 2016.

We regard ownership of our plantations as a key strategic resource which gives us access to low cost fibre for our pulp production and ensures continuity of an important raw material input source. As we manage our plantations on a sustainable basis, the growth in plantations over the year was largely offset by fellings in the year. A positive fair value price adjustment of R287 million was recorded in fiscal 2017 due mainly to the rolling forward of the higher average fair value rates offset by reduced market prices and higher fuel and contractor costs.

Regrettably the company reported the fatalities of two own employees and two contractors in our manufacturing and forestry business during the past financial year. Management and the Sappi Group board have placed even greater emphasis on safety, particularly in our plantation operations where most of our severe and fatal accidents have occurred. We will continue to focus on entrenching a strong safety culture, with the ultimate aim of zero accidents in the workplace.

We have a strong focus on social responsibility in South Africa, which is an economic imperative in the region. Our plantations and most of our mills are located in rural areas and we therefore have an important influence on development in these areas. We continue to make progress on each of the elements of our Black Economic Empowerment scorecard.

## Sappi Southern Africa Limited

### Director's report year ended September 2017

#### Outlook

Market prices for DWP are determined by a number of factors. Approximately a quarter of current DWP capacity has the ability to switch between various fluff and paper pulp grades and DWP. The decision to switch is usually based on the pricing differential between the particular paper grade pulp and DWP. Textile prices also influence DWP prices as this determines the maximum affordable price our customers can bear. Lastly, the DWP supply and demand balance as well as the availability and pricing of alternative sources of cellulose to the VSF market, such as cotton linter pulp, can affect the market price for dissolving wood pulp.

Based on the growth rate in the overall textile market (driven by factors such as population growth and wealth effects) and the move towards more comfortable, environmentally friendly natural fibres, we expect long-term growth of 4-5% per annum for DWP. Forecast growth is largely driven by growth rates in the viscose staple fibre (VSF) segment

In the containerboard market in Southern Africa, a strong fruit and vegetable season boosted sales.

Most of Sappi's containerboard sales are into the agricultural market, which is expected to grow by 3% per annum going forward.

#### Reporting period

The Group's financial period ends on the Sunday closest to the last day of September and results are reported as if at the last day of September

#### Share Capital

There were no changes in the authorised share capital during the financial year.

##### Authorised

6 052 500	Ordinary shares of R2 each
19 520	Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate
221 107	Class "B" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate
831	Class "C" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate
123 321	Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate

##### Issued

6 015 769	Ordinary shares of R2 each
19 520	Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate
219 760	Class "B" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate
831	Class "C" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate
119 183	Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate

#### Financing

At year end, the average tenure of the company's debt is 2.0 years .

Sappi Southern Africa Limited currently has the following credit ratings:

- Global Credit Rating (GCR): South African national rating A+/A1+/Stable Outlook (June 2017).

#### Net borrowings

Sappi Southern Africa has sufficient cash to meet all its debt obligations with a net cash position of R1 279 million at September 2017. Detail of the non-current term borrowings are set out in note 16 of the annual financial statements.

#### Insurance

Sappi Southern Africa has an active programme of risk management to address and reduce exposure to property damage and business interruption. All production and distribution units are subjected to regular risk assessments by external risk engineering consultants, the results of which receive the attention of senior management. The risk mitigation programmes are coordinated at Sappi Group level in order to achieve a standardisation of methods. Work on improved enterprise risk management is on-going and aims to lower the risk of incurring losses from uncontrolled incidents.

Asset insurance is renewed on a calendar year basis. The self-insured retention portion for any one property damage occurrence is EUR 2 million with the annual aggregate set at EUR 33 million. For property damage and business interruption insurance, cost-effective cover to full value is not readily available. A loss limit cover of EUR 730 million has been deemed to be adequate for the reasonable foreseeable loss for any single claim. In addition to the Property damage and business interruption policies there is a full program of policies to mitigate the losses stemming from events not covered by the main global policy.

During 2017, no incidents occurred that resulted in a successful claim against the Group's property damage or business interruption insurance policies.

#### Fixed assets

Capital expenditure of R1 332 million was incurred during the year. See note 6 to the annual financial statements for full details regarding our fixed assets.

## Sappi Southern Africa Limited

### Director's report year ended September 2017

#### Litigation

We become involved from time to time in various claims and lawsuits incidental to the ordinary course of our business. We are not currently involved in legal proceedings which, either individually or in the aggregate, are expected to have a material adverse effect on our business assets or properties.

#### Audit and Risk Committee

The Sappi Southern Africa Limited group of companies (Group) is a major subsidiary of Sappi Limited (Sappi), a company that maintains its listing on the JSE Limited. Sappi complies in all material respects with the JSE listings requirements, regulations and codes. The Sappi Southern Africa Limited Audit Committee operates as a function of the Sappi Limited Audit Committee. The committee, in terms of the Companies Act of South Africa, and King code the responsibility for reviewing the effectiveness of the Group's system of internal controls and risk management system. An internal audit function is responsible for advising the Board of Directors on the effectiveness of the Group's risk management system.

The committee oversees the relationship with the external auditors; is responsible for their appointment and remuneration; reviews the effectiveness the external audit process; and ensures that the objectivity and independence of the external auditors is maintained. The committee has concluded that it is satisfied that the auditor independence and objectivity has been maintained. The comprehensive report of the committee is included in the Group annual report.

#### Company secretary

The company secretary does not fulfil executive management functions outside of the duties of company secretary and is not a director. During the year, the board has assessed the independence, competence, qualifications and experience of the company secretary and has concluded that she is sufficiently independent (i.e. maintained an arm's length relationship with the executive team, the board and individual directors), qualified, competent and experienced to hold this position. The company secretary is responsible for the duties set out in section 88 of the Companies Act 71 of 2008 (as amended) of South Africa. Specific responsibilities include providing guidance to directors on discharging their duties in the best interests of the group, informing directors of new laws affecting the group, as well as arranging for the induction of new directors.

#### Subsidiary companies

Details of the company's significant subsidiaries are given in note 30.

Directors	Appointed	Resigned
Alex Thiel	1/12/2010	
Pramy Moodley	1/1/2017	
Steven Binnie	1/9/2012	
Glen Pearce	1/7/2014	
Deon van Aarde	1/6/2007	1/4/2017
Tyrone Hawkes	24/2/2009	1/4/2017
Nat Maelane	2/6/2008	1/4/2017
Fergus Marupen	1/5/2015	1/4/2017
Gary Bowles	10/1/2011	1/4/2017
Patrick McGrady	1/8/2010	1/4/2017
Dr Terence Stanger	1/1/2014	1/4/2017
Richard Wells	1/1/2016	1/4/2017
Andrea Rossi	1/7/1998	1/4/2017
Maarten van Hoven	2/7/2012	1/4/2017
Colin Maxwell Mowatt	9/3/2007	31/12/2016

#### Registered office

108 Oxford Road  
Houghton Estate  
2198

#### Auditors

KPMG Inc

#### Holding company

Sappi Limited

#### Secretaries

Sappi Limited  
108 Oxford Road  
Houghton Estate 2198  
South Africa  
Telephone +27 (0) 11 407 8111  
Telefax +27 (0) 11 339 1881  
e-Mail Amanda.Tregoning@Sappi.com

#### Supervisor of the preparation of the annual financial statements

J Shaw CA (SA)



## Sappi Southern Africa Limited

### Group income statement for the year ended September 2017

R'000	Note	2017	2016
<b>Sales</b>		<b>17 838 579</b>	17 261 740
Cost of sales	3.1	<b>13 156 248</b>	11 886 706
Gross profit		<b>4 682 331</b>	5 375 034
Selling, general and administrative expenses	3.1	<b>559 076</b>	620 950
Share of profit from joint ventures	9	<b>(87 629)</b>	(120 059)
Other expenses	3.3	<b>163 343</b>	25 658
<b>Operating profit</b>	<b>3</b>	<b>4 047 541</b>	4 848 485
Net finance income	4	<b>(93 796)</b>	(56 988)
Finance costs		<b>134 441</b>	187 099
Finance income		<b>(152 264)</b>	(206 924)
Net fair value loss on financial instruments		<b>6</b>	13
Net foreign exchange gains		<b>(75 979)</b>	(37 176)
<b>Profit before taxation</b>		<b>4 141 337</b>	4 905 473
Taxation charge	5	<b>1 062 350</b>	1 286 381
<b>Profit for the year</b>		<b>3 078 987</b>	3 619 092

### Group statement of comprehensive income for the year ended September 2017

R'000	Note	2017	2016
Profit for the year		<b>3 078 987</b>	3 619 092
<b>Other comprehensive (loss) income, net of tax</b>	<b>14</b>	<b>(97 676)</b>	(37 099)
<b>Item that will not be reclassified subsequently to profit or loss</b>		<b>(71 363)</b>	(51 830)
Actuarial (losses) gains on post-employment benefit funds		<b>(99 115)</b>	(71 986)
Deferred tax on above item		<b>27 752</b>	20 156
<b>Items that may be reclassified subsequently to profit or loss</b>		<b>(26 313)</b>	14 731
Movement in hedging reserves		<b>(36 546)</b>	20 460
Tax on above items		<b>10 233</b>	(5 729)
<b>Total comprehensive income for the year</b>		<b>2 981 311</b>	3 581 993

# Sappi Southern Africa Limited

## Group balance sheet as at September 2017

R'000	Note	2017	2016
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>17 336 157</b>	<b>16 698 727</b>
Property, plant and equipment	6	10 633 983	10 062 916
Plantations	7	6 205 715	6 042 661
Deferred tax assets	8	-	2
Joint venture	9	194 050	197 190
Other non-current assets	10	302 409	375 130
Derivative financial instruments	26	-	20 828
<b>Current assets</b>		<b>10 098 026</b>	<b>7 949 469</b>
Inventories	11	1 626 831	1 727 205
Trade and other receivables	12	347 182	504 851
Derivative financial instruments	26	21 229	29 730
Amounts owing by group companies	28	5 138 741	1 842 519
Prepaid taxes		40 678	-
Cash and cash equivalents		2 923 365	3 845 164
<b>Total assets</b>		<b>27 434 183</b>	<b>24 648 196</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>		<b>18 813 560</b>	<b>15 831 018</b>
Ordinary share capital and share premium	13	221 100	221 100
Non-distributable reserves	15	151 952	150 721
Hedging reserves		6 045	32 358
Retained earnings		18 434 463	15 426 839
<b>Non-current liabilities</b>		<b>5 035 383</b>	<b>5 380 582</b>
Interest-bearing borrowings	16	1 144 605	1 644 259
Deferred tax liabilities	8	3 637 099	3 518 504
Other non-current liabilities	17	253 679	217 819
<b>Current liabilities</b>		<b>3 585 240</b>	<b>3 436 596</b>
Interest-bearing borrowings	16	499 654	(435)
Derivative financial instruments	26	20 412	11 037
Trade and other payables		2 841 744	2 904 954
Taxation payable		-	355 600
Provisions	19	-	-
Amounts owing to group companies	28	223 430	165 440
<b>Total equity and liabilities</b>		<b>27 434 183</b>	<b>24 648 196</b>

## Sappi Southern Africa Limited

### Group statement of cash flows for the year ended September 2017

R'000	Note	2017	2016
<b>Cash retained from operating activities</b>		<b>3 515 577</b>	<b>3 322 058</b>
Cash generated from operations	18.1	<b>4 637 984</b>	4 419 795
- Decrease (increase) in working capital	18.2	<b>89 351</b>	(364 823)
Cash generated from operating activities		<b>4 727 335</b>	4 054 972
- Finance costs paid	18.3	<b>(70 144)</b>	(181 211)
- Finance income received		<b>160 431</b>	197 905
- Taxation paid	18.4	<b>(1 302 045)</b>	(749 608)
<b>Cash utilised in investing activities</b>		<b>(1 229 082)</b>	<b>-605 845</b>
Investment to maintain operations		<b>(710 676)</b>	(1 052 367)
Investment to expand operations		<b>(621 629)</b>	(300 127)
Proceeds on disposal of other non-current assets	18.5	<b>16 423</b>	63 792
Proceeds on disposal of assets held for sale		<b>-</b>	569 982
Other decrease in non-current assets		<b>86 800</b>	112 875
<b>Cash effects of financing activities</b>		<b>(3 208 294)</b>	<b>(2 235 063)</b>
Repayment of interest-bearing borrowings		<b>-</b>	(755 000)
Decrease in amounts owed by group companies		<b>(3 208 294)</b>	(1 480 063)
<b>Net movement in cash and cash equivalents</b>		<b>(921 799)</b>	<b>481 150</b>
Cash and cash equivalents at beginning of year		<b>3 845 164</b>	3 364 014
<b>Cash and cash equivalents at end of year</b>		<b>2 923 365</b>	<b>3 845 164</b>



## Sappi Southern Africa Limited

### Group Statement of Changes in Equity for the year ended September 2017

R'000	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Hedging reserves	Retained earnings	Total equity
<b>Balance - September 2015</b>	12 030	209 070	221 100	156 320	17 627	11 859 577	<b>12 254 624</b>
Share-based payments	-	-	-	22 787	-	-	<b>22 787</b>
Sappi Limited Share Incentive Trust	-	-	-	(45 112)	-	-	<b>(45 112)</b>
Share-based payments	-	-	-	16 726	-	-	<b>16 726</b>
Total comprehensive income	-	-	-	-	14 731	3 567 262	<b>3 581 993</b>
<b>Balance - September 2016</b>	12 030	209 070	221 100	150 721	32 358	15 426 839	<b>15 831 018</b>
Share-based payments	-	-	-	28 066	-	-	<b>28 066</b>
Sappi Limited Share Incentive Trust	-	-	-	(41 238)	-	-	<b>(41 238)</b>
Share-based payments	-	-	-	14 403	-	-	<b>14 403</b>
Total comprehensive income	-	-	-	-	-26 313	3 007 624	<b>2 981 311</b>
<b>Balance - September 2017</b>	12 030	209 070	221 100	151 952	6 045	18 434 463	<b>18 813 560</b>
<i>Note</i>							
			13	15			

# Sappi Southern Africa Limited

## Notes to the Group Annual Financial Statements for the year ended September 2017

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### 1.1 Basis of preparation

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

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

The group annual financial statements are prepared on the historical cost basis, except as set out in the accounting policies which follow. Certain items, including derivatives, are stated at their fair value while plantations are stated at fair value less costs to sell and non-current assets held for sale are stated at the lower of cost or fair value less costs to sell.

Fair value is determined in accordance with IFRS 13 *Fair Value Measurement* and is categorised as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities,
- Level 2: Inputs other than quoted prices that are observable, either directly or indirectly, and
- Level 3: Inputs for the asset or liability that are unobservable.

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

### 2. Accounting policies

The following principal accounting policies have been consistently applied in dealing with items that are considered material in relation to the group annual financial statements. Adoption of new accounting standards and changes to accounting standards are dealt with in sections 2.4 and 2.5.

#### 2.1 Significant accounting policy elections

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

- regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting,
- cumulative gains or losses recognised in other comprehensive income (OCI) for cash flow hedge relationships are transferred from equity and included in the initial measurement of the non-financial asset or liability when the hedged item is recognised,
- the net interest on post-employment benefits is included in finance costs,
- property, plant and equipment is accounted for using the cost model and

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

The financial statements are presented in South African Rands (ZAR) and are rounded to the nearest thousand except as otherwise indicated.

#### (i) Financial year

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:

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

#### (ii) Underlying concepts

The financial statements are prepared on the going concern basis.

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

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

### 2.2 Summary of accounting policies

#### 2.2.1 Foreign currencies

##### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of each transaction. Subsequent to initial recognition, monetary assets and liabilities denominated in foreign currencies are translated at the earlier of reporting or settlement date and the resulting foreign currency exchange gains or losses are recognised in profit or loss for the period. Translation differences on available-for-sale financial instruments are included in OCI.

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 2. Accounting policies (continued)

##### 2.2.2 Group accounting

###### (i) *Subsidiaries*

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

Intra-group balances and transactions and, profits or losses arising from intra-group transactions are eliminated in the preparation of the group financial statements.

###### (ii) *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 to sell) with its carrying amount. Any impairment loss recognised, which the group records in other operating expenses in profit or loss, is deducted from the carrying amount of the investment. Any reversal of an impairment loss increases the carrying amount of the investment to the extent recoverable, but not higher than the historical amount.

##### 2.2.3 Financial instruments

###### (i) *Initial recognition*

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

###### (ii) *Initial measurement*

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

###### (iii) *Subsequent measurement*

###### - **Financial assets and financial liabilities at fair value through profit or loss**

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

###### - **Financial liabilities at amortised cost**

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

###### - **Loans and receivables**

Loans and receivables are carried at amortised cost.

###### - **Available-for-sale financial assets**

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

###### (iv) *Embedded derivatives*

Certain derivatives embedded in financial and host contracts are treated as separate derivatives and recognised on a standalone basis when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. Gains or losses on these embedded derivatives are reported in profit or loss.

###### (v) *Derecognition*

The group derecognises a financial asset when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when and only when the liability is extinguished, ie when the obligation specified in the contract is discharged, cancelled or has expired. The difference in the respective carrying amounts is recognised in profit or loss for the period.



## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 2. Accounting policies (continued)

##### (vi) Impairment of financial assets

###### - Loans and receivables

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

###### - Available-for-sale financial assets

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

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

##### (vii) Interest income and expense

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

#### 2.2.4 Government grants

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

#### 2.2.5 Intangible assets

##### (i) Research activities

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

##### (ii) Development activities

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

##### (iii) Brands and patents

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

##### (iv) Licence fees

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

#### 2.2.6 Inventories

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

Cost is determined on the following basis:

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

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

#### 2.2.7 Leases

##### (i) The group as lessee

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

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

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

##### (ii) Recognition of lease of land

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

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

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#### 2. Accounting policies (continued)

##### 2.2.8 Assets held for sale

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

##### 2.2.9 Borrowing costs

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

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

##### 2.2.10 Revenue

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

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

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

##### 2.2.11 Emission trading

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

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

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

##### 2.2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits and money market instruments with a maturity of three months or less and other short-term highly liquid investments that are readily convertible into cash.

##### 2.2.13 Goodwill

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

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

Goodwill is tested for impairment using a cash flow valuation model based on an allocation of the goodwill to one or more CGUs. The group takes into account its ability to carousel 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 for non-market-related performance conditions.

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 2. Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

##### 2.3.2 Property, plant and equipment

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

Expenditure incurred to replace a component of an item of owner-occupied property or equipment is capitalised to the cost of the item of owner-occupied property and equipment and the part replaced is derecognised.

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

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

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.

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 2. Accounting policies (continued)

##### 2.3.3 Taxation

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

##### *(i) Current taxation*

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

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

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

##### *(ii) Deferred taxation*

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

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

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

Refer to note 8 for the movement in unrecognised deferred tax assets.

##### *(iii) Dividend withholding tax*

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

##### 2.3.4 Derivatives and hedge accounting

For the purpose of hedge accounting, hedges are classified as follows:

##### *(i) Fair value hedges*

Fair value hedges are designated when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment. Changes in the fair value of derivatives that are designated as hedging instruments are recognised in profit or loss immediately together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument is recognised in the same line of profit or loss as the change in the hedged item.

##### *(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.

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 2. Accounting policies (continued)

##### (iii) 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 forecasted 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 26 and 27 for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

#### 2.3.5 Plantations

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

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

The impact of changes in estimated prices, discount rates, and volume and growth assumptions may have on the calculated fair value and other key financial information on plantations is disclosed in note 7.

##### - *Estimated prices less cost of delivery*

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

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

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

##### - *Discount rate*

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

##### - *Volume and growth estimations and cost assumptions*

The group focuses on good husbandry techniques which include ensuring that the rotation of plantations is met with adequate planting activities for future harvesting. The age threshold used for quantifying immature timber is dependent on the rotation period of the specific timber genus which varies between 5 and 18 years. In the Southern African region, softwood less than eight years and hardwood less than five years are classified as immature timber.

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

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

The group has projected growth estimation over a period of 5 to 18 years per rotation. In deriving this estimate, the group established a long-term sample plot network which is representative of the species and sites on which trees are grown and the measured data from these permanent sample plots were used as input into the group's growth estimation. Periodic adjustments are made to existing models for new genetic material.

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

The associated costs for managing plantations are recognised as silviculture costs in cost of sales (see note 3).

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

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#### 2.3.6 Post-employment benefits

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

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

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

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

The group's policy is to recognise actuarial gains or losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in OCI. Any increase in the present value of plan liabilities expected to arise due to current service costs is charged to profit or loss.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in profit or loss when the group is demonstrably committed to the curtailment or settlement. Past service costs or credits are recognised immediately.

Net interest for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, adjusted for any changes as a result of contributions and benefit payments, to the net defined benefit liability and recorded in finance costs in profit or loss.

The net liability recognised in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of the plan assets. Where the calculation results in a benefit to the group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Refer to note 24 for the key estimates, assumptions and other information on post-employment benefits.

#### 2.3.7 Provisions

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

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

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

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

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 19 for the nature of provisions recorded.

#### 2.3.8 Environmental restoration and decommissioning obligations

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

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



## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

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#### 2. Accounting policies (continued)

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

The group has not adopted any new or revised standards, interpretations, amendments and improvements to standards in the current fiscal year.

##### 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 have not yet been early adopted by the group. The impact of these standards is still being evaluated by the group.

- IFRS 9 Financial Instruments – IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities - September 2019. Management has implemented a project to assess the revised classification and measurement impact of this standard and the effect of the expected credit loss model.
- IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or contribution of assets between an Investor and its Associate or Joint Venture - Effective date deferred indefinitely
- IFRS 15 Revenue from Contracts with Customers – provides a single, principles based five-step model to be applied to all contracts with customers - September 2019  
Management is currently reviewing the significant customer contracts to determine the impact of this standard.
- IFRS 16 Leases – Provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance substantially unchanged from its replacement standard IAS 17 Leases - September 2020  
Management is currently reviewing the operating lease contracts in place to determine the impact of this standard.
- IAS 7 Statement of Cash Flows – Disclosure Initiative – clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities - September 2018
- IAS 12 - Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses - September 2018
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration- September 2019
- IFRIC 23 - Uncertainty over Income Tax Treatments - September 2020
- IFRS 17 - Insurance Contracts- Supersedes IFRS 4 - September 2022
- IAS 40 - Investment Property - Transfers of Investment Property - September 2019
- Annual Improvements 2014-2016 Cycle - September 2018

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 3. Operating profit

##### 3.1 Cost of sales and selling, general and admin

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

R'000	2017	2016
	Selling, general and administrative expenses	Selling, general and administrative expenses
Raw materials, energy and other direct input costs	7 934 368	7 730 222
Fair value adjustment on plantations	(225 019)	(927 289)
Employment costs	1 748 938	1 634 654
Depreciation	758 526	663 947
Delivery charges	1 026 630	1 044 031
Maintenance	839 465	779 010
Other overheads	1 073 340	962 131
Marketing and selling expenses	-	21 726
Administrative and general expenses (income)	(69 697)	50 569
	<b>13 156 248</b>	<b>11 886 706</b>
		<b>2017</b>
Fair value gains on plantations (note 7)		2016
Changes in volumes		
- Fellings		836 390
- Growth		(774 443)
		<b>61 947</b>
Plantation price fair value adjustment		<b>(286 966)</b>
		<b>(225 019)</b>
Silviculture costs (included within cost of sales)		787 570
Leasing charges for premises		44 366
Leasing charges for plant and equipment		11 893
Leasing charges for vehicles		34 596
Leasing charges for office equipment		25 255
Cost on derecognition of loans and receivables		83 027
Remuneration paid other than to <i>bona fide</i> employees of the company in respect of:		18 494
- Technical services		14 224
- Administration services		4 270
Audit and related services		11 600
Tax planning and tax advice		(227)
Research and development costs		125 808

# Sappi Southern Africa Limited

## Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

### 3. Operating profit

#### 3.2 Employee Costs

R'000	2017	2016
Employment costs consist of	2 326 331	2 155 077
Wages and salaries	1 709 606	1 579 660
Defined contribution plan expense (refer to note 23)	124 463	81 279
Defined benefit pension plan expense (refer to note 23)	76 055	14 308
Other defined benefit plan expense	4 038	115 096
Other company contributions	127 866	96 409
Overtime	128 895	127 696
Share-based payment expense	28 066	22 783
Other	127 342	117 846

#### 3.3 Other expenses (income)

(Loss) Profit on disposal of assets and businesses	31 382	(21 290)
Costs related to major events (including fires and floods)	74 774	211 106
Profit on assets held for sale	41	(184 319)
Insurance recoveries	-	(3 532)
Impairment reversals of property, plant and equipment	-	(5 081)
Broad-based Black Economic Empowerment (BBBEE) charge	14 404	16 728
Restructuring costs	149	9 839
Written off other assets (major events)	42 593	2 207
	163 343	25 658

#### 4. Net finance costs

Gross interest and other finance costs on liabilities carried at amortised cost	138 726	194 566
- Interest on bank overdrafts	2 154	13 914
- Interest on redeemable bonds and other loans	136 572	180 652
Net interest on employee benefit liabilities	(4 285)	(7 466)
Finance revenue received on assets carried at amortised cost	(152 264)	(206 924)
- Interest on bank accounts	(149 825)	(204 723)
- Interest revenue on other loans and investments	(2 439)	(2 201)
Net fair value loss on financial instruments	6	13
Net foreign exchange gains	(75 979)	(37 176)
	(93 796)	(56 988)

# Sappi Southern Africa Limited

## Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

### 5. Taxation charge

R'000	2017	2016
Current taxation		
Current year	997 802	873 966
Prior year overprovision	(84 444)	(22 508)
Deferred taxation		
Current year	110 166	434 847
Prior year underprovision	38 826	76
	<b>1 062 350</b>	<b>1 286 381</b>

In addition to income taxation charges to profit and loss, current taxation relief of R7.6 million (2016: R10.7 million charge) and deferred taxation relief of R30.4 million (2016: R25.1 million relief) has been recognised directly in other comprehensive income (refer note 8).

### Reconciliation of the tax rate

	%	%
Statutory tax rate	28.0	28.0
Non-taxable income	(1.2)	(1.3)
Prior year adjustments	(1.1)	(0.5)
Effective taxation rate for the year	<b>25.7</b>	<b>26.2</b>

### 6. Property, plant and equipment

	2017	2016
Land and buildings <sup>(1)</sup>		
At cost	3 232 946	3 082 262
Accumulated depreciation and impairments	(1 233 983)	(1 152 973)
	<b>1 998 963</b>	<b>1 929 289</b>
Plant and equipment <sup>(2)</sup>		
At cost	18 584 832	17 638 309
Accumulated depreciation and impairments	(9 949 812)	(9 504 682)
	<b>8 635 020</b>	<b>8 133 627</b>
Aggregate cost	<b>21 817 778</b>	<b>20 720 571</b>
Aggregate accumulated depreciation and impairments	<b>(11 183 795)</b>	<b>(10 657 655)</b>
Aggregate book value <sup>(3)</sup>	<b>10 633 983</b>	<b>10 062 916</b>

<sup>(1)</sup> Details of land and buildings are available at the registered offices of the respective companies who own the assets.

<sup>(2)</sup> Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.

<sup>(3)</sup> An amount of R775.3 million (2016: R574.7 million) relates to assets under construction.

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 6. Property, plant and equipment (continued)

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

R'000	Land and buildings	Plant and equipment	Total
Net book value at September 2015	1 894 510	7 565 913	9 460 423
Additions	118 454	1 201 591	1 320 045
Disposals	3 592	(34 046)	(30 454)
Depreciation	(87 267)	(604 912)	(692 179)
Impairment reversals	-	5 081	5 081
Net book value at September 2016	1 929 289	8 133 627	10 062 916
Additions	162 348	1 239 664	1 402 012
Disposals	(1 151)	(45 852)	(47 003)
Depreciation	(91 523)	(692 419)	(783 942)
Net book value at September 2017	1 998 963	8 635 020	10 633 983

#### Material asset impairments and impairment reversals

##### September 2017

No impairment or impairment reversal occurred in the current financial year

##### September 2016

The impairment reversal at of R5.1 million primarily relates to certain assets that were previously impaired being brought back into use.

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 7. Plantations

R'000	2017	2016
Fair value of plantations at the beginning of the year	6 042 661	5 325 483
Disposals	-	(5 687)
Fire, hazardous weather and other damages	(70 594)	(192 675)
In-field inventory	8 629	(11 749)
Gains arising from growth	774 443	822 474
Gain arising from fair value price changes	286 966	938 228
Harvesting - agriculture produce (fellings)	(836 390)	(833 413)
Fair value of plantations at the end of the year	6 205 715	6 042 661

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

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

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

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

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

The fair value of plantations has been calculated using a real pre-tax discount rate of 9.77%. The group currently values approximately 28 million tons of timber using selling prices and delivery costs that are benchmarked against industry norms. The average annual growth is measured at approximately 17 tons of timber per hectare while immature timber comprise approximately 101,000 hectares of plantations. As changes to estimated prices, the discount rate, costs to sell, and volume and growth assumptions applied in the valuation of immature timber may impact the calculated fair value, the group has calculated the sensitivity of a change in each of these assumptions as tabled below:

	2017	2016
<b>Market price changes</b>		
1% increase in market prices	26 312	28 929
1% decrease in market prices	(26 312)	(28 929)
<b>Discount rate (for immature timber)</b>		
1% increase in rate	(35 506)	(31 452)
1% decrease in rate	35 506	31 452
<b>Volume assumption</b>		
1% increase in estimate of volume	59 167	55 409
1% decrease in estimate of volume	(59 167)	(55 409)
<b>Costs to sell</b>		
1% increase in costs to sell	(22 805)	(21 020)
1% decrease in costs to sell	22 805	21 020
<b>Growth assumptions</b>		
1% increase in rate of growth	15 445	15 549
1% decrease in rate of growth	(15 445)	(15 549)

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 8. Deferred tax

R'000	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Other non-current liabilities	-	16 233	(79)	48 025
Accrued and other liabilities	-	(142 318)	81	(153 027)
Property, plant and equipment	-	2 010 423	-	1 916 272
Plantations	-	1 752 761	-	1 707 234
	-	3 637 099	2	3 518 504

#### Reconciliation of deferred tax

Deferred tax balances at beginning of year

- Deferred tax assets
- Deferred tax liabilities

Deferred tax benefit (charge) for the year (refer to note 5)

- Other non-current assets
- Tax loss carry forward
- Accrued and other liabilities
- Property, plant and equipment
- Plantations

Amounts recorded directly in other comprehensive income

Transfer to non-current assets held for sale

Deferred tax balances at end of year

- Deferred tax assets
- Deferred tax liabilities

2017	2016
(2)	(6 842)
3 518 504	3 110 686
3 518 502	3 103 844
148 992	434 920
(1 475)	24 449
-	2 746
10 788	10 819
94 151	176 982
45 528	219 924
(30 395)	(25 076)
-	4 814
3 637 099	3 518 502
-	(2)
3 637 099	3 518 504



## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 9. Joint venture

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

Summarised financial information of Umkomaas Lignin Proprietary Limited:

R'000	2017	2016
Cost of investment in joint venture	1 985	1 985
Share of post-acquisition profits	121 675	124 815
- Opening balance	124 815	114 190
- Current year profit	87 629	120 059
- Dividend received	(90 769)	(109 434)
Loan - converted to share capital	70 390	70 390
Investment in joint venture	194 050	197 190

Dividends received from joint ventures for the 2017 financial year were R90.8 million (2016: R109.4 million).

#### Balance Sheet summary

Current assets	341 135	294 277
Non-current assets	262 292	196 748
Current liabilities	(95 317)	(78 463)
Non-current liabilities	(120 010)	(18 183)

The above assets and liabilities include the following:

Cash and cash equivalents	141 213	86 845
Current financial liabilities (excluding trade and other payables, and provisions)	(95 316)	(78 463)
Non-current financial liabilities (excluding trade and other payables, and provisions)	(120 009)	(18 183)

#### Income Statement summary

Sales	652 511	821 883
Depreciation and amortisation	22 068	21 809
Finance costs	1 028	6 033
Finance revenue	1 028	371
Taxation charge	48 683	97 447
Profit from continuing operations	175 258	240 118
Other comprehensive income	-	-
Total comprehensive income	175 258	240 118

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

Net assets of the joint venture	388 100	394 379
Proportion of the group's ownership interest	50%	50%
Carrying amount of the group's interest in the joint venture	194 050	197 190

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 10. Other non-current assets

R'000	2017	2016
Advances to tree growers	42 069	40 586
Licence fee	1 490	401
Defined benefit pension plan assets (refer to note 23)	236 170	312 463
Unlisted investment	15 000	15 000
Other	7 680	6 680
	<b>302 409</b>	<b>375 130</b>

#### 11. Inventories

R'000	2017	2016
Raw materials	404 651	467 458
Work in progress	59 297	69 340
Finished goods	785 877	760 621
Consumable stores and spares	377 006	429 786
	<b>1 626 831</b>	<b>1 727 205</b>

The charge to the income statement relating to the write-down of inventories to net realisable value amounted to R41.1 million (2016: R78.2 million).

The cost of inventories recognised as an expense and included in cost of sales amounted to R12,406.7 million (2016: R11,917.6 million).

#### 12. Trade and other receivables

R'000	2017	2016
Trade accounts receivable	117 150	173 338
Allowance for credit losses	-	-
Trade accounts receivable, net	117 150	173 338
Receiver of revenue	50 422	133 619
Prepaid insurance	22 044	25 950
Prepayments and other receivables	157 566	171 944
	<b>347 182</b>	<b>504 851</b>

Management rates the quality of trade and other receivables periodically against its internal credit rating parameters. The quality of these trade receivables is such that management believes no additional allowance for credit losses, other than as provided, is necessary. No significant risk has been identified within the trade accounts 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.

Trade receivables (including securitised trade receivables) represent 6.2% (2016: 8.0%) of turnover.

##### 12.1 Analysis of amounts past due

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

Less than 7 days overdue	5 864	-
Between 7 and 30 days overdue	(1)	-
Between 30 and 60 days overdue	-	-
More than 60 days overdue	(47)	-
	<b>5 816</b>	<b>-</b>

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

The group holds collateral of R70.5 million (2016: R17.3 million) against trade receivables past contractual repayment terms.

##### 12.2 Fair value

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

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 12. Trade and other receivables (continued)

##### 12.3 Off-balance sheet structures

Sappi sells the majority of its ZAR receivables to Rand Merchant Bank Limited, a division of FirstRand Bank Limited. In terms of the agreement, Sappi is required to maintain a credit insurance policy with a reputable insurance provider and, while the company does not guarantee the recoverability of any amounts, it carries 15% of the credit risk (and Rand Merchant Bank Limited the remainder) of each underlying receivable, after all recoveries, including insurance recoveries. As a result, no additional liability has been recognised as this would be insignificant to the financial statements.

Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is the Johannesburg Inter-bank Agreed Rate (JIBAR) plus a spread. This structure is treated as an off-balance sheet arrangement.

If this securitisation facility were to be terminated, we would discontinue further sales of trade receivables and would not incur any losses in respect of receivables previously sold in excess of the 15% mentioned above. There are a number of events which may trigger termination of the facility, among others, an amount of defaults above a specified level, terms and conditions of the agreement not being met, or breaches of various credit insurance ratios. The impact on liquidity varies according to the terms of the agreement; generally, however, future trade receivables would be recorded on-balance sheet until a replacement agreement is entered into.

The total amount of trade receivables sold at the end of September 2017 amounted to R980 million (2016: R1,249 million).

Details of the securitisation programme at the end of the 2017 and 2016 financial years are disclosed in the table below:

Bank	Value	Facility	Discount charges
<b>2017</b>			
Rand Merchant Bank Limited	ZAR980 million	Unlimited <sup>(1)</sup>	Linked to 3-month JIBAR
<b>2016</b>			
Rand Merchant Bank Limited	ZAR1,249 million	Unlimited <sup>(1)</sup>	Linked to 3-month JIBAR

<sup>(1)</sup> The facility in respect of the securitisation facility is unlimited, but subject to the sale of qualifying receivables to the bank.

Refer to note 27 for further details on credit risks.

##### 12.4 Concentration of credit risk

A significant portion of the group's sales and accounts receivable are from a small number of customers. None of the group's significant customers represented more than 10% of our sales and trade receivables during the years ended September 2017 and September 2016.

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 R347.2 million (2016: R504.9 million) represents the group's maximum credit risk exposure from trade and other receivables.

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

Threshold	2017			2016		
	Number of customers	R'000	Percentage	Number of customers	R'000	Percentage
Less than US\$5 million	82	117 149	100%	79	173 338	100%
	82	117 149	100%	79	173 338	100%

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 13. Ordinary share capital and share premium

R'000	Consolidated	
	2017	2016
<b>Authorised share capital:</b>		
6,052,500 Ordinary shares of R2 each	12 105	12 105
19,520 Class A cumulative preference shares of R0.01 each <sup>(1)(2)(3)</sup>	-	-
221,107 Class B cumulative preference shares of R0.01 each <sup>(1)(2)(3)</sup>	2	2
831 Class C cumulative preference shares of R0.01 each <sup>(1)(2)(3)</sup>	-	-
123,321 Class D cumulative preference shares of R0.01 each <sup>(1)(2)(3)</sup>	1	1
	<b>12 108</b>	<b>12 108</b>
<b>Issued share capital:</b>		
6,015,769 (2016: 6,015,769) Ordinary shares of R2 each	12 030	12 030
19,520 (2016: 19,520) Class A cumulative preference shares of R0.01 each <sup>(1)(2)(3)</sup>	-	-
219,760 (2016: 219,760) Class B cumulative preference shares of R0.01 each <sup>(1)(2)(3)</sup>	2	2
831 (2016: 831) Class C cumulative preference shares of R0.01 each <sup>(1)(2)(3)</sup>	-	-
118,602 (2016: 119,183) Class D cumulative preference shares of R0.01 each <sup>(1)(2)(3)</sup>	1	1
Sappi Property Company (Pty) Limited <sup>(2)</sup>	(3)	(3)
	<b>12 030</b>	<b>12 030</b>
Share premium on ordinary shares	209 070	209 070
Share premium on preference shares	-	-
362,532 Investment in Sappi Property Company Proprietary Limited preference shares <sup>(1)(2)</sup>	-	-
Closing balance	<b>221 100</b>	<b>221 100</b>

<sup>(1)</sup> The variable coupon rate based upon Sappi Southern Africa Limited's (SSA) long-term borrowing rate.

<sup>(2)</sup> The Class "A", "B", "C" and "D" preference share were issued to Sappi Property Company Proprietary Limited (SPC) for no cash consideration on 30 June 2008. SSA subsequently acquired all the ordinary shares of SPC on 11 June 2010 Sappi Southern Africa holds 362,532 (2016: 362,650) preference shares in SPC. A legal right to off-set these preference shares exists.

#### 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 16, and
- cash and cash equivalents.

The objectives of the group in managing capital are:

- to safeguard the group's ability to continue as a going concern, to be flexible and to take advantage of opportunities that are expected to provide an adequate return to shareholders,
- to ensure sufficient resilience against economic turmoil,
- to maximise returns to stakeholders by optimising the weighted average cost of capital, given inherent constraints, and
- to ensure appropriate access to equity and debt.

The group monitors its gearing through a ratio of net debt (interest-bearing borrowings and overdrafts less cash and cash equivalents) to total capitalisation (shareholders' equity plus net debt).

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

The group was in compliance with the financial covenants relating to the loans payable during both the current and prior fiscal years.

The group's strategy with regard to capital risk management remains unchanged from the prior 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.

# Sappi Southern Africa Limited

## Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

### 14. Other comprehensive (loss) income

R'000	2017	2016
<b>Item that will not be reclassified subsequently to profit or loss</b>		
<b>Actuarial (losses) gains on post-employment benefit funds</b>	<b>-71 363</b>	<b>(51 830)</b>
Gross amount	-99 115	(71 986)
Tax	27 752	20 156
<b>Item that may be reclassified subsequently to profit or loss</b>		
<b>Hedging reserves</b>	<b>-26 313</b>	<b>14 731</b>
Movements during the year	213 714	76 035
Reclassified to profit or loss	-251 760	(46 092)
Reclassified to property, plant and equipment	1 500	(9 483)
Tax	10 233	(5 729)
<b>Other comprehensive loss recorded directly in equity</b>	<b>-97 676</b>	<b>(37 099)</b>
Profit for the year	3 078 987	3 619 092
<b>Total comprehensive income for the year</b>	<b>2 981 311</b>	<b>3 581 993</b>

### 15. Non-distributable reserves

Share-based payment reserve (refer to note 25)	-49 109	(35 937)
Share-based payment reserve - BBBEE (refer to note 25)	201 061	186 658
	<b>151 952</b>	<b>150 721</b>

# Sappi Southern Africa Limited

## Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

### 16. Interest-bearing borrowings

R'000	2017	2016
Unsecured borrowings	1 644 259	1 643 824
Less: Current portion included in current liabilities	(499 654)	435
Total non-current interest-bearing borrowings	<b>1 144 605</b>	<b>1 644 259</b>
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2017		(435)
2018	499 654	499 654
2019	(251)	(251)
2020	1 144 856	1 144 856
2021	-	-
2022 (September 2016: Thereafter)	-	-
Thereafter	-	-
	<b>1 644 259</b>	<b>1 643 824</b>

### Capitalised lease liabilities

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

Set out below are details of the more significant interest-bearing borrowings in the group as at September 2017:

	Currency	Interest rate	Principal amount outstanding	Balance sheet value	Security / cession	Expiry
<b>Redeemable bonds</b>						
Public bond	ZAR	Fixed <sup>(1)(2)</sup>	ZAR500 million	ZAR500 million	Unsecured	April 2018
Public bond	ZAR	Fixed <sup>(2)</sup>	ZAR745 million	ZAR744 million	Unsecured	April 2020
<b>Unsecured bank term loans</b>						
GroCapital Financial Services	ZAR	Fixed <sup>(1)(2)</sup>	ZAR400 million	ZAR400 million	Unsecured	May 2020

<sup>(1)</sup> ZAR variable interest rates have been swapped into fixed ZAR interest rates. These swaps are subject to hedge accounting.

<sup>(2)</sup> The principal value of the loans / bonds corresponds to the amount of the facility; however, the balance sheet value has been adjusted the discounts paid upfront.

A detailed analysis of total interest-bearing borrowings has been disclosed in note 27.

### Other restrictions

In addition to the above borrowings, the group operates an of-balance sheet securitisation facility. Please refer to note 12 for further detail this facility and related restrictions.

During the 2017 and 2016 financial years, the group was in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institutions before such breach occurs.

### 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.

	Currency	Interest rate	2017	2016
<b>Unutilised committed facilities</b>				
Syndicate loan/revolving credit facility <sup>(1)</sup>	ZAR	Variable (JIBAR)	1 000 000	1 000 000
<b>Unutilised uncommitted facilities</b>				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (ZAR bank prime)	275 000	275 000
<b>Total unutilised facilities (committed and uncommitted) excluding cash</b>			<b>1 275 000</b>	<b>1 275 000</b>

<sup>(1)</sup> Syndicated loans with a consortium of banks with revolving facilities available of R1 billion. The R1 billion facility is an evergreen facility with a 15 month notice period and is subject to financial covenants relating to the financial position of Sappi Southern Africa Limited. During the year, the group paid an amount of R4.5 million in respect of this facility.

### Fair value

The fair values of all interest-bearing borrowings are disclosed in note 27.

# Sappi Southern Africa Limited

## Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

### 17. Other non-current liabilities

R'000	2017	2016
Post-employment benefits other than pension liability (refer to note 24)	249 945	214 085
Other	3 734	3 734
	<b>253 679</b>	<b>217 819</b>

### 18. Notes to the group statement of cash flows

#### 18.1 Cash generated from operations

Profit for the year	3 078 987	3 619 092
Adjustment for:		
- Depreciation	783 942	692 179
- Fellings	836 390	833 413
- Impairment reversals of assets and investments	-	(5 081)
- Taxation charge	1 062 350	1 286 381
- Net finance (revenue) costs	(93 796)	(56 988)
- Equity accounted profits	(87 629)	(120 059)
- Loss (profit) on disposal of assets and businesses	31 382	(20 942)
- Loss (profit) on assets held for sale	41	(184 319)
- Plantation fire, drought and other damages	70 594	192 675
- Fair value adjustment gains and growth on plantations	(1 061 409)	(1 760 702)
- Other non-cash items	17 132	(55 854)
	<b>4 637 984</b>	<b>4 419 795</b>

#### 18.2 Increase in working capital

(Increase) decrease in inventories	11 414	(305 897)
(Increase) decrease in receivables	147 180	(215 012)
(Increase) decrease in amounts owed by group companies	37 083	(2 793)
Increase (decrease) in payables	(39 305)	95 573
Increase (decrease) in amounts owed to group companies	(67 021)	63 306
	<b>89 351</b>	<b>(364 823)</b>

#### 18.3 Finance costs paid

Interest and other finance costs on liabilities carried at amortised cost	(134 441)	(187 099)
Net foreign exchange gains (losses)	75 979	37 176
Net fair value (gains) losses on financial instruments	(6)	(13)
Non cash movements included in items above	(11 676)	(31 275)
	<b>(70 144)</b>	<b>(181 211)</b>

#### 18.4 Taxation paid

Net amounts payable at beginning of year	-355 600	(243 101)
Taxation charge to profit or loss	-913 358	(851 458)
Taxation (charge) benefit per OCI	7 591	(10 649)
Other movements	-	-
Less: Net amounts payable at end of year	-40 678	355 600
	<b>-1 302 045</b>	<b>-749 608</b>

#### 18.5 Proceeds on disposal of other non-current assets

Book value of non-current assets disposed of	47 805	42 502
(Loss) profit on disposal	(31 382)	21 290
	<b>16 423</b>	<b>63 792</b>



## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 19. Provisions

R'000	2017	2016
Restructuring provisions	-	-
A reconciliation of restructuring provisions which consist of severance, retrenchment and related costs is provided below:		
Balance at September 2015		6 200
Increase in provisions		9 839
Utilised		(16 039)
Balance at September 2016		-
Increase in provisions		149
Utilised		(149)
<b>Balance at September 2017</b>		<b>-</b>

#### 20. Encumbered assets

At financial year-end, none of the group's assets were encumbered.

#### 21. Commitments

R'000	2017	2016
<i>Capital commitments</i>		
Contracted but not provided	721 670	210 877
Approved but not contracted	1 492 259	199 796
	<b>2 213 929</b>	<b>410 673</b>
Future forecasted cash flows of capital commitments at September:		
2017		398 949
2018	1 934 929	11 724
2019	279 000	-
	<b>2 213 929</b>	<b>410 673</b>

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

#### *Lease commitments*

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

2017		92 088
2018	96 063	34 631
2019	50 256	20 069
2020	38 095	11 528
2021	26 316	4 505
2022 (2016: Thereafter)	23 679	8 791
Thereafter	131 300	-
	<b>365 709</b>	<b>171 612</b>

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 22. Contingent liabilities

R'000	2017	2016
Guarantees and suretyships	-	-
Other contingent liabilities	10 000	10 000
	<b>10 000</b>	<b>10 000</b>

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these lawsuits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that the possibility of a material outflow of resources in connection with these lawsuits and administrative proceedings is considered to be remote.

In September 2012, the Competition Commission of South Africa notified the group that it has initiated an investigation into alleged anti-competitive behaviour between Sappi and a competitor in the South African pulp and paper market. At that time, we reported that the investigation was still in the early stages. As at the end of the 2017 financial year, the investigation remains in its early stages as the dispute is one of a procedural nature. dispute is one of a procedural nature.

The company has been audited by the South African Revenue Service (SARS) in respect of transfer pricing relating to the 2011- 2014 years of assessment. On 14 September 2017, a letter of findings was issued to the company notifying it of a potential upward adjustment to taxable income of R882 633 277 which would result in an additional tax liability of approximately R316 million, excluding any potential interest and penalties, should the company eventually be assessed on this basis. The company does not agree with SARS's analysis and has responded to the letter of findings objecting to the basis for the proposed adjustments and including representations on why interest and penalties should not be raised. The SARS assessments are expected on or before 28 February 2018.

#### 23. Post-employment benefits - pensions

##### Summary of results

	2017	2016
Post-employment plan costs (credits) recognised in profit or loss	<b>51 250</b>	53 049
Employer contributions paid during the financial year	<b>62 595</b>	73 550

##### Defined contribution plans

The group operates a defined contribution plan for all qualifying employees 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 R124.5 million (2016: R115.1 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans.

Expected contributions (total cost charged) to be paid in the next financial year is R130.7 million.

##### Defined benefit pension plans

The group operates a defined benefit pension and a defined benefit disability plan. These plans are closed to new entrants. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in South Africa.

The assets of our funded plans are held in separate trustee-administered funds and are subject to statutory requirements. Generally, the trusts are required by law and their articles of associations to act in the interests of the fund and its stakeholders, ie members and the various local sponsoring companies across the group. The plans comprise of management and member-appointed trustees, including an independent trustee, who collectively are responsible for the administration and governance of the trusts.

Benefits are formula-driven, based on final average salary

##### Exposure to risks

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

- Inflation: The risk that future inflation indices is higher than expected and uncontrolled,
- Future changes in legislation: The risk that changes to legislation with respect to the post-employment liability may increase the liability for the group,
- Future changes in the tax environment: The risk that changes in the tax legislation governing employee benefits may increase the liability for the group,
- Longevity: The risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected, and
- Administration: Administration of this liability poses a burden to the group.

The main strategic choices that are formulated in the actuarial and technical policies of our plans across the group are as follows:

- Asset mix based on 38% equity instruments,
- 55% debt instruments, and
- 7% cash.

Local regulations impose minimum funding targets which significantly influence the strategic asset allocation of individual plans.

Since the pension liabilities are adjusted to respective local consumer price indices, the plans are exposed to local inflation, interest rate risks and changes in life expectancies of members. As the plan assets include significant investments in quoted equity shares, property and high yield bonds in various markets around the globe, the group is exposed to equity, property, high yield bond market risk and for non-domestic holdings, currency risk. Debt instruments typically comprise investment grade corporate and government debt in markets around the globe, primarily held to match counter-movements in plan liabilities of the same value. The group is also exposed to losses from the effects of credit grade re-ratings on debt instruments in bond markets across the globe.

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### Investment management and strategic asset allocation

Plan fiduciaries are responsible for investment policies and strategies for local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment. 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 to analyse risk-and-return profiles. Investment and contribution policies are integrated within this study.

#### Funding Policy

Members contribute a fixed percentage of pensionable salary to the pension plan and the group's subsidiaries fund the balance of the cost of the entitlements expected to be earned on an annual basis, and cover the entire cost of the disability plan. The funding requirements are based on local actuarial measurement frameworks. For prefunded plans, contributions are determined on a current salary base. Additional liabilities stemming from past service due to salary increases are paid immediately to the plans as part of the overall agreed contribution rate to restore individual plan deficits where these occur.

Expected company contributions across group subsidiaries over the next financial year are R67.2 million.

An actuarial review is performed annually, with an actuarial valuation being performed on a tri-annual basis.

	2017	2016
<b>Components of defined benefit cost recognised in profit or loss</b>		
Current service cost	71 522	68 564
Past service cost	1 033	1 088
Interest on net defined benefit	(24 805)	(28 230)
Fund administration costs	3 500	4 421
Non-routine plan amendment, curtailment loss and settlement gain	-	7 206
Net amount recognised in profit or loss	51 250	53 049
Net amount attributed to Operating Cost	76 055	74 073
Net amount attributed to Special items	-	7 206
Net amount attributed to Finance Cost	(24 805)	(28 230)

#### Components of defined benefit cost recognised in other

Actuarial gains (losses) arising from membership experience	(3 333)	20 266
Actuarial losses arising from changes in demographic assumptions	(145 733)	(39 885)
Actuarial losses arising from changes in financial assumptions	300 375	(57 404)
Actuarial gains arising on assets	(238 947)	1 455
Net amount recognised in other comprehensive income	(87 638)	(75 568)

#### Movement in the present value of the defined benefit obligation in the current year

Defined benefit obligation at beginning of year	1 865 313	1 951 830
Current service cost	71 522	68 564
Past service cost	1 033	1 088
Interest cost	171 574	158 964
Plan participants' contributions	21 081	22 081
Remeasurements	(151 309)	77 023
- Membership experience changes	3 333	(20 266)
- Demographic assumption changes	145 733	39 885
- Financial assumption changes	(300 375)	57 404
Non-routine plan amendment, curtailment loss and settlement gain	-	7 206
Benefits paid	(250 400)	(421 443)
Defined benefit obligation at end of year	1 728 814	1 865 313

#### Movement in the fair value of the plan assets in the current year

Fair value of plan assets at beginning of year	2 177 776	2 319 360
Interest income	196 379	187 194
Employer contributions	62 595	73 550
Plan participants' contributions	21 081	22 081
Remeasurements - actuarial gains arising on assets	(238 947)	1 455
- Actuarial gains arising on assets	(238 947)	1 455
Non-routine plan amendment, curtailment loss and settlement gain	-	-
Benefits paid	(250 400)	(421 443)
Fund administration costs	(3 500)	(4 421)
Fair value of plan assets at end of year	1 964 984	2 177 776
Recognised pension plan assets	(236 170)	(312 463)

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

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

	2017	2016
Cash and cash equivalents	153 627	198 073
Investments quoted in active markets		
- Equity and high yield investments		
- Domestic	290 164	309 213
- Foreign	289 741	406 330
- Investment grade debt instruments		
- Nominal	1 231 452	1 264 160
Unquoted investments		
- Other	-	-
	<b>1 964 984</b>	<b>2 177 776</b>

Plan assets do not include any investments in the group's own quoted shares. These were held by an appointed investment manager as part of the routine mandate to invest in domestic equities.

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 subsidies for the group's plans are shown below:

	2017	2016
Discount rate (%)	9.28	9.40
Future salary increases (%)	7.28	8.50
Cost of living adjustment for pensions in payment (%)	5.03	6.00
Average life expectancy in years		
- For current beneficiaries (male of 60 years)	19.20	19.20
- Future retiree (male of 60 years in 20 years' time)	20.20	20.20

#### 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 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 R287.0 million (increase by R368.4 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by R119.7 million (decrease by R111.5 million)
- If the expected cost of living adjustment (pension increase) rate is 100 basis points higher (lower), the defined benefit obligation would increase by R241.0 million (decrease by R296.7 million)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by R37.2 million (decrease R36.6 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 that applied in calculating the defined benefit obligation recognised in the balance sheet. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The average duration of the defined benefit plan obligations at the end of the reporting period is 18 years.

# Sappi Southern Africa Limited

## Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

### 24. Post-employment benefits - post-retirement healthcare subsidy

R'000	2017	2016
Post-employment plan costs (credits) recognised in profit or loss	25 332	35 072
Employer contributions paid during the financial year	949	69 990

#### Post-employment benefits - post-retirement healthcare subsidy

The company sponsors a defined benefit post-employment plan that provides certain health care and life insurance benefits to eligible retired employees. Employees who joined the company before 1 October 1998 are generally eligible for benefits upon retirement. An actuarial valuation was performed in 2015 and the next is scheduled for 2018.

Expected company contributions across group subsidiaries over the next financial year are R3.2 million.

#### Components of defined benefit cost recognised in profit or loss

	2017	2016
Current service cost	7 310	7 935
Past service cost	(3 186)	-
Interest on net defined benefit	21 294	20 764
Gains (losses) on settlements	(86)	6 373
Net amount recognised in profit or loss	25 332	35 072

Net amount attributed to Operating Cost	4 124	7 935
Net amount attributed to Special items	(86)	6 373
Net amount attributed to Finance Cost	21 294	20 764

#### Components of defined benefit cost recognised in other

Actuarial losses arising from membership experience	(8 827)	(328)
Actuarial losses arising from changes in financial assumptions	24 173	(26)
Actuarial gains (losses) arising on assets	661	3 936

Net amount recognised in other comprehensive income	(11 477)	3 582
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#### Movement in the present value of the defined benefit obligation

Defined benefit obligation at beginning of year	328 415	397 907
Current service cost	7 310	7 935
Past service cost	(3 186)	-
Interest expense	31 414	33 279
Remeasurements	12 138	354
- Membership experience changes	8 827	328
- Demographic assumption changes	27 484	-
- Financial assumption changes	(24 173)	26
Non-routine settlements	(4 497)	(96 478)
Benefits paid	(12 143)	(14 582)
Defined benefit obligation at end of year	359 451	328 415

#### Movement in the fair value of the plan assets in the current year

Fair value of plan assets at beginning of year	114 330	145 322
Interest income	10 120	12 515
Employer contributions <sup>(1)</sup>	949	69 990
Remeasurements - actuarial gains (losses) arising on assets	661	3 936
- Actuarial losses arising on assets	661	3 936
Non-routine plan settlements	(4 411)	(102 851)
Benefits paid	(12 143)	(14 582)
Fair value of plan assets at end of year	109 506	114 330

Net balance sheet defined benefit (asset) liability	249 945	214 085
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<sup>(1)</sup> The substantial employer post-employment healthcare subsidy contribution prior year is due to settlement programmes during that year.

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

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

	2017	2016
Cash and cash equivalents	11 765	11 818
Unquoted investments		
- Other	97 741	102 512
	<b>109 506</b>	<b>114 330</b>

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 post-employment medical aid subsidies for the group's plans are shown below:

Discount rate (%)	9.75	9.50
Healthcare cost trend rate (%)	8.25	8.50
Average expectancy in years		
- For current beneficiaries (male of 60 years)	19.50	19.40

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, health care 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 R45.5 million (increase by R56.4 million)
- If the expected health care cost trend rate is 100 basis points higher (lower), the defined benefit obligation would increase by R57.5 million (decrease by R47.1 million)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by R12.2 million (decrease R12.1 million).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlike 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 liability recognised in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The average duration of the defined benefit plan obligations at the end of the reporting period is 15.6 years.

# Sappi Southern Africa Limited

## Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

### 25. Share-based payments

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

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

#### The Sappi Limited Share Incentive Trust (the Scheme)

Under the rules of the Scheme, participants (a) may be offered options to acquire ordinary shares (share options) and (b) may be offered the opportunity to acquire ordinary shares (scheme shares).

Under the rules of the Scheme:

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

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

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

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

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

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

Under the rules of the Plan, participants may be awarded conditional contracts to acquire ordinary shares for no cash consideration. The conditional contracts are subject to performance criteria being met or exceeded after the fourth anniversary date. Should the performance criteria not be met, the number of shares allotted are adjusted downwards from 100% to 75%, or 50%, or none depending on the degree of not meeting the criteria. The performance criteria, which entails a benchmarking of the company's performance against an appropriate peer group of companies, is set by the board at the offer date for each conditional share award.

The Plan rules provide that appropriate adjustments are made to the rights of participants in the event that the company, *inter alia*, undertakes:

- a rights offer, or
- is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital.

The Plan rules also provide that if:

- the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself, or
- the persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action, the effect of which is to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action;

then the company is obliged to notify every participant thereof that such participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the performance criteria been achieved.

Movements in share options and performance shares for the financial years ended September 2017 and September 2016 are as follows:

	Performance shares <sup>(1)</sup>	Share options	Weighted average share option exercise price (ZAR)	Total Shares
Outstanding at September 2015	2 977 361	2 151 107	33.94	5 128 468
- Offered	954 500	-	-	954 500
- Paid for/vested	(165 532)	(1 121 728)	36.77	(1 287 260)
- Returned, lapsed, forfeited and transfers	(207 657)	(45 408)	46.48	(253 065)
Outstanding at September 2016	3 558 672	983 971	30.14	4 542 643
- Offered	698 400	-	-	698 400
- Paid for/vested	(782 192)	(398 500)	31.56	(1 180 692)
- Returned, lapsed, forfeited and transfers	(161 700)	(70 861)	32.47	(232 561)
<b>Outstanding at September 2017</b>	<b>3 313 180</b>	<b>514 610</b>	<b>29.08</b>	<b>3 827 790</b>
Exercisable at September 2016	-	983 971	30.14	983 971
Exercisable at September 2017	-	514 610	29.08	514 610

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



## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

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

	Issue 42	Issue 42
Date of grant	09 December 2016	09 December 2016
Type of award	Performance	Performance
Share price at grant date	ZAR 86.23	ZAR 86.23
Vesting period	4 years	4 years
	Market-related -	Cash flow return on
	relative to peers	net assets relative to
Vesting conditions	n/a	peers
Life of options	Yes	No
Market-related vesting conditions	80%	80%
Percentage expected to vest	1 505 950	1 505 950
Number of shares offered	33%	n/a
Volatility	1.7% (US yield)	n/a
Risk-free discount rate	2.1%	2.1%
Expected dividend yield	Monte-Carlo	Market price
Model used to value	ZAR 65.09	ZAR 68.98
Fair value of option		

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

Refer to note 30 for more information on directors' and prescribed officers' participation in the Scheme and the Plan.

#### Broad-based Black Economic Empowerment

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

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

The BBBEE transaction has resulted in potentially 4.5% of the issued share capital of Sappi being held as follows:

- Sappi's South African employees (62.5%),
- South African black managers (15%),
- Strategic partners (12.5%) (refer below for more detail), and
- Communities surrounding the South African mill operations and plantations (10%).

#### The BBBEE transaction

The BBBEE transaction comprised two distinct parts:

- The value created through the Plantation BBBEE transaction was settled by the issue of 4.3 million fully paid-up ordinary shares at a price based on the 30-day volume weighted average share price (VWAP) of Sappi as at Friday, 05 February 2010 of R33.50.
- The creation and issuance of a new class of unlisted equity shares referred to as 'A' ordinary shares. The 'A' ordinary shares were issued at their par value of R1 to a trust formed for the benefit of certain Sappi employees including HDSAs (the 'ESOP Trust'), a trust formed for the benefit of certain Sappi managers that are HDSAs (the 'MSOP Trust') and a trust formed for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the 'Sappi Foundation Trust', and together with the ESOP Trust and the MSOP Trust, the 'BBBEE trusts'). The issuance of the 'A' ordinary shares was financed through notional non-interest-bearing loans extended by Sappi to the BBBEE trusts. The BBBEE transaction resulted in the BBBEE trusts and the strategic partners holding, collectively, ordinary and 'A' ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's South African business under the Forestry Charter and BBBEE legislation in general.

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

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 25. Share-based payments (continued)

	Ordinary share allocation	Value of shares issued R'000
<b>Strategic partners</b>		
Lereko Investments Proprietary Limited	1 971 693	66 052
Malibongwe Women Development Trust	432 842	14 500
AMB Capital Limited	643 227	21 548
	3 047 762	102 100
<b>Employees</b> (through the ESOP Trust)	1 280 597	42 900
<b>Total</b>	4 328 359	145 000

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

Entity	A' ordinary share allocation	Value of shares issued R'000
ESOP Trust	13 889 195	465 288
MSOP Trust	3 642 969	122 039
Sappi Foundation Trust	2 429 312	81 382
<b>Total</b>	19 961 476	668 709

The group incurred a share-based payment expense of R14.4 million (2016: R16.7 million) during the 2017 financial year that related to the 'A' ordinary shares that were awarded.

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

Base price for hurdle rate price	ZAR 32.50
Share price hurdle rate	9.1%
Hurdle rate price	ZAR 75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	7.1%
Management turnover (annual)	3.6%
Model used to value	Black Scholes model

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

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

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

#### 26. Derivative financial instruments

R'000		2017	2016
<b>Hedging instrument</b>	<b>Hedged item</b>		
<b>Non-current assets</b>			
Interest rate swap	ZAR500 million	-	10 456
Interest rate swap	ZAR400 million	-	10 372
		-	20 828
<b>Current assets</b>			
Interest rate swaps	ZAR500 and ZAR400 million loans	5 951	-
Forward exchange contracts	Various	15 278	29 730
		21 229	29 730
<b>Current liabilities</b>			
Forward exchange contracts	Various	20 412	11 037
		20 412	11 037

Refer to note 27 for more detail on financial instruments.

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

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#### 27. Financial instruments

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

##### Introduction

The group's main financial risk management objectives are to identify, measure and manage, through financial instruments, the following principal risks to which the group is exposed to:

- a) Market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:
  - Interest rate risk
  - Currency risk and
  - Commodity price risk
- b) Liquidity risk and
- c) Credit risk

Sappi's Group Treasury 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 co-ordinated on a group basis, whilst commodity price risk is managed regionally.

The group's Limits of Authority framework delegates responsibility and approval authority to various officers, committees and boards based on the nature, duration and size of the various transactions entered into by, and exposures of, the group including the exposures and transactions relating to those financial instruments and risks referred to in this note.

##### a) Market risk

###### Interest rate risk

Interest rate risk is the risk that the value of a borrowing or an investment will change due to a change in the absolute level of interest rates, the spread between two rates, the shape of the yield curve or any other interest rate relationship.

The group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The group monitors market conditions and may utilise approved interest rate derivatives to alter the existing balance between fixed and variable interest rate loans in response to changes in the interest rate environment. Hedging of interest rate risk for periods greater than one year is only allowed if income statement volatility can be minimised by means of hedge accounting, fair value accounting or other means. The group's exposure to interest rate risk is set out below.

##### Interest-bearing borrowings

The following table provides information about Sappi's principal amounts of current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows of the carrying value by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2017 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 1 October 2017.

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

	Expected maturity date				2017 Carrying value	2017 Fair Value	2016 Carrying Value	2016 Fair Value
	2018	2019	2020	2021				
<b>Rand</b>								
Fixed rate debt <sup>(1)</sup>	499 654		1 144 605		1 644 259	1 724 236	1 643 824	1 714 616
Average interest rate (%)	7.46		7.99		7.83		7.83	
<b>Fixed and variable</b>	<b>499 654</b>	<b>-</b>	<b>1 144 605</b>	<b>-</b>	<b>1 644 259</b>	<b>1 724 236</b>	<b>1 643 824</b>	<b>1 714 616</b>
Current portion					499 654	512 338	(435)	-
Long-term portion					1 144 605	1 211 898	1 644 259	1 714 616
Total interest-bearing borrowings (refer to note 16)					1 644 259	1 724 236	1 643 824	1 714 616

<sup>(1)</sup> ZAR floating rates of ZAR900 million debt have been swapped into ZAR fixed rates. These swaps are subject to hedge accounting.

For disclosure purposes, the fair value of non-current borrowings is estimated by Sappi based on rates from market quotations for non-current borrowings with fixed interest rates and on quotations provided by internationally recognised pricing services for notes, exchange debentures and revenue bonds.

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

At September 2017, 100% of the borrowings were at fixed rates of interest. Fixed rates of interest are based on contract rates.

A detailed analysis of the group's borrowings is presented in note 16.

#### **Hedging of interest rate risk**

The group uses interest rate swaps (IRSs) and interest rate and currency swaps (IRCSs) as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. The group does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period or in other comprehensive income (OCI), depending on the hedge designation as described in a documented hedging strategy.

#### **Cash flow hedges**

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

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

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

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

#### **Interest rate swaps floating to fixed**

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

At September 2017, the hedges were highly effective and the swaps had in total a net positive fair value of R5.9 (pre-tax) million which was deferred to equity.

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### Summary of outstanding cash flow hedges

September 2017

Interest rate		Maturity date	Nominal value	Total fair value <sup>(1)</sup> R'000	Recorded in	
					OCI R'000	Profit or loss R'000
<u>Cash flow hedges</u>						
IRS	ZAR variable (JIBAR) to ZAR 7.46% fixed	April 2018	ZAR500 million	2 680	2 679	1
IRS	ZAR variable (JIBAR) to ZAR 7.85% fixed	May 2018	ZAR400 million	3 271	3 269	2
				<b>5 951</b>	<b>5 948</b>	<b>3</b>

September 2016

Interest rate		Maturity date	Nominal value	Total fair value <sup>(1)</sup> R'000	Recorded in	
					OCI R'000	Profit or loss R'000
<u>Cash flow hedges</u>						
IRS	ZAR variable (JIBAR) to ZAR 7.46% fixed	April 2018	ZAR500 million	10 456	10 454	2
IRS	ZAR variable (JIBAR) to ZAR 7.85% fixed	May 2018	ZAR400 million	10 372	10 366	6
				<b>20 828</b>	<b>20 820</b>	<b>8</b>

<sup>(1)</sup> This refers to the carrying value.

The total fair values of the IRSs are the estimated amounts that the group 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

Sensitivity analysis: interest rate risk - in case of a credit rating change of Sappi Southern Africa Limited

To the extent of any downgrade on the group's revolving credit facility, a change in the group's own credit rating will affect the funding rate. Assuming an annual drawdown of R1 million, a one notch downgrade will negatively impact profit before tax by R0.4 million and a one notch upgrade will have a R0.3 million positive impact. The revolving credit facility was undrawn at financial year-end.

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 27. Financial instruments (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, and
- 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.

In managing currency risk, the group first makes use of internal hedging techniques with external hedging being applied thereafter.

External hedging techniques consist primarily of foreign currency forward exchange contracts. Foreign currency capital expenditure on projects must be covered as soon as practical (subject to regulatory approval).

##### Currency risk analysis

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

The following tables for the 2017 and 2016 financial years disclose financial instruments as determined by IAS 39 *Financial Instruments: Recognition and Measurement*, classified by underlying currency, and does not indicate the group's foreign currency exchange exposure.

#### September 2017

R'000	Total	Total in scope	Currency				
			USD	EUR	ZAR	GBP	Other
<b>Classes of financial instruments</b>							
<b>Non-current assets</b>							
Other non-current assets	302 409	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
<b>Current assets</b>							
Trade and other receivables	347 182	274 122	58 249	231	215 642	-	-
Derivative financial instruments	21 229	21 229	(1 363 284)	243 859	1 085 675	1 272	53 707
Amounts owing by group companies	5 138 741	5 138 741	-	-	5 138 741	-	-
Cash and cash equivalents	2 923 365	2 923 365	16 801	12 866	2 884 778	2 621	6 299
		8 357 457	(1 288 234)	256 956	9 324 836	3 893	60 006
<b>Non-current liabilities</b>							
Interest-bearing borrowings	1 144 605	1 144 605	-	-	1 144 605	-	-
<b>Current liabilities</b>							
Interest-bearing borrowings	499 654	499 654	-	-	499 654	-	-
Trade and other payables	2 841 744	2 397 325	238 090	61 815	2 087 891	3 011	6 518
Derivative financial instruments	20 412	20 412	-	-	20 412	-	-
Amounts owing to the group	223 430	223 430	-	-	223 430	-	-
		4 285 426	238 090	61 815	3 975 992	3 011	6 518
Foreign exchange gap		4 072 031	(1 526 324)	195 141	5 348 844	882	53 488

# Sappi Southern Africa Limited

## Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

September 2016 R'000	Currency						
	Total	Total in scope	USD	EUR	ZAR	GBP	Other
<b>Classes of financial instruments</b>							
<b>Non-current assets</b>							
Other non-current assets	375 130	-	-	-	-	-	-
Derivative financial instruments	20 828	20 828	-	-	20 828	-	-
<b>Current assets</b>							
Trade and other receivables	504 851	340 226	14 753	642	324 831	-	-
Derivative financial instruments	29 730	29 730	(545 779)	114	572 498	-	2 897
Amounts owing by the group	1 842 519	1 842 519	-	-	1 842 519	-	-
Cash and cash equivalents	3 845 164	3 845 164	15 123	717	3 826 289	390	2 645
		6 078 467	(515 903)	1 473	6 586 965	390	5 542
<b>Non-current liabilities</b>							
Interest-bearing borrowings	1 645 000	1 645 000	-	-	1 645 000	-	-
<b>Current liabilities</b>							
Interest-bearing borrowings	(435)	-	-	-	-	-	-
Trade and other payables	2 904 954	2 484 140	158 708	24 052	2 286 054	13	15 313
Derivative financial instruments	11 037	11 037	(207 711)	-	218 748	-	-
Amounts owing to the group	165 440	165 440	-	-	165 440	-	-
		4 305 617	(49 003)	24 052	4 315 242	13	15 313
Foreign exchange gap		1 772 850	(466 900)	(22 579)	2 271 723	377	(9 771)

### Hedging of foreign currency risk

#### **Foreign currency forward exchange contracts**

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

		2017		2016	
		Contract amount (notional amount) R'000	Fair value (unfavourable) R'000	Contract amount (notional amount) R'000	Fair value (unfavourable) R'000
Foreign currency Bought:	US Dollar	165 490	161 921	284 225	291 687
	Euro	308 492	300 251	99 118	103 617
	Swedish Krona	53 067	52 326	20 636	21 310
	Japanese yen	92	92	2 838	2 832
	GBP	1 272	1 263		
	BWP	548	548		
Sold:	Euro	(64 632)	(63 963)	-	-
	US Dollar	(1 528 774)	(1 532 184)	(639 479)	(667 860)
		(1 064 445)	(1 079 746)	(232 662)	(248 414)

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2017 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 April 2020.

As at September 2017, there was an open exposure of US\$16.5 million that has since been hedged.

### Sensitivity analysis - (loss) gain

Base currency	Exposure R'000	+ 10 % R'000	- 10 % R'000
EUR	(67 241)	(6 113)	7 471
GBP	(212)	(19)	24
JPY	(173)	(16)	19
SEK	614	56	(68)
USD	(5 079)	(462)	564
<b>TOTAL</b>	<b>(72 091)</b>	<b>(6 554)</b>	<b>8 010</b>

Based on the exposure at the end of September 2017, 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 R6.6 million or a gain of R8.0 million respectively.

During 2017, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US\$421.0 million which were used as an overlay hedge of export sales from Southern Africa. The total impact on profit or loss amounted to a profit of R346.8 million (including positive forward points of R95.0 million). We also contracted zero cost foreign exchange collars for a total notional value of US\$150 million. This collar complements the other strip cover hedges (using non-deliverable FX forwards) by covering a different portion of the economic FX exposure.

As at September 2017 the impact of the marking to market relating to the time value of the collar amounted to an unrealised loss of R20.4 million.

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 27. Financial instruments (continued)

##### Cash flow hedges

##### Export sales

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

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

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

During the 2017 financial year, the hedge was highly effective and a net realised gain of R251.8 million relating to the realised non-deliverable forward exchange contracts was transferred from OCI to sales in profit or loss. At the financial year-end, a positive amount of R1.9 million was deferred in equity.

As per September 2017 the zero cost FX collars did not have any intrinsic value as the year-end FX rate was inside the range of the strike levels.

##### a) 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 16.

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

##### Liquidity risk management

The following tables for the 2017 and 2016 financial years disclose financial instruments, as determined by IAS 39 *Financial Instruments: Recognition and Measurement*, are classified by liquidity and does not necessarily indicate the group's actual cash flows.

##### September 2017

R'000	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows					Total
			0-6 months	6-12 months	1-2 years	2-5 years	> 5 years	
<b>Non-current assets</b>								
Derivative financial instruments	-	-						-
<b>Current assets</b>								
Trade and other receivables	274 122	274 122	274 122	-	-	-	-	274 122
Derivative financial instruments	21 229	21 229	1 910	19 290	29	-	-	21 229
Amounts owing by the group	5 138 741	5 138 741	5 138 741	-	-	-	-	5 138 741
Cash and cash equivalents	2 923 365	2 923 365	2 923 365	-	-	-	-	2 923 365
			8 338 138	19 290	29	-	-	8 357 457
<b>Non-current liabilities</b>								
Interest-bearing borrowings	1 144 605	1 144 605				1 144 605		1 144 605
<b>Current liabilities</b>								
Trade and other payables	2 896 979	2 896 979	2 397 325	499 654	-	-	-	2 896 979
Derivative financial instruments	20 412	20 412	20 412	-	-	-	-	20 412
Amounts owing to the group	223 430	223 430	223 430	-	-	-	-	223 430
			2 641 167	499 654	-	1 144 605	-	4 285 426
Liquidity surplus (gap)			5 696 971	(480 364)	29	(1 144 605)	-	4 072 031



# Sappi Southern Africa Limited

## Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

### September 2016

		Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows					
				0-6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total
<b>R'000</b>									
<b>Non-current assets</b>									
Derivative financial instruments	20 828	20 828	3 489	6 934	12 103	-	-		22 526
<b>Current assets</b>									
Trade and other receivables	340 226	340 226	340 226	-	-	-	-		340 226
Derivative financial instruments	29 730	29 730	29 730	-	-	-	-		29 730
Amounts owing by the group	1 842 519	1 842 519	1 842 519	-	-	-	-		1 842 519
Cash and cash equivalents	3 845 164	3 845 164	3 845 164	-	-	-	-		3 845 164
			6 061 128	6 934	12 103	-	-		6 080 165
<b>Non-current liabilities</b>									
Interest-bearing borrowings	1 645 000	1 714 616	27 471	71 127	631 448	98 536	1 244 631		2 073 213
			-	-	-	-	-		
<b>Current liabilities</b>									
Trade and other payables	2 484 140	2 484 140	2 484 140	-	-	-	-		2 484 140
Derivative financial instruments	11 037	11 037	9 363	1 674	-	-	-		11 037
Amounts owing to the group	165 440	165 440	165 440	-	-	-	-		165 440
			2 686 414	72 801	631 448	98 536	1 244 631		4 733 830
Liquidity surplus (gap)			3 374 714	(65 867)	(619 345)	(98 536)	(1 244 631)		1 346 335

### Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for the 2017 and 2016 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

### September 2017

September 2017

	Total	Cash flow hedge	No hedge accounting	Maturity analysis Undiscounted cash flows				
				0-6 months	6-12 months	1-2 years	2-5 years	> 5 years
<b>Classes of derivative financial instruments</b>								
<b>Assets</b>								
Fair value of derivatives by risk factor								
<b>Interest rate risk</b>								
Long term - Interest rate swaps	5 951	5 951	-	2 658	3 513	-	-	-
- paying leg	(62 501)	(62 501)	-	(39 138)	(24 768)	-	-	-
- receiving leg	68 452	68 452	-	41 796	28 281	-	-	-
<b>Foreign exchange risk</b>								
Short term - FEC's	15 278	-	15 278	11 777	3 471	30	-	-
- paying leg	(1 064 468)	-	(1 064 468)	(1 213 503)	148 827	208	-	-
- receiving leg	1 079 746	-	1 079 746	1 225 280	(145 356)	(178)	-	-
<b>Liabilities</b>								
Fair value of derivatives by risk factor								
<b>Foreign exchange risk</b>								
Short term - FEC's	20 412	-	20 412	20 412	-	-	-	-
- paying leg	-	-	-	-	-	-	-	-
- receiving leg	20 412	-	20 412	20 412	-	-	-	-

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

September 2016

R'000	Total	Cash flow hedge	No hedge accounting	Maturity analysis Undiscounted cash flows				
				0-6 months	6-12 months	1-2 years	2-5 years	> 5 years

#### Classes of derivative financial instruments

#### Assets

Fair value of derivatives by risk factor

##### Interest rate risk

Long term - Interest rate swaps

	20 828	20 828	-	3 489	6 934	12 103	-	-
- paying leg	(124 166)	(124 166)	-	(34 428)	(34 170)	(59 298)	-	-
- receiving leg	144 994	144 994	-	37 917	41 104	71 401	-	-

##### Foreign exchange risk

Short term - FEC's

	29 730	-	29 730	29 730	-	-	-	-
- paying leg	(542 768)	-	(542 768)	(542 768)	-	-	-	-
- receiving leg	572 498	-	572 498	572 498	-	-	-	-

#### Liabilities

Fair value of derivatives by risk factor

##### Foreign exchange risk

Short term - FEC's

	11 037	-	11 037	9 363	1 674	-	-	-
- paying leg	218 748	-	218 748	190 099	28 649	-	-	-
- receiving leg	(207 711)	-	(207 711)	(180 736)	(26 975)	-	-	-

# Sappi Southern Africa Limited

## Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

### 27. Financial instruments (continued)

#### Fair values

The group's financial instruments are initially recognized at fair value. The carrying amounts of other financial instruments which include cash and cash equivalents, accounts receivable, certain investments, accounts payable 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 asset 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 party.

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

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

September 2017

	Total balance R'000	Total out of scope R'000	Total in scope R'000	Categories in accordance with IAS 39		Fair value R'000
				Fair value through profit or R'000	Loans and receivables R'000	
<b>Classes of financial instruments</b>						
<b>Non-current assets</b>						
Other non-current assets	302 409	302 409	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
	<b>302 409</b>	<b>302 409</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Current assets</b>						
Trade and other receivables	347 182	73 060	274 122	-	274 122	274 122
Derivative financial instruments	21 229	-	21 229	21 229	-	21 229
Amounts owing by group companies	5 138 741	-	5 138 741	-	5 138 741	5 138 741
Cash and cash equivalents	2 923 365	-	2 923 365	-	2 923 365	2 923 365
	<b>8 430 517</b>	<b>73 060</b>	<b>8 357 457</b>	<b>21 229</b>	<b>8 336 228</b>	<b>8 357 457</b>

	Total balance R'000	Total out of scope R'000	Total in scope R'000	Categories in accordance with IAS 39		Fair value R'000
				Fair value through profit or R'000	Other financial liabilities R'000	
<b>Classes of financial instruments</b>						
<b>Non-current liabilities</b>						
Interest-bearing borrowings	1 144 605	-	1 144 605	-	1 144 605	1 144 605
Other non-current liabilities	253 679	253 679	-	-	-	-
	<b>1 398 284</b>	<b>253 679</b>	<b>1 144 605</b>	<b>-</b>	<b>1 144 605</b>	<b>1 144 605</b>
<b>Current liabilities</b>						
Interest-bearing borrowings	499 654	-	499 654	-	499 654	499 654
Derivative financial instruments	20 412	-	20 412	20 412	-	20 412
Trade and other payables	2 841 744	444 419	2 397 325	-	2 397 325	2 397 325
Amounts owing to group companies	223 430	-	223 430	-	223 430	223 430
	<b>3 585 240</b>	<b>444 419</b>	<b>3 140 821</b>	<b>20 412</b>	<b>3 120 409</b>	<b>3 140 821</b>

# Sappi Southern Africa Limited

## Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

### 27. Financial instruments (continued)

R'000

		As determined by IAS 39		Categories in accordance with IAS 39		Fair value
		Total out of scope	Total in scope	Fair value through profit or loss	Loans and receivables	
September 2016	Total balance					
<i>Classes of financial instruments</i>						
<b>Non-current assets</b>						
Other non-current assets	375 130	375 130	-	-	-	-
Derivative financial instruments	20 828	-	20 828	20 828	-	20 828
	<b>395 958</b>	375 130	20 828	20 828	-	20 828
<b>Current assets</b>						
Trade and other receivables	504 851	164 625	340 226	-	340 226	340 226
Derivative financial instruments	29 730	-	29 730	29 730	-	29 730
Amounts owing by group companies	1 842 519	-	1 842 519	-	1 842 519	1 842 519
Cash and cash equivalents	3 845 164	-	3 845 164	-	3 845 164	3 845 164
	<b>6 222 264</b>	164 625	6 057 639	29 730	6 027 909	6 057 639

	As determined by IAS 39			Categories in accordance with IAS 39		Fair value
	Total balance	Total out of scope	Total in scope	Fair value through profit or loss	Other financial liabilities	
<b>Classes of financial instruments</b>						
<b>Non-current liabilities</b>						
Interest-bearing borrowings	1 644 259	(741)	1 645 000		1 645 000	1 714 616
Other non-current liabilities	217 819	217 819	-	-	-	-
	<b>1 862 078</b>	<b>217 078</b>	<b>1 645 000</b>	<b>-</b>	<b>1 645 000</b>	<b>1 714 616</b>
<b>Current liabilities</b>						
Interest-bearing borrowings	(435)	(435)	-	-	-	-
Derivative financial instruments	11 037	-	11 037	11 037	-	11 037
Trade and other payables	2 904 954	420 814	2 484 140	-	2 484 140	2 484 140
Amounts owing by group companies	165 440	-	165 440	-	165 440	165 440
	<b>3 080 996</b>	<b>420 379</b>	<b>2 660 617</b>	<b>11 037</b>	<b>2 649 580</b>	<b>2 660 617</b>

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 27. Financial instruments (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.

R'000	2017				2016			
	Total fair value	Fair value hierarchy			Total fair value	Fair value hierarchy		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>Current assets</b>								
Derivative financial instruments	21 229	-	21 229	-	29 730	-	29 730	-
	21 229	-	21 229	-	29 730	-	29 730	-
<b>Non-current liabilities</b>								
Interest-bearing borrowings	1 144 605	-	1 144 605	-	1 714 616	-	1 714 616	-
Derivative financial instruments	-	-	-	-	-	-	-	-
<b>Current liabilities</b>								
Interest-bearing borrowings	499 654	-	499 654	-	-	-	-	-
Derivative financial instruments	20 412	-	20 412	-	11 037	-	11 037	-
	1 664 671	-	1 664 671	-	1 725 653	-	1 725 653	-

#### 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, 94% 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 12.

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 28. Related party transactions

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

R'000	Income and sales to related parties		Purchases and charges from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2017	2016	2017	2016	2017	2016	2017	2016
Sappi Europe SA**	-	-	268 438	336 421	-	-	65 239	115 517
Sappi Export Services Proprietary Limited**	-	-	-	-	-	-	-	10 904
Sappi International SA**	-	-	-	-	3 204	-	-	2 779
Sappi Limited***	-	-	-	-	3 348 051	-	-	34 416
Sappi Papier Holding GmbH**	11 049 011	11 509 108	32 968	20 825	1 787 431	1 838 119	-	-
Sappi Trading Hong Kong Limited**	-	-	-	-	48	-	-	25
The Sappi Limited Share Incentive Trust	-	-	-	-	-	-	12 721	250
The Sappi Limited Performance Share Incentive Trust	-	-	-	-	-	-	145 378	960
Sappi Holdings GmbH**	-	-	-	-	-	4 400	-	-
SD Warren Company**	-	-	-	-	-	-	92	-
Lignin Insurance Company Limited**	-	-	-	-	7	-	-	-
Sappisure Försäkrings AB**	-	-	-	-	-	-	-	589
	11 049 011	11 509 108	301 406	357 246	5 138 741	1 842 519	223 430	165 440

\* Subsidiary of SSA

\*\* Fellow subsidiary of Sappi Limited

\*\*\* Holding company of SSA

^ Not included in amounts owing by group of companies is prepaid insurance of R2,0994 (2016: R24,133).

All loans are interest free and have no fixed terms of repayments.

Sales of goods and purchases to and from related parties were on an arm's length basis.

The amounts outstanding at balance sheet date are unsecured and will be settled in cash.

Dividends received from related parties (current year Dividends Received)	2017 90 769	2016 109 434
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## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 28. Related party transactions (continued)

##### Broad-based Black Economic Empowerment (BBBEE) transaction

Refer to note 25 for details of the BBBEE transaction.

##### Shareholders

The company's shares are held by Sappi Limited which has a primary listing on the JSE Limited.

##### Key management personnel

The details of key management personnel compensation is disclosed below:

	Salary	Prior year bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid scheme	Total
Director 1	6 104	6 264	162	1 025	13 555
Director 2	4 050	4 301	111	818	9 280
Director 3	4 226	3 136	124	792	8 278
Director 4	1 425	-	-	323	1 748
Director 5	555	1 176	-	179	1 910
Director 6	2 145	1 201	64	-	3 410
Director 7	1 064	1 191	32	296	2 583
Director 8	1 350	918	41	579	2 888
Director 9	1 167	1 127	34	319	2 647
Director 10	1 165	1 201	-	245	2 611
Director 11	974	1 005	-	332	2 311
Director 12	918	884	-	312	2 114
Director 13	1 154	1 191	-	192	2 537
Director 14	916	918	-	307	2 141
Director 15	1 094	1 127	-	190	2 411
Key management remuneration - 2017	28 307	25 640	568	5 909	60 424
Director 1	5 719	4 467	178	1 356	11 720
Director 2	3 992	3 055	122	1 030	8 199
Director 3	4 178	2 821	136	1 024	8 159
Director 4	-	-	-	-	-
Director 5	2 192	852	-	764	3 808
Director 6	4 271	1 710	142	-	6 123
Director 7	2 097	1 204	72	652	4 025
Director 8	2 715	2 352	92	1 255	6 414
Director 9	2 332	784	76	708	3 900
Director 10	2 228	1 022	-	466	3 716
Director 11	1 864	848	-	683	3 395
Director 12	1 754	876	-	639	3 269
Director 13	2 209	1 002	-	427	3 638
Director 14	1 684	740	-	609	3 033
Director 15	1 587	-	-	302	1 889
Key management remuneration - 2016	38 822	21 733	818	9 915	71 288

##### Interest of directors in contracts

None of the directors have material interests in any transaction with the company or any of its subsidiaries, other than those on a normal employment basis.

##### Subsidiaries

Details of investments in subsidiaries are disclosed in note 30.

# Sappi Southern Africa Limited

## Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

### 28. Related party transactions (continued)

#### Changes in key management personnel share options, allocations and performance shares

		Total 2017	Total 2016
	Allocated price	Number of shares	Number of shares
<b>Outstanding at beginning of year</b>			
Number of shares held		3 185 900	2 832 720
Share option issue 34	R 35.50	-	4 400
Share option issue 35	R 33.85	-	7 150
Share option issue 36	R 35.20	8 000	10 000
Share option issue 37	R 22.90	10 500	12 000
Performance shares 38	R 0.00	574 400	488 550
Performance shares 39	R 0.00	1 036 000	567 200
Performance shares 40	R 0.00	712 000	1 023 000
Performance shares 41	R 0.00	845 000	696 000
<b>Appointment of executive director during the year</b>			
Number of shares		54 300	81 700
<b>Offered and accepted during the year</b>			
Performance shares 41		-	815 000
Performance shares 42		684 000	-
<b>Exercised during the year</b>			
Number of shares		(585 400)	(299 245)
<b>Returned, lapsed and forfeited during the year</b>			
Number of shares		-	(244 275)
<b>Resignation of director during the year</b>			
Number of shares		(1 559 500)	-
<b>Outstanding at end of year</b>			
Number of shares		1 779 300	3 185 900
Share option issue 36	R 35.20	-	8 000
Share option issue 37	R 22.90	-	10 500
A Ordinary shares	R 22.90	16 200	574 400
Performance shares 39	R 0.00	658 200	1 036 000
Performance shares 40	R 0.00	365 000	712 000
Performance shares 41	R 0.00	390 900	845 000
Performance shares 42		349 000	-



## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements (continued) for the year ended September 2017

#### 29. Events after balance sheet date

In January 2018 Sappi Southern Africa Limited funded R1,178.4 million to Sappi Limited as per a loan agreement. This was done to enable Sappi Limited to pay dividends that were declared.

#### 30. Investments

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

Name of subsidiary	Share Capital (Rands)	Principal activity	Effective holding (%)	
			2017	2016
Canonbrae Development Company Proprietary Limited	1 000	Property developments	<b>63.2%</b>	63.2%
Sappi Property Company Proprietary Limited	7 000	Land holdings	<b>100.0%</b>	100.0%
Sappi Specval Coatings Proprietary Limited	100	Manufacture paper	<b>100.0%</b>	100.0%

## Sappi Southern Africa Limited

### Notes to the Group Annual Financial Statements for the year ended September 2017

#### 31. Segment information

The group's reportable segments comprise Specialised Cellulose and Packaging and Specialities which is the basis of how the group allocates resources and evaluates performance. The Specialised Cellulose segment sells dissolving wood pulp and the Packaging and paper pulp, uncoated and commodity paper.

The group accounts for intra-group sales and transfers as if the sales or transfers were to third parties. All such sales and transfers are eliminated on consolidation.

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

R'000	Specialised Cellulose		Packaging & Specialities		Group	
	2017	2016	2017	2016	2017	2016
External sales including external forestry sales	10 742 493	10 231 003	7 096 086	7 030 737	17 838 579	17 261 740
Operating profit excluding special items	3 463 873	3 643 923	460 045	291 992	3 923 918	3 935 915
<b>Reconciliation of operating profit excluding special items to profit before taxation:</b>						
Operating profit excluding special items	3 463 873	3 643 923	460 045	291 992	3 923 918	3 935 915
Special items - gains (losses)					123 623	912 570
Net finance costs					93 796	56 988
Profit before taxation					4 141 337	4 905 473

There is one customer whose sales comprise more than 10% of the group's turnover. The sales to the customer amount to R11 049 011 (2016: R10 894 735) and are included within both reporting segments.

# Sappi Southern Africa Limited

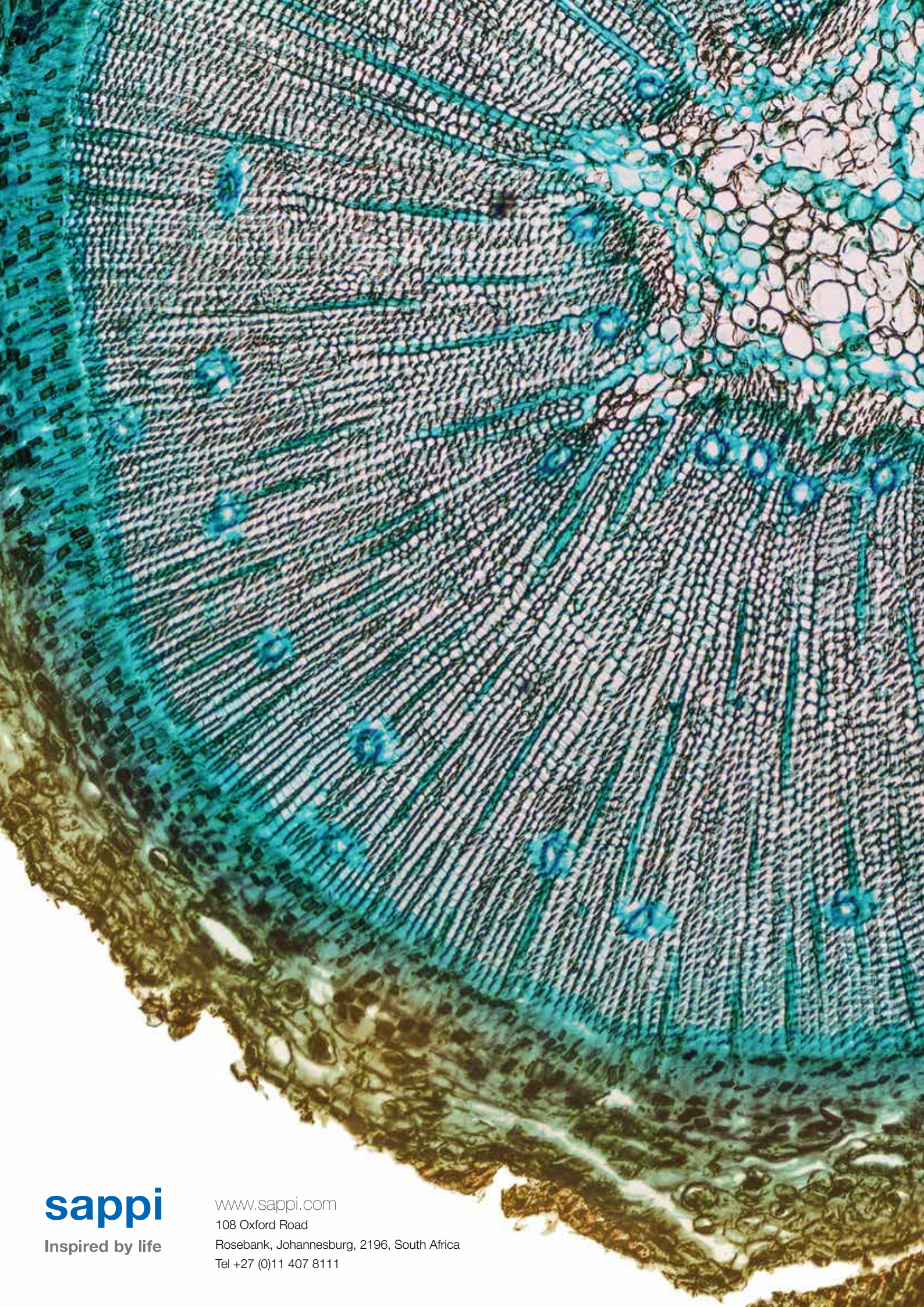
## Annexure A for the year ended September 2017

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### Definitions

- FSC:** In terms of the Forest Stewardship Council® (FSC®) scheme, there are two types of certification. In order for forest land to achieve FSC certification, its forest management practices must meet the FSC 10 principles based on environmental, social and economic criteria. Roundwood (logs) with FSC-certification: Sappi Southern Africa Forests FSC C012316 and Sappi Southern Africa Group Scheme FSC – C017054. For manufacturers of forest products, including paper manufacturers like Sappi, Chain-of-Custody (CoC)-certification involves independent verification of the supply chain, which identifies and tracks the timber through all stages of the production process from the tree farm to the end product. Sappi's mills in South Africa are licenced – Ngodwana Mill – FSC C021636, Saiccor Mill - FSC C011012, Stanger Mill – FSC C019831 and Tugela Mill – FSC C012468
- ISO:** Developed by the International Standardisation Organisation ("ISO"), ISO 9000 is a series of standards focused on quality management systems, while the ISO 14001 series is focused on environmental performance and management
- NBSK:** Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, produced from coniferous trees (ie spruce, pine) in Scandinavia, Canada and northern USA
- OHSAS:** Is an international health and safety standard aimed at minimising occupational health and safety risks firstly, by conducting a variety of analyses and secondly, by setting standards





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