

sappi

Inspired by life

Southern African Annual Report 2015



our businesses

Sappi Southern Africa has a tradition of innovating and developing new products to meet local demand for newsprint, coated and uncoated fine paper, office and business paper (stationery, printing and photocopying), security and speciality paper (passport and election ballot paper), containerboard (such as cardboard boxes used for exporting fruit) and packaging paper (bag grades for sugar and the fast food industry).

Sappi also produces dissolving wood pulp, a product made from wood from our plantations, which is sold to customers who use the product to manufacture a diverse range of consumer products. We are the world's largest manufacturer of dissolving wood pulp and we export almost all of the production of our mills in South Africa.

Sappi Forests supplies over 78% of the wood requirements of Sappi Southern Africa from both our own and committed commercial timber plantations

of 492,000 hectares. This equates to approximately 30 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 140,000 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.

As part of our strategy to rationalise declining business, focus on business where we have a competitive advantage and strengthen our balance sheet, we entered into agreements to sell both our Enstra and Cape Kraft Mills. After the end of the financial year, we received approval from the Competition Commission and both transactions were realised in October and November 2015, respectively. As a result, we have now exited the recycled packaging grades and security and speciality paper grades.

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, although we continue to grapple with improving diversity fast enough at middle and senior management levels.

Full details of our education, training, health and environmental initiatives can be found on our website www.sappi.com.



Plantations	Products produced	Hectares	Capacity ⁽¹⁾ (⁰⁰⁰)		Employees
			Tons	m ³	
KwaZulu-Natal	Plantations (pulpwood and sawlogs) ⁽³⁾	230	11,165		
Mpumalanga	Plantations (pulpwood and sawlogs) ⁽³⁾	262	17,986		
Lomati Sawmill	Sawn timber			102	
Total Sappi Forests		492	29,151	102	

Mills	Products produced	Capacity ⁽¹⁾ (⁰⁰⁰ tons per annum)		Employees
		Paper	Pulp	
Ngodwana Mill	Dissolving wood pulp		210	
Saiccor Mill	Dissolving wood pulp		800	
Total Sappi Specialised Cellulose			1,010	

Mills	Products produced	Capacity ⁽¹⁾ (⁰⁰⁰ tons per annum)		Employees
		Paper	Pulp	
Cape Kraft Mill⁽²⁾	Waste-based linerboard and corrugating medium	60		
Enstra Mill⁽²⁾	Uncoated woodfree and business paper	200		
Ngodwana Mill	Unbleached chemical pulp for own consumption		220	
	Mechanical pulp for own consumption		110	
	Kraft linerboard	240		
	Newsprint	140		
Stanger Mill	Bleached bagasse pulp for own consumption		60	
	Coated woodfree paper and tissue paper	110		
Tugela Mill	Neutral sulfite semi chemical pulp for own consumption		130	
	Corrugating medium	185		
Sappi ReFibre⁽⁴⁾	Waste paper collection and recycling for own consumption		250	
Total Sappi Paper and Paper Packaging		935	770	
Total Southern Africa		935	1,780	5,126

⁽¹⁾ Capacity at maximum continuous run rate.

⁽²⁾ Sappi's Enstra and Cape Kraft Mills sales were finalised in October and November 2015, respectively.

⁽³⁾ Plantations include owned and leased areas as well as projects.

⁽⁴⁾ Sappi ReFibre collects waste paper in the SA market which is used to produce packaging paper.

⁽⁵⁾ FSC® – further information on Sappi's FSC® certification is available in the Definitions on page 85.

Sappi Southern Africa Limited
(Incorporated in the Republic of South Africa)
Registration number 1951/003180/06

Audited Annual Financial Statements

September 2015

Sappi Southern Africa Limited

Contents

Year ended September 2015

	Page
Overview	Cover page
Financial highlights	2
Management	3
Corporate governance	4
Directors' approval	8
Secretary's certificate	8
Independent auditor's report	9
Audit committee report	10
Directors' report	11
Consolidated and company income statements	15
Consolidated and company statements of comprehensive income	15
Consolidated and company balance sheets	16
Consolidated and company cash flow statements	17
Consolidated and company statements of changes in equity	18
Notes to the annual financial statements	19 - 84
1. Business	19
2. Accounting policies	19
3.1 Operating profit	29
3.2 Employee costs	30
3.3 Investment income	31
3.4 Other income	31
4. Net finance costs	31
5. Taxation	32
6. Property, plant and equipment	32
7. Plantations	34
8. Deferred tax	35
9. Equity investments	36
10. Other non-current assets	37
11. Inventories	37
12. Trade and other receivables	37
13. Assets held for sale	39
14. Ordinary share capital and share premium	40
15. Other comprehensive income (loss)	41
16. Other reserves	41
17. Interest bearing borrowings	42
18. Other non-current liabilities	43
19.1 Cash generated from operations	43
19.2 (Increase) decrease in working capital	44
19.3 Finance cost paid	44
19.4 Taxation paid	44
19.5 Proceeds on disposal of non-current assets	44
19.6 Proceeds on disposal of assets held for sale	45
19.7 Cash and cash equivalents	45
20. Provisions	45
21. Encumbered assets	45
22. Commitments	46
23. Contingent liabilities	46
24. Post-employment benefits - pensions	47
25. Post-employment benefits - other than pensions	50
26. Share-based payment	52
27. Derivative financial instruments	55
28. Financial instruments	56
29. Related party transactions	71
30. Compensation of key management personnel	73
31. Environmental matters	83
32. Events after balance sheet date	83
33. Investments	84
ANNEXURE A: Definitions	85

Sappi Southern Africa Limited

Financial Highlights

Year ended September 2015

	September 2015 R'million	September 2014 R'million
Sales	15 849	14 824
EBITDA	3 580	2 985
Operating profit	2 900	2 320
Profit for the year	2 170	1 544
Operating profit to sales (%)	18.3%	15.7%
EBITDA to sales (%)	22.6%	20.1%
Return on net operating assets (RONOA) (%)	20.1%	16.3%
Return on equity (ROE) (%)	19.5%	16.6%
Cash interest cover (times)	97.7	11.9

Definitions

EBITDA – earnings before interest (net finance costs), taxation, depreciation, amortisation

Operating profit to sales – operating profit divided by sales

EBITDA to sales – EBITDA divided by sales

RONOA – return on average net operating assets. Operating profit divided by average net operating assets

ROE – return on average equity. Profit for the period divided by average shareholders' equity

Cash interest cover – cash generated from operations divided by net finance costs

Net operating assets – total assets (excluding deferred tax assets and cash) less current liabilities (excluding interest-bearing borrowings and overdraft).

Sappi Southern Africa Limited

Management

Year ended September 2015

Chief Executive Officer

Alex Thiel* (54) BSc Mech Eng, MBA

Finance Director

Colin Mowatt* (58) BCom Acc, CA(SA), EDP, MBL

Information Technology Director

Deon van Aarde* (55) B Compt

Strategic and New Business Development Director

Tyrone Hawkes* (47) BCom Hons, CA(SA)

Regional Procurement Director

Nat Maelane* (56) MSc Operations and Supply Chain Management
MDP, SEP

Human Resources Director

Fergus Marupen** (50) BA (Hons) Psychology, Bed (Education
Management), MBA
Appointed: March 2015

Executive Vice President Specialised Cellulose

Gary Bowles* (55) BSc Eng (Elec), PMD, EDP

Manufacturing and Technical Director SA

Patrick McGrady* (58) BSc Eng (Elec); GCC (Factories)

Sappi Forests Managing Director

Dr Terence Stanger* (53), BSc, MSc Agriculture and PHD Forestry

Other Directors

Steven Binnie** (48) BCom, BAcc, CA(SA), MBA

Glen Pearce** (52) BCom, BCom Hons, CA(SA)

Andrea Rossi* (61) BSc Eng (Hons), C Eng, FCMI

Lucia Swartz* (58) BA, Dip HR (resigned January 2015)

Maarten van Hoven* (42) BProc, LLM (International Business
Law)

* Member of the Board of Directors of Sappi Southern Africa
Limited

** Member of the Board of Directors of Sappi Southern Africa
Limited and Sappi Limited (holding company)

Group Secretary

Amanda Tregoning

Secretaries

Sappi Limited

48 Ameshoff Street

Braamfontein 2001

South Africa

Telephone +27 (0) 11 407 8111

Telefax +27 (0) 11 339 1881

e-Mail Amanda.Tregoning@Sappi.com

Sappi Southern Africa Limited

Corporate Governance

At September 2015

The Sappi Southern Africa 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.

Sappi is committed to high standards of corporate governance which form the foundation for the long-term sustainability of our company and creation of value for our stakeholders. The group endorses the recommendations contained in the King Code of Governance Principles for South Africa 2009 ("King III") and applies the various principles. A summary of how Sappi applies the King III principles is provided on the group's website (www.sappi.com).

The Board of directors

The basis for good governance at Sappi is laid out in the board charter, which sets out the division of responsibilities between the board and executive management. The board collectively determines major policies and strategies and is responsible for managing risk.

For further information about the board and the board charter please refer to www.sappi.com.

Induction and training of directors

Following appointment to the board, directors receive induction and training tailored to their individual needs, when required.

Board committees

The board has established committees to assist it to discharge its duties. The committees operate within written terms of reference set by the board. The board committees are as follows:

Audit Committee

The Sappi Southern Africa Audit Committee operates as a function of the Sappi Limited Audit Committee and consists of one independent member (Dr D Konar – chairman and non-executive director of Sappi Limited) and Mr G Pearce Chief Finance Officer of Sappi Limited, and Mr A Thiel Chief Executive Officer – Sappi Southern Africa, and assists the board in discharging its duties relating to the:

- safeguarding and efficient use of assets
- oversight of the risk management function
- operation of adequate systems and control processes
- reviewing financial information and the preparing of accurate financial reports in compliance with applicable regulations and accounting standards
- reviewing sustainability information included in the Annual Integrated Report
- reviewing compliance with the group's Code of Ethics and external regulatory requirements
- oversight of the external auditors' qualifications, experience and performance
- oversight of the performance of the internal audit function, and
- oversight of non-financial risks and controls, as well as IT governance, through a combined assurance model.

The Audit Committee confirms that it has received and considered sufficient and relevant information to fulfil its duties.

The external and internal auditors attended Audit Committee meetings and had unrestricted access to the committee and Chairman. The external and internal auditors met privately with the Audit Committee during 2015.

The committee met four times during 2015.

Dr D Konar has been designated as the Audit Committee financial expert.

Nomination and Governance Committee

The Nomination and Governance Committee consists of three independent non-executives and directors of Sappi Limited and considers the leadership requirements of the company including a succession plan for the board. The committee identifies and nominates suitable candidates for appointment to the board, for board and shareholders' approval. The committee considers the independence of candidates as well as directors. The committee makes recommendations on corporate governance practices and disclosures, and reviews compliance with corporate governance requirements. The committee has oversight of appraising the performance of the board and all the board committees. The results of this process and recommended improvements are communicated to the Chairman of each committee and the board.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee consists of four independent non-executive Sappi Limited directors. The responsibilities of this committee are, among others, to determine the group's human resource policy and strategy, assist with the hiring and setting of terms and conditions of employment of executives, the approval of retirement policies, and succession planning for the CEO and management. The committee ensures that the compensation philosophy and practices of the group are aligned to its strategy and performance goals. It reviews and agrees the various compensation programmes and in particular the compensation of executive directors and senior executives as well as employee benefits. It also reviews and agrees executive proposals on the compensation of non-executive directors for approval by the board and ultimately by shareholders.

Regional Human Resources and Compensation Committees meet on an ad-hoc basis to execute HR strategy and implement policy at a regional level.

Sappi Southern Africa Limited

Corporate Governance (Continued)

At September 2015

Social, Ethics, Transformation and Sustainability Committee

The Social, Ethics, Transformation and Sustainability ("SETS") Committee comprises four independent non-executive Sappi Limited directors, a non-executive Sappi Limited director and the Sappi Limited CEO. Other executive and group management committee members attend SETS Committee meetings by invitation. Its mandate is to oversee the group's sustainability strategies, ethics management, good corporate citizenship, labour and employment as well as its contribution to social and economic development and the strategic business priority of transformation.

Regional sustainability councils provide strategic and operational support to the SETS Committee in dealing with day-to-day sustainability issues and helping to develop and entrench related initiatives in the business.

Management Committees

The board assigns responsibility for the day-to-day management of the group to the CEO. To assist the CEO in discharging his duties, a number of management committees have been formed. Some of these committees also provide support for specific board committees.

Treasury Committee

The Treasury Committee meets regularly to assess risk and advises on treasury related matters.

Technical Committees

The Technical Committees focus on global technical alignment, performance and efficiency measurement as well as new product development.

Group Risk Management Team

The Sappi Limited board mandates the Sappi Limited Group Risk Management Team ("GRMT") to establish, co-ordinate and drive the risk management process throughout Sappi. It has established a risk management system to identify and manage significant risks. The group risk management team reports regularly on risks to the Audit Committee and the board. Risk management software is used to support the risk management process throughout the group.

Internal Control Steering Committee

The Internal Control Steering Committee supported by the Internal Control function provides regular oversight and guidance to the business on internal controls and combined assurance for financial, strategic and operational risks.

Group IT ("Information Technology") Steering Committee

The Group IT Steering Committee promotes IT governance throughout the group and is the highest authority responsible for this aspect of Sappi's business, apart from the Sappi Limited board. The committee has a charter approved by the Audit Committee and the Sappi Limited board. An IT governance framework has been developed and IT feedback reports are presented to the Audit Committee and the Sappi Limited board. Sappi IT has implemented a standardised approach to IT risk management through a groupwide risk framework supported by the use of risk management software. IT management is in the process of enhancing IT security and the IT legal compliance framework.

Financial statements

The directors are responsible for overseeing the preparation and final approval of the Annual Financial Statements, in accordance with the Companies Act of South Africa and International Financial Reporting Standards issued by the International Accounting Standards Board.

The group's results are reviewed prior to submission to the board by external audit.

Internal controls and combined assurance framework

Sappi operates a combined assurance framework, which aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers, on the risk areas affecting the group.

The combined assurance framework is integrated with the group's risk management approach. Risks facing the group are identified, evaluated and managed by implementing risk mitigations, such as insurance, strategic actions or specific internal controls.

The group's internal controls and systems are designed in accordance with the COSO control framework, to provide reasonable assurance as to the integrity and reliability of the annual financial statements and operational management information that assets are adequately safeguarded against material loss and that transactions are properly authorised and recorded. Internal controls also provide assurance that the group's resources are utilised efficiently and that the activities of the group comply with applicable laws and regulations.

Sappi maintains a robust framework of risks and controls which assists in the application of the King III guidelines. The framework comprises both financial and non-financial controls.

Feedback as to the effectiveness of the internal controls is obtained from various assurance providers in a co-ordinated manner which avoids duplication of effort. Combined assurance helps to identify gaps or improvement areas in the internal control framework.

The assurance obtained informs executive management and the Audit Committee about the effectiveness of the group's internal controls in respect of significant risks. The Audit Committee, which is responsible for the oversight of risk management at Sappi, considers the risks and the assurance provided through the combined assurance framework and periodically advises the board on the state of risks and controls in Sappi's operating environment. This information is used as the basis for the board's review, sign-off and reporting to stakeholders, via the Sappi Annual Integrated Report, on risk management and the effectiveness of internal controls within Sappi.

Sappi Southern Africa Limited

Corporate Governance (Continued)

At September 2015

Internal controls and combined assurance framework (continued)

Sappi's combined assurance framework comprises three lines of defence, with oversight provided by the board and its board committees. This is in keeping with enterprise risk management best practice, as set out below:

- First line of defence: Oversight by the board and business management and operations supported by appropriate governance, risk management, and internal control structures and processes.
- Second line of defence: Independent risk monitoring by risk, internal control, and compliance functions.
- Third line of defence: Independent assurance provided by external audit, internal audit, and other external assurance providers.

As part of combined assurance in respect of internal controls, Sappi has also obtained assurance on the data in the Annual Integrated Report from the following sources:

- Financial data is independently audited by Deloitte & Touche, and
- Limited reviews of sustainability information have been undertaken by central technical management and internal audit. Specific Planet (environment) related processes are subject to review by third parties during the year. No external assurance was obtained on the consolidated sustainability indicators reported, although certain local data is subject to external audits. Currently we do not perceive external assurance as being a cost effective alternative to internal auditing of our indicators, particularly given our global spread of operations and the industry-specific nature of many of our indicators.

Internal Audit

Sappi Limited has an effective risk-based internal audit department which is suitably resourced. It has a specific charter from the Audit Committee and independently appraises the adequacy and effectiveness of the group's systems, internal controls and accounting records. It plays a co-ordination role in obtaining combined assurance and reports its findings to local and divisional management, the external auditors as well as the regional and group Audit Committees. Internal Audit also consults on risks, controls and governance developments.

The head of internal audit reports to the Audit Committee, meets with board members, has direct access to executive management and is invited to attend management meetings.

During 2015, apart from the ongoing focus on financial controls, internal audit undertook reviews of non-financial risk areas such as energy and water management. These reviews formed part of the combined assurance model, which is co-ordinated by internal audit. An external validation was conducted by the Institute of Internal Auditors ("IIA") in the fourth quarter of 2015. A Generally Conforms ("GC") rating was received, which is the highest of the three levels of conformance to the IIA's standards. The IIA recommended enhancements to our approach to considering fraud risks during audit assignments as well as to the development and retention of specialist skills.

Board assessment of the company's risk management, compliance function and effectiveness of internal controls

The board is responsible for the group's systems of internal financial and operational control. As part of an ongoing comprehensive evaluation process, control self-assessments, year-end external audits and independent reviews by internal audit and other assurance providers were undertaken across the group to test the effectiveness of various elements of the group's financial, disclosure and other internal controls as well as procedures and systems. Identified areas of improvement are being addressed to strengthen the group's controls further. The board has assessed the combined assurance provided in 2015. The results of the reviews did not indicate any material breakdown in the functioning of these controls, procedures and systems during the year. The internal controls in place, including the financial controls and financial control environment, are considered to be effective and provide a sound basis for the preparation of the financial statements.

Company Secretary

All directors have access to the advice and services of the company secretary and are entitled to seek independent and professional advice about Group affairs at the Group's expense. 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.

Code of Ethics

Sappi requires its directors and employees to act with excellence, integrity, respect and resourcefulness in all transactions and in their dealings with all business partners and stakeholders. These values underpin the group's Code of Ethics, and commit the group and its employees to sound business practices and compliance with applicable legislation. Actions are taken against employees who do not abide by the spirit and provisions of our code. The SETS Committee provides oversight for social, ethics, transformation and sustainability matters throughout the group. Refer to www.sappi.com for the Code of Ethics.

Legal compliance programme

A legal compliance programme designed to increase awareness of, and enhance compliance with, applicable legislation is in place. The group compliance officer reports twice per annum to the group Audit Committee.

Conflict of interests

The group has a policy that obliges all employees to disclose any interest in contracts or business dealings with Sappi to assess any possible conflict of interest. The policy also dictates that directors and senior officers of the group must disclose any interest in contracts as well as other appointments to assess any conflict of interest that may affect their fiduciary duties. During the year under review, apart from those disclosed in the financial statements, none of the directors had a significant interest in any material contract or arrangement entered into by the company or its subsidiaries.

Insider trading

The company has a code of conduct for dealing in company securities and follows the JSE Limited Listings Requirements in this regard. For further information refer to www.sappi.com.

Whistle-blower hotlines and follow up of tip-offs

The group operates a whistle-blower 'hotline'. This service, operated by independent service providers, enables all stakeholders to anonymously report environmental, safety, ethics, accounting, auditing, control issues or other concerns. It is the responsibility of all

Sappi Southern Africa Limited

Corporate Governance (Continued)

At September 2015

employees and stakeholders to report known or suspected unethical or illegal conduct. Retaliation against whistle-blowers is not tolerated. The follow up on all reported matters is co-ordinated either by Sappi Limited legal counsel or internal audit and reported to the Audit Committee.

Stakeholder communication

The board is responsible for presenting a balanced and understandable assessment of the group's position in reporting to stakeholders. The group's reporting addresses material matters of significant interest and is based on principles of openness and substance over form. Various policies have been developed to guide engagement with Sappi's stakeholders such as the stakeholder engagement policy and group corporate social responsibility policy. Sappi has a policy addressing Alternate Dispute Resolution (ADR) and relevant ADR clauses are now generally included in contracts with customers and suppliers. There have been no requests for information for the period under review in terms of the Promotion of Access to Information Act.

For a summary of how Sappi applies the King III Principles, please refer to www.sappi.com.

Sappi Southern Africa Limited

Directors' Approval Year ended September 2015

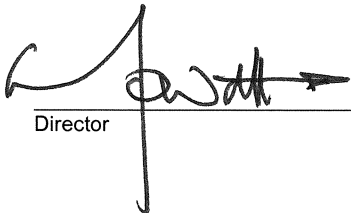
The directors and officers of the company are responsible for the annual financial statements which are submitted to the shareholder in the general meeting.

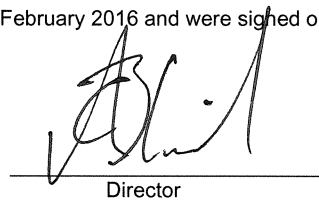
The directors are principally responsible for the overall co-ordination of the preparation and for the final approval of such submission. The initial preparation is the responsibility of the company's officers. The auditors are responsible for auditing the annual financial statements in the course of executing their statutory duties.

The Annual Financial Statements of the Group and the company appear on the following pages:

10	Audit committee report
11	Directors' report
15	Consolidated and company income statements
15	Consolidated and company statements of comprehensive income
16	Consolidated and company balance sheets
17	Consolidated and company cash flow statements
18	Consolidated and company statements of changes in equity
19 - 83	Notes to the consolidated and company annual financial statements
84	Investments

The above statements were approved by the Board of directors on 26 February 2016 and were signed on 26 February 2016 on its behalf by:



Director

Director

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 2015, all such returns as are required of a private 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
26 February 2016

Independent Auditor's Report

TO THE SHAREHOLDER OF SAPPI SOUTHERN AFRICA LIMITED

We have audited the consolidated and separate financial statements of Sappi Southern Africa Limited set out on pages 15 to 84, which comprise the balance sheets as at 27 September 2015, and the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

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

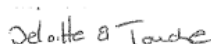
Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Sappi Southern Africa Limited as at 27 September 2015, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 27 September 2015, we have read the Directors' Report, the Audit Committee Report and the Company Secretary's Certificate, for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements.

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



Deloitte & Touche
Registered Auditor
Per: Alex Wise
Partner
26 February 2016

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

A full list of partners and directors is available on request

* Partner and Registered Auditor

B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

Sappi Southern Africa Limited

Audit Committee Report Year ended September 2015

In terms of S94(2) of the Companies Act, 71 of 2008, as amended ("the Act"), the Sappi Limited Group Audit Committee performs the functions of the Audit Committee for its subsidiary, Sappi Southern Africa Limited as contemplated in S94 of the Act.

This is the report of the Sappi Limited Group Audit Committee acting for Sappi Southern Africa Limited for the financial year ended 27 September 2015 in so far as it pertains to the compliance with section 94(7)(f) of the Act.

Terms of reference

Details of the Audit Committee's objectives, scope, membership and performance are set out in Sappi Limited's Group Annual Financial Statements for the year ended 27 September 2015. This is set out specifically on pages 96 and 97 of the Sappi Limited Group Annual Integrated Report issued 08 December 2015 and is on public record.

Duties carried out

The committee has performed its duties and responsibilities during the financial year according to the requirements of the Companies Act.

Report on specific matters required by S94(7) (f) of the Companies Act

The audit committee carried out its functions as audit committee for the Sappi Limited Group. Details of the audit committee performance is set out in the audit committee report of Sappi Limited on pages 96 and 97 of the Sappi Limited Group Integrated Annual Report issued 08 December 2015 and is on public record.

The audit committee is satisfied that the auditor was independent of the company.

The audit committee is satisfied with the information presented in the annual financial statements for Sappi Southern Africa Limited as well as the accounting practices and internal financial control of the company.



Dr D Konar
Chairman of the Audit Committee
26 February 2016

Sappi Southern Africa Limited

Directors' Report

Year ended September 2015

The directors submit their report for the year ended September 2015.

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

Supervisor of the preparation of the Annual Financial Statements

Financial director, C Mowatt CA(SA).

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

The Group is based in South Africa and produces dissolving wood pulp, paper, pulp and wood products for use in almost every sphere of economic activity for Southern Africa and export markets.

Sappi Southern Africa overview

Sappi Southern Africa has a tradition of innovating and developing new products to meet local demand for newsprint, office and business paper (stationery, printing and photocopying), security and speciality paper (passport and election ballot paper), containerboard (such as cardboard boxes used for exporting fruit) and packaging paper (bag grades for sugar and the fast food industry). Due to the sale of the Cape Kraft and Enstra Mills at the end of the reporting period, we have now exited the recycled packaging grades and security and speciality paper grades.

Sappi Southern Africa also produces dissolving wood pulp ("DWP"), a product made from wood from our plantations, and which is sold to customers who use the product to manufacture a diverse range of consumer products. We are the world's largest manufacturer of dissolving wood pulp and the 1 010 000 tons of dissolving wood pulp produced by our mills in South Africa is almost exclusively exported to customers in Asia, Europe and North America.

The South African paper business produces 520 000 tons of paper pulp and collects 250 000 tons of recycled waste paper. On a net basis we are approximately self-sufficient for our pulp requirements in Southern Africa. The paper and paper packaging products produced (675 000 tons post the sale of the Cape Kraft and Enstra Mills) are largely sold regionally, where we have strong market positions in most of these products.

Sappi Forests supplies over 78% of the wood requirements of Sappi Southern Africa from both our own committed commercial timber plantations of 492 000 hectares. This equates to approximately 30 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 140 000 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 identified investment in low-cost wood as both a growth driver and a strategic resource in order to supply our operations and to secure our margins in competitive commodity markets, such as dissolving wood pulp. To this end we continue to work with government and communities to accelerate afforestation in KwaZulu-Natal and the northern region of the Eastern Cape. This development not only provides one of the only sources of income and jobs to these local communities, but will also secure valuable hardwood timber resources close to our Saiccor Mill in KwaZulu-Natal. In addition to Sappi's own plantation area, we continue to identify ways to ensure access to pulpwood in the wood baskets close to our key operations, by means of land or timber delivery swaps. Where plantations and wood resources do not fit in with our current strategy in Southern Africa we may look to unlock value via disposal.

The plantation industry in South Africa faces an increasing threat from pests and diseases. Sappi Forests, a leader in research and development (R&D), continues to mitigate these risks through improved site species matching, the deployment of improved genetic planting stock and the introduction of specific hybrids from our conventional breeding programmes. The construction of the state-of-the-art Clan nursery, with a capacity of 17 million cuttings (vegetatively propagated plants), and the upgrade of the Ngodwana Nursery, provides Sappi Forests with the required facilities to rapidly deploy the improved genetic planting stock to mitigate these threats.

Markets and operations

The Sappi Southern African Specialised Cellulose business, comprising the Saiccor Mill and Fibre Line 3 at Ngodwana Mill, which commenced dissolving wood pulp production in July 2014, is a global leader in dissolving wood pulp production. The dissolving wood pulp produced at the Saiccor and Ngodwana mills is used principally as an input in the production of various textiles, consumer goods, foodstuffs and pharmaceutical industries.

Fluctuations in the Rand/US Dollar exchange rate can, and does, have a material impact on the business. The cost-base for our operations is largely Rand-based whereas most sales prices are linked to international US Dollar pricing. This year, the Rand weakened approximately 24% relative to the US Dollar compared to last year.

US Dollar dissolving wood pulp prices declined from last year into the first half of fiscal 2015 as a result of pressure from lower cotton and viscose prices, and continued oversupply of dissolving wood pulp and viscose staple fibre (VSF) production capacity. China increased its focus on environmental regulation, which forced the closure of VSF capacity that did not meet current standards. Subsequently, US Dollar-based prices for dissolving wood pulp rose through the latter half of our financial year as a result of tightening VSF supply and the resultant increase in VSF prices. These higher selling prices together with a weakening Rand led to an improved performance from last year.

At both the Saiccor and Ngodwana Mills, dissolving wood pulp volumes and Rand-based prices were higher than those of the prior year, increasing contribution in absolute and on a Rand per ton basis.

Sappi Southern Africa Limited

Directors' Report (continued)

Year ended September 2015

Our paper business delivered an improved performance due to the effective control of fixed and variable costs as well as improved pricing for packaging grades. Demand increased for our virgin fibre packaging grades due to strong fruit export sales from the agriculture sector. Virgin linerboard demand remained strong and the introduction of Ultraflute into the market was well received. We realised higher average prices this year versus the last, and we intend to make further investments in our virgin fibre packaging business in the coming years.

The refocusing and reorganisation of the Southern African business over the preceding years culminated in record profits for fiscal 2015. The realignment of businesses and simplification of product offerings improved efficiencies and output. These improvements together with below inflation fixed costs increases further assisted in improving EBITDA margins. The paper packaging business improved absolute EBITDA by 52% over last year.

As part of our strategy to rationalise declining business, focus on business where we have a competitive advantage and strengthen our balance sheet, we entered into agreements to sell both our Enstra and Cape Kraft Mills. After the end of the financial year, we received approval from the Competition Commission and both transactions were realised in October and November 2015, respectively.

Sappi Southern Africa's sales for 2015 in Rand terms increased by 7% to R15 849 million compared to 2014 (R14 824 million).

Input cost pressures on energy, wood and pulp costs persist and resources have been focused on limiting the impact of cost increases. Capital expenditure projects have been approved to increase our self-sufficiency on energy requirements and the benefits are expected to be realised towards the end of the next fiscal year. Variable costs per ton increased by 2%. Managing costs in a high inflationary environment has been a priority and the results are evident with an increase in fixed costs limited to 4%.

Sappi Southern Africa's EBITDA increased to R3 580 million in 2015 from R2 985 million in 2014, while the EBITDA margin improved to 23% from the prior year's 20% margin. Operating profit increased by 25% to R2 900 million in 2015 (R2 320 million in 2014). In 2015 Sappi Southern Africa achieved an 20% "Return on Net Operating Assets", compared to the 16% it achieved in 2015.

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 R496 million was recorded in fiscal 2015 due mainly to market related timber price increases and reduced fuel prices over the year, partially offset by cost increases.

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, although we continue to grapple with improving diversity at middle and senior management levels.

We continue to work with customers to develop new product and service solutions, including the design of high-performance packaging and new uses for specialised cellulose. We also continue to explore opportunities to invest in power cogeneration facilities to increase our power self-sufficiency, and to increase the proportion of renewables in our total energy mix.

Outlook

Dissolving wood pulp markets have improved considerably in the second half of this year as a result of higher pricing and improved operating rates for VSF in China. Higher hardwood pulp prices are also impacting dissolving wood pulp supply as some swing producers continue to manufacture paper pulp rather than dissolving wood pulp.

With further growth in demand for virgin fibre packaging paper and reduced exposure to lower-margin graphic paper grades, we expect margins to improve in this area. In the coming year we will be making further investments in the South African business to improve our energy self-sufficiency and in general efficiency improvements at our key mills.

In April 2015, Sappi Southern Africa together with its project partners KC Africa and Fusion Energy, was selected a preferred bidder of the Ngodwana Energy 25MW Biomass energy plant in terms of the Government's Renewable Energy Independent Power Producers Programme. The financial close of this project is forecast for Quarter 2 2016.

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.

Basis of preparation

Sappi Southern Africa's financial reporting is based on International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and the requirements of the Companies Act of South Africa.

Sappi Southern Africa Limited

Directors' Report (continued)

Year ended September 2015

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
120 046	Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate

Financing

In October 2014, Sappi Southern Africa repurchased R300 million of its Public Bond SSA02 which was due to mature in April 2015. The remaining R450 million was settled in April 2015:

The capitalized leased asset with Rand Merchant Bank which was due to mature in September 2015 was early settled in September 2014.

At year end, the average tenure of term debt is 2.9 years. The SSA04 R255 million bond and the SSA01 R500 million bond will be maturing in April and June of 2016 respectively.

Sappi Southern Africa Limited currently has the following credit ratings:

- Fitch : South African national rating A- / F1 / Stable (May 2015)
- Global Credit Rating (GCR): South African national rating A / Stable (November 2015)

During the year we announced the sale of both our Cape Kraft and Enstra Mills. Proceeds from the sale of these two businesses were received in November 2015.

Net borrowings

Sappi Southern Africa has sufficient cash to meet all its debt obligations with a net cash position of R966 million at September 2015. Details of the non-current term borrowings are set out in note 17 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 21 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.

During 2015, production at our Ngodwana Mill was affected by a PF Boiler tube leak and a Turbine incident. The PF Boiler tube leak resulted in a total cost of R125 million and the Turbine incident cost R81 million. Both incidents were within the Sappi Group's captive retention and as a result were not submitted to the reinsurance market.

Fixed assets

Capital expenditure of R792 million was incurred during the year.

During the year, an impairment of R1.8m was reversed due to the sale of the Industrial Winder at the Stanger Mill.

See note 6 to the annual financial statements for full details regarding our fixed assets.

Sappi Southern Africa Limited

Directors' Report (continued)

Year ended September 2015

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.

Directors and secretaries

The names of the directors are indicated on page 3.

The secretaries and their business and postal addresses also appear on page 3 of this report.

Subsidiary companies

Details of the company's significant subsidiaries are given in note 33 on page 84.

Holding company and ultimate holding company

The company's holding company and ultimate holding company is Sappi Limited.

Going concern

The directors have reviewed Sappi Southern Africa's budget and cash flow forecasts. This review, together with the Group's financial position, existing borrowing facilities and cash on hand, has satisfied the directors that the Group will continue as a going concern for the foreseeable future. Therefore Sappi Southern Africa continues to adopt the going concern basis in preparing its Group annual financial statements.

Sappi Southern Africa Limited

Consolidated and Company Income Statements For the year ended September 2015

	Notes	Consolidated		Company	
		2015 R'000	2014 R'000	2015 R'000	2014 R'000
Sales		15 849 370	14 823 593	15 594 579	14 522 803
Cost of sales	3.1	12 558 672	12 234 878	12 348 626	12 063 123
Gross profit		3 290 698	2 588 715	3 245 953	2 459 680
Selling, general and administrative expenses	3.1	510 449	312 765	511 505	315 089
Share of profit on joint venture	9	(110 366)	(85 354)	-	-
Investment income	3.3	-	-	(79 658)	(96 954)
Other income	3.4	(9 870)	(41 087)	(13 296)	(59 958)
Operating profit	3	2 900 485	2 320 217	2 827 402	2 301 503
Net finance costs	4	30 254	219 211	28 818	219 264
Finance costs		234 038	296 858	233 366	296 841
Finance revenue		(141 542)	(76 427)	(142 796)	(76 350)
Net fair value losses (gains) on financial instruments		395	(104)	395	(104)
Net foreign exchange gains		(62 637)	(1 116)	(62 147)	(1 123)
Profit before taxation		2 870 231	2 101 006	2 798 584	2 082 239
Taxation charge	5	700 346	556 838	690 994	537 959
Profit for the year		2 169 885	1 544 168	2 107 590	1 544 280

Consolidated and Company Statements of Comprehensive Income For the year ended September 2015

		Consolidated		Company	
		2015 R'000	2014 R'000	2015 R'000	2014 R'000
Profit for the year		2 169 885	1 544 168	2 107 590	1 544 280
Other comprehensive income (loss)	15	21 615	(102 134)	21 615	(101 744)
<i>Items that may subsequently be reclassified to the combined and consolidated income statement:</i>					
Movement on available-for-sale financial asset		-	(14 154)	-	(14 154)
Movement on hedging reserves		10 688	(28 630)	10 688	(28 630)
Tax on above items		(2 992)	8 016	(2 992)	8 016
<i>Items that will not subsequently be reclassified to the consolidated and separate income statement:</i>					
Actuarial gains (losses) on post-employment benefit funds		19 333	(93 412)	19 333	(93 024)
Deferred tax on above item		(5 414)	26 046	(5 414)	26 048
Total comprehensive income for the year		2 191 500	1 442 034	2 129 205	1 442 536

Sappi Southern Africa Limited

Consolidated and Company Balance Sheets At September 2015

		Consolidated		Company	
	Notes	2015 R'000	2014 R'000	2015 R'000	2014 R'000
Assets					
<i>Non-current assets</i>		15 444 000	14 925 125	15 307 917	14 723 666
Property, plant and equipment	6	9 460 423	9 506 360	9 451 721	9 394 730
Plantations	7	5 325 483	4 831 586	5 325 483	4 831 586
Deferred tax asset	8	6 842	-	-	-
Equity investments	9	186 565	155 855	72 707	72 707
Derivative financial instruments	27	30 912	46 503	30 912	46 503
Other non-current assets	10	433 775	384 821	427 094	378 140
<i>Current assets</i>		7 291 835	5 435 431	7 228 646	5 497 653
Inventories	11	1 403 719	1 601 331	1 397 717	1 567 066
Trade and other receivables	12	308 787	377 542	308 240	375 494
Derivative financial instruments	27	1 323	1 669	1 311	1 669
Amounts owing by group companies		1 827 850	1 403 598	1 892 487	1 502 342
Cash and cash equivalents		3 364 014	2 051 291	3 363 943	2 051 082
		6 905 693	5 435 431	6 963 698	5 497 653
Assets classified as held for sale	13	386 142	-	264 948	-
Total assets		22 735 835	20 360 556	22 536 563	20 221 319
Equity and liabilities					
<i>Shareholders' equity</i>		12 254 624	10 049 202	12 108 900	9 965 771
Ordinary share capital and share premium	14	221 100	221 100	221 100	221 100
Other reserves	16	156 320	142 398	154 574	140 650
Retained earnings		11 877 204	9 685 704	11 733 226	9 604 021
<i>Non-current liabilities</i>		5 012 005	5 412 357	5 008 271	5 400 587
Interest-bearing borrowings	17	1 645 000	2 400 000	1 645 000	2 400 000
Deferred tax liabilities	8	3 110 686	2 731 970	3 110 686	2 723 934
Other non-current liabilities	18	256 319	280 387	252 585	276 653
<i>Current liabilities</i>		5 469 206	4 898 997	5 419 392	4 854 961
Interest-bearing borrowings	17	753 124	746 858	753 124	746 858
Provisions	20	6 200	7 975	6 200	7 975
Derivative financial instruments	27	5 175	30 697	5 175	30 697
Trade and other payables		2 886 472	2 554 171	2 845 235	2 509 739
Taxation payable		243 101	115 307	239 013	115 249
Amounts owing to group companies		1 570 320	1 443 989	1 570 645	1 444 443
		5 464 392	4 898 997	5 419 392	4 854 961
Liabilities directly associated with assets held for sale	13	4 814	-	-	-
Total equity and liabilities		22 735 835	20 360 556	22 536 563	20 221 319

Sappi Southern Africa Limited

Consolidated and Company Cash Flow Statements For the year ended September 2015

	Notes	Consolidated		Company	
		2015 R'000	2014 R'000	2015 R'000	2014 R'000
Cash retained from operating activities		2 570 573	2 453 665	2 602 948	2 584 800
Cash generated from operations	19.1	2 934 177	2 720 900	2 887 048	2 740 798
(Increase) decrease in working capital	19.2	(109 667)	(32 012)	(115 185)	(17 672)
Cash generated from operating activities		2 824 510	2 688 888	2 771 863	2 723 126
Finance costs paid	19.3	(181 520)	(279 215)	(181 338)	(283 174)
Finance revenue received		131 872	71 337	133 126	75 243
Dividends received		-	-	79 658	96 954
Taxation paid	19.4	(204 289)	(27 345)	(200 361)	(27 349)
Cash (utilised) generated in investing activities		(694 037)	253 926	(760 321)	172 545
- Investment to maintain operations		(619 122)	(161 692)	(605 866)	(145 482)
- Investment to expand operations		(172 718)	(625 519)	(172 718)	(625 519)
- Proceeds on disposal of non-current assets	19.5	7 719	29 213	7 835	28 428
- Proceeds on disposal of held for sale assets	19.6	-	1 004 147	-	1 004 147
- Other decrease in non-current assets		90 084	7 777	10 428	(89 029)
Cash effects of financing activities		(563 813)	(1 133 110)	(529 766)	(1 171 249)
Repayment of interest-bearing borrowings		(750 000)	(292 210)	(750 000)	(292 210)
Increase in other non-current liabilities		-	(50 023)	-	(49 483)
Cash costs attributable to refinancing transactions		(1 550)	-	(1 547)	-
Increase (decrease) in amounts owed to (by) group companies		187 737	(790 877)	221 781	(829 556)
Net movement in cash and cash equivalents		1 312 723	1 574 481	1 312 861	1 586 096
Cash and cash equivalents at beginning of year		2 051 291	468 619	2 051 082	465 001
Cash on divisions / companies sold		-	8 191	-	(15)
Cash and cash equivalents at end of year	19.7	3 364 014	2 051 291	3 363 943	2 051 082

Sappi Southern Africa Limited

Consolidated and Company Statements of Changes in Equity

For the year ended September 2015

Consolidated

	Ordinary share capital R'000	Share premium R'000	Other reserve R'000	Hedging reserve	Retained earnings R'000	Total R'000
Balance - September 2013	12 030	209 070	123 668	30 545	8 213 125	8 588 438
Share based payment	-	-	13 399	-	-	13 399
Sappi Limited Share Incentive Trust	-	-	(20 051)	-	-	(20 051)
Share based payment – BBBEE	-	-	25 382	-	-	25 382
Total comprehensive (expense) income	-	-	-	(20 614)	1 462 648	1 442 034
Balance - September 2014	12 030	209 070	142 398	9 931	9 675 773	10 049 202
Share based payment	-	-	15 226	-	-	15 226
Sappi Limited Share Incentive Trust	-	-	(22 236)	-	-	(22 236)
Share based payment – BBBEE	-	-	20 932	-	-	20 932
Total comprehensive income	-	-	-	7 696	2 183 804	2 191 500
Balance - September 2015	12 030	209 070	156 320	17 627	11 859 577	12 254 624

Company

	Ordinary share capital R'000	Share premium R'000	Other reserve R'000	Hedging reserve R'000	Retained earnings R'000	Total R'000
Balance - September 2013	12 030	209 070	121 938	30 545	8 130 940	8 504 523
Share based payment	-	-	13 381	-	-	13 381
Sappi Limited Share Incentive Trust	-	-	(20 051)	-	-	(20 051)
Share based payment – BBBEE	-	-	25 382	-	-	25 382
Total comprehensive (expense) income	-	-	-	(20 614)	1 463 150	1 442 536
Balance - September 2014	12 030	209 070	140 650	9 931	9 594 090	9 965 771
Share based payment	-	-	15 227	-	-	15 227
Sappi Limited Share Incentive Trust	-	-	(22 236)	-	-	(22 236)
Share based payment – BBBEE	-	-	20 933	-	-	20 933
Total comprehensive income	-	-	-	7 696	2 121 509	2 129 205
Balance - September 2015	12 030	209 070	154 574	17 627	11 715 599	12 108 900

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements Year ended September 2015

1. Business

Sappi Southern Africa Limited, a corporation organised under the laws of the Republic of South Africa (the "company" and together with its consolidated subsidiaries, "Sappi Southern Africa" or the "Group"), is a major, vertically integrated international pulp and paper producer. Sappi Southern Africa is a leading global producer of specialised cellulose.

The Group produces coated fine paper, uncoated graphic and business paper, coated and uncoated speciality paper, commodity paper products, pulp, specialised cellulose and forest and timber products for southern Africa and export markets. The Group operates through a fellow subsidiary of Sappi Limited, responsible for the international marketing and distribution of specialised cellulose and market pulp throughout the world.

1.1 Basis of preparation

The consolidated and company financial statements have been prepared in accordance with:

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

The 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 and 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.

2. Accounting policies

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

2.1 Significant accounting policy elections

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

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

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

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

The preparation of the financial statements was supervised by the Chief Financial Officer, C Mowatt CA(SA).

(i) Financial year

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

- 29 September 2014 to 27 September 2015 (52 weeks)
- 30 September 2013 to 28 September 2014 (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.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

2.2 Summary of accounting policies

2.2.1 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Rands, which is the group's presentation currency. The functional currency of the parent company is ZAR.

(ii) Transactions and balances

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

(iii) Foreign operations

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

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

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

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

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

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

Period-end rate	2015	2014
US\$1 = ZAR	13.9135	11.2285
€1 = US\$	1.1195	1.2685
Annual average rate		
US\$1 = ZAR	11.9641	10.5655
€1 = US\$	1.1501	1.3577

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 financial statements. Intra-group losses are not eliminated to the extent that they provide objective evidence of impairment.

(ii) Associates and joint ventures

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

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

2.2.3 Financial instruments

(i) Initial recognition

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

(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.

(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 re-measurements) 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) Licence fees

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

2.2.6 Inventories

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

Cost is determined on the following basis:

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

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

2.2.7 Leases

(i) The group as lessee

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

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

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

(ii) Recognition of lease of land

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

2.2.8 Assets held for sale

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

2.2.9 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.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

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.

(iii) 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 Payments* 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 to this process include: the volatility of the group's share price, employee turnover rate and dividend payout rates which are necessary in determining the grant date fair value.

Note 26 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of the year.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

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 the reversal of a previously recognised impairment.

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

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

2.3.3 Taxation

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

(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.

(iv) 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 Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

(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 27 and 28 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 8 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 ton allocation method multiplied by unadjusted current market prices. Tons are calculated using the projected growth to rotation age and are extrapolated to current age on a straight-line basis.

The group has projected growth estimation over a period of 8 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 Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

2.3.6 Pension plans and other post-retirement 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 can be made of the amount of the obligation.

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 20 for the nature of provisions recorded.

2.3.8 Environmental restoration and decommissioning obligations

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

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

Refer to note 31 for a description of the major environmental laws and regulations that affect the group, expected new laws and regulations, and the estimated impact thereof.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

2.4 Adoption of accounting standards and interpretations in the current year

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

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities
- Amendments to IAS 32 *Financial Instruments: Presentation* – Offsetting financial assets and financial liabilities (disclosure requirements)
- Amendments to IAS 36 *Impairment of Assets* – Recoverable Amount Disclosures for Non-financial Assets
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* – Novation of Derivatives and Continuation of Hedge Accounting
- Amendments to IAS 19 *Defined benefit plans* – Employee Contributions
- IFRIC 21 *Levies* – Provides guidance on when to recognise a liability for a levy imposed by a government
- Annual Improvements 2010 – 2012 cycle
- Annual Improvements 2011 – 2013 cycle

2.5 Accounting standards and amendments to existing standards that are not yet effective

Certain new standards and amendments 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
- 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 – September 2017
- IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures* – Applying the Consolidation Exception – September 2017
- IFRS 11 *Joint Arrangements* – Accounting for Acquisitions of Interests in Joint Operations – September 2017
- IFRS 14 *Regulatory Deferral Accounts* – September 2017
- 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
- IAS 1 *Presentation of Financial Statements* – Disclosure Initiative – September 2017
- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* – Clarification of Acceptable Methods of Depreciation and Amortisation – September 2017
- IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* – Bearer Plants – September 2017
- IAS 27 *Separate Financial Statements* – Equity Method in Separate Financial Statements – September 2017
- Annual improvements 2012 – 2014 Cycle
- Various improvements to IFRS

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

3. Operating profit

3.1 Cost of sales and selling, general and administrative expenses

	Consolidated				Company			
	2015 R'000		2014 R'000		2015 R'000		2014 R'000	
	Cost of sales	Selling, admin and general	Cost of sales	Selling, admin and general	Cost of sales	Selling, admin and general	Cost of sales	Selling, admin and general
Raw materials, energy and other direct input costs	7 904 948	-	7 478 915	-	7 809 071	-	7 362 084	-
Fair value adjustment on plantations	(589 282)	-	(280 031)	-	(589 282)	-	(157 462)	-
Employee costs	1 710 277	511 176	1 622 254	464 675	1 679 837	511 176	1 571 207	464 675
Depreciation	650 693	28 897	630 037	35 286	636 689	27 238	615 597	36 585
Delivery charges	1 122 680	-	1 078 944	-	1 111 559	-	1 066 729	-
Maintenance	828 206	-	768 677	-	790 624	-	728 944	-
Other overheads	931 150	-	936 082	-	910 128	-	876 024	-
Marketing and selling expenses	-	22 024	-	23 738	-	22 024	-	23 738
Administrative and general income	-	(51 648)	-	(210 934)	-	(48 933)	-	(209 909)
	12 558 672	510 449	12 234 878	312 765	12 348 626	511 505	12 063 123	315 089

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
3.1 Operating profit (continued)				
Fair value gains on plantations (note 7)				
Changes in volumes				
Fellings	687 580	623 439	687 580	599 807
Growth	(780 836)	(713 897)	(780 836)	(687 527)
	(93 256)	(90 458)	(93 256)	(87 720)
Plantation price fair value adjustment	(496 026)	(189 573)	(496 026)	(69 742)
	(589 282)	(280 031)	(589 282)	(157 462)
Silviculture costs (included within cost of sales)	628 941	630 165	628 941	594 861
Leasing charges for premises	41 898	16 914	43 687	16 914
Leasing charges for plant and equipment	22 532	23 610	18 488	23 610
Leasing charges for vehicles	36 189	17 305	36 189	16 493
Leasing charges for office equipment	16 084	15 349	16 084	15 197
Cost of derecognition of loans and receivables	81 935	71 016	81 935	71 016
Remuneration paid other than to bona fide employees of the company in respect of:	17 204	11 628	17 140	10 248
- technical services	14 042	8 232	13 978	6 852
- administration services	3 162	3 396	3 162	3 396
Auditors' remuneration	8 044	7 140	8 044	7 140
- audit and related services	8 044	6 637	8 044	6 637
- tax planning and tax advice	-	503	-	503
Research and development costs	16 483	16 395	16 483	16 031
3.2 Employee costs				
Wages and salaries	1 669 898	1 549 918	1 660 866	1 512 166
Pension costs (refer note 24)	77 790	64 423	77 790	63 761
Post-employment benefits other than pension expense (refer note 25)	(21 123)	8 535	(21 123)	8 535
Defined contribution expense	121 467	112 500	121 467	109 213
Other company contributions	95 439	87 802	90 988	84 885
Overtime	136 264	123 054	135 821	122 214
Share-based payment expense	15 231	13 412	15 231	13 394
Other	126 487	127 285	109 973	121 714
	2 221 453	2 086 929	2 191 013	2 035 882

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
3.3 Investment income				
Dividend received	-	-	(79 658)	(96 954)
3.4 Other income				
Loss on sale and write-off of property, plant and equipment	4 808	11 696	3 266	27 174
Costs and losses due to major events (including fires and floods)	111 940	93 929	110 056	93 650
Profit on assets held for sale	-	(66 607)	-	(128 861)
Insurance recoveries	(176 899)	(81 182)	(176 899)	(81 182)
Impairment (impairment reversal) of property, plant and equipment	(1 784)	17 931	(1 784)	17 931
Write down investments	-	-	-	(90)
Impairment reversal of intercompany balances	-	-	-	(11 300)
Black economic empowerment transaction charge	20 932	25 383	20 932	25 383
Restructuring costs	15 801	16 243	15 801	(8 143)
Goodwill impaired	-	10 250	-	-
Other	15 332	13 444	15 332	5 480
	<u>(9 870)</u>	<u>41 087</u>	<u>(13 296)</u>	<u>(59 958)</u>
4. Net finance costs				
Gross interest and other finance costs on liabilities carried at amortised cost	236 572	278 716	235 900	278 699
- Interest on bank overdrafts	14 880	11 986	14 220	11 969
- Interest on redeemable bonds and other loans	221 692	259 775	221 680	259 775
- Interest on obligations under finance lease	-	6 955	-	6 955
Net interest on employee benefits	(2 534)	18 142	(2 534)	18 142
Finance revenue received on assets carried at amortised cost	(141 542)	(76 427)	(142 796)	(76 350)
- Interest on bank accounts	(133 697)	(67 586)	(133 697)	(67 509)
- Interest revenue on loans and investments	(7 845)	(3 401)	(7 845)	(3 401)
- Inter-group finance revenue	-	(5 440)	(1 254)	(5 440)
Net foreign exchange gain	(62 637)	(1 116)	(62 147)	(1 123)
Net fair value loss (gain) on financial instruments	395	(104)	395	(104)
	<u>30 254</u>	<u>219 211</u>	<u>28 818</u>	<u>219 264</u>

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
5. Taxation charge				
Current taxation:				
- Current year	411 470	58 980	403 513	58 913
- Prior year over provision	(75 795)	(15 403)	(75 795)	(15 403)
Deferred taxation (refer note 8):				
- Current year	365 940	495 038	364 870	476 230
- Prior year (over) under provision	(1 269)	18 223	(1 594)	18 219
	<u>700 346</u>	<u>556 838</u>	<u>690 994</u>	<u>537 959</u>

In addition to income taxation charges to profit and loss, current taxation benefits of R3 932 thousand (2014: Nil) and deferred taxation charges of R11 997 thousand (2014: R34 064 thousand charge) has been recognised directly in other comprehensive income (refer note 8).

Reconciliation of the tax rate:	%	%	%	%
Statutory tax rate	28.0	28.0	28.0	28.0
Non-taxable income	(0.9)	(0.7)	(1.0)	(2.3)
Deferred tax asset not recognised	-	(1.0)	-	-
Prior year adjustments	(2.7)	0.1	(2.3)	0.1
Effective taxation rate for the year	<u>24.4</u>	<u>26.4</u>	<u>24.7</u>	<u>25.8</u>
	R'000	R'000	R'000	R'000

6. Property, plant and equipment				
Land and buildings ⁽¹⁾				
At cost	2 959 961	2 957 343	2 809 650	2 767 987
Accumulated depreciation	(1 065 451)	(1 034 516)	(923 843)	(876 920)
	<u>1 894 510</u>	<u>1 922 827</u>	<u>1 885 807</u>	<u>1 891 067</u>
Plant and equipment ⁽²⁾				
At cost	16 623 473	17 256 188	16 623 474	17 018 457
Accumulated depreciation	(9 057 560)	(9 672 655)	(9 057 560)	(9 514 794)
	<u>7 565 913</u>	<u>7 583 533</u>	<u>7 565 914</u>	<u>7 503 663</u>
Aggregate cost	19 583 434	20 213 531	19 433 124	19 786 444
Aggregate accumulated depreciation	(10 123 011)	(10 707 171)	(9 981 403)	(10 391 714)
Aggregate book value ⁽³⁾	<u>9 460 423</u>	<u>9 506 360</u>	<u>9 451 721</u>	<u>9 394 730</u>

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

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

(3) An amount of R331 417 thousand (2014: R268 965 thousand) relates to assets under construction.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

6. Property, plant and equipment (continued)

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

	Land and buildings R'000	Plant and equipment R'000	Capitalised leased assets R'000	Total R'000
Consolidated				
Net book value at September 2013	1 886 196	7 800 357	30 317	9 716 870
Additions	102 386	413 945	-	516 331
Transferred from capitalised	15 158	149	(15 307)	-
Disposals	(2 092)	(38 817)	-	(40 909)
Depreciation	(76 128)	(574 184)	(15 010)	(665 322)
Impairments	-	(37 931)	-	(37 931)
Impairment reversal	-	20 000	-	20 000
Assets transferred to held for sale	(2 693)	14	-	(2 679)
Net book value at September 2014	1 922 827	7 583 533	-	9 506 360
Additions	118 423	717 119	-	835 542
Disposals	(2 104)	(9 137)	-	(11 241)
Depreciation	(92 407)	(587 183)	-	(679 590)
Impairment reversal	-	1 784	-	1 784
Assets transferred to held for sale	(52 229)	(140 203)	-	(192 432)
Net book value at September 2015	1 894 510	7 565 913	-	9 460 423
Company				
Net book value at September 2013	1 889 252	7 784 996	30 317	9 704 565
Additions	100 437	399 684	-	500 121
Transferred from capitalised	-	148	(148)	-
Disposals	(2 085)	(38 358)	(15 159)	(55 602)
Disposals intercompany	(17 934)	(63 688)	-	(81 622)
Depreciation	(75 983)	(561 188)	(15 010)	(652 181)
Impairments	-	(37 931)	-	(37 931)
Impairment reversal	-	20 000	-	20 000
Assets transferred to held for sale	(2 620)	-	-	(2 620)
Net book value at September 2014	1 891 067	7 503 663	-	9 394 730
Additions	117 935	704 221	-	822 156
Disposals	(2 097)	(7 588)	-	(9 685)
Depreciation	(88 982)	(574 945)	-	(663 927)
Impairment reversal	-	1 784	-	1 784
Assets transferred to held for sale	(32 116)	(61 221)	-	(93 337)
Net book value at September 2015	1 885 807	7 565 914	-	9 451 721

Impairments and impairment reversals

September 2015

The impairment reversal at of R1 784 thousand related primarily to the sale of certain equipment at Stanger Mill.

September 2014

During the year, the group incurred capital maintenance expenditure on assets that were previously impaired. This resulted in the respective amounts of R12 770 thousand, R21 110 thousand and R4 051 thousand for the Enstra, Tugela and Stanger mills being written off to other operating expenses in profit or loss for the period.

In addition, plant that had previously been impaired at Stanger Mill was disposed of during the year resulting in an impairment reversal of R20 000 thousand being recognised in other operating expenses in profit or loss for the period.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
7. Plantations				
Fair value of plantations at the beginning of the year	4 831 586	4 684 542	4 831 586	4 684 542
Disposals	(364)	-	(364)	-
Fire, hazardous weather and other damages	(82 393)	-	(82 393)	-
In-field inventory	(12 628)	(9 051)	(12 628)	(8 184)
Gains arising from growth	780 836	688 394	780 836	687 527
Gain arising from fair value price charges	496 026	69 742	496 026	69 742
Harvesting - agriculture produce (fellings)	(687 580)	(599 807)	(687 580)	(599 807)
Reclassified to held for sale	-	(2 234)	-	(2 234)
Fair value of plantations at the end of the year	5 325 483	4 831 586	5 325 483	4 831 586

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 FSC™ 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 9.32%. The group currently values approximately 30 million tons of timber using selling prices and delivery costs that are benchmarked against industry norms. The average annual growth is measured at approximately 18 tons of timber per hectare while immature timber comprise approximately 100,000 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:

	2015 R'000	2014 R'000
Fair value changes		
1% increase in market prices	24 335	23 120
1% decrease in market prices	(24 335)	(23 120)
Discount rate (for immature timber)		
1% increase in rate	(26 625)	(24 462)
1% decrease in rate	26 625	24 462
Volume assumption		
1% increase in estimate of volume	49 600	46 141
1% decrease in estimate of volume	(49 600)	(46 141)
Costs to sell		
1% increase in costs to sell	(19 850)	(18 908)
1% decrease in costs to sell	19 850	18 908
Growth assumptions		
1% increase in rate of growth	14 006	12 241
1% decrease in rate of growth	(14 006)	(12 241)

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

	2015		2014	
	Assets R'000	Liabilities R'000	Assets R'000	Liabilities R'000 (Restated)
8. Deferred tax				
Consolidated				
Taxation loss carry forward	2 746	-	-	(2 671)
Other non-current liabilities	(79)	48 651	-	18 217
Accrued and other liabilities	4 096	(159 830)	-	(165 827)
Property, plant and equipment	79	1 734 556	-	1 538 151
Plantations	-	1 487 309	-	1 344 100
Total deferred taxation	<u>6 842</u>	<u>3 110 686</u>	<u>-</u>	<u>2 731 970</u>
Company				
Other non-current liabilities	-	48 651	-	18 217
Accrued and other liabilities	-	(159 830)	-	(162 117)
Property, plant and equipment	-	1 734 556	-	1 523 734
Plantations	-	1 487 309	-	1 344 100
Total deferred taxation	<u>-</u>	<u>3 110 686</u>	<u>-</u>	<u>2 723 934</u>
	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
Reconciliation of deferred taxation				
Deferred taxation balances at beginning of year				
- Deferred taxation assets	-	(11 123)	-	-
- Deferred taxation liabilities	2 731 970	2 254 340	2 723 934	2 266 444
	<u>2 731 970</u>	<u>2 243 217</u>	<u>2 723 934</u>	<u>2 266 444</u>
Deferred taxation (released) charge for the year (refer to note 5)	364 671	513 262	363 276	494 450
- Other non-current assets	18 518	61 179	18 438	49 076
- Taxation loss carry forward	(75)	294 132	-	282 626
- Accrued and other liabilities	1 900	(17 745)	2 286	(14 812)
- Property, plant and equipment	201 119	125 282	199 343	127 146
- Plantations	143 209	50 414	143 209	50 414
Amounts recorded directly against equity	11 997	(34 064)	11 997	(34 064)
Transfer on acquisitions and sales	20	(221)	20	(12 672)
Transfer to non-current assets held for sale	<u>(4 814)</u>	<u>9 776</u>	<u>11 459</u>	<u>9 776</u>
Deferred taxation balances at end of year	3 103 844	2 731 970	3 110 686	2 723 934
- Deferred taxation assets	(6 842)	-	-	-
- Deferred taxation liabilities	<u>3 110 686</u>	<u>2 731 970</u>	<u>3 110 686</u>	<u>2 723 934</u>

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
9. Equity investments				
Investment in joint venture	186 565	155 855	72 375	72 375
Unlisted investments	-	-	332	332
	<u>186 565</u>	<u>155 855</u>	<u>72 707</u>	<u>72 707</u>

Details of investments are available at the registered offices of the respective companies.

The Group has the following joint venture:

Umkomaas Lignin Proprietary Limited

A 50% joint venture agreement with Borregaard AS for the construction and operation of a lignin plant at Umkomaas and the development, production and sale of products based on lignosulphates 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.

The joint venture is accounted for using the equity method in the consolidated financial statements and carried at historical cost in the company financial statements.

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
Issued share capital	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Cost of investment in joint venture	1 985	1 985	1 985	1 985
Share of post-acquisition profits	114 190	83 480	-	-
- Opening balance	83 480	95 080	-	-
- Current year profit	110 366	85 354	-	-
- Dividend received	(79 656)	(96 954)	-	-
Loan – converted to share capital	70 390	70 390	70 390	70 390
	<u>186 565</u>	<u>155 855</u>	<u>72 375</u>	<u>72 375</u>
Balance sheet summary				
Current assets	280 060	250 374	-	-
Non-current assets	154 000	163 660	-	-
Current liabilities	(82 673)	(77 266)	-	-
Non-current liabilities	(21 549)	(25 058)	-	-
<i>The above amounts of assets and liabilities include the following:</i>				
Cash and cash equivalents	51 200	52 250	-	-
Current financial liabilities (excluding trade and other payables and provisions)	19 299	38 589	-	-
Non-current financial liabilities (excluding trade and other payables and provisions)	21 549	25 058	-	-
Income statement summary				
Sales	768 616	709 074	-	-
Depreciation	20 222	24 559	-	-
Finance costs	2 813	3 127	-	-
Finance revenue	361	84	-	-
Taxation charge	85 610	67 069	-	-
Profit from continuing operations	220 732	170 707	-	-
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	220 732	170 707	-	-

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
9. Equity investments (continued)				
<i>Reconciliation of the above summarised financial information to the carrying amount of interest in the joint venture recognised in the consolidated financial statements:</i>				
Net assets of joint venture	373 130	311 710	-	-
Proportion of the group ownership interest in the joint venture	50%	50%	-	-
Carrying amount of the groups interest in the joint venture	186 565	155 855	-	-
10. Other non-current assets				
Advances to tree growers	44 529	54 957	44 529	54 957
Licence fee	36	241	36	241
Pension asset (refer note 24)	367 530	307 943	367 530	307 943
Unlisted investment	15 000	15 000	14 999	14 999
Other	6 680	6 680	-	-
	433 775	384 821	427 094	378 140
11. Inventories				
Raw materials	391 794	507 138	391 794	497 842
Work-in-progress	55 160	80 674	49 158	74 556
Finished goods	564 258	651 088	564 258	638 561
Consumable stores and spares	392 507	362 431	392 507	356 107
	1 403 719	1 601 331	1 397 717	1 567 066
The charge to the consolidated income statement relating to the write-down of inventories to net realisable value amounted to R94 858 thousand (2014: R69 486 thousand).				
The cost of inventories recognised as an expense and included in cost of sales amounted to R12 086 161 thousand (2014: R11 414 046 thousand).				
12. Trade and other receivables				
Trade accounts receivable	133 975	119 039	133 975	119 039
Receiver of Revenue	53 163	63 672	53 164	63 263
Prepaid insurance	21 368	21 744	20 949	21 240
Vendor Note	-	90 000	-	90 000
Prepayments and other receivables	100 281	83 087	100 152	81 952
	308 787	377 542	308 240	375 494

Management rates the quality of the trade and other receivables, which are neither past due nor impaired, 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.

Trade receivables (including securitised trade receivables) represent 9.5% (2014: 9.9%) of turnover.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
12. Trade and other receivables (continued)				
12.1 Analysis of amounts past due				
The following table provides an analysis of the amounts that are past the due contractual maturity dates.				
Past contract terms but not impaired				
Less than 7 days overdue	-	1 294	-	1 294
Between 7 and 30 days overdue	3 200	1 049	3 200	1 049
Between 30 and 60 days overdue	-	(105)	-	(105)
More than 60 days overdue	-	129	-	129
	3 200	2 367	3 200	2 367

All amounts which are due but beyond their contractual repayment terms are reported to 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 has no provision against trade receivables that are past due.

The group holds collateral of R16 750 thousand (2014: R15 750 thousand) against these trade receivables that are past due.

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.

12.3 Off balance sheet structures

Sappi sells the majority of its receivables to Rand Merchant Bank Limited, a division of FirstRand Bank Limited. Sappi does not guarantee the recoverability of any amounts, but carries 15% of the credit risk (and Rand Merchant Bank Limited the remainder) of each underlying receivable, after all recoveries, including insurance recoveries. 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 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 was entered into.

The total amount of trade receivables securitised at the end of September 2015 amounted to R1 367 601 thousand (September 2014: R1 348 437 thousand). Details of the securitisation programme at the end of the 2015 and 2014 financial years are disclosed below:

Bank	Currency	Value	Facility	Discount charges
2015				
Rand Merchant Bank	ZAR	1 368 Million	Unlimited ⁽¹⁾	Linked to 3-month JIBAR
2014				
Rand Merchant Bank	ZAR	1 348 Million	Unlimited ⁽¹⁾	Linked to 3-month JIBAR

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

Refer to note 28 for further details on credit risk.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

12. Trade and other receivables (continued)

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 during the years ended September 2015 and September 2014.

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 R308 787 thousand (2014: R377 542 thousand) 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:

Consolidated and Company	Number of customers	2015 R'000	Percentage	Number of customers	2014 R'000	Percentage
Less than US\$5 million	75	133 975	100%	95	119 039	100%
	75	133 975	100%	95	119 039	100%

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000

13. Assets classified as held for sale

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

<i>Assets classified as held for sale</i>	386 142	-	264 948	-
Property, plant and equipment	192 432	-	93 337	-
Inventories	193 710	-	160 152	-
Deferred tax asset ⁽¹⁾	-	-	11 459	-
<i>Liabilities associated with assets classified as held for sale</i>	(4 814)	-	-	-
Deferred tax liability	(4 814)	-	-	-
	381 328	-	264 948	-

(1) The company is in a net deferred tax liability position; however, the carrying value of the assets transferred to assets held for sale is less than the tax base.

During the year, Sappi Southern Africa announced the sale of its Enstra and Cape Kraft mills. During November 2015, these mills were sold resulting in a profit on disposal of R218 244 thousand. The proceeds of R569 982 thousand have since been received.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
14. Ordinary share capital and share premium				
<i>Authorised share capital</i>				
6 052 500 Ordinary shares of R2 each	12 105	12 105	12 105	12 105
19 520 Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate ^{(1) (2)}	-	-	-	-
221 107 Class "B" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate ^{(1) (2)}	-	-	2	2
831 Class "C" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate ^{(1) (2)}	-	-	-	-
123 321 Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate ^{(1) (2)}	-	-	1	1
	<u>12 105</u>	<u>12 105</u>	<u>12 108</u>	<u>12 108</u>
<i>Issued share capital</i>				
6 015 769 Ordinary shares of R2 each	12 030	12 030	12 030	12 030
19 520 Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate ^{(1) (2)}	-	-	-	-
219 760 (2014: 219 985) Class "B" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate ^{(1) (2)}	-	-	2	2
831 Class "C" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate ^{(1) (2)}	-	-	-	-
120 046 (2014: 121 014) Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate ^{(1) (2)}	-	-	1	1
Investment in 363 237 Sappi Property Company Proprietary Limited cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (Share Capital) ^{(1) (2)}	-	-	(3)	(3)
	<u>12 030</u>	<u>12 030</u>	<u>12 030</u>	<u>12 030</u>
Share premium	209 070	209 070	209 070	209 070
Share premium on new preference shares issued	-	-	223 178	223 178
Investment in 362 826 (2014: 363 237) Sappi Property Company Proprietary Limited cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (Share Premium) ⁽²⁾	-	-	(223 178)	(223 178)
	<u>221 100</u>	<u>221 100</u>	<u>221 100</u>	<u>221 100</u>

(1) The variable coupon rate is based on Sappi Southern Africa's long-term borrowing rate.

(2) The Class "A", "B", "C" and "D" cumulative non-convertible redeemable preference shares of R0.01 each were issued to Sappi Property Company Proprietary Limited for no cash consideration on 30 June 2008. Sappi Southern Africa acquired all the ordinary shares of Sappi Property Company Proprietary Limited on 11 June 2010, and it is therefore a wholly owned subsidiary. Sappi Southern Africa Limited holds 362 826 (2014: 363 237) cumulative non-convertible redeemable preference shares of R0.01 each in Sappi Property Company Proprietary Limited. A legal right to offset these preference shares exists.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

14. Ordinary share capital and share premium (continued)

Capital Risk Management

The capital structure of the group consists of:

- issued share capital, share premium and accumulated profits disclosed above and in the statement of changes in equity respectively;
- debt, which includes interest-bearing borrowings disclosed under note 17; and
- cash and cash equivalents.

The group's capital management objective is to achieve an optimal weighted average cost of capital while continuing to safeguard the group's ability to meet its liquidity requirements (including capital expenditure commitments), repay borrowings as they fall due and continue as a going concern.

The group monitors its gearing through a ratio of net debt (interest-bearing borrowings and overdraft 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 terms and conditions in respect of capital management.

During the 2015 and 2014 financial years, the group was in compliance with the financial covenants relating to the loans payable.

The group's strategy with regard to capital risk management remains unchanged from 2014.

The group monitors its capital and makes adjustments to it in light of changes to economic conditions. No changes were made to the objectives, policies or processes during the current period.

	Consolidated		Company	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
15. Other comprehensive income (loss)				
<i>Items that will not subsequently be reclassified to the consolidated and separate income statement:</i>				
Actuarial gains (losses) on post-employment benefit funds	13 919	(67 366)	13 919	(66 976)
Gross amount	19 333	(93 412)	19 333	(93 024)
Tax	(5 414)	26 046	(5 414)	26 048
<i>Items that may subsequently be reclassified to the consolidated and separate income statement:</i>				
Movement on available-for-sale financial asset	-	(14 154)	-	(14 154)
Gross amount	-	(14 154)	-	(14 154)
Hedging reserve	7 696	(20 614)	7 696	(20 614)
Movements during the year	(204 233)	(65 126)	(204 233)	(65 126)
Reclassified to profit or loss	213 475	34 257	213 475	34 257
Reclassified to property, plant and equipment	1 446	2 239	1 446	2 239
Tax	(2 992)	8 016	(2 992)	8 016
Other comprehensive income (loss) recorded directly in equity	21 615	(102 134)	21 615	(101 744)
Profit for the year	2 169 885	1 544 168	2 107 590	1 544 280
Total comprehensive income for the year	2 191 500	1 442 034	2 129 205	1 442 536
16. Other reserves				
Share-based payment reserve (refer note 26)	(13 612)	(6 601)	(15 358)	(8 349)
Share based payment reserve – BBBEE (refer note 26)	169 932	148 999	169 932	148 999
	156 320	142 398	154 574	140 650

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
17. Interest-bearing borrowings				
Total borrowings	2 398 124	3 146 858	2 398 124	3 146 858
Less: Current portion included in current liabilities	753 124	746 858	753 124	746 858
Total non-current interest-bearing borrowings	<u>1 645 000</u>	<u>2 400 000</u>	<u>1 645 000</u>	<u>2 400 000</u>

The repayment profile of the interest-bearing borrowings is as follows:

Payable in the year ended September:

2015		746 858		746 858
2016	753 124	755 000	753 124	755 000
2017	-	-	-	-
2018	500 000	500 000	500 000	500 000
2019	-	-	-	-
2020 (2014: Thereafter)	1 145 000	1 145 000	1 145 000	1 145 000
	<u>2 398 124</u>	<u>3 146 858</u>	<u>2 398 124</u>	<u>3 146 858</u>

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 at September 2015:

Loan	Principal amount outstanding	Balance sheet value	Expiry
Redeemable bonds (listed)			
Public bond ⁽¹⁾⁽²⁾	R 255 million	R 255 million	April 2016
Public bond ⁽¹⁾	R 500 million	R 500 million	June 2016
Public bond ⁽¹⁾⁽²⁾	R 500 million	R 500 million	April 2018
Public bond ⁽¹⁾⁽³⁾	R 745 million	R 745 million	April 2020
Unsecured bank term loans			
GroCapital Financial Services ⁽¹⁾⁽²⁾	R 400 million	R 400 million	May 2020

(1) Loans are Rand denominated, with fixed rates that are not subject to financial covenants.

(2) ZAR variable interest rates have been swapped into fixed ZAR interest rates. These swaps are subject to hedge accounting.

(3) The principal value of the bond corresponds to the amount of the facility; however, the balance sheet value has been adjusted by the discounts paid upfront and the fair value adjustments relating to hedge accounting.

Other restrictions

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

During the 2015 and 2014 financial years, the group was in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are regularly monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institution before such breach occurs.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

17. Interest-bearing borrowings (continued)

Unutilised facilities

The group monitors the 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.

Facility	Currency	Interest rate	2015 R'000	2014 R'000
Unutilised committed facilities				
Revolving credit facility ⁽¹⁾	ZAR	Variable (JIBAR)	1 000 000	1 000 000
Various other facilities	ZAR	Variable (JIBAR)	-	50 000
Unutilised uncommitted facilities				
Cash management overdraft facility / short-term banking facilities	ZAR	Variable (JIBAR)	<u>275 000</u>	<u>250 000</u>

(1) Syndicated loan with a consortium of banks with a revolving facility of R1 000 000 thousand. The R1 000 000 thousand 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 635 thousand (2014: R5 526 thousand) in respect of this facility.

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 28.

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
18. Other non-current liabilities				
Post-employment benefits other than pension liability (refer note 25)	252 585	276 653	252 585	276 653
Other	3 734	3 734	-	-
	<u>256 319</u>	<u>280 387</u>	<u>252 585</u>	<u>276 653</u>

19. Notes to the cash flow statements

19.1 Cash generated from operations

Profit after taxation per income statement	2 169 885	1 544 168	2 107 590	1 544 280
Adjustment for:				
Depreciation	679 590	665 322	663 927	652 181
Fellings	687 580	623 439	687 580	599 807
Impairment (impairment reversals) of fixed assets, loans and investments	(1 784)	17 931	(1 784)	6 541
Taxation charge	700 346	556 838	690 994	537 959
Net finance costs	30 254	219 211	28 818	219 264
Dividends received	-	-	(79 658)	(96 954)
Equity accounted profits	(110 366)	(85 354)	-	-
Loss on disposal of assets	4 808	11 696	3 266	27 174
Profit on assets held for sale	-	(66 607)	-	(128 861)
Plantation fire, drought and other damages	82 393	-	82 393	-
Fair value adjustment gains and growth on plantations	(1 276 862)	(894 419)	(1 276 862)	(749 085)
Other non-cash items	(31 667)	128 675	(19 216)	128 492
	<u>2 934 177</u>	<u>2 720 900</u>	<u>2 887 048</u>	<u>2 740 798</u>

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
19. Notes to the cash flow statements (continued)				
19.2 (Increase) decrease in working capital				
Decrease (increase) in inventories	16 530	(145 084)	21 825	(144 397)
(Increase) decrease in receivables	(239 064)	(60 333)	(241 412)	(59 249)
Increase in payables	112 867	173 405	104 402	185 974
	<u>(109 667)</u>	<u>(32 012)</u>	<u>(115 185)</u>	<u>(17 672)</u>
19.3 Finance costs paid				
Gross interest and other finance costs	(234 038)	(296 858)	(233 366)	(296 841)
Net foreign exchange gains	62 637	1 116	62 147	1 123
Net fair value losses (gains) on financial instruments	(395)	104	(395)	104
Non cash movements included in items above	(9 724)	16 423	(9 724)	12 440
	<u>(181 520)</u>	<u>(279 215)</u>	<u>(181 338)</u>	<u>(283 174)</u>
19.4 Taxation paid				
Amounts unpaid at beginning of year	(115 307)	(99 075)	(115 249)	(99 088)
Amounts per the income statement	(335 675)	(43 577)	(327 717)	(43 510)
Amounts per OCI	3 592	-	3 592	-
Amounts unpaid at end of year	243 101	115 307	239 013	115 249
	<u>(204 289)</u>	<u>(27 345)</u>	<u>(200 361)</u>	<u>(27 349)</u>
19.5 Proceeds on disposal of non-current assets				
Book value of non-current assets disposed of	11 605	40 909	10 179	55 602
Loss on disposal	(3 886)	(11 696)	(2 344)	(27 174)
	<u>7 719</u>	<u>29 213</u>	<u>7 835</u>	<u>28 428</u>
19.6 Proceeds on disposal of assets held for sale				
Current assets				
Inventories	-	3 353	-	-
Trade and other receivables	-	29 179	-	688
Amounts owing by group companies	-	-	-	905 672
Non-current assets				
Property, plant and equipment	-	51 099	-	15 515
Plantations	-	988 195	-	37 148
Other non-current assets	-	274	-	6 263
Current liabilities				
Trade and other payables	-	(23 921)	-	-
Provisions	-	(1 001)	-	-
Amounts owing to group companies	-	(9 375)	-	-
Overdraft	-	(8 186)	-	-
Non-current liabilities				
Other non-current liabilities	-	(2 077)	-	-
Net assets disposed of	<u>-</u>	<u>1 027 540</u>	<u>-</u>	<u>965 286</u>

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
19.6 Proceeds on disposal of assets held for sale (continued)				
Proceeds received	-	1 004 147	-	1 004 147
Proceeds outstanding	-	90 000	-	90 000
		1 094 147		1 094 147
Net assets disposed of	-	1 027 540	-	965 286
Profit on disposal of assets held for sale	-	66 607	-	128 861
19.7 Cash and cash equivalents				
Cash and deposits on call	3 364 014	2 051 291	3 363 943	2 051 082
20. Provisions				
Restructuring provisions	6 200	7 975	6 200	7 975
Restructuring provisions comprise severance, retrenchment and related costs. The movement in restructuring provisions can be reconciled as follows:				
			Consolidated	Company
Balance as at September 2013			31 254	31 254
Increase in provision			30 900	9 937
Utilised			(35 072)	(15 250)
Released during the year			(19 107)	(17 966)
Balance as at September 2014			7 975	7 975
Increase in provision			16 800	16 800
Utilised			(18 575)	(18 575)
Other movements			999	999
Released during the year			(999)	(999)
Balance as at September 2015			6 200	6 200

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
22. Commitments				
Capital commitments				
Contracted but not provided	435 911	138 514	435 835	135 006
Approved but not contracted	141 693	94 694	141 693	94 694
	<u>577 604</u>	<u>233 208</u>	<u>577 528</u>	<u>229 700</u>

Future forecasted cash flows of capital commitments:

Payable in the year ended September:

2015		233 208		229 700
2016	577 604		577 528	
	<u>577 604</u>	<u>233 208</u>	<u>577 528</u>	<u>229 700</u>

The capital expenditure will be funded by funds generated by the business, existing cash resources and borrowing facilities available to the group.

Lease commitments

Future minimum obligations under operating leases:

Payable in the year ended September:

2015		94 032		92 010
2016	87 825	48 154	87 488	48 154
2017	39 909	30 835	39 909	30 835
2018	16 320	9 588	16 320	9 588
2019	9 814	5 682	9 814	5 682
2020 (September 2014:				
Thereafter)	4 827	20 641	4 827	20 641
Thereafter	11 523		11 523	
	<u>170 218</u>	<u>208 932</u>	<u>169 881</u>	<u>206 910</u>

23. Contingent liabilities

Guarantees and suretyships	16 076	12 515	16 076	12 515
Other	10 000	10 000	10 000	10 000
	<u>26 076</u>	<u>22 515</u>	<u>26 076</u>	<u>22 515</u>

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 2015 financial year, the investigation remains in its early stages as the dispute is one of a procedural nature.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

24. Post-employment benefits – pensions

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 R121 467 thousand (2014: R112 500 thousand) 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 R126 673 thousand.

Defined benefit plans

The group operates a defined benefit pension and a defined benefit disability plans. 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, i.e. 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.

Investment management and strategic asset allocation

Plan fiduciaries are responsible for investment policies and strategies for the 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.

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 50% equity instruments;
- 35% debt instruments; and
- 15% multi-asset and other instruments.

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.

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 R88 591 thousand.

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
24. Post-employment benefits - pensions (continued)				
Pension cost recognised in income statement				
Current service cost	73 156	58 782	73 156	58 782
Past service cost	645	577	645	577
Fund administration cost	3 989	4 402	3 989	4 402
Interest cost	159 016	157 567	159 016	157 567
Interest income	(181 815)	(183 128)	(181 815)	(183 128)
	<u>54 991</u>	<u>38 200</u>	<u>54 991</u>	<u>38 200</u>
Pension cost recognised in income statement – classified as held for sale				
Current service cost	-	677	-	-
Interest cost	-	1 149	-	-
Gain on settlement	-	(1 164)	-	-
	<u>-</u>	<u>662</u>	<u>-</u>	<u>-</u>
Amounts recognised in the statement of comprehensive income				
Actuarial (losses) gains arising from membership experience	(10 054)	13 485	(10 054)	13 485
Actuarial losses arising from changes in financial assumptions	(31 416)	(201 062)	(31 416)	(201 062)
Actuarial gains arising on assets	73 549	151 009	73 549	151 009
Actuarial gains (losses)	<u>32 079</u>	<u>(36 568)</u>	<u>32 079</u>	<u>(36 568)</u>
Amounts recognised in the statement of comprehensive income – classified as held for sale				
Actuarial (losses) arising from changes in financial assumptions	<u>-</u>	<u>(388)</u>	<u>-</u>	<u>-</u>
Cumulative actuarial gains recognised in the statement of comprehensive income				
Actuarial gains	<u>42 176</u>	<u>10 097</u>	<u>52 549</u>	<u>20 470</u>
Change in present value of defined benefit obligation				
Defined benefit obligations at beginning of year	1 870 763	1 732 324	1 870 763	1 732 324
Current service cost	73 156	58 782	73 156	58 782
Past service cost	645	577	645	577
Interest cost	159 016	157 567	159 016	157 567
Plan participants' contributions	23 989	23 314	23 989	23 314
Actuarial losses (gains) arising from membership experience	10 054	(13 485)	10 054	(13 485)
Actuarial losses arising from changes in financial assumptions	31 416	201 062	31 416	201 062
Benefits paid	(217 209)	(289 378)	(217 209)	(289 378)
Defined benefit obligations at end of year	<u>1 951 830</u>	<u>1 870 763</u>	<u>1 951 830</u>	<u>1 870 763</u>
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	2 178 706	2 031 152	2 178 706	2 031 152
Interest income	181 815	183 128	181 815	183 128
Fund administration cost	(3 989)	(4 402)	(3 989)	(4 402)
Actuarial gains arising on assets	73 549	151 009	73 549	151 009
Employer contribution	82 499	83 881	82 499	83 881
Plan participants contribution	23 989	23 314	23 989	23 314
Benefits paid	(217 209)	(289 376)	(217 209)	(289 376)
Fair value of plan assets at end of year	<u>2 319 360</u>	<u>2 178 706</u>	<u>2 319 360</u>	<u>2 178 706</u>
Surplus	<u>367 530</u>	<u>307 943</u>	<u>367 530</u>	<u>307 943</u>
Recognised pension plan asset	<u>367 530</u>	<u>307 943</u>	<u>367 530</u>	<u>307 943</u>

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
24. Post-employment benefits - pensions (continued)				
The major categories of plan assets at fair value are presented as follows:				
Cash and cash equivalents	299 706	152 122	299 706	152 122
Investments quoted in active markets				
- Equity and high yield instruments				
• Domestic	1 064 368	1 142 446	1 064 368	1 142 446
• Foreign	359 548	312 247	359 548	312 247
- Investment grade debt instruments				
• Nominal	585 059	552 342	585 059	552 342
• Index linked	-	17 371	-	17 371
Unquoted investments				
- Other	10 679	2 178	10 679	2 178
	2 319 360	2 178 706	2 319 360	2 178 706

Plan assets include investments in the group's own quoted shares of R9 144 thousand (2014: R9 508 thousand). These are held by an appointed investment manager as part of its 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 (weighted average per region) are shown below:

	%	%	%	%
Discount rate	8.6	8.6	8.6	8.6
Future salary increases	7.4	7.3	7.4	7.3
Cost of living adjustment for pensions in payment	5.1	5.0	5.1	5.0
Average life expectancy in years				
- For current beneficiaries (male of 60 years)	19.2	19.2	19.2	19.2
- Future retiree (male of 60 years in 20 years' time)	20.1	20.1	20.1	20.1

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 the 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, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by R317 067 thousand (increase by R405 849 thousand).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by R351 570 thousand (decrease by R286 948 thousand).
- If the expected cost of living adjustment rate is 100 basis points higher (lower), the defined benefit obligation would increase by R237 285 thousand (decrease by R201 566 thousand).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by R44 770 thousand (decrease by R44 230 thousand).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the sensitivity analysis above, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation 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 18 years.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

25. Post-employment benefits - other than pensions

The company sponsors a defined post-retirement plan that provides certain health care and life insurance benefits to eligible retired employees. Employees are generally eligible for benefits upon retirement and completion of a specified number of years' service. 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 R2 251 thousand.

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
Cost recognised in income statement				
Current service cost	8 957	8 535	8 957	8 535
Interest cost	36 159	52 610	36 159	52 610
Gain on settlement	(30 080)	-	(30 080)	-
Interest income	(15 894)	(8 907)	(15 894)	(8 907)
(Income) cost charged to cost of sales and selling, general and administrative expenses	(858)	52 238	(858)	52 238
Amounts recognised in the statement of comprehensive income				
Actuarial gains arising from changes in demographic assumptions	-	1 753	-	1 753
Actuarial losses arising from membership experience	(3 058)	(35 360)	(3 058)	(35 360)
Actuarial losses arising from changes in financial assumptions	(1 260)	(22 376)	(1 260)	(22 376)
Actuarial losses arising on assets	(8 428)	(473)	(8 428)	(473)
Actuarial losses	(12 746)	(56 456)	(12 746)	(56 456)
Cumulative actuarial losses recognised in the statement of comprehensive income				
Actuarial losses	(308 467)	(295 721)	(308 467)	(295 721)
Change in present value of defined benefit obligation				
Defined benefit obligations at beginning of year	686 501	599 746	686 501	599 746
Current service cost	8 957	8 535	8 957	8 535
Interest cost	36 159	52 610	36 159	52 610
Actuarial gains arising from changes in demographic assumptions	-	(1 753)	-	(1 753)
Actuarial losses arising from membership experience	3 058	35 360	3 058	35 360
Actuarial losses arising from changes in financial assumptions	1 260	22 376	1 260	22 376
Benefits paid	(17 231)	(30 373)	(17 231)	(30 373)
Non-routine settlement	(320 797)	-	(320 797)	-
Defined benefit obligations at end of year	397 907	686 501	397 907	686 501
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	409 848	-	409 848	-
Interest income	15 894	8 907	15 894	8 907
Actuarial losses arising on assets	(8 428)	(473)	(8 428)	(473)
Employer contribution ⁽¹⁾	35 956	431 788	35 956	431 788
Benefits paid	(17 231)	(30 374)	(17 231)	(30 374)
Non-routine settlement	(290 717)	-	(290 717)	-
Fair value of plan assets at end of year	145 322	409 848	145 322	409 848

(1) The substantial employer contribution in the prior year is due to the purchase of a qualifying plan asset using certain non-current assets previously invested in a cell captive in South Africa.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
25. Post-employment benefits - other than pensions (continued)				
Plan liability is presented on the balance sheet as follows:				
Post-employment benefits other than pension liability (refer note 18)	<u>252 585</u>	<u>276 653</u>	<u>252 585</u>	<u>276 653</u>
The major categories of plan assets at fair value are presented as follows:				
Cash and cash equivalents	11 756	19 139	11 756	19 139
- Investment grade debt instruments				
• Nominal	-	68 700	-	68 700
Unquoted investments				
- Other	133 566	322 009	133 566	322 009
	<u>145 322</u>	<u>409 848</u>	<u>145 322</u>	<u>409 848</u>

Plan assets do not include any investments in the group's own quoted shares.

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 (weighted average per region) are shown below:

	%	%	%	%
Discount rate	9.3	9.0	9.3	9.0
Healthcare cost trend rate	8.3	8.0	8.3	7.8
Average life expectancy in years				
- For current beneficiaries (male of 60 years)	19.4	19.4	19.4	19.4

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

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by R51 273 thousand (increase by R63 934 thousand)
- If the expected health care cost trend rate is 100 basis points higher (lower), the defined benefit obligation would increase by R64 848 thousand (decrease by R52 816 thousand)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by R14 176 thousand (decrease by R13 999 thousand)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the sensitivity analysis above, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in 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 obligation at the end of the reporting period is 15.8 years

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

26. Share-based payment

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

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

The Sappi Limited Share Incentive Trust ('Scheme')

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

Under the rules of the Scheme:

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

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

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

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

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

The Sappi Limited Performance Share Incentive Trust ('Plan')

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

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

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

The Plan rules also provide that if:

- the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself; or
- the persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action, the effect of which is to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action; then the company is obliged to notify every participant thereof that such participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the performance criteria been achieved.

Rights offer

Following the December 2008 rights offer and in accordance with the provisions of the Scheme and the Plan, adjustments were made to the rights of participants so that they were neither better nor worse off than prior to the rights offer. This resulted in additional offers being made to participants in respect of all outstanding offers at the time of the rights offer. As in the case of shareholders that exercised their rights, the participants of the Plan will be required to pay the rights offer price of R20.27 per share should the shares vest. Similarly, the participants of the Scheme may only exercise their additional options, awarded as a result of the rights offer, in conjunction with exercising their pre-rights offer options and upon payment of the rights offer price of R20.27 per share.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

26. Share-based payment (continued)

Share options and performance shares activity was as follows during the financial years ended September 2015 and 2014:

	Performance shares ⁽¹⁾	Share options	Weighted average exercise price (R)	Total
Outstanding at September 2013	1 994 040	3 143 738	33.56	5 137 778
Offered	1 039 300	-	-	1 039 300
Paid for/vested	(171 893)	(451 440)	31.71	(623 333)
Returned, lapsed, forfeited and transfers	(445 760)	(139 262)	34.03	(585 022)
Outstanding at September 2014	2 415 687	2 553 036	33.86	4 968 723
Offered	842 600	-	-	842 600
Paid for/vested	(137 581)	(431 118)	31.53	(568 699)
Returned, lapsed, forfeited and transfers	(143 345)	29 189	43.57	(114 156)
Outstanding at September 2015	2 977 361	2 151 107	33.94	5 128 468
Exercisable at September 2014	-	2 002 271	35.91	2 002 271
Exercisable at September 2015	-	1 957 656	35.04	1 957 656

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

The following 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:

	<u>Issue 40</u>	<u>Issue 40</u>
Date of grant	04 December 2014	04 December 2014
Type of award	Performance	Performance
Share Price at grant date	R39.19	R39.19
Vesting period	4 years	4 years
Vesting conditions	Market related - relative to peers	Cash flow return on net assets relative to peers
Life of options	n/a	n/a
Market-related vesting conditions	Yes	No
Percentage expected to vest	40%	100%
Number of shares offered	421 300	421 300
Volatility	34%	n/a
Risk free discount rate	1.5% (US yield)	n/a
Expected dividend yield	2.8%	2.8%
Expected percentage of issuance	95%	95%
Model used to value	Monte-carlo	Market price
Fair value of option	R23.28	R29.39

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

26. Share-based payment (continued)

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 BEE 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 to the section 'The BBBEE transaction' in this note); 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.

These values resulted in the issue of the following number of ordinary shares to the Strategic Partners and the ESOP Trust based on Sappi's 30 day VWAP as at Friday, 5 February 2010 (being R33.50):

	Ordinary Shares allocation	Value of shares issued R'000
Equity		
Lereko Investments Proprietary Limited	1 971 693	66 052
Malibongwe Womens Trust	432 842	14 500
AMB Capital Limited	643 221	21 548
Strategic Partners	3 047 756	102 100
Employees (through the ESOP Trust)	1 280 597	42 900
Total	4 328 353	145 000

The "A" ordinary shares allocated to the BBBEE trusts are as follows:

	Number of "A" Ordinary Shares	Value of shares issued R'000
Equity		
ESOP Trust	13 889 195	465 288
MSOP Trust	3 642 969	122 039
Sappi Foundation Trust	2 429 312	81 382
Total	19 961 476	668 709

The group recognised a share-based payment expense of R20 932 thousand (2014: R25 383 thousand) that related to the "A" Ordinary shares that were awarded.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

26. Share-based payment (continued)

The following assumptions were utilised to determine the fair value of the "A" Ordinary shares granted:

Base price for hurdle rate price	R32.50
Share price hurdle rate	9.1%
Hurdle rate price	R75.34
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 and ESOP is illustrated below:

Completed months of service after effective date entitlements (%)	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

	Consolidated		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
27. Derivative financial instruments				
Non-current assets				
Interest rate swap – unsecured R255 million bond due April 2016	-	5 574	-	5 574
Interest rate swap – unsecured R500 million bond due April 2018	15 602	20 885	15 602	20 885
Interest rate swap – unsecured R400 million loan due April 2020	15 310	20 044	15 310	20 044
	<u>30 912</u>	<u>46 503</u>	<u>30 912</u>	<u>46 503</u>
Current assets				
Interest rate swap – unsecured R255 million bond due April 2016	1 311	-	1 311	-
Interest rate swap – unsecured R750 million bond due April 2015	-	1 669	-	1 669
Forward exchange contracts - various	12			
	<u>1 323</u>	<u>1 669</u>	<u>1 311</u>	<u>1 669</u>
Current liabilities				
Forward exchange contracts - various	5 175	30 697	5 175	30 697
	<u>5 175</u>	<u>30 697</u>	<u>5 175</u>	<u>30 697</u>

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

28. 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, and
 - Currency risk
- b) Liquidity risk, and
- c) Credit risk

Sappi's Group Treasury is comprised of two components: Sappi International SA, located in Brussels, which manages the group's non-South African treasury activities and, for local regulatory reasons, the operations based in Johannesburg which manage the group's Southern African treasury activities. These two operations collaborate closely and are primarily responsible for managing the group's interest rate, foreign currency, liquidity and credit risk (in so far as it relates to deposits of cash, cash equivalents and financial investments).

Credit risk, in so far as it relates to trade receivables, is primarily managed regionally but is co-ordinated on a group basis, while commodity price risk is managed regionally.

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

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 the group's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2015 and thereafter are based on the yield curve as published by Bloomberg on 28 September 2015. The information is presented in South African Rands, which is the group's reporting currency.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

28. Financial instruments (continued)

	Expected maturity date						2015		2014	
	2016 R'000	2017 R'000	2018 R'000	2019 R'000	2020 R'000	2021+ R'000	Carrying value R'000	Fair Value R'000	Carrying Value R'000	Fair Value R'000
Rand										
Fixed rate ⁽¹⁾	753 124	-	500 000	-	1 145 000	-	2 398 124	2 484 847	3 146 858	3 279 624
Average interest rate (%)	8.7	-	7.5	-	8.0	-	8.1		8.0	-
Fixed and variable	753 124	-	500 000	-	1 145 000	-	2 398 124	2 484 847	3 146 858	3 279 624
Current portion							753 124	780 409	746 858	764 771
Long-term portion							1 645 000	1 704 438	2 400 000	2 514 853
Total Interest-bearing borrowings (refer note 17)							2 398 124	2 484 847	3 146 858	3 279 624

(1) ZAR floating rates of R1 155 million debt have been swapped into ZAR fixed rates. These swaps are subjected 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 above mentioned fair values include the groups own credit risk. Please refer to the sensitivity analysis on interest rate risk in this note for additional information regarding the group's rating.

At September 2015, 100% of the borrowings were at fixed rates of interest.

A detailed analysis of the group's borrowings is presented in note 17.

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.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

28. Financial instruments (continued)

Cash flow hedges

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

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

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

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

Interest rate swaps floating to fixed

In April and May 2013, the group 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 to be highly effective.

At September 2015, the hedges were highly effective and the swaps had in total a net positive fair value of R32 202 (post-tax) thousand which was deferred to equity.

Summary of outstanding cash flow hedges

Interest Rate		Maturity date	Nominal Value	Total fair value ⁽¹⁾ R'000	Recorded In OCI R'000	Profit or loss R'000
September 2015						
IRS	ZAR variable (JIBAR) to ZAR 6.74%	April 2016	R255 million	1 311	1 311	-
IRS	ZAR variable (JIBAR) to ZAR 7.46%	April 2018	R500 million	15 602	15 587	15
IRS	ZAR variable (JIBAR) to ZAR 7.85%	May 2018	R400 million	15 310	15 304	6
				32 223	32 202	21
September 2014						
IRS	ZAR variable (JIBAR) to ZAR 7.78%	April 2015	R750 million	1 669	1 664	5
IRS	ZAR variable (JIBAR) to ZAR 6.74%	April 2016	R255 million	5 574	5 569	5
IRS	ZAR variable (JIBAR) to ZAR 7.46%	April 2018	R500 million	20 885	20 862	23
IRS	ZAR variable (JIBAR) to ZAR 7.85%	May 2018	R400 million	20 044	19 974	70
				48 172	48 069	103

(1) 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.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

28. Financial instruments (continued)

Sensitivity analyses

The following are sensitivity analyses, in South African Rand, of the impact on profit or loss or OCI arising from:

IRS converting floating ZAR rates into fixed rates

For the period outstanding, a shift of 50 bps on the JIBAR curve would have an impact on the fair value of the instrument of R10 million.

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

To the extent of any drawdown 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 R100 million, a one notch downgrade will negatively impact profit before tax by R400 thousand and a one notch upgrade will have a R300 thousand positive impact. The revolving credit facility was undrawn at financial year-end.

Currency risk

The group is exposed to economic and transaction currency risks. 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.

- Economic exposure consists of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders.
- Transaction exposure arises due to 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 2015 and 2014 financial years discloses financial instruments as determined by IAS 39 *Financial Instruments: Recognition and Measurement*, classified by underlying currency, and does not indicate the company's foreign currency exchange exposure.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

28. Financial instruments (continued)

Currency risk analysis (continued)

September 2015	Total R'000	Total in Scope R'000	USD R'000	EUR R'000	ZAR R'000	GBP R'000	Other R'000
Classes of financial instruments							
Non-current assets							
Other non-current assets	433 775	-	-	-	-	-	-
Derivative financial instruments	30 912	30 912	-	-	30 912	-	-
Current assets							
Trade and other receivables	308 787	233 601	11 381	327	221 893	-	-
Derivative financial instruments	1 323	1 323	525	-	798	-	-
Amounts owing by group companies	1 827 850	1 827 850	-	-	1 827 850	-	-
Assets held for sale	386 142	-	-	-	-	-	-
Cash and cash equivalents	3 364 014	3 364 014	13 330	1 040	3 349 176	465	3
		5 457 700	25 236	1 367	5 430 629	465	3
Non-current liabilities							
Interest-bearing borrowings	1 645 000	1 645 000	-	-	1 645 000	-	-
Current liabilities							
Interest-bearing borrowings	753 124	753 124	-	-	753 124	-	-
Trade and other payables	2 886 472	2 453 390	95 838	38 545	2 144 529	859	173 619
Derivative financial instruments	5 175	5 175	314 832	-	(309 657)	-	-
Amounts owing to group companies	1 570 320	1 570 320	-	-	1 570 320	-	-
Liabilities held for sale	4 814	-	-	-	-	-	-
		6 427 009	410 670	38 545	5 803 316	859	173 619
Foreign exchange gap		(969 309)	(385 434)	(37 178)	(372 687)	(394)	(173 616)

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

28. Financial instruments (continued)

September 2014	Total R'000	Total in Scope R'000	USD R'000	EUR R'000	ZAR R'000	GBP R'000	Other R'000
Classes of financial instruments							
Non-current assets							
Other non-current assets	384 821	69 957	-	-	69 957	-	-
Long term derivative financial instruments	46 503	46 503	-	-	46 503	-	-
Current assets							
Trade and other receivables	377 542	290 194	-	-	290 194	-	-
Current derivative financial instruments	1 669	1 669	-	-	1 669	-	-
Amounts owing by group companies	1 403 598	1 403 598	-	-	1 403 598	-	-
Cash and cash equivalents	2 051 291	2 051 291	34 542	822	2 015 518	404	5
		3 863 212	34 542	822	3 827 439	404	5
Non-current liabilities							
Interest-bearing borrowings	2 400 000	2 400 000	-	-	2 400 000	-	-
Current liabilities							
Interest-bearing borrowings	746 858	746 858	-	-	746 858	-	-
Trade and other payables	2 554 171	2 168 849	89 008	37 835	1 909 579	(607)	133 034
Current derivative financial instruments	30 697	30 697	915 003	-	(884 306)	-	-
Amounts owing to group companies	1 443 989	1 443 989	-	-	1 443 989	-	-
		6 790 393	1 004 011	37 835	5 616 120	(607)	133 034
Foreign exchange gap		(2 927 181)	(969 469)	(37 013)	(1 788 681)	1 011	(133 029)

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

28. Financial instruments (continued)

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

		2015		2014	
Foreign currency		Contract amount (Notional amount) R'000	Fair value (unfavourable) favourable R'000	Contract amount R'000	Fair value (unfavourable) favourable R'000
Bought:	US Dollar	83 571	2 489	38 984	1 411
	Euro	70 544	5 120	-	-
	GBP	309	1	-	-
	Botswana Pula	116	-	-	-
Sold:	US Dollar	(468 849)	(12 773)	(953 987)	(32 105)
		(314 309)	(5 163)	(915 003)	(30 694)

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2015 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 October 2015.

As at September 2015, there was an open exposure of US Dollar 5 060 thousand that has since been hedged.

Sensitivity analysis

Base currency	Exposure R'000	+10% (loss) gain R'000	- 10% gain (loss) R'000
EUR	(66 680)	(6 062)	7 409
USD	(3 609)	(328)	401
GBP	335	30	(37)
SEK	(320)	(29)	36
CHF	(141)	(13)	16
Total	(70 415)	(6 402)	7 825

Based on the exposure as at the end of the 2015 year, 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 402 thousand (increase of 10%) or a gain of R7 825 thousand (decrease of 10%).

During 2015, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US\$441.5 million which were used as an overlay hedge of export sales from Southern Africa. The total impact on profit or loss amounted to a loss of R135.5 million (including positive forward points of R77.9 million).

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

28. Financial instruments (continued)

Cash flow hedges

Saiccor Mill export sales

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

Sappi, therefore, enters into cash flow hedges with the objective to eliminate this economic foreign exchange rate exposure by entering into non-deliverable forward exchange contracts which were designated as hedging instruments.

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

During the 2015 financial year, the hedge was highly effective and a net realised loss of R213 475 thousand 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 negative amount (after tax) of R9 236 thousand was deferred in equity.

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 company'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 17.

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

Liquidity risk management

The following tables for the 2015 and 2014 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.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

28. Financial instruments (continued)

September 2015	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows					Total
	R'000	R'000	0-6 months R'000	6-12 months R'000	1-2 years R'000	2-5 years R'000	> 5 years R'000	R'000
Non-current assets								
Derivative financial instruments	30 912	30 912	3 013	3 710	14 406	15 978	-	37 107
Current assets								
Trade and other receivables	233 601	233 601	233 601	-	-	-	-	233 601
Derivative financial instruments	1 323	1 323	984	690	-	-	-	1 674
Amounts owing by group companies	1 827 850	1 827 850	1 827 850	-	-	-	-	1 827 850
Cash and cash equivalents	3 364 014	3 364 014	3 364 014	-	-	-	-	3 364 014
			5 429 462	4 400	14 406	15 978	-	5 464 246
Non-current liabilities								
Interest-bearing borrowings	1 645 000	1 704 438	21 638	67 989	143 051	1 985 965	102 021	2 320 664
Current liabilities								
Interest-bearing borrowings	753 124	780 409	18 309	784 050	-	-	-	802 359
Trade and other payables	2 453 390	2 453 390	2 453 390	-	-	-	-	2 453 390
Derivative financial instruments	5 175	5 175	5 175	-	-	-	-	5 175
Amounts owing to group companies	1 570 320	1 570 320	1 570 320	-	-	-	-	1 570 320
			4 068 832	852 039	143 051	1 985 965	102 021	7 151 908
Liquidity gap			1 360 630	(847 639)	(128 645)	(1 969 987)	(102 021)	(1 687 662)

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

28. Financial instruments (continued)

September 2014	Total financial assets and liabilities R'000	Fair value of financial instruments R'000	0-6 months R'000	6-12 months R'000	Undiscounted cash flows			Total R'000
					1-2 years R'000	2-5 years R'000	> 5 years R'000	
Non-current assets								
Other non-current assets	69 957	69 957	15 985	3 500	5 275	26 306	18 891	69 957
Derivative financial instruments	46 503	46 503	2 253	8 570	13 563	31 001	-	55 387
Current assets								
Trade and other receivables	290 194	290 194	290 194	-	-	-	-	290 194
Derivative financial instruments	1 669	1 669	(750)	1 933	-	-	-	1 183
Amounts owing by group companies	1 403 598	1 403 598	1 403 598	-	-	-	-	1 403 598
Cash and cash equivalents	2 051 291	2 051 291	2 051 291	-	-	-	-	2 051 291
			3 762 571	14 003	18 838	57 307	18 891	3 871 610
Non-current liabilities								
Interest-bearing borrowings	2 400 000	2 514 853	37 358	105 346	958 810	881 209	1 248 648	3 231 371
Current liabilities								
Interest-bearing borrowings	746 858	764 171	17 483	766 321	-	-	-	783 804
Trade and other payables	2 168 849	2 168 849	2 168 849	-	-	-	-	2 168 849
Derivative financial instruments	30 697	30 697	30 697	-	-	-	-	30 697
Amounts owing to group companies	1 443 989	1 443 989	1 443 989	-	-	-	-	1 443 989
			3 698 376	871 667	958 810	881 209	1 248 648	7 658 710
Liquidity gap			64 195	(857 664)	(939 972)	(823 902)	(1 229 757)	(3 787 100)

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

28. Financial instruments (continued)

Derivative financial instruments

The following tables indicate the different types of derivative financial instruments for 2015 and 2014 financial years that are included within the various categories on the face of the balance sheet. The reported maturity analysis is calculated based on an undiscounted basis.

Classes of financial instruments	Total	Cash Flow Hedge	No hedge accounting	< 6 M	> 6 M < 1 Y	Maturity analysis		
						> 1 Y < 2 Y	> 2 Y < 5 Y	> 5 Y
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Fair value of derivatives by risk factor:								
September 2015								
Assets								
FX risk – Long term Interest rate swap	30 912	30 912	-	3 013	3 710	14 406	15 978	-
paying leg	(179 931)	(179 931)	-	(34 751)	(34 256)	(68 598)	(59 299)	-
receiving leg	210 843	210 843	-	37 764	37 966	83 004	75 277	-
FX risk – Short term Interest rate swap	1 311	1 311	-	996	690	-	-	-
paying leg	(13 104)	(13 104)	-	(8 759)	(4 285)	-	-	-
receiving leg	14 415	14 415	-	9 755	4 975	-	-	-
FX risk – Short term FEC	12	-	12	12	-	-	-	-
paying leg	(513)	-	(513)	(513)	-	-	-	-
receiving leg	525	-	525	525	-	-	-	-
Liabilities								
FX risk – Short term FEC	5 175	-	5 175	7 927	(2 752)	-	-	-
paying leg	(309 657)	-	(309 657)	(344 708)	35 050	-	-	-
receiving leg	314 832	-	314 832	352 635	(37 802)	-	-	-
September 2014								
Assets								
FX risk – Long term Interest rate swap	46 503	46 503	-	2 253	8 570	13 563	13 821	17 180
paying leg	(261 717)	(261 717)	-	(43 124)	(42 677)	(82 050)	(68 598)	(59 298)
receiving leg	308 220	308 220	-	45 377	51 247	95 613	82 419	76 478
FX risk – Short term Interest rate swap	1 669	1 669	-	(750)	1 933	-	-	-
paying leg	(42 321)	(42 321)	-	(29 415)	(14 388)	-	-	-
receiving leg	43 990	43 990	-	28 665	16 321	-	-	-
Liabilities								
FX risk – Short term FEC	30 697	-	30 697	30 697	-	-	-	-
paying leg	(884 306)	-	(884 306)	(884 306)	-	-	-	-
receiving leg	915 003	-	915 003	915 003	-	-	-	-

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

28. Financial instruments (continued)

Fair values

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

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

The group's financial instruments that are measured at fair value on a recurring basis consist of derivative financial instruments and available-for-sale financial assets.

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

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

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

28. Financial instruments (continued)

September 2015

Classes of financial instruments	As determined by IAS 39			Categories according to IAS 39				Fair value
	Total balance R'000	Total out of scope R'000	Total in scope R'000	Fair value through profit and loss R'000	Loans and receivables R'000	Held to maturity R'000	Available for sale R'000	
Non-current assets								
Other non-current assets	433 775	433 775	-	-	-	-	-	-
Derivative financial instruments	30 912	-	30 912	30 912	-	-	-	30 912
	464 687	433 775	30 912	30 912	-	-	-	30 912
Current assets								
Trade and other receivables	308 787	75 186	233 601	-	233 601	-	-	233 601
Derivative financial instruments	1 323	-	1 323	1 323	-	-	-	1 323
Amounts owing by group companies	1 827 850	-	1 827 850	-	1 827 850	-	-	1 827 450
Cash (and cash equivalents)	3 364 014	-	3 364 014	-	3 364 014	-	-	3 364 014
Assets held for sale	386 142	386 142	-	-	-	-	-	-
	5 888 116	461 328	5 426 788	1 323	5 425 465	-	-	5 426 788

Classes of financial instruments	As determined by IAS 39			Categories according to IAS 39		Fair value
	Total balance R'000	Total out of scope R'000	Total in scope R'000	Fair value through profit or loss R'000	Other financial liabilities R'000	
Non-current liabilities						
Interest bearing borrowings	1 645 000	-	1 645 000	-	1 645 000	1 704 438
Other non-current liabilities	256 319	256 319	-	-	-	-
	1 901 319	256 319	1 645 000	-	1 645 000	1 704 438
Current liabilities						
Interest bearing borrowings	753 124	-	753 124	-	753 124	780 409
Derivative financial instruments	5 175	-	5 175	5 175	-	5 175
Trade and other payables	2 886 472	433 082	2 453 390	-	2 453 390	2 453 390
Amounts owing to group companies	1 570 320	-	1 570 320	-	1 570 320	1 570 320
Liabilities associated with assets held for sale	4 814	4 814	-	-	-	-
	5 219 905	437 896	4 782 009	5 175	4 776 834	4 809 294

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

28. Financial instruments (continued)

September 2014

Classes of financial instruments	As determined by IAS 39			Categories according to IAS 39				Fair value R'000
	Total balance R'000	Total out of scope R'000	Total in scope R'000	Fair value through profit and loss R'000	Loans and receivables R'000	Held to maturity R'000	Available for sale R'000	
Non-current assets								
Other non-current assets	384 821	314 864	69 957	15 000	54 957	-	-	69 957
Derivative financial instruments	46 503	-	46 503	46 503	-	-	-	46 503
	431 324	314 864	116 460	61 503	54 957	-	-	116 460
Current assets								
Trade and other receivables	377 542	87 348	290 194	-	290 194	-	-	290 209
Derivative financial instruments	1 669	-	1 669	1 669	-	-	-	1 669
Amounts owing by group companies	1 403 598	-	1 403 598	-	1 403 598	-	-	1 403 598
Cash (and cash equivalents)	2 051 291	-	2 051 291	-	2 051 291	-	-	2 051 291
	3 834 100	87 348	3 746 752	1 669	3 745 083	-	-	3 746 767

Classes of financial instruments	As determined by IAS 39			Categories according to IAS 39		Fair value R'000
	Total balance R'000	Total out of scope R'000	Total in scope R'000	Fair value through profit or loss R'000	Other financial liabilities R'000	
Non-current liabilities						
Interest bearing borrowings	2 400 000	-	2 400 000	-	2 400 000	2 514 853
Current liabilities						
Interest bearing borrowings	746 858	-	746 858	-	746 858	764 771
Derivative financial instruments	30 697	-	30 697	30 697	-	30 697
Trade and other payables	2 554 171	385 322	2 168 849	-	2 168 849	2 168 849
Amounts owing to group companies	1 443 989	-	1 443 989	-	1 443 989	1 443 989
	4 775 715	385 322	4 390 393	30 697	4 359 696	4 408 306

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

28. Financial instruments (continued)

	2015				2014			
	Total fair value R'000	Level 1 R'000	Fair value hierarchy Level 2 R'000	Level 3 R'000	Total fair value R'000	Level 1 R'000	Fair value hierarchy Level 2 R'000	Level 3 R'000
Non-current assets								
Plantations	5 325 483	-	-	5 325 483	4 831 586	-	-	4 831 586
Other non-current assets	-	-	-	-	69 957	-	-	69 957
Derivative financial instruments	30 912	-	30 912	-	46 503	-	46 503	-
Current assets								
Derivative financial instruments	1 323	-	1 323	-	1 669	-	1 669	-
	5 357 718	-	32 235	5 325 483	4 949 715	-	48 172	4 901 543
Non-current liabilities								
Derivative financial instruments	-	-	-	-	-	-	-	-
Current liabilities								
Derivative financial instruments	5 175	-	5 175	-	30 697	-	30 697	-
	5 175	-	5 175	-	30 697	-	30 697	-

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 company 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 co-ordinated on a Sappi group basis.

The group's objective in relation to credit risk is to limit the exposure to credit risk through specific group-wide 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.

On average 97% of our trade receivables, including those off-balance sheet, are credit insured.

Quantitative disclosures on credit risk are included in note 12.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

29. Related party transactions

	Income and sales to related party		Purchases and charges from related party		Amounts owing by group companies		Amounts owing to group companies	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000	2015 R'000	2014 R'000	2015 R'000	2014 R'000
Canonbrae Development Company Proprietary Limited*	-	-	-	-	2 310	2 310	-	-
Lereko Property Company Proprietary Limited*	-	-	-	-	85	130	-	-
Micawber 279(RF) Proprietary Limited*	-	-	-	-	17 433	19 404	-	-
Sappi Alfeld GMBH**	-	-	-	-	211	25	-	-
Sappi Ehingen GMBH**	-	-	-	-	-	-	-	3
Sappi Saiccor Proprietary Limited*	-	-	-	-	-	-	10	10
Sappi Europe Limited**	-	-	132 600	43 352	-	-	69 188	39 069
Sappi Export Services Proprietary Limited**	-	-	-	640 196	-	-	10 904	69 622
Sappi International SA**	-	-	-	-	1 891	1 059	-	-
Sappi Limited***	-	-	-	-	-	-	1 362 844	1 333 873
Sappi Papier Holding GmbH	9 653 349	6 566 089	27 376	29 643	1 816 385	1 012 397	-	-
Sappi Specval Coatings Proprietary Limited*	-	-	-	-	44 930	76 903	-	-
Sappi Trading Hong Kong Limited**	-	-	-	-	160	12	-	-
Sappi Share Facilitation Company Proprietary Limited	-	-	-	-	-	-	621	-
Sappi Share Incentive Scheme**	-	-	-	-	-	-	55 762	797
Sappi Performance Share Incentive Plan**	-	-	-	-	-	-	70 934	757
Sappi Deutschland GmbH**	182	2 155 169	-	-	-	384 529	-	-
Sappisure Försäkrings AB***^	176 899	81 182	65 722	71 465	-	-	-	-
Sappi Holdings GMBH**	-	-	-	-	9 082	4 948	-	-
S.D. Warren Company**	-	-	-	-	-	625	70	-
Waterton Timber Company Proprietary Limited	-	-	-	-	-	-	312	312
	9 830 430	8 802 440	225 698	784 656	1 892 487	1 502 342	1 570 645	1 444 443

* Subsidiary

** Fellow subsidiary

*** Holding company

^ Not included in amounts owing by group companies is prepaid insurance of R19 818.

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

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

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

29. Related party transactions (continued)

	Group		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
Dividends received from related parties				
Umkomaas Lignin Proprietary Limited	-	-	79 656	96 954
	<u>-</u>	<u>-</u>	<u>79 656</u>	<u>96 954</u>

Shareholders

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

Key management personnel

Details relating to key management personnel, including emoluments and participation in The Sappi Limited Share Schemes, are disclosed in note 30.

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 33.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

30. Compensation of key management personnel

The remuneration of the directors at senior executive level during the year was as follows:

	2015				Total R'000
	Salary R'000	Prior year bonuses and performance related payments R'000	Sums paid by way of expense allowance R'000	Contributions paid under pension and medical aid schemes R'000	
Director 1	2 115	1 180	-	440	3 735
Director 2	3 772	2 978	84	1 052	7 886
Director 3	2 081	1 011	4	744	3 840
Director 4	1 769	987	4	665	3 425
Director 5	1 667	925	4	621	3 217
Director 6	2 097	1 170	-	460	3 727
Director 7	1 534	714	-	577	2 825
Director 8	3 733	1 937	102	-	5 772
Director 9	3 631	828	193	1 071	5 723
Director 10	1 076	2 363	997	313	4 749
Director 11	5 181	3 846	147	1 535	10 709
Director 12	1 841	1 281	59	596	3 777
Director 13	2 458	2 148	76	1 116	5 798
Director 14	1 247	-	34	399	1 680
Director 15	-	-	-	-	-
Director 16	-	-	-	-	-
	34 202	21 368	1 704	9 589	66 863

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

The compensation of key management personnel relates to services provided as director of Sappi Southern Africa.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

30. Compensation of key management personnel (continued)

	2014				
	Salary	Prior year bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
	R'000	R'000	R'000	R'000	R'000
Director 1	1 947	734	-	406	3 087
Director 2	3 521	2 417	-	678	6 616
Director 3	1 956	691	-	699	3 346
Director 4	1 663	656	4	614	2 937
Director 5	1 574	809	4	586	2 973
Director 6	1 971	787	431	-	3 189
Director 7	1 352	245	-	504	2 101
Director 8	4 796	-	-	487	5 283
Director 9	3 519	-	622	682	4 823
Director 10	3 231	-	4	918	4 153
Director 11	3 963	-	-	1 154	5 117
Director 12	1 727	-	-	545	2 272
Director 13	2 392	799	4	1 067	4 262
Director 14	-	-	-	-	-
Director 15	487	804	1	173	1 465
Director 16*	55 626	-	-	1 597	57 223
	89 725	7 942	1 070	10 110	108 847

*Includes a lump sum amount of R50 million as the director retired due to ill health.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

The compensation of key management personnel relates to services provided as director of Sappi Southern Africa.

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

30. Compensation of key management personnel (continued)

Changes in directors share options, allocations and performance shares before fiscal year-end.

		Director 1	Director 2	Director 3
		No. of shares	No. of shares	No. of shares
		Allocated price		
Outstanding at beginning of year				
Number of shares held		157 000	575 000	127 000
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Issue 36	R35.20			
Issue 37	R35.20			
Performance shares 36	R0.00	25 000	65 000	30 000
Performance shares 37	R0.00	53 000	100 000	28 000
Performance shares 38	R0.00	39 000	100 000	29 000
Performance shares 39	R0.00	40 000	310 000	40 000
Offered and accepted during the year				
Performance shares 40		33 000	105 000	31 000
Exercised during the year				
Number of shares		(12 500)	(32 500)	(15 000)
Returned, lapsed and forfeited during the year				
Number of shares		(12 500)	(32 500)	(15 000)
Outstanding at end of year				
		165 000	615 000	128 000
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Issue 36	R35.20			
Issue 37	R35.20			
Performance shares 37	R0.00	53 000	100 000	28 000
Performance shares 38	R0.00	39 000	100 000	29 000
Performance shares 39	R0.00	40 000	310 000	40 000
Performance shares 40	R0.00	33 000	105 000	31 000

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

30. Compensation of key management personnel (continued)

		Director 4	Director 5	Director 6
		No. of shares	No. of shares	No. of shares
		Allocated price		
Outstanding at beginning of year				
Number of shares held		112 000	107 560	139 000
Issue 32	R52.57		7 260	
Issue 34	R35.50		8 800	
Issue 35	R35.20			
Issue 36	R35.20			
Issue 37	R35.20			
Performance shares 36	R0.00	28 000	27 500	30 000
Performance shares 37	R0.00	28 000	24 000	53 000
Performance shares 38	R0.00	26 000	20 000	26 000
Performance shares 39	R0.00	30 000	20 000	30 000
Offered and accepted during the year				
Performance shares 40		29 000	25 000	29 000
Exercised during the year				
Number of shares		(14 000)	(22 550)	(15 000)
Returned, lapsed and forfeited during the year				
Number of shares		(14 000)	(13 750)	(15 000)
Outstanding at end of year				
		113 000	96 260	138 000
Issue 32	R52.57		7 260	
Issue 34	R35.50			
Issue 35	R35.20			
Issue 36	R35.20			
Issue 37	R35.20			
Performance shares 37	R0.00	28 000	24 000	53 000
Performance shares 38	R0.00	26 000	20 000	26 000
Performance shares 39	R0.00	30 000	20 000	30 000
Performance shares 40	R0.00	29 000	25 000	29 000

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

30. Compensation of key management personnel (continued)

		Director 7	Director 8	Director 9
Allocated price		No. of shares	No. of shares	No. of shares
Outstanding at beginning of year				
Number of shares held		64 110	228 000	154 250
Issue 32	R52.57	2 860		6 600
Issue 34	R35.50	4 400		
Issue 35	R35.20	7 150		
Issue 36	R35.20	10 000		
Issue 37	R35.20	12 000		
Performance shares 36	R0.00		55 000	24 150
Performance shares 37	R0.00		87 500	55 500
Performance shares 38	R0.00	7 700	85 500	35 000
Performance shares 39	R0.00	20 000	-	33 000
Offered and accepted during the year				
Performance shares 40		29 000		90 000
Exercised during the year				
Number of shares		-	(22 268)	(12 075)
Returned, lapsed and forfeited during the year				
Number of shares		-	(27 500)	(12 075)
Retirement and resignations of directors				
Number of shares		-	(102 964)	
Outstanding at end of year				
Issue 32	R52.57	2 860		6 600
Issue 34	R35.50	4 400		
Issue 35	R35.20	7 150		
Issue 36	R35.20	10 000		
Issue 37	R35.20	12 000		
Performance shares 37	R0.00		49 050	55 500
Performance shares 38	R0.00	7 700	26 218	35 000
Performance shares 39	R0.00	20 000		33 000
Performance shares 40	R0.00	29 000		90 000

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

30. Compensation of key management personnel (continued)

		Director 10	Director 11	Director 12
		No. of shares	No. of shares	No. of shares
Allocated price				
Outstanding at beginning of year				
Number of shares held		313 000	410 000	195 000
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Issue 36	R35.20			
Issue 37	R35.20			
Performance shares 36	R0.00	50 000		
Performance shares 37	R0.00	87 500		45 000
Performance shares 38	R0.00	85 500	100 000	60 000
Performance shares 39	R0.00	90 000	310 000	90 000
Offered and accepted during the year				
Performance shares 40			175 000	80 000
Exercised during the year				
Number of shares		(25 000)		
Returned, lapsed and forfeited during the year				
Number of shares		(25 000)		
Retirement and resignations of directors				
Number of shares		(263 000)		
Outstanding at end of year				
		-	585 000	275 000
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Issue 36	R35.20			
Issue 37	R35.20			
Performance shares 37	R0.00			45 000
Performance shares 38	R0.00		100 000	60 000
Performance shares 39	R0.00		310 000	90 000
Performance shares 40	R0.00		175 000	80 000

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

30. Compensation of key management personnel (continued)

		Director 13	Director 14	Director 15
		No. of shares	No. of shares	No. of shares
		Allocated price		
Outstanding at beginning of year				
Number of shares held		219 700	-	60 967
Issue 32	R52.57	7 700		
Issue 34	R35.50			
Issue 35	R35.20			
Issue 36	R35.20			
Issue 37	R35.20			
Performance shares 36	R0.00	20 000		6 920
Performance shares 37	R0.00	53 000		25 430
Performance shares 38	R0.00	39 000		28 617
Performance shares 39	R0.00	100 000		
Offered and accepted during the year				
Performance shares 40		85 000		
Exercised during the year				
Number of shares		(10 000)		
Returned, lapsed and forfeited during the year				
Number of shares		(10 000)		
Retirement and resignations of directors				
Number of shares				(60 967)
Outstanding at end of year				
Issue 32	R52.57	7 700		
Issue 34	R35.50			
Issue 35	R35.20			
Issue 36	R35.20			
Issue 37	R35.20			
Performance shares 37	R0.00	53 000		
Performance shares 38	R0.00	39 000		
Performance shares 39	R0.00	100 000		
Performance shares 40	R0.00	85 000		

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued)

Year ended September 2015

30. Compensation of key management personnel (continued)

		Total 2015	Total 2014
		No. of shares	No. of shares
Outstanding at beginning of year			
Number of shares held		2 862 587	3 109 460
Issue 32	R52.57		
Issue 34	R35.50		
Issue 35	R35.20		
Issue 36	R35.20		
Issue 37	R35.20		
Performance shares 36	R0.00		
Performance shares 37	R0.00		
Performance shares 38	R0.00		
Performance shares 39	R0.00		
Appointment of director			
Number of shares		-	198 360
Offered and accepted during the year			
Performance shares 39		-	1 080 000
Performance shares 40		711 000	-
Exercised during the year			
Number of shares		(180 893)	(272 326)
Returned, lapsed and forfeited during the year			
Number of shares		(177 325)	(1 059 407)
Retirement and resignations of directors			
Number of shares		(426 931)	(193 500)
Outstanding at end of year		2 788 438	2 862 587
Issue 32	R52.57		
Issue 34	R35.50		
Issue 35	R35.20		
Issue 36	R35.20		
Issue 37	R35.20		
Performance shares 36	R0.00		
Performance shares 37	R0.00		
Performance shares 38	R0.00		
Performance shares 39	R0.00		
Performance shares 40	R0.00		

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

30. Compensation of key management personnel (continued)

September 2015					
Director		Date Paid for	Number of shares Paid for	Allocation price	Market value at date of payment
Director 1	Performance Plan 36	03 December 2014	12 500	R0.00	R40.93
Director 2	Performance Plan 36	03 December 2014	32 500	R0.00	R40.93
Director 3	Performance Plan 36	03 December 2014	15 000	R0.00	R40.93
Director 4	Performance Plan 36	03 December 2014	14 000	R0.00	R40.93
Director 5	Performance Plan 36 Issue 34	03 December 2014	13 750	R0.00	R40.93
		11 February 2015	8 800	R35.50	R50.52
			<u>22 550</u>		
Director 6	Performance Plan 36	03 December 2014	15 000	R0.00	R40.93
Director 8	Performance Plan 36	03 December 2014	22 268	R0.00	R40.93
Director 9	Performance Plan 36	03 December 2014	12 075	R0.00	R40.93
Director 10	Performance Plan 36	03 December 2014	25 000	R0.00	R40.93
Director 13	Performance Plan 36	03 December 2014	10 000	R0.00	R40.93

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

30. Compensation of key management personnel (continued)

September 2014					
Director		Date Paid for	Number of shares Paid for	Allocation price	Market value at date of payment
Director 1	Issue 34	18 September 2015	4 400	R33.50	R47.50
	Issue 35	18 September 2015	10 500	R33.85	R47.51
			<u>14 900</u>		
Director 2	Performance Plan 35	10 December 2014	30 000	R0.00	R29.54
Director 3	Performance Plan 35	10 December 2014	17 888	R0.00	R29.54
Director 4	Performance Plan 35	10 December 2014	16 125	R0.00	R29.54
Director 5	Performance Plan 35	10 December 2014	14 325	R0.00	R29.54
Director 6	Performance Plan 35	10 December 2014	16 125	R0.00	R29.54
Director 8	Performance Plan 35	10 December 2014	30 000	R0.00	R29.54
Director 10	Performance Plan 35	10 December 2014	24 375	R0.00	R29.54
Director 13	Issue 34	26 August 2015	8 250	R35.50	R43.80
	Issue 35	26 August 2015	7 150	R33.85	R43.79
			<u>15 400</u>		
Director 15	Performance Plan 35	10 December 2014	20 063	R0.00	R29.54
Director 16	Performance Plan 35	10 December 2014	73 125	R0.00	R29.54

Performance shares are issued when all conditions are met.

Expiry dates

Issue 32	12 December 2015
Issue 34	22 December 2016
Issue 35	9 December 2017
Issue 36	3 December 2018
Issue 37	2 December 2019
Performance shares 36	3 December 2015
Performance shares 37	2 December 2015
Performance shares 38	7 December 2016
Performance shares 39	13 December 2017
Performance shares 40	03 December 2018

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

31. Environmental matters

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

- The National Water Act recognises that water is a scarce resource and ensures allocation is first for human consumption and then to agriculture, industry and forestry. It affects both the group's manufacturing and forestry operations. Abstraction of water, discharge of effluent, the growing and management of forests are all regulated through a licensing system issued in terms of this Act.
- The National Environmental Management Act establishes the procedures and institutions to facilitate and promote cooperative government and inter-governmental relations with regard to the environment, as well as establishes the procedures and institutions to facilitate and promote public participation in environmental governance. It provides for the issuance of environmental authorisations and imposes a duty of care regarding environmental harm.
- The National Environmental Management: Air Quality Act impose more stringent compliance limits on the South African operations in 2015 and then again in 2020. The stricter standards as per the Air Quality Act that came into effect on 01 April 2015 did not have a material impact on our mills.
- The National Environmental Management: Waste Act regulates the use, reuse, recycling and disposal of waste and regulates waste management by way of a licensing system.

As a responsible global citizen with obligations under the United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol, South Africa is committed to contributing its fair share to global greenhouse gases ("GHG") mitigation efforts. The South African government submitted its Intended Nationally Determined Contribution (INDC) to climate change mitigation and adaptation to the Intergovernmental Panel on Climate Change ("IPPC") on 01 August 2015. This INDC is premised on the finalisation of an ambitious, fair, effective and binding multilateral agreement under the UNFCCC and its Kyoto Protocol at the Conference of the Parties ("COP") 21 and the meeting of the Parties to the Kyoto Protocol ("CMP") 11 in Paris in December this year. South Africa acceded to the Kyoto Protocol in July 2002. In terms of the mitigation component of South Africa's INDC ("M-INDC"), South Africa will control emissions within a peak, plateau and decline ("PPD") trajectory range, with emissions by 2025 and 2030 in a range of between 398 and 614 Mt CO₂eq. The starting point for the PPD is 2016. The time-frames are 2025 (firm), 2030 (indicative) and 2050 (aspirational). The trajectory range is consistent for 2025 with 42% deviation below business as usual emissions growth trajectory. By specifying that 2030 is an indicative range, SA retains flexibility to define a single number for 2030 in future. The INDC reflects SA's full mitigation potential. SA envisages five-year periods of implementation at the national level for policy instruments under development, including a carbon tax, Desired Emission Reduction Outcomes ("DEROs") for sectors, and company-level carbon budgets. Implementation periods are expected to be 2016 – 2020, 2021 – 2025, etc. SA's aspiration in the long term is that total annual GHG emissions will be in the range of 212 to 428 Mt CO₂eq by 2050, having declined in absolute terms from 2036 onwards. The long term is important as a policy signal but South Africa reserves the right to adjust the long-term goal in its national policy as further information becomes available on, inter alia, the science, what others are doing, technologies available, socio-economic implications, opportunities in the low-carbon economy, as well as the outcomes of the 2015 agreement. Company-level carbon budgets have been submitted to government and are currently being discussed and agreed with the Department of Environmental Affairs. It will soon become mandatory for companies to report on their GHG emissions annually to government, as proposed by the draft GHG reporting regulations which are currently under review. In the support component of the INDC ("S-INDC"), the SA government has pointed out that support is required in the form of finance, technology and capacity-building.

We expect carbon tax legislation to be introduced in 2016 and its introduction poses a potential risk going forward for Sappi Southern Africa. We have engaged the Department of National Treasury via our industry representative, the Paper Manufacturers Association of South Africa ("PAMSA"), to motivate the carbon tax design to take into account carbon sequestration by vertically integrated companies that own their own forests. Sappi's process starts with the planting of trees and its total supply chain is carbon neutral. In addition, PAMSA is driving the development of a local factor to input into the carbon accounting methodology that applies to the unique circumstances of plantation forestry in South Africa. The local factor will be available by the end of the year. The initiative is being developed in conjunction with the Department of Environmental Affairs and local research institutions, and is supported by a portion of the grant allocated to sector research and development, supplied by the Department of Science and Technologies.

32. Events after balance sheet date

During November 2015, all conditions precedent to the announced sales of the Enstra and Cape Kraft Mills in Southern Africa were fulfilled. Refer to note 13 for more detail.

In November 2015, the group repaid R1 350 million of its interest free loan owing to its holding company, Sappi Limited.

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company Annual Financial Statements (Continued) Year ended September 2015

33. Investments

Set out below are the more significant subsidiaries:

Name of subsidiary	Share Capital (Rands)	Principal activity	Effective holding (%)	
			2015	2014
Canonbrae Development Company Proprietary Limited	1 000	Property development	63.2%	63.2%
Sappi Property Company Proprietary Limited	7 000	Land holdings	100.0%	100.0%
Sappi Specval Coatings Proprietary Limited	100	Manufacturing of paper	100.0%	100.0%

Sappi Southern Africa Limited

ANNEXURE A

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



sappi
Inspired by life

www.sappi.com

Sappi Limited, 48 Ameshoff Street, Braamfontein, Johannesburg, South Africa
Tel +27 (0)11 407 8111