

sappi

Inspired by life



One
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Sappi
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Sappi Southern African
2016 Annual Report

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 73% 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.

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) ⁽²⁾	230	10,944		
Mpumalanga	Plantations (pulpwood and sawlogs) ⁽²⁾	262	17,536		
Lomati Sawmill	Sawn timber			102	
Total Sappi Forests		492	28,480	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	Paper	Pulp	Employees
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⁽³⁾	Waste paper collection and recycling for own consumption		132	
Total Sappi Paper and Paper Packaging		675	652	
Total Southern Africa		675	1,662	4,644

⁽¹⁾ Capacity at maximum continuous run rate.

⁽²⁾ Plantations include owned and leased areas as well as projects.

⁽³⁾ Sappi ReFibre collects waste paper in the SA market which is used to produce packaging paper.

Sappi Southern Africa Limited

(Incorporated in the Republic of South Africa)

Registration number 1951/003180/06

Audited Annual Financial Statements

September 2016

Sappi Southern Africa Limited

Contents

year ended September 2016

	Page
Overview	Cover page
Financial highlights	3
Management	4
Corporate governance	5 - 8
Directors' approval	9
Secretary's certificate	9
Independent auditor's report	10
Audit committee report	11
Directors' report	12 - 14
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 - 68
1 Basis of preparation	19
2 Accounting policies	19
2.1 Significant accounting policy elections	19
2.2 Summary of accounting policies	19
2.3 Critical accounting policies and key sources of estimation uncertainty	23
2.4 Adoption of accounting standards in the current year	27
2.5 Accounting standards, interpretations and amendments to existing standards that are not yet effective	27
2.6 Restatement	28
3 Operating profit	29
4 Net finance costs	30
5 Taxation	31
6 Property, plant and equipment	31
7 Plantations	33
8 Deferred tax	34
9 Joint venture	35
10 Other non-current assets	36
11 Inventories	36
12 Trade and other receivables	36
13 Assets held for sale	37
14 Ordinary share capital and share premium	38
15 Other comprehensive (loss) income	39
16 Non-distributable reserves	39
17 Interest-bearing borrowings	40
18 Other non-current liabilities	41
19 Notes to the statement of cash flows	41
20 Provisions	42
21 Encumbered assets	42
22 Commitments	42
23 Contingent liabilities	43
24 Post-employment benefits - pensions	43
25 Post-employment benefits - post-retirement healthcare subsidy	46
26 Share-based payments	48
27 Derivative financial instruments	50
28 Financial instruments	51
29 Related party transactions	62
30 Compensation of key management personnel	64
31 Environmental matters	68
32 Events after balance sheet date	68
33 Investments	68
34 Segment information	69
ANNEXURE A: Definitions	70

Sappi Southern Africa Limited

Financial Highlights year ended September 2016

	September 2016 R million	September 2015 R million
Sales	17,262	15,849
EBITDA	5,541	3,580
Operating profit	4,848	2,900
Profit for the year	3,619	2,170
Operating to sales (%)	28.1%	18.3%
EBITDA to sales (%)	32.1%	22.6%
Return on net operating assets (RONOA) (%)	30.3%	20.1%
Return on equity (ROE) (%)	25.8%	19.5%
Cash interest cover (times)	-	97.7

Definitions

EBITDA – earnings before interest (net finance costs), taxation, depreciation and 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 2016

Chief Executive Officer

Alex Thiel* (55) BSc Mech Eng, MBA

Finance Director

Colin Mowatt⁽¹⁾ (59) BCom Acc, CA(SA), EDP, MBL

Information Technology Director

Deon van Aarde* (56) B Compt

Strategic and New Business Development Director

Tyrone Hawkes * (48) BCom Hons, CA(SA)

Regional Procurement Director

Nat Maelane* (57) MSc Operations and Supply Chain Management
MDP, SEP

Human Resources Director

Fergus Marupen* (51) BA (Hons) Psychology, Bed (Education
Management), MBA

Executive Vice President Specialised Cellulose

Gary Bowles * (56) BSc Electrical Eng, PMD, EDP

Manufacturing and Technical Director SA

Patrick McGrady * (59) BSc Eng (Elec); GCC (Factories)

Sappi Forests Managing Director

Dr Terence Stanger* (54), BSc, MSc Agriculture and PHD Forestry

Sales and Marketing Director

Richard Wells* (47), BCom ,Hons B Compt, CA(SA), EDP

Other Directors

Steven Binnie** (49) BCom, BAcc, CA(SA), MBA

Glen Pearce** (53) BCom, BCom Hons, CA(SA)

Andrea Rossi* (62) BSc Eng (Hons), C Eng, FCMI

Maarten van Hoven* (43) BProc, LLM (International Business Law)

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

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

*⁽¹⁾ Resigned on 31 December 2016. Pramy Moodley was appointed
Finance Director effective 01 January 2017*

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 2016

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). We are in the process of updating and aligning our governance processes with King IV.

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.

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 of 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, as set out in the Audit Committee report on page 11.

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 2016.

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 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. The functioning and performance of Sappi's board and board committees were assessed internally in 2016 and established that the board and board committees functioned well.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee consists of four independent directors of Sappi Limited. The responsibilities of the Human Resources and Compensation 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.

Sappi Southern Africa Limited

Corporate governance (continued)

at September 2016

Social, Ethics, Transformation and Sustainability Committee

The Social, Ethics, Transformation and Sustainability (SETS) Committee comprises at least three independent non-executive Sappi Limited directors, 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, with regards to the group's South African subsidiaries, 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 monthly to assess financial risks 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, coordinate 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.

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 Steering Committee

The Sappi Limited 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 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 group annual financial statements, in accordance with 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.

Sappi's internal controls and combined assurance framework

Risks facing the group are identified, evaluated and managed by implementing risk mitigations, such as insurance, strategic actions or specific internal controls. 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.

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 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. Feedback as to the effectiveness of the internal controls is obtained from various assurance providers in a coordinated manner which avoids duplication of effort. Combined assurance helps to identify gaps or improvement areas in the internal control frame 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 integrated report, on risk management and the effectiveness of internal controls within Sappi.

Sappi Southern Africa Limited

Corporate governance (continued)

at September 2016

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

- First line of defence: Oversight by 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 obtained assurance on the data in the annual financial statements from the following sources:

- Financial data is independently audited by Deloitte & Touche.
- 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 governance, risk management, systems, internal controls and accounting records. It plays a coordination 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.

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 2016, 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 coordinated by internal audit. Internal audit maintains an internal quality assurance programme, which includes periodic external review. In 2015, an external validation was conducted by the Institute of Internal Auditors (IIA). A Generally Conforms (GC) rating was received, which is the highest of the three levels of conformance to the IIA's standards.

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 on-going 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 2016. 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

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

Code of Ethics

Sappi requires its directors and employees to act with integrity, to be courageous, to make smart decisions and to execute with speed, 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. The resourcing of the compliance function was boosted by the appointment of a compliance manager in 2016.

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.

Sappi Southern Africa Limited

Corporate governance (continued)

at September 2016

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 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 coordinated either by 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 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 2016

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

The directors acknowledge that they are ultimately responsible for the system of internal financial control established and are committed to maintaining a strong control environment. Details relating to the internal control environment are set out in the corporate governance section on pages 5 to 8.

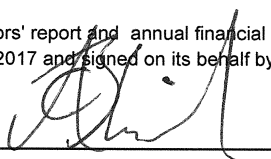
The directors are of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or loss.

The directors have reviewed the group's and company's budget and cash flow forecasts. This review, together with the group's and company's financial position, existing borrowing facilities and cash on hand, have satisfied the directors that the group and company will continue as a going concern for the foreseeable future. The group and company, therefore, continue to adopt the going concern basis in the preparation of the annual financial statements.

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

- 11 Audit committee report
- 12 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 - 69 Notes to the Consolidated and company annual financial statements
- 69 Investments


The directors' report and annual financial statements appear on pages 12 to 69 and were approved by the board of directors on 20 March 2017 and signed on its behalf by:


A Thiel
Chief Executive Officer


GT Pearce
Chief Financial Officer (Sappi Limited)

Company secretary's certificate

In terms of section 88(2)(e) of the Companies Act 71 of 2008 of South Africa, I hereby certify that, to the best of my knowledge and belief, the company has lodged with the Companies and Intellectual Property Commission of South Africa, for the financial year ended September 2016, all such returns as are required of a public company in terms of this Act and that such returns appear to be true, correct and up to date.


Sappi Limited
Secretaries
per AJ Tregoning
Group Secretary

20 March 2017

INDEPENDENT AUDITORS 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 69, which comprise the balance sheets as at 25 September 2016, 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 25 September 2016, 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 consolidated and separate financial statements for the year ended 25 September 2016, 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.

Report on Other Legal and Regulatory Requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that Deloitte & Touche has been the auditor of Sappi Southern Africa Limited for 65 years.



Deloitte & Touche
Registered Auditor

Per: Alex Wise
Partner
23 March 2017

National Executive: *LL Bam Chief Executive Officer *TMM Jordan Deputy Chief Executive Officer *MJ Jarvis 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 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 contribution in terms of the DTI Generic Scorecard as per the amended Codes of Good Practice

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

Sappi Southern Africa Limited

Audit Committee Report year ended September 2016

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 25 September 2016 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 25 September 2016. This is set out specifically on pages 96 and 97 of the Sappi Limited Group Annual Integrated Report issued 09 December 2016 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 09 December 2016 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 Kohar
Chairman of the Audit Committee
20 March 2017

Sappi Southern Africa Limited

Director's report year ended September 2016

The directors submit their report for the year ended September 2016.

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

C Mowatt CA (SA) and GT Pearce CA (SA)

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

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

Sappi Southern Africa overview

The Sappi Group is the world's largest manufacturer of DWP and exports almost all of the 1 010 000 tons produced by Sappi Southern Africa at the Saiccor and Ngodwana Mills. When converted to viscose staple fibre (VSF), DWP is a natural substitute in many applications for cotton and polyester and this is used in the manufacture a wide range of consumer products, including in textiles for fashion clothing and household linen. DWP can also be processed into products used in food and beverages, health and hygiene products, wrapping and packaging, pharmaceuticals and many more applications that touch our daily lives.

The South African paper business produces 675 000 tons of kraft linerboard, corrugating medium, newsprint, office paper and tissue paper which are largely sold regionally, where we have strong market positions in most of these products. In December 2015 the company exited the waste-based packaging paper, the security paper and speciality paper businesses via the sale of our Enstra and Cape Kraft Mills, and moved the office paper produced at the Enstra Mill to our integrated Stanger Mill. Sappi Southern Africa now focus on the production of virgin fibre packaging grades, with converters and end-use customers choosing these grades because of the better strength and thus additional protection it provides their products. We also produce 520 000 tons of paper pulp and collect 132 000 tons of recycled waste paper. On a net basis we are approximately self-sufficient for our pulp requirements.

Sappi Southern Africa owns or leases 389,000 hectares (ha) with approximately 28.5 million tons of standing timber and 139,000ha being used for other purposes such as conservation. Contracted supply covers almost 103,000ha. Of the 234,000ha planted at the end of FY2016, 56% was hardwood and 44% softwood, and of contracted supply, 91% is hardwood. These plantations provide approximately 64% of the wood requirements for the Southern Africa mills. Our aim is to produce low-cost wood with the required pulping characteristics and increase yield per hectare. We actively pursue this aim, particularly through genetic improvement of planting stock.

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

The company has embarked on two new energy projects. At Tugela Mill, we have installed a new turbine and applied for the project to be registered under the South African government's cogeneration Independent Power Producer Programme. At Saiccor Mill, we are replacing three turbine generators with a high efficiency steam turbine generator set. This will eliminate wasteful steam venting during process upsets, allow for efficient boiler operation and mitigate the impact of an Eskom electricity supply interruption. It will also reduce the amount of imported power purchased from Eskom, thereby increasing the mill's power self-sufficiency to approximately 69% and enhancing its cost competitiveness.

Due to the severe drought which was experienced in FY2016 Sappi Southern Africa have undertaken to mitigate the impact of low flows on the Umkomazi River, the prime source of water to Saiccor Mill. We have completed a project to raise the Comrie Dam wall, upstream of Saiccor Mill, tripling the amount of water stored in the dam. However, we still await a water use licence from the regulatory authorities. At Ngodwana, Tugela and Stanger Mills we are focusing on internal modifications which involve the more efficient use of water.

Markets and operations

Growing demand for DWP, constrained cotton supply, the weaker Rand and good customer operating rates have led to improved profitability for our specialised cellulose business. Demand for VSF, and therefore DWP, continued to be linked to the growth in the overall textile market, which was approximately 3,5% in China over the prior year. However, Sappi Southern Africa's sales volumes in 2016 were approximately 5,5% lower than those in 2015 due to lost production at Saiccor Mill, as a result of the drought in KwaZulu-Natal early in the financial year, as well as an extended annual maintenance shut at Ngodwana Mill to upgrade their recovery boiler. In November 2015 the US Dollar spot prices for DWP peaked in China at US\$901/ton but then declined to a low of US\$830/ton by February 2016 due mainly to a decline in paper pulp prices which encouraged swing producers to switch to DWP. However, as a result of increased demand for DWP, higher VSF and cotton textile prices and improved VSF operating rates, the spot price for DWP subsequently recovered to show an increase of approximately 13% from March to its current level of US\$990/ton.

Sappi Southern Africa Limited

Director's report (continued) year ended September 2016

Notwithstanding the sale of the Cape Kraft and Enstra Mills which resulted in reduced sales volumes year-on-year, the South African paper business enjoyed record profitability in financial year 2016. Sales demand was strong and the average net sales prices rose during the year assisted by the weaker Rand/US Dollar exchange rate.

The average rate of the ZAR weakened by 24% to the US Dollar for the year, and had a significant positive impact on the company's results. Increased selling prices, aided by the weaker Rand on export sales, and strong local market conditions reversed the effect of the lower sales volumes in both the DWP and paper businesses. The realignment of the paper business and the simplification of product offerings during the year improved efficiencies and output. The cost of imported variable cost items increased in local currency terms, as did local wood costs which are adjusted to import parity prices. However lower energy costs as a result of the investments in power generation and efficiency gains helped offset the import price component of our fibre and chemical inputs. The sale of the Cape Kraft and Enstra mills helped keep fixed costs flat year-on-year in Rand terms. The net result of the above is a record Rand annual operating profit of ZAR4 848 million.

Sappi Southern Africa's sales for 2016 in Rand terms increased by 9% to R17 262 million compared to 2015 (R15 849 million).

Sappi Southern Africa's EBITDA increased to R5 541 million in 2016 from R3 580 million in 2015, while the EBITDA margin improved to 32% from the prior year's 23% margin. Operating profit increased by 67% to R4 848 million in 2016 (R2 900 million in 2015). In 2016 Sappi Southern Africa achieved a 30% "Return on Net Operating Assets", compared to the 20% 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. We currently have access to approximately 492 000ha of land. 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 R938 million was recorded in fiscal 2016 due mainly to market related timber price increases and reduced fuel prices over the year, partially offset by cost increases.

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

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

Outlook

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

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

In the containerboard market in Southern Africa, a strong fruit and vegetable season boosted sales and the weaker Rand assisted pricing in 2016. Most of Sappi's containerboard sales are into the agricultural market, which is expected to grow by 4-5% per annum going forward.

Reporting period

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

Share Capital

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

Authorised

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

Issued

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

Sappi Southern Africa Limited

Director's report (continued) year ended September 2016

Financing

During the financial year, the conditions precedent related to the sale of Sappi Southern Africa's Enstra and Cape Kraft mills were fulfilled and proceeds of R569 982 thousand were received.

The SSA04 R255million bond and the SSA01 R500million bond matured in April and June of 2016 respectively, and local cash resources were used to repay both bonds in full.

At year end, the average tenure term of the company's debt is 2.9 years .

Sappi Southern Africa Limited currently has the following credit ratings:

- Global Credit Rating (GCR): South African national rating A/A1/Stable Outlook (August 2016).

Net borrowings

Sappi Southern Africa has sufficient cash to meet all its debt obligations with a net cash position of R2 201 million at September 2016. 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 2016, no incidents occurred that resulted in a successful claim against the Group's property damage or business interruption insurance policies.

Fixed assets

Capital expenditure of R1 352 million was incurred during the year.

During the year, an impairment of R5 million was reversed due to the transfer a Will Cutter from Enstra to Stanger Mill . See note 6 to the annual financial statements for full details regarding our fixed assets.

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 4.

The secretaries and their business and postal addresses also appear on page 4 of this report.

Subsidiary companies

Details of the company's significant subsidiaries are given in note 33 on page 68.

Holding company and ultimate holding company

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

External auditors

KPMG have been appointed as the group's external auditors for the 2017 financial year.

Sappi Southern Africa Limited

Consolidated and Company income statements for the year ended September 2016

	Note	Consolidated		Company	
		2016 R'000	2015 R'000	2016 R'000	Restated 2015 R'000
Sales		17,261,740	15,849,370	17,204,375	15,594,579
Cost of sales	3.1	11,886,706	12,558,672	11,843,925	12,348,626
Gross profit		5,375,034	3,290,698	5,360,450	3,245,953
Selling, general and administrative expenses	3.1	620,950	510,449	665,429	511,505
Share of profit from joint ventures	9	(120,059)	(110,366)	(120,059)	(110,366)
Other expenses (income)	3.3	25,658	(9,870)	234,384	(13,296)
Operating profit	3	4,848,485	2,900,485	4,580,696	2,858,110
Net finance (revenue) costs	4	(56,988)	30,254	(59,001)	28,818
Finance costs		187,099	234,038	185,054	233,366
Finance revenue		(206,924)	(141,542)	(206,903)	(142,796)
Net fair value loss on financial instruments		13	395	13	395
Net foreign exchange gains		(37,176)	(62,637)	(37,165)	(62,147)
Profit before taxation		4,905,473	2,870,231	4,639,697	2,829,292
Taxation charge	5	1,286,381	700,346	1,236,704	690,994
Profit for the year		3,619,092	2,169,885	3,402,993	2,138,298

Consolidated and Company statements of comprehensive income for the year ended September 2016

	Note	Consolidated		Company	
		2016 R'000	2015 R'000	2016 R'000	2015 R'000
Profit for the year		3,619,092	2,169,885	3,402,993	2,138,298
Other comprehensive (loss) income, net of tax	15	(37,099)	21,615	(37,099)	21,615
Item that will not be reclassified subsequently to profit or loss		(51,830)	13,919	(51,830)	13,919
Actuarial (losses) gains on post-employment benefit funds		(71,986)	19,333	(71,986)	19,333
Deferred tax on above item		20,156	(5,414)	20,156	(5,414)
Items that may be reclassified subsequently to profit or loss		14,731	7,696	14,731	7,696
Movement in hedging reserves		20,460	10,688	20,460	10,688
Tax on above items		(5,729)	(2,992)	(5,729)	(2,992)
Total comprehensive income for the year		3,581,993	2,191,500	3,365,894	2,159,913

Sappi Southern Africa Limited

Consolidated and Company balance sheet as at September 2016

		Consolidated		Company		
	Note	2016 R'000	2015 R'000	2016 R'000	2015 R'000	2014 R'000
ASSETS						
Non-current assets		16,698,727	15,444,000	16,685,329	15,422,107	14,807,146
Property, plant and equipment	6	10,062,916	9,460,423	10,055,869	9,451,721	9,394,730
Plantations	7	6,042,661	5,325,483	6,042,661	5,325,483	4,831,586
Deferred tax assets	8	2	6,842	-	-	-
Joint venture	9	197,190	186,565	197,190	186,565	155,855
Other non-current assets	10	375,130	433,775	368,781	427,426	378,472
Derivative financial instruments	27	20,828	30,912	20,828	30,912	46,503
Current assets		7,949,469	6,905,693	7,910,819	6,963,698	5,497,653
Inventories	11	1,727,205	1,403,719	1,721,204	1,397,717	1,567,066
Trade and other receivables	12	504,851	308,787	469,932	308,240	375,494
Derivative financial instruments	27	29,730	1,323	29,730	1,311	1,669
Amounts owing by group companies	29	1,842,519	1,827,850	1,844,829	1,892,487	1,502,342
Cash and cash equivalents		3,845,164	3,364,014	3,845,124	3,363,943	2,051,082
Assets held for sale	13	-	386,142	-	264,948	-
Total assets		24,648,196	22,735,835	24,596,148	22,650,753	20,304,799
EQUITY AND LIABILITIES						
Shareholders' equity		15,831,018	12,254,624	15,583,385	12,223,090	10,049,251
Ordinary share capital and share premium	14	221,100	221,100	221,100	221,100	221,100
Non-distributable reserves	16	150,721	156,320	148,975	154,574	140,650
Hedging reserves		32,358	17,627	32,358	17,627	9,931
Retained earnings		15,426,839	11,859,577	15,180,952	11,829,789	9,677,570
Non-current liabilities		5,380,582	5,012,005	5,376,848	5,008,271	5,400,587
Interest-bearing borrowings	17	1,644,259	1,645,000	1,644,259	1,645,000	2,400,000
Deferred tax liabilities	8	3,518,504	3,110,686	3,518,504	3,110,686	2,723,934
Other non-current liabilities	18	217,819	256,319	214,085	252,585	276,653
Current liabilities		3,436,596	5,464,392	3,635,915	5,419,392	4,854,961
Interest-bearing borrowings	17	(435)	753,124	(435)	753,124	746,858
Derivative financial instruments	27	11,037	5,175	11,037	5,175	30,697
Trade and other payables		2,904,954	2,886,472	2,908,710	2,845,235	2,509,739
Taxation payable		355,600	243,101	336,310	239,013	115,249
Provisions	20	-	6,200	-	6,200	7,975
Amounts owing to group companies	29	165,440	1,570,320	380,293	1,570,645	1,444,443
Liabilities associated with assets held for sale	13	-	4,814	-	-	-
Total equity and liabilities		24,648,196	22,735,835	24,596,148	22,650,753	20,304,799

Sappi Southern Africa Limited

Consolidated and Company statement of cash flows for the year ended September 2016

	Note	Consolidated		Company	
		2016 R'000	2015 R'000	2016 R'000	Restated 2015 R'000
Cash retained from operating activities		3,322,058	2,570,573	3,368,730	2,520,024
Cash generated from operations	19.1	4,419,795	2,934,177	4,357,110	2,883,782
- Increase in working capital	19.2	(364,823)	(109,667)	(301,392)	(115,185)
Cash generated from operating activities		4,054,972	2,824,510	4,055,718	2,768,597
- Finance costs paid	19.3	(181,211)	(181,520)	(179,176)	(181,338)
- Finance revenue received		197,905	131,872	197,883	133,126
- Taxation paid	19.4	(749,608)	(204,289)	(705,695)	(200,361)
Cash utilised in investing activities		(605,845)	(694,037)	(961,836)	(680,663)
Investment to maintain operations		(1,052,367)	(619,122)	(1,050,452)	(605,866)
Investment to expand operations		(300,127)	(172,718)	(300,127)	(172,718)
Proceeds on disposal of other non-current assets	19.5	63,792	7,719	62,645	7,835
Proceeds on disposal of assets held for sale		569,982	-	213,223	-
Other decrease in non-current assets		112,875	90,084	112,875	90,086
Cash effects of financing activities		(2,235,063)	(563,813)	(1,925,713)	(529,766)
Repayment of interest-bearing borrowings		(755,000)	(750,000)	(755,000)	(750,000)
Cash costs attributable to refinancing transactions		-	(1,550)	-	(1,547)
(Decrease) increase in amounts owed to (by) group companies		(1,480,063)	187,737	(1,170,713)	221,781
Net movement in cash and cash equivalents		481,150	1,312,723	481,181	1,309,595
Cash and cash equivalents at beginning of year		3,364,014	2,051,291	3,360,677	2,051,082
Cash and cash equivalents at end of year	19.6	3,845,164	3,364,014	3,841,858	3,360,677

Sappi Southern Africa Limited

Consolidated and Company statements of changes in equity for the year ended September 2016

	Ordinary share capital R'000	Share premium R'000	Ordinary share capital and share premium R'000	Non-distributable reserves R'000	Hedging reserves R'000	Retained earnings R'000	Total equity R'000
Consolidated							
Balance - September 2014	12,030	209,070	221,100	142,398	9,931	9,675,773	10,049,202
Share-based payments	-	-	-	15,226	-	-	15,226
Sappi Limited Share Incentive Trust	-	-	-	(22,236)	-	-	(22,236)
Share-based payments - BBBEE	-	-	-	20,932	-	-	20,932
Total comprehensive income	-	-	-	-	7,696	2,183,804	2,191,500
Balance - September 2015	12,030	209,070	221,100	156,320	17,627	11,859,577	12,254,624
Share-based payments	-	-	-	22,787	-	-	22,787
Sappi Limited Share Incentive Trust	-	-	-	(45,112)	-	-	(45,112)
Share-based payments - BBBEE	-	-	-	16,726	-	-	16,726
Total comprehensive income	-	-	-	-	14,731	3,567,262	3,581,993
Balance - September 2016	12,030	209,070	221,100	150,721	32,358	15,426,839	15,831,018
<i>Note</i>			14	16			

	Ordinary share capital R'000	Share premium R'000	Ordinary share capital and share premium R'000	Non-distributable reserves R'000	Hedging reserves R'000	Restated Retained earnings R'000	Total equity R'000
Company							
Balance - September 2014	12,030	209,070	221,100	140,650	9,931	9,677,570	10,049,251
Share-based payments	-	-	-	15,227	-	-	15,227
Sappi Limited Share Incentive Trust	-	-	-	(22,236)	-	-	(22,236)
Share-based payments - BBBEE	-	-	-	20,933	-	-	20,933
Total comprehensive income	-	-	-	-	7,696	2,152,217	2,159,913
Balance - September 2015	12,030	209,070	221,100	154,574	17,627	11,829,789	12,223,090
Share-based payments	-	-	-	22,787	-	-	22,787
Sappi Limited Share Incentive Trust	-	-	-	(45,112)	-	-	(45,112)
Share-based payments - BBBEE	-	-	-	16,726	-	-	16,726
Total comprehensive income	-	-	-	-	14,731	3,351,163	3,365,894
Balance - September 2016	12,030	209,070	221,100	148,975	32,358	15,180,952	15,583,385
<i>Note</i>			14	16			

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements for the year ended September 2016

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

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

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

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

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

2. Accounting policies

The following principal accounting policies have been consistently applied in dealing with items that are considered material in relation to the financial statements. Where applicable, the company follows the accounting policies adopted by the group. 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 group's financial year-end is on the Sunday closest to the last day of September. Accordingly, the last three financial years were as follows:

- 28 September 2015 to 25 September 2016 (52 weeks)
- 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.

2.2 Summary of accounting policies

2.2.1 Foreign currencies

Transactions and balances

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

2. Accounting policies (continued)

2.2.2 Group accounting

(i) Subsidiaries

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

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

(ii) Initial measurement

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

(iii) Subsequent measurement

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

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

- Financial liabilities at amortised cost

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

- Loans and receivables

Loans and receivables are carried at amortised cost.

- Available-for-sale financial assets

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

(iv) Embedded derivatives

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

(v) Derecognition

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

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

2. Accounting policies (continued)

(vi) Impairment of financial assets

- Loans and receivables

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

- Available-for-sale financial assets

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

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

(vii) Interest income and expense

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

2.2.4 Government grants

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

2.2.5 Intangible assets

(i) Research activities

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

(ii) Development activities

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

(iii) Brands and patents

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

(iv) Licence fees

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

2.2.6 Inventories

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

Cost is determined on the following basis:

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

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

2.2.7 Leases

(i) The group as lessee

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

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

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

(ii) Recognition of lease of land

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

2. Accounting policies (continued)

2.2.8 Assets held for sale

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

2.2.9 Borrowing costs

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

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

2.2.10 Revenue

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

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

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

2.2.11 Emission trading

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

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

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

2.2.12 Cash and cash equivalents

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

2.2.13 Goodwill

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

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

Goodwill is tested for impairment using a cash flow valuation model based on an allocation of the goodwill to one or more CGUs. The group takes into account its ability to carousel products across different operating units in determining CGUs and in allocating goodwill to those CGUs.

2.2.14 Share-based payments

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

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

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

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

2. Accounting Policies (continued)

(ii) Measurement of fair value of equity instruments granted

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

(iii) Broad-based Black Economic Empowerment transaction

The group accounts for the transaction in accordance with IFRS 2 *Share-based payment* and the South African Institute of Chartered Accountants Financial Reporting Guide 2 as issued by the Accounting Practices Committee and the fair value of the services rendered by employees are recorded in profit or loss as they are rendered during the service period.

In accounting for the group's share-based payment transactions, management uses estimates and assumptions to determine share-based payment expenses. Key inputs, which are necessary in determining the grant date fair value, include the volatility of the group's share price, employee turnover rate, and dividend payout rates.

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

2.3 Critical accounting policies and key sources of estimation uncertainty

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

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

2.3.1 Impairment of assets other than goodwill and financial instruments

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

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

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

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

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

2.3.2 Property, plant and equipment

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

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

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

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

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

Buildings	straight-line	10 to 40 years
Plant	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.

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

2. Accounting policies (continued)

2.3.3 Taxation

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

(i) Current taxation

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

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

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

(ii) Deferred taxation

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

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

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

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

(iii) Dividend withholding tax

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

2.3.4 Derivatives and hedge accounting

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

(i) Fair value hedges

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

(ii) Cash flow hedges

Cash flow hedges are designated when hedging the exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction, or the foreign currency risk in an unrecognised firm commitment. In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in OCI and the ineffective portion is recognised in profit or loss.

The gains or losses recognised in OCI are transferred to profit or loss in the same period in which the hedged transaction affects profit or loss.

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

2. Accounting policies (continued)

(iii) Discontinuance of hedge accounting

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

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

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

The group has projected growth estimation over a period of 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) for the year ended September 2016

2.3.6 Post-employment benefits

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

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

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

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

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

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

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

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

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

2.3.7 Provisions

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

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

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

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

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

Refer to note 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) for the year ended September 2016

2. Accounting policies (continued)

2.4 Adoption of accounting standards in the current year

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

- IFRS 2 *Share-based Payment* – Classification and measurement of share-based payment transactions
- IFRS 4 *Insurance Contracts* - Applying IFRS 9 *Financial Instruments*
- 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
- IFRS 11 *Joint Arrangements* – Accounting for Acquisitions of Interests in Joint Operations
- IFRS 14 *Regulatory Deferral Accounts*
- IAS 1 *Presentation of Financial Statements* – Disclosure Initiative
- IAS 12 *Income Taxes* - Recognition of deferred tax assets for unrealised losses
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* – Bearer Plants
- IAS 27 *Separate Financial Statements* – Equity Method in Separate Financial Statements
- Annual Improvements 2012-2014 Cycle

Other than for the revision of IAS 27, which permits the Company to account for investments in joint ventures using the equity method of accounting, the adoption of the above mentioned standards had no material impact on the Company. Refer to note 2.6 for more information.

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

Certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective and have not yet been early adopted by the group. The impact of these standards is still being evaluated by the group.

- IFRS 9 *Financial Instruments* – IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities - September 2019
- 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
- IFRS 16 *Leases* – Provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance substantially unchanged from its replacement standard IAS 17 *Leases* - September 2020
- IAS 7 *Statement of Cash Flows* – Disclosure Initiative – clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities - September 2018

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

2.6 Impact of revised accounting standard

Adoption of IAS 27 (Revised) Separate Financial Statements – Equity Method in Separate Financial Statements

During the financial year, the Company adopted this revision to the standard which permits the Company to account for investments in joint ventures using the equity method of accounting. As a result, the Company is able to account for its investment in Umkomaas Lignin Proprietary Limited in a manner that is consistent with that of group. Previously, the Company had accounted for its joint venture at cost. The change in accounting policy is required to be applied retrospectively.

The impact on income statement and balance sheet is as follows:

	2015			2014		
	As previously reported	Adjustment	Restated	As previously reported	Adjustment	Restated
R' 000						
Company income statement						
Share of profit from joint ventures	-	110,366	110,366	-	85,354	85,354
Investment income	79,658	(79,658)	-	96,954	(96,954)	-
Operating profit	2,827,402	30,708	2,858,110	2,301,503	(11,600)	2,289,903
Profit for the year	2,107,590	30,708	2,138,298	1,544,280	(11,600)	1,532,680
Company statement of comprehensive income						
Total comprehensive income for the year	2,129,205	30,708	2,159,913	1,442,536	(11,600)	1,430,936
Company balance sheet						
Equity investments	72,707	113,858	186,565	72,707	83,148	155,855
Other non-current assets	427,094	332	427,426	378,140	332	378,472
Retained earnings and hedging reserves	11,733,226	114,190	11,847,416	9,604,021	83,480	9,687,501
Company cash flow statement						
Dividends received	79,658	(79,658)	-	96,954	(96,954)	-
Other decrease in non-current assets	10,428	79,658	90,086	(89,029)	96,954	7,925

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

3. Operating profit

3.1 Cost of sales and selling, general and admin

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

	Consolidated				Company			
	2016		2015		2016		2015	
	Cost of sales R'000	Selling, general and administrative expenses R'000	Cost of sales R'000	Selling, general and administrative expenses R'000	Cost of sales R'000	Selling, general and administrative expenses R'000	Cost of sales R'000	Selling, general and administrative expenses R'000
Raw materials, energy and other direct input costs	7,730,222	-	7,904,948	-	7,705,930	-	7,809,071	-
Fair value adjustment on plantations	(927,289)	-	(589,282)	-	(927,289)	-	(589,282)	-
Employment costs	1,634,654	520,423	1,710,277	511,176	1,629,025	520,423	1,679,837	511,176
Depreciation	663,947	28,232	650,693	28,897	661,720	26,575	636,689	27,238
Delivery charges	1,044,031	-	1,122,680	-	1,041,300	-	1,111,559	-
Maintenance	779,010	-	828,206	-	775,715	-	790,624	-
Other overheads	962,131	-	931,150	-	957,524	-	910,128	-
Marketing and selling expenses	-	21,726	-	22,024	-	20,276	-	22,024
Administrative and general expenses (income)	-	50,569	-	(51,648)	-	98,155	-	(48,933)
	11,886,706	620,950	12,558,672	510,449	11,843,925	665,429	12,348,626	511,505
	Consolidated		Company		Consolidated		Company	
	2016	2015	2016	2015	2016	2015	2016	2015
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Fair value gains on plantations (note 7)								
Changes in volumes								
- Fellings	833,413	687,580	833,413	687,580	833,413	687,580	833,413	687,580
- Growth	(822,474)	(780,836)	(822,474)	(780,836)	(822,474)	(780,836)	(822,474)	(780,836)
	10,939	(93,256)	10,939	(93,256)	10,939	(93,256)	10,939	(93,256)
Plantation price fair value adjustment	(938,228)	(496,026)	(938,228)	(496,026)	(938,228)	(496,026)	(938,228)	(496,026)
	(927,289)	(589,282)	(927,289)	(589,282)	(927,289)	(589,282)	(927,289)	(589,282)
Silviculture costs (included within cost of sales)	685,603	628,941	685,603	628,941	685,603	628,941	685,603	628,941
Leasing charges for premises	43,826	41,898	43,826	41,898	43,826	41,898	43,826	41,898
Leasing charges for plant and equipment	18,961	22,532	18,961	22,532	18,961	22,532	18,961	22,532
Leasing charges for vehicles	38,019	36,189	38,019	36,189	38,019	36,189	38,019	36,189
Leasing charges for office equipment	22,169	16,084	22,169	16,084	22,169	16,084	22,169	16,084
Cost on derecognition of loans and receivables	80,352	81,935	80,352	81,935	80,352	81,935	80,352	81,935
Remuneration paid other than to <i>bona fide</i> employees of the company in respect of:	15,469	17,204	15,469	17,204	15,469	17,204	15,469	17,204
- Technical services	15,073	14,042	15,073	14,042	15,073	14,042	15,073	14,042
- Administration services	396	3,162	396	3,162	396	3,162	396	3,162
Auditor's remuneration - audit and related services	11,232	8,044	11,232	8,044	11,232	8,044	11,232	8,044
- Audit services	9,200	8,044	9,200	8,044	9,200	8,044	9,200	8,044
- Related services	2,032	-	2,032	-	2,032	-	2,032	-
Research and development costs	93,867	16,483	93,867	16,483	93,867	16,483	93,867	16,483

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

3. Operating profit

3.2 Employee Costs

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Employment costs consist of	2,155,077	2,221,453	2,149,448	2,191,013
Wages and salaries	1,579,660	1,669,898	1,598,464	1,660,866
Defined contribution plan expense (refer to note 24)	81,279	77,790	81,279	77,790
Defined benefit pension plan expense (refer to note 24)	14,308	(21,123)	14,308	(21,123)
Other defined benefit plan expense	115,096	121,467	115,096	121,467
Other company contributions	96,409	95,439	95,503	90,988
Overtime	127,696	136,264	127,619	135,821
Share-based payment expense	22,783	15,231	22,783	15,231
Other	117,846	126,487	94,396	109,973

3.3 Other expenses (income)

(Profit) loss on disposal of property, plant and equipment and plantations	(21,290)	4,808	(20,163)	3,266
Costs related to major events (including fires and floods)	211,106	111,940	210,838	110,056
Profit on assets held for sale	(184,319)	-	23,548	-
Insurance recoveries	(3,532)	(176,899)	(3,532)	(176,899)
Impairment reversals of property, plant and equipment	(5,081)	(1,784)	(5,081)	(1,784)
Broad-based Black Economic Empowerment (BBBEE) charge	16,728	20,932	16,728	20,932
Restructuring costs	9,839	15,801	9,839	15,801
Other	2,207	15,332	2,207	15,332
	25,658	(9,870)	234,384	(13,296)

4. Net finance costs

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Gross interest and other finance costs on liabilities carried at amortised cost	194,566	236,572	192,520	235,900
- Interest on bank overdrafts	13,914	14,880	11,868	14,220
- Interest on redeemable bonds and other loans	180,652	221,692	180,652	221,680
Net interest on employee benefit liabilities	(7,466)	(2,534)	(7,466)	(2,534)
Finance revenue received on assets carried at amortised cost	(206,924)	(141,542)	(206,903)	(142,796)
- Interest on bank accounts	(204,723)	(133,697)	(204,723)	(133,697)
- Interest revenue on other loans and investments	(2,201)	(7,845)	(2,180)	(7,845)
- Inter-group finance revenue	-	-	-	(1,254)
Net fair value loss on financial instruments	13	395	13	395
Net foreign exchange gains	(37,176)	(62,637)	(37,165)	(62,147)
	(56,988)	30,254	(59,001)	28,818

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

5. Taxation charge

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Current taxation				
Current year	873,966	411,470	815,109	403,513
Prior year overprovision	(22,508)	(75,795)	(22,760)	(75,795)
Deferred taxation				
Current year	434,847	365,940	443,961	364,870
Prior year underprovision	76	(1,269)	394	(1,594)
	1,286,381	700,346	1,236,704	690,994

In addition to income taxation charges to profit and loss, current taxation charge of R10,649 thousand (2015: R3,932 thousand benefit) and deferred taxation relief of R25,076 thousand (2015: R11,997 thousand charge) has been recognised directly in other comprehensive income (refer note 8).

Reconciliation of the tax rate			Restated	
	%	%	%	%
Statutory tax rate	28.0	28.0	28.0	28.0
Non-taxable income	(1.3)	(0.9)	(0.8)	(1.3)
Prior year adjustments	(0.5)	(2.7)	(0.5)	(2.3)
Effective taxation rate for the year	26.2	24.4	26.7	24.4

6. Property, plant and equipment

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Land and buildings ⁽¹⁾				
At cost	3,082,262	2,959,961	2,931,951	2,809,650
Accumulated depreciation and impairments	(1,152,973)	(1,065,451)	(1,009,709)	(923,843)
	1,929,289	1,894,510	1,922,242	1,885,807
Plant and equipment ⁽²⁾				
At cost	17,638,309	16,623,473	17,638,310	16,623,474
Accumulated depreciation and impairments	(9,504,682)	(9,057,560)	(9,504,683)	(9,057,560)
	8,133,627	7,565,913	8,133,627	7,565,914
Aggregate cost	20,720,571	19,583,434	20,570,261	19,433,124
Aggregate accumulated depreciation and impairments	(10,657,655)	(10,123,011)	(10,514,392)	(9,981,403)
Aggregate book value ⁽³⁾	10,062,916	9,460,423	10,055,869	9,451,721

⁽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 R574,740 thousand (2015: R331,417 thousand) relates to assets under construction.

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

6. Property, plant and equipment (continued)

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

	Land and buildings R'000	Plant and equipment R'000	Total R'000
Consolidated			
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 reversals	-	1,784	1,784
Assets held for sale	(52,229)	(140,203)	(192,432)
Net book value at September 2015	1,894,510	7,565,913	9,460,423
Additions	118,454	1,201,591	1,320,045
Disposals	3,592	(34,046)	(30,454)
Depreciation	(87,267)	(604,912)	(692,179)
Impairment reversals	-	5,081	5,081
Net book value at September 2016	1,929,289	8,133,627	10,062,916
	Land and buildings R'000	Plant and equipment R'000	Total R'000
Company			
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 reversals	-	1,784	1,784
Assets held for sale	(32,116)	(61,221)	(93,337)
Net book value at September 2015	1,885,807	7,565,914	9,451,721
Additions	118,454	1,199,676	1,318,130
Disposals	3,311	(34,079)	(30,768)
Depreciation	(85,330)	(602,965)	(688,295)
Impairment reversals	-	5,081	5,081
Net book value at September 2016	1,922,242	8,133,627	10,055,869

Material asset impairments and impairment reversals

September 2016

The impairment reversal at of R5,081 thousand primarily relates to certain assets that were previously impaired being brought back into use.

September 2015

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

7. Plantations

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Fair value of plantations at the beginning of the year	5,325,483	4,831,586	5,325,483	4,831,586
Disposals	(5,687)	(364)	(5,687)	(364)
Fire, hazardous weather and other damages	(192,675)	(82,393)	(192,675)	(82,393)
In-field inventory	(11,749)	(12,628)	(11,749)	(12,628)
Gains arising from growth	822,474	780,836	822,474	780,836
Gain arising from fair value price changes	938,228	496,026	938,228	496,026
Harvesting - agriculture produce (fellings)	(833,413)	(687,580)	(833,413)	(687,580)
Fair value of plantations at the end of the year	6,042,661	5,325,483	6,042,661	5,325,483

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 9.95%. The group currently values approximately 29 million tons of timber using selling prices and delivery costs that are benchmarked against industry norms. The average annual growth is measured at approximately 17 tons of timber per hectare while immature timber comprise approximately 105,000 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:

	2016 R'000	2015 R'000
Market price changes		
1% increase in market prices	28,929	24,335
1% decrease in market prices	(28,929)	(24,335)
Discount rate (for immature timber)		
1% increase in rate	(31,452)	(26,625)
1% decrease in rate	31,452	26,625
Volume assumption		
1% increase in estimate of volume	55,409	49,600
1% decrease in estimate of volume	(55,409)	(49,600)
Costs to sell		
1% increase in costs to sell	(21,020)	(19,850)
1% decrease in costs to sell	21,020	19,850
Growth assumptions		
1% increase in rate of growth	15,549	14,006
1% decrease in rate of growth	(15,549)	(14,006)

Notes to the Consolidated and Company annual financial statements (continued)
for the year ended September 2016

8. Deferred tax

	2016		2015	
	Assets R'000	Liabilities R'000	Assets R'000	Liabilities R'000
Consolidated				
Tax loss carry forward	-	-	2,746	-
Other non-current liabilities	(79)	48,025	(79)	48,651
Accrued and other liabilities	81	(153,027)	4,096	(159,830)
Property, plant and equipment	-	1,916,272	79	1,734,556
Plantations	-	1,707,234	-	1,487,309
	2	3,518,504	6,842	3,110,686
	2016		2015	
	Assets R'000	Liabilities R'000	Assets R'000	Liabilities R'000
Company				
Other non-current liabilities	-	48,025	-	48,651
Accrued and other liabilities	-	(153,027)	-	(159,830)
Property, plant and equipment	-	1,916,272	-	1,734,556
Plantations	-	1,707,234	-	1,487,309
	-	3,518,504	-	3,110,686
	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Reconciliation of deferred tax				
Deferred tax balances at beginning of year				
- Deferred tax assets	(6,842)	-	-	-
- Deferred tax liabilities	3,110,686	2,731,970	3,110,686	2,723,934
	3,103,844	2,731,970	3,110,686	2,723,934
Deferred tax benefit (charge) for the year (refer to note 5)	434,920	364,671	444,353	363,276
- Other non-current assets	24,449	18,518	24,449	18,438
- Tax loss carry forward	2,746	(75)	-	-
- Accrued and other liabilities	10,819	1,900	6,805	2,286
- Property, plant and equipment	176,982	201,119	193,175	199,343
- Plantations	219,924	143,209	219,924	143,209
Amounts recorded directly in other comprehensive income	(25,076)	11,997	(25,076)	11,997
Transfer to non-current assets held for sale	4,814	(4,814)	(11,459)	11,459
Deferred tax balances at end of year	3,518,502	3,103,844	3,518,504	3,110,686
- Deferred tax assets	(2)	(6,842)	-	-
- Deferred tax liabilities	3,518,504	3,110,686	3,518,504	3,110,686

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

9. Joint venture

The group has 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 lignosulphonate in order to build a sustainable lignin business. The financial statements of Umkomaas Lignin Proprietary Limited are to 31 December of each year which is the year-end of Borregaard AS. The unaudited management accounts which are prepared in accordance with International Financial Reporting Standards are used to account for joint venture's income to Sappi's year-end.

Summarised financial information of Umkomaas Lignin Proprietary Limited:

	Consolidated		Company		
	2016 R'000	2015 R'000	2016 R'000	2015 R'000	2014 R'000
Cost of investment in joint venture	1,985	1,985	1,985	1,985	1,985
Share of post-acquisition profits	124,815	114,190	124,815	114,190	83,480
- Opening balance	114,190	83,480	114,190	83,480	95,080
- Current year profit	120,059	110,366	120,059	110,366	85,354
- Dividend received	(109,434)	(79,656)	(109,434)	(79,656)	(96,954)
Loan - converted to share capital	70,390	70,390	70,390	70,390	70,390
Investment in joint venture	197,190	186,565	197,190	186,565	155,855

Dividends received from joint ventures for the 2016 financial year were R109,434 million (2015: R79,656 million; 2014: R96,954).

Balance Sheet summary

Current assets	294,277	280,060	294,277	280,060	250,374
Non-current assets	196,748	154,000	196,748	154,000	163,660
Current liabilities	(78,463)	(82,673)	(78,463)	(82,673)	(77,266)
Non-current liabilities	(18,183)	(21,549)	(18,183)	(21,549)	(25,058)

The above assets and liabilities include the following:

Cash and cash equivalents	86,845	51,200	86,845	51,200	52,250
Current financial liabilities (excluding trade and other payables, and provisions)	(78,463)	(19,299)	(78,463)	(19,299)	(38,589)
Non-current financial liabilities (excluding trade and other payables, and provisions)	(18,183)	(21,549)	(18,183)	(21,549)	(25,058)

Income Statement summary

Sales	821,883	768,616	821,883	768,616	709,074
Depreciation and amortisation	21,809	20,222	21,809	20,222	24,559
Finance costs	6,033	2,813	6,033	2,813	3,127
Finance revenue	371	361	371	361	84
Taxation charge	97,447	85,610	97,447	85,610	67,069
Profit from continuing operations	240,118	220,732	240,118	220,732	170,707
Other comprehensive income	-	-	-	-	-
Total comprehensive income	240,118	220,732	240,118	220,732	170,707

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

Net assets of the joint venture	394,379	373,130	394,379	373,130	311,710
Proportion of the group's ownership interest	50%	50%	50%	50%	50%
Carrying amount of the group's interest in the joint venture	197,190	186,565	197,190	186,565	155,855

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

10. Other non-current assets

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	Restated 2015 R'000
Advances to tree growers	40,586	44,529	40,586	44,529
Licence fee	401	36	401	36
Defined benefit pension plan assets (refer to note 24)	312,463	367,530	312,463	367,530
Unlisted investment	15,000	15,000	14,999	14,999
Other	6,680	6,680	332	332
	375,130	433,775	368,781	427,426

11. Inventories

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Raw materials	467,458	391,794	467,458	391,794
Work in progress	69,340	55,160	63,339	49,158
Finished goods	760,621	564,258	760,621	564,258
Consumable stores and spares	429,786	392,507	429,786	392,507
	1,727,205	1,403,719	1,721,204	1,397,717

The charge to the consolidated income statement relating to the write-down of inventories to net realisable value amounted to R78,211 thousand (2015: R94,858 thousand).

The cost of inventories recognised as an expense and included in cost of sales amounted to R11,917,585 thousand (2015: R12,086,161 thousand).

12. Trade and other receivables

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Trade accounts receivable	173,338	133,975	173,338	133,975
Receiver of revenue	133,619	53,163	105,036	53,164
Prepaid insurance	25,950	21,368	25,950	20,949
Prepayments and other receivables	171,944	100,281	165,608	100,152
	504,851	308,787	469,932	308,240

Management rates the quality of trade and other receivables, which are neither past due nor impaired, periodically against its internal credit rating parameters. The quality of trade receivables at financial year-end is such that management believes no allowance for credit losses is necessary.

Trade receivables (including securitised trade receivables) represent 8.2% (2015: 9.5%) of turnover.

12.1 Analysis of amounts past due and not impaired

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

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Between 7 and 30 days overdue	-	3,200	-	3,200

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

The group holds collateral of R17,250 thousand (2015: R16,750 thousand) against trade receivables past contractual repayment terms.

12.2 Fair value

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

12. Trade and other receivables (continued)

12.3 Off-balance sheet structures

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

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

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

The total amount of trade receivables sold at the end of September 2016 amounted to R1,249,085 thousand (2015: R1,367,601 thousand).

Details of the securitisation programme at the end of the 2016 and 2015 financial years are disclosed in the table below:

Bank	Value	Facility	Discount charges
2016			
Rand Merchant Bank Limited	ZAR1,249 million	Unlimited ⁽¹⁾	Linked to 3-month JIBAR
2015			
Rand Merchant Bank Limited	ZAR1,368 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 27 for further details on credit risks.

12.4 Concentration of credit risk

A significant portion of the group's sales and accounts receivable are from a small number of customers. None of the group's significant customers represented more than 10% of our sales and trade receivables during the years ended September 2016 and September 2015.

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 R504,851 thousand (2015: R308,787 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:

Threshold	2016			2015		
	Number of customers	R'000	Percentage	Number of customers	R'000	Percentage
Less than US\$5 million	79	173,338	100%	75	133,975	100%

13. Assets held for sale

During the financial year, the conditions precedent related to the sale of Sappi Southern Africa's Enstra and Cape Kraft mills were fulfilled. Proceeds of R569,982 thousand were received and a combined profit on disposal of R184,319 thousand was recorded.

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

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Property, plant and equipment	-	192,432	-	93,337
Inventories	-	193,710	-	160,152
Deferred Tax Asset ⁽¹⁾	-	-	-	11,459
Assets classified as held for sale	-	386,142	-	264,948
Deferred tax liabilities	-	(4,814)	-	-
	-	(4,814)	-	-

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

14. Ordinary share capital and share premium

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Authorised share capital:				
6,052,500 Ordinary shares of R2 each	12,105	12,105	12,105	12,105
19,520 Class A cumulative preference shares ⁽¹⁾⁽²⁾⁽³⁾	-	-	-	-
221,107 Class B cumulative preference shares ⁽¹⁾⁽²⁾⁽³⁾	-	-	2	2
831 Class C cumulative preference shares ⁽¹⁾⁽²⁾⁽³⁾	-	-	-	-
123,321 Class D cumulative preference shares ⁽¹⁾⁽²⁾⁽³⁾	-	-	1	1
	12,105	12,105	12,108	12,108
Issued share capital:				
6,015,769 (2015: 6,015,769) Ordinary shares of R2 each	12,030	12,030	12,030	12,030
19,520 (2015: 19,520) Class A cumulative preference shares ⁽¹⁾⁽²⁾⁽³⁾	-	-	-	-
219,760 (2015: 219,760) Class B cumulative preference shares ⁽¹⁾⁽²⁾⁽³⁾	-	-	2	2
831 (2015: 831) Class C cumulative preference shares ⁽¹⁾⁽²⁾⁽³⁾	-	-	-	-
119,183 (2015: 120,046) Class D cumulative preference shares ⁽¹⁾⁽²⁾⁽³⁾	-	-	1	1
Company Proprietary Limited preference shares ⁽¹⁾⁽²⁾⁽³⁾	-	-	(3)	(3)
	12,030	12,030	12,030	12,030
Share premium	209,070	209,070	209,070	209,070
Share premium on new preference shares issued	-	-	223,178	223,178
362,650 Investment in Sappi Property Company Proprietary Limited preference shares ⁽¹⁾⁽²⁾⁽³⁾	-	-	(223,178)	(223,178)
Closing balance	221,100	221,100	221,100	221,100

⁽¹⁾ Non-convertible redeemable preference shares of R0.01 each with a variable coupon rate.

⁽²⁾ The variable coupon rate is based on Sappi Southern Africa's long-term borrowing rate.

⁽³⁾ The Class "A", "B", "C" and "D" preference share 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 holds 362,650 (2015: 362,826) preference shares in Sappi Property Company Proprietary Limited. A legal right to off-set these preference shares exists.

Capital risk management

The capital structure of the group consists of:

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

The objectives of the group in managing capital are:

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

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

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

During the 2016 and 2015 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 2015.

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

15. Other comprehensive (loss) income

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
<i>Item that will not be reclassified subsequently to profit or loss</i>				
Actuarial (losses) gains on post-employment benefit funds	(51,830)	13,919	(51,830)	13,919
Gross amount	(71,986)	19,333	(71,986)	19,333
Tax	20,156	(5,414)	20,156	(5,414)
Hedging reserves	14,731	7,696	14,731	7,696
Movements during the year	76,035	(204,233)	76,035	(204,233)
Reclassified to profit or loss	(46,092)	213,475	(46,092)	213,475
Reclassified to property, plant and equipment	(9,483)	1,446	(9,483)	1,446
Tax	(5,729)	(2,992)	(5,729)	(2,992)
Other comprehensive loss recorded directly in equity	(37,099)	21,615	(37,099)	21,615
Profit for the year	3,619,092	2,169,885	3,402,993	2,138,298
Total comprehensive income for the year	3,581,993	2,191,500	3,365,894	2,159,913

16. Non-distributable reserves

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Share-based payment reserve (refer to note 26)	(35,937)	(13,612)	(37,683)	(15,358)
Share-based payment reserve - BBBEE (refer to note 26)	186,658	169,932	186,658	169,932
	150,721	156,320	148,975	154,574

Notes to the Consolidated and Company annual financial statements (continued)
for the year ended September 2016

17. Interest-bearing borrowings

	Consolidated		Company	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Unsecured borrowings	1,643,824	2,398,124	1,643,824	2,398,124
Less: Current portion included in current liabilities	435	(753,124)	435	(753,124)
Total non-current interest-bearing borrowings	1,644,259	1,645,000	1,644,259	1,645,000
The repayment profile of the interest-bearing borrowings is as follows:				
Payable in the year ended September:				
2016		753,124		753,124
2017	(435)	-	(435)	-
2018	499,654	500,000	499,654	500,000
2019	(251)	-	(251)	-
2020	1,144,856	1,145,000	1,144,856	1,145,000
	1,643,824	2,398,124	1,643,824	2,398,124

Capitalised lease liabilities

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

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

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

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

⁽²⁾ The principal value of the loans / bonds corresponds to the amount of the facility; however, the balance sheet value has been adjusted by the discounts paid upfront and the fair value adjustments relating to hedge accounting.

A detailed analysis of total interest-bearing borrowings has been disclosed in note 28.

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 2016 and 2015 financial years, the group was in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institutions before such breach occurs.

Unutilised facilities

The group monitors its availability of funds on a daily basis. The group treasury committee monitors the amount of unutilised facilities to assess the headroom available. The net cash balances included in current assets and current liabilities are included in the determination of the headroom available.

	Currency	Interest rate	2016	2015
			R'000	R'000
Unutilised committed facilities				
Syndicate loan/revolving credit facility ⁽¹⁾	ZAR	Variable (JIBAR)	1,000,000	1,000,000
Unutilised uncommitted facilities				
Cash management overdraft facility/short-term banking facilities	ZAR	bank prime rate)	275,000	275,000
Total unutilised facilities (committed and uncommitted) excluding cash			1,275,000	1,275,000

⁽¹⁾ Syndicated loans with a consortium of banks with revolving facilities available 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 R4,737 thousand (2015: R4,635 thousand) in respect of this facility.

Fair value

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

18. Other non-current liabilities				
	Consolidated		Company	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Post-employment benefits other than pension liability (refer to note 25)	214,085	252,585	214,085	252,585
Other	3,734	3,734	-	-
	217,819	256,319	214,085	252,585
19. Notes to the group statement of cash flows				
	Consolidated		Company	
	2016	2015	2016	2015
	R'000	R'000	R'000	Restated R'000
19.1 Cash generated from operations				
Profit for the year	3,619,092	2,169,885	3,402,993	2,138,298
Adjustment for:				
- Depreciation	692,179	679,590	688,295	663,927
- Fellings	833,413	687,580	833,413	687,580
- Impairment reversals of assets and investments	(5,081)	(1,784)	(5,081)	(1,784)
- Taxation charge	1,286,381	700,346	1,236,704	690,994
- Net finance (revenue) costs	(56,988)	30,254	(59,001)	28,818
- Equity accounted profits	(120,059)	(110,366)	(120,059)	(110,366)
- Profit (loss) on disposal of assets and businesses	(20,942)	-	-	-
- Profit on assets held for sale	(184,319)	-	23,548	-
- Plantation fire, drought and other damages	192,675	82,393	192,675	82,393
- Fair value adjustment gains and growth on plantations	(1,760,702)	(1,276,862)	(1,760,702)	(1,276,862)
- Other non-cash items	(55,854)	(31,667)	(75,675)	(19,216)
	4,419,795	2,934,177	4,357,110	2,883,782
19.2 Increase in working capital				
(Increase) decrease in inventories	(305,897)	16,530	(287,792)	21,825
(Increase) decrease in receivables	(215,012)	82,566	(180,652)	81,077
(Increase) decrease in amounts owed by group companies	(2,793)	(321,630)	9,447	(322,489)
Increase (decrease) in payables	95,573	210,653	139,033	213,848
Increase (decrease) in amounts owed to group companies	63,306	(97,786)	18,572	(109,446)
	(364,823)	(109,667)	(301,392)	(115,185)
19.3 Finance costs paid				
Interest and other finance costs on liabilities carried at amortised cost	(187,099)	(234,038)	(185,054)	(233,366)
Net foreign exchange gains (losses)	37,176	62,637	37,165	62,147
Net fair value (gains) losses on financial instruments	(13)	(395)	(13)	(395)
Non cash movements included in items above	(31,275)	(9,724)	(31,274)	(9,724)
	(181,211)	(181,520)	(179,176)	(181,338)
19.4 Taxation paid				
Net amounts payable at beginning of year	(243,101)	(115,307)	(239,013)	(115,249)
Taxation charge to profit or loss	(851,458)	(335,675)	(792,349)	(327,717)
Taxation (charge) benefit per OCI	(10,649)	3,592	(10,649)	3,592
Other movements	-	-	6	-
Less: Net amounts payable at end of year	355,600	243,101	336,310	239,013
	(749,608)	(204,289)	(705,695)	(200,361)
19.5 Proceeds on disposal of other non-current assets				
Book value of non-current assets disposed of	42,502	11,605	42,482	10,179
Profit on disposal	21,290	(3,886)	20,163	(2,344)
	63,792	7,719	62,645	7,835
19.6 Cash and cash equivalents				
Cash and deposits on call	3,845,164	3,364,014	3,845,124	3,363,943

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

20. Provisions

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Restructuring provisions	-	6,200	-	6,200

A reconciliation of restructuring provisions which consist of severance, retrenchment and related costs is provided below:

	Consolidated R'000	Company R'000
Balance at September 2014	7,975	7,975
Increase in provisions	16,800	16,800
Utilised	(18,575)	(18,575)
Released during the year	999	999
Other movements	(999)	(999)
Balance at September 2015	6,200	6,200
Increase in provisions	9,839	9,839
Utilised	(16,039)	(16,039)
Balance at September 2016	-	-

21. Encumbered assets

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

22. Commitments

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
<i>Capital commitments</i>				
Contracted but not provided	210,877	435,911	210,877	435,835
Approved but not contracted	199,796	141,693	199,796	141,693
	410,673	577,604	410,673	577,528

Future forecasted cash flows of capital commitments at September:

	Consolidated	Company
2016	577,604	577,528
2017	398,949	-
2018	11,724	-
	410,673	577,528

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

Lease commitments

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

	Consolidated	Company
2016	87,825	87,488
2017	92,088	39,909
2018	34,631	16,320
2019	20,069	9,814
2020	11,528	4,827
2021 (2015: Thereafter)	4,505	11,523
Thereafter	8,791	8,791
	171,612	169,881

Further information on capital commitments relating to environmental matters can be found in note 31.

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

23. Contingent liabilities

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Guarantees and suretyships	-	16,076	-	16,076
Other contingent liabilities	10,000	10,000	10,000	10,000
	10,000	26,076	10,000	26,076

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 2016 financial year, the investigation remains in its early stages as the dispute is one of a procedural nature.

24. Post-employment benefits - pensions

Summary of results

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Post-employment plan costs (credits) recognised in profit or loss	53,049	54,991	53,049	54,991
Employer contributions paid during the financial year	73,550	82,499	73,550	82,499

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 R115,096 thousand (2014: R121,467 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 R120,825 thousand.

Defined benefit pension plans

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

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

Benefits are formula-driven, based on final average salary

Exposure to risks

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

Inflation: The risk that future inflation indices is higher than expected and uncontrolled,

Future changes in legislation: The risk that changes to legislation with respect to the post-employment liability may increase the liability for the group,

Future changes in the tax environment: The risk that changes in the tax legislation governing employee benefits may increase the liability for the group,

Longevity: The risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected, and

Administration: Administration of this liability poses a burden to the group.

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

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

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

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

Investment management and strategic asset allocation

Plan fiduciaries are responsible for investment policies and strategies for local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment. Plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Plan fiduciaries also make use of fiduciary managers, multi-asset manager mandates and flight path' assessment tools to assist with strategic asset allocation. Such reviews include asset-liability modelling studies to analyse risk-and-return profiles. Investment and contribution policies are integrated within this study.

Funding Policy

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

Expected company contributions across group subsidiaries over the next financial year are R71,127 thousand.

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

	Consolidated		Company	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Components of defined benefit cost recognised in profit or loss				
Current service cost	68,564	73,156	68,564	73,156
Past service cost	1,088	645	1,088	645
Interest on net defined benefit	(28,230)	(22,799)	(28,230)	(22,799)
Fund administration costs	4,421	3,989	4,421	3,989
Non-routine plan amendment, curtailment loss and settlement gain	7,206	-	7,206	-
Net amount recognised in profit or loss	53,049	54,991	53,049	54,991
Components of defined benefit cost recognised in other				
Actuarial gains (losses) arising from membership experience	20,266	(10,054)	20,266	(10,054)
Actuarial losses arising from changes in demographic assumptions	(39,885)	-	(39,885)	-
Actuarial losses arising from changes in financial assumptions	(57,404)	(31,416)	(57,404)	(31,416)
Actuarial gains arising on assets	1,455	73,549	1,455	73,549
Net amount recognised in other comprehensive income	(75,568)	32,079	(75,568)	32,079
Movement in the present value of the defined benefit obligation in				
Defined benefit obligation at beginning of year	1,951,830	1,870,763	1,951,830	1,870,763
Current service cost	68,564	73,156	68,564	73,156
Past service cost	1,088	645	1,088	645
Interest cost	158,964	159,016	158,964	159,016
Plan participants' contributions	22,081	23,989	22,081	23,989
Remeasurements	77,023	41,470	77,023	41,470
- Membership experience changes	(20,266)	10,054	(20,266)	10,054
- Demographic assumption changes	39,885	-	39,885	-
- Financial assumption changes	57,404	31,416	57,404	31,416
Non-routine plan amendment, curtailment loss and settlement gain	7,206	-	7,206	-
Benefits paid	(421,443)	(217,209)	(421,443)	(217,209)
Defined benefit obligation at end of year	1,865,313	1,951,830	1,865,313	1,951,830
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	2,319,360	2,178,706	2,319,360	2,178,706
Interest income	187,194	181,815	187,194	181,815
Employer contributions	73,550	82,499	73,550	82,499
Plan participants' contributions	22,081	23,989	22,081	23,989
Remeasurements - actuarial gains arising on assets	1,455	73,549	1,455	73,549
Benefits paid	(421,443)	(217,209)	(421,443)	(217,209)
Fund administration costs	(4,421)	(3,989)	(4,421)	(3,989)
Fair value of plan assets at end of year	2,177,776	2,319,360	2,177,776	2,319,360
Recognised pension plan assets	(312,463)	(367,530)	(312,463)	(367,530)

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

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

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Cash and cash equivalents	198,073	299,706	198,073	299,706
Investments quoted in active markets				
- Equity and high yield investments				
- Domestic	309,213	1,064,368	309,213	1,064,368
- Foreign	406,330	359,548	406,330	359,548
- Investment grade debt instruments				
- Nominal	1,264,160	585,059	1,264,160	585,059
Unquoted investments				
- Other	-	10,679	-	10,679
	2,177,776	2,319,360	2,177,776	2,319,360

Plan assets do not include any investments in the group's own quoted shares (2015: R9 144 thousand). These were held by an appointed investment manager as part of the routine mandate to invest in domestic equities.

The fair values of the various equity and debt instruments are determined based on quoted market prices in active markets, whereas the fair values of certain property and derivatives are not based on quoted market prices in active markets. Plans generally buy and hold bonds as a hedge against interest rate and inflation rate risk.

The principal assumptions used in determining pension subsidies for the group's plans are shown below:

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Discount rate (%)	9.40	8.60	9.40	8.60
Future salary increases (%)	8.50	7.40	8.50	7.40
Cost of living adjustment for pensions in payment (%)	6.00	5.10	6.00	5.10
Average life expectancy in years				
- For current beneficiaries (male of 60 years)	19.20	19.20	19.20	19.20
- Future retiree (male of 60 years in 20 years' time)	20.20	20.10	20.20	20.10

A quantitative sensitivity analysis for significant assumptions as at financial year-end is disclosed below:

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, expected salary increase, cost of living adjustments to pensions in payment and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, whilst holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by R308,235 thousand (increase by R391,863 thousand).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by R337,525 thousand (decrease by R276,874 thousand)
- If the expected cost of living adjustment (pension increase) rate is 100 basis points higher (lower), the defined benefit obligation would increase by R238,051 thousand (decrease by R201,969 thousand)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by R46,210 thousand (decrease R44,270 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 that applied in calculating the defined benefit obligation recognised in the balance sheet. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

25. Post-employment benefits - post-retirement healthcare subsidy

Summary of results	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Post-employment plan costs (credits) recognised in profit or loss	35,072	(858)	35,072	(858)
Employer contributions paid during the financial year	69,990	35,956	69,990	35,956

Post-employment benefits - post-retirement healthcare subsidy

The company sponsors a defined benefit post-employment plan that provides certain health care and life insurance benefits to eligible retired employees. Employees are generally eligible for benefits upon retirement and the completion of a specified number of years of 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 R5 768 thousand.

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Components of defined benefit cost recognised in profit or loss				
Current service cost	7,935	8,957	7,935	8,957
Interest on net defined benefit	20,764	20,265	20,764	20,265
Gains (losses) on settlements	6,373	(30,080)	6,373	(30,080)
Net amount recognised in profit or loss	35,072	(858)	35,072	(858)
Components of defined benefit cost recognised in other				
Actuarial losses arising from membership experience	(328)	(3,058)	(328)	(3,058)
Actuarial losses arising from changes in financial assumptions	(26)	(1,260)	(26)	(1,260)
Actuarial gains (losses) arising on assets	3,936	(8,428)	3,936	(8,428)
Net amount recognised in other comprehensive income	3,582	(12,746)	3,582	(12,746)
Movement in the present value of the defined benefit obligation in				
Defined benefit obligation at beginning of year	397,907	686,501	397,907	686,501
Current service cost	7,935	8,957	7,935	8,957
Interest expense	33,279	36,159	33,279	36,159
Remeasurements	354	4,318	354	4,318
- Membership experience changes	328	3,058	328	3,058
- Financial assumption changes	26	1,260	26	1,260
Non-routine settlements	(96,478)	(320,797)	(96,478)	(320,797)
Benefits paid	(14,582)	(17,231)	(14,582)	(17,231)
Defined benefit obligation at end of year	328,415	397,907	328,415	397,907
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	145,322	409,848	145,322	409,848
Interest income	12,515	15,894	12,515	15,894
Employer contributions ⁽¹⁾	69,990	35,956	69,990	35,956
Remeasurements - actuarial gains (losses) arising on assets	3,936	(8,428)	3,936	(8,428)
Non-routine plan settlements	(102,851)	(290,717)	(102,851)	(290,717)
Benefits paid	(14,582)	(17,231)	(14,582)	(17,231)
Fair value of plan assets at end of year	114,330	145,322	114,330	145,322
Net balance sheet defined benefit (asset) liability	214,085	252,585	214,085	252,585

⁽¹⁾ The substantial employer post-employment healthcare subsidy contribution is due to settlement programmes during the year.

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

The major categories of plan assets at fair value are presented as follows:		Consolidated		Company	
		2016 R'000	2015 R'000	2016 R'000	2015 R'000
Cash and cash equivalents		11,818	11,756	11,818	11,756
Unquoted investments					
- Other		102,512	133,566	102,512	133,566
		114,330	145,322	114,330	145,322

The fair values of the various equity and debt instruments are determined based on quoted market prices in active markets, whereas the fair values of certain property and derivatives are not based on quoted market prices in active markets. Plans generally buy and hold bonds as a hedge against interest rate and inflation rate risk.

The principal assumptions used in determining pension and post-employment medical aid subsidies for the group's plans are shown below:

	Consolidated		Company	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Discount rate (%)	9.50	9.30	9.50	9.30
Healthcare cost trend rate (%)	8.50	8.30	8.50	8.25
Average expectancy in years				
- For current beneficiaries (male of 60 years)	19.40	19.40	19.40	19.40

A quantitative sensitivity analysis for significant assumptions as at financial year-end is disclosed below:

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, expected salary increase, health care cost trends and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, whilst holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by R43,023 thousand (increase by R53,724 thousand)
- If the expected health care cost trend rate is 100 basis points higher (lower), the defined benefit obligation would increase by R54,482 thousand (decrease by R44,307 thousand)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by R11,760 thousand (decrease R11,612 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 16.1 years.

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

26. Share-based payments

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

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

Movements in share options and performance shares for the financial years ended September 2016 and September 2015 are as follows:

	Performance shares ⁽¹⁾	Share options	Weighted average share option exercise price (ZAR)	Total Shares
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
- Offered	954,500	-	-	954,500
- Paid for/vested	(165,532)	(1,121,728)	36.77	(1,287,260)
- Returned, lapsed, forfeited and transfers	(207,657)	(45,408)	46.48	(253,065)
Outstanding at September 2016	3,558,672	983,971	30.14	4,542,643
Exercisable at September 2015	-	1,957,656	35.04	1,957,656
Exercisable at September 2016	-	983,971	30.14	983,971

⁽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.

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

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

	Issue 41	Issue 41
Date of grant	07 December 2015	07 December 2015
Type of award	Performance	Performance
Share price at grant date	ZAR 59.92	ZAR 59.92
Vesting period	4 years	4 years
	Market-related -	Cash flow return on
Vesting conditions	relative to peers	net assets relative
Life of options	n/a	to peers
Market-related vesting conditions	Yes	n/a
Percentage expected to vest	78%	No
Number of shares offered	1,882,675	80%
Volatility	31%	1,882,675
Risk-free discount rate	1.7% (US yield)	n/a
Expected dividend yield	2.4%	n/a
Model used to value	Monte-Carlo	2.4%
Fair value of option	ZAR 53.29	Market price
		ZAR 47.94

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

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

Broad-based Black Economic Empowerment

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

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

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

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

The BBBEE transaction

The BBBEE transaction comprised two distinct parts:

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

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

26. Share-based payments (continued)

	share
Strategic partners	
Lereko Investments Proprietary Limited	1,971,693
Malibongwe Women Development Trust	432,842
AMB Capital Limited	643,227
	3,047,762
Employees (through the ESOP Trust)	1,280,597
Total	4,328,359

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

Entity	share
ESOP Trust	13,889,195
MSOP Trust	3,642,969
Sappi Foundation Trust	2,429,312
Total	19,961,476

The group incurred a share-based payment expense of R16,728 thousand (2015: R20,932 thousand) during the 2016 financial year that related to the 'A' ordinary shares that were awarded.

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

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

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

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

Completed months of service after effective date	vesting of	vesting of
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

27. Derivative financial instruments

		Consolidated		Company	
		2016	2015	2016	2015
		R'000	R'000	R'000	R'000
Hedging instrument	Hedged item				
Non-current assets					
Interest rate swap	Unsecured ZAR500 million bond due April 2018	10,456	15,602	10,456	15,602
Interest rate swap	Unsecured ZAR400 million loan due May 2020	10,372	15,310	10,372	15,310
		20,828	30,912	20,828	30,912
Current assets					
Interest rate swap	Unsecured ZAR255 million bond due April 2016	-	1,311	-	1,311
Forward exchange contracts	Various	29,730	12	29,730	-
		29,730	1,323	29,730	1,311
Current liabilities					
Forward exchange contracts	Various	11,037	5,175	11,037	5,175
		11,037	5,175	11,037	5,175

Refer to note 28 for more detail on financial instruments.

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

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
 - Currency risk and
 - Commodity price 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, whilst commodity price risk is managed regionally.

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

a) Market risk

Interest rate risk

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

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

Interest-bearing borrowings

The following table provides information about Sappi's 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 2016 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 25 September 2016. 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) for the year ended September 2016

28. Financial instruments (continued)

	Expected maturity date				2016 Carrying value	2016 Fair Value	2015 Carrying Value	2015 Fair Value
	2017	2018	2019	2020				
Rand								
Fixed rate debt ⁽¹⁾	(435)	499,907	-	1,144,352	1,643,824	1,714,616	2,398,124	2,484,847
Average interest rate (%)	-	7.46	-	7.99	7.83		8.1	
Fixed and variable	(435)	499,907	-	1,144,352	1,643,824	1,714,616	2,398,124	2,484,847
Current portion					(435)	-	753,124	780,409
Long-term portion					1,644,259	1,714,616	1,645,000	1,704,438
Total interest-bearing borrowings (refer to note 17)					1,643,824	1,714,616	2,398,124	2,484,847

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

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

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

At September 2016, 100% of the borrowings were at fixed rates of interest. Fixed rates of interest are based on contract rates.

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

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, ie an asset includes a counterparty credit risk spread, whereas the fair value measurement of a liability includes Sappi's own credit risk spread.

Interest rate swaps floating to fixed

In April and May 2013, Sappi issued floating rate debt to the total amount of R1,155,000 thousand maturing in 2016, 2018 and 2020 and swapped the floating rates into fixed rates. These liabilities and the corresponding interest rate swaps are designated in cash flow hedging relationships, allowing all mark-to-market valuations of the swaps to be booked to equity. As all critical terms of the hedged items and the hedging instruments match perfectly, the hedges are expected to continue being highly effective. In April 2016, R255,000 thousand floating rate debt and the corresponding swaps came to maturity.

At September 2016, the hedges were highly effective and the swaps had in total a net positive fair value of R20,820 (pre-tax) thousand which was deferred to equity.

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

28. Financial instruments (continued)

Summary of outstanding cash flow hedges

September 2016

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

September 2015

		Maturity date	Nominal value	Total fair value ⁽¹⁾	Recorded in	
					OCI	Profit or loss
Interest rate					R'000	R'000
<u>Cash flow hedges</u>						
IRS	ZAR variable (JIBAR) to ZAR 6.74% fixed	April 2016	ZAR255 million	1,311	1,311	-
IRS	ZAR variable (JIBAR) to ZAR 7.46% fixed	April 2018	ZAR500 million	15,602	15,587	15
IRS	ZAR variable (JIBAR) to ZAR 7.85% fixed	May 2018	ZAR400 million	15,310	15,304	6
				32,223	32,202	21

⁽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.

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 R6.3 million.

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

To the extent of any downgrade on the group's revolving credit facility, a change in the group's own credit rating will affect the funding rate. Assuming an annual drawdown of R1 million, a one notch downgrade will negatively impact profit before tax by R400 thousand and a one notch upgrade will have a R300 thousand positive impact. The revolving credit facility was undrawn at financial year-end.

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

28. Financial instruments (continued)

Currency risk

The objective of the group in managing currency risk is to ensure that foreign exchange exposures are identified as early as possible and actively managed. Sappi is exposed to the following currency risks:

- Economic exposures which consist of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders, and
- Transaction exposures arise from transactions entered into which result in a flow of cash in foreign currency such as payments under foreign currency long- and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts.

In managing currency risk, the group first makes use of internal hedging techniques with external hedging being applied thereafter. External hedging techniques consist primarily of foreign currency forward exchange contracts. Foreign currency capital expenditure on projects must be covered as soon as practical (subject to regulatory approval).

Currency risk analysis

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

The following tables for the 2016 and 2015 financial years disclose financial instruments as determined by IAS 39 *Financial Instruments: Recognition and Measurement*, classified by underlying currency, and does not indicate the group's foreign currency exchange exposure.

September 2016

			Currency				
	Total	Total in	USD	EUR	ZAR	GBP	Other
	R'000	scope	R'000	R'000	R'000	R'000	R'000
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Classes of financial instruments							
Non-current assets							
Other non-current assets	375,130	-	-	-	-	-	-
Derivative financial instruments	20,828	20,828	-	-	20,828	-	-
Current assets							
Trade and other receivables	504,851	340,226	14,753	642	324,831	-	-
Derivative financial instruments	29,730	29,730	(545,779)	114	572,498	-	2,897
Amounts owing by group companies	1,842,519	1,842,519	-	-	1,842,519	-	-
Cash and cash equivalents	3,845,164	3,845,164	15,123	717	3,826,289	390	2,645
		6,078,467	(515,903)	1,473	6,586,965	390	5,542
Non-current liabilities							
Interest-bearing borrowings	1,644,259	1,645,000	-	-	1,645,000	-	-
Current liabilities							
Interest-bearing borrowings	(435)	-	-	-	-	-	-
Trade and other payables	2,904,954	2,484,140	158,708	24,052	2,286,054	13	15,313
Derivative financial instruments	11,037	11,037	(207,711)	-	218,748	-	-
Amounts owing to the group	165,440	165,440	-	-	165,440	-	-
		4,305,617	(49,003)	24,052	4,315,242	13	15,313
Foreign exchange gap		1,772,850	(466,900)	(22,579)	2,271,723	377	(9,771)

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

September 2015

September 2019

			Currency				
	Total		USD	EUR	ZAR	GBP	Other
	R'000	R'000	R'000	R'000	R'000	R'000	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 the group	1,827,850	1,827,850	-	-	1,827,850	-	-
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 the group	1,570,320	1,570,320	-	-	1,570,320	-	-
		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)

Hedging of foreign currency risk

Foreign currency forward exchange contracts

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

		2016		2015	
		Contract amount (notional amount) R'000	Fair value (unfavourable) favourable R'000	Contract amount (notional amount) R'000	Fair value (unfavourable) favourable R'000
Foreign currency					
Bought:					
	US Dollar	284,225	291,687	83,571	2,489
	Euro	99,118	103,617	70,544	5,120
	Swedish Krona	20,636	21,310	-	-
	GBP	-	-	309	1
	Botswana Pula	-	-	116	-
	Japanese yen	2,838	2,832	-	-
Sold:					
	US Dollar	(639,479)	(667,860)	(468,849)	(12,773)
		(232,662)	(248,414)	(314,309)	(5,163)

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2016 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, unless designated as a hedging instrument in a cash flow hedge.

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being September 2017.

As at September 2016, there was an open exposure of US\$12,025 thousand that has since been hedged.

Sensitivity analysis - (loss) gain

Base currency	Exposure R'000	+ 10 % R'000	- 10 % R'000
EUR	(137,795)	(12,527)	15,311
GBP	(12)	(1)	1
JPY	297	27	(33)
SEK	(206)	(19)	23
USD	(27,488)	(2,499)	3,054
TOTAL	(165,204)	(15,019)	18,356

Based on the exposure at the end of September 2016, 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 R15,019 thousand or a gain of R18,356 thousand respectively.

During 2016, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US\$271,000 thousand which were used as an overlay hedge of export sales from Southern Africa. The total impact on profit or loss amounted to a profit of R102,005 thousand (including positive forward points of R55,913 thousand).

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

28. Financial instruments (continued)

Cash flow hedges

Saiccor Mill export sales

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 ZAR, any change in the foreign currency exchange rate between the US Dollar and the ZAR would result in a different ZAR 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 2016 financial year, the hedge was highly effective and a net realised gain of R46,092 (2015 loss 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 positive amount of R18,148 (2015 negative R9 236) thousand was deferred in equity.

b) Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its current and future financial obligations as they fall due.

The group's objective is to manage its liquidity risk by:

- managing its bank balances, cash concentration methods and cash flows,
- managing its working capital and capital expenditure,
- ensuring the availability of a minimum amount of short-term borrowing facilities at all times, to meet any unexpected funding requirements, and
- ensuring appropriate long-term funding is in place to support the group's long-term strategy.

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 17.

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

Liquidity risk management

The following tables for the 2016 and 2015 financial years disclose financial instruments, as determined by IAS 39 *Financial Instruments: Recognition and Measurement*, are classified by liquidity and does not necessarily indicate the group's actual cash flows.

September 2016

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

28. Financial instruments (continued) September 2015

	Total financial assets and liabilities R'000	Fair value of financial instruments R'000	Undiscounted cash flows					Total 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	
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 the group	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 the group	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 surplus (gap)			1,360,630	(847,639)	(128,645)	(1,969,987)	(102,021)	(1,687,662)

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for the 2016 and 2015 financial years that are included within the various categories on the balance sheet. The reported maturity analysis is calculated on an undiscounted basis.

September 2016

				Maturity analysis				
				Undiscounted cash flows				
	Total	Cash flow	No hedge	0-6	6-12	1-2 years	2-5 years	> 5 years
	R'000	hedge	accounting	months	months			
		R'000	R'000	R'000	R'000	R'000	R'000	R'000
Classes of derivative financial instruments								
Assets								
Fair value of derivatives by risk factor								
Interest rate risk								
Long term - Interest rate swaps	20,828	20,828	-	3,489	6,934	12,103	-	-
- paying leg	(124,166)	(124,166)	-	(34,428)	(34,170)	(59,298)	-	-
- receiving leg	144,994	144,994	-	37,917	41,104	71,401	-	-
Foreign exchange risk								
Short term - FEC's	29,730	-	29,730	29,730	-	-	-	-
- paying leg	(542,768)	-	(542,768)	(542,768)	-	-	-	-
- receiving leg	572,498	-	572,498	572,498	-	-	-	-
Liabilities								
Fair value of derivatives by risk factor								
Foreign exchange risk								
Short term - FEC's	11,037	-	11,037	9,363	1,674	-	-	-
- paying leg	218,748	-	218,748	190,099	28,649	-	-	-
- receiving leg	(207,711)	-	(207,711)	(180,736)	(26,975)	-	-	-

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

28. Financial instruments (continued) September 2015

September 2019

				Maturity analysis				
				Undiscounted cash flows				
	Total	Cash flow	No hedge	0-6	6-12	1-2 years	2-5 years	> 5 years
	R'000	hedge	accounting	months	months			
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Classes of derivative financial instruments								
Assets								
Fair value of derivatives by risk factor								
Interest rate risk								
Long term - Interest rate swaps	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	-
Interest rate risk								
Short term - Interest rate swaps	1,311	1,311	-	796	690	-	-	-
- paying leg	(13,104)	(13,104)	-	(8,959)	(4,285)	-	-	-
- receiving leg	14,415	14,415	-	9,755	4,975	-	-	-
Foreign exchange risk								
Short term - FEC'S	12	-	12	12	-	-	-	-
- paying leg	(513)	-	(513)	(513)	-	-	-	-
- receiving leg	525	-	525	525	-	-	-	-
Liabilities								
Fair value of derivatives by risk factor								
Foreign exchange risk								
Short term - FEC'S	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)	-	-	-

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

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.

September 2016

September 2016

	As determined by IAS 39		Categories in accordance with IAS 39		Fair value R'000	
Total balance R'000	Total out of scope R'000	Total in scope R'000	through profit or loss R'000	Loans and receivables R'000		
Classes of financial instruments						
Non-current assets						
Other non-current assets	375,130	375,130	-	-	-	
Derivative financial instruments	20,828	-	20,828	20,828	20,828	
	395,958	375,130	20,828	20,828	20,828	
Current assets						
Trade and other receivables	504,851	164,625	340,226	-	340,226	
Derivative financial instruments	29,730	-	29,730	29,730	29,730	
Amounts owing by group companies	1,842,519	-	1,842,519	-	1,842,519	
Cash and cash equivalents	3,845,164	-	3,845,164	-	3,845,164	
	6,222,264	164,625	6,057,639	29,730	6,057,639	

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

28. Financial instruments (continued)

September 2015

	As determined by IAS 39		Categories in accordance with 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	Loans and receiv- ables R'000	
Classes of financial instruments						
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	1,827,850
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

		As determined by IAS 39		Categories in accordance with IAS 39		
	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	Fair value R'000
Classes of financial instruments						
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 by 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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

28. Financial instruments (continued)

The level in the fair value hierarchy into which financial instruments, that are measured at fair value, are categorised is disclosed below. There have been no transfers between the categories of the fair value hierarchy.

	2016				2015			
	Total fair value	Fair value hierarchy			Total fair value	Fair value hierarchy		
	R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000	R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
Non-current assets								
Plantations	6,042,661	-	-	6,042,661	5,325,483	-	-	5,325,483
Derivative financial instruments	20,828	-	20,828	-	30,912	-	30,912	-
Current assets								
Derivative financial instruments	29,730	-	29,730	-	1,323	-	1,323	-
	6,093,219	-	50,558	6,042,661	5,357,718	-	32,235	5,325,483
Non-current liabilities								
Derivative financial instruments	-	-	-	-	-	-	-	-
Current liabilities								
Derivative financial instruments	11,037	-	11,037	-	5,175	-	5,175	-
	11,037	-	11,037	-	5,175	-	5,175	-

c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group faces credit risk in relation to trade receivables, cash deposits and financial investments.

Credit risk relating to trade receivable management is the responsibility of regional management and is 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 98% 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) for the year ended September 2016

29. Related party transactions

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

	Income and sales to related parties		Purchases and charges from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Canonbrae Development Company Proprietary Limited*	-	-	-	-	2,310	2,310	-	-
Lereko Property Company Proprietary Limited*	-	-	-	-	-	85	1,059	-
Micawber 279(RF) Proprietary Limited*	-	-	-	-	-	17,433	28,686	-
Sappi Alfeld GMBH**	-	-	-	-	-	211	-	-
Sappi Saiccor Proprietary Limited*	-	-	-	-	-	-	11	10
Sappi Europe Limited**	-	-	336,421	132,600	-	-	115,517	69,188
Sappi Export Services Proprietary Limited**	-	-	-	-	-	-	10,904	10,904
Sappi International SA**	-	-	-	-	-	1,891	2,779	-
Sappi Limited***	-	-	-	-	-	-	34,416	1,362,844
Sappi Papier Holding GmbH	11,509,108	9,653,349	20,825	27,376	1,838,119	1,816,385	-	-
Sappi Specval Coatings Proprietary Limited*	-	-	-	-	-	44,930	184,785	-
Sappi Trading Hong Kong Limited**	-	-	-	-	-	160	25	-
Sappi Share Facilitation Company Proprietary Limited	-	-	-	-	-	-	-	621
Sappi Share Incentive Scheme**	-	-	-	-	-	-	250	55,762
Sappi Performance Share Incentive Plan**	-	-	-	-	-	-	960	70,934
Sappi Deutschland GmbH**	-	182	-	-	-	-	-	-
Sappisure Försäkrings AB**^	-	176,899	75,065	65,722	-	-	589	-
Sappi Holdings GMBH**	-	-	-	-	4,400	9,082	-	-
S.D. Warren Company**	-	-	-	-	-	-	-	70
Waterton Timber Company Proprietary Limited	-	-	-	-	-	-	312	312
	11,509,108	9,830,430	432,311	225,698	1,844,829	1,892,487	380,293	1,570,645

* Subsidiary

** Fellow subsidiary

*** Holding company

^ Not included in amounts owing by group of companies is prepaid insurance of R24,133 (2015: R19,818).

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

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

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

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

29. Related party transactions

Broad-based Black Economic Empowerment (BBBEE) transaction

Refer to notes 14 and 26 for details of the BBBEE transaction.

Shareholders

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

Key management personnel

The details of key management personnel, including emoluments, and participation in The Sappi Limited share schemes are disclosed in notes 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) for the year ended September 2016

30. Compensation of key management personnel

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.

	2016				
	Salary	Prior year bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid scheme	Total
	R'000	R'000	R'000	R'000	R'000
Director 1	2,228	1,022	-	466	3,716
Director 2	4,178	2,821	136	1,024	8,159
Director 3	2,192	852	-	764	3,808
Director 4	1,864	848	-	683	3,395
Director 5	1,754	876	-	639	3,269
Director 6	2,209	1,002	-	427	3,638
Director 7	1,684	740	-	609	3,033
Director 8	4,271	1,710	142	-	6,123
Director 9	3,992	3,055	122	1,030	8,199
Director 10	-	-	-	-	-
Director 11	5,719	4,467	178	1,356	11,720
Director 12	2,097	1,204	72	652	4,025
Director 13	2,715	2,352	92	1,255	6,414
Director 14	2,332	784	76	708	3,900
Director 15	1,587	-	-	302	1,889
	38,822	21,733	818	9,915	71,288

	2015				
	Salary	Prior year bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid scheme	Total
	R'000	R'000	R'000	R'000	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
	34,202	21,368	1,704	9,589	66,863

The prescribed officers of the group as at September 2016 consist of S Binnie, G Pearce, F Marupen, M van Hoven, G Bowles, A Rossi, P McGrady, A Thiel, C Mowatt, D van Aarde, T Hawkes, N Maelane, T Stanger and R Wells.

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

30. Compensation of key management personnel

Changes in directors' share options, allocations and performance shares before financial year-end

		Director 1	Director 2	Director 3	Director 4	Director 5	Director 6	Director 7	Director 8	Director 9
	Allocated price	shares	shares	shares	shares	shares	shares	shares	shares	shares
Outstanding at beginning of year										
Number of shares held		165,000	610,000	128,000	113,000	91,260	138,000	93,110	134,550	215,100
Share option issue 32	R 52.57	-	-	-	-	7,260	-	2,860	-	6,600
Share option issue 34	R 35.50	-	-	-	-	-	-	4,400	-	-
Share option issue 35	R 33.85	-	-	-	-	-	-	7,150	-	-
Share option issue 36	R 35.20	-	-	-	-	-	-	10,000	-	-
Share option issue 37	R 22.90	-	-	-	-	-	-	12,000	-	-
Performance shares 37	R 0.00	53,000	100,000	28,000	28,000	24,000	53,000	-	49,050	55,500
Performance shares 38	R 0.00	39,000	100,000	29,000	26,000	20,000	26,000	7,700	85,500	35,000
Performance shares 39	R 0.00	40,000	310,000	40,000	30,000	20,000	30,000	20,000	-	33,000
Performance shares 40	R 0.00	33,000	100,000	31,000	29,000	20,000	29,000	29,000	-	85,000
Appointment of executive director during the year										
Number of shares		-	-	-	-	-	-	-	-	-
Offered and accepted during the year										
Performance shares 40		-	-	-	-	-	-	-	-	-
Performance shares 41		35,000	105,000	25,000	25,000	25,000	30,000	45,000	-	90,000
Exercised during the year										
Number of shares		(26,500)	(50,000)	(14,000)	(14,000)	(19,260)	(26,500)	(36,410)	(24,525)	(34,350)
Returned, lapsed and forfeited during the year										
Number of shares		(26,500)	(50,000)	(14,000)	(14,000)	(12,000)	(26,500)	-	(24,525)	(27,750)
Retirement of executive director during the year										
Number of shares		-	-	-	-	-	-	-	-	-
Outstanding at end of year										
Number of shares		147,000	615,000	125,000	110,000	85,000	115,000	101,700	85,500	243,000
Share option issue 36	R 35.20	-	-	-	-	-	-	-	-	-
Share option issue 37	R 22.90	-	-	-	-	-	-	-	-	-
Performance shares 38	R 0.00	39,000	100,000	29,000	26,000	20,000	26,000	7,700	85,500	35,000
Performance shares 39	R 0.00	40,000	310,000	40,000	30,000	20,000	30,000	20,000	-	33,000
Performance shares 40	R 0.00	33,000	100,000	31,000	29,000	20,000	29,000	29,000	-	85,000
Performance shares 41	R 0.00	35,000	105,000	25,000	25,000	25,000	30,000	45,000	-	90,000

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

30. Compensation of key management personnel

		Director 10	Director 11	Director 12	Director 13	Director 14	Director 15	Total 2016	Total 2015
	Allocated price	shares	shares	shares	shares	shares	shares	shares	shares
Outstanding at beginning of year									
Number of shares held		-	585,000	275,000	284,700	-	-	2,832,720	2,862,587
Share option issue 32	R 52.57	-	-	-	7,700	-	-		
Share option issue 34	R 35.50	-	-	-	-	-	-		
Share option issue 35	R 33.85	-	-	-	-	-	-		
Share option issue 36	R 35.20	-	-	-	-	-	-		
Share option issue 37	R 22.90	-	-	-	-	-	-		
Performance shares 37	R 0.00	-	-	45,000	53,000	-	-		
Performance shares 38	R 0.00	-	100,000	60,000	39,000	-	-		
Performance shares 39	R 0.00	-	310,000	90,000	100,000	-	-		
Performance shares 40	R 0.00	-	175,000	80,000	85,000	-	-		
Appointment of executive director during the year									
Number of shares		-	-	-	-	-	81,700	81,700	-
Offered and accepted during the year									
Performance shares 40		-	-	-	-			-	696,000
Performance shares 41		-	190,000	85,000	90,000	70,000	-	815,000	-
Exercised during the year									
Number of shares		-	-	(22,500)	(34,200)	-	-	(302,245)	(180,893)
Returned, lapsed and forfeited during the year									
Number of shares		-	-	(22,500)	(26,500)	-	-	(244,275)	(118,043)
Retirement of executive director during the year									
Number of shares		-	-	-	-	-	-	-	(426,931)
Outstanding at end of year									
Number of shares		-	775,000	315,000	314,000	70,000	81,700	3,182,900	2,832,720
Share option issue 36	R 35.20	-	-	-	-	-	8,000		
Share option issue 37	R 22.90	-	-	-	-	-	7,500		
Performance shares 38	R 0.00	-	100,000	60,000	39,000	-	7,200		
Performance shares 39	R 0.00	-	310,000	90,000	100,000	-	13,000		
Performance shares 40	R 0.00	-	175,000	80,000	85,000	-	16,000		
Performance shares 41	R 0.00	-	190,000	85,000	90,000	70,000	30,000		

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

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

		Exercised	shares	Allocation price	date of payment
Director					
September 2016					
Director 1	Performance Plan 37	02 December 2015	26,500	ZAR 0.00	ZAR 62.95
Director 2	Performance Plan 37	02 December 2015	50,000	ZAR 0.00	ZAR 62.95
Director 3	Performance Plan 37	02 December 2015	14,000	ZAR 0.00	ZAR 62.95
Director 4	Performance Plan 37	02 December 2015	14,000	ZAR 0.00	ZAR 62.95
Director 5	Performance Plan 37	02 December 2015	12,000	ZAR 0.00	ZAR 62.95
	Issue 32	20 November 2015	7,260	ZAR 52.57	ZAR 62.00
Director 6	Performance Plan 37	02 December 2015	26,500	ZAR 0.00	ZAR 62.95
Director 7	Issue 32	17 November 2015	2,860	ZAR 52.57	ZAR 60.96
	Issue 34	17 November 2015	4,400	ZAR 35.50	ZAR 60.96
	Issue 35	17 November 2015	7,150	ZAR 33.85	ZAR 60.96
	Issue 36	17 November 2015	10,000	ZAR 35.20	ZAR 60.96
	Issue 37	17 November 2015	12,000	ZAR 22.90	ZAR 60.96
Director 8	Performance Plan 37	02 December 2015	24,525	ZAR 0.00	ZAR 62.95
Director 9	Performance Plan 37	02 December 2015	27,750	ZAR 0.00	ZAR 62.95
	Issue 32	10 December 2015	6,600	ZAR 52.57	ZAR 58.38
Director 12	Performance Plan 37	02 December 2015	22,500	ZAR 0.00	ZAR 62.95
Director 13	Performance Plan 37	02 December 2015	26,500	ZAR 0.00	ZAR 62.95
	Issue 32	10 December 2015	7,700	ZAR 52.57	ZAR 57.71
September 2015					
Director 1	Performance Plan 36	03 December 2014	12,500	ZAR 0.00	ZAR 40.93
Director 2	Performance Plan 36	03 December 2014	32,500	ZAR 0.00	ZAR 40.93
Director 3	Performance Plan 36	03 December 2014	15,000	ZAR 0.00	ZAR 40.93
Director 4	Performance Plan 36	03 December 2014	14,000	ZAR 0.00	ZAR 40.93
Director 5	Performance Plan 36	03 December 2014	13,750	ZAR 0.00	ZAR 40.93
	Issue 34	11 February 2015	8,800	ZAR 35.50	ZAR 50.52
Director 6	Performance Plan 36	03 December 2014	15,000	ZAR 0.00	ZAR 40.93
Director 8	Performance Plan 36	03 December 2014	22,268	ZAR 0.00	ZAR 40.93
Director 9	Performance Plan 36	03 December 2014	12,075	ZAR 0.00	ZAR 40.93
Director 10	Performance Plan 36	03 December 2014	25,000	ZAR 0.00	ZAR 40.93
Director 13	Performance Plan 36	03 December 2014	10,000	ZAR 0.00	ZAR 40.93
Vesting dates					
	Share option issue 36	03 December 2018			
	Share option issue 37	02 December 2019			
	Performance shares 38	07 December 2016			
	Performance shares 39	13 December 2017			
	Performance shares 40	03 December 2018			
	Performance shares 41	07 December 2019			

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

31. Environmental matters

In South Africa, our operations 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. The Act 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 and the growing and management of forests are all regulated through a general authorisation and / or licensing system 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 imposed more stringent compliance limits on the South African operations in 2020. The potential impact of these stricter standards as per the Air Quality Act are being evaluated and where possible quantified.
- 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, with the storage of waste being regulated by norms and standards.

South Africa has signed the COP21 Paris Agreement on Climate Change in April 2016. South Africa had been identified as the swing vote, the last realistic country that could push the agreement over the 55% carbon emission threshold needed for the deal to take full binding effect. Government is developing a broad mitigation system which includes:

- The assessment of mitigation potential,
- Setting carbon budgets for companies,
- Pollution prevention plans for companies with carbon budgets and annual greenhouse gas reporting' and
- Implementation of carbon tax.

Sappi Southern Africa's proposed carbon budget has been accepted by government and voluntary reporting will commence in 2017. The implementation date of the carbon tax legislation is uncertain, the latest indication is end of 2017 or more likely beginning of 2018. Work is progressing well in terms of developing a carbon intensity factor for members of our industry representative, the Paper Manufacturers Association of South Africa and more critically, the recognition of carbon sequestration as part of the carbon tax calculation methodology.

32. Events after balance sheet date

On 27 September 2016 on 10 February 2017 the group advanced an interest-free loan to the value of R1,586,936 thousand and R1,006,950 thousand respectively to its holding company, Sappi Limited. On 13 January 2017, an additional R815 million interest-free loan was advanced to Sappi Limited.

Other than the non-adjusting event as 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.

33. Investments

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

Name of subsidiary	Capital	Principal activity	Effective holding (%)	
			2016	2015
Canonbrae Development Company Proprietary Limited	1 000	Property developments	63.2%	63.2%
Sappi Property Company Proprietary Limited	7 000	Land holdings	100.0%	100.0%
Sappi Specval Coatings Proprietary Limited	100	Manufacture paper	100.0%	100.0%

Sappi Southern Africa Limited

Notes to the Consolidated and Company annual financial statements (continued) for the year ended September 2016

34 Segment information

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

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

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

	Specialised Cellulose		Packaging & Specialities		Group	
	2016	2015	2016	2015	2016	2015
External sales including external forestry sales	10,231,003	8,226,421	7,030,737	7,622,949	17,261,740	15,849,370
Operating profit excluding special items	3,643,923	2,324,205	291,992	254,225	3,935,915	2,578,430

Reconciliation of operating profit excluding special items to profit before taxation:

	Specialised Cellulose		Packaging & Specialities		Group	
	2016	2015	2016	2015	2016	2015
Operating profit excluding special items	3,643,923	2,324,205	291,992	254,225	3,935,915	2,578,430
Special items - gains (losses)					912,570	322,055
Net finance costs					56,988	(30,254)
Profit before taxation					4,905,473	2,870,231
There is one customer whose sales comprise more than 10% of the group's turnover. The sales to the customer amount to R10 894 735 (2015: R9 162 928) and are included within both reporting segments.						

Sappi Southern Africa Limited

Annexure A for the year ended September 2016

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

