

Sappi Limited

Corporate Accounting

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13 March 2012

Hans Hoogervorst, Chairman International Accounting Standards Board 30 Cannon Street LONDON EC4M 6XH United Kingdom

Email: commentletters@iasb.org

Dear Sir

EXPOSURE DRAFT ON REVENUE FROM CONTRACTS WITH CUSTOMERS

Sappi Limited is pleased to comment on the International Accounting Standards Board (the "IASB" or the "Board")'s Exposure Draft on Revenue from contracts with customers.

Our primary basis of reporting is International Financial Reporting Standards (IFRS), but we are required to comply with certain filing requirements of the Securities Exchange Commission (SEC) in the United States of America due to our listing on the New York Stock Exchange. We therefore are encouraged by the Board's commitment in converging IFRS with US GAAP while at the same time aiming to produce a standard on revenue recognition that would address issues encountered in applying the two reporting frameworks separately.

We would like to thank you for the opportunity to provide comments on this document. Our detailed responses to the invitation to comment questions are included in Appendix A.

Please do not hesitate to contact me should you wish to discuss any of our comments.

Yours sincerely

Moses Sekgobela Group Reporting Manager

Directors: Dr D C Cronjé (Chairman), Messrs R J Boëttger (Chief Executive Officer), G P F Beurskens (Dutch), M A Fallon (UK), N P Mageza, J D McKenzie, M V Moosa and M R Thompson, Drs D Konar and R Thummer (Austria), Mses K R Osar (USA) and B Radebe, Prof M Feldberg (USA), Sir A N R Rudd (UK)
Sappi Limited (Reg No 1936/008963/06)
Secretaries Sappi Southern Africa (Pty) Ltd (Reg No 1951/003180/07)



Appendix A: Invitation to comment

General comments

We note that the Board's intention in issuing the ED is to improve the accounting requirements for revenue recognition and we are encouraged the Board's efforts on this project.

We notice that the Boards have added an alternative to allow the use of most likely outcome in a situation where the transaction price is subject to variability in addition to the probability weighted amount. We continue to be concerned about the latter method as it sometimes results in a mere mathematical computation that could still be far from what is most likely to occur.

In addition, we have provided comments on the following specific questions asked by the Board:

Question 1

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognises revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

We agree with the Boards' proposal.

Question 2

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

We note that the intention with the proposal is to reflect the risk of recoverability in the amount of the net revenue recognised and to apply an expected loss model to impairment of financial instruments. It is then not clear at what level of risk would an entity refrain from recognising revenue. For sales that are risky, would an entity recognise 100% of the revenue and then show a provision for at least 50%? Perhaps the Boards can clarify how the proposals aim to address such a situation.

While it does not seem like entities would be willing to enter into such transaction, as indicated by the sub-prime crisis that arose in 2008 (which eventually led to the financial crisis around 2008), lenders extended finance to individuals with a high risk of default but still recognised revenue on these customers. Recognising net lower revenue based on probability does not make it any more likely that a customer in financial dire straits will be able to pay.

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We therefore continue to support the current model of recognising revenue when the IAS 18 requirements are met to avoid having to reverse the revenue in a separate line item adjacent to revenue.

In addition, the separate line item proposed in revenue for uncollectable amounts will impact the gross margin reported by entities. The profitability of certain products will be distorted by the credit risk of certain customers.

Question 3

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations.

Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We agree with the Boards' proposal.

Question 4

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

We agree with the Boards' proposal to recognise a liability and an expense for onerous contracts. However, it is not clear why this is only required for performance obligations that are expected to be satisfied over a period of time greater than one year. We would thus recommend all onerous contracts to be recognised irrespective of the expected time period to fulfil the obligations in a contract. Notwithstanding the proposed disclosures for interim financial statements (per question 5), this requirement could lead to liabilities and expected losses not being recognised for onerous contracts in interim financial statements.

We further note that in certain industries (for instance, construction) delays occur and could lead to the timing of fulfilment taking at least one year despite initial estimates where for a shorter period. This could also lead to different treatment of contracts that take two years to complete for instance where one was always expected to take two years and one was delayed from an initial period of less than one year.



Question 5

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports. The disclosures that would be required (if material) are:

- The disaggregation of revenue (paragraphs 114 and 115)
- A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
- An analysis of the entity's remaining performance obligations (paragraphs 119–121)
- Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
- A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

In line with our response to question 4, we understand the Boards to imply that the required disclosures for onerous contracts will make up for the possibility that no liabilities are required to be recognised for onerous contracts where at inception of the contract the entity does expects that the performance of its obligations in terms of the contract will occur within a period of one year.

It would seem that if delays occur in fulfilling obligations in a contract, two contracts that are completed within the same time period could be treated differently as indicated in the response to question 4.

Question 6

For the transfer of a non-financial asset that is not an output of an entity's ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset.* Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

Except for the comments raised on specific requirements of the proposed IFRS, we agree that when entities sell items that are not part of their ordinary activities, the same principles of revenue recognition should be followed.