

3653

Integrated Report 2011

sappi

Inspired by life



About this report

Sappi is a global producer of fine paper and chemical cellulose.

Our primary goal is to be sustainably the most profitable company in pulp, paper and cellulose based solutions.

We understand that the achievement of this goal is contingent on implementing a business strategy that responds decisively to the interests of all our stakeholders and in so doing, secures the capital resources – financial, manufactured, human, social and environmental – on which our business depends.

This philosophy informs our approach to integrated reporting. In our report we aim to provide a succinct assessment of our current and longer-term strategy in relation to the key opportunities and risks in our markets, our performance against financial and non-financial objectives, and our priorities and expectations for the year ahead.

The scope of our annual integrated report for the year ended September 2011 includes all our operations, as set out on page 15. The various reporting frameworks employed in preparing our report are indicated on the right.

For a complete view of Sappi's strategy, performance in the year ended September 2011 and longer term prospects, stakeholders are directed to the following sources of company information:

- > Quarterly results announcements and analyst presentations.
- > Annual reports and accounts, prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).
- > Form 20-F, prepared in accordance with US Securities and Exchange Commission (SEC) regulations.
- > Due to the regional differences in material issues and related sustainability management, and given that the most material group-level sustainability disclosure is included in our integrated report, this year we will produce sustainable development reports for each of our main operating regions – North America, Europe and Southern Africa, which will be available on www.sappi.com from early 2012. A full GRI response table can also be found on the website.
- > Our online report (http://sappi.investoreports.com/sappi_sdr_2011) follows the same structure as the printed report, but incorporates additional detail and includes a comprehensive Global Reporting Initiative (GRI) index which has links to relevant sections in the annual report, the Form 20-F and previous sustainability reports.
- > Group website – www.sappi.com

Sappi Limited is listed on the following stock exchanges and is subject to their listing requirements:

- > JSE Limited, South Africa (primary listing)
- > New York Stock Exchange, USA (secondary listing)

For information on the combined assurance model relevant to the disclosure in this report, and for the external audit opinion, please refer to pages 78 and 93 respectively.

We present this integrated annual report as a basis for engagement and welcome any feedback. Please direct any comments or questions to Sappi Corporate Affairs using the details provided on the inside back cover.

Note: Please refer to the glossary of terms used in this report on pages 203 to 206.

This report is printed on Magno Satin: cover – 250g/m²
pages 1 to 92 – 150g/m² and
Triple Green Silk: pages 93 to 220 – 115g/m²

◀ **This cover picture** is a photograph of a stylised transverse cross-section of Eucalyptus wood. The large circles are vessels which transport water up and down the tree and the smaller circles are the fibres which we use to make paper and chemical cellulose. Fibres are separated in the pulping process through the softening and removal of lignin which acts as a glue between the fibres in the wood. In papermaking fibres are re-formed to form a flat, strong and uniform surface for printing and writing.

Cover picture (acknowledgement) photograph taken by Dr Valerie Grzekowiak.

our goal: To be sustainably the most profitable company in pulp, paper and cellulose based solutions – to create value for our shareholders

sappi
Inspired by life

Sappi is a leading global producer of fine paper and chemical cellulose. We also produce speciality, uncoated graphic, business and packaging paper, newsprint and pulp.

our strategy

To achieve our long-term goal we have four main themes:

- > Optimising our better-performing businesses, which are the South African chemical cellulose business and our North American business.
- > Fixing our underperforming businesses, in particular, the coated graphic paper business in Europe and the paper business in Southern Africa.
- > Investing for future growth in higher-margin businesses including chemical cellulose, textured surfaces, energy projects and low-cost wood resources.
- > Working within the parameters of our balance sheet and liquidity.

key stakeholders

Shareholders
20 asset managers hold 85%
72% South African and
28% international institutions.

Customers
Business to Business model
Decisions influenced by:
• Paper merchants • Printers and publishers • Corporates • Advertising agencies and designers • Packaging, release and fibre converters

Small but growing retail business model
• Small office and home • Hygiene products

Employees
Global values and local practices
• 14,900 employees in over 20 countries

Communities
Major employer in many remote or rural communities
• Collaborate to add value and continuously reduce the impact we have on our surroundings

Suppliers
Long-term value relationships
• Procurement benchmarked and coordinated globally

Industry bodies
Participation in industry bodies and associations*
at technical and board levels

Governments and regulators
Interact at local, national and regional level to inform development of policy and regulations

Sappi by numbers

14,900
employees worldwide

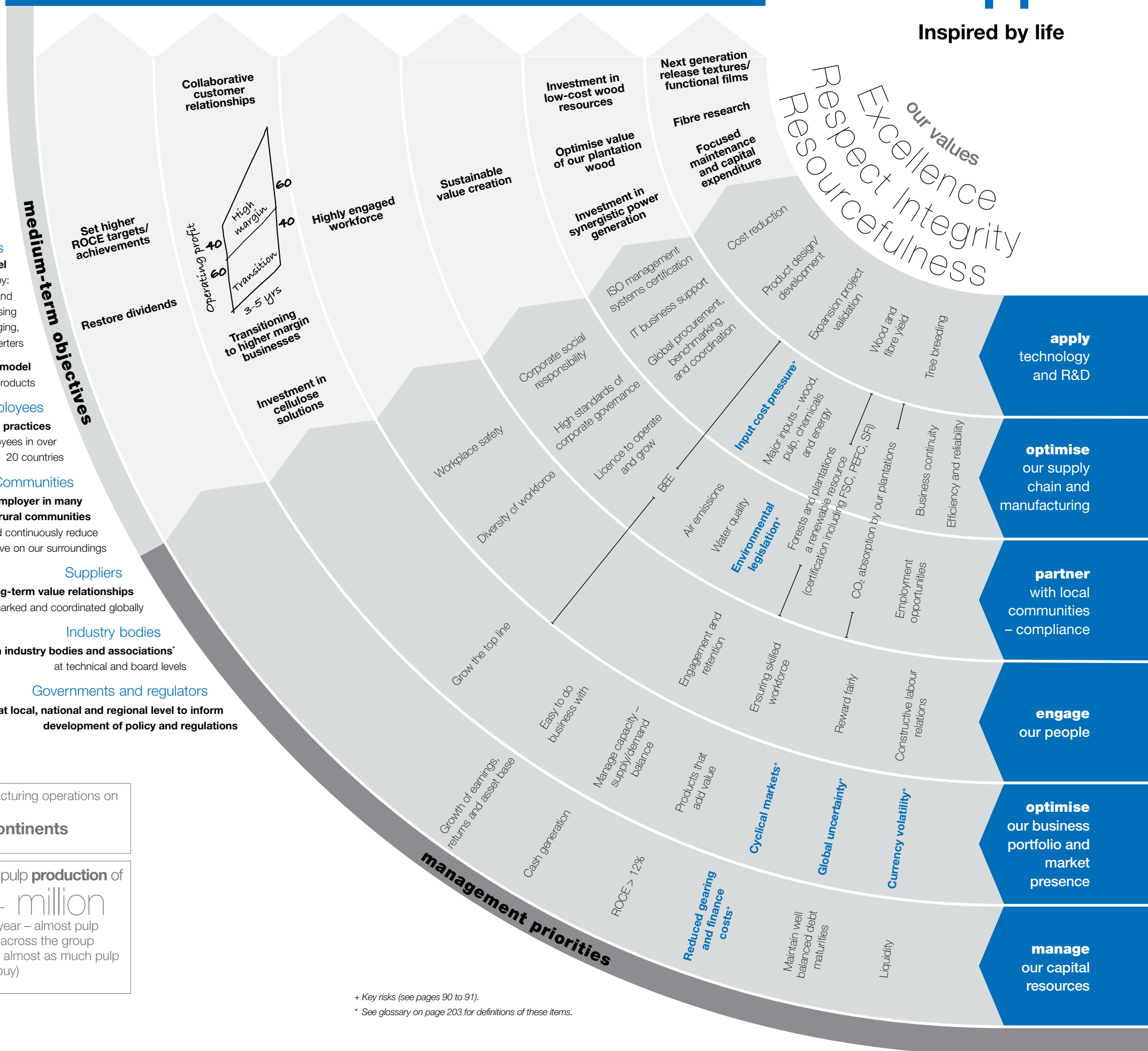
Paper production capacity of
6 million
tons a year

World's largest manufacturer of chemical cellulose with production capacity of
800,000
tons a year increasing to 1.3 million tons in 2013

Sales in over
100 countries

Manufacturing operations on
4 continents

Paper pulp production of
3.4 million
tons a year – almost pulp neutral across the group (we sell almost as much pulp as we buy)



+ Key risks (see pages 90 to 91).
* See glossary on page 203 for definitions of these items.

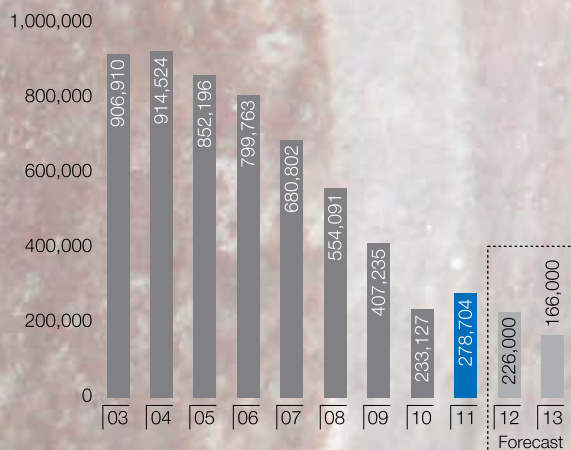
contents

Our report Sets out our approach to integrated reporting, indicates the scope and boundary of our report, applicable reporting frameworks, other sources of important information and how to provide feedback.	outer flap	Review of operations Provides a comprehensive integrated review of performance and outlook for the year ahead for each of our businesses.	32
Who we are and where we're headed Introduces Sappi and provides a graphic exposition of our business strategy and how we intend to create value in the years ahead.	fold out	Sappi Fine Paper	32
Photo story 1: Energy	2	Sappi Southern Africa	36
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Photo story 2: Chemical cellulose	6	Chief financial officer's report A detailed assessment of the group's financial standing and results, followed by a regional business analysis.	42
Letter to the shareholders from the chairman and chief executive officer Reviews performance against objectives and the group strategy, and gives expectations for the year ahead. Includes a Q&A with the chief executive officer on matters of strategic importance to stakeholders.	8	Five-year review	68
Our operations Introduces our products and sets out the group structure, our operations and their assets, strategies and relative contributions.	14	Share statistics	70
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Our impact on the world around us Summarises our sustainable business model in relation to our main inputs and impacts.	18	Governance and compensation	74
Our key sustainability drivers Discusses our material issues and key risk factors, and what we are doing in each case.	20	Corporate governance	74
Our markets Sets out the share of sales, uses, demand trends and market dynamics for each of our product categories.	24	Stakeholder engagement	81
Our leadership Introduces our board and executive management team.	26	Compensation report	82
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Reducing the cost of inputs is a priority for each

Renewable fuel is the **dominant fuel** for Sappi operations. Including purchased biomass and own black liquor, sludges and biogas from the manufacturing process, these account for **47% of total energy**.

Somerset #6 oil usage
(barrels per year)



our energy of our businesses.

We have **reduced** total specific **CO₂ emissions by 14.4%** between 2007 and 2011.

We continue to reduce our CO₂ emissions by investing in energy efficiency, **increasing our self-sufficiency** through renewable energy and reducing purchased energy (fossil fuels and electricity).

By upgrading the recovery cycle at our **Somerset Mill** we have **reduced oil consumption** by over 100,000 barrels a year. Reduction since 2004; 700,000 barrels a year.

Final inspections on the recovery cycle upgrade at the Sappi Somerset Mill in Maine, North America.

How we performed in 2011

2011 continued the improving operating performance trend for Sappi. It was also a year of decisive action to reposition the group for the future.

The asset impairment and restructuring charges taken during the year as a result of these actions led to a net loss for the year.

Our North American and Southern African chemical cellulose businesses performed well, benefiting from high pulp prices, good market positions and improved efficiencies. The European business did not improve its margins but started a process to implement capacity management and cost reduction actions aimed at eliminating high cost capacity and improving margins going forward. The Southern African paper business reported an operating loss excluding special items for the year. It has initiated restructuring plans to better meet market needs and to improve profitability.

We refinanced US\$1.1 billion of debt during the year, resulting in well balanced debt maturities and liquidity, and reduced finance costs.

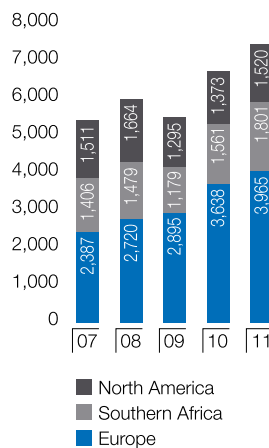
Page 4 highlights a number of important non-financial trends. These are further discussed in this report (see pages 18 to 23).

Sales
up 11%
to US\$7.3 billion

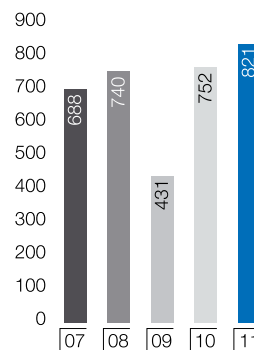
Net cash generation
US\$163 million
(2010: US\$341 million)

Operating profit excluding special items
up 19%
to US\$404 million

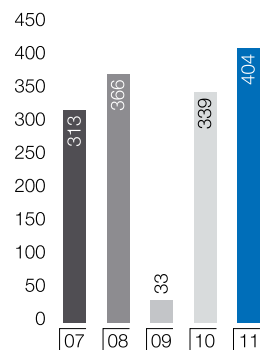
Sales
(US\$ million)



EBITDA excluding special items
(US\$ million)



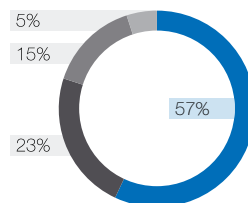
Operating profit excluding special items
(US\$ million)



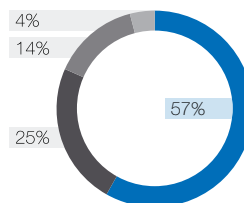
Value added

One measure of wealth created is the amount of value added to the cost of materials and services purchased. Below we have depicted the value added by the Sappi group and how it was distributed amongst stakeholders.

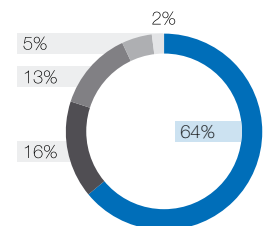
2011: US\$2,125 million



2010: US\$1,981 million



2009: US\$1,576 million



- To employees as salaries, wages and other benefits
- Reinvested to grow the business
- To lenders of capital as interest
- To governments as taxation
- To shareholders as dividends

Asset impairment and restructuring charges of

US\$302
million

(non-cash of
US\$167 million)

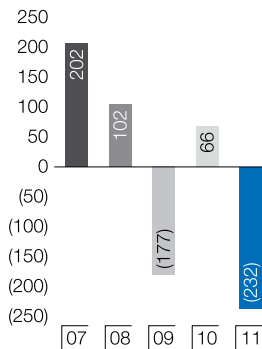
> Loss per share 45 US cents
(2010: EPS of 13 US cents)

> Cash on hand of

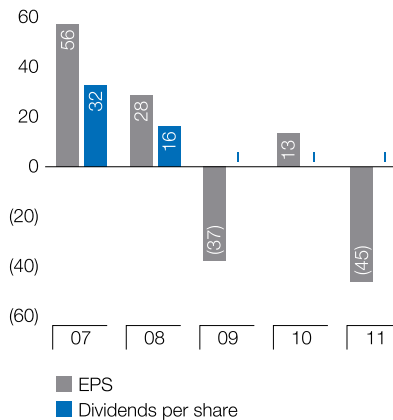
US\$639 million

> Net debt down to **US\$2.1 billion**
(2010: US\$2.2 billion)

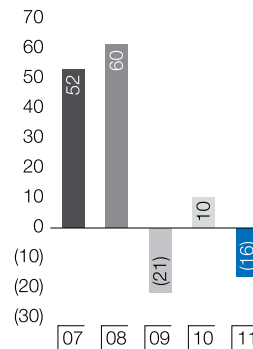
Net profit (loss)
(US\$ million)



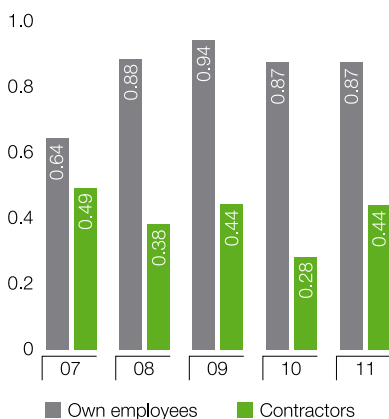
Earnings (loss) and dividends per share
(US cents)



Headline EPS
(US cents)



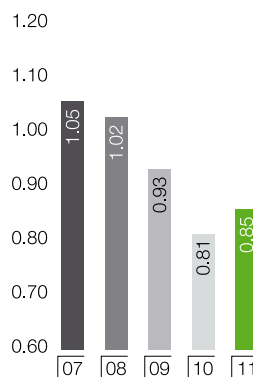
Global LTIFR – own employees and contractors



Specific purchased energy
(GJ/adt)



Specific emissions from purchased energy
(ton CO₂ eq/adt)



In 2011, safety performance improved in North America and Europe, but declined in South Africa. Sadly, there were four fatalities in the year under review – one in Europe and three in Sappi Forests in South Africa. The latter occurred after a 20-month period without any fatalities, an improvement on the previous best of nine months. The inclusion of the mills acquired from M-real in 2009 negatively affected both the own and contractor operations statistics. The implementation of the Sappi safety programmes at these mills has resulted in a steady improvement in their safety records. Safety training and communication are ongoing and a new safety platform has been created as a means of sharing best practices amongst the various business units. Going forward, we will maintain our focus on addressing the 'hearts and minds' of people to create the safety culture required for a step change in safety performance.

From 2007, specific (ie per ton of output produced) purchased energy has been declining. This has been due to energy saving initiatives at our mills achieved by the replacement of fossil fuels with internally generated renewable fuels, as well as a wide range of energy savings projects. The sharp decrease for 2010 was mainly the result of high production levels (the denominator in any 'specific' parameter) enjoyed in that year. The effect was reversed for 2011, as a higher proportion of more energy intensive coated mechanical paper was produced in Europe.

The emissions per the figure above reflect those originating from purchased energy (fuels, power and steam) and include Scope 1 and Scope 2 emissions⁽¹⁾. The reasons for the variations are the same as for specific purchased energy.

⁽¹⁾ The GHG Protocol defines Scope 1 (direct) and Scope 2 (indirect) emissions as follows:

- Direct GHG emissions are emissions from sources that are owned or controlled by the reporting entity.
- Indirect GHG emissions are emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity.

We are **investing** more than **US\$500 million** in chemical cellulose capacity at our **Ngodwana** and **Cloquet Mills**.

From 2013, our capacity in this fast growing **renewable fibre** sector will increase from **800,000 tons** to **1.3 million tons** per annum.

Providing **high quality** chemical cellulose into **fast markets.**

Chemical cellulose is used in the production of **cellulose textile** and **non-woven fibre products** such as viscose staple fibre (rayon). It is also used in many other applications in the food, fibres, cigarettes, chemical and pharmaceutical industries.

There are **excellent growth** prospects driven by population growth and the desire for **quality end-products** from **renewable resources**.

competitive
growing

And we already have **strong** customer **commitment** for our **increased** output.

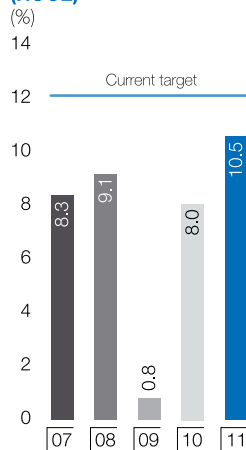
Bales of chemical cellulose being uploaded in Durban harbour, South Africa.



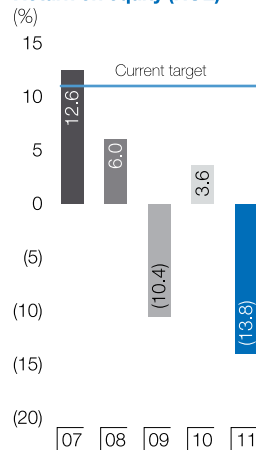
Danie Cronjé
chairman

Ralph Boöttger
chief executive officer

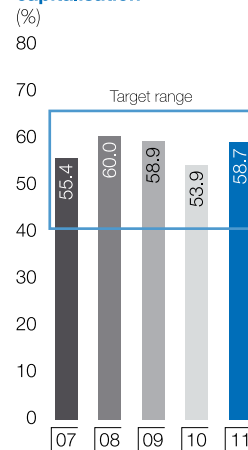
**Operating profit
excluding special items
to capital employed
(ROCE)**



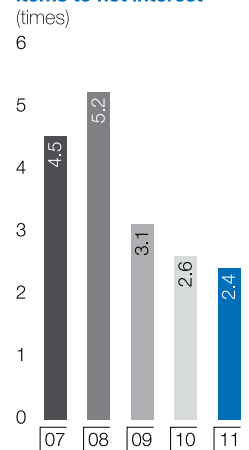
Return on equity (ROE)



**Net debt to total
capitalisation**



**EBITDA excluding special
items to net interest**



Sappi continues its improving trend in operating performance in 2011. Our chemical cellulose and North American businesses performed well during the year, benefiting from good market positions, high pulp prices and improved efficiencies. However, our European and Southern African paper businesses recorded disappointing performances.

2011 was a year of decisive intervention. We refined our strategy, which is described below, and took action to manage graphic paper capacity, and reduce fixed and variable costs. We implemented plans to reposition operations to adapt to our customers' changing needs and match our assets to profitable markets and opportunities for future growth. We also restructured our business processes to improve efficiency and profitability. The majority of the group's debt, due to mature in the next two years, was successfully refinanced with long-term financing at competitive rates.

These initiatives resulted in asset impairment and restructuring charges of approximately US\$302 million (of which US\$167 million was non-cash) and refinancing expenses of US\$51 million. The unfavourable effect of these items resulted in a net loss of US\$232 million.

Cash generated after capital expenditure, finance costs and taxation was US\$163 million. Net debt was further reduced to US\$2.1 billion. At year-end we had cash on hand of US\$639 million and undrawn committed revolving credit facilities of €250 million (US\$335 million).

We are confident that the major initiatives undertaken in 2011, painful and unsettling as they have been for our staff and management, and the exciting investments in growth we have made, will position Sappi well for the future. We expect to start seeing the financial benefits of these actions in our results for the 2012 financial year.

q&a

with CEO Ralph Boëttger

Q: Sappi's operating performance has continued to improve but there always seems to be 'another charge' impacting net profit. Has that ended?

A: We are focused on delivering good net profit and returns to our shareholders. Despite good progress on a wide front, the improving operating profit excluding special items and positive net cash generation, the improvement has not yet been reflected in our bottom line.

We believe that the restructuring and refinancing, which resulted in substantial charges and refinancing costs for 2011, have and will position the group to achieve sustainable, good net profits. The benefits of these actions are expected to materialise as soon as 2012.

I cannot guarantee that there will be no further 'once-off' charges, and the plantation fair value adjustments will continue to affect our profits, but I am convinced we are now much better placed to deal with our business challenges and to ensure sustainable growth in profitability and returns. We do not currently foresee any material once-off charges or special items during the year ahead.

Provided there is no further major deterioration in global market conditions, we expect to achieve a net profit for the full year 2012.

Q: Is your goal to transition the group to generating 60% of its operating profit from higher-margin businesses within three to five years realistic?

A: We think it is realistic.

We are fortunate to have a head start with our substantial low-cost wood resource, a successful chemical cellulose business in a growth market and industry-leading, high quality customers that are growing rapidly. We have announced conversion projects at our Ngodwana and Cloquet Mills which will increase our capacity of chemical cellulose from 800,000 tons per year to over 1.3 million tons.

We have unique expertise in our textured surface business. The exciting synergy opportunities to invest in energy projects also augur well for the future. Our forestry business is also set for continued growth. Our packaging paper and tissue businesses are also in growth markets and will be set to improve in profitability following the actions we have taken.

Performance against 2011 objectives

Continue improvement of profitability and returns

> Improve ROCE to 10% for 2011 (target 12%)

We made further progress towards improved profitability and returns, achieving a return on capital employed (ROCE) of 10.5% compared to 8% in 2010 and 1% in 2009. This improvement was not reflected in net profit or earnings per share as a result of the charges referred to above.

The group's operating profit excluding special items increased 19% to US\$404 million from US\$339 million in 2010.

Reduce net debt and finance costs

> Reduce net debt to total capitalisation to <50%

We reduced our net debt during the year from US\$2.2 billion to US\$2.1 billion, which is US\$700 million below the peak level in mid-2009. The net debt reduction is in line with the target we set in mid-2009 to reduce net debt to below US\$2 billion by the end of 2012. We now expect our net debt to fluctuate around current levels for the next two years while we complete the announced chemical cellulose expansions. Reducing our gearing remains a focus and we expect our net debt to continue the downward trend after the chemical cellulose expansions have been completed.

Improve European operating margins and profitability

> Implement new service model in Europe

We did not achieve the necessary improvement in the profitability of our European business during the year, despite strenuous efforts. This was as a result of uncertain market conditions and high input costs. However, our market position remains strong and we continue to work with our customers to improve our business model and profitability by implementing a new service model, among other interventions.

Maintain operating profit and operating margins in North America

The North American business continued to perform well and improved its operating profit excluding special items slightly. Each of the product groups – coated paper, casting release paper and particularly pulp – performed well.

Improve profitability of the paper business in Southern Africa

We did not achieve this objective for the year. The business was faced with weak demand aggravated by increased imports, which were competitive as a result of the strength of the Rand against the US Dollar for most of the year. The business commenced a major restructuring to counter this, which will be completed in the first half of 2012.

Market conditions in South Africa started improving late in the year as the Rand weakened against major currencies, which reduced the competitiveness of imports into South Africa.

Reduction in safety incidents

Lost time injury frequency rate for the year increased slightly for the group. There was a reduction in North America and Europe with a pleasing improvement in the European mills which we acquired three years ago. Regrettably, four of our contractor's employees died in work related accidents. We continue to apply the same standards to our contractors as to our own employees with a view that everyone who works in our operations should expect to return home safely.

During the year, the group's safety effort was refreshed using the "Do You Know What's In Your Safety Circle?" concept.

Commitment to engaging our people as a strategic imperative

Notwithstanding the economic downturn and the restructuring initiatives in our European and Southern African businesses, our employee engagement survey results are in line with the global industry benchmarks.

Reductions in specific purchased energy and water consumption not only reduce our environmental footprint, but also result in lower costs of doing business.

Over the past five years we have reduced in specific purchased energy by 8%, and water consumption of 49%. There was no improvement in these measures in 2011 compared to 2010, as lower paper sales in South Africa and a greater proportion of coated mechanical paper sales in Europe affected the specific energy demand. We continue to focus on energy efficiency projects such as our 'Somerset recovery cycle project' which was completed in 2011 in order to continue the improving trend.

Strategic review

We assessed our strategy during the year in relation to our long-term goal to be, on a sustainable basis, the most profitable company in pulp, paper and cellulose based solutions.

Sappi's revised strategy features four themes: optimising our better performing businesses, fixing our underperforming businesses, investing for future growth in higher-margin businesses, and achieving these objectives within the parameters of the group's liquidity and balance sheet.

We aim to generate at least 60% of operating profit from higher-margin growth businesses within three to five years, achieving real growth in our revenue and asset base. At the same time we intend to improve the level of profit of the lower-margin businesses.

The coated graphic paper market is characterised by a declining demand trend in developed countries and a growing demand trend in China and many other emerging and developing countries. Globally, there is also a supply/demand imbalance in this market, particularly in China where 2.5 million tons of coated paper capacity has come on line in the last two years.

Despite these market dynamics, we see opportunities in our coated paper businesses – which are currently the backbone of the group – to generate reasonable net profits, that are substantially higher than in recent years, as well as strong cash flows. To realise these opportunities, we have changed our management focus in these businesses over the past few years. We have emphasised developing customer relationships, cutting all unnecessary costs, eliminating high-cost operations and managing capital expenditure tightly.

The initiatives underway to advance our strategic themes are set out below.

Optimising better performing businesses

Decisions taken to restructure the North American business in 2009 and to expand our Southern African chemical cellulose capacity have again been rewarded with excellent results from these businesses. We will explore further opportunities to enhance the returns and cash generation of these businesses.

Fixing underperforming businesses

We have undertaken wide-ranging reviews of our existing businesses with a focus on our graphic paper business, in particular in Europe, and our Southern African paper business.

■ Europe

Cost saving and capacity management measures are well advanced in Europe. Following the closure of the Biberist Mill announced in March 2011 and completed in August 2011, we are progressing with the next phase of cost reduction action, including minimising both fixed and variable costs. The annual savings resulting from these actions (including the Biberist Mill closure) are expected to reach US\$100 million on a relative basis from the first financial quarter of 2012. We have had good support for these changes from our customers.

■ Southern Africa (paper business)

We are restructuring our business processes and paper operations in South Africa to ensure we are able to adapt to our customers' changing needs and to match our assets to profitable markets and future growth. The first step in this regard was the closure of the

q&a

with CEO Ralph Boëttger
continued

We do of course have balance sheet and funding constraints but believe that our medium-term goal is achievable without compromising on our liquidity position and our goal to strengthen the balance sheet and reduce finance costs.

Q: Your strategy talks about generating reasonable net profits from the coated graphic paper business. Can you achieve this?

A: Coated paper plays an important role in the advertising media mix. Publishers have a variety of media that they can use and advertisers have a similarly wide choice. Coated paper continues to play an important role because of the impact of print and its effectiveness alone or in combination with other advertising media.

Although coated paper consumption is growing in China and many developing markets, our view is that it will continue to decline gradually in North America and Western Europe. We have therefore adopted a new management approach which involves developing ever closer relationships with our customers, collaborating with them on creating a viable business model, managing capacity and costs, simplifying our processes and allocating capital expenditure in a very focused way.

As announced, we have substantially lowered our cost base in Europe and we expect much improved results in that business. The North American business is performing well.

We are therefore confident of our ability to generate improved returns and good cash flows from graphic paper for many years to come.

Q: When will you be able to refinance the high cost 2014 bonds and make a substantial reduction to finance costs?

A: We will refinance the 2014 bonds as soon as it makes economic sense to do so. This could be as early as the second half of calendar 2012 if the capital markets have settled and reasonable interest rates can be achieved. An annual interest saving of up to US\$40 million could be possible, so we expect our finance costs to continue to come down substantially from 2012.

Adamas Mill, which has now been completed. We are well advanced with the implementation of further cost reduction and streamlining related to both our administrative and production areas. Regrettably, we expect these measures to lead to a significant additional reduction of jobs during the first half of financial 2012.

We expect that these essential changes will result in savings and benefits of approximately ZAR250 million (US\$30 million) a year once fully implemented. In addition, we expect to save approximately ZAR100 million (US\$12 million) a year in maintenance capital expenditure.

Investing for future growth

To achieve the shift in focus to higher-margin businesses and deliver real growth in revenue and returns we will continue investing in our chemical cellulose business, in innovative products based on our very successful Ultracast® and other technologies, in energy projects related to our core operations and in low-cost wood resources.

Sappi is a global leader in chemical cellulose production, a high-growth and high-margin business serving the textiles, consumer goods, foodstuffs and pharmaceutical industries. We have announced two investments that will increase our chemical cellulose capacity by 540,000 tons to over 1.3 million tons a year. These investments will cost approximately US\$500 million and comprise the conversion of the Ngodwana Mill's pulp mill in South Africa to produce 210,000 tons of chemical cellulose and the Cloquet Mill's pulp mill in Minnesota, USA to produce 330,000 tons of chemical cellulose a year. These projects are progressing well and are set to start up in early 2013. The projects take advantage of our leading market position and lowest quartile cost structure. We have customer commitments for a significant part of the increased capacity.

Liquidity and balance sheet

In implementing our growth strategy we will continue focusing on maintaining a good liquidity position and carefully managing the group's gearing. During 2011, we successfully refinanced most of our debt which was due to mature in the next two years, with long-term financing.

The year ahead

Market conditions remain uncertain. The substantial levels of sovereign debt in our major markets of USA and Europe have fuelled the general uncertainty, making it difficult to forecast global demand for our products.

At the time of writing we are experiencing lacklustre demand for graphic paper in Europe and many of our export markets but reasonable demand in North America. Pulp markets, particularly in China, have softened as a result of the slower demand for paper, and pulp prices have declined from the very high levels experienced during most of financial 2011.

The decline in pulp prices is expected to have a favourable impact on our European business, which purchases approximately half of its pulp, but an unfavourable impact on the North American and Southern African businesses, which are net sellers of pulp. The group as a whole sells almost the same volume of pulp as it purchases and the impact of the transaction prices of pulp is therefore generally neutral.

The volatility of currencies adds to the forecasting difficulty. Sappi is very sensitive to the relative value of the Rand to the US Dollar – all other factors being equal, a 10% weakening in the Rand adds some US\$60 million to the group's operating profit. While our European business is approximately balanced between US Dollar priced imports of pulp and US Dollar priced exports of coated paper, there has historically been a close correlation between the strength of Euro based pricing of coated paper and the strength of the US Dollar to the Euro.

We expect some relief from input costs in the year ahead. We continue to focus on the reduction of the costs of our major inputs, which are wood, pulp, chemicals and energy, through globally coordinated procurement.

We will start benefiting from our European initiatives from the beginning of the new financial year. These actions are expected to result in benefits of US\$100 million a year.

We do not expect any significant benefits from the Southern African restructuring until the second half of the 2012 financial year.

We expect net cash generation to remain positive for the year ahead, after increasing our capital expenditure on strategic investments. We expect our finance costs to be lower following the refinancing in 2011 and intend to further reduce our financing costs including through refinancing our higher cost 2014 bonds, when it makes economic sense.

Provided there is no further major deterioration in global market conditions, we expect to continue the past two years' trend in improving operating performance and to achieve a net profit for the 2012 financial year.

We are confident that the actions we have taken and those planned will position the group well for the future, resulting in growth and improved returns.

The principal risks that could impede the achievement of our strategic objectives and affect the group's performance are discussed on pages 90 to 91.

We are energised by the group's clear strategy and committed to improving performance even in these uncertain times.

Appreciation

Our stakeholders are the key players in the Sappi story. We have set out elsewhere in this report how we interact with them. Together with them, we will continue to work to achieve sustainable and profitable growth in the years ahead. We take this opportunity to thank them for their diverse contributions to our development and for their support over the last year.

We appreciate the continued support of our customers and, through our strategic interventions and investments, aim to continue growing hand-in-hand with them by providing relevant products, services and solutions.

Particular thanks are due to our people who played an important part in improving the operating performance of the group. We thank them too for the professionalism with which they have embraced the interventions made during the year, many of which were difficult. Many people lost their jobs as we restructured parts of the group, which was painful for them, their families and communities.

We thank the board and executives for their continued commitment to the group and for their valuable input during the year.

Jim Healey will be retiring from the board at the end of December 2011 after seven years of service. He has been an active participant in the board's deliberations and on the audit committee, the human resources and transformation committee and as chairman of the Sappi Fine Paper North America audit committee. We thank him for his wisdom and guidance.

We welcomed Mike Fallon and Frits Beurskens to the board during the year. Their experience covers a wide area of business and manufacturing and we look forward to benefiting from their expertise and fresh insights.

We thank our shareholders for supporting us as we work to position the group for the future. We look forward to their participation at the annual general meeting on 08 February 2012.

Danie Cronjé
Chairman

Ralph Boëttger
Chief executive officer

07 December 2011

q&a

with CEO Ralph Boëttger
continued

Q: When can Sappi shareholders expect a dividend?

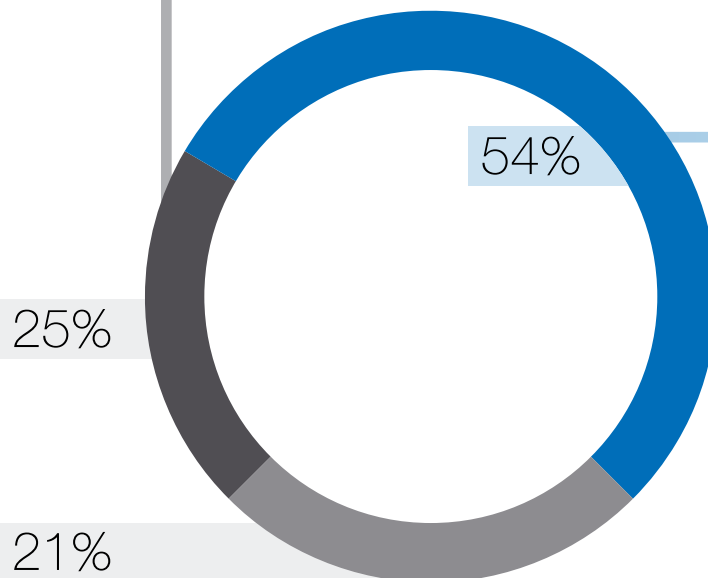
A: We would like to return to paying regular and consistent dividends as soon as possible. We are confident that Sappi is now well positioned for much improved returns and growth. At this stage of our recovery, we believe it makes sense to invest in the group's growth strategy and to keep reducing our gearing particularly in view of market uncertainty. Depending on market conditions, a dividend payment could be possible in a year or two.

Our operations

Sappi is a global company focused on providing chemical cellulose, paper-pulp and paper based solutions to its direct and indirect customer base across more than 100 countries.

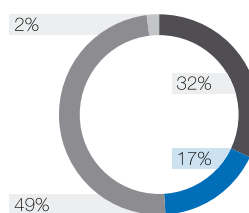
Our chemical cellulose products are used worldwide by converters to create viscose fibre for clothing and textiles, acetate tow, pharmaceutical products as well as a wide range of consumer products. Our market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products in the Southern Africa region.

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



Operating profit excluding special items

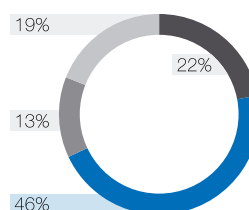
2011: US\$404 million



■ North America
■ Europe
■ Southern Africa
■ Corporate

Sales by destination

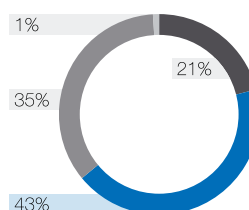
2011: US\$7,286 million



■ North America
■ Europe
■ Southern Africa
■ Asia and other

Share of group's net operating assets

2011: US\$4,422 million



■ North America
■ Europe
■ Southern Africa
■ Corporate

Sappi Southern Africa 25% of group sales

Paper	5 Mills 4 Sales offices	Forests	567,000 ha 1 Sawmill	Chemical cellulose	1 Mill
Strategy Fix businesses <ul style="list-style-type: none"> > We make a wide range of paper, packaging paper and tissue > Match our assets to our resources and the market > Adamas Mill closure announced > Reduce fixed and variable costs > Restructuring underway to reduce costs and reposition the business for profit 		Strategy Forestry resources <ul style="list-style-type: none"> > Currently supplies over 70% of the wood requirements of Sappi Southern Africa > Continue to seek opportunities to invest in low-cost wood resources in South Africa and elsewhere 		Strategies Maintain and optimise performance <ul style="list-style-type: none"> > Demand remains strong > Benchmark prices declining towards longer-term trend > Good production volumes – impacted by strike in July Invest in growth businesses <ul style="list-style-type: none"> > Chemical cellulose conversion <ul style="list-style-type: none"> • 210,000tpa chemical cellulose expansion at Ngodwana Mill (US\$340 million) • Cost base – lowest quartile • Long-term customer contracts 	

Sappi Fine Paper Europe 54% of group sales

Strategies Improve businesses <ul style="list-style-type: none"> > Business comprises coated woodfree paper, coated mechanical paper and specialities > Manage capacity – Biberist Mill coated production ceased in July > Recover cost increases through pricing > Reduce costs by US\$50 million per annum through fixed and variable cost initiatives, in addition to US\$50 million from Biberist Mill closure (total US\$100 million) > Implement new service model Invest in growth businesses <ul style="list-style-type: none"> > Specialities – Flexible packaging 	8 Mills 16 Sales offices
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Sappi Fine Paper North America 21% of group sales

Strategies Maintain and optimise performance <ul style="list-style-type: none"> > Business comprises coated paper, pulp and coating release paper > Continued focus on cost reduction > Actively manage customer and product mix > Build on strong brands and services, customer relationships and sustainability position Invest in growth businesses <ul style="list-style-type: none"> > Chemical cellulose conversion <ul style="list-style-type: none"> ■ 330,000tpa chemical cellulose at Cloquet Mill (US\$170 million) ■ Cost base – lowest quartile ■ Responding to customer needs > Specialities – Release paper 	3 Mills 4 Sales offices
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Sappi Trading

Sappi Trading operates a network for the selling and distribution of our products outside our core operating regions of North America, Europe and Southern Africa. Sappi Trading also coordinates our shipping and logistical functions for exports from these regions.

Sales offices: Bogotá | Hong Kong | Johannesburg | Mexico City | Nairobi | São Paulo | Singapore | Shanghai | Sydney | Taipei | Vienna

Logistics offices: Durban | New York

Jiangxi Chenming Paper Co (JV)

34% ownership – China, **1 Mill**

Timber sourcing

In addition to **wood** from our **own plantations**, we procure from **other sources**.

From three growers farming eight hectares in 1983, Project Grow now involves more than **2,500 growers** farming approximately **15,000 hectares**. Over 1,000 people are employed by contractors who assist the growers with planting, harvesting and maintaining their plots.

Growing a **renewable**

Project Grow currently provides Sappi with nearly **130,000 tons** a year.

Using our more than 30 years of community tree farming experience we are also working with local communities in the **Eastern Cape province to develop new timber supply** opportunities in this area.

Our Sustainable Forestry Programme in the State of Maine, USA, also assists individual woodlot owners develop and manage the returns on their woodlots.

resource.

Commercial timber being cross cut in Sappi's KwaMbonambi plantation, KwaZulu-Natal, South Africa.

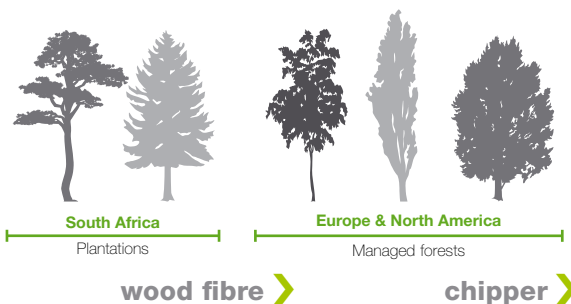
Our impact on the world around us

The pulp, paper and chemical cellulose solutions which we provide add value to daily life, create employment for 14,900 people and generate significant economic benefits.

We specialise in coated fine paper which is used by leading printers, advertisers, marketers, publishers and designers who communicate their messages through the printed word and powerful graphic images. Our release papers serve the apparel, fashion and automotive industries, and are used also in furniture, flooring and architectural applications. In South Africa, our packaging and tissue papers are used for indispensable household and industrial purposes.

Equally versatile, chemical cellulose is used in the manufacture of viscose and lyocell fabrics, and a range of pharmaceutical and household applications.

Like all manufacturing activities, ours has an impact on the world around us. Here we set out these impacts and the manner in which we mitigate them. These are expanded on (pages 20 to 23) under the heading *Our key sustainability drivers*.



Fibre

The fact that our wood fibre is a sustainable, renewable resource, grown in sustainably managed forests (North America and Europe) and plantations (South Africa) gives us a competitive advantage. Forest certification gives the consumer the assurance that the products they are buying originate from wood fibre grown in well-managed forests and plantations that have been logged in accordance with sound environmental practices. We have achieved certification by the three most internationally recognised forest products certification programmes: the Programme for the Endorsement of Forest Certification (PEFC), the Forest Stewardship Council (FSC™) and the Sustainable Forestry Initiative (SFI®). We do not source wood fibre from endangered forests anywhere in the world. Globally, approximately 72% of the fibre we procure is certified, with the rest being sourced from known and controlled sources.

The US National Council for Air and Stream Improvement (NCASI) estimates that without sustainably managed plantation forestry, the amount of carbon in the atmosphere would be 5% higher.

Water

Large amounts of water are needed to hold, transport and distribute the fibre that becomes the sheet of paper. Water is also an integral part of the steam systems used to generate energy. Our mills are situated in the vicinity of rivers and lakes from which they draw water. While we use a significant amount of water in our production processes, it is recycled many times before being treated and returned to the environment. In addition, unlike most other industries, we return approximately 91.5% of the water we extract back into the watershed, mostly into the same rivers and lakes from which it was extracted from or into agricultural irrigation systems. All effluent is treated before being returned to the environment, and complies with the highest environmental standards. Globally, over five years, the difference between specific (ie per air dry ton of output produced) water drawn and returned has reduced significantly (see graph on page 22).

Employees

In adapting our strategy to our customers' changing needs and matching our assets to profitable markets and future growth, we closed our Adamas Mill in South Africa and Biberist Mill in Switzerland and also began the process of restructuring our South African business. To date, this reduced our headcount by approximately 700 people.

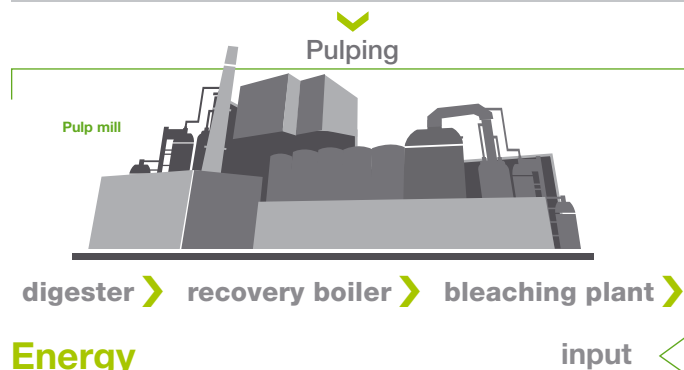
In Switzerland, Sappi opened a job centre in consultation with external partners to help employees apply for new jobs and undergo financial and other counselling. By the end of October 2011, 65% of the employees in the region who had lost their jobs had been placed in other organisations. It is expected that 90% will be placed in jobs by the end of 2011.

In South Africa, counselling sessions were managed by the human resources function. These included 'bounce back' programmes which focused on job/skill assessments; résumé writing; interviewing skills; financial planning and emotional and stress counselling.

"The closure of our Biberist and Adamas Mills, despite huge commitment and effort by all our colleagues in those operations, are examples of unfortunate actions that we had to take in order to deal with the current economic environment and changing global trends."

Ralph Boëtger — Chief executive officer, Sappi Limited

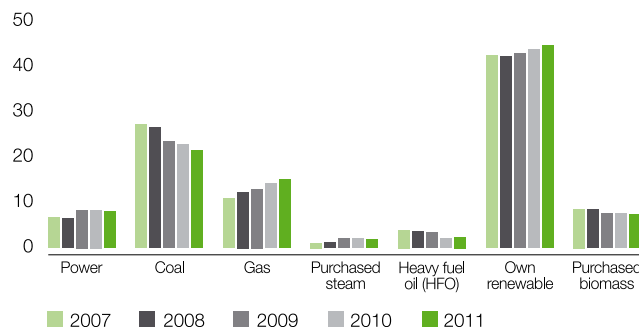
Process efficiency We have a rigorous system of measuring our outputs, particularly those of all our paper machines, so that we know how much latent production capacity exists and where it is located. This allows us to focus on our performance gaps and to take the necessary actions to continually improve our paper machine efficiencies. The direct comparison of operating equipment between mills helps us identify strengths and weaknesses of our operations, discover the group best practices and improve our processes, thereby increasing profitability. Our lean manufacturing programmes continually investigate and implement best practices to improve our equipment efficiency by reducing our unplanned downtime and striving to reduce process waste.



Renewable fuel is the dominant fuel for Sappi's operations – 47.1%. This includes purchased biomass fuel and own renewable fuel – black liquor, sludges and biogas – which result from the paper manufacturing process. Black liquor as a percentage of total fuel use is currently at 36%. Black liquor is the spent cooking liquor from the pulping process which arises when pulpwood is cooked in a digester thereby removing lignin, hemicellulose and other extractives from the wood to free the cellulose fibres. The resulting black liquor is an aqueous solution of lignin residues, hemicellulose, and the inorganic chemicals used in the pulping process. Black liquor contains slightly more than half of the energy content of the wood fed into the digester.

Direct energy and purchased biomass

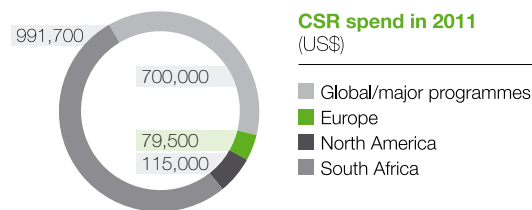
(percent energy type)



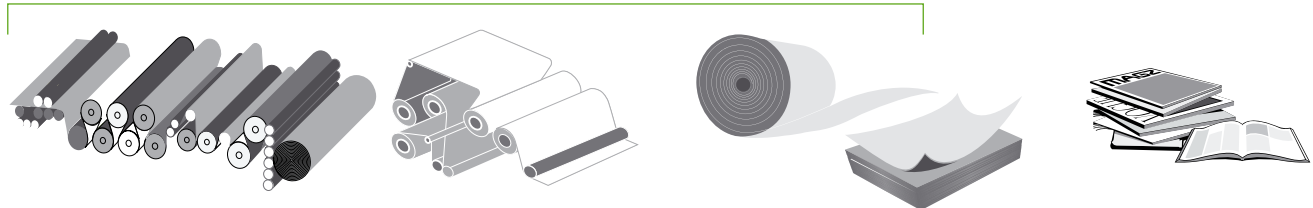
Communities

Our products are manufactured using labour drawn from local communities and the services of small and medium enterprises situated in the areas around plantations and production facilities. Through our corporate social responsibility (CSR) programme, we are investing in the socio-economic development of the communities in which our workers live. The majority of our CSR spend takes place in South Africa, given the development needs of the country. Education and literacy programmes receive the greatest amount of funding. Examples of these are our resource centres, one in KwaZulu-Natal and one in Mpumalanga which give every member of the surrounding community the opportunity to use state-of-the-art information technology, regardless of personal means. The centres comprise a digital village with computers, a dedicated study centre and reference library, as well as tele-video and DVD sets.

We also invest in environmental initiatives, sponsoring Living Lands and Waters in North America, amongst others. This is a non-profit, environmental organisation focused on cleaning up America's great rivers and forest restoration. In South Africa, we provided support to key NGOs including Birdlife South Africa, WWF-SA and the Wildlife and Environment Society of South Africa. And in terms of the global 'Ideas that Matter' campaign, Sappi Fine Paper Europe followed on their earthquake-support for the 'Stichting Naar School in Haiti' (www.stichtingnaarschoolinhaiti.nl), with a tree-planting project (some 350,000 trees) in Ethiopia in support of the work of the WeForest organisation (www.weforest.org).



Papermaking



papermaking > coating and calendaring > cutting and wrapping > products > our markets

Waste

We have reduced the amount of solid waste to landfill over five years by 37.8%. We've achieved this by combusting waste sludge for heat gain and using waste products in the production of value-added products:

- > Waste sludge is used in the production of bricks, cement or soil substrates for landscaping.
- > Dried residual sludge is used as animal bedding material.
- > Waste oil is physically and chemically treated, refined and filtered for re-use in various grades of base oils.
- > Excess lime mud generated from our liquor recovery process in some of our kraft pulp mills is provided to farmers for spreading on their fields to enrich the land as fertiliser.

Sending organic solid waste to landfill is the least favourable method of disposal as organic compounds in landfills can decompose and generate methane, a greenhouse gas with approximately 21 – 23 times the global warming potential of CO₂. In addition, there is a cost implication to landfilling waste as well as the issue of limited landfill space.

Our coated fine paper and packaging products are recyclable and we are strong advocates for the recovery and re-use of our products.

By far the main component of landfill originates from coal-fired boiler ash. Because coal is the predominant purchased fuel at our operations in South Africa, operations in this region have the greatest impact on landfill. The second major component of waste going to landfill generated by Sappi is lime. In recent years, significant quantities of both coal ash and lime have been sold to customers for brick-making and fertiliser respectively.

Specific total landfill (on- and off-site – ton/adt)

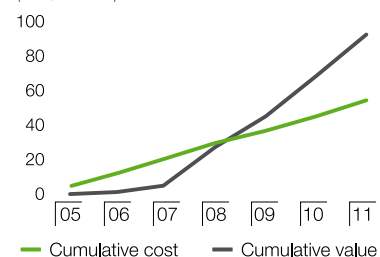


Our products

To ensure that our solutions remain relevant to the needs of our customers in more than 100 countries across the globe, our total R&D spend in 2011 was US\$38 million. In addition to our more traditional R&D work, we started the 'Exciter' programme in 2005 to deal with the persistent threat of commoditisation in the graphics paper markets and accelerate the development of breakthrough technological competency in our core markets. More recently we have started to shift funding into projects aimed at new and adjacent markets which will be more challenging and likely to take longer, but the value delivery is expected to be greater. Between 2005 and 2007, we spent US\$54.5 million on Exciter projects. The total value delivered from our Exciter R&D programmes was US\$91.2 million. This gives a ratio of return versus investment of 167%.

Cumulative global value generated versus expenditure

Investment/value delivered (US\$ million)



output >

CO₂

output >

Since 2000, throughout our operations, we have focused on reducing our carbon footprint. We have instituted a system for measuring CO₂, one of the main greenhouse gases (GHGs) contributing to climate change, based on the premise of 'measure, monitor, manage and mitigate'. Between 2007 and 2011, total specific CO₂ emissions reduced by 14.4%. This reduction has been achieved through numerous actions which include reducing purchased energy (electricity and fossil fuel) and increasing the use of renewable energy – black liquor and own and purchased biomass – an approach which ultimately results in a reduction in CO₂ emissions.

Our key sustainability drivers

The drivers set out below are important factors for our business that we believe may have a material impact on our success as a business either by directly impacting our ability to operate profitably or by affecting our reputation and the trust stakeholders have in Sappi.

employees

Our success depends on having energised employees who believe in the company's mission and strategy and understand how to achieve it. At the beginning of 2011, we conducted our third employee engagement survey. There was a 29% increase in uptake of the survey, with 62% of employees participating.

The results showed a slight improvement in the levels of commitment when compared to the 2009 survey and were very much in line with the survey benchmark, which is established by the Corporate Leadership Council's Employee Engagement survey and analysis report, which is based on 161,000 employees in 115 organisations; 51 countries and 23 industries.

The survey identified a range of different issues in the regions that we are addressing via various programmes tailored to the specific concerns.

	2011 Survey results	2009 Survey results	2010 Benchmark
Strong commitment	10%	10%	7%
Moderate commitment	69%	68%	70%
Poor commitment	21%	22%	23%

Recognising that our employees underpin our business success, our challenge going forward will be to maintain and build on these results and also to reassure talented individuals of the potential for career growth if they remain in the organisation. This is important as the survey was conducted before the closures of Biberist and Adamas Mills and the ongoing restructuring of the South African business.

One of the ways in which we are underpinning our retention strategy is by continuing to focus on providing training that enables individuals, groups and the organisation to improve performance, learn new skills, adapt to change and meet group-wide business objectives.

In 2011, we spent US\$11 million on training and development (2010: US\$9.8 million) which amounted to US\$727.56 per employee (2010: US\$645.20).

It's important for all our people and, in particular, our leadership, to have a clear view of the company's strategy and direction. In February 2011, the top 100 employees in Sappi attended a management conference which focused on the strategic direction the group was planning to take. The theme of the conference was: *Profitability now is key to creating the platform for our future growth opportunities*. Delegates at the conference were presented with a basic strategic framework and, through a series of workshops, were granted the opportunity to provide input in developing the strategy. This resulted in a clear vision and shared understanding of the strategy and the way forward.

In the South African context, our 2014 employment equity targets in line with our submissions to the South African Department of Labour are challenging at the top management and senior management levels.

safety

The goal of our safety programme, Project Zero, is to eliminate fatalities and lost time injuries and achieve constant 'front of mind' safety awareness for all employees and contractors. We continue to seek improvements in our systems, procedures and in particular the safety awareness programmes. Sappi Fine Paper North America developed the 'Do You Know What's In Your Safety Circle?' campaign.

This initiative, which has been extended to all regions, was used as the theme for our Group Safety Awareness Day and proved to be an excellent safety motivation initiative. Going forward, this will be rolled out across the group.

In terms of systems and procedures, despite the drop in performance in South Africa, we believe that ongoing, disciplined adherence to the processes in place will achieve more positive results.

Comment: The inclusion of the mills acquired from M-real from 2009 negatively affected both the own and contractor operations statistics. The implementation of the Sappi safety programmes at these mills has resulted in a steady improvement in their safety records.

For further information on the LTIFR by region please consult the expanded information on www.sappi.com.

energy and emissions

Over the last decade, our specific purchased energy has dropped from 15.8GJ/ton to 12.8GJ/ton (2001 to 2011) – an overall drop of 19%.

This has been the result of initiatives such as:

- > Harnessing waste heat and the generation of additional power through cogeneration, as with our Amakhulu expansion project at Saiccor Mill which incorporated a high pressure chemical recovery boiler with an associated 45MW turbo generator to harness the 'waste' energy and convert it into steam and electricity together with the reconversion of waste inorganic chemicals into useful process chemicals
- > Installing a gas and steam Combined Cycle Heat and Power Generation plant at our Gratkorn Mill in Europe, and
- > The recent upgrade of the recovery cycle at Somerset Mill which has resulted in greater utilisation of black liquor and consequently reduced oil consumption by over 100,000 barrels of oil per year.

Future energy and conversion projects such as the Ngodwana Mill and Cloquet Mill projects will utilise the best available technology, with expected reduction in specific emission and water usage and lower environmental impacts.

Energy costs for our South African operations have risen sharply over the last three years and have impacted negatively on profitability in the region. Europe and North America have been able to contain their energy costs, owing to stable energy prices in Europe and a reduction in fossil fuel purchases in North America. Energy costs in Europe during 2009 were unfavourably impacted by the acquisition of the M-real Mills.

Do You Know What's in Your Safety Circle?

Imagine a 10-foot circle around you.
What are the hazards in that area?
Think ahead, what could potentially go wrong?
Identify and understand the hazards before they do harm.

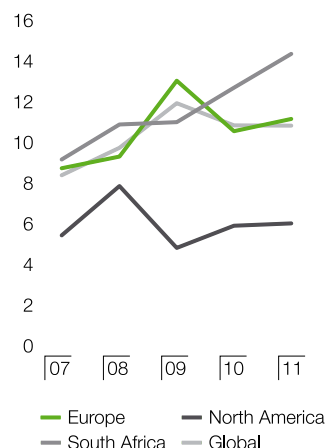


"Overall safety performance improved in North America and Europe, but deteriorated in South Africa. While the improvement is encouraging, I deeply regret having to report four contractor fatalities – one in Europe and three in Sappi's forestry operations in South Africa. Our hearts go out to the families of the deceased.

We view contractor safety as being as important as that of our own employees and our focus, throughout all operations, is on trying to realise the goals of our Project Zero safety programme so that all employees can go home safely to their families every day."

Ralph Boëttger
chief executive officer, Sappi Limited

Energy costs as a percentage of cost of sales



water

A Nielsen report⁽¹⁾ released in August 2011 indicated that water shortages and water pollution are among the top concerns for global consumers. Against this backdrop, it is encouraging to note, not only the drop in water usage (discussed on page 18), but also the fact that globally, over five years (2007 to 2011), Chemical Oxygen Demand (COD) and Total Suspended Solids (TSS), in water returned from our production facilities, have decreased by 25.4% and 19.5% respectively.

There is a general perception that forestry in South Africa uses excessive amounts of water. The fact is, however, that commercial forestry accounts for a little less than 3% of total use by reducing run-off into rivers and streams. This compares favourably with irrigated agriculture which uses 62% of the total water use in South Africa. Forestry's water use also has to be viewed in the context of the high value-add to employment and GDP as indicated in the table below.

Sectoral multipliers per million m³ water used in SA

Sector	High-level jobs	Mid-level jobs	Low-level jobs	GDP supported (ZAR million)
Agriculture (general)	10	30	210	13
Gold mining	650	2,880	11,900	1,600
General manufacturing	6,800	27,000	28,000	6,700
Pulp and paper	25,000	79,000	81,000	23,000
Beverages	38,000	131,000	158,000	37,000
Glass products	233,000	716,000	836,000	250,000

(Source: Assessment of the Ultimate Potential and Future Marginal Cost of Water Resources in South Africa, Report No: P RSA 000/00/12610 prepared by BKS for the Department of Water Affairs, September 2010)

Legislation

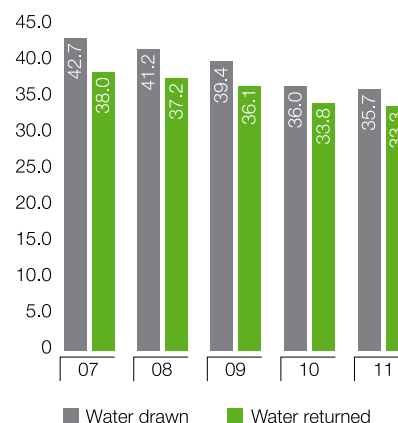
Despite the 2009 United Nations (UN) Climate Change Summit in Copenhagen and the 2010 UN Climate Change Conference in Cancún ending without the globally conclusive, binding agreements anticipated, climate change is still a key agenda item for governments around the world, including those in the regions where we operate. Through proposed carbon taxes and/or trading schemes, many of these governments aim to facilitate behaviour changes towards low carbon and energy efficient technologies as a means of mitigating the impacts of climate change. These could have material impacts on our business. We continue to interact both directly and through industry bodies with government to ensure that country or regional implementation of climate change related legislation does not adversely impact our ability to compete on a level playing field. Below we set out the situation in each region, together with our response.

Europe

In a bid to reduce its dependency on imported oil and gas and slash its energy bill by an estimated €100 billion every year, the European Union (EU) has embarked on an ambitious plan to cut its energy consumption by 20% by 2020. The EU target basically has three '20% elements' – 20% reduction of greenhouse gas emissions, achieve a 20% share of renewable primary energy and a 20% increase in energy efficiency by 2020. The EU Emission Trading Scheme (ETS) has backed this approach with introduced specific carbon limits for the pulp and paper industry of 318g CO₂/kg paper and 20g CO₂/kg sulphite pulp as a benchmark.

Previously, we have had a surplus of emission rights due to our efforts to reduce our energy needs and to increase the share of renewable fuel use. These were either traded between mills or sold onto the market. For the next phase, from 2013, the allocation will be based on a product benchmark and we expect to fall short of emission rights as the benchmark is very low. Currently, the cost for extra emission rights is estimated at €14 million per annum. We are continuing to work towards reducing energy consumption and hence emissions.

Specific water drawn and water returned (m³/adt)



Both water drawn, and water returned (effluent) from our production facilities have shown a steady decline over the last five years. This is due to a number of at-source water reduction initiatives implemented in all regions. The difference between water drawn and returned represents the quantity that one could consider consumed by the operations of the company, either by becoming an intrinsic part of the product, or lost via evaporation and other processes – over 91.5% of water drawn is returned.

North America

We closely monitor state, regional and federal GHG initiatives as well as other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol, and has not yet adopted a federal programme for **regulating** GHG emissions, Congress has considered comprehensive federal legislation regarding climate change, **and various regional initiatives regarding emissions associated with climate change are in effect or proposed.**

In addition, the US Environmental Protection Agency (EPA) has finalised or proposed several rules relating to emissions reporting and emissions reductions, including rules issued in March 2011 known as the 'Boiler MACT' which would establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers. In May 2011, the EPA stayed the Boiler MACT rules indefinitely. When announcing the stay, the EPA stated that the stay will remain in effect until it completed an ongoing reconsideration process with respect to certain requirements in the rules or various court proceedings concerning Boiler MACT are completed, whichever came first. Based on motions before the court, it is not clear whether the reconsideration process, or the litigation

(1) Nielsen's 2011 Global Online Environment & Sustainability Survey, which canvassed more than 25,000 people in 51 countries.

will reach resolution first, or what the timing for completion or implementation of a revised rule would be. Capital expenditures, currently estimated to range between US\$10 million and US\$15 million, could be required for emissions control equipment at our mills in order to comply with the Boiler MACT rules as proposed in March 2011, although the anticipated impact of the rules, as well as the related costs, may be subject to revision in the future, particularly in light of the ongoing reconsideration process and litigation. The nature, scope and timing of any proposed legislation, including climate change legislation and other proposed rules regulating GHGs is highly uncertain and, currently, we do not know what precise effect, if any, such legislation will have on our mills, both financially and on our operations.

During the past year, Sappi has implemented several major projects at the Somerset Mill to improve energy efficiency, reduce the site's carbon footprint and lower our operating costs, including a US\$49 million capital project that upgraded the pulp mill's recovery cycle equipment and other manufacturing processes. These projects and other initiatives have reduced our reliance on fossil fuels, increased our energy efficiency and stabilised our costs. As part of that commitment, our Somerset Mill recently became a certified Green-e® energy organisation with the Centre for Resource Solutions. Under that programme, 100% of the electricity used to manufacture select coated fine paper products at the Somerset Mill is made with certified renewable energy that is generated on-site. The energy is created from the burning of wood biomass, a carbon-neutral renewable fuel source. In addition, every year Cloquet Mill generates approximately 150,000MWh of certified renewable energy.

South Africa

South Africa has ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change. In Southern Africa, nevertheless, the national environmental regulatory legal framework is still evolving, as is the enforcement process. We work with government authorities in striving to find a balance between economic development and social and economic considerations.

The recently published White Paper on Climate Change for South Africa acknowledges that "plantations function as carbon sinks that reduce the amount of GHGs in the atmosphere". Against this backdrop, the Paper Manufacturers' Association of South Africa (PAMSA), has been invited by National Treasury to submit a proposal regarding offset mechanisms for the paper manufacturing sector for consideration as part of the pending update of the Carbon Tax Option.

PAMSA's response is based on the following: As part of the carbon cycle known as photosynthesis, trees and other plants absorb carbon dioxide (CO₂), sunlight, and water to produce carbohydrate energy for themselves with oxygen as a by-product. Climate change is influenced by an increase in greenhouse gases (of which carbon dioxide and methane are the most potent) in the atmosphere. By storing carbon, trees remove CO₂ from the atmosphere.

Young trees are much more efficient at absorbing carbon than older ones. Only when actively growing can a tree or forest remove carbon over an annual or longer time frame. Both the decay and burning of wood releases much of this stored carbon back to the atmosphere. In order for forests to take up (sequester) carbon, the wood must be harvested and turned into long-lived products and trees must be re-planted⁽¹⁾. In Sappi's plantations in South Africa, we perpetuate this cycle by balancing harvesting with re-growth and planting 20% more seedlings than the trees we harvest each year.

If we apply the same methodology (Forestry Industry Carbon Assessment Tool – 'cradle to grave') as the Canadian and Australian pulp and paper industries, then over a year, we get a similar result: that, like their industries, Sappi is a net absorber of carbon.

creating shareholder value

"The future paper industry will be a cluster of integrated activities and sectors. New business models, products and services will complement the future use of printing and writing papers..."

CEPI Sustainability Report 2011

Digital media has had an impact on graphic paper demand, which will not grow in mature markets. Demand is expected to continue growing in emerging and developing markets. We believe that paper will continue to play an important role in everyday life and that digital and print advertising works best in partnership.

In 2011, we reviewed our strategy in light of this decline in our major graphics markets. This strategy is outlined in detail in the Letter to shareholders (see pages 8 to 13).

(1) IC Prentice. "The Carbon Cycle and Atmospheric Carbon Dioxide" IPCC, http://www.grida.no/CLIMATE/IPCC_TAR/wg1/pdf/TAR-03.PDF

coated

48%
share of sales

Higher level of smoothness than uncoated paper achieved by applying a coating (typically clay based) on the surface of the paper. As a result, higher reprographic quality and printability is achieved. Uses include marketing promotions and brochures, catalogues, corporate communications materials, direct mail, textbooks and magazines.

demand trends Demand for coated woodfree paper is expected to continue to grow on a global level, but the impact of electronic media is likely to see a gradual decline in developed economies in the long-term. Advertising, retail sales, and consumer demand for printed products are primary drivers of demand.

our market in 2011 Demand in 2011 was negatively affected by global economic uncertainty, especially in Europe. Demand overall, was lower than anticipated.

uncoated

8%
share of sales

Uses include business forms, business stationery, tissue and photocopy paper as well as cutsize, preprint and office paper. Certain brands are used for books, brochures and magazines.

demand trends Over the last few years, strong demand in the cutsize business has helped the uncoated office markets. There is a growing trend to print some brochures and magazines on uncoated grades such as Tauro.

our market in 2011 In a very competitive market, prices fell in April 2011 and decreased throughout the year as the Euro-zone economies stagnated.

speciality

7%
share of sales

Can be either coated or uncoated. Uses include bags, labels, flexible and rigid packaging and release paper for casting innovative surface textures (eg artificial leather, decorative laminates) for use in the textile, automotive, furniture and engineering film markets.

demand trends Flexible paper packaging driven by steady consumption growth in the healthy food and drink markets. Paper based packaging highly regarded as a sustainable solution.

Release paper demand is expected to grow along with the textile and automotive industry, as well as in new and innovative applications.

our market in 2011 This was a year of stabilisation for demand and prices.

7%
share of sales

coated

14%
share of sales

A coated mechanical fibre based paper, primarily used for magazines, catalogues and advertising material. Manufactured from mechanical pulp.

demand trends Magazines, one of the main end-uses related to this product group, doing marginally better than last year mainly due to growing consumption in special interest magazines. As with coated woodfree paper, advertising expenditure is a key demand driver.

our market in 2011 European demand for coated mechanical paper outpaced that for coated woodfree paper in fiscal 2011.

uncoated

Mechanical fibre based printing paper used primarily for the printing of books, and advertising inserts.

demand trends As woodfree grades become more expensive the demand for improved newsprint and mechanical uncoated grades increases.

our market in 2011 South African volumes missed our targets due to competitive market conditions and a three-week strike in July.

newsprint

Manufactured from mechanical and bleached chemical pulp. Uses include advertising inserts and newspapers.

demand trends Demand is highly dependent on newspaper circulation and retail advertising. Electronic media has led to newsprint demand declines in most markets across the globe.

our market in 2011 South African demand has fallen from last year as smaller regional newspapers have stopped printing. Advertising-subsidised free daily newspapers provide steady orders for producers.

packaging paper

Heavy and lightweight grades of paper and board primarily used for primary and secondary packaging of fast-moving consumer goods, agricultural and industrial products. Products include containerboard (corrugated shipping containers), sack kraft (multi-walled shipping sacks) and machine glazed kraft (grocer's bags). Can be coated to enhance barrier and aesthetic properties.

demand trends Packaging demand is driven by population growth, higher standards of living, urbanisation and globalisation. Paper packaging is seen as playing an increasingly important role in an environmentally-conscious world.

our market in 2011 A strong first half of the year in South Africa was negatively impacted by an inventory cycle in the second half.

pulp

paper pulp

Main raw material used in production of printing, writing and packaging paper. Pulp is the generic term that describes the cellulose fibre derived from wood. These cellulose fibres may be separated by mechanical, thermo-mechanical or chemical processes. The chemical processes involve removing the glues (lignins) which bind the wood fibres to leave cellulose fibres. Paper made from chemical pulp is generally termed 'woodfree'. Uses include paper, paperboard and tissue.

demand trends With gradually improving global demand for paper products, demand for paper pulp is expected to recover.

our market in 2011 As demand for paper softened, demand for paper pulp declined in tandem. Prices started a slow decline from their highs in June. Softwood pulp prices remain firmer than hardwood pulp as hardwood pulp supply continued to come on line.

chemical cellulose

Manufactured by a similar process to paper grade pulp, but purified further to leave virtually pure cellulose fibres. Chemical cellulose is used in the manufacture of a variety of cellulose textile and non-woven fibre products, including viscose staple fibre (rayon), solvent spun fibre (lyocell) and filament. It is also used in various other cellulose based applications in the food, film, cigarette, chemical and pharmaceutical industries. These include the manufacture of acetate flake, microcrystalline cellulose, cellophane, ethers and molding powders. The various grades of chemical cellulose are manufactured in accordance with the specific requirements of customers in different market segments. The purity of the chemical cellulose is one of the key determinants of its suitability for particular applications with the purer grades of chemical cellulose generally supplied into the speciality segments.

demand trends Chemical cellulose has a wide range of applications, demand for many of which, is expected to continue growing at good rates. The textile uses in particular are predicted to show increasing levels of growth as the growth in the supply of cotton becomes increasingly constrained.

our market in 2011 Another strong year for chemical cellulose. With recent announcements surrounding capacity additions and expansions, as well as improved cotton supply, spot prices have declined during the year.

15%
share of sales

timber products

timber products

1%
share of sales

Sawn timber for construction and furniture manufacturing purposes.

demand trends As consumer and housing markets recover in South Africa, demand for timber products is expected to recover.

our market in 2011 SA lumber markets showed signs of improvement in 2011. The second half of the year was marked by good demand with rising prices.

Our leadership

01 **Daniël (Danie) Christiaan Cronjé (Chairman)** Age 65 Qualifications **BCom (Hons), MCom, DCom** Nationality **South African** Appointed **January 2008**

Sappi board committee memberships Human resources and transformation committee (chairman), nomination and governance committee (chairman) (Attends audit committee meetings and compensation committee meetings ex officio)

Other board and organisation memberships Die Dagbreek Trust (chairman)

Skills, expertise and experience Dr Cronjé retired in July 2007 as chairman of both ABSA Group Limited and ABSA Bank Limited (a leading South African Banking organisation in which Barclays plc obtained a majority share in 2005). Dr Cronjé had been with ABSA Group since 1975 and held various executive positions including group chief executive for four years and chairman for 10 years. Prior to that Dr Cronjé was lecturer in Money and Banking at Potchefstroom University.

02 **Godefridus (Frits) Peter Franciscus Beurskens (Independent)** Age 64 Qualifications **BSc Mechanical Engineering, MSc Industrial Engineering and Management Science** Nationality **Dutch** Appointed **October 2011**

Sappi board committee memberships Audit committee (with effect from January 2012) Sappi Fine Paper Europe audit committee (chairman) (with effect from January 2012)

Other board and organisation memberships Smurfit Kappa Group. A number of supervisory boards of companies

Skills, expertise and experience The Smurfit Kappa Group is an almost €7 billion global leader in paper based packaging. As president and chief executive officer of Kappa Packaging, prior to their merger with the Smurfit group, he oversaw the establishment of Kappa Packaging as a top performer and one of Europe's largest companies operating in the production, development and sales of containerboard, corrugated board, solid board packaging, graphic board and speciality board. He is a past chairman of CEPI (the Confederation of European Print Industries) and of ICCA (the International Corrugated Case Association). In December 2007, he was appointed by the Dutch Queen as officer in the Order of Oranje Nassau (Knighthood).

03 **Michael (Mike) Anthony Fallon (Independent)** Age 53 Qualifications **BSc Hons (First Class)** Nationality **British** Appointed **September 2011**

Sappi board committee memberships Audit committee (with effect from January 2012)

Other board and organisation memberships Nippon Sheet Glass Company Limited (NSG Group) (executive director)

Skills, expertise and experience Mr Fallon is president of NSG's global automotive division. With annual sales of around €6 billion the NSG Group is one of the world's largest manufacturers of glass and glazing products for the Building, Automotive and Specialty Glass sectors. His management and leadership experience extends across a wide range of functions from plant management, sales and marketing and supply chain to general management, including M&A experience. He has been a director and chairman of companies in the United Kingdom, New Zealand and Finland.



04 **Professor Meyer Feldberg (Lead independent director)** Age 69 Qualifications **BA, MBA, PhD** Nationality **American** Appointed **March 2002**

Sappi board committee memberships Compensation committee (chairman), nomination and governance committee

Other board and organisation memberships Columbia University Business School, Macy's, Inc, Morgan Stanley (senior advisor), New York City Ballet, New York City Global Partners (president), PRIMEDIA, Inc, Revlon, Inc, UBS Global Asset Management, University of Cape Town Graduate School of Business (advisory board)

Skills, expertise and experience Professor Feldberg is currently serving as a senior advisor to Morgan Stanley. His career has included teaching and leadership positions in the Business Schools of the Universities of Cape Town, Northwestern and Tulane. He served as president of Illinois Institute of Technology for three years and as dean of Columbia Business School for 15 years. He is currently dean emeritus and professor of leadership at Columbia Business School. He has served on the Council of Competitiveness in Washington, DC. In 2001, the International Centre in New York honoured Professor Feldberg as a distinguished foreign-born American who has made a significant contribution to American life.

05 **James (Jim) Edward Healey* (Independent)** Age 70 Qualifications **BSc (Public Accounting), Honorary Doctor (Commercial Science), Certified Public Accountant (USA)** Nationality **American** Appointed **July 2004**

Sappi board committee memberships Audit committee, human resources and transformation committee, Sappi Fine Paper North America audit committee (chairman)

Skills, expertise and experience He has held various senior financial positions in a career spanning 37 years. In 1995, Mr Healey became vice-president and treasurer of Bestfoods, formerly CPC International Inc. In 1997, he became executive vice-president and chief financial officer of Nabisco Holdings Inc, one of the world's largest snack food manufacturers, a position from which he retired at the end of 2000.

* Retiring at the end of December 2011.

06 **Deenadayalen (Len) Konar (Independent)** Age 57 Qualifications **BCom, MAS, DCom, CA (SA)** Nationality **South African** Appointed **March 2002**

Sappi board committee memberships Audit committee (chairman), nomination and governance committee

Other board and organisation memberships Exaro Resources Limited (chairman), Illovo Sugar Limited, Lonmin plc, JD Group Limited, Mustek Limited (chairman), Steinhoff International Holdings Limited (chairman)

Skills, expertise and experience Previously professor and head of the department of Accountancy at the University of Durban-Westville, Dr Konar is a member of the King Committee on Corporate Governance in South Africa and the SA Institute of Directors, past member and chairman of the external audit committee of the International Monetary Fund and member of the Safeguards Panel and Implementation Oversight Panel of the World Bank (co-chairman).

07 **Nkateko Peter Mageza (Independent)** Age 57 Qualifications **FCCA (UK)** Nationality **South African** Appointed **January 2010**

Sappi board committee memberships Audit committee, human resources and transformation committee

Other board and organisation memberships Baird's Renaissance (Pty) Limited, Clover Industries Limited, Eqstra Holdings Limited (chairman) Ethos Private Equity (Pty) Limited, Rainbow Chickens Limited, Remgro Limited, MTN Group Limited

Skills, expertise and experience Mr Mageza joined the Sappi board after having held senior executive positions across a wide range of industries. He is a former group chief operating officer and executive director of ABSA Group Limited, assistant general manager at Nedcor Limited and chief executive officer of Autonet, the Road Passenger and Freight Logistics Division of Transnet Limited.

08 **John (Jock) David McKenzie (Independent)** Age 64 Qualifications **BSc Chemical Engineering (cum laude), MA** Nationality **South African** Appointed **September 2007**

Sappi board committee memberships Compensation committee, sustainability committee (chairman)

Other board and organisation memberships Accelerate Cape Town (chairman), Coronation Fund Managers, University of Cape Town Foundation (chairman), WESGRO, Save the Children Fund (Cape)

Skills, expertise and experience Mr McKenzie joined the Sappi board after having held senior executive positions globally and in South Africa. He is a former president for Asia, Middle East and Africa Downstream of the Chevron Texaco Corporation and also served as the chairman and chief executive officer of the Caltex Corporation. He was a member of the Singapore Economic Development Board from 2000 – 2003.



09 **Mohammed Valli (Valli) Moosa** Age 54 Qualifications **BSc (Mathematics)** Nationality **South African** Appointed **August 2010***

Other board and organisation memberships Auditor-General's Advisory Committee (South Africa), Anglo Platinum Limited (deputy chairperson and lead independent director), Imperial Holdings Limited, Lereko Investments (Pty) Ltd and various other associate companies of Lereko Investments (Pty) Ltd, Real Africa Holdings Limited (chairman), Sanlam Limited, Sun International Limited (chairman)

Skills, expertise and experience Mr Moosa is currently the deputy chairman of Lereko Investments (Pty) Ltd, Sappi's Strategic Black Economic Empowerment partner. He has held numerous leadership positions across business, government, politics and civil society in South Africa.

To name but a few, he was South African minister of Environmental Affairs and Tourism; the president of the International Union for the Conservation of Nature; chairman of the UN Commission for Sustainable Development, and he was a long serving National Executive Committee member of the African National Congress.

** Mr Moosa's appointment was subsequent to the BEE transaction implemented by Sappi in June 2010.*

10 **Karen Rohn Osar (Independent)** Age 62 Qualifications **MBA, Finance** Nationality **American** Appointed **May 2007**

Sappi board committee memberships Audit committee, Sappi Fine Paper North America audit committee (chairman) (with effect from January 2012)

Other board and organisation memberships Innophos Holdings, Inc. (also chairperson of audit committee), Webster Financial Corporation (also chairperson of audit committee)

Skills, expertise and experience Ms Osar was executive vice-president and chief financial officer of speciality chemicals company Chemtura Corporation until her retirement in March 2007. Prior to that, she held various senior management and board positions in her career. She was vice-president and treasurer for Tenneco, Inc and also served as chief financial officer of Westvaco Corporation and as senior vice-president and chief financial officer of the merged MeadWestvaco Corporation. Prior to those appointments she spent 19 years at JP Morgan and Company, becoming a managing director of the Investment Banking Group. She has chaired several external board audit committees.

Our leadership non-executive directors

- 11 Bridgette Radebe (Independent)** Age **51** Qualifications **BA (Pol Sc and Socio)** Nationality **South African** Appointed **May 2004**
Sappi board committee memberships Human resources and transformation committee
Other board and organisation memberships Mmakau Mining (Pty) Ltd (executive chairperson), South African Mining Development Association (president), New Africa Mining Fund (founder and board trustee)
Skills, expertise and experience Ms Radebe was the first black South African deep level hard rock mining entrepreneur in the 1980s. She has more than a decade of experience in contract mining, mining construction and mining mergers and acquisitions. She is founder of Mmakau Mining which has investments in platinum, coal, chrome and gold mines as well as the business of shaft sinking. She participated in the design of the South African Mining Charter and present mining legislation.

- 12 Sir Anthony Nigel Russell Rudd (Independent)** Age **65** Qualifications **DL, Chartered Accountant**
Nationality **British** Appointed **April 2006**
Sappi board committee memberships Compensation committee, nomination and governance committee
Other board and organisation memberships BAA Limited (chairman), Barclays Wealth (chairman of the UK & Ireland Private Bank Advisory Board), Business Growth Fund (chairman), Cyden Limited (chairman), Invensys plc (chairman)
Skills, expertise and experience Sir Nigel Rudd has held various senior management and board positions in a career spanning more than 35 years. He founded Williams plc in 1982 and the company went on to become one of the largest industrial holding companies in the United Kingdom. He was knighted by the Queen for services to the manufacturing industry in the UK in 1996 and holds honorary doctorates from Loughborough and Derby Universities. In 1995, he was awarded the Founding Societies Centenary Award by the Institute of Chartered Accountants. He is a Deputy Lieutenant of Derbyshire and a Freeman of the City of London.

- 13 Rudolf Thummer** Age **64** Qualifications **Dr Techn, Dipl-Ing** Nationality **Austrian** Appointed **February 2010**
Sappi board committee memberships Sustainability committee
Skills, expertise and experience Dr Thummer joined the Sappi board after having served many years in the pulp and paper industry. He joined Hannover Papier in 1979 (later purchased by Sappi) as manager of Research and Development. In 1982, he became the Paper Mill manager at Alfeld Mill. In 1990, he was appointed technical director of Alfeld Mill. In 1992, Dr Thummer became an executive board member of the Hannover Papier Group, responsible for manufacturing at the Alfeld and Ehingen Mills. In 1998, he moved to Sappi Fine Paper Europe based in Brussels as technical director and executive board member. He served as group head technology of Sappi Limited from 01 January 2006 up to his retirement at the end of December 2007.



Our leadership executive directors

- 14 Roeloff (Ralph) Jacobus Boëttger – Chief executive officer**
Age **50** Qualifications **BAcc Hons, CA (SA)** Nationality **South African** Appointed **July 2007**
Sappi board committee memberships Sustainability committee (attends meetings of all other board committees by invitation)
Skills, expertise and experience At the age of 34, he was appointed chief executive officer of Safair and the next year appointed to the executive committee of Safmarine Limited. From 1998 until July 2007, he was with Imperial Holdings when Imperial acquired Safair. From 2002, he was an executive director of Imperial Holdings with responsibility for their local and international logistics operations, the aviation division and the heavy commercial vehicle distribution operations. His field of responsibility encompassed businesses operating in Southern Africa, numerous European countries, the Middle East and Asia. He is well versed in managing an operation with diverse cultures.

- 15 Mark Richard Thompson – Chief financial officer**
Age **59** Qualifications **BCom, BAcc, LLB, CA (SA)** Nationality **South African** Appointed **August 2006**
Sappi board committee memberships (Attends audit committee meetings by invitation)
Skills, expertise and experience Mr Thompson joined Sappi in 1999 as group corporate counsel and was appointed to his present position in August 2006. Prior to joining Sappi, he was group treasurer at Anglo American, managing director of Discount House Merchant Bank and prior to that head of the corporate finance division of Central Merchant Bank. Mr Thompson will be retiring at the end of August 2012.

01 Mark Gardner – President and chief executive officer of Sappi Fine Paper North America
Age 56 Qualifications **BSc (Industrial Technology)**

Mr Gardner joined Sappi in 1981. Prior to accepting the position of president and chief executive officer in 2007, Mr Gardner held the roles of vice-president manufacturing and vice-president, supply chain. He has also worked in a variety of production management roles, including production manager at the Westbrook Mill, Paper Mill manager at the Somerset Mill, managing director at the Muskegon Mill and director of Engineering and Manufacturing Technology position at the regional head office in Boston. Mr Gardner has received the TAPPI (Technical Association of the Pulp and Paper Industry)/PIMA (Paper Industry Management Association) 2009 Executive of the Year Award. The award is the highest recognition for leadership and management given by PIMA. He currently also serves on the board of directors of the American Forest & Paper Association and the NPTA Alliance.

02 Alexander van Coller Thiel – Chief executive officer of Sappi Southern Africa
Age 50 Qualifications **BSc Mechanical Engineering, MBA (Financial Management and IT)**

Mr Thiel joined Sappi in December 1989 as the executive assistant to the executive chairman in Johannesburg. In April 1993, as part of Sappi's expansion into Europe, he moved to Brussels as the administration manager reporting to the managing director of Sappi Europe. With the creation of Sappi Fine Paper Europe he was appointed in February 1998 as manager marketing intelligence, reporting to the sales and marketing director. In January 2003, he became the director logistics, reporting to the chief executive officer of Sappi Fine Paper Europe. He was appointed as group head procurement, Sappi Limited in January 2008 and integration executive, in charge of the integration of the acquired business into Sappi's operations, in September 2008. He led a project to redefine and implement Sappi's 'go-to-market' strategy in Europe from October 2009. Mr Thiel was appointed chief executive officer of Sappi Southern Africa with effect from 01 December 2010.

03 Berend (Berry) John Wiersum – Chief executive officer of Sappi Fine Paper Europe
Age 56 Qualifications **MA (Medieval and Modern History)**

Mr Wiersum joined Sappi in January 2007 as chief executive officer Sappi Fine Paper Europe. Prior to joining Sappi, Mr Wiersum was a freelance mergers and acquisitions consultant for one year. He previously was managing director of Kappa Packaging and member of the management board in Eindhoven (The Netherlands) where he was responsible for overseeing over 90 packaging plants across Europe, Russia, the Middle East and North Africa. Mr Wiersum is chairman of Cepi (Confederation of European Paper Industries) until the end of 2011.



04 Robert Darsie Hope – Group head strategic development
Age 59 Qualifications **BA Hons (Economics), MRICS**

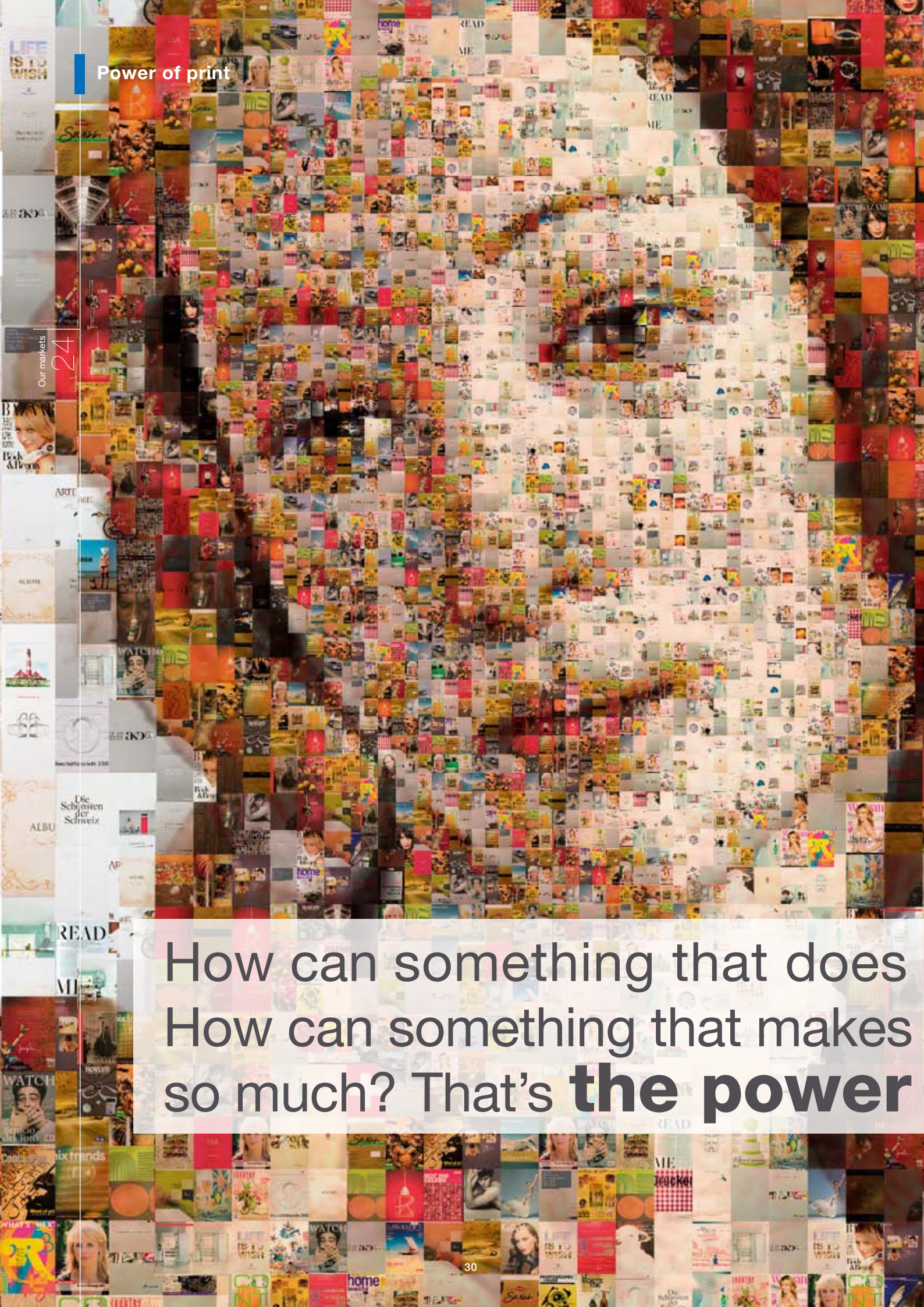
Since joining Sappi in 1976, Mr Hope has held a number of management roles including general manager of Sappi Sawmills, managing director of Sappi Trading and is currently group head strategic development. Mr Hope will be retiring at the end of June 2012.

05 Andrea Rossi – Group head technology
Age 58 Qualifications **BSc Eng (Hons), C Eng**

Mr Rossi joined Sappi in 1989. Prior to becoming group head technology, Mr Rossi held numerous roles in the company including project director Sappi Saiccor 'Amakhulu' expansion project, Sappi Kraft manufacturing director, managing director Sappi Forests, general manager Enstra Mill, and engineering services manager for Sappi Management Services.

06 Lucia Adele Swartz – Group head human resources
Age 54 Qualifications **BA, Dip HR**

Ms Swartz joined Sappi in May 2002 in her current position. Prior to joining Sappi she worked for the Seagram Spirits and Wine Group as human resources director, Global Functions based in New York.



Power of print

our markets

24

How can something that does
How can something that makes
so much? That's **the power**



sappi

In a **connected world**, the solution is to **combine print with other platforms**. Print offers unique attributes in business but it works even better when combined with other platforms.

(What's Working: The Empirical Generalizations of the Branding Impact of Multimedia Campaigns, Dynamic Logic Research, October 2009)

Digital Natives (aged 15 – 24) read more newspaper and magazine titles on a regular basis (25 titles) than average adults (17 titles).

(MPA, magazine media factbook 2011/2012)

Print advertising is seven times more effective than online advertising. Adding Direct Mail to a campaign increases ROI by 20%.

(OMD Brand Science Research 2010)

Posted catalogues inspire 37% of online purchases. *(Royal Mail Home Shopping Tracker 2009)*

not move be so moving?
no sound say
of print.

Entries to the global Sappi Printers of the Year awards for print excellence are used to create a modern rendition of Botticelli's timeless classic 'the birth of Venus'.

Sappi Fine Paper 75% of group sales

Printed communication remains effective, cost-efficient and powerful in delivering messages to and eliciting actions from target audiences. Printers use Sappi's coated graphic paper because of its quality and the technical support we provide.

Publishers, advertising agencies, designers and corporate end-users benefit from Sappi's innovations, sustainable practices and quality products when choosing our paper for their calendars, catalogues, brochures, books, premium magazines, direct mailings and annual reports.

Suppliers, converters and end-use customers rely on our coated and uncoated speciality paper, such as paper used in flexible packaging and casting release paper used in the manufacture of synthetic leather and decorative laminate products.

Our range of uncoated graphic and business papers, our technical support services and research and development facilities, as well as our close interaction with our customers across the globe, ensure that we help our customers to meet their business objectives.

Sappi Fine Paper is approximately 75% integrated in terms of pulp supply. On a regional basis, we purchase slightly less than half of the Sappi Fine Paper business' pulp requirements in Europe and are net sellers of pulp in North America. The Sappi group including Southern Africa is approximately 105% integrated in terms of pulp supply.

Europe

Our primary strategic objective in the European business is to generate reasonable net profits and strong cash flows. In 2011, operating profit excluding special items was meagre and similar to 2010. Cash generation, however, remained strong. The market uncertainty, including as a result of sovereign debt issues, in tandem with competition from electronic media led to weaker demand for coated graphic paper in Europe. As a result of the unprecedented increase in coated paper capacity in Asia, we encountered increased competition from Asian suppliers in our export markets.

We have applied a holistic approach to fixing this business. Through 'Project Breakthrough', in addition to regular business interaction, we continue to engage with our major customers on creating new value propositions, product positioning, brands and services, and working closely with them to create a business model that creates sustainable value for both parties.

During the year, we closed Biberist Mill in Switzerland, which comprised capacity of approximately 400,000 tons a year of coated paper and 100,000 tons a year of uncoated paper. The mill, despite having been tightly managed, was a high-cost operation that was not integrated in respect of pulp and unable to offset the effect of the strong Swiss currency and high energy costs.

In addition, we have implemented a far reaching fixed and variable cost reduction programme to make our business more profitable. The Biberist Mill closure and cost reduction programme is expected to yield benefits and savings of US\$100 million a year.

We have identified several potential investments in energy cost reduction programmes to reduce our cost base and position us better to comply with lower carbon emissions targets over the next few years.

The cost reduction initiatives and mill closure results in a loss of 950 jobs. We have simplified management structures, reduced duplication and ceased unnecessary activities. We have also stepped up our training and employee engagement efforts, invested in efficiency improvements and simplified many of our processes. Our product range has been improved and streamlined, which will help us further improve efficiencies.

During the year, we expanded the scope of the joint sourcing agreement with SCA Hygiene Products SE in an effort to increase our influence on our input costs.

volumes prices costs

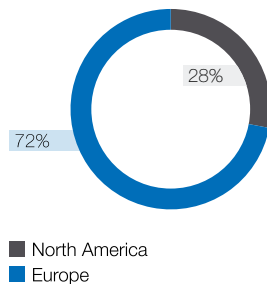
Divisions	Mills	Products produced	Capacity ('000 tons)		Employees*
			Paper	Pulp	
North America	Cloquet Mill	Bleached chemical pulp for own consumption and market pulp		455	
		Coated woodfree paper	330		
	Somerset Mill	Bleached chemical pulp for own consumption and market pulp		525	
		Coated woodfree paper	795		
	Westbrook Mill	Coated speciality paper	35		
Total North America			1,160	980	2,220
Europe	Alfeld Mill	Bleached chemical pulp for own consumption		125	
		Coated woodfree paper, coated and uncoated speciality paper	330		
	Ehingen Mill	Bleached chemical pulp for own consumption and market pulp		135	
		Coated woodfree paper	250		
	Gratkorn Mill	Bleached chemical pulp for own consumption		255	
		Coated woodfree paper	950		
	Kirkniemi Mill	Bleached mechanical pulp for own consumption		330	
		Coated mechanical paper	730		
	Lanaken Mill	Bleached chemi-thermo mechanical pulp for own consumption		180	
		Coated mechanical paper	500		
	Maastricht Mill	Coated woodfree paper	280		
	Nijmegen Mill	Coated woodfree paper	240		
	Stockstadt Mill	Bleached chemical pulp for own consumption and market pulp		150	
		Coated woodfree paper, uncoated woodfree paper	430		
Total Europe			3,710	1,175	6,030
Total Sappi Fine Paper			4,870	2,155	8,250

* Rounded to nearest 10 and excludes corporate head office employees.

Sappi fine paper continued

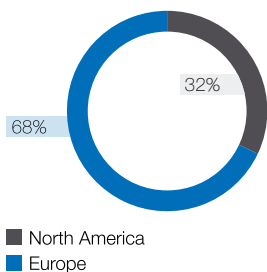
Fine paper Share of sales

2011: US\$5,485 million



Fine paper Share of division's net operating assets

2011: US\$2,797 million



The provisional anti-dumping duties on imports of coated woodfree paper from China, imposed by the European Commission in November 2010, were ratified in May 2011. The duties ranging from 19.7% to 39.1% are expected to remain in place for five years and to help maintain a level playing field in the European market.

North America

The business performed well during the year, increasing operating profit excluding special items and returns compared to 2010. Each of our main product areas – coated paper, casting release paper and particularly pulp – performed well.

Our coated paper business maintained good operating rates through the year and increased its imports from our European business. Our integrated approach to identifying and meeting customer's needs, optimising product design, and driving procurement and operational efficiencies supported our operating rates and allowed us to improve profitability despite market conditions being weaker than one year ago.

Our casting release paper business, used in creating textured fashion, utility or hi-tech surfaces, performed well but experienced weaker demand from Asia as growth in the region slowed. The business continues to innovate and has launched a number of new high-tech applications.

Our pulp business recorded a strong performance. Pulp prices were high but declined in the second half of the year. Following the successful recovery boiler upgrade at Somerset Mill early in the year, our production and sales volumes of pulp increased.

The recovery boiler upgrade has significantly reduced the mill's reliance on fossil fuels and reduced our energy cost per ton of pulp or paper produced.

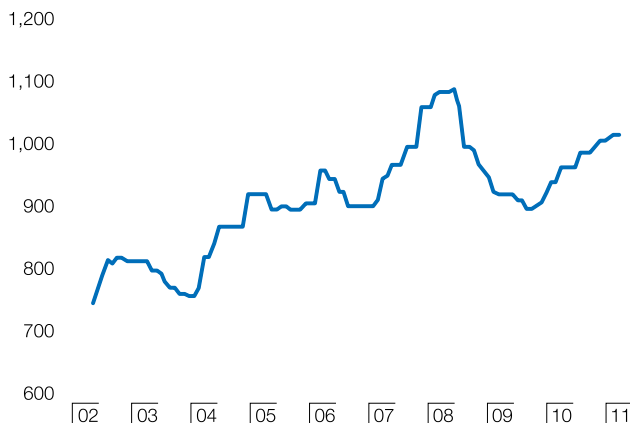
In conjunction with a number of our major customers and other industry players, we are participating in a programme to encourage small timber growers in Maine to obtain third party certification for their forests, thereby ensuring best practice among a growing proportion of our wood supply base.

Through our online eQ tool, we help our customers better understand the environmental footprint of paper and its advantages relative to other communications media as a result of its renewable and recyclable resource base. The tool also facilitates comparison with our competitor's grades, allowing our customers to make informed purchase decisions.

The anti-dumping and countervailing duties imposed on imports of coated sheet paper from Indonesia and China in October 2010 remain in force.

Coated woodfree prices No 3 – 60lb (90g) rolls USA (East Coast)

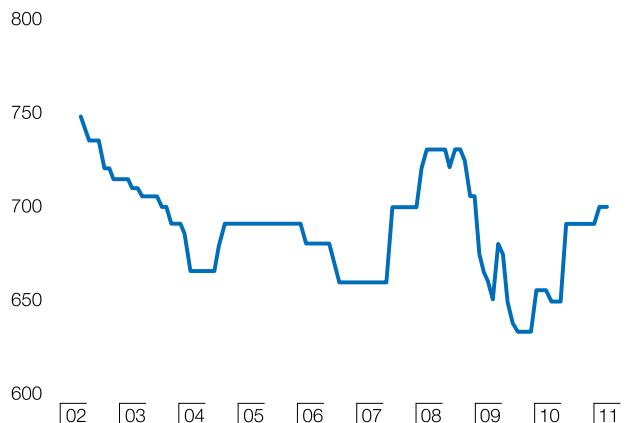
(US\$/short ton*)



* Prices are list prices. Actual transaction prices could differ from prices shown.
Source: FOEX PIX Pulp Price Index

Coated mechanical prices – 60g/m² offset reels Germany

(Euro/metric ton*)



* Prices are list prices. Actual transaction prices could differ from prices shown.
Source: RISI

The year ahead

Demand for coated paper in our major markets will be impacted by global market sentiment. At present we are experiencing reasonable demand for coated paper in North America and somewhat slower demand in Europe. The supply/demand balance for coated woodfree paper in many of our export markets has been disrupted by the large additions of capacity in China.

In Europe, a major producer has announced the closure of 1.3 million tons of graphic paper capacity of which approximately 800,000 tons will be coated paper. These closures are expected to improve the supply/demand balance for magazine paper in Europe.

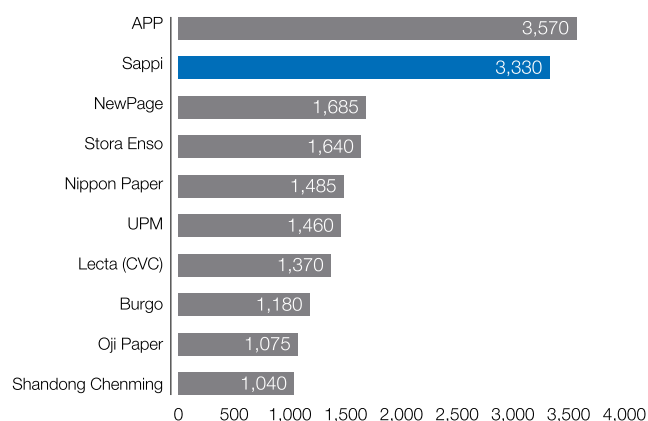
We expect pulp prices to be lower in the year ahead than in 2011 as a result of weaker demand, which will favour the European business as a major net pulp buyer. However, the impact on the North American business, which is a net seller of pulp, will be negative.

We have announced that we are investing to convert the Cloquet Mill pulp mill to produce 330,000 tons of chemical cellulose. This project is due to come on line in early 2013 (see also pages 6 and 12).

We expect the major interventions undertaken in Europe to go a long way to restoring the fine paper business to reasonable net profitability in the coming year and beyond.

Sappi's global position – coated woodfree paper

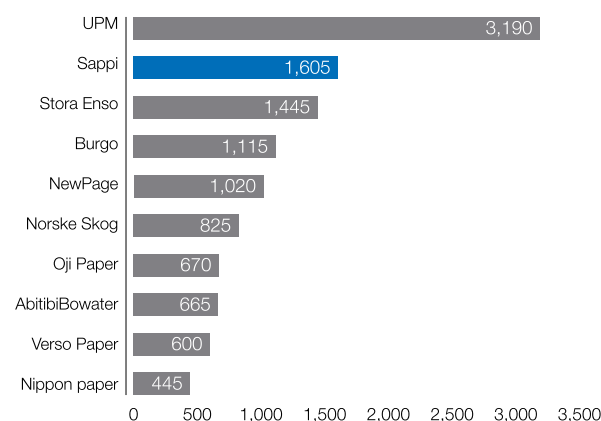
(capacity '000 tons)



Source: EMGE World Graphics Paper Report, September 2011

Sappi's global position – coated mechanical paper

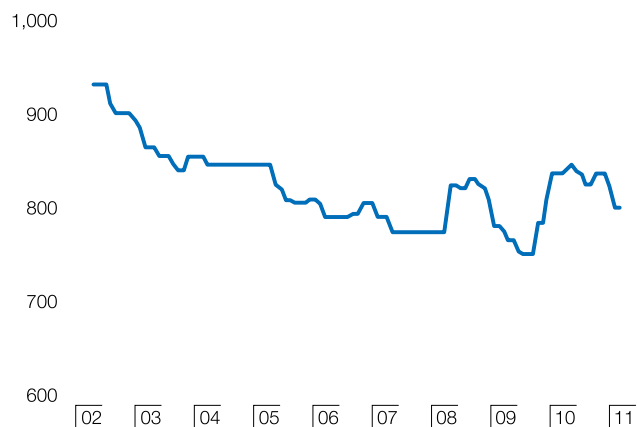
(capacity '000 tons)



Source: EMGE World Graphics Paper Report, September 2011

Coated woodfree prices – 100g/m² sheets Germany

(Euro/metric ton*)



* Prices are list prices. Actual transaction prices could differ from prices shown.
Source: RISI

Sappi Southern Africa 25% of group sales

Sappi was formed in South Africa in 1936 to serve South African consumers with locally produced paper.

Sappi continues this tradition by innovating and developing new products to meet local demand for newsprint, coated and uncoated fine papers, office and business papers (stationery, printing and photocopying), security and speciality papers (passports and election ballot papers), containerboard (such as cardboard boxes used for exporting fruit and cucumbers) and packaging paper (such as bags for cement, dog food, potatoes and shopping bags). Bleached paper-pulp produced is sold on the South African and global paper markets.

Chemical cellulose, a product made from wood, mostly from our plantations, is sold to converters for a wide range of consumer products, such as clothing, cellular phone screens, cellophane wrap for sweets and flowers, pharmaceutical and household products, and make-up such as lipstick. We are the world's largest manufacturer of chemical cellulose and we export almost all of the production of Sappi Saiccor Mill, KwaZulu-Natal.

Sappi Forests supplies over 70% of the wood requirements of Sappi Southern Africa from both our own and managed commercial timber plantations of 567,000 hectares. This equates to more than 35 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 150,000 hectares of our land is protected and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there, including indigenous forests and wetlands.

Sappi Southern Africa is a net seller of pulp that effectively hedges pulp purchases by our European business.

We have identified investment in low-cost wood as a growth driver. To this end, we are working with local government and communities to accelerate afforestation in the northern region of the Eastern Cape. In addition to growing both the national and Sappi's own plantation area, we continue to identify ways to ensure access to pulpwood in the wood baskets close to our key operations, by means of land or product delivery swaps.

We have invested significantly in protecting our plantations against fire by using modern identification, alarm and response technology. We also continue to engage extensively with the communities in and around our plantations to increase cooperation in avoiding and fighting fires when they occur. There were negligible losses to fire during the year.

volumes v prices ^ costs ^

Divisions	Plantations	Products produced	Capacity ('000)		Employees*
			Hectares	m ³	
Sappi Forests	KwaZulu-Natal	Plantations (pulpwood and sawlogs)***	228		
	Mpumalanga	Plantations (pulpwood and sawlogs)***	273		
	Swaziland	Plantations (pulpwood)***	66		
	Sawmills	Sawn timber (m ³)		85	
	Total Sappi Forests		567	85	1,180

Divisions	Mills	Products produced	Capacity ('000 tons)		Employees*
			Paper	Pulp	
Sappi Chemical Cellulose	Saiccor Mill	Chemical cellulose		800	
	Total Sappi Chemical Cellulose			800	1,230
Sappi Paper and Paper Packaging	Cape Kraft Mill	Waste based linerboard and corrugating medium	60		
	Enstra Mill	Bleached chemical pulp for own consumption		105	
		Uncoated woodfree and business paper	200		
	Ngodwana Mill	Unbleached kraft pulp for own consumption, bleached chemical pulp for own consumption and market pulp		410	
		Mechanical pulp for own consumption		100	
		Kraft and white top linerboard	240		
		Newsprint	140		
	Stanger Mill	Bleached bagasse pulp for own consumption		60	
		Coated woodfree paper and tissue paper	110		
	Tugela Mill	Unbleached kraft and semi-chemical pulp for own consumption		350	
		Kraft linerboard and corrugating medium	330		
	Sappi ReFibre**	Waste paper collection and recycling for own consumption		200	
Total Sappi Paper and Paper Packaging			1,080	1,225	3,960
Total Sappi Southern Africa			1,080	2,025	6,370

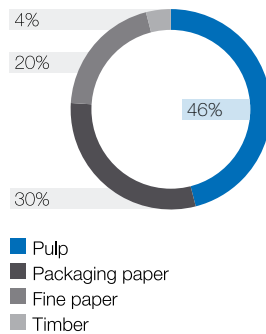
* Rounded to nearest 10 and excludes corporate head office employees.

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

*** Plantations include title deed and lease area as well as projects.

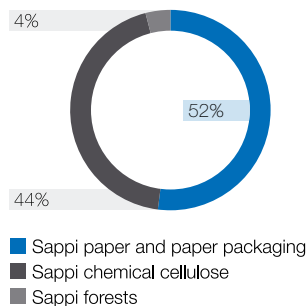
Southern Africa
Share of sales by product

2011: US\$1,801 million



Southern Africa
Share of sales by division

2011: US\$1,801 million



Saiccor Mill's production of chemical cellulose approached full capacity during the year. Demand and prices for our products were strong, resulting in good profitability. All of the operating profits excluding special items of Sappi Southern Africa were generated by Saiccor Mill with the paper business reporting a loss.

All of our South African operations were impacted by a three-week wage strike in July 2011. During the industrial action, Saiccor Mill successfully maintained output at approximately two-thirds of capacity. Nevertheless, the cost of the strike to Sappi was in the order of US\$20 million. In line with most major South African industries, the July 2011 wage increase was above inflation. In conjunction with the South African pulp and paper wage bargaining council, we are working to find a negotiating model that is more constructive in order to avoid the impact of unconstructive wage negotiations and strikes in the future.

2011 was a transitional year for the paper business. Demand was generally weak for our graphics and packaging paper, and was further impacted by aggressive competition from imports as a result of the strong Rand.

Our cost structure has increased steadily over several years as a result of above inflation wage increases, which have not been offset by comparable improvements in productivity. This has resulted in a significant margin squeeze for the paper business.

Following a review of our markets, assets and business processes, we have initiated a major restructuring of the business as described in the chairman and chief executive officer's Letter to the shareholders. We have already closed the Adamas Mill and we expect the remainder of the restructuring to be completed in the first half of financial 2012. Regrettably, this will result in the loss of a significant number of jobs at all levels in the company.

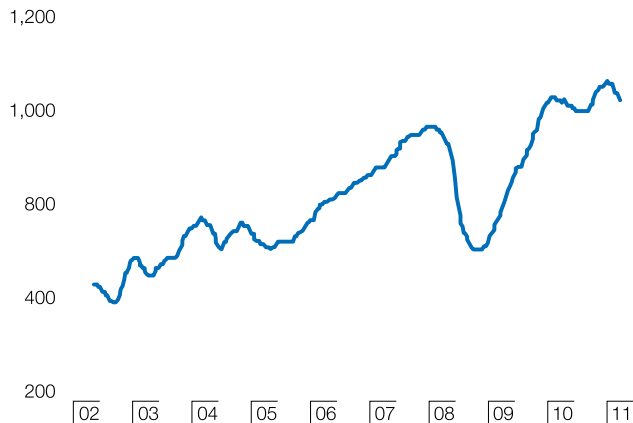
In order to ensure operational efficiency, we are focused on continually enhancing our own training capacity, and working with national and industrial bodies in this regard.

We believe that the repositioned paper business will be better aligned with our customers' needs, more competitive and profitable.

In addition, our strategy includes the growth of our chemical cellulose business. The conversion of the Ngodwana bleached pulp mill to produce 210,000 tons of chemical cellulose will cost approximately US\$340 million and is expected to commence production early in calendar 2013 (see also pages 6 and 12).

Northern bleached softwood kraft pulp – Europe

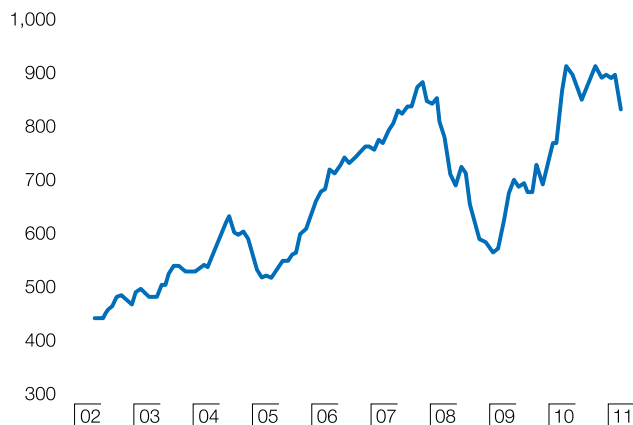
(US\$/metric ton*)



* Prices are list prices. Actual transaction prices could differ from prices shown.
Source: FOEX PIX Pulp Price Index

Unbleached kraft linerboard – 175g/m² CIF Germany

(Euro/metric ton*)



* Prices are list prices. Actual transaction prices could differ from prices shown.
Source: FOEX PIX Pulp Price Index

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

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

The year ahead

Although global demand for chemical cellulose may be weaker in the coming year than in 2011, we expect good demand for our products to be sustained as it is a strong, long-term growth market and as most of our output is sold to major viscose fibre producers on long-term contracts. We are positive about this business and will implement our expansion plans to ensure we are in a position to keep up with the growth of our major customers to meet their requirements for high quality pulp.

We expect a turnaround of the paper business during the year influenced by a number of factors, including slowly improving market conditions and the restructuring that is underway. At current exchange rates we would expect less aggressive competition from imports.

Sappi is the **world's leading** supplier of release paper used to impart **patterns and surface textures** to synthetic leathers, fabrics and laminates.

Sappi makes the texture ...
makes the difference.

Sappi offers the **ultimate in texture** replication with the ability to **replicate 100%** of the original surface. Over **150 textures** create a world of exciting possibilities in surfaces and patterns for fashion accessories, shoes, vehicle interiors and architectural surfaces.

the texture

Collaborating with a **leading flooring producer**, our cross-functional team developed a two-step production process (previously six steps) for **beautiful, functional** textured flooring.

The texture for this fabric was imparted using Sappi Warren Release Paper made at the Sappi Westbrook Mill, in Maine, North America.

section 1

Key features of our 2011 financial year



Our operating performance and outlook

To measure our underlying operating performance, we excluded what we term 'special items' – ie those items that are unusual or non-recurring in nature and outside our normal day-to-day operations. On this basis, our operating performance improved by 19% compared to last year to US\$404 million – for a full analysis of operating profit excluding special items please refer to section 2 of this report.

We were reasonably pleased with this performance given the deteriorating global economic conditions in the second half of our financial year. This deterioration is reflected in the split of our operating profit excluding special items, which in the first half of the year was US\$264 million (65%) versus US\$140 million (35%) in the second.

Looking forward, we are optimistic that our operating performance will improve further in 2012 despite the very uncertain outlook for the world economy, especially in Europe where our biggest business is located. (Please refer to Letter to shareholders from the chairman and chief executive officer on page 8 for a full assessment of the year ahead.) Our optimism is based on the extensive and decisive actions we took in fiscal 2011 to cut costs and to restructure our manufacturing portfolio – particularly in our European and South African businesses. These actions came at a high cost – which is reflected in the charge to special items referred to below – but we believe these measures were necessary and that the group will reap the benefits in the future.

In the latter part of the year, we announced two major projects to convert existing facilities in South Africa and North America to produce chemical cellulose. The combined capital cost of these projects is expected to be of the order of US\$500 million to be spent over the next 18 months. We expect to finance most, if not all, of this capital expenditure out of operating cash flows. These projects are in line with our strategy – more fully referred to in the chairman and chief executive officer's letter on page 8 – to increase Sappi's exposure to high growth markets and, in this case, particularly the high growth chemical cellulose sector where we are already the global leader. We expand on this industry see pages 6 and 12. We believe that these two projects will add substantially more to the value of our equity than the alternative of repaying US\$500 million of debt. The projects are expected to start contributing to operating profit and cash flows in the second part of our 2013 financial year.

Special items

As mentioned above, a major feature of our 2011 results is the substantial special items charge of US\$318 million arising mainly from the cost-cutting and restructuring actions we took in Europe and South Africa. Of these charges, approximately US\$135 million (42%) has or will result in a cash outflow – US\$30 million has already been paid out in fiscal 2011 with most of the remaining US\$105 million expected to flow out in the first two quarters of the 2012 financial year. Special items are further discussed in section 2 'Special items' later on.

Net result

The special items charge, together with US\$43 million of once-off refinancing charges (referred to below), had a major effect on the bottom line, leading to a net loss for the year of US\$232 million.

This loss, together with a large negative currency difference arising on the translation of our Euro and Rand based operations into our US Dollar reporting currency and a negative adjustment related to retirement funding, led to a large US\$418 million year-on-year reduction in our equity. Although, in practical terms, the book value of our equity does not carry much significance – other than potentially in regard to one of our financial covenants discussed in section 4 'Covenants' – this reduction is noteworthy and we feel it should be brought to the attention of our stakeholders.

Cash generation, working capital and net debt

For the year we generated net cash of US\$163 million after finance costs, capital expenditure and all other cash outflows. This was lower than the net cash generated last year of US\$341 million due to an overall increase in working capital, higher finance costs and higher capital expenditure.

Our net debt at the beginning of the year was US\$2,221 million, it peaked at US\$2,475 million at the end of the third fiscal quarter and then reduced substantially by the year-end to US\$2,100 million, some US\$120 million lower than at the start of the year. This volatility in our net debt position had much to do with a change in our accounting cut-off which, in all four quarters of fiscal 2011, fell after the calendar month-end (when most of our suppliers are paid). The reasons for, and impact on cash flow, working capital and net debt of this rather technical phenomenon are explained in section 1 'Extra week in fiscal 2011'.

Refinancing activities during the year

During the year, we refinanced approximately US\$1,100 million of near-term debt with new 5, 7 and 10 year bonds totalling US\$775 million and cash of US\$325 million. In addition, our revolving credit facility was extended to five years and the amount increased from €209 million to €350 million and a new three-year committed securitisation programme was put in place. These activities, while resulting in breakage costs of US\$43 million, improved our debt maturity profile and reduced the run rate of our funding costs by approximately US\$25 million per annum at current interest and exchange rates and debt levels.

Financial position

Our group is relatively highly geared. A common measure of this is net debt to EBITDA which in our case is 2.6 times (based on our net debt at the year-end (US\$2,100 million) and our EBITDA excluding special items for fiscal 2011 of US\$821 million). Standard & Poor's and Moody's have accorded us a 'group' credit rating of BB- and Ba3 respectively, which is non-investment grade. This rating could make financing our non-South African operations more challenging or expensive if global debt markets are in distress at the time. However, our South African operating subsidiary, which funds itself independently of the rest of the group, is rated by Fitch as A, which is an investment grade rating. For more on our 'Debt funding structure' and 'Credit ratings' please refer to section 4.

In anticipation of the additional capital expenditure we plan to spend on the two chemical cellulose conversions mentioned above (about US\$500 million over the next 18 months), we have taken care to position our group as best we can to minimise the risk of financial distress.

In this regard we may mention:

Maturities – As a result of our refinancing during the year (referred to above), the only major debt maturities arising in the next two years are in South Africa which should be relatively easy to refinance. In August 2014, our US\$800 million 2014 global bonds mature – we will look for an opportunity to re-finance these bonds well before their maturity, particularly after August 2012, when the breakage costs associated with early repayment of this debt reduces substantially. For more on our debt maturity profile, please see section 4 'Group debt profile'.

Financial covenants – We have good headroom under our financial covenants – operating profit excluding special items, would need to drop to around US\$100 million over a four quarter period at current debt levels (or to around US\$190 million, if debt were to increase by US\$400 million) before the financial covenants would be breached. For more on our covenants, please refer to section 4 'Covenants'.

Liquidity – The group's cash position at the time of writing (after repaying a South African bond of ZAR1,000 million (US\$124 million) in October) is, in our view, adequate at approximately US\$500 million. In addition, we have undrawn committed facilities of €250 million under our revolving credit facility which we could draw on in need.

Overall our assessment is that, despite its relatively high level of debt, our group is reasonably well positioned financially to embark on its strategic repositioning over the next two years.

section 1

Important background

Segment reporting

Our reporting is predominantly based on the geographic location of our businesses, viz:

- Sappi Fine Paper Europe
- + Sappi Fine Paper North America
- = **Sappi Fine Paper**
- + Sappi Southern Africa
- = **Sappi group**

As is required by IFRS 8 *Operating Segments*, this is the basis on which financial and descriptive information is evaluated by our chief executive officer in deciding how to allocate resources and evaluate performance.

As at the end of this report on pages 65 to 67 – we explain the operating performance of each of the geographic components of the group in more detail. This is important for a better understanding of the results as a whole.

Exchange rates and their impact on the group's results

The group reports its results in US Dollars and the main exchange rates used in preparing the financial statements are:

	Income statement average rates		Balance sheet closing rates	
	2011	2010	2011	2010
€1 = US\$	1.3947	1.3658	1.3386	1.3491
US\$1 = ZAR	6.9578	7.4917	8.0963	7.0190

Two of our three geographic business units (Europe and Southern Africa) have home or 'functional' currencies other than US Dollars (our reporting currency). The revenue and cost items of the two non-US Dollar units are translated into US Dollars at the average exchange rate for the period in order to arrive at the group revenue and costs in US Dollars. When exchange rates differ from one period to the next, the impact on group revenue and costs in US Dollars can be large, but largely offset one another at the net level (when netting costs against revenue).

For this reason, we isolate the exchange rate impact on revenue and costs by showing the regional revenue and cost items for 2011 at 2010 exchange rates – we believe this facilitates a better understanding of the underlying movements in revenue and costs in the European and Southern African businesses.

Compared to fiscal 2010, exchange rates increased sales by US\$210 million but this was largely offset by the negative impact on variable and delivery costs of US\$123 million and on fixed costs of US\$70 million.

Extra week in fiscal 2011

Our normal reporting cycle is to have four quarters each consisting of 13 seven-day weeks. This adds up to 364 days per year which means that after six years we have effectively 'lost' a week (including the leap year). This manifests itself in our quarterly reporting cut-off ending earlier and earlier before the calendar month-end as we lose a day each year. For example, our quarterly cut-off in September 2010 was the 26th of that month. For this reason, every six years we add an additional week to one of our quarters, which we did in the first quarter of fiscal 2011 – thus fiscal 2011 consists of 53 weeks of operations instead of the usual 52 weeks.

The main impacts of the additional week this year are:

- > to increase operating profit excluding special items by about US\$8 million (assuming a pro-rata accumulation of operating profit over the period); and
- > to result in our accounting cut-off in all four quarters of fiscal 2011 falling after the calendar month-end. Since most of our suppliers (particularly in Europe and South Africa) are paid on the calendar month-end, this resulted in a substantial cash outflow of between US\$150 million and US\$200 million just before our quarterly accounting cut-offs, which was not the case in fiscal 2010. Thus, when comparing our net cash generated in fiscal 2011 to 2010, we believe it would be fair to add approximately US\$150 million to net cash generated in fiscal 2011 or to deduct the same amount in fiscal 2010. This impact was reflected through working capital – discussed in section 4 ‘Working capital’ – and impacted net debt – discussed in section 4 ‘Movement in net debt’.

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section 4	Balance sheet	Page 57
section 5	Other matters	Page 64
appendix	Regional business analysis	Page 65

section 2

Income statement

Income statement

Our group financial results can be summarised as follows:

	2011	% Change	2010
Sales volume (metric tons '000)	7,898	0.1	7,894
	US\$ million		US\$ million
Sales revenue	7,286	11	6,572
Variable manufacturing and delivery costs	(4,559)	14	(4,008)
Fixed costs	(2,296)	6	(2,158)
Sundry items ⁽¹⁾	(27)		(67)
Operating profit excluding special items	404	19	339
Special items	(318)		2
Operating profit	86		341
Finance costs	(307)	20	(255)
Taxation	(11)		(20)
Net (loss) profit	(232)		66
Basic (loss) earnings per share (US cents)	(45)		13

(1) Sundry items include all income and costs not directly related to manufacturing operations such as debtor securitisation costs, commissions paid and received and results of equity accounted investments.

Below we discuss the main components of our income statement from an overall group perspective – in the Appendix more explanation about sales volumes, sales revenue and costs is given about each of our regional businesses in their local currencies.

Sales volume

In 2011, sales volumes were virtually equal to 2010. The regional contributions to sales volumes in metric tons in 2011 and 2010 are shown below:

Volume (metric tons '000)	2011	% Change	2010
Europe	3,845	1	3,796
North America	1,436	6	1,354
Southern Africa	2,617	(5)	2,744
Pulp and Paper	1,700		1,751
Forestry	917		993
Group	7,898	–	7,894

Demand for our products in Europe was reasonable, especially considering the economic uncertainty there, and similar to last year. In 2010, we took about 200,000 tons of commercial downtime and approximately 270,000 tons this year. Towards the end of financial 2011, we closed our high cost Biberist Mill in Switzerland which reduced the capacity of our European business by 500,000 tons and which will help to reduce the overcapacity in the European market. So far, we have managed to retain virtually all our Biberist Mill customers and supply them from our other mills in Europe with the double benefit of substantially lowering costs and also increasing the capacity utilisation of our other mills.

Our North American coated business was sold out throughout the year which led to the 6% increase in volumes sold compared to last year.

In South Africa, demand for chemical cellulose was extremely strong – in fact we were not able to meet the full requirements of our customers. On the other hand, demand for both our printing and packaging paper was generally weak, aggravated by the strong Rand

which made imports very cost competitive. A major overhaul of the South African paper and packaging business is underway and has resulted in the closure of our Adamas Mill and will result in the curtailment of further paper and paper packaging capacity at other mills and a substantial redistribution of production amongst the remaining facilities. Most of the costs of these activities have been accounted for in the 2011 financial year.

Sales revenue

US\$ million	2011	% Change	2010
Europe	3,883	7	3,638
North America	1,520	11	1,373
Southern Africa	1,673	7	1,561
Group at 2010 exchange rates	7,076	8	6,572
Exchange rate impact	210		–
Group as reported	7,286	11	6,572

Selling price per ton

US\$/ton	2011	% Change	2010
Europe	1,009	5	959
North America	1,058	4	1,014
Southern Africa ⁽¹⁾	940	11	850
Group at 2010 exchange rates	896	8	833
Exchange rate impact	27		–
Group as reported	923	11	833

(1) Pulp and paper operations only – Forestry sales not included.

In constant exchange rate terms, sales increased by 8% compared to last year. This was due to higher selling prices per ton in all the regions off a similar volume to last year for the group as a whole. Unfortunately, as shown below, variable and fixed costs increased also and therefore the operating margin (excluding special items) only improved marginally from 5.2% last year to 5.5% this year.

The stronger Euro and Rand relative to the US Dollar in 2011 resulted in a US\$210 million (or US\$27 per ton) increase in group sales when compared to 2010. Most of this benefit was off-set at the operating profit level by the negative currency impact on variable and fixed costs incurred in our European and South African operations.

For next year (2012), we are hopeful that selling prices and volumes will hold up and that costs will decrease, thereby widening our operating margin. In any event, the cost cutting and restructuring exercise we embarked on in fiscal 2011 will certainly lead to improved efficiencies and reduced costs.

Variable and delivery costs

The tables below show the development of variable and delivery costs in each of our regional businesses and for the group as a whole:

US\$ million	2011	% Change	2010
Europe	2,658	10	2,412
North America	899	15	779
Southern Africa	879	8	817
Group at 2010 exchange rates	4,436	11	4,008
Exchange rate impact	123		–
Group as reported	4,559	14	4,008

section 2

Income statement (continued)

US\$/ton	2011	% Change	2010
Europe	691	9	635
North America	626	9	575
Southern Africa	517	11	467
Group at 2010 exchange rates	562	11	508
Exchange rate impact	16		–
Group as reported	577	14	508

At 2010 exchange rates, variable and delivery costs increased by 11% and, because the volume of product sold was so similar to last year, also increased by 11% on a per ton basis.

The variable and delivery cost increases in each of the regions are discussed in the Appendix.

As is apparent from the table below, we experienced increases in the cost of all categories of our inputs.

US\$ million	2011	% Change	2010
Variable manufacturing costs:			
Wood	748	20	624
Energy	649	6	611
Pulp	968	7	907
Chemicals	1,091	6	1,025
Other	399	36	294
Delivery costs	581	6	547
Total at 2010 exchange rates	4,436	11	4,008
Exchange rate impact	123		–
Total as reported	4,559	14	4,008

The material increase in 'Other' variable costs, relates largely to the revaluation of inventories to adjust the carrying value to reflect the generally higher costs of raw materials incorporated in inventories, and to actual price increases in other consumables.

The signs are that input costs may have peaked and may decline next year, particularly if the current global economic woes persist.

Pulp prices have already fallen from their highs in 2011 – for example, NBSK peaked at US\$1,023 per ton in June 2011 and is currently at about US\$880 per ton. Pulp prices are somewhat of a double edged sword for us. We are more-or-less pulp 'integrated' in the sense that across the group we purchase as much pulp as we sell (in Europe approximately 1 million tons, in South Africa approximately a net 900,000 tons, including chemical cellulose, and North America approximately a net 200,000 tons). Therefore, lower pulp prices would benefit our European business through lower input costs but would hurt our chemical cellulose selling prices in South Africa (which are largely linked to NBSK prices) and our paper pulp sales in North America. However, a weaker South African Rand (currently above ZAR8.00 to the US Dollar compared to an average rate for fiscal 2011 of ZAR6.95) would improve margins from chemical cellulose and help to off-set lower US Dollar prices. In these circumstances, lower pulp prices may well lead to an overall benefit for the group. Our sensitivities to pulp prices and exchange rates are discussed under 'Major sensitivities' on page 51.

Irrespective of the development of input costs, we believe that our restructuring in Europe and South Africa and our ongoing focus on costs and the redesign of our products throughout the group will improve our situation in 2012 and the following years.

Fixed costs

The table below shows the make-up of group fixed costs by region:

US\$ million	2011	% Change	2010
Europe	1,145	1	1,133
North America	482	7	450
Southern Africa	599	4	575
Group at 2010 exchange rates	2,226	3	2,158
Exchange rate impact	70		–
Group as reported	2,296	6	2,158

Excluding the currency impact, fixed costs were 3% higher than last year. The regional fixed costs are discussed in the Appendix.

As is apparent from the table below, most of the increase in fixed costs came in the form of additional maintenance costs and services and administration costs. The increase in maintenance costs stemmed largely from our Southern African business, where we started up and maintained a pulp digester which had been mothballed during our 2010 financial year. Services and administration costs increased due to increased maximum demand electricity charges in our European business, increased silviculture costs in our forestry operations in Southern Africa and higher personnel costs in North America.

Fixed costs by type

US\$ million	2011	% Change	2010
Personnel	1,203	2	1,176
Maintenance	289	5	275
Depreciation	401	(2)	411
Services and administration	324	7	302
Inventory movement	9	–	(6)
Total at 2010 exchange rates	2,226	3	2,158
Exchange rate impact	70		–
Total as reported	2,296	6	2,158

Looking forward to fiscal 2012, we expect variable and fixed costs in Europe to reduce by approximately US\$100 million as a consequence of the closure of the Biberist Mill and other restructuring initiatives in 2011 and in South Africa, we expect a reduction of about US\$30 million on a per annum basis (about half of that in 2012) as a result of the restructuring actions taken, and being taken, there.

section 2

Income statement (continued)

Operating profit excluding special items

The tables below show the operating profit excluding special items of each of our businesses for both 2011 and 2010 and the operating margin of each.

Operating profit excluding special items by region

US\$ million	2011	2010
Europe	68	76
North America	129	124
Southern Africa	199	134
Corporate and Other	8	5
Sappi group	404	339

Operating margin (excluding special items) by region

Percentage	2011	2010
Europe	1.7	2.1
North America	8.5	9.0
Southern Africa	11.1	8.6
Sappi group	5.5	5.2

Our European business started the year reasonably well with underlying operating profit of US\$34 million and US\$31 million in the first and second quarters respectively, but the worsening economic conditions in Europe in the second half of the financial year hit our biggest business hard in the third quarter (a loss of US\$2 million) and the fourth quarter (a small profit of US\$5 million). The result was a very low operating margin of 1.72% which we are hopeful will improve in the next financial year driven mainly by cost reductions.

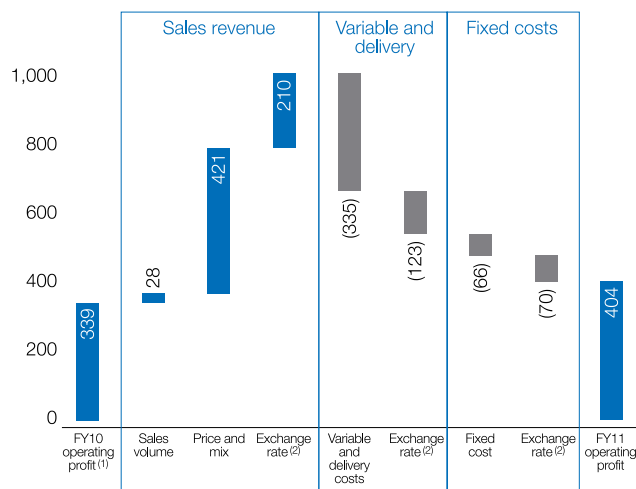
The North American business performed well again in 2011 with operating profit increasing slightly over 2010, but with a small decrease in operating margin off the higher sales in 2011. We expect the coated paper and specialties businesses to perform well again in fiscal 2012, but lower pulp prices would negatively affect profits from the region's market pulp sales (please refer to the 'Major sensitivities' section).

South Africa produced nearly half of the group's operating profit excluding special items and all of this came from its chemical cellulose business – the paper and paper packaging operations made a loss in 2011. We expect paper and paper packaging to contribute meaningfully to profits in fiscal 2012 as a result of the business overhaul currently being implemented. Lower NBSK pulp prices, if they persist, would reduce profits from chemical cellulose but a weaker Rand versus the US Dollar, if that persists, would help to off-set that. A sense of the inter-relationship between currency and pulp prices in the South African business can be gleaned from the 'Major sensitivities' section.

The two chemical cellulose conversion projects will only start to contribute to profits in the second half of fiscal 2013.

Reconciliation of operating profit excluding special items: 2011 compared to 2010

(US\$ million)



All variances calculated excluding Sappi Forestry.

1. Excludes special items.

2. Reflects the impact of changes in the average rates of translation.

Key operating targets

Our financial targets and our performance against them are dealt with in some detail in the Letter to shareholders on page 8.

Major sensitivities

Some of the more important factors which impact the group's operating profit excluding special items, based on current anticipated revenue and cost levels, are summarised in the table below:

Sensitivities	Change	SFPE	SFPNA	SA	Group
		€ million	US\$ million	ZAR million	US\$ million
Net selling prices	1%	27	13	127	68
Variable costs	1%	16	8	66	39
Sales volume	1%	9	5	50	25
Fixed costs	1%	6	5	44	19
Oil price	US\$1	3	2	4	6
Pulp prices	US\$10	(6)	2	35	(1)
Wood prices	1%	2	2	3	6
ZAR/US\$	10 cents	–	–	63	9
Euro/US\$	10 cents	–	3	–	3

The table shows that operating profit excluding special items is most sensitive to changes in the selling prices of our products.

The calculation of the impact of these sensitivities on operating profit excluding special items assumes all other factors remain the same and does not take into account potential management interventions to mitigate negative impacts or enhance benefits. As the table shows, the impact on the individual businesses of one sensitivity may be different as indeed is the case with changes in international pulp prices which affects the Southern African and North American businesses (which are net sellers of pulp) and the European business (which is a net purchaser of pulp) in opposite ways.

section 2

Income statement (continued)

Special items

Special items are those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items generally include profit and loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations, and unusual government subsidies such as the Alternative Fuel Tax Credits paid to qualifying pulp producers in the USA.

Special items:

US\$ million gain (charge)	2011	2010
Plantation price fair value adjustment	(16)	31
Restructuring provisions	(135)	(46)
Asset and investment impairments	(167)	10
Fuel tax credits in North America	–	51
Fire, flood and related events	(6)	(27)
Black Economic Empowerment charge	(5)	(23)
Profit on disposal of property, plant and equipment	1	5
Insurance recoveries	10	1
Total	(318)	2

As in the past, we record the price component of the plantation fair value adjustment for the year in special items – this year a negative adjustment of US\$16 million. Please refer to section 4 'Plantations' for more information on this subject.

As mentioned before, the charge taken for special items in fiscal 2011 had a major (US\$318 million) negative impact on our operating profit. Most of this charge was as a result of headcount reductions in Europe and South Africa and the impairment of whole mills which were closed (Biberist Mill in Europe and Adamas Mill in South Africa); parts of other mills in South Africa where production lines will be curtailed; and the impairment of part of our investment in equity accounted associates. For more information on our restructuring provision and impairments, please refer notes 9, 13 and 22 to the annual financial statements.

The insurance recoveries of US\$10 million relate to the fire at our Stockstadt Mill in Germany during December 2009. This is the amount of property damage and business interruption costs (over and above the US\$25 million we self-insure per such incident (with an aggregate loss limit of US\$40 million per annum)), which was paid by our insurers.

Approximately US\$135 million of the total special items charge has or will result in an outflow of cash.

For next year we do not currently expect any material restructuring or impairment charges.

Operating profit

After taking into account special items, our operating profit for 2011 and 2010 was as follows:

US\$ million	2011	2010
Operating profit excluding special items	404	339
Special items	(318)	2
Operating profit	86	341

Finance costs

US\$ million	2011	2010
Net interest paid	336	293
Net foreign exchange gains	(13)	(17)
Net fair value loss on financial instruments	(16)	(21)
Total	307	255

Finance costs in fiscal 2011 (US\$307 million) were higher than last year (US\$255 million) by US\$52 million. This increase was due to:

US\$ million	Increase (decrease)
Currency impact on Euro and ZAR interest compared to last year	7
Breakage fees on repaying the 2012 bonds and the OeKB loan	43
Accelerated amortisation of costs related to above repayments	11
Interest saved on refinancing the above debt	(10)
Extra week in the year and other items	1
Total	52

At current exchange and interest rates and debt levels, finance costs are running at approximately US\$210 million per annum. We are therefore expecting a substantial reduction of this cost in fiscal 2012.

Taxation

Our tax charge for the year was US\$11 million, despite incurring a net loss before taxation for the group of US\$221 million (which arose mainly as a result of the special item charge). The regional contributions to the charge are set out below:

US\$ million	Profit (loss) before tax	Tax (charge) relief
Europe	(363)	(4)
North America	119	(8)
Southern Africa	23	1
Sappi group	(221)	(11)

In Europe, despite the US\$363 million loss before tax, we incurred a small tax charge of US\$4 million. This situation arose because in certain countries in Europe we did not book tax relief on pre-tax losses and impairments as, in our judgement, there is not sufficient certainty that we will generate sufficient profits in those countries to recover these losses in the near future. In certain other countries we did incur taxable profits which resulted in the small charge for taxation in the region as a whole. We have substantial unrecognised tax losses in Austria, Finland, Belgium and The Netherlands which will substantially shield any profits earned in those countries in the future.

The low (US\$8 million) charge in North America relates mainly to US Federal Alternative Minimum Tax and taxes paid in certain of the States where we operate. At the federal level we have substantial unrecognised tax losses which shielded most of the pre-tax profits of the business.

section 2

Income statement (continued)

Southern Africa benefited from lower taxes in certain countries on exports through our Trading operation.

Net profit, earnings per share and dividends

After taking into account finance costs and taxation our net loss and loss per share for 2011, with comparatives for 2010, were as follows:

US\$ million	2011	2010
Operating profit	86	341
Finance costs	(307)	(255)
Profit (loss) before tax	(221)	86
Taxation	(11)	(20)
Net profit	(232)	66
Weighted average number of shares in issue (million)	520	517
(Loss) earnings per share (US cents)	(45)	13

Our board decided that in view of the net loss, the group's level of debt and the capital expenditure commitments for the chemical cellulose conversions, it would not be appropriate to declare a dividend for fiscal 2011. No dividend for fiscal 2010 was paid either.

section 3

Cash flow

In the table below we present the group's cash flow statement for 2011 and 2010 in a summarised format:

US\$ million	2011	2010
Operating profit excluding special items	404	339
Depreciation and amortisation	417	413
EBITDA excluding special items	821	752
Contributions to post-employment benefits	(70)	(73)
Other non-cash items	47	58
Cash generated by operations	798	737
Movement in working capital	(98)	(5)
Capital expenditure	(262)	(211)
Finance costs	(256)	(194)
Taxation and other	(19)	14
Net cash generated	163	341

Cash flow

In 2011, cash generated by operations of US\$798 million was higher than last year due mainly to the improved operating profit excluding special items. However, higher working capital, capital expenditure and finance costs meant that net cash generated of US\$163 million was lower than last year.

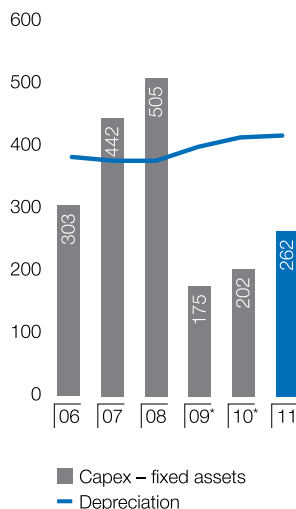
As mentioned in section 1 'Extra week in fiscal 2011', by our estimation, the working capital position as at our accounting cut-off date (02 October 2011) was inflated by some US\$150 million compared to the position at the end of fiscal 2010 when the accounting cut-off date fell before the calendar month-end.

Capital expenditure was also higher than last year. In 2011, we spent US\$213 million (US\$173 million in 2010) on maintaining our production facilities and US\$49 million (US\$38 million in 2010) on expanding and improving our assets. As can be seen from the bar-graph on page 56, in the past three years we have spent considerably less on capital expenditure than on our depreciation charge. This means that over that period our cash generation was some US\$560 million stronger than our operating profit would indicate. An interesting feature of Sappi when valuing the group from a cash flow perspective is that our depreciation (approximately US\$400 million per annum) is more than double the capital expenditure required to maintain our existing production assets (approximately US\$175 million per annum).

section 3

Cash flow (continued)

Investment in fixed assets versus depreciation (US\$ million)



* Excludes capital expenditure relating to plantations of US\$9 million in 2010 and US\$1 million in 2009.

Cash spent on finance costs in 2011 was US\$62 million higher than in 2010. This is largely because, in fiscal 2010, we had an unusually large currency benefit on translating our then substantial cash deposits in other currencies. This effect is accounted for via the cash flow statement as is required by the accounting standards and amounted to a net difference of US\$54 million when comparing 2011 and 2010. All other things being equal, our cash finance costs would normally be some US\$20 million lower than the income statement charge due to the non-cash amortisation of debt raising costs and discounts through the income statement.

The net cash generated for the year of US\$163 million went to reduce net debt – please see section 4 'Movement in net debt'.

Balance sheet

Summarised balance sheet

US\$ million	2011	2010
Property, plant and equipment	3,235	3,660
Plantations	580	687
Net working capital	409	420
Other assets	273	321
	4,497	5,088
Net post-employment liabilities	(450)	(446)
Other liabilities	(469)	(525)
Employment of capital	3,578	4,117
Equity	1,478	1,896
Net debt	2,100	2,221
Capital employed	3,578	4,117

Balance sheet

Property, plant and equipment

We have 17 mills in seven countries capable of producing approximately 4 million tons of pulp and 6 million tons of paper products. For more information on our mills, their production capacities and products, please refer to page 33 in regard to our Fine Paper mills and page 37 regarding the Sappi Southern African mills.

The cost, depreciation and impairments related to our property, plant and equipment are set out in the table below:

Book value of property, plant and equipment

US\$ million	2011	2010
Cost	9,531	10,111
Accumulated depreciation and impairments	6,296	6,451
Net book value	3,235	3,660

During 2011, we depreciated our fixed assets by a further US\$414 million, processed net asset impairments of US\$122 million, booked additions of US\$268 million and reversed previous impairments of US\$3 million. Currency translation difference reduced the net book value by US\$152 million compared to 2010.

The capacity replacement value of the property, plant and equipment for insurance purposes has been assessed at approximately US\$24 billion.

For more information on property, plant and equipment – please see note 9 to our financial statements.

Plantations

We own plantations in Southern Africa of approximately 385,000 hectares of plantable land and have access to a further approximately 182,000 hectares of land leased by us or available to us under contract.

Our plantations currently provide approximately 70% of the wood requirements of our Southern African mills.

In terms of the relevant accounting standard, we are required to carry these plantations on our balance sheet at their fair value less the estimated cost of cutting, delivering and selling the timber at the harvesting stage.

The reduction in the carrying value of the plantations in fiscal 2011 was almost entirely due to the weaker South African Rand versus the US Dollar at the year-end when translating to our reporting currency – this reduced the carrying value in US Dollar terms by US\$90 million.

section 4

Balance sheet (continued)

In notes 2.3.6 and 10 to the financial statements, we give considerable detail about how we account for our plantations.

Working capital

The component parts of our working capital at the 2011 and 2010 financial year-ends are shown in the table below:

Net working capital

US\$ million	2011	2010
Inventories	750	836
Receivables	831	888
Payables	(1,172)	(1,304)
Net working capital	409	420

Optimising the levels of our working capital to minimise the cost of funding this element of our business is a key management focus area.

We carefully manage the ratio of working capital to sales and regularly compare this ratio to those of our peers in the industry and believe that our working capital management compares favourably in that regard.

Managing the average level of net working capital is a large component of the management incentive scheme for all our businesses.

Net working capital was extremely volatile during fiscal 2011 – starting the year at US\$420 million, increasing to a peak of US\$756 million in the first quarter, remaining at above US\$700 million in the second and third quarters and then reducing materially in the last quarter to US\$409 million. The initial increase in the first quarter was mainly due to the accounting cut-off effect on payables as discussed in section 1 ‘Extra week in fiscal 2011’ – and, in the second and third quarters, to a material increase in inventories in Europe and South Africa partially off-set by an improvement in the payables position. In the fourth quarter both inventories and receivables reduced (particularly in Europe and South Africa) materially by some US\$330 million combined.

In fiscal 2012, we do not expect such volatility in our working capital although a seasonal increase in the first two quarters is expected which should reduce again in the last two quarters.

Post-employment liabilities

We operate various defined benefits, post-retirement, medical aid and other types of funds in the various countries in which we operate. A summary of defined benefit assets and liabilities is as follows:

Defined benefit liabilities

US\$ million	2011	2010
Liabilities of funded defined benefit plans	(1,693)	(1,928)
Assets of funded defined benefit plans	1,559	1,808
Net deficit on funded plans	(134)	(120)
Liabilities of unfunded plans	(316)	(326)
Net balance sheet liability	450	446
Cash contributions to defined benefit plans	69	77
Income statement charge for defined benefit plans	28	29

The assets and liabilities of our funded plans both reduced compared to last year due mainly to the disposal of our Swiss Pension and Jubilee Fund to a third party. This reduced assets and liabilities by US\$225 million and US\$229 million respectively.

The overall net liability for defined benefit funds increased very slightly to US\$450 million at the year-end.

For next year, we expect our cash contributions and the income statement charge for defined benefit plans to be similar to the amounts for each shown in the table above.

Much more detail on this matter can be found in note 27 to our financial statements.

Equity

Year-on-year, equity reduced by US\$418 million to US\$1,478 million as summarised below:

Equity reconciliation

US\$ million	
Equity at September 2010	1,896
Loss for the year	(232)
Actuarial losses on pension funds	(59)
Exchange rate differences on translation of non-US Dollar operations	(151)
Share-based payments	20
Other	4
Equity at September 2011	1,478

More detail on the movement in equity can be found in the statement of changes in equity in the financial statements.

The main practical impact of the reduction in our equity is in regard to our net debt to total capitalisation covenant which is further discussed under the 'Debt – Covenants' section.

Debt

Debt is a major source of funding for the group. In the management of debt we focus on net debt, which is the sum of current and non-current interest-bearing borrowings and bank overdrafts, net of cash and cash equivalents.

Refinancing activities during fiscal 2011

Below we highlight the main refinancing activities undertaken during the year.

- > In March 2011, we repaid US\$150 million of our US\$500 million 2012 bond via a formal tender offer.
- > In April 2011, new seven-year and 10-year bonds were issued, for €250 million and US\$350 million respectively – the coupon on both bonds was 6.625%. We also increased the amount of our committed revolving credit facility from €209 million to €350 million (approximately US\$470 million) and extended the term of the facility to 2016.
- > In June 2011, the remaining US\$350 million of the 2012 bonds and the full €320 million owing under our OeKB facility were repaid from the proceeds of the above bonds and from cash resources.
- > Also in June 2011, a five-year bond of ZAR500 million (approximately US\$70 million) was issued in South Africa with a coupon of 9.63%. The proceeds, together with other cash resources were used to repay a South African bond of ZAR1,000 million, which matured shortly after our 2011 financial year-end.
- > In July 2011, a drawing of €100 million was made on the new revolving credit facility, as a precautionary measure in the current volatile financial markets due to the European sovereign debt crisis.
- > In August 2011, a new €360 million securitisation programme was implemented to replace the previous such programme. The key feature of this new programme is that, subject to certain covenants, funding is committed for three years. For this reason, the exposure under this facility is now shown as long-term debt.

section 4

Balance sheet (continued)

These activities have materially improved the group's debt maturity profile – please refer to the 'Group debt profile' section below – and have reduced our finance costs by some US\$25 million per annum at current interest rates and current exchange rates at current debt levels.

Structure of net debt and liquidity

The structure of our net debt as at end September 2011 and 2010 is summarised below:

US\$ million	2011	2010
Long-term debt	2,289	2,317
Secured debt	1,426	1,209
Unsecured debt	719	1,257
Securitisation funding	368	–
Less: Short-term portion	(224)	(149)
Net short-term debt	(189)	(96)
Securitisation funding	–	447
Overdrafts and short-term loans	226	100
Short-term portion of long-term debt	224	149
Less: Cash	(639)	(792)
Net debt	2,100	2,221

We believe that our liquidity position is good with our cash holdings exceeding our short-term debt obligations by US\$189 million as at the 2011 fiscal year-end. In addition, €250 million (US\$335 million) of our committed revolving credit facility remains unutilised.

Movement in net debt

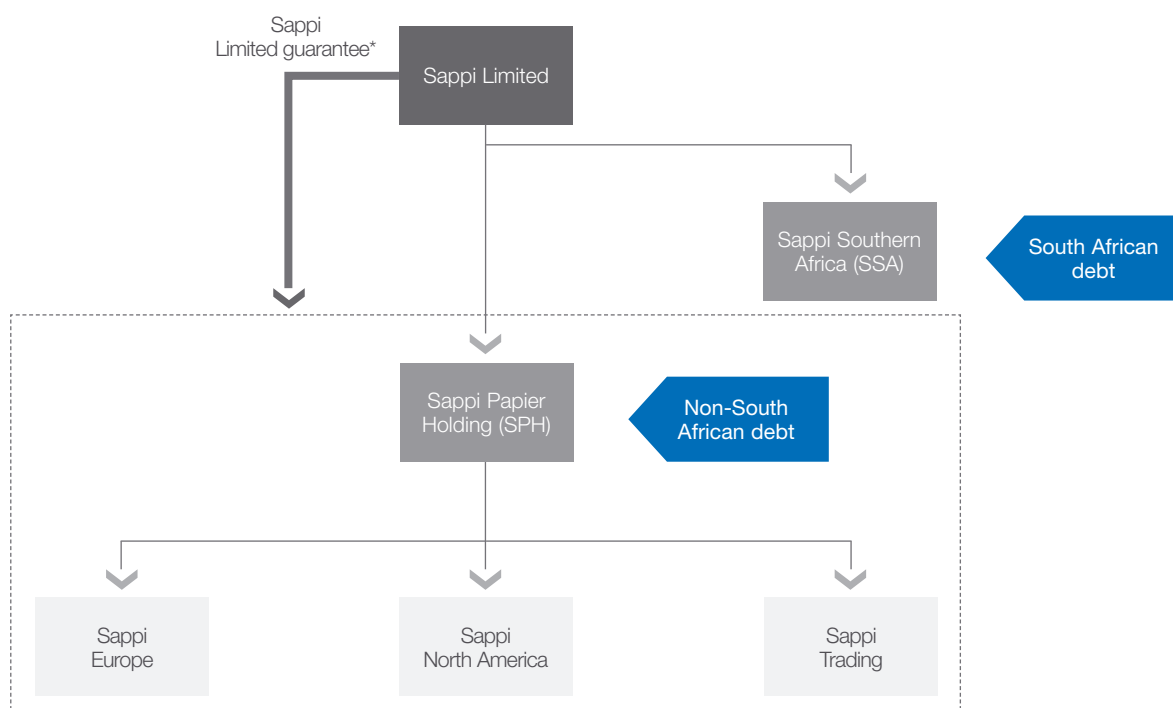
The movement of our net debt over fiscal 2011 is explained in the table below:

US\$ million	
Net debt at September 2010	2,221
Net cash generated in 2011	(163)
Currency, fair value and debt breakage fees	42
Net debt at September 2011	2,100

Debt funding structure

The Sappi group principally takes up debt in two legal entities. Sappi Southern Africa (Pty) Ltd takes up debt in the local market for its own funding requirements and, in Sappi Papier Holding GmbH which is our international holding company, it takes up debt in the international money and capital markets to fund our non-South African businesses. Sappi Papier Holding's long-term debt is supported by a Sappi Limited guarantee and the financial covenants on certain of its debts are based on the ratios of the consolidated Sappi Limited group. The covenants applicable to the debt of these two entities and their respective credit ratings are discussed later on.

The diagram below depicts our debt funding structure.



* Sappi Limited provides guarantees for long-term non-South African debt.

Group debt profile

We show the major components and maturities of our net debt as at end September 2011 below. These are split between our debt in South Africa (where we have an investment grade rating) and our debt outside South Africa (where our credit rating is sub-investment grade) – see more on our ‘Credit rating’ below.

		Local interest rate weighted	Fixed/ variable	Maturity (Sappi fiscal years)					
US\$ million	Amount			Short-term	2012	2013	2014	2015	Thereafter
South Africa									
Bank debt	103	10.80%	Fixed		12	59	26	6	
Bonds	370	10.29%	Fixed		185 ⁽¹⁾	123			62
Gross debt less cash	473 (279)			(279)					
Net SA debt	194			(279)	197	182	26	6	62
Non-South African									
Securitisation	368	3.92%	Variable				368 ⁽²⁾		
Other bank debt	141	2.78%	Variable	92 ⁽³⁾	27	19	1	1	1
Revolving credit facility	134	4.42%	Variable	134 ⁽³⁾					
2014 Bonds (US\$)	300	12.00%	Fixed				300		
2014 Bonds (EUR)	468	11.75%	Fixed				468		
2018 Bonds (EUR)	350	6.63%							350
2021 Bonds (US\$)	335	6.63%							335
2032 Bonds (US\$)	221	7.50%	Fixed						221
Bond IFRS adjustment	(51)								
Gross debt less cash	2,266 (360)			(360)					
Net non-SA debt	1,906			(134)	27	19	1,137	1	907
Net group debt	2,100			(413)	224	201	1,163	7	969

(1) Includes ZAR1,000 million (US\$124 million) bond repaid shortly after year-end.

(2) New three-year securitisation funding which replaced the previous short-term facility.

(3) €100 million drawing under €350 million revolving credit facility and other bank debt expected to roll over.

section 4

Balance sheet (continued)

The highlighted debt components are secured by a security package consisting of claims over certain of our non-South African fixed assets, inventories in North America and cross guarantees from, and the pledge of shares by, our major non-South African subsidiaries.

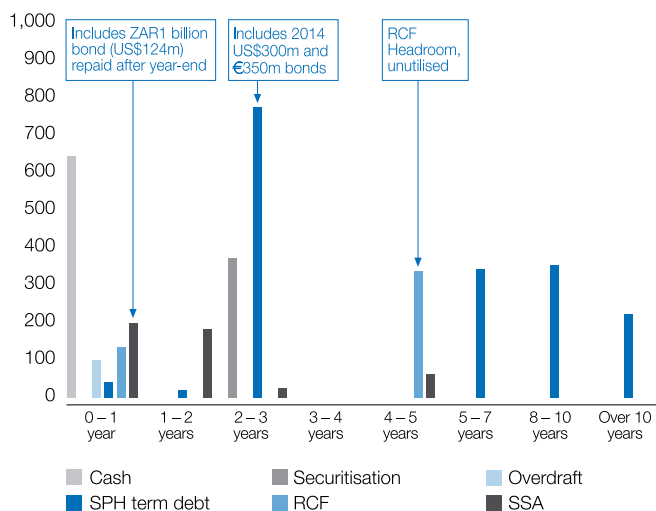
The majority of our non-South African long-term debt is guaranteed by Sappi Limited, the group holding company.

In the next two years, we do not have any material non-South African debt maturities arising – we expect to either roll-over our 'other bank debt' and the revolving credit facility draw-down (shown in the 'short-term' column in our 'Group debt profile') or repay those out of cash resources. We would aim to refinance the large maturities arising in August 2014 well before their maturity.

As indicated in the table above, we repaid US\$124 million of South African debt shortly after the 2011 year-end. We believe that the other South African debt maturing in fiscal 2012 and 2013 can be refinanced at reasonable cost due to the better credit rating of our South African operating subsidiary, which funds itself independently of the rest of the group.

Debt maturity profile

(US\$ million)



Covenants

Non-South African covenants

Financial covenants apply to US\$23 million of our non-South African bank debt, the €350 million revolving credit facility and our securitisation borrowings.

Where applicable, these financial covenants are calculated on a last-four-quarter basis and require that at the end of each quarter:

- > the ratio of group net debt to EBITDA be not greater than 4.50-to-1 at the end of September 2011, reducing over the term of the facility to 3.75-to-1 by March 2015;
- > the ratio of group EBITDA to net interest expense be not less than 2.0-to-1 at the end of September 2011, increasing over the term of the facility to 2.5-to-1 by June 2014; and
- > the percentage of net debt to total capitalisation until March 2016, shall not exceed 65%.

The table below shows that as at September 2011 we were well in compliance with these covenants.

Non-South African covenants	2011	Covenant
Net debt to EBITDA	2.6	<4.50
EBITDA to net interest	3.3	>2.0
Net debt to total capitalisation	59%	<65%

In addition to the financial covenants referred to above, our bonds and certain of our bank facilities contain customary affirmative and negative covenants restricting, among other things, the granting of security, incurrence of debt, the provision of loans and guarantees, mergers and disposals and certain restricted payments, including the payment of dividends. As regards dividend payments, the group is restricted from paying cash dividends in certain circumstances, for example if the net debt to EBITDA ratio exceeds 4-to-1 or if the EBITDA to net interest is less than 2-to-1. In addition, any cash dividends paid may not exceed 50% of net profit excluding special items after tax.

South African covenants

Separate covenants also apply to certain of the debt of our Southern African business.

These covenants require that, with regard to Sappi Southern Africa (Pty) Limited and its subsidiaries:

- > the ratio of net debt to equity is not at the end of any quarter greater than 65%; and
- > at the year-end, the ratio of EBITDA to net interest paid for the year is not less than 3-to-1.

Below we show that for the year ended September 2011, the South African financial covenants were comfortably met.

South African covenants	2011	Covenant
Net debt to equity	21%	<65%
EBITDA to net interest	7.7	>2.0

Credit ratings

At the date of this annual report, our credit ratings were as follows:

- > Fitch: South African national rating
Sappi Southern Africa (Pty) Limited A/F1/Stable (February 2011)
- > Moody's: corporate family
Sappi Corporate Credit Rating: Ba3/NP/Positive (April 2011)
Secured Debt Rating Ba2 (April 2011)
Unsecured Debt Rating B2 (April 2011)
- > Standard & Poor's: corporate credit
Corporate Credit Rating: BB-/B/Stable (April 2011)
Secured Debt Rating BB (April 2011)
Unsecured Debt Rating B (April 2011)

The ratings by Moody's and Standard & Poor's were updated in April 2011 in the context of the refinancing transactions that were finalised in May 2011, including the new US\$350 million and €250 million bonds and the increase and extension of the €350 million revolving credit facility. These ratings were confirmed in updated reports as published later in 2011 by both rating agencies.

Fitch confirmed the rating for Sappi Southern Africa (Pty) Limited in an updated report published in October 2011.

section 5

Other matters

Share price performance

Sappi share price – 30 September 2009 to 30 September 2011



Conclusion

As mentioned, we were reasonably satisfied with our underlying operating performance and cash generation in 2011.

The actions we took to improve our businesses, while painful, leave Sappi a leaner and more efficient business and we believe the chemical cellulose conversions we have committed to are a good start to repositioning our group for growth and an exciting future.

M R Thompson
Chief financial officer

07 December 2011

Sappi Fine Paper Europe

Our European business experienced strengthening market conditions during the first half of the fiscal year which resulted in a volume improvement for the year, relative to the previous fiscal year. The second half was, however, affected by a deteriorating economic environment which had a negative impact on sales volumes and sales prices.

appendix

Regional business analysis

A

Operating profit

	2011	% Change	2010
Sales volume (metric tons '000)	3,845	1	3,796

	€ million 2011	% Change	€ million 2010	€ per ton 2011	% Change	€ per ton 2010
Sales	2,843	7	2,664	739	5	702
Variable manufacturing and delivery costs	(1,946)	10	(1,765)	(506)	9	(465)
Contribution	897	0	899	233	(2)	237
Fixed costs	(838)	1	(829)	(218)	0	(218)
Sundry costs and consolidation entries	(10)	(29)	(14)	(2)	n/a	(4)
Operating profit excluding special items	49	(13)	56	13	(13)	15

Overall sales volumes ended the year inline with 2010. Although our average realised selling prices increased from €702 per ton in fiscal 2010 to €739 per ton in fiscal 2011, average realised selling prices during the last fiscal quarter of 2011 were below the average for the year.

Selling price increases realised in fiscal 2011 were not enough to off-set high input costs and the profitability of our European business remained unsatisfactory. The operating profit margin (excluding special items) declined to 1.7% in fiscal 2011 from 2.1% in 2010.

Raw material and other input costs either remained high or increased during the year, placing significant pressure on profitability. Variable manufacturing costs per ton increased from €410 to €449 or by 10% from fiscal 2010, mainly due to increases in wood costs and the cost of consumables, including machine clothing. Delivery costs were impacted by fuel price increases and increased by 4% per ton compared to 2010. We have identified areas of improvement in production and have implemented a variable cost reduction programme, the benefits of which we expect to see in our 2012 fiscal year.

We have implemented far reaching fixed cost reduction programmes in our European business, including the closure of our Biberist Mill this year. We expect the Biberist Mill closure and all our fixed and variable cost reduction efforts to yield benefits of approximately €75 million per annum. In fiscal 2011, fixed costs remained well controlled and increased by €9 million or 1% from fiscal 2010.

appendix

Regional business analysis

B

Operating profit

Sappi Fine Paper North America

Our North American business continued to perform strongly in fiscal 2011 achieving a return on net operating assets of 14% and an operating profit margin (excluding special items) of 8.5% compared to a return on net operating assets of 13% and an operating profit margin (excluding special items) of 9% in fiscal 2010.

	2011	% Change	2010
Sales volume (metric tons '000)	1,436	6	1,354

	US\$ million 2011	% Change	US\$ million 2010	US\$ per ton 2011	% Change	US\$ per ton 2010
Sales	1,520	11	1,373	1,058	4	1,014
Variable manufacturing and delivery costs	(899)	15	(779)	(626)	9	(575)
Contribution	621	5	594	432	(2)	439
Fixed costs	(482)	7	(450)	(336)	1	(332)
Sundry costs and consolidation entries	(10)	n/a	(20)	(6)	n/a	(15)
Operating profit excluding special items	129	4	124	90	(2)	92

Despite weaker industry conditions, our North American coated business continued to perform very well through focused sales mix management as well as innovative and market leading initiatives. Marketing conditions for pulp continued to be favourable with historically high prices throughout much of the first half of the year. Strong pulp mill productivity, particularly resulting from the successful recovery cycle upgrade at the Somerset Mill in the first quarter of fiscal 2011 contributed to a 14% increase in market pulp sales compared to fiscal 2010. Sales of our specialties products increased 5% despite a general economic slowdown in the Chinese market in the latter half of the year.

Overall average selling prices increased by 4% compared to fiscal 2010. Selling prices of our coated paper products increased by 7%, compared to fiscal 2010, driven by higher market pricing and strong product and customer mix. Pricing of our specialties products improved by 2% compared to fiscal 2010, with favourable effects of exchange rates contributing.

Variable manufacturing costs increased by 9% from US\$482 per ton in fiscal 2010 to US\$527 per ton in fiscal 2011. Wood, energy, pulp and chemical input prices were higher in fiscal 2011 compared to fiscal 2010, however, many procurement and manufacturing initiatives have helped mitigate the input cost increases. Cost management remains a high priority for fiscal 2012. Delivery costs per ton increased by 6% from the previous year impacted by higher fuel costs.

Fixed costs increased by US\$32 million or 7% from fiscal 2010 with increased personnel costs being the largest contributor. The reduction in our inventories from fiscal 2010 led to an increase of US\$11 million in the fixed cost component of inventory compared to fiscal 2010.

appendix

Regional business analysis

C

Operating profit

Sappi Southern Africa

Our Southern African business achieved an improvement in operating margin (excluding special items) from 8.6% in fiscal 2010 to 11.1% in fiscal 2011. This improvement was mainly driven by a strong performance from our chemical cellulose business.

	2011	% Change	2010
Sales volume (metric tons '000)	2,617	(5)	2,744

	ZAR million 2011	% Change	ZAR million 2010	ZAR/ton 2011	% Change	ZAR/ton 2010
Sales	12,531	7	11,695	4,788	12	4,262
Variable manufacturing and delivery costs	(6,584)	8	(6,122)	(2,516)	13	(2,231)
Contribution	5,947	7	5,573	2,272	12	2,031
Fixed costs	(4,485)	4	(4,311)	(1,714)	9	(1,571)
Sundry costs and consolidation entries	(77)		(258)	(29)	n/a	(94)
Operating profit excluding special items	1,385	38	1,004	529	45	366

Demand for chemical cellulose remained extremely strong. However, demand for printing and packaging was generally weak, aggravated by the strong Rand which made imports more cost competitive. Chemical cellulose prices remained strong throughout the fiscal year. Chemical cellulose prices are currently showing a declining trend due to the general weakening of paper pulp prices. Average selling prices, in Rand terms, for the chemical cellulose business during fiscal 2011 increased by 12% compared to fiscal 2010.

Variable and delivery costs increased by 8% and increased by 13% on a per ton basis compared to fiscal 2010. We experienced increases in the costs of all categories except for chemicals, with wood and pulp costs being major contributors. Production costs were also negatively impacted by a three-week industry wide strike. Delivery costs per ton increased by 7% compared to fiscal 2010, driven by fuel price increases.

Fixed costs increased by 4% compared to fiscal 2010, driven mainly by an 8% increase in personnel cost and additional maintenance for a pulp digester that had been mothballed in fiscal 2010 and which was started up in fiscal 2011. We remain positive that our restructuring initiatives and a continued focus on cost management will significantly reduce costs in fiscal 2012 and beyond.

Five year review

for the year ended September 2011

US\$ million	September 2011	September 2010	September 2009	September 2008	September 2007
Income statement					
Sales	7,286	6,572	5,369	5,863	5,304
Operating profit excluding special items	404	339	33	366	313
Special items – losses (gains)	318	(2)	106	52	(70)
Operating profit (loss)	86	341	(73)	314	383
Net finance costs	307	255	145	126	134
(Loss) profit before taxation	(221)	86	(218)	188	249
Taxation charge (benefit)	11	20	(41)	86	47
(Loss) profit for the year	(232)	66	(177)	102	202
Balance sheet					
Total assets	6,308	7,184	7,297	6,109	6,344
Non-current assets	4,085	4,653	4,867	4,408	4,608
Current assets	2,223	2,531	2,430	1,701	1,736
Current liabilities	1,652	2,039	1,841	1,926	1,916
Shareholders' equity	1,478	1,896	1,794	1,605	1,816
Net debt	2,100	2,221	2,576	2,405	2,257
Gross interest-bearing debt	2,739	3,013	3,346	2,679	2,621
Cash	639	792	770	274	364
Capital employed	3,578	4,117	4,370	4,010	4,073
Cash flow					
Cash generated from operations	798	737	432	623	585
(Increase) decrease in working capital	(98)	(5)	152	1	60
Finance costs paid	(266)	(206)	(107)	(139)	(183)
Finance revenue received	10	12	26	13	21
Taxation paid	(38)	(9)	(5)	(70)	(27)
Dividends paid	–	–	(37)	(73)	(68)
Cash retained from operating activities	406	529	461	355	388
Net cash generated (utilised) excluding acquisitions	163	341	289	(139)	24
Cash effects of financing activities	(296)	(256)	707	49	98
Capital expenditure (gross)	262	211	175	505	458
EBITDA excluding special items	821	752	431	740	688
Statistics					
Number of ordinary shares (millions)					
In issue at year-end ⁽¹⁾	520.5	519.5	515.7	229.2	228.5
Basic weighted average number of shares in issue during the year ⁽¹⁾⁽²⁾	519.9	516.7	482.6	362.2	360.6

US\$ million	September 2011	September 2010	September 2009	September 2008	September 2007
Per share information (US cents per share)					
Basic (loss) earnings ⁽²⁾	(45)	13	(37)	28	56
Diluted (loss) earnings ⁽²⁾	(45)	13	(37)	28	55
Headline (loss) earnings ⁽²⁾	(16)	10	(21)	60	52
Diluted headline (loss) earnings ⁽²⁾	(16)	10	(21)	59	51
Ordinary dividend declared ⁽³⁾	–	–	–	16	32
Net asset value	284	365	348	700	795
Profitability ratios (%)					
Operating profit (loss) to sales	1.2	5.2	(1.4)	5.4	7.2
Operating profit excluding special items to sales	5.5	5.2	0.6	6.2	5.9
EBITDA excluding special items to sales	11.3	11.4	8.0	12.6	13.0
Operating profit excluding special items to capital employed (ROCE)	10.5	8.0	0.8	9.1	8.3
Return on average equity (ROE)	(13.8)	3.6	(10.4)	6.0	12.6
Debt ratios (%)					
Net debt to total capitalisation	58.7	53.9	58.9	60.0	55.4
Efficiency ratios					
Asset turnover (times)	1.2	0.9	0.7	1.0	0.8
Inventory turnover ratio	8.6	6.9	6.3	6.9	6.4
Liquidity ratios					
Current asset ratio	1.4	1.2	1.3	0.9	0.9
Trade accounts receivable days outstanding (including receivables securitised)	43	54	58	48	49
Cash interest cover (times)	2.4	2.5	3.2	4.4	3.8
Other non-financial information					
Sales volumes	7,898	7,894	6,707	6,851	6,863
Number of employees	14,862	15,586	16,427	15,156	15,081
Lost time injury frequency rate (including contract employees)	0.62	0.51	0.66	0.59	0.55
Energy					
Specific purchased energy (GJ/adt)	13.11	12.53	13.75	14.15	14.30
Water					
Specific water drawn (m ³ /adt)	35.69	36.03	39.43	41.18	42.69
Specific water returned (m ³ /adt)	33.26	33.79	36.13	37.21	38.01
Waste					
Specific total landfill (ton/adt)	0.106	0.137	0.117	0.089	0.140
Specific emissions from purchased energy (ton CO ₂ eq/adt)	0.854	0.808	0.927	1.023	1.050
Exchange rates					
US\$ per one Euro exchange rate – closing	1.3386	1.3491	1.4688	1.4615	1.4272
US\$ per one Euro exchange rate – average (12 month)	1.3947	1.3658	1.3657	1.5064	1.3336
ZAR to one US\$ exchange rate – closing	8.0963	7.0190	7.4112	8.0751	6.8713
ZAR to one US\$ exchange rate – average (12 month)	6.9578	7.4917	9.0135	7.4294	7.1741

Refer to share statistics on page 70 for other market and share related information.

(1) Net of treasury shares (refer note 17).

(2) In the 2009 financial year, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR1.00 each to qualifying Sappi shareholders. In accordance with IAS 33, the fiscal 2008 and 2007 basic, headline and diluted earnings per share have been restated to take into account the bonus element of the rights offer. As such, the 2008 and 2007 weighted average number of shares have been adjusted by a factor of 1.58 (the adjustment factor). The adjustment factor was calculated using the pre-announcement share price divided by the theoretical ex-rights price (TERP). TERP is the [(number of new shares multiplied by the subscription price) plus the (number of shares held multiplied by the ex-dividend share price)] all divided by the (number of new shares plus the number of shares held prior to the rights offer).

(3) The dividends for all the financial years were declared subsequent to year-end.

Note: Definitions for various terms and ratios used above are included in the glossary on page 203.

Share statistics

at September 2011

Shareholding

Ordinary shares in issue	Number of shareholders	%	Number of shares ⁽¹⁾	% of shares in issue
1 – 5,000	5,193	82.4	3,270,137	0.6
5,001 – 10,000	177	2.8	1,293,517	0.2
10,001 – 50,000	338	5.4	8,401,997	1.6
50,001 – 100,000	143	2.3	10,284,163	2.0
100,001 – 1,000,000	363	5.8	119,311,977	22.9
Over 1,000,000	85	1.3	377,903,001	72.7
	6,299	100.0	520,464,792	100.0

Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.19
Group directors	0.19
Associates of group directors	–
Trustees of the company's share and retirement funding schemes	–
Shareowners who, by virtue of any agreement, have the right to nominate board members	–
Shareowners interested in 10% or more of the issued shares	–
Public (the number of public shareholders as at September 2011 was 6,291)	99.81
	100.00

(1) The number of shares excludes 20,981,431 treasury shares held by the group.

Sappi has a primary listing on the JSE Limited and a secondary listing on the New York Stock Exchange.

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to section 56(7) of the South African Companies Act 71 of 2008 (as amended), the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 2011, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

	Shares	%
Public Investment Commissioner (SA)	54,926,586	10.6

Further, as a result of these investigations, the directors have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of September 2011, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

	Shares	%
Allan Gray Limited	115,574,509	22.2
Investec Asset Management	62,469,821	12.0
Capital Group Companies Inc	36,773,804	7.1
Coronation Fund Managers	33,963,164	6.5
Old Mutual Investment Group South Africa	32,621,615	6.3

Share statistics	September 2011	September 2010	September 2009	September 2008	September 2007
Ordinary shares in issue (millions) ⁽¹⁾	520.5	519.5	515.7	229.2	228.5
Net asset value per share (US cents)	284	365	348	700	795
Number of shares traded (millions)					
JSE	469.13	467.00	443.40	241.58	246.95
New York	6.29	11.27	66.28	51.04	49.81
Value of shares traded					
JSE (ZAR million)	15,786.4	14,859.9	12,989.4	22,623.4	27,983.7
New York (US\$ million)	31.1	46.4	259.1	634.3	770.8
Percentage of issued shares traded	91.3	92.1	98.8	127.7	129.9
Market price per share					
– year-end					
JSE (South African cents)	2,385	3,565	2,855	5,054	6,602
New York (US\$)	3.04	5.14	3.76	6.32	9.67
– highest					
JSE (South African cents)	3,962	3,792	5,403	7,661	8,824
New York (US\$)	5.95	5.14	6.41	9.98	12.24
– lowest					
JSE (South African cents)	2,107	2,539	1,290	4,700	6,263
New York (US\$)	2.92	3.27	1.24	5.72	7.88
Earnings yield (%) ⁽²⁾	negative	2	negative	9.58	5.41
Dividend yield (%) ⁽²⁾	–	–	–	2.56	3.33
Price/earnings ratio (times) ⁽²⁾	negative	50.80	negative	10.43	18.48
Total market capitalisation (US\$ million) ⁽²⁾	1,535	2,639	1,985	1,435	2,196

(1) The number of shares excludes 20,981,431 treasury shares held by the group.

(2) Based on financial year-end closing prices on the JSE Limited. Income statement amounts have been converted at average year-to-date exchange rates.

Note: Definitions for various terms and ratios used above are included in the glossary on page 203.

Sappi's operations are located in **rural areas and small towns**. The focus of our corporate responsibility reflects this.

We are often the **largest employer**, and in many instances also provide fresh water, firefighting and community services.

We **focus** on our **local communities**.

We concentrate on education and literacy; health and welfare; conservation and the environment and **relevant local community support.**



The Sportstadion Marktgemeinde with Sappi's Gratkorn Mill, in Gratkorn, Austria in the background.

Governance and compensation

Corporate governance

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).

Certain recommended practices are being developed further to improve our application of the King III principles.

The group maintains its primary listing on the JSE Limited as well as a listing on the New York Stock Exchange. The group complies in all material respects with the regulations and codes of these exchanges as they apply to Sappi.

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, including setting risk appetite. For further information about the board and the board charter please refer to the group's website www.sappi.com.

The composition of the board and attendance at board meetings and board committee meetings is set out in the following table.

		Board committees										
Name	Status	Board	Audit	Nomination and governance		Compensation		Human resources and transformation		Sustainability		
R J Boëtter	Chief executive officer	5/5	B	5/6	B	3/3	B	4/4	B	2/2	✓	2/2
M R Thompson	Chief financial officer	5/5	B	6/6								
D C Cronjé	Independent non-executive, chairman	5/5	E	4/6	✓C	3/3	E	4/4	✓C	2/2		
M A Fallon ⁽¹⁾	Independent non-executive	1/1	✓									
M Feldberg	Lead independent director	5/5			✓	3/3	✓C	4/4				
J E Healey	Independent non-executive	5/5	✓	6/6					✓	2/2		
D Konar	Independent non-executive	5/5	✓C	6/6	✓	3/3			✓	2/2		
H C Mamsch ⁽²⁾	Independent non-executive	0/1	✓	0/3			✓	0/2				
J D McKenzie	Independent non-executive	5/5					✓	4/4			✓C	2/2
N P Mageza	Independent non-executive	5/5	✓	6/6					✓	2/2		
M V Moosa	Non-executive	5/5										
K R Osar	Independent non-executive	5/5	✓	6/6								
B Radebe	Independent non-executive	5/5							✓	2/2		
A N R Rudd	Independent non-executive	5/5			✓	3/3	✓	4/4				
R Thummer	Non-executive	5/5									✓	2/2

1) Mr M A Fallon and Mr G P F Beurskens, were appointed to the board with effect from 01 September 2011 and 01 October 2011 respectively.

2) Mr Mamsch retired from the board on 31 December 2010.

✓ Indicates board committee membership, C indicates board committee chairman, B indicates attendance by invitation and E indicates attendance ex officio. The figures in each column indicate the number of meetings attended out of the maximum possible number of meetings.

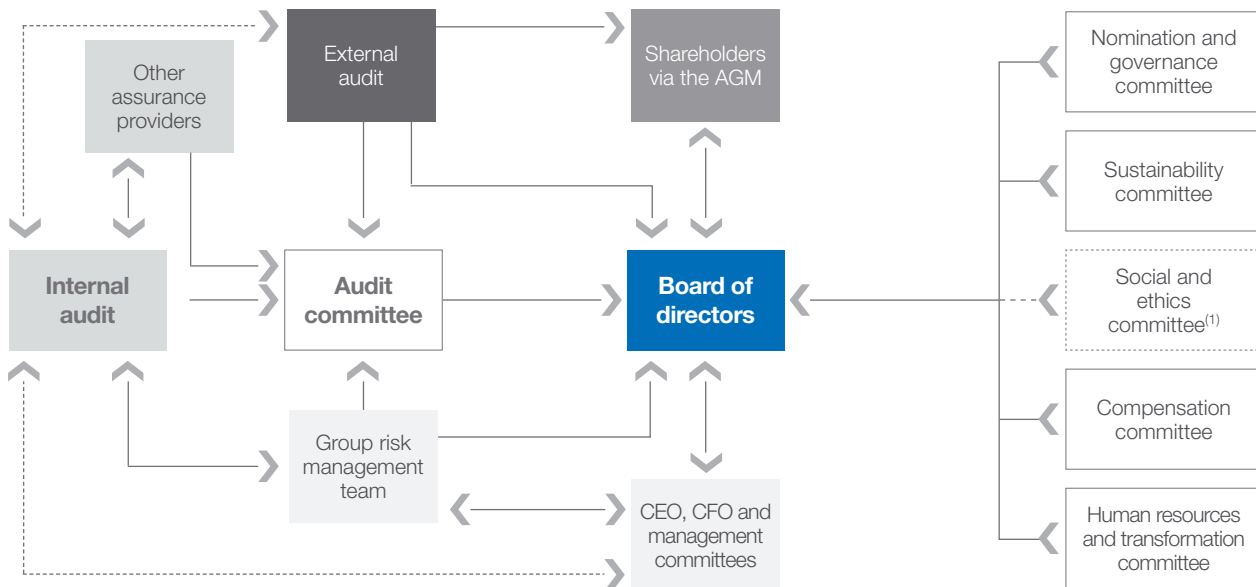
Induction and training of directors

Following appointment to the board, directors receive induction and training tailored to their individual needs. For further information refer to www.sappi.com.

Board committees

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

Governance structure: Sappi board committee



(1) In addition to the board committees mentioned above, Sappi is also in the process of establishing a social and ethics committee which will begin operating in 2012.

Audit committee

The audit committee consists of at least four independent, non-executive directors 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 of financial information and the preparation of accurate financial reports in compliance with applicable regulations and accounting standards, as well as accurate sustainability information in the integrated annual 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 can confirm that it has received and considered sufficient and relevant information to fulfil its duties, as set out in the audit committee report on page 95.

The external and internal auditors attended audit committee meetings and had unrestricted access to the committee and its chairman. The external and internal auditors met privately with the audit committee on a regular basis during 2011.

Regional committees exist in the three major regions and are chaired by independent non-executive directors. These committees have a mandate from the group's audit committee, to whom they report on a regular basis. The regional committees each met four times during 2011.

Dr D Konar has been designated as the audit committee financial expert as required by the Sarbanes-Oxley Act of 2002 and has attended the annual general meeting in 2011.

Nomination and governance committee

The nomination and governance committee 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 other committees. The results of this process and recommended improvements are communicated to the chairman of each committee and the board. The 2011 performance assessments of the board, audit committee, compensation committee, human resources and transformation committee, nomination and governance committee, and sustainability committee were conducted by an external evaluator. The results revealed that all committees functioned well and that there were no major shortcomings.

Compensation committee

The compensation 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. It also reviews and agrees executive proposals on the compensation of non-executive directors for approval by the board and ultimately by shareholders.

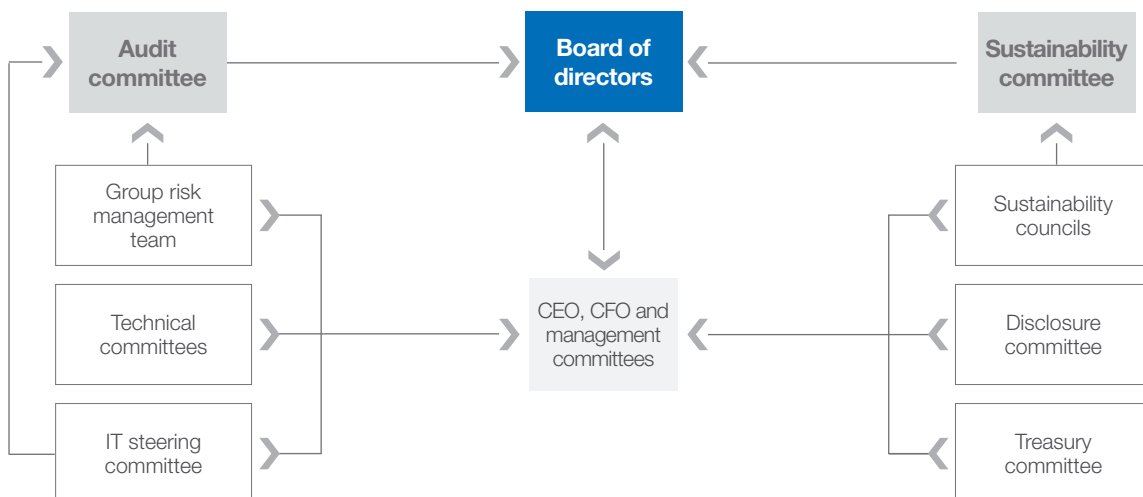
Human resources and transformation committee

The responsibilities of the human resources and transformation 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 management and the chief executive officer, and employment equity and transformation in South Africa.

Management committees

The board assigns responsibility for the day-to-day management of the group to the chief executive officer. To assist the chief executive officer in discharging his duties, a number of management committees have been formed, which are set out below:

Governance structure: Sappi management committees



Sustainability committee and councils

The sustainability committee comprises one independent non-executive director, a non-executive director, and the chief executive officer. Its mandate is essentially to oversee the group's sustainability strategies.

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

Internal audit undertook independent reviews of sustainability information and processes during 2010 and 2011.

For more information on sustainability at Sappi, refer to pages 18 to 23 for a summary of the group's initiatives as well as www.sappi.com.

Executive committee

This committee comprises executive directors and senior management from Sappi Limited and the chief executive officers of the three main regional business operations. The chief executive officer has assigned responsibility to the executive committee for a number of functional areas relating to the management of the group, including the development of policies and alignment of initiatives with regards to strategic, operational, financial, governance, sustainability, social and risk processes. The executive committee meets monthly.

Disclosure committee

This disclosure committee comprises some members of the executive committee and senior management from various disciplines whose objective is to review and discuss financial and other information prepared for public release. The head of internal audit attends meetings by invitation.

Treasury committee

The treasury committee meets regularly to assess risk and advise 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 board mandates the group risk management team 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. The main focus in 2011 was the updating of the risk management policy to improve alignment with practices recommended in King III. In addition, the CURA risk management tool was tested in preparation for its implementation in 2012 to support the risk management process throughout the group (see the risk report on pages 90 to 91).

IT steering committee

An IT steering committee was established during 2011 to promote IT governance throughout the group. The committee has a charter that was considered and approved by the audit committee and the board. An IT governance framework has been developed and IT reports have been presented to the audit committee and the board. A King III gap analysis was undertaken in 2011. Although the King III principles are generally being applied in respect of IT governance, certain recommended practices are being developed further. Sappi IT has implemented a standardised approach to IT risk management through a group-wide risk framework supported by the use of the CURA risk management tool.

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, as follows:

- > All quarterly results – by the disclosure committee and audit committee; and
- > Interim and final results – by external audit.

Internal controls

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

As part of an ongoing comprehensive evaluation process, control self-assessments, year-end external audits and independent reviews by internal audit, and other assurance providers were undertaken across the group to test the effectiveness of various elements of the group's financial, disclosure and other internal controls as well as procedures and systems. Identified areas of improvement are being addressed to strengthen the group's controls further. The 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. A Section 404 report in the Form 20-F is to be filed with the United States Securities and Exchange Commission in this regard.

Sappi combined assurance framework

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

Sappi's combined assurance framework is integrated with the group's risk management approach. Risks facing the group are identified, evaluated and managed by implementing risk mitigations also known as internal controls (for more detail refer to the risk report on page 90). Assurance of the effectiveness of the internal controls is obtained from various assurance providers in a co-ordinated manner, which avoids duplication of effort. The combined assurance helps to identify gaps or improvement areas in the internal controls.

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 annual report, on risk management and the effectiveness of internal controls within Sappi.

In addition to combined assurance in respect of internal controls, Sappi has also obtained assurance on the data in the integrated annual report from the following sources:

- > Financial data is independently audited by Deloitte & Touche.
- > Sustainability information has been subject to limited reviews by central technical management and internal audit, with specific aspects being subject to review by third parties during the year. No external assurance was obtained on the sustainability indicators reported.
- > Black Economic Empowerment performance has been reviewed internally by management and internal audit as well as externally by Empowerdex.

Sappi combined assurance framework



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

Nothing has come to the attention of the board or was indicated by the internal control self-assessment process, internal audits or year-end external audits that leads the board to believe that the group's system of internal controls and risk management is not effective, or that the internal financial controls do not form a sound basis for the preparation of reliable financial statements. The board's opinion is based on the combined assurances of external and internal auditors, management and the audit committee.

Internal audit

The group's internal audit department is suitably resourced. It has a specific mandate from the audit committee and independently appraises the adequacy and effectiveness of the group's systems, internal controls and accounting records. It plays a co-ordination role in obtaining combined assurance and reports its findings to local and divisional management, the external auditors as well as the regional and group audit committees. Internal audit also consults on risks, controls and governance developments.

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

During 2011, internal audit undertook reviews of non-financial risk areas including sustainability, health and safety. This coincided with its co-ordination of the combined assurance model and advising on other practices recommended in King III. A full external quality assurance review of internal audit was conducted by the Institute of Internal Auditors (IIA) in 2010 and a 'generally complies' rating was received.

Company secretary

All directors have access to the advice and services of the company secretary and are entitled to seek independent and professional advice about group affairs at the group's expense. The company secretary is responsible for the duties set out in section 88 of the Companies Act 71 of 2008 (as amended) of South Africa. Specific responsibilities include providing guidance to directors on discharging their duties in the best interests of the group, informing directors of new laws affecting the group, as well as arranging for the induction of new directors.

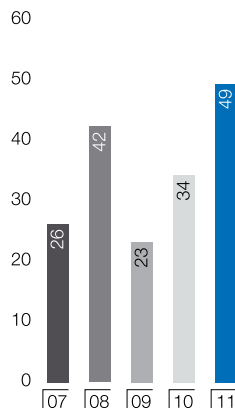
Code of ethics

Sappi requires its directors and employees to act with excellence, integrity, respect and resourcefulness in all transactions and in their dealings with all stakeholders. These values are reflected in the group's code of ethics, which commits the group and its employees to sound business practices and compliance with applicable legislation. A control environment survey, which included aspects of the code of ethics, was undertaken during 2011, with satisfactory results. An ethics management review was performed by internal audit. The review identified certain improvements, including the establishment of a social and ethics committee and increasing customer awareness of the code of ethics. Refer to www.sappi.com for the code of ethics.

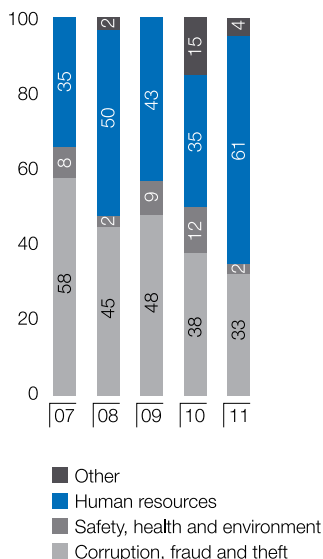
Legal compliance programme

A legal compliance programme designed to increase awareness of, and enhance compliance with, applicable legislation is in place. The group compliance officer reports quarterly to the group audit committee.

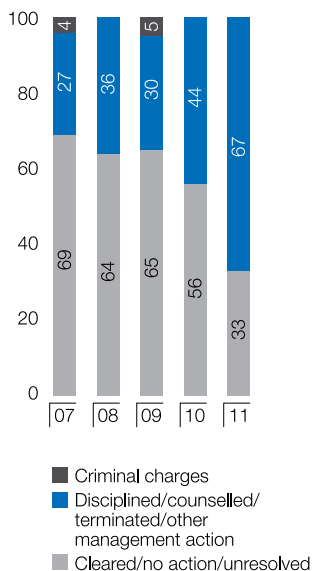
Total number of hotline reports



Whistle-blower hotline reports per category (%)



Whistle-blower hotline reports case outcomes (%)



Conflict of interests

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

Insider trading

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

Whistle-blower hotlines and follow up of tip-offs

Whistle-blower 'hotlines' have been implemented in all the regions in which the group operates. This service, operated by independent service providers, enables all stakeholders to anonymously report environmental, safety, ethics, accounting, auditing, control issues or other concerns. The follow up on all reported matters is co-ordinated by internal audit and reported to the audit committee. The majority of calls received related to the Southern African region. Please refer to the whistle-blower hotline graphs for information on the number of hotline calls, the types of calls, and the outcome of the investigations. We found that the categories of calls and outcomes of cases broadly aligned with international whistle-blower benchmark data.

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 is considering how best to include Alternate Dispute Resolution clauses into its standard terms and conditions and contracts with customers and suppliers. A review is being performed of the policies and processes in place to record and address complaints. There have been no requests for information for the period under review in terms of the Promotion of Access to Information Act (South African legislation).

Sappi's inclusive approach to stakeholder engagement has developed over many years based in part on active engagement with the communities living around Sappi's mills in Europe, North America and Southern Africa and Sappi's forestry operations in Southern Africa.

More recently this engagement has been formalised so that all Sappi's stakeholder groupings are recognised and engaged with based on the principles of:

- > Materiality – identifying the material concerns of stakeholder groupings
- > Relevance – understanding the relevance to Sappi's operations of issues raised by stakeholders
- > Completeness – understanding the expectations of stakeholders as well as the views of other relevant stakeholder groupings as regards any specific material issue
- > Responsiveness – responding coherently and timeously to stakeholder issues and concerns.

Sappi's main stakeholder groupings are reflected below, along with selected examples of engagement undertaken during the reporting period:

> Customers and industry

Sappi provides significant support to initiatives aimed at promoting our industry's sustainability credentials, including the 'Two Sides Campaign' in Europe. Sappi also works closely with end-user groups such as the design industry to promote the value of paper and paper-based communications. Initiatives include Sappi's global Ideas that Matter programme as well as support for the annual Design Indaba and Think Ahead Awards in South Africa.

Given the tremendous focus on sustainability issues, Sappi in North America set up a customer council to advise it on issues of importance as well as having created a unique online platform to assist customers in making responsible paper choices.

> Communities around our operations

Regular engagement during 2011 has focused on the environmental performance of mills, the economic contribution of mills to local communities, the impact of the economic recession on the business, and in some communities, the reality of closures as well as retrenchments.

> Governments and regulators

Engagement with the authorities at all levels of government has included changes to environmental legislation and permitting; approvals for expansions and modernisations at some mills, including the partial conversion to chemical cellulose at Sappi's Ngodwana Mill; co-operation to mitigate the impacts of closure of the Sappi Biberist Mill and Adamas Mill; as well as (successful) industry action to institute anti-dumping duties against paper imports into our North American and European markets.

> Investors, rating agencies and the financial community

Management and the investor relations team maintained their programme of frequent engagement with shareholders, analysts, banks, bondholders and rating agencies beyond our quarterly results announcements, to ensure that the market is fully apprised of Sappi's strategy and response to global economic conditions. Sappi was also able to restructure its debt profile on favourable terms.

> Contractors and suppliers

Sappi continues to require its contractors to meet the same safety and quality standards that the company sets for itself. This has seen a number of contractors achieve significant milestones for safe operations at Sappi, but also meant that a number of forestry contractors had their services terminated due to poor safety performances.

As regards suppliers, Sappi is moving towards more centralised purchasing as well as collaborative sourcing with other players in the industry, in particular related to wood and pulp sourcing in Europe. This has led to significant savings for Sappi and increased business for some suppliers.

> Staff and unions

Sappi maintains open relationships with all unions in the countries and regions where it operates. Various programmes and initiatives have been undertaken to improve staff engagement based on the results of, and feedback from the 2011 engagement survey conducted across the group.

> Media and other interest groups

Sappi maintains an open relationship to the media, believing that an informed media is better able to serve public reporting and debate on any issue. In the same manner we identify and engage with key interest groups, including environmental organisations such as WWF to ensure that our issues are accurately reflected. In particular, we have increased our engagement regarding issues of climate change and the positive nature of the forest products industry in regards CO₂ emissions and our carbon positive footprint, given the renewable nature of the wood fibre that we utilise.

Apart from the challenges in the pulp and paper industry in 2011, it was a year of decisive interventions within the Sappi group, which resulted in mill closures, significant cost reduction initiatives and business restructuring.

Some of these initiatives were achieved while others are being achieved with the dedication, commitment and hard work of all employees and the effective leadership of management, which was committed to exciting growth plans and the transformation of the business.

Against this backdrop, the compensation committee sought to focus Sappi's pay practices on enabling the group to retain and attract the talent required to deliver its strategy in a highly competitive and cyclical industry, and to link compensation to long-term performance of the group.

The compensation committee also paid close attention to changes in the new Companies Act 71 of 2008 (as amended) of South Africa and the recommendations of the King Code of Governance Principles for South Africa 2009 (King III) in South Africa and the Dodd-Frank Act in the United States of America.

During the year, the compensation committee endeavoured to ensure that compensation across the group was fair, equitable and incentivised the right behaviours, for both the short- and long-term sustainability and success of the business.

There were no material changes to the compensation practices of executive directors and other key senior managers.

This report discusses our compensation agenda and outcomes for financial year 2011. The compensation philosophy detailed on page 83 will be put to shareholders for a non-binding vote at the annual general meeting in February 2012 and we look forward to receiving your support.

Compensation committee

The committee's principal responsibilities are to:

- > ensure the compensation philosophy and practices of the group are aligned to the strategy and performance goals;
- > review the compensation of executive directors and other key senior management;
- > approve the rules of any group share, option and/or cash based incentive plan and the grant, award allocation or issue of shares, share options or payments under any share plan;
- > satisfy shareholders that the senior executive compensation is set by a committee of independent directors;
- > ensure that the disclosure of director and executive compensation is accurate, complete and transparent; and
- > review and approve proposals, submitted by the group executive committee on the fees and benefits of non-executive directors.

In exceptional circumstances, in recognition of new business goals or major unplanned events, the committee has the right to exercise its discretion in authorising adjustments to financial and individual performance targets, which it deems appropriate when evaluating performance against targets at financial year-end.

Membership of the committee

The members of the compensation committee during the 2011 financial year were:

Professor M Feldberg (chairman)
Mr H C Mamsch
(retired in December 2010)
Mr J D Mckenzie
Sir A N R Rudd

All members of the committee are independent non-executive directors and no member has any personal financial interest or conflicts of interest, or any form of cross directorships or day-to-day involvement in running the business.

Dr D C Cronje (group chairman), attended meetings ex-officio and Mr R J Boëttger (group chief executive officer) and Ms L A Swartz (group head human resources) attended meetings by invitation. Mr D J O'Connor, company secretary, attended meetings as secretary to the committee.

No individual was present in a meeting in which their compensation was discussed.

During the year, the committee met three times and held one conference call. Attendance at these meetings is provided on page 74.

Prior to each meeting, the chairman of the committee discusses the agenda and documents submitted for consideration with the group head of human resources and the company secretary.

Management and the committee used the services of the following external advisors:

- > Kepler and Associates assisted management by independently calculating the performance of the group in terms of Total Shareholder Return (TSR), relative to the peer group, to determine the vesting of the performance share plan. They also provided advice on an ad hoc basis on compensation practices and trends.
- > KPMG was engaged by management to verify Sappi's performance on cash flow return on net assets relative to that of a peer group, to establish the vesting of the performance share plan.
- > The HayGroup provided the committee with an analysis of executive compensation in South Africa, Europe and North America and the relative pay levels of Sappi executives and other key senior managers compared to their peers.
- > PricewaterhouseCoopers assisted management with revisions to the share incentive schemes rules (Schedule 14) as required by the JSE Limited Listings requirements.

In addition, group companies participate in national and/or industry surveys to benchmark compensation practices.

Committee activities during the year

- > Reviewed and approved the recommended salary increases and share scheme allocations for executive directors and other key senior managers for 2010/2011.
- > Reviewed non-executive directors' fees for 2011 and agreed the recommended fee levels to the Sappi Limited board and shareholders for approval.
- > Reviewed the compensation philosophy, which was put to shareholders for a non-binding vote at the 2010 annual general meeting.
- > Reviewed the compensation report in the annual report.
- > Reviewed and approved the vesting of the 2007 performance share plan awards.
- > Reviewed and approved the 2010 management incentive scheme awards and the performance levels of executive directors and other key senior managers.
- > Approved the allocation of 2011 performance plan shares to executive directors and other key senior managers, and stock options to all other eligible employees.
- > Reviewed the contractual notice periods of executive directors and other key senior managers.
- > Approved the 2012 management incentive scheme rules, and 2012 share incentive scheme and plan rules.
- > Reviewed the funding levels and investment arrangements of all benefit plans across the group.

Compensation philosophy

Sappi's compensation programmes are designed to attract, motivate and retain employees capable of achieving the group's financial and strategic objectives, which are intended to build long-term shareholder value.

The programmes take into account corporate governance codes and best practice guidelines published by regulators and institutional shareholder bodies.

The primary components of pay include base salary, benefits (eg medical and retirement), annual incentive awards and long-term incentives.

Compensation levels are set to reflect competitive market practices, internal equity as well as company and individual performance.

Sappi's benchmarking philosophy is to pay at the median of the market for all components of pay except for short-term incentives, which are targeted at the 75th percentile. Total compensation is between the 50th and 75th percentile of the market.

Guiding principles

The company strives to reward employees fairly and equitably. The following guiding principles have been established to inform compensation decisions:

- > Job size – all jobs are evaluated using a consistent methodology.
- > Performance – the relevant components of pay are linked to the performance of individuals and that of their specific business unit or function and/or the company.
- > How results are achieved and whether the individual's decisions and actions are consistent with the group's values and desired leadership competencies and behaviours are taken into account.
- > Market conditions – all components of pay are set competitively with due consideration of the pay practices of companies of similar size and complexity in regional markets.
- > Cost – compensation programmes are based on costs that are reasonable, affordable and appropriate, and aligned to the short- and long-term financial and strategic business results.

- > Risk and reward – executive compensation balances pay mix components to encourage behaviour consistent with the group's risk/reward strategy.

Our short- and long-term incentive plans have different performance criteria. Short-term incentives are based on absolute performance against budget targets on operating profit, working capital and capital expenditure. For an individual to qualify for a short-term incentive payment under the rules of the scheme, the prescribed performance threshold must be achieved. Long-term incentives measure total shareholder return and cash flow return on net assets relative to a peer group of 14 other industry related companies.

Under the long-term incentive schemes, share option awards have an eight-year term and performance plan shares have cliff vesting after four years.

Incentive awards are capped.

Performance related incentives are designed to align the interests of executives with those of shareholders.

Employment and separation agreements

Employment agreements typically stipulate notice periods in the event of termination of employment. In our North American operations employment is generally 'at will', with the exception of some senior North American employees who are required to provide three months notice to the company in exchange for a year of separation benefits if the company terminates their employment other than for cause. For other employees in the group, notice periods are based on seniority and geography, and these notice periods vary from one month to eighteen months. Some notice periods are legacies of past practices, particularly where individuals have long tenure with Sappi.

Separation agreements, when appropriate, are negotiated with an affected employee with prior approval obtained by the appropriate governance structures.

Employment contracts do not make any commitment to payment in the event of a termination for cause or in the event of change in control. In cases in which there is a significant increased likelihood of a transaction involving a business unit, limited change in control protections may be agreed and implemented if it is deemed necessary for retention purposes.

During the course of the 2010 financial year, a retention scheme for a possible change in control, which did not materialise, was put in place at a location. Payment will be made in the forthcoming financial year.

Summary of reward components of executive directors and other members of the executive committee

The compensation of executive directors and other key senior management comprises fixed and variable components.

Component	Purpose	Characteristics
Fixed		
Base salary	<ul style="list-style-type: none"> > Attract and retain qualified talent > Reinforce the guiding principle of being competitive > Recognise individual work experience and level of responsibility > Recognise individual performance and maintain internal parity among those performing similar jobs 	<ul style="list-style-type: none"> > Fixed compensation > Reviewed annually > Target median of the market > Individual increases are granted based on performance (merit), and influenced by internal and external equity and budget constraints > Used as a base for calculating other components of compensation
Retirement benefits	<ul style="list-style-type: none"> > To provide working income for an individual after they have stopped working 	<ul style="list-style-type: none"> > Defined benefit and defined contribution plans > Majority of defined benefit plans closed to new hires > Employees in legacy defined benefit plans continue to accrue benefits in such plans for both past and future service > Contributory and non-contributory plans > Company contributions vary based on local market practice
Death and disability benefits	<ul style="list-style-type: none"> > To provide assurance to employees' family in the event of disability or death 	<ul style="list-style-type: none"> > Based on local market practice > Disability benefit at a percentage of base salary for a defined period > Death benefit is a multiple of base salary
Medical benefits	<ul style="list-style-type: none"> > To provide medical insurance to employees and their families in the event of ill-health > Appropriate in light of position 	<ul style="list-style-type: none"> > Non-pensionable > Market related
Other benefits		Dependent on conditions, seniority/grade and regional policy, eg car benefits, education assistance, meal allowances, service awards etc
Variable		
Short-term incentive		
Annual incentive	<ul style="list-style-type: none"> > Focus participants on key annual metrics > Motivate the attainment of short-term goals for the applicable period > Provide a competitive target compensation opportunity 	<ul style="list-style-type: none"> > Variable compensation provided to reward performance over the short-term > Short-term incentive targets are determined annually > Specific performance goals supporting both the company's overall goals for the year and the contributions of individuals in his/her own area of responsibility are established > Linked to the next higher business unit level > Paid out annually provided the threshold is achieved > On-target cash award for executive directors is 85% of salary and ranges from 30% to 70% for other key senior managers based on seniority and location

Component	Purpose	Characteristics
Variable continued		
Long-term incentive		
Share options	<ul style="list-style-type: none"> > Motivate the attainment of long-term goals > Reinforce the guiding principle of aligning executive and shareholder interests > Provide an opportunity for eligible employees to acquire an equity interest in the company 	<ul style="list-style-type: none"> > Variable compensation provided to reward performance over the long-term > Vests 25% each year over four years > Expires eight years from date of grant > No dividend earned > Number of shares granted is benchmarked at levels of seniority and the benchmark is done once every two or three years > Awarded annually
Performance plan shares	<ul style="list-style-type: none"> > Reinforce the guiding principle for long-term performance and shareholder interests > Align executive interests with the long-term operational growth of the company > Encourage long-term commitment to the company > Is a wealth creation mechanism for executive directors and other key senior managers if the company outperforms the peer group 	<ul style="list-style-type: none"> > Conditional grants awarded annually to executive directors and other key senior managers of the company > Cliff vesting after four years if performance hurdles are met > Performance is measured relative to a peer group of 14 other industry related companies > The number of shares allocated is benchmarked externally and is performance based
Broad-based Black Economic Empowerment		
Management share ownership plan	<ul style="list-style-type: none"> > Provide black managers the opportunity to acquire equity in the company > Attract, motivate and retain black managers 	<ul style="list-style-type: none"> > Established to meet the requirements of the Forestry Sector Charter > Eligible employees receive an allocation based on seniority of 'A' ordinary shares > Shares vest 40% after three years and 10% each year thereafter > Shares can only be taken up after September 2019 > Managers receive the net value in shares or cash at the end of the lock-in period
Employee share ownership plan	<ul style="list-style-type: none"> > Provide employees who do not currently participate in either the share option scheme or performance share plan to acquire equity in the company > Provide historically disadvantaged employees an opportunity to participate in equity based compensation 	<ul style="list-style-type: none"> > Established to meet the requirements of the Forestry Sector Charter > Eligible employees receive an allocation based on seniority of 'A' ordinary shares and ordinary shares > Shares vest 40% after three years and 10% each year thereafter > Shares can only be taken up after September 2019 > Employees receive the net value in shares or cash at the end of the lock-in period

Base salary

Salary reviews take place on an annual basis with changes normally taking effect from 01 January each year. This review takes into account market competitiveness, individual performance and level of experience.

The committee also pays attention to internal equity.

The salaries of executive directors and other key senior managers are administered between the median and the upper quartile of the market, in line with our compensation philosophy.

In determining the annual base salary increases, the committee also considers the range of salary increases applying across the group to all employees in each of the different geographies.

Retirement benefits

Based on location, it is company policy to provide retirement benefits for employees through either a defined contribution fund or a defined benefit fund.

In certain European countries, which have a strong social security system, retirement benefits through the state are taken into consideration when determining contribution levels and final pensions earned.

Depending on the geography and local market practices, contributions to retirement funds are either contributory or non-contributory. Where defined benefit plans exist in the group, they are mainly legacy plans that are closed to new hires.

Employees who participate in the defined benefit plans continue to accrue past and future benefits in such plans.

Other benefits

Other core benefits typically include death and disability insurance, medical insurance and annual leave, and may also include company car provisions, as well as recognition of service, which differ by region and employee category.

Short-term incentive

At the beginning of the financial year, the board approves a challenging budget and stretch financial targets for the group.

The management incentive scheme, which delivers short-term variable cash payouts to eligible employees, is linked to the delivery of these short-term financial targets. Executive directors and other key senior managers participate in the annual incentive scheme.

Bonuses are earned based on achieving both the financial criteria appropriate for the business unit in which the individual is working (80%) and individual performance objectives (20%).

The performance measures for executive directors and other key senior managers for the 2011 year were operating profit (60%), working capital (30%) and capital expenditure (10%). Bonus payments were calculated on the achievement of financial targets of 116% for the group.

A bonus incentive award based on the group's financial performance of 92.6% of target will be paid to executive directors and other key senior managers in December 2011 (the payout falls into the 2012 financial year), based on the performance achieved for the year ending September 2011. No bonus will be paid to employees in Sappi Fine Paper Europe, as they did not meet the performance threshold for 2011.

Across the group, other variable pay programmes are in place for employees who do not participate in the management incentive scheme. These include production bonuses, sales incentive programmes, gain sharing programmes and performance bonuses.

Long-term incentives

The company operates two long-term incentive schemes: the Sappi Limited Share Incentive Trust ('Scheme') and the Sappi Limited Performance Incentive Trust ('Plan'). Under these plans, executive directors and other eligible employees receive an annual grant.

Performance plan shares

Performance plan shares are awarded to executive directors and other key senior managers who make up the leadership team in each region and at the group head office. The vesting of performance plan shares is conditional on the group's Total Shareholder Return (TSR) performance and cash flow return on net assets relative to a comparator group of industry peers over a four-year performance period.

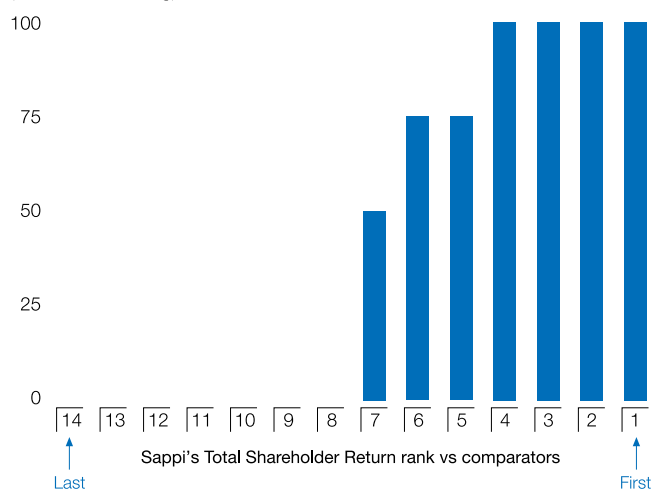
The peer group consisted of the following companies:

Abitibi Bowater	UPM-Kymmene OYJ
Holmen AB	Stora Enso OYJ
Mondi Plc	MeadWestvaco
Fibria Celulose SA	Nippon Paper Group
International Paper	Weyerhaeuser
M-real OYJ	Norsk Skogindustria
Oji Paper	Domtar

In December 2010, the committee agreed to exclude Abitibi Bowater from the peer group for the December 2010 performance plan allocation, as they were subject to Chapter 11 proceedings in the US. This means that the performance plan shares that vest in December 2014 will be measured against a peer group of 13 instead of 14 companies.

2010 Performance share plan vesting schedule

(% of award vesting)



For the four-year period ending September 2010 and a vesting date of December 2010 and May 2011, Sappi's performance relative to the peer group measured on Total Shareholder Return (TSR) was ranked in 11th place, which resulted in no conditional share awards vesting for the 50% Total Shareholder Return (TSR) performance criteria.

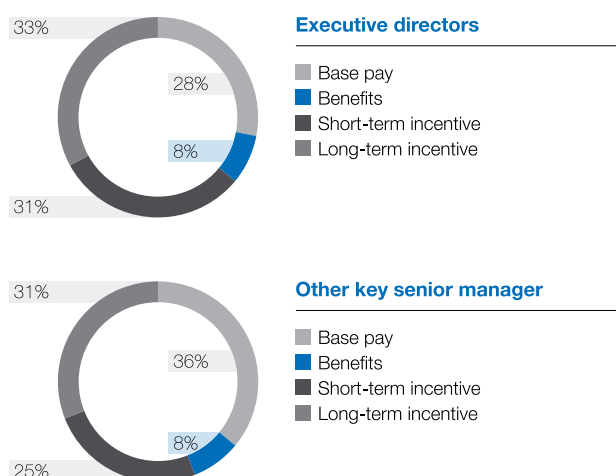
Sappi's performance relative to the peer group measured on cash flow return on net assets for the same period, resulted in the entire 50% share awards vesting, as Sappi's performance was ranked in 3rd place.

The total net vesting was thus 50%.

Other participants received an annual grant of share options, of which 25% vest each year over four years and expire after eight years.

Composition of compensation packages

Each executive director and other key senior managers' total compensation consists of salaries and benefits made up of fixed pay and short- and long-term incentives, which make up the variable component of pay. Assuming an on-target performance in terms of performance criteria we would generally expect the percentage compensation mix to be as follows:



Dilution

The dilution effect of issuing all outstanding share awards and options as at end September 2011 was 3.75% of the issued ordinary share capital excluding treasury shares. It is the company's intention to continue to satisfy the future exercise of options and vesting of awards under the above share plans by using treasury shares.

Service contracts

Executive directors have employment contracts that require nine months notice of termination from the employee and 18 months notice of termination from the company. Executive directors normally retire at age 60.

Depending on their location, other key senior managers have employment contracts that require between three to six months notice of termination by the employee and six to 12 months notice of termination from the company. Generally, in North America, employment is 'at will'. Most senior managers have a retirement age of 60 to 65 years, which differs by region.

Employment contracts are mostly ongoing with stipulated notice periods.

The following section of the report provides details of the compensation, service contracts and share interests of directors.

Executive directors' compensation

R J Boëttger

In January 2011, Mr Boëttger received an 8% increase on the South African portion of his salary, which accounts for 70% of his pay, and a 3.25% increase on the off-shore portion of his salary, which accounts for 30% of his total annual salary.

Mr Boëttger's salary increases were in line with the general increases of all staff in South Africa and in the United Kingdom (the currency in which he receives his off-shore salary).

Mr Boëttger received a bonus of US\$908,619 paid in December 2010, which falls in the 2011 financial year. This was based on the group's financial performance of 116% of target during the 2010 financial year ending September 2010.

Mr Boëttger's total compensation for the year ending September 2011 was US\$1,958,289. This was made up of base pay, bonus, benefits and expense allowances.

The details of Mr Boëttger's compensation can be found in notes 33 to 35 of the annual financial statements.

In December 2010, Mr Boëttger was awarded 195,000 conditional share awards, through the Sappi Performance Share Plan.

During the 2011 financial year, Mr Boëttger sold 24,700 shares at R25.20 to pay the tax on shares that had vested in June 2011.

M R Thompson

In January 2011, Mr Thompson received a 10% increase on the South African portion of his salary, which accounts for 70% of his pay, and a 2% increase on the off-shore portion of his salary, which accounts for 30% of his total annual salary.

Mr Thompson's salary increases were in line with the general increases of all staff in South Africa of 8% and a 2% market adjustment increase to bring his pay in line with his peers.

Mr Thompson received a bonus of US\$378,188 paid in December 2010, which falls into the 2011 financial year. This was based on the group's financial performance of 116% of target during the 2010 financial year ending September 2010.

Mr Thompson's total compensation for the year was US\$1,002,636. This was made up of base pay, bonus and benefits.

The details of Mr Thompson's compensation can be found in notes 33 to 35 of the annual financial statements.

In December 2010, Mr Thompson was awarded 88,000 conditional share awards, through the Sappi Performance Share Plan.

Mr Thompson did not sell any shares during the 2011 financial year.

Mr Thompson will be 60 years of age in August 2012 and will retire from the group at that time.

Both Mr Boëttger and Mr Thompson are members of the Sappi retirement funds.

In terms of their contracts of employment, both Mr Boëttger and Mr Thompson would be required to give nine months notice of termination and the company would be required to give 18 months notice.

This table provides the latest review of the more significant exposures Sappi faces as it goes forward. The Sappi group risk profile is reviewed at least twice annually to provide risk management information to management to enable them to make informed risk-based decisions.

The risks are ranked according to management's assessment of the likelihood of the occurrence and severity. These risks are further discussed in Sappi's annual report on Form 20-F filed with the US Securities Exchange Commission which is available on our website www.sappi.com or in hard copy on request.

Top risks

	Risk	Risk description and mitigation
1.	We operate in a cyclical industry. Global economic conditions may cause substantial fluctuations in our results.	Our pulp and paper products are significantly affected by cyclical changes in industry capacity and output levels and by the impact on demand from changes in the world economy. As a result of supply and demand imbalances in the pulp and paper industry, these markets historically have been cyclical, with volatile pulp and paper prices. In addition, the current turmoil in the world economy has led to sharp reductions in volume and pressure on prices in many of our markets and we acted rapidly to match our output to demand by curtailing production and by ceasing operations at Biberist Mill and Adamas Mill. We took actions to improve efficiencies and reduce costs in all aspects of our business. We continue to maintain a high level of economic pulp integration on a group-wide basis which reduces the impact of pulp price fluctuations on our results. We will continue to monitor the supply/demand balance which might require us to impair operating assets and/or implement further capacity closures.
2.	The markets for pulp and paper products are highly competitive.	There has been a recent trend towards consolidation in the pulp and paper industry creating larger, more focused companies. We have approved chemical cellulose capacity conversions at our Ngodwana and Cloquet Mills to increase our market share and strengthen our leading position in the chemical cellulose market. We also continue to drive good customer service, innovation and efficient manufacturing and logistics. We are focused on improving the performance and competitiveness of our European business in particular of coated mechanical paper. We are also taking steps to improve the performance of our Southern African paper and packaging paper business.
3.	We require significant amounts of finance to fund our business and our ability to generate cash or borrow depends on many factors some of which are beyond our control.	Our ability to fund our working capital, capital expenditure, research and development requirements and to make payments on our debt principally depends on cash available from our credit facilities, other debt arrangements and our operating performance. Our year-end cash balance provides us with adequate headroom to fund our short-term requirements. We are also focusing on profit improvement in our operations by reducing fixed and variable costs, spending capital prudently and managing working capital levels.
4.	Fluctuations in the value of currencies, particularly the Rand and the Euro, in relation to the US Dollar, have in the past had and could in the future have a significant impact on our earnings in these currencies.	Sappi is exposed to economic, transaction and translation currency risks. The objective of the group in managing transactional currency risks is to ensure that foreign exchange exposures are identified as early as possible and actively managed. In managing transactional currency risks, the group first makes use of internal hedging techniques (hedging to the functional currency of the entity concerned) with external hedging being applied thereafter. External hedging techniques consist primarily of foreign forward exchange contracts and currency options. Foreign currency capital expenditure on projects is covered as soon as practical (subject to regulatory approval).

Top risks continued

Risk	Risk description and mitigation
5. The inability to obtain energy or raw materials at favourable prices could adversely affect our operations.	We require substantial amounts of wood, chemicals and energy for our production activities. The prices for and availability of these energy supplies and raw materials may be subject to change or curtailment. To mitigate the risk, we are improving procurement methods, finding alternative lower-cost fuels and raw materials, further minimising waste, improving manufacturing and logistics efficiencies and implementing energy reduction initiatives.
6. The cost of complying with environmental, health and safety laws may be significant to our business.	We are subject to a wide range of environmental, health and safety laws and regulations in the various jurisdictions in which we operate. We invest to maintain compliance with applicable laws and co-operate across regions to apply best practices in a sustainable manner. The principles of ISO 14000, Forest Stewardship Council (FSC) and other recognised programmes are well entrenched across the group. We have also made significant investments in operational and maintenance activities related to reductions in air emissions, waste water discharges and waste generation. We closely monitor the potential for changes in pollution control laws, including GHG emissions requirements, and take action with respect to our operations accordingly. The health and safety of our own employees and contractors remain a top priority.

Risk philosophy

We have a co-ordinated risk management approach to establish, co-ordinate and drive the risk management process throughout Sappi. It has established a risk management system to identify and manage significant risks.

Complete risk assessments are conducted at least annually in our divisions (including Sappi Trading) and for the group, and are updated every six months. The process uses our strategy as the base against which to assess risk scenarios. The scope of the risk assessment includes risks that may lead to a significant cost, liability or loss, including loss of opportunity, or may affect the current strategic plan. These risks are identified and analysed, and risk responses to each individual risk are designed, planned, implemented and monitored.

Insurance

Sappi follows a practice of insuring its assets against loss arising from catastrophic events. These events include fire, flood, explosion, earthquake and machinery breakdown. Specific environmental risks are also insured. External risk engineers conduct both underwriting surveys as well as risk control surveys of all the Sappi facilities. The risk control surveys report, rate and rank the identified risks and make recommendations to address the probability and/or severity of these risks. This process is focussed primarily on the risk exposures associated with insurable risks. Insurance also covers business interruption events which may result from these events. In line with previous years, the board decided not to take separate cover for losses from acts of terrorism, which is consistent with current practice in the paper manufacturing industry. Sappi places the insurance for its plantations on a stand-alone basis into international insurance markets.

Sappi has a global insurance structure and the bulk of its insurance is placed with its own captive insurance company in Stockholm, Sweden; Sappisure Försäkrings AB, which in turn reinsures those risks outside the company's self-insurance capabilities in the global reinsurance markets.

Sappi has negotiated the renewal of its 2011 insurance cover at rates similar to those of 2010. Self-insured retention for any one property damage occurrence is €20.5 million, and the annual aggregate at €33 million. For property damage and business interruption insurance, cost-effective cover to full value is not readily available. However, the directors believe that the loss limit cover of €700 million should be adequate for what they have determined as the reasonable foreseeable loss for any single claim.

Insurance cover for credit risks currently applies on a regional basis to a portion of Sappi's Northern American, European and Southern African domestic trade receivables subject to a US\$5 million group aggregate first loss.

annual financial statements

for the year ended September 2011

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Independent auditor's report to the shareholders of Sappi Limited

We have audited the group annual financial statements of Sappi Limited, which comprise the group balance sheets as at September 2011, and the group income statements, group statements of comprehensive income, group statement of changes in equity and group statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 97 to 103 and pages 107 to 194.

Directors' Responsibility for the Financial Statements

The group's directors are responsible for the preparation and fair presentation of these 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 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 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 whether the 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 judgement, 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 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 financial statements present fairly, in all material respects, the consolidated financial position of Sappi Limited as at September 2011, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Deloitte & Touche

Per R C Campbell
Partner

07 December 2011

Johannesburg, South Africa

Deloitte & Touche – Registered Auditors

Buildings 1 and 2, Deloitte Place

The Woodlands, Woodlands Drive, Woodmead Sandton

Johannesburg, South Africa

National Executive: G G Gelink Chief Executive A E Swiegers Chief Operating Officer G M Pinnock Audit D L Kennedy Risk Advisory and Legal N B Kader Tax L Geeringh Consulting L Bam Corporate Finance J K Mazzocco Human Resources C R Beukman Finance T J Brown Chairman of the Board M J Comber Deputy Chairman of the Board

A full list of partners and directors is available on request.

Directors' approval

The directors are responsible for the maintenance of adequate accounting records and the content, integrity and fair presentation of the annual financial statements of the group and Sappi Limited company, and the related financial information included in this report. These have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. In preparing the financial statements, the group applied appropriate accounting policies supported by reasonable judgements and estimates. 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 by the group and are committed to maintaining a strong control environment. Details relating to the group's internal control environment, including the requirement to comply with section 404 of the U.S. Sarbanes-Oxley Act (a requirement for companies listed on the New York Stock Exchange), are set out in the Corporate Governance section of this report.

The directors are of the opinion, based on the information and explanations given by the company's officers and the internal

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

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

The report and annual financial statements of the group and the company appear on pages 97 to 202 and were approved by the board of directors on 07 December 2011 and signed on its behalf by:

R J Boëttger
Chief executive officer
Sappi Limited

M R Thompson
Chief financial officer

Secretary's certificate

In terms of section 88(2)(e) of the Companies Act 71 of 2008 (as amended) 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 2011, all such returns as are required of a public company in terms of this Act and that such returns appear to be true, correct and up to date.

Sappi Southern Africa (Pty) Limited

Secretaries

per D J O'Connor

Group secretary

07 December 2011

Introduction

The audit committee presents its report for the financial year ended September 2011. The audit committee is an independent statutory committee, whose duties are delegated to it by the board of directors. The committee has conducted its affairs in compliance with a board approved terms of reference, and has discharged its responsibilities contained therein.

Objectives and scope

The overall objectives of the committee are:

- To assist the board in discharging its duties relating to the safeguarding of assets and the operation of adequate systems and control processes
- To control reporting processes and the preparation of financial statements in compliance with the applicable legal and regulatory requirements and accounting standards
- To provide a forum for the governance of risk, including control issues and developing recommendations for consideration by the board
- To oversee the internal and external audit appointments and functions
- To perform duties that are attributed to it by the South African Companies Act of 2008 (the Act), the JSE Limited Listings Requirements and King III.

Committee performance:

- Received and reviewed reports from both internal and external auditors concerning the effectiveness of the internal control environment, systems and processes
- Reviewed the reports of both internal and external audit findings and their concerns arising out of their audits and requested appropriate responses from management
- Made recommendations to the board of directors regarding the corrective actions to be taken as a consequence of audit findings
- Considered the independence and objectivity of the external auditors and ensured that the scope of their additional services provided did not impair their independence
- Received and dealt with concerns and complaints through 'whistle-blowing' mechanisms that were reported to the committee by the group internal audit function
- Reviewed a documented assessment, including key assumptions, prepared by management on the going concern status of the group, and accordingly made recommendations to the board
- Reviewed and recommended for adoption by the board the financial information that is publicly disclosed, which included:
 - The Integrated Annual Report
 - The quarterly and interim financial results
- Considered the effectiveness of internal audit, approved the annual operational strategic internal audit plan and monitored adherence of internal audit to its plan

- Reviewed the performance and expertise of the chief financial officer and confirmed his suitability for the position
- Satisfied itself that the internal audit function is efficient and effective and carried out its duties in an independent manner in accordance with a board approved internal audit charter.

The committee is satisfied that it has fulfilled its obligations in respect of its scope of responsibilities.

Membership

The membership of the committee comprised exclusively of independent non-executive directors, all of whom are financially literate, with three members forming a quorum:

Dr D Konar (chairman)	(appointed in January 2004, chairman from January 2007)
Mr J E Healey	(appointed in August 2004, retiring 31 December 2011)
Mrs K R Osar	(appointed in November 2007)
Mr P N Mageza	(appointed in February 2010)
Mr H C Mamsch	(retired 31 December 2010)

Biographical details of the current members of the committee are set out on pages 26 to 28 of this report.

In addition, the chief executive officer, the chief financial officer, head of group internal audit, the risk executive and the external auditors are also permanent invitees to the meeting. The chairman of the board is entitled to attend meetings ex officio. The effectiveness of the committee is assessed every year. As required by the Act, the committee is to be elected by shareholders at the forthcoming annual general meeting.

External audit

The committee has satisfied itself through enquiry that the auditor of Sappi Limited is independent as defined by the Act. Meetings were held with the auditor where management was not present.

No material non-audit services were provided by the external auditors during the year under review.

The committee has reviewed the performance of the external auditors and nominated, for approval at the annual general meeting, Deloitte & Touche as the external auditor for the 2012 financial year. Mr Roy Campbell is the designated auditor and, in terms of the rotation requirements of the Act, 2012 will be his second year as designated auditor of the company. The committee confirms that the auditor and designated auditor are accredited by the JSE Limited.

Integrated Annual Report

The audit committee has evaluated the Integrated Annual Report, incorporating the annual financial statements, for the year ended September 2011. The audit committee has also considered the sustainability information as disclosed in the Integrated Annual Report and has assessed its consistency with operational and

other information known to audit committee members. The committee has also considered the report and is satisfied that the information is reliable and consistent with the financial results. The annual financial statements have been prepared using appropriate accounting policies, which conform to International Financial Reporting Standards.

The committee has therefore recommended the Integrated Annual Report for approval to the board. The board has subsequently approved the report and the annual financial statements, which will be open for discussion at the annual general meeting.

Based on the results of the formal documented review of the group's system of internal financial controls which was performed by the internal audit function and external auditors, nothing had come to the attention of the audit committee to indicate that the internal financial controls were not operating effectively.

Dr D Konar

Chairman of the audit committee

07 December 2011

Your directors submit their report for the year ended September 2011

Business of Sappi Limited (Sappi or the company) and its operating companies mentioned below (the group)

The group manufactures and sells a wide range of pulp, paper, chemical cellulose and wood products for use in almost every sphere of economic activity. The group is comprised of Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa which are its reportable segments.

Sappi Fine Paper which comprises Sappi Fine Paper Europe and Sappi Fine Paper North America, has manufacturing and marketing facilities in North America, Europe and Asia and produces mainly high quality branded coated fine paper. It also manufactures uncoated graphic and business paper, coated and uncoated speciality paper, and casting release paper used in the manufacture of artificial leather and textured polyurethane applications. Sappi Southern Africa (Sappi Paper and Paper Packaging, Sappi Forests and Sappi Chemical Cellulose) based in Southern Africa, produces commodity paper products, pulp, chemical cellulose, uncoated fine paper and forest and timber products for Southern Africa and export markets. The group operates a trading network called Sappi Trading for the international marketing and distribution of chemical cellulose and market pulp throughout the world and of the group's other products in areas outside its core operating regions of North America, Europe and Southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

Reporting period

The group's financial period ends on the Sunday closest to the year-end date and results are reported as if at the year-end date.

International Financial Reporting Standards (IFRS)

As a South African company and in terms of the requirements of the JSE Limited (JSE), Sappi's financial reporting is based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), Interpretations issued by the IFRS Interpretations Committee of the IASB, the AC 500 standards issued by the Accounting Practices Board in South Africa, and the requirements of the Companies Act of South Africa.

The US Dollar is the major trading currency of the pulp and paper industry. The group reports its results in US Dollars in order to facilitate the understanding of the results.

For the convenience of users, the income statements, balance sheets and cash flow statements of the group have been translated into South African Rand on pages 104 to 106.

Share capital

As at September 2011 the authorised and issued share capital of Sappi were as follows:

Authorised:

725,000,000 ordinary shares of ZAR1 each	ZAR725 million
19,961,476 'A' ordinary shares of ZAR1 each	ZAR20 million

Issued:

541,446,223 ordinary shares of ZAR1 each	ZAR541 million
19,961,476 'A' ordinary shares of ZAR1 each	ZAR20 million
Share premium	US\$1,361 million

There were no share issues or repurchases during the year.

Included in the 541,446,223 issued ordinary shares are 40,942,907 treasury shares including the 19,961,476 'A' ordinary shares. See note 17 of the annual financial statements for further information relating to the share capital of Sappi Limited.

Purchase of shares by a subsidiary

Through a wholly-owned subsidiary, the Sappi group has in previous fiscal years acquired approximately 21.4 million Sappi Limited ordinary shares (treasury shares) on the open market of the JSE Limited. In December 2008, the subsidiary company acquired a further 11,860,873 shares by exercising its rights in terms of the rights offer. No shares were acquired during the 2011 and 2010 fiscal years. Some of these treasury shares have been and will continue to be utilised to meet the requirements of the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust from time to time.

It is unlikely that the group will seek approval for the purchase of Sappi shares in the foreseeable future.

Significant announcements during the year under review and subsequent to year-end

During the year, the following significant announcements/events took place:

- On 31 March 2011, Sappi announced the envisaged closure of its Biberist Mill in Switzerland in response to market conditions and sustained increases in input costs and began consultations with staff and unions. The coated graphic paper production was ceased in July 2011 and the uncoated paper production during August 2011.
- On 19 May 2011, Sappi announced the expansion and conversion of its Ngodwana Mill near Nelspruit, South Africa, to enable it to produce chemical cellulose.
- On 23 May 2011, Sappi announced that it had initiated consultations with staff and unions on the possible closure of Adamas Mill. Full closure was finalised in August 2011.
- On 07 October 2011, Sappi published a group strategy update. Sappi's strategy involves four key themes, namely: continuing to optimise our better performing businesses, fixing our underperforming businesses, investing for future

growth in higher margin businesses, including chemical cellulose, and achieving this within the reality of the group's liquidity and balance sheet. This is discussed in more detail by the chairman and the chief executive officer in their letter to shareholders on page 8.

- On 10 November 2011, Sappi announced the approval of a US\$170 million capital project to convert the Kraft pulp mill in Cloquet, Minnesota to produce chemical cellulose used in textile and consumer goods markets. The planned conversion is slated to come online in 2013, and once complete, will allow the production of chemical cellulose.

Financing

During the year, the following significant financing events occurred:

- In March 2011, we utilised some of our cash resources to repay US\$150 million principal amount of the outstanding US\$500 million 6.75% Guaranteed Notes due June 2012;
- In April 2011, we issued approximately US\$705 million Senior Secured Notes split into a 10-year US\$350 million tranche and a seven-year €250 million tranche that were issued at par and both Notes bear interest at a rate of 6.625% per annum. The net proceeds of the Notes were used to redeem the remaining US\$350 million of our 6.75% Guaranteed Notes due June 2012 and to repay €200 million of our OeKB Term Loan Facility. At the same time, our existing undrawn revolving credit facility maturing 2012 was increased from a €209 million to a €350 million facility and extended to 2016. We repaid the remaining €120 million of our OeKB Term Loan balance from cash resources in June 2011.
- In June 2011, Sappi Southern Africa (Pty) Limited issued a ZAR500 million (fixed rate bond 'SSA01') at a 150 basis points spread over the government reference rate and an all in coupon rate of 9.63%. The bond is repayable on 28 June 2016, with coupons payable semi-annually on 28 June and 28 December of each year. The proceeds of the bond will be used to partially refinance the ZAR1 billion maturing SMF2 bond on 14 October 2011 – the balance will be paid from own cash generated.
- On 25 August 2011, we signed a three-year €360 million global trade receivables securitisation programme for our non-South African business. The proceeds were used to refinance and effectively term out the group's existing short-term securitisation programme which was due to mature in December 2011.

At September 2011, we had liquidity comprising US\$639 million of cash on hand, which exceeds the amount of short-term interest-bearing debt (including bank overdrafts) of US\$450 million, and the undrawn balance of €250 million (US\$335 million) of the committed revolving credit facility. We utilised US\$125 million of our cash shortly after the year-end to repay debt. Substantially all non-South African long-term debt is supported by a

Sappi Limited guarantee. Net cash generated for the year was US\$163 million.

Covenants on certain international term debt are similar and are detailed in the chief financial officer's report.

Borrowing and financing

The group's net debt at September 2011 amounted to US\$2.1 billion (2010: US\$2.2 billion). During the year, the group conducted a major refinancing as described above. The company's Articles of Association allow net borrowings of up to US\$5.6 billion. Details of the non-current borrowings are set out in note 20 to the group financial statements.

Dividends

The board has decided not to declare a dividend for the current financial year ended September 2011.

The Sappi Limited Share Incentive Trust (the 'Scheme') and The Sappi Limited Performance Share Incentive Trust (the 'Plan')

Sappi has two share incentive schemes in place, namely the Scheme and the Plan for the purpose of enabling Sappi Limited to allot shares and grant options in respect of ordinary shares to present employees, including executive directors, its subsidiaries and employees seconded to joint ventures. The maximum number of shares which may be acquired by participants under both the Scheme and the Plan is 42,700,870 shares. Of the 42,700,870 shares, 21,341,621 shares have been offered and are outstanding at the end of fiscal 2011 leaving the remainder of 21,359,249 shares that can still be allocated to participants. The group has 20,981,431 treasury shares at year-end, some of which have been and will continue to be utilised to meet the requirements of the Scheme and the Plan from time to time.

During the year, 700,890 (2010: 999,200) credit sale and combined option/deferred sale allocations under the Scheme were cancelled in terms of the rules of the Scheme. The allocations were made in February 2003 (in respect of 329,550 shares at a price of ZAR112.83 per share) and in December 2008 (in respect of 371,340 shares, arising from the 2008 rights offer at a price of ZAR20.27). The allocations would have expired on 13 February 2012 and the average price payable by participants for the allocations at that time (ZAR62.35 per share) would have been well above the market price. The board considered that it would not have been in the best interests of the company to enforce payment by the participants concerned. The purpose of the Scheme is to offer participants an incentive and to have insisted that participants pay for the allocations concerned, would have imposed a hardship on the participants and would have served as a disincentive.

Note 28 of the group annual financial statements provides further details regarding the Scheme and the Plan.

Insurance

The group has an active programme of risk management in each of its geographical operating regions 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 co-ordinated at group level in order to achieve a standardisation of methods. Work on improved enterprise risk management is ongoing and aims to lower the risk of incurring losses from uncontrolled incidents.

Fixed assets

During the year, both the Biberist and Adamas Mills were closed following their announced potential closures in March 2011 and May 2011 respectively. In line with our strategy announcement on 07 October 2011, the group approved the expansion and conversion of its Ngodwana Mill near Nelspruit, South Africa, to produce chemical cellulose and, in November 2011, approved the conversion of the Kraft pulp mill in Cloquet, Minnesota to also produce chemical cellulose. Both, the expansion and conversion of Ngodwana Mill and the conversion of Cloquet Mill, are slated to come online during calendar 2013. In addition to the above, certain impairments related to paper and paper packaging operations were taken as part of our plan to restructure our business processes and paper operations in South Africa. See note 9 to the annual financial statements for further details regarding the fixed assets of Sappi Limited.

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 (see note 26 to the annual financial statements).

Directors and secretaries

The composition of the board of directors is provided on pages 26 to 28. During the year, Mr H C Mamsch retired as a director. Messrs G P F Beurskens and M A Fallon were appointed to the board during the year. Mr Fallon's appointment took effect from 01 September 2011 and Mr Beurskens on 01 October 2011. In terms of the company's Memorandum of Incorporation, it will be necessary to confirm their appointments at the forthcoming annual general meeting. They will, in terms of the Memorandum of Incorporation, retire from the board at that meeting, and being eligible have offered themselves for re-election.

At the end of September 2011, there were 14 directors, two of whom were executive directors. Ten of the 12 non-executive directors were independent. The independence of those directors who are designated as independent (including the independence

of those directors designated independent, who have served more than nine years on the board), was reviewed and confirmed during the year by the nomination and governance committee. Dr R Thummer, one of the directors not designated as independent, will be designated independent after 01 January 2012 when it will be more than three years since he retired as a paid employee of the group.

With Mr Beurskens' appointment effective from 01 October 2011, there are presently 13 non-executive directors, of whom 11 are designated as independent, and two executive directors.

Mr J E Healey, having reached retirement age of 70 years during the year, will be retiring as a director on 31 December 2011.

In terms of the company's Memorandum of Incorporation, Dr D Konar, Mr N P Mageza, Mr J D McKenzie and Sir A N R Rudd will retire by rotation from the board at the forthcoming annual general meeting and all being eligible, have offered themselves for re-election. Having assessed the individual performances of the directors concerned, the board recommends each of them for re-appointment.

Personal details of Dr D Konar, Mr N P Mageza, Mr J D McKenzie and Sir A N R Rudd are set out in the notice of annual general meeting on pages 212 to 213 of this report.

The remuneration and fees of the directors of Sappi Limited are set out in note 33 to the annual financial statements.

The beneficial interests of directors in the shares of the company (including options and rights and options in terms of the Scheme and conditional share awards in terms of the Plan) are set out in notes 34 and 35 to the annual financial statements.

A register of interests of directors and prescribed officers in the shares of the company is available to shareholders and the public on request.

Details of the secretaries and their business and postal addresses are set out on page 217.

Special resolutions

The following is a list of the special resolutions passed by the company and its South African incorporated subsidiaries during the year:

- change of name of Sappi Manufacturing (Pty) Ltd to Sappi Southern Africa (Pty) Ltd; and
- change of name of Lereko Property Company (Pty) Ltd to Sappi Property Company (Pty) Ltd.

Subsidiary companies

Details of the company's significant subsidiaries are set out in Annexure A on page 202.

Group income statements
for the year ended September 2011

US\$ million	note	2011	2010	2009
Sales		7,286	6,572	5,369
Cost of sales	4	6,454	5,786	5,029
Gross profit		832	786	340
Selling, general and administrative expenses	4	454	448	385
Other operating expenses	4	298	10	39
Share of profit from associates and joint ventures	13	(6)	(13)	(11)
Operating profit (loss)	4	86	341	(73)
Net finance costs	5	307	255	145
Finance costs		348	309	198
Finance revenue		(12)	(16)	(61)
Net foreign exchange gains		(13)	(17)	(17)
Net fair value (gain) loss on financial instruments		(16)	(21)	25
(Loss) profit before taxation		(221)	86	(218)
Taxation charge (benefit)	6	11	20	(41)
(Loss) profit for the year		(232)	66	(177)
Basic weighted average number of ordinary shares in issue (millions)		519.9	516.7	482.6
Basic (loss) earnings per share (US cents)	7	(45)	13	(37)
Diluted (loss) earnings per share (US cents)	7	(45)	13	(37)

Group statements of comprehensive income
for the year ended September 2011

US\$ million	note	2011	2010	2009
(Loss) profit for the year		(232)	66	(177)
Other comprehensive (loss) income, net of tax	18	(205)	8	(197)
Exchange differences on translation of foreign operations		(151)	52	14
Actuarial losses on post-employment benefit funds		(59)	(71)	(229)
Movement on available-for-sale financial assets		2	2	–
Movement in hedging reserves		6	14	(14)
Deferred tax on other comprehensive (loss) income		(3)	11	32
Total comprehensive (loss) income for the year		(437)	74	(374)

US\$ million	note	2011	2010
Assets			
Non-current assets		4,085	4,653
Property, plant and equipment	9	3,235	3,660
Plantations	10	580	687
Deferred tax assets	11	45	53
Goodwill and intangible assets	12	25	27
Joint ventures and associates	13	76	125
Other non-current assets	14	83	82
Financial instruments	29	41	19
Current assets		2,223	2,531
Inventories	15	750	836
Trade and other receivables	16	831	888
Financial instruments	29	3	15
Cash and cash equivalents		639	792
Total assets		6,308	7,184
Equity and liabilities			
Shareholders' equity		1,478	1,896
Ordinary share capital and share premium	17	1,425	1,638
Non-distributable reserves	19	163	161
Foreign currency translation reserve		(304)	(385)
Hedging reserves		5	1
Retained earnings		189	481
Non-current liabilities		3,178	3,249
Interest-bearing borrowings	20	2,289	2,317
Deferred tax liabilities	11	336	386
Other non-current liabilities	21	553	546
Current liabilities		1,652	2,039
Interest-bearing borrowings	20	449	691
Overdraft		1	5
Financial instruments	29	10	3
Trade and other payables		1,065	1,271
Taxation payable		20	36
Provisions	22	107	33
Total equity and liabilities		6,308	7,184

Group statements of cash flows
for the year ended September 2011

US\$ million	note	2011	2010	2009
Cash retained from operating activities		406	529	461
Cash generated from operations	23.1	798	737	432
– (Increase) decrease in working capital	23.2	(98)	(5)	152
Cash generated from operating activities		700	732	584
– Finance costs paid	23.3	(266)	(206)	(107)
– Finance revenue received		10	12	26
– Taxation paid	23.4	(38)	(9)	(5)
Cash available from operating activities		406	529	498
– Dividends paid		–	–	(37)
Cash utilised in investing activities		(243)	(188)	(762)
Investment to maintain operations		(194)	(150)	(143)
– Replacement of non-current assets	23.5	(213)	(173)	(147)
– Proceeds on disposal of non-current assets	23.6	6	21	2
– Decrease in other non-current assets		13	2	2
Investment to expand operations		(49)	(38)	(619)
– Additions of non-current assets		(49)	(38)	(29)
– Acquisition	23.7	–	–	(590)
Cash effects of financing activities		(296)	(256)	707
Proceeds from interest-bearing borrowings		1,364	204	3,469
Repayment of interest-bearing borrowings		(1,578)	(444)	(3,222)
Rights issue proceeds		–	–	575
Share issue costs		–	(3)	(31)
Costs attributable to refinancing transactions		(78)	–	(78)
Decrease in bank overdrafts		(4)	(13)	(6)
Net movement in cash and cash equivalents		(133)	85	406
Cash and cash equivalents at beginning of year		792	770	274
Translation effects		(20)	(63)	90
Cash and cash equivalents at end of year	23.8	639	792	770

US\$ million	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non- distributable reserves	Foreign currency translation reserve	Hedging reserves	Retained earnings	Total equity
Balance									
– September 2008	229.2	28	679	707	124	(121)	–	895	1,605
Transfer from retained earnings	–	–	–	–	6	–	–	(6)	–
Share-based payments	–	–	–	–	9	–	–	–	9
Transfers from Sappi Limited									
Share Incentive Trust	0.3	–	2	2	–	–	–	–	2
Rights issue proceeds	275.0	28	547	575	–	–	–	–	575
Costs directly attributable to the rights issue	–	–	(31)	(31)	–	–	–	–	(31)
Issue to M-real	11.2	1	44	45	–	–	–	–	45
Total comprehensive (loss) income	–	13	230	243	4	(233)	(14)	(374)	(374)
Dividends									
– US\$0.16 per share ⁽¹⁾	–	–	–	–	–	–	–	(37)	(37)
Balance									
– September 2009	515.7	70	1,471	1,541	143	(354)	(14)	478	1,794
Transfer from retained earnings	–	–	–	–	2	–	–	(2)	–
Share-based payments	–	–	–	–	17	–	–	–	17
Transfers to Sappi Limited									
Share Incentive Trust	(0.5)	–	(6)	(6)	–	–	–	–	(6)
Black Economic Empowerment (BEE) transaction	4.3	1	19	20	–	–	–	–	20
Costs directly attributable to the BEE transaction	–	–	(3)	(3)	–	–	–	–	(3)
Total comprehensive income (loss)	–	3	83	86	(1)	(31)	15	5	74
Balance									
– September 2010	519.5	74	1,564	1,638	161	(385)	1	481	1,896
Share-based payments	–	–	–	–	20	–	–	–	20
Transfers from Sappi Limited									
Share Incentive Trust	1.0	–	6	6	–	–	–	–	6
Transfers of vested share options	–	–	–	–	(7)	–	–	–	(7)
Total comprehensive (loss) income	–	(10)	(209)	(219)	(11)	81	4	(292)	(437)
Balance									
– September 2011	520.5	64	1,361	1,425	163	(304)	5	189	1,478
Note reference:				17	19				

(1) Dividends relate to the previous financial year's earnings but were declared subsequent to year end.

Group income statements in Rands convenience translation
for the year ended September 2011

ZAR million	Unaudited		
	2011	2010	2009
Sales	50,695	49,235	48,393
Cost of sales	44,906	43,347	45,329
Gross profit	5,789	5,888	3,064
Selling, general and administrative expenses	3,159	3,356	3,470
Other operating expenses	2,074	74	351
Share of profit from associates and joint ventures	(42)	(97)	(99)
Operating profit (loss)	598	2,555	(658)
Net finance costs	2,137	1,911	1,307
Finance costs	2,421	2,315	1,785
Finance revenue	(83)	(120)	(550)
Net foreign exchange gains	(90)	(127)	(153)
Net fair value (gain) loss on financial instruments	(111)	(157)	225
(Loss) profit before taxation	(1,539)	644	(1,965)
Taxation charge (benefit)	77	150	(370)
(Loss) profit for the year	(1,616)	494	(1,595)
Basic weighted average number of ordinary shares in issue (millions)	519.9	516.7	482.6
Basic (loss) earnings per share (ZAR cents)	(313)	97	(333)
Diluted (loss) earnings per share (ZAR cents)	(313)	97	(333)

Group statements of comprehensive income in Rands convenience translation
for the year ended September 2011

ZAR million	Unaudited		
	2011	2010	2009
(Loss) profit for the year	(1,616)	494	(1,595)
Other comprehensive (loss) income, net of tax	(1,427)	60	(1,776)
Exchange differences on translation of foreign operations	(1,051)	390	126
Actuarial losses on post-employment benefit funds	(411)	(532)	(2,064)
Movement on available-for-sale financial assets	14	15	–
Movement in hedging reserves	42	105	(126)
Deferred tax on other comprehensive (loss) income	(21)	82	288
Total comprehensive (loss) income for the year	(3,043)	554	(3,371)

Note:

The above financial results have been translated into ZAR from US Dollars using the exchange rates as set out in accounting policies note 2.2.1. The year-end rate was used for translating assets and liabilities and the average rate for translating income, expenditure and cash flow items except for dividends which have been translated at the rate of exchange on the date of declaration.

The translation was made solely for the convenience of the readers and is not defined in IAS 21. It should be noted that the translated ZAR figures from US Dollars do not necessarily represent that these US Dollar amounts could be converted into ZAR at the time when the transaction occurred.

ZAR million	Unaudited	
	2011	2010
Assets		
Non-current assets	33,072	32,659
Property, plant and equipment	26,192	25,690
Plantations	4,696	4,822
Deferred tax assets	364	372
Goodwill and intangible assets	202	190
Joint ventures and associates	615	877
Other non-current assets	671	575
Financial instruments	332	133
Current assets	17,998	17,765
Inventories	6,072	5,868
Trade and other receivables	6,728	6,233
Financial instruments	24	105
Cash and cash equivalents	5,174	5,559
Total assets	51,070	50,424
Equity and liabilities		
Shareholders' equity	11,966	13,308
Non-current liabilities	25,729	22,804
Interest-bearing borrowings	18,532	16,263
Deferred tax liabilities	2,720	2,709
Other non-current liabilities	4,477	3,832
Current liabilities	13,375	14,312
Interest-bearing borrowings	3,635	4,850
Overdraft	8	35
Financial instruments	81	21
Trade and other payables	8,623	8,921
Taxation payable	162	253
Provisions	866	232
Total equity and liabilities	51,070	50,424

Note:

The above financial results have been translated into ZAR from US Dollars using the exchange rates as set out in accounting policies note 2.2.1. The year-end rate was used for translating assets and liabilities and the average rate for translating income, expenditure and cash flow items except for dividends which have been translated at the rate of exchange on the date of declaration.

The translation was made solely for the convenience of the readers and is not defined in IAS 21. It should be noted that the translated ZAR figures from US Dollars do not necessarily represent that these US Dollar amounts could be converted into ZAR at the time when the transaction occurred.

Group statements of cash flows in Rands convenience translation
for the year ended September 2011

ZAR million	Unaudited		
	2011	2010	2009
Cash retained from operating activities	2,825	3,964	4,156
Cash generated from operations	5,552	5,521	3,935
– (Increase) decrease in working capital	(682)	(37)	1,370
Cash generated from operating activities	4,870	5,484	5,305
– Finance costs paid	(1,851)	(1,543)	(964)
– Finance revenue received	70	90	234
– Taxation paid	(264)	(67)	(45)
Cash available from operating activities	2,825	3,964	4,530
– Dividends paid	–	–	(374)
Cash utilised in investing activities	(1,691)	(1,409)	(6,868)
Investment to maintain operations	(1,350)	(1,124)	(1,289)
– Replacement of non-current assets	(1,482)	(1,296)	(1,325)
– Proceeds on disposal of non-current assets	42	157	18
– Decrease in other non-current assets	90	15	18
Investment to expand operations	(341)	(285)	(5,579)
– Additions of non-current assets	(341)	(285)	(261)
– Acquisition	–	–	(5,318)
Cash effects of financing activities	(2,060)	(1,917)	6,374
Proceeds from interest-bearing borrowings	9,490	1,528	31,268
Repayment of interest-bearing borrowings	(10,979)	(3,326)	(29,041)
Rights issue proceeds	–	–	5,183
Share issue costs	–	(22)	(279)
Costs attributable to refinancing transactions	(543)	–	(703)
Decrease in bank overdrafts	(28)	(97)	(54)
Net movement in cash and cash equivalents	(926)	638	3,662
Cash and cash equivalents at beginning of year	5,559	5,707	2,213
Translation effects	541	(786)	(168)
Cash and cash equivalents at end of year	5,174	5,559	5,707

Note:

The above financial results have been translated into ZAR from US Dollars using the exchange rates as set out in accounting policies note 2.2.1. The year-end rate was used for translating assets and liabilities and the average rate for translating income, expenditure and cash flow items except for dividends which have been translated at the rate of exchange on the date of declaration.

The translation was made solely for the convenience of the readers and is not defined in IAS 21. It should be noted that the translated ZAR figures from US Dollars do not necessarily represent that these US Dollar amounts could be converted into ZAR at the time when the transaction occurred.

1. Business

Sappi Limited, a corporation organised under the laws of the Republic of South Africa (the 'company' and, together with its consolidated subsidiaries, 'Sappi' or the 'group'), was formed in 1936 and is a global company focused on providing chemical cellulose, paper-pulp and paper based solutions to its direct and indirect customer base across more than 100 countries. Our chemical cellulose products are used worldwide by converters to create viscose fibre for clothing and textiles, acetate tow, pharmaceutical products as well as a wide range of consumer products. Our market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and in the Southern Africa region newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products.

The group is comprised of Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa reportable segments. Sappi Fine Paper which comprises Sappi Fine Paper Europe and Sappi Fine Paper North America, has manufacturing and marketing facilities in North America, Europe and Asia and produces mainly high quality branded coated fine paper. The group operates a trading network called Sappi Trading for the international marketing and distribution of chemical cellulose and market pulp throughout the world and of the group's other products in areas outside its core operating regions of North America, Europe and Southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

2. Accounting policies

The following principal accounting policies have been consistently applied in dealing with items that are considered material in relation to the Sappi Limited group financial statements.

2.1 Basis of preparation

The group's consolidated financial statements have been prepared in accordance with:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB);
- Interpretations issued by the IFRS Interpretations Committee of the IASB;
- the AC 500 Standards issued by the Accounting Practices Board in South Africa; and
- the requirements of the Companies Act of South Africa.

The financial statements are presented in United States Dollars (US\$), as it is the major trading currency of the pulp and paper industry, and are rounded to the nearest million except as otherwise indicated.

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

The preparation of the annual financial statements was supervised by the Chief Financial Officer, M R Thompson CA(SA).

The group has made the following significant accounting policy elections in terms of IFRS. The elections are explained further in each specific policy on sections 2.2 and 2.3:

- regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting;
- cumulative gains and losses recognised in other comprehensive income (OCI) in terms of a cash flow hedge relationship are transferred from OCI and included in the initial measurement of the non-financial asset or liability;
- jointly controlled entities are accounted for using the equity method;
- property, plant and equipment are accounted for using the cost model; and
- unrecognised actuarial gains or losses on post-employment benefits are recognised in OCI.

(i) Fiscal 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:

- 27 September 2010 to 02 October 2011 (53 weeks)
- 28 September 2009 to 26 September 2010 (52 weeks)
- 29 September 2008 to 27 September 2009 (52 weeks)

The group has disclosed two years' comparative information for the income statement, statement of comprehensive income and the statement of cash flows to be consistent with its disclosure in the annual report prepared on Form 20-F that is filed with the United States Securities Exchange Commission.

(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

(i) Foreign currency transactions

Transactions in foreign currencies are converted into the functional currency of the group's individual operations at the rate of exchange ruling at the date of such transactions. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Monetary assets and liabilities in foreign currencies are translated into the functional currency of the entities in the group at rates of exchange ruling at the reporting date.

Exchange gains and losses on the translation and settlement of foreign currency monetary assets and liabilities during the period are recognised in the profit or loss in the period in which they arise.

(ii) Consolidation of foreign operations

The assets and liabilities, including goodwill of entities that have non-Dollar functional currencies are translated at the closing rate, while the income and expenses are translated using the average exchange rate. The differences that arise on translation are

reported directly in other comprehensive income and are only reclassified to profit or loss on disposal of the foreign operation.

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

Rate at	Sep 11	Sep 10	Sep 09
ZAR to one US\$	8.0963	7.0190	7.4112
GBP to one US\$	0.6417	0.6321	0.6268
EUR to one US\$	0.7470	0.7412	0.6809

Average annual rate	Sep 11	Sep 10	Sep 09
ZAR to one US\$	6.9577	7.4917	9.0135
GBP to one US\$	0.6225	0.6406	0.6419
EUR to one US\$	0.7170	0.7322	0.7322

2.2.2 Group accounting

(i) *Subsidiary undertakings and special-purpose entities*

The group financial statements include the assets, liabilities and results of the company and subsidiaries (including special-purpose entities) controlled by the group. The results of subsidiaries acquired or disposed of in the year are included in the consolidated income statements from the date of acquisition or up to the date of disposal or cessation of control.

Intra-group balances and transactions, and profits and losses arising from intra-group transactions, are eliminated in the preparation of the group financial statements. Unrealised losses are not eliminated to the extent that they provide objective evidence of impairment.

(ii) *Associates and joint ventures*

The results, assets and liabilities of associates and joint ventures are incorporated in the group's financial statements using the equity method of accounting. The share of the associate's or joint venture's 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 corresponds to the groups' financial year-end. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* 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, which is recorded in other operating expenses, recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised, in accordance with IAS 36, to the extent that the recoverable amount of the investment subsequently increases.

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 and loss' where the transaction costs are recognised immediately in profit and 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. The group has not designated any financial instruments as at fair value through profit or loss.

■ **Non-trading financial liabilities**

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

■ **Loans and receivables**

Loans and receivables are carried at amortised cost, with interest revenue recognised in profit and loss for the period using the effective interest method.

■ **Available-for-sale financial assets**

Available-for-sale financial assets are measured at fair value, with any gains and 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, with gains and losses 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.

(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 all amounts due according to the original terms of the receivables.

■ **Available-for-sale financial assets**

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains and losses previously recognised in equity are removed from equity and recognised in 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 loss reversals other than available-for-sale debt securities are not reversed through profit or loss but through other comprehensive income.

(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 outflows 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 is on average ten years.

(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:

- First in first out (FIFO): finished goods
- Weighted average: raw materials, work in progress and consumable stores
- The specific identification inventory valuation basis is used to measure the cost of items that are not interchangeable.

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. Lease payments are allocated between capital repayments and finance charges using the effective interest rate method.

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

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

(ii) Recognition of lease of land

The land and buildings elements of a lease are considered separately for the purpose of lease classification.

Where the building is a finance lease, and the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease.

2.2.8 Non-current assets held for sale and discontinued operations

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

2.2.9 Segment reporting

Sappi reports and discloses segment information on the basis of information that is reviewed by the chief operating decision maker to make decisions when allocating resources and to assess performance of the group's operating segments. The group's reportable segments are North America, Europe and Sappi Southern Africa.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices.

2.2.10 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, except 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.

2.2.11 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 when 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 which is arrived at after deducting trade and settlement discounts, rebates, and customer returns.

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

2.2.12 Emission trading

The group recognises grants, when allocated by governments for emission rights, as an intangible asset at cost with an equal liability 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 value, a gain is recognised in selling, general and administrative expenses in profit or loss for the period.

2.2.13 Alternative fuel mixture credits

Up until 31 December 2009, the U.S. Internal Revenue Code allowed an excise tax credit for alternative fuel mixtures produced by a taxpayer for sale, or for use as a fuel in a taxpayer's trade or business.

The group qualified for the alternative fuel mixtures tax credit through its North American operations because it used a bio-fuel known as black liquor, which is a by-product of its wood pulping process, to power its mills.

The group recognises income for the alternative fuel mixture credits when its right to receive the credit is established. This occurs when the group has complied with the requirements of the Internal Revenue Code and has submitted a claim for the credits due. This is recorded in profit and loss under other operating income. The group considers the tax credits earned in fiscal 2010 and fiscal 2009 as fully taxable and have treated them as such in the calculation of its tax provision in the consolidated financial statements.

2.3 Critical accounting policies and estimates

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

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

2.3.1 Impairment of assets other than goodwill and financial instruments

The group assesses all assets (other than goodwill and intangible assets not yet available for use) at each balance sheet date for indications of impairment or the reversal of a previously recognised impairment.

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

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

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 used previously 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.

Refer note 9 for the assumptions and inputs used in assessing assets for impairment or impairment reversals.

2.3.2 Goodwill

The acquisition of subsidiaries is accounted for using the purchase 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 not amortised but is tested for impairment annually or more frequently where there is an indication of impairment based on an allocation to one or more CGUs in which the synergies from the business combinations are expected.

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 allocating goodwill to CGUs.

2.3.3 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the estimated cost of dismantling and removing the assets, where specifically required in terms of legislative requirements or a constructive obligation exists, professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy.

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.

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 were used during the year to depreciate property, plant and equipment to estimated residual values:

Buildings	straight-line 40 years
Plant	straight-line 5 to 20 years
Vehicles	straight-line 5 to 10 years
Furniture and equipment	straight-line 3 to 6 years

2.3.4 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 other comprehensive income, in which case, it is also recognised in other comprehensive income.

(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.

Secondary Tax on Companies (STC) is a South African income tax, that arises from the distribution of dividends and is recognised in profit or loss at the same time as the liability to pay the related dividend.

(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.

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 and external market conditions.

2.3.5 Derivatives and hedge accounting

■ Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges 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.

■ Cash flow hedges

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 other comprehensive income and the ineffective portion is recognised in profit or loss.

The gains or losses, which are recognised in other comprehensive income, 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 on a non-financial asset or non-financial liability, the associated cumulative gain or loss is transferred from other comprehensive income to the underlying asset or liability on the transaction date.

■ Hedge of a net investment in a foreign operation

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

■ 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 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 other comprehensive income 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 note 29 to the group annual financial statements 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.

2.3.6 Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage.

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 estimate 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 10.

■ 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. 12 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 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 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 is 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 depletion cost (fellings).

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

The group has projected growth estimation over a period of 8 to 18 years per rotation. In deriving this estimate, the group established a long-term sample plot network which is representative of the species and sites on which trees are grown and the measured data from these permanent sample plots were used as input into the group's growth estimation. Periodic adjustments are made to existing models for new genetic material.

The group directly manages plantations established on land that is either owned or leased from third parties. Indirectly managed plantations represent plantations established on land held by independent commercial farmers where Sappi provides technical advice on the growing and tendering of trees. The associated costs for managing the plantations are recognised as silviculture costs in cost of sales (see note 4).

2.3.7 Pension plans and other post-retirement benefits

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

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

These actuarial models use an attribution approach that generally spread individual events over the service lives of the employees in the plan. Examples of 'events' are changes in actuarial assumptions such as discount rate, expected long-term rate of return on plan assets, and rate of compensation increases.

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 and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in other

comprehensive income. 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 to the extent that the benefits are already vested, and otherwise are amortised on a straight-line basis over the vesting period of those benefits.

The net liability recognised in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognised past service costs, 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 net total of unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Refer note 27 for the key estimates, assumptions and other information on post-employment benefits applicable as at the end of September 2011.

2.3.8 Provisions

Provisions are recognised when the group has a legal or constructive obligation arising from past events that will probably be settled and can be measured reliably. Where the effect of discounting (time value) is material, provisions are discounted and the discount rate used is a pre-taxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

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

2.3.9 Restructuring provisions

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 are recorded in other operating expenses in profit or loss.

2.3.10 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 is accreted over time and actual costs incurred in future periods could differ materially from estimates. Additionally, future changes to environmental laws and regulations, life-of-operation estimates and discount rates could affect the carrying amount of this liability.

Due to the uncertainty in the timing of the closure of the group's facilities, some of these obligations have an indeterminate settlement date, and the group believes that adequate information does not exist to apply an expected-present-value

technique to estimate any such potential obligations. Accordingly, the group does not record a liability for such remediation until a decision is made that allows reasonable estimation of the timing of such remediation.

2.3.11 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 in the future during the vesting period. These benefits are accounted for in profit or loss as they are received during the vesting period, with a corresponding increase in equity. Share-based payment expenses are adjusted for non-market-related performance conditions.

(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 modified binomial option pricing valuation models. 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 and AC 503 and, the fair value of the services rendered by employees are recorded in profit or loss as they are rendered during the service period.

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

Note 28 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of September 2011.

2.4 Adoption of accounting standards in the current year

The following standards, interpretations and significant amendments or revisions to standards have been adopted by the group in the current year:

Interpretations and amendments to IFRS

The group adopted IFRIC 19, amendments to IFRS 1, IFRS 2, IAS 32 and various improvements to IFRSs in fiscal 2011.

The adoption of these interpretations, amendments and improvements to standards did not have a material impact on the group's reported results or financial position.

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

The group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for our accounting periods beginning on or after October 2011 or later periods. The group is currently evaluating the impact that the adoption of these IFRSs will have on its consolidated financial statements when they are adopted in the respective periods indicated. These new standards and their effective dates for the group's annual accounting periods are listed below:

- IFRS 9 *Financial Instruments* – IFRS 9 introduces new requirements for classifying and measuring financial assets – September 2014;
- IFRS 10 *Consolidated Financial Statements* – IFRS 10 specifies control as a single basis for consolidation for all entities, regardless of the nature of the investee – September 2014;
- IFRS 11 *Joint Arrangements* classifies joint arrangements as either joint operations or joint ventures and requires different treatment for these – September 2014;
- IFRS 13 *Fair Value Measurements* establishes a single source of guidance for fair value measurements under IFRS – September 2014;
- IAS 19 (Revised) *Employee Benefits* – IAS 19 (revised) requires the recognition of changes in the defined benefit obligation and in plan assets when those changes occur eliminating the corridor approach and accelerating the recognition of past service costs. Net interest is calculated by using high quality corporate bond yields – September 2014; and
- IAS 28 *Investments in Associates and Joint Ventures* – amendment to conform changes based on the issuance of IFRS 10 and IFRS 11 – September 2014.

Amendments, revisions or issues of the following standards or interpretations which will only become mandatory for the group's consolidated financial statements on the dates indicated are not expected to have a material impact on the group's results or financial position:

- IFRS 7 *Financial Instruments: Disclosures* – Transfers of financial assets – September 2012;
- IFRS 12 *Disclosure of interest in Subsidiaries, Joint Arrangements and Associates* – September 2014;
- IAS 1 *Presentation of Financial Statements* – Other Comprehensive Income – September 2013;
- IAS 12 *Deferred Tax* – Investment property measured at fair value – September 2013;
- IAS 24 *Related Party Disclosures* – Revised definition of related parties – September 2012;
- Amendments to IFRIC 14 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* – September 2012; and
- Various improvements to IFRSs.

2.6 Comparative figures

Comparative figures are reclassified as necessary to afford a proper and more meaningful comparison of results as set out in the affected notes to the financial statements.

The group adjusted note 25 to the financial statements. This adjustment only impacted the notes to the financial statements and therefore the group has disclosed two comparative periods for the affected note. Due to the fact that no changes were made to the fiscal 2010 and 2009 balance sheets, only one comparative period has been disclosed for the balance sheet.

3. Segment information

The group's reportable segments are Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa. Reportable segments are components of an entity for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The group regards its primary measure of segment performance as operating profit (loss) excluding special items.

Sappi reports and discloses segment information on the basis of information that is reviewed by the chief operating decision maker to make decisions when allocating resources and to assess performance of the group's reportable segments. Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance is focused on a geographical region. The group accounts for intra-group sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

The group operates a trading network called Sappi Trading for the international marketing and distribution of chemical cellulose and market pulp throughout the world and of the group's other products in areas outside its core operating regions of North America, Europe and Southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

US\$ million	Sappi Fine Paper					
	North America			Europe		
	2011	2010	2009	2011	2010	2009
Income statement						
External sales ⁽¹⁾	1,520	1,373	1,295	3,965	3,638	2,895
Operating profit (loss) excluding special items	129	124	(2)	68	76	12
Special items – (gains) losses ⁽²⁾	(7)	(56)	(55)	139	4	79
Segment operating profit (loss)	136	180	53	(71)	72	(67)
EBITDA excluding special items ⁽²⁾	203	201	98	300	310	226
Share of profit of equity investments	–	–	–	–	1	3
Depreciation and amortisation	74	77	100	232	234	214
Impairments (reversals) of assets and investments	(3)	(2)	–	57	(10)	74
Fellings	–	–	–	–	–	–
Plantation fair value adjustment	–	–	–	–	–	–
Restructuring provisions (released)	–	–	–	–	–	–
raised and closure costs	(2)	–	31	89	17	1
Other non-cash items	17	10	17	9	1	11
Balance sheet						
Capital expenditures	58	42	31	111	100	82
Segment assets ⁽²⁾	908	935	981	1,889	2,109	2,340
Total assets	1,072	1,100	1,160	2,617	2,917	3,080
Property, plant and equipment	762	777	810	1,484	1,663	1,928

Sappi Southern Africa			Unallocated and eliminations ⁽³⁾			Group		
2011	2010	2009	2011	2010	2009	2011	2010	2009
1,801	1,561	1,179	–	–	–	7,286	6,572	5,369
199	134	18	8	5	5	404	339	33
136	22	72	50	28	10	318	(2)	106
63	112	(54)	(42)	(23)	(5)	86	341	(73)
309	236	101	9	5	6	821	752	431
2	4	4	4	8	4	6	13	11
110	102	83	1	–	1	417	413	398
68	2	5	45	–	–	167	(10)	79
82	71	69	–	–	–	82	71	69
(65)	(98)	(6)	–	–	–	(65)	(98)	(6)
44	23	2	4	6	–	135	46	34
22	(37)	(66)	(2)	2	(38)	46	(24)	(76)
97	64	71	2	–	–	268	206	184
1,574	1,887	1,891	51	65	38	4,422	4,996	5,250
2,149	2,376	2,262	470	791	795	6,308	7,184	7,297
987	1,220	1,196	2	–	–	3,235	3,660	3,934

3. Segment information continued

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

US\$ million	Sappi Fine Paper					
	North America			Europe		
	2011	2010	2009	2011	2010	2009
Operating profit (loss) excluding special items	129	124	(2)	68	76	12
Special items – (gains) losses ⁽²⁾	(7)	(56)	(55)	139	4	79
Segment operating profit (loss)	136	180	53	(71)	72	(67)

Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to profit (loss) before taxation:

US\$ million	Sappi Fine Paper					
	North America			Europe		
	2011	2010	2009	2011	2010	2009
EBITDA excluding special items ⁽²⁾	203	201	98	300	310	226
Depreciation and amortisation	74	77	100	232	234	214
Operating profit (loss) excluding special items	129	124	(2)	68	76	12
Special items – (gains) losses ⁽²⁾	(7)	(56)	(55)	139	4	79
Segment operating profit (loss)	136	180	53	(71)	72	(67)
Net finance costs						
(Loss) profit before taxation						

Reconciliation of segment assets to total assets:

US\$ million	Sappi Fine Paper					
	North America			Europe		
	2011	2010	2009	2011	2010	2009
Segment assets ⁽²⁾	908	935	981	1,889	2,109	2,340
Deferred tax assets	–	–	–	45	53	56
Cash and cash equivalents	5	7	14	8	8	16
Derivative financial instruments	–	–	–	–	–	–
Trade and other payables	152	155	151	592	722	633
Provisions	–	1	14	73	15	19
Taxation payable	7	2	–	10	10	16
Total assets	1,072	1,100	1,160	2,617	2,917	3,080

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

(2) Refer to the glossary on page 203 for the definition of the term.

(3) Includes the group's treasury operations, the self-insurance captive and the investment in the Jiangxi Chenming joint venture.

Sappi Southern Africa			Unallocated and eliminations ⁽³⁾			Group		
2011	2010	2009	2011	2010	2009	2011	2010	2009
199	134	18	8	5	5	404	339	33
136	22	72	50	28	10	318	(2)	106
63	112	(54)	(42)	(23)	(5)	86	341	(73)

Sappi Southern Africa			Unallocated and eliminations ⁽³⁾			Group		
2011	2010	2009	2011	2010	2009	2011	2010	2009
309	236	101	9	5	6	821	752	431
110	102	83	1	–	1	417	413	398
199	134	18	8	5	5	404	339	33
136	22	72	50	28	10	318	(2)	106
63	112	(54)	(42)	(23)	(5)	86	341	(73)
						307	255	145
						(221)	86	(218)

Sappi Southern Africa			Unallocated and eliminations ⁽³⁾			Group		
2011	2010	2009	2011	2010	2009	2011	2010	2009
1,574	1,887	1,891	51	65	38	4,422	4,996	5,250
–	–	–	–	–	–	45	53	56
279	129	86	347	648	654	639	792	770
–	1	–	10	2	14	10	3	14
264	339	275	57	55	57	1,065	1,271	1,116
30	14	2	4	3	–	107	33	35
2	6	8	1	18	32	20	36	56
2,149	2,376	2,262	470	791	795	6,308	7,184	7,297

4.

US\$ million	2011		2010		2009	
	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses
Operating profit						
Operating profit has been arrived at after charging (crediting):						
Raw materials, energy and other direct input costs ⁽¹⁾	3,962	–	3,461	–	2,842	–
Wood (includes growth and felling adjustments ⁽²⁾)	773	–	624	–	570	–
Energy	670	–	611	–	564	–
Chemicals	1,117	–	1,025	–	839	–
Pulp	987	–	907	–	525	–
Other variable costs	415	–	294	–	344	–
Plantation price fair value adjustment	16	–	(31)	–	67	–
Employment costs	1,027	211	968	208	882	164
Depreciation	392	22	388	23	376	20
Delivery charges	597	–	547	–	454	–
Maintenance	300	–	275	–	250	–
Other overheads ⁽¹⁾	160	–	178	–	158	–
Marketing and selling expenses	–	112	–	112	–	102
Administrative and general expenses	–	109	–	105	–	99
	6,454	454	5,786	448	5,029	385

(1) To facilitate a more meaningful comparison of costs, for the years ended 2009 and 2010, the growth fair value adjustment on plantations and costs included in other overheads has been reallocated to wood and other categories within raw materials, energy and other direct input costs respectively.

US\$ million	2011	2010	2009
(2) Changes in plantation volumes			
Fellings	82	71	69
Growth	(81)	(67)	(73)

US\$ million

2011

2010

2009

4.

Operating profit continued

Silviculture costs (included within cost of sales)	79	67	50
Leasing charges for premises	14	14	16
Leasing charges for plant and equipment	22	48	15
Remuneration paid other than to employees of the company in respect of:	35	31	27
– technical services	16	12	11
– administration services	19	19	16
Auditors' remuneration:	8	8	8
– audit and related services	6	7	6
– tax planning and tax advice	1	1	1
– acquisition and refinancing related services ⁽¹⁾	1	–	1
Government grants towards environmental expenditure	–	–	(2)
Research and development costs	26	25	31
Amortisation	3	3	2
Cost on derecognition of loans and receivables ⁽²⁾	11	14	16

4.1

Employment costs

Wages and salaries	1,112	1,054	936
Defined contribution plan expense (refer note 27)	46	42	33
Pension costs (refer note 27)	14	15	21
Post-employment benefits other than pension expense (refer note 27)	14	14	10
Share-based payment expense	15	13	9
Other	37	38	37
	1,238	1,176	1,046

4.2

Other operating expenses (income)

Included in other operating expenses are the following:			
Impairments (reversals) of assets and investments	167	(10)	79
Profit on sale and write-off of property, plant and equipment	(1)	(5)	(1)
Restructuring provisions raised and closure costs	135	46	34
Alternative fuel mixture credits	–	(51)	(87)
Black Economic Empowerment (BEE) charge:	5	23	–
– unwinding of the 2006 Black Economic Empowerment transaction	–	19	–
– IFRS 2 costs on management and employee share option plans	5	4	–

(1) These costs have been capitalised.

(2) The cost on derecognition of trade receivables relates to the derecognition of trade receivables related to the securitisation programme in South Africa and to the sale of letters of credit in Hong Kong.

5.

US\$ million	2011	2010	2009
Net finance costs			
Gross interest and other finance costs on liabilities carried at amortised cost	348	309	198
– Interest on bank overdrafts	2	1	6
– Interest on redeemable bonds and other loans	299	303	190
– Premium on early redemption of redeemable bonds	31	–	–
– Costs on early settlement of loans	12	–	–
– Interest cost on finance lease obligations	4	5	2
Finance revenue received on assets carried at amortised cost	(12)	(16)	(61)
– Interest on bank accounts	(9)	(6)	(16)
– Discount on early redemption of redeemable bonds and other loans	–	(5)	(41)
– Interest revenue on other loans and investments	(3)	(5)	(4)
Net foreign exchange gains	(13)	(17)	(17)
Net fair value (gain) loss on financial instruments	(16)	(21)	25
– Realised (gain) loss on termination of interest rate swaps	(1)	–	18
– Gain on non-hedged swaps and loans	–	–	(2)
– Gain on amortisation of de-designated hedges	(18)	(21)	–
– Hedge ineffectiveness			
• gain on hedging instrument (derivative)	(19)	–	(41)
• loss on hedged item	22	–	50
	307	255	145

6.

US\$ million	2011	2010	2009
Taxation charge (benefit)			
Current taxation:			
– Current year	10	10	6
– Prior year overprovision	(2)	(20)	(7)
– Other company taxes ⁽¹⁾	6	4	4
Deferred taxation (refer note 11):			
– Current year	–	26	(44)
– Prior year underprovision	(3)	–	3
– Attributable to tax rate changes	–	–	(3)
	11	20	(41)

(1) Includes Secondary Tax on Companies (STC)⁽²⁾ in 2009 as well as state taxes.

(2) The imposition of Secondary Tax on Companies (STC) effectively means that a dual corporate taxation system exists in South Africa comprising of normal income taxation and STC. Liability for STC is determined independently from normal income taxation and is paid by South African companies at the flat rate of 10% in respect of the amount of dividends declared less all dividends which accrued to them (but subject to certain exclusions) during its relevant 'dividend cycle'. 'Dividend cycle' means the period commencing on the day following the date of accrual to a company's shareholders of the last dividend declared by that company and ending on the date on which the dividend in question accrues to the shareholder concerned. An excess of dividends accruing to a company over dividends paid may be carried forward to subsequent dividend cycles as an STC credit.

In addition to income taxation charges (benefits) to profit and loss, a deferred taxation charge of US\$3 million (2010: US\$11 million relief; 2009: US\$32 million relief) has been recognised directly in other comprehensive income (refer note 11).

6.

US\$ million	2011	2010	2009
Taxation charge (benefit) continued			
Reconciliation of the tax rate			
(Loss) profit before taxation	(221)	86	(218)
Profit-making regions	231	307	133
Loss-making regions	(452)	(221)	(351)
Taxation at the average statutory tax rate	(49)	35	(60)
Profit-making regions at 30% (2010: 30%; 2009: 28%)	69	92	38
Loss-making regions at 26% (2010: 26%; 2009: 28%)	(118)	(57)	(98)
Net exempt income and non-tax deductible expenditure	(10)	(10)	(32)
Effect of tax rate changes ⁽¹⁾	–	–	(3)
Deferred tax asset not recognised	110	65	72
Utilisation of previously unrecognised tax assets	(41)	(54)	(22)
Secondary Tax on Companies (STC)	–	–	4
Prior year adjustments	(5)	(20)	(4)
Other taxes	6	4	4
Taxation charge (benefit)	11	20	(41)
Effective tax rate for the year	(5%)	23%	19%

(1) Our effective tax rates for 2009 benefited from a reduced tax rate in Germany where the tax rate was reduced to 28.6% in that year.

7. (Loss) earnings per share and headline (loss) earnings per share

Basic (loss) earnings per share (EPS)

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

	2011			2010			2009 ⁽¹⁾		
	Loss US\$ million	Shares millions	Loss per share US cents	Profit US\$ million	Shares millions	Earnings per share US cents	Loss US\$ million	Shares millions	Loss per share US cents
Basic EPS calculation	(232)	519.9	(45)	66	516.7	13	(177)	482.6	(37)
Share options and performance shares under Sappi Limited Share Trust	–	–	–	–	3.9	–	–	–	–
Share options granted under the Broad-Based Black Economic Empowerment transaction	–	–	–	–	0.2	–	–	–	–
Diluted EPS calculation	(232)	519.9	(45)	66	520.8	13	(177)	482.6	(37)

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR33.66 (2010: ZAR31.86; 2009: ZAR30.12) and exclude the effect of certain share options granted under the Sappi Share Incentive Scheme as well as share options granted under the Broad-based Black Economic Empowerment transaction as they would be anti-dilutive.

There are 12.0 million (2010: 10.6 million; 2009: 15.6 million) share options that could potentially dilute EPS in the future that are not included in the diluted weighted average number of shares calculation as they are anti-dilutive.

Headline (loss) earnings per share⁽²⁾

Headline (loss) earnings per share is based on the group's headline (loss) earnings divided by the weighted average number of shares in issue during the year. This is a JSE Limited Listings required measure.

Reconciliation between attributable (loss) earnings to ordinary shareholders and headline (loss) earnings:

	2011			2010			2009		
	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net
Attributable (loss) earnings to ordinary shareholders	(221)	11	(232)	86	20	66	(218)	(41)	(177)
Profit on sale and write-off of property, plant and equipment	(1)	–	(1)	(4)	–	(4)	(1)	–	(1)
Impairments (reversals) of assets and investments	167	17	150	(10)	–	(10)	79	–	79
Headline (loss) earnings	(55)	28	(83)	72	20	52	(140)	(41)	(99)
Basic weighted average number of ordinary shares in issue (millions)			519.9			516.7			482.6
Headline (loss) earnings per share (US cents)			(16)			10			(21)
Diluted weighted average number of shares (millions)			519.9			520.8			482.6
Diluted headline (loss) earnings per share (US cents)			(16)			10			(21)

(1) In the 2009 financial year, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR1.00 each to qualifying Sappi shareholders.

(2) Headline earnings – as defined in circular 3/2009 issued by the South African Institute of Chartered Accountants, separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings.

8.

US\$ million	2011	2010	2009
Dividends			
Dividend paid (2009: 16 US cents per share), net of dividends attributable to treasury shares	–	–	(37)

The board decided not to declare a dividend in respect of the 2011 and 2010 financial years.

9.

US\$ million	2011	2010
Property, plant and equipment		
Land and buildings ⁽¹⁾		
At cost	1,542	1,628
Accumulated depreciation and impairments	840	875
	702	753
Plant and equipment ⁽²⁾		
At cost	7,408	7,742
Accumulated depreciation and impairments	4,932	4,992
	2,476	2,750
Capitalised leased assets ⁽³⁾		
At cost	581	741
Accumulated depreciation and impairments	524	584
	57	157
Aggregate cost	9,531	10,111
Aggregate accumulated depreciation and impairments	6,296	6,451
Aggregate book value	3,235	3,660

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

US\$ million	Land and buildings	Plant and equipment	Capitalised leased assets	Total
Net book value at September 2009	799	2,949	186	3,934
Additions	23	183	–	206
Acquisition	8	5	–	13
Disposals	(13)	(3)	–	(16)
Transfers	–	5	(5)	–
Depreciation	(41)	(350)	(20)	(411)
Impairment reversals	–	20	–	20
Translation differences	(23)	(59)	(4)	(86)
Net book value at September 2010	753	2,750	157	3,660
Additions	26	241	1	268
Disposals	–	(5)	–	(5)
Transfers	–	88	(88)	–
Depreciation	(46)	(356)	(12)	(414)
Impairments ⁽⁴⁾	–	(122)	–	(122)
Translation differences	(31)	(120)	(1)	(152)
Net book value at September 2011	702	2,476	57	3,235

(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) Capitalised leased assets consist primarily of plant and equipment.

(4) Pursuant to the group's strategy review, the group implemented a number of initiatives during the year which resulted in significant asset impairment charges being recorded during fiscal 2011.

Refer note 24 for details of encumbrances.

9. **Property, plant and equipment** [continued](#)

[Asset impairments and impairment reversals](#)

[September 2011](#)

Sappi Fine Paper Europe

Biberist Mill. In March 2011, Sappi announced the potential closure of its Biberist Mill in Switzerland. The mill has since ceased production and the mill order book has been transferred to the other Sappi mills in Europe. An impairment charge of US\$57 million has been recorded against plant and equipment for the year. The remaining fixed assets, comprising land and buildings, are recorded at a carrying amount of US\$12 million. The mill was a producer of woodfree coated paper.

Sappi Southern Africa

Usutu Mill. At the end of January 2010, Usutu Mill ceased operations and the pulp mill was permanently closed. The mill's property, plant and equipment had already been substantially impaired in previous years and the final balance of the assets were impaired by a further US\$9 million in the current fiscal year.

Sappi continues its forestry operations in Swaziland, and is investigating the potential establishment of various timber processing operations at the Usutu Mill site.

Adamas Mill. In May 2011, we announced the potential closure of Adamas Mill. The more profitable grades produced at Adamas Mill were transferred to Enstra Mill and Stanger Mill. The property, plant and equipment other than land and buildings have been impaired by US\$10 million. The carrying amount of land and buildings is US\$3 million, which is US\$1 million below the valuation by the local municipality.

Sappi Paper and Paper Packaging Operations. Our latest review of the paper and paper packaging operations, completed in the fourth fiscal quarter of 2011, indicated that the production of certain paper and paper packaging products would need to be curtailed. The curtailment of the production of these products resulted in an impairment charge of US\$49 million being incurred for the year.

[September 2010](#)

Sappi Fine Paper Europe

European mechanical coated cash generating unit: Kangas Mill. On 12 January 2010, Sappi ceased operations at Kangas Mill which had formed part of the mechanical coated cash-generating unit. Following the closure of the mill, the recoverable amount of the remaining assets in the coated mechanical cash-generating unit were reassessed resulting in an impairment reversal of US\$18 million for the 2010 fiscal year.

Sappi Southern Africa

Usutu Mill – Closure. At the end of January 2010, Usutu Mill ceased operations. The mill's property, plant and equipment had already been substantially impaired in previous years and was further impaired by US\$2 million during the 2010 fiscal year.

10.

US\$ million	2011	2010
Plantations		
Fair value of plantations at beginning of year	687	611
Additions	–	9
Gains arising from growth	81	67
(Loss) gain arising from fair value price changes	(16)	31
Harvesting – agriculture produce (fellings)	(82)	(71)
Translation difference	(90)	40
Fair value of plantations at end of year	580	687

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 in such a way so as to ensure that the optimum fibre balance is supplied to its paper and pulping operations in Southern Africa.

As Sappi manages its plantations on a rotational basis, the respective increases by means of growth are negated by depletions over the rotation period for the group's own production or sales. Estimated volume changes on a rotational basis amount to approximately 5 million tons per annum.

We own plantations on land that we own, as well as on land that we lease. We disclose both of these as directly managed plantations. With regard to indirectly managed plantations, Sappi 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 and the areas planted ranging in duration from one to more than 20 years. In certain circumstances, we provide loans to farmers that are disclosed as accounts receivable on the group balance sheets (these loans are considered, individually and in aggregate, immaterial to the group). If Sappi 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 and 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 is certified to ISO 9001, ISO 14001, OHSAS 18001 and FSC standards.

Changes in estimate 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 as tabled below:

US\$ million	2011	2010	2009
Market price changes			
1% increase in market prices	4	2	12
1% decrease in market prices	(4)	(2)	(12)
Discount rate (for immature timber)			
1% increase in rate	(4)	(5)	(3)
1% decrease in rate	4	5	3
Volume assumption			
1% increase in estimate of volume	6	9	6
1% decrease in estimate of volume	(6)	(9)	(6)
Costs to sell			
1% increase in costs to sell	(3)	(1)	(9)
1% decrease in costs to sell	3	1	9
Growth assumptions			
1% increase in rate of growth	1	2	1
1% decrease in rate of growth	(1)	(2)	(1)

11.

US\$ million	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Deferred tax				
Other liabilities, accruals and prepayments	(62)	24	(100)	8
Inventory	3	3	5	(3)
USA alternative minimum tax credit carry forward	16	–	14	–
Tax loss carry forward	279	38	313	63
Property, plant and equipment	(98)	(276)	(113)	(302)
Plantations	(22)	(136)	(26)	(160)
Other non-current assets	10	–	27	–
Other non-current liabilities	(81)	11	(67)	8
	45	(336)	53	(386)

Negative asset and liability positions

These balances reflect the impact of tax assets and liabilities arising in different tax jurisdictions, which cannot be netted against tax assets and liabilities arising in other tax jurisdictions.

Deferred tax assets recognised on the balance sheet

The recognised deferred tax assets relate mostly to available unused tax losses. It is expected that there will be sufficient future taxable profits against which these losses can be recovered. In the estimation of future taxable profits, future product pricing and production capacity utilisation are taken into account.

Unrecognised deferred tax assets

Deferred tax assets arising from unused tax losses are not recognised for carry forward when it cannot be demonstrated that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

US\$ million	2011	2010
Unrecognised deferred tax assets relate to the following:		
Other non-current liabilities	91	74
Tax losses	568	630
Property, plant and equipment	22	–
	681	704
Attributable to the following tax jurisdictions:		
Belgium	86	63
The Netherlands	17	8
Finland	50	47
Switzerland	30	–
United Kingdom	–	64
United States of America	158	198
Swaziland	34	32
South Africa	7	3
Austria	299	289
	681	704
Expiry between two and five years	29	2
Expiry after five years	174	205
Indefinite life	478	497
	681	704

US\$ million

2011

2010

11.

Deferred tax continued

The following table shows the movement in the unrecognised deferred tax assets for the year:

Balance at beginning of year	704	700
Unrecognised deferred tax assets originating during the current year	60	86
Utilisation of previously unrecognised tax assets	(41)	(54)
Prior year adjustments	(24)	–
Rate adjustments	(7)	3
Movement in foreign exchange rates	(11)	(31)
Balance at end of year	681	704
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	53	56
Deferred tax liabilities	(386)	(355)
	(333)	(299)
Deferred tax benefit (charge) for the year (refer note 6)	3	(26)
Other liabilities, accruals and prepayments	61	5
Inventory	5	–
USA alternative minimum tax credit	2	2
Tax loss carry forward	(57)	(14)
Property, plant and equipment	14	15
Plantations	3	(9)
Other non-current assets	(15)	–
Other non-current liabilities	(10)	(25)
Amounts recorded directly in other comprehensive income	(3)	11
Translation differences	42	(19)
Deferred tax balances at end of year	(291)	(333)
Deferred tax assets	45	53
Deferred tax liabilities	(336)	(386)
Secondary Tax on Companies (STC)		
Current and deferred tax are measured at the tax rate applicable to undistributed income and therefore only take STC into account to the extent that dividends have been received or declared.		
Undistributed earnings that would be subject to STC	196	484
Tax effect if distributed	18	44

12. **Goodwill and intangible assets**

US\$ million	2011					2010				
	Goodwill	Licence fees	Patents	Brands	Total	Goodwill	Licence fees	Patents	Brands	Total
Net carrying amount at beginning of year	4	3	–	20	27	4	3	–	25	32
Amortisation	–	–	–	(3)	(3)	–	–	–	(2)	(2)
Translation difference	–	–	–	1	1	–	–	–	(3)	(3)
Net carrying amount	4	3	–	18	25	4	3	–	20	27
Cost (gross carrying amount)	4	3	20	24	51	4	3	20	24	51
Accumulated amortisation and impairments	–	–	(20)	(6)	(26)	–	–	(20)	(4)	(24)
Net carrying amount	4	3	–	18	25	4	3	–	20	27

US\$ million	2011	2010
Joint ventures and associates		
Cost of equity investments	96	96
Share of post-acquisition profit, net of distributions received	1	8
Accumulated impairments	(45)	–
Foreign currency translation effect	24	21
	76	125
Summarised financial information in respect of the group's equity investments is set out below:		
Total assets	679	640
Total liabilities	327	298
Net assets	352	342
Group's share of equity investments' net assets after accumulated impairments	76	125

US\$ million	2011	2010	2009
Sales	942	691	756
Profit for the period	17	35	28
Group's share of equity investments' profit for the period	6	13	11

13. Joint ventures and associates continued

Jiangxi Chenming

Sappi owns 34% of Jiangxi Chenming Paper Company Limited (Jiangxi Chenming) under a joint venture arrangement. Jiangxi Chenming is established in the People's Republic of China and is principally engaged in the manufacturing and sales of paper and paper products. The financial statements of Jiangxi Chenming are to 31 December of each year which was the reporting date when the company was established. The most recent audited financials were to 31 December 2010.

Umkomaas Lignin (Pty) Limited

A 50% joint venture agreement with Borregaard Industries Limited for the construction and operation of a lignin plant at Umkomaas and the development, production and sale of products based on lignosulphates in order to build a sustainable lignin business. The financial statements of Umkomaas Lignin (Pty) Limited are to 31 December of each year which is the year-end of Borregaard. The most recent audited financials were to 31 December 2010.

Sapin SA

A 50% joint venture with Sapin SA located in Belgium for the buying and selling of wood and wood chips to Sappi and other paper manufacturers. The financial statements of Sapin SA are to 31 December of each year which is the year-end of Sapin SA. The most recent audited financials were to 31 December 2010.

Papierholz Austria GmbH

A 43% joint venture agreement for the buying and selling of wood and wood chips to Sappi and other paper and pulp manufacturers. The financial statements of Papierholz Austria GmbH are to 31 December of each year which is the year-end of Papierholz Austria GmbH. The most recent audited financials were to 31 December 2010.

Timber IV

A special-purpose entity (SPE) into which Sappi contributed promissory notes (relating to certain Timberlands, equipment and machinery sold by Sappi to a third party timber company) which were pledged as collateral for the SPE to issue bonds. The SPE is not consolidated in our financial statements because we have taken the position that it is controlled by an unrelated investor which has sufficient equity capital at risk. The group's investment in the SPE is nil as of September 2011 (2010: US\$6 million) as the underlying promissory notes and bonds have been repaid. The financial statements of Timber IV are to 30 September of each year. The results are unaudited.

Energie Biberist AG

A 10% investment in Energie Biberist AG (EBAG) in which Sappi exercises significant influence by virtue of the fact that Sappi has the power to appoint one of the five directors. EBAG is an energy company that supplied Biberist Mill with steam and 100% of its electricity requirements. On the cessation of production at Biberist Mill (refer note 9), the investment in the associate was impaired by the group resulting in a charge to profit or loss in other operating expenses for the period. The financial statements of EBAG are to 31 December each year which is the year-end of EBAG. The most recent audited financials of EBAG were to 31 December 2010.

Impairments of joint ventures and associates

At the end of fiscal 2011, there were indicators of impairment of certain of our equity accounted investments due to, amongst other things, a decline in the operating environment. The group therefore applied the requirements of IAS 39 to determine whether it was necessary to recognise an impairment loss. The carrying amounts of these investments, including goodwill, were tested for impairment in accordance with IAS 36 (as a single asset) by comparing the recoverable amounts with the carrying amounts. This resulted in an impairment charge of US\$45 million being recorded in other operating expenses in profit or loss for the period. As there was no loss of significant influence or disposal of the group's equity accounted investments, the remaining cumulative exchange differences remained in other comprehensive income and has not been reclassified to profit or loss. The recoverable amount was calculated on a value in use basis, using a pre-tax real discount rate of 8.50%.

Where the year-ends of joint ventures and associates are different to Sappi's, the unaudited management accounts of the joint ventures and associates are used for the periods to Sappi's year end.

14.

US\$ million	2011	2010
Other non-current assets		
Loans to the Sappi Limited Share Incentive Trust participants	–	1
Financial assets ⁽¹⁾	22	23
Post-employment benefits – pension asset (refer note 27)	43	37
Advances to tree growers	7	9
Other loans	11	12
	83	82

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

15.

US\$ million	2011	2010
Inventories		
Raw materials	160	185
Work in progress	79	86
Finished goods	345	376
Consumable stores and spares	166	189
	750	836

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US\$14 million (2010: US\$17 million and 2009: US\$10 million).

The cost of inventories recognised as an expense and included in cost of sales amounted to US\$5,831 million (2010: US\$5,197 million and 2009: US\$4,467 million).

Refer note 24 for inventory pledged as security.

16.

US\$ million	2011	2010
Trade and other receivables		
Trade accounts receivable, gross	715	754
Allowance for credit losses	(15)	(14)
Trade accounts receivable, net	700	740
Prepayments and other receivables	131	148
	831	888

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 these trade receivables is such that management believes no impairment provision is necessary, except in situations where they are part of individually impaired trade receivables.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Prepayments and other receivables primarily represent prepaid insurance and other sundry receivables.

Trade receivables (including securitised trade receivables) represent 11% (2010: 15%) of turnover.

16.1

US\$ million	2011	2010
Reconciliation of the allowance for credit losses		
Balance at beginning of year	14	15
Raised during the year	10	9
Released during the year	(9)	(9)
Foreign exchange currency translation effect	–	(1)
Balance at end of year	15	14

An allowance has been made for estimated irrecoverable amounts from the sale of goods of US\$15 million (2010: US\$14 million). This allowance has been determined by reference to specific customer delinquencies.

16.2 Analysis of amounts past due September 2011

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

	Not impaired	Impaired	Total
Less than 7 days overdue	30	–	30
Between 7 and 30 days overdue	12	–	12
Between 30 and 60 days overdue	4	–	4
More than 60 days overdue	2	15	17
	48	15	63

September 2010

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

	Not impaired	Impaired	Total
Less than 7 days overdue	18	–	18
Between 7 and 30 days overdue	18	–	18
Between 30 and 60 days overdue	3	1	4
More than 60 days overdue	15	13	28
	54	14	68

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

The group has a provision of US\$15 million (2010: US\$14 million) against trade receivables that are past due.

The group holds no collateral (2010: US\$17 million) against these trade receivables that are past due.

The group has granted facilities to customers to buy on credit for the following amounts:

US\$ million	2011	2010
Less than US\$0.5 million	299	331
Less than US\$1 million but equal to or greater than US\$0.5 million	277	276
Less than US\$3 million but equal to or greater than US\$1 million	597	557
Less than US\$5 million but equal to or greater than US\$3 million	213	225
Equal to or greater than US\$5 million	1,031	965
	2,417	2,354

16.3 Trade receivables securitisation

The group operates two trade receivable securitisation programmes due to the cost effectiveness of such structures.

Our Sappi Southern African securitisation programme is off-balance sheet and is described in detail in note 16.4.

In fiscal 2011, the group replaced its existing on-balance sheet securitisation programmes with a single three-year committed trade receivables purchase programme with UniCredit Bank AG with a programme limit of €360 million. Trade receivables sold in terms of this programme are disclosed as on-balance sheet together with a corresponding liability. At fiscal year-end, trade receivables with a value of US\$491 million have been pledged as collateral for amounts received as funding under the programme of US\$368 million. The group is restricted from selling or replying the trade receivables that have been pledged as collateral for this liability. For more detail on this programme, refer note 20.

Trade receivables pledged as collateral in fiscal 2010, under the previous on-balance sheet securitisation facilities, amounted to US\$486 million while the value of the associated liabilities amounted to US\$447 million.

16.4 Off-balance sheet structures**Letters of credit discounting**

To improve the group working capital, the group sells certain Letters of Credit to Royal Bank of Scotland (RBS), Hong Kong and Union Bancaire Privée (UBP), Switzerland at each fiscal month-end on a non-recourse basis.

‘Scheck-Wechsel’

The Scheck-Wechsel is a financial guarantee supplied by Sappi to the bank of certain customers (trade receivables) who wish to obtain a loan to finance early payment of specified trade receivables (thereby benefiting from an early settlement discount). By signing the Scheck-Wechsel, Sappi provides a financial guarantee to the bank of the customer.

This financial guarantee contract is initially recognised at fair value. At inception, the risk for Sappi having to reimburse the bank is nil because there is no evidence that the customer will not reimburse its loan to the bank. There is also no guarantee fee due by the bank and the Scheck-Wechsel is a short-term instrument (maximum 90 days). Therefore, the fair value is zero at inception. Subsequently, the financial guarantee contract is measured at the higher of:

- (i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- (ii) the amount initially recognised less any cumulative amortisation.

As no event of default has occurred, no provision has been set up and the fair value at year-end remains at zero. However, according to IAS 37, a contingent liability of US\$32 million (2010: US\$29 million) has been disclosed in this respect.

Sappi Southern Africa securitisation facility

Sappi sells the majority of its ZAR receivables to Rand Merchant Bank Limited, which issues commercial paper to finance the purchase of the receivables. Sappi does not guarantee the recoverability of any amounts, but shares proportionately with Rand Merchant Bank Limited the credit risk of each underlying receivable, after all recoveries, including insurance recoveries, with Sappi bearing 15% of such risk (and Rand Merchant Bank Limited the remainder). 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 adjusted dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is JIBAR (Johannesburg Inter-bank Agreed Rate) plus a spread. This structure is currently 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, amongst 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 2011 amounted to US\$121 million (2010: US\$215 million). Details of the securitisation programme at the end of fiscal 2011 and 2010 are disclosed in the table below:

Bank	Currency	Value	Facility	Discount charges
2011				
Rand Merchant Bank Limited	ZAR	ZAR979 million	Unlimited ⁽¹⁾	Linked to 3-month JIBAR
2010				
Rand Merchant Bank Limited	ZAR	ZAR1,510 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.

Details of the on-balance sheet securitisation facilities are described in note 20.

16.5 Concentration of credit risk

A significant portion of the group's sales and accounts receivable are from major groups of customers. None of the group's major customers represented more than 10% of our sales during the years ended September 2011 and September 2010. Where appropriate, credit insurance has been taken out over the group's trade receivables.

None of the group's other receivable financial instruments represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers worldwide.

The carrying amount of US\$831 million (2010: US\$888 million) represents the group's maximum credit risk exposure from trade and other receivables.

The group has the following amounts due from single customers:

	2011			2010		
	Number of customers	US\$ million	Percentage	Number of customers	US\$ million	Percentage
Greater than US\$10 million	9	170	24%	7	131	18%
Between US\$5 million and US\$10 million	8	51	7%	13	81	11%
Less than US\$5 million	2,423	479	69%	2,176	528	71%
	2,440	700	100%	2,196	740	100%

None of the trade receivables, with balances of equal to or greater than US\$5 million as at year-end have breached their contractual maturity terms. No impairment charges have been recognised in respect of customers who owe the group more than US\$5 million.

Refer note 29 for further details on credit risk.

	2011		2010	
	Number of shares	US\$ million	Number of shares	US\$ million
Ordinary share capital and share premium				
Authorised share capital:				
Ordinary shares of ZAR1 each	725,000,000		725,000,000	
'A' ordinary shares of ZAR1 each ⁽¹⁾	19,961,476		19,961,476	
Issued share capital:				
Ordinary shares of ZAR1 each	541,446,223	67	541,446,223	77
'A' ordinary shares of ZAR1 each ⁽¹⁾	19,961,476	2	19,961,476	3
Treasury shares ⁽²⁾	(40,942,907)	(5)	(41,896,595)	(6)
Share premium		1 361		1,564
	520,464,792	1 425	519,511,104	1,638

(1) The 'A' ordinary shares are unlisted but rank *pari passu* with the ordinary shares in all respects except for dividend entitlements where the 'A' ordinary shares are entitled to 50% of the dividends payable on the ordinary shares. The 'A' ordinary shares have the same voting rights as ordinary shares but are not listed on the JSE Limited. Sappi will have the option to repurchase a number of 'A' ordinary shares in August 2019. The number of any 'A' ordinary shares that Sappi elects to buy back on the repurchase date will depend on the price performance of the ordinary shares over the period of the transaction with the remaining 'A' ordinary shares being distributed to the beneficiaries and converted into ordinary shares. The 'A' ordinary shares' rights, terms, conditions of conversion and privileges are contained in Article 38 of Sappi's Articles, details of which are available for inspection at the company's registered offices.

(2) Includes 20,981,431 (2010: 21,935,119) ordinary shares as well as 19,961,476 (2010: 19,961,476) 'A' ordinary shares that are held by group entities, including The Sappi Limited Share Incentive Trust (the Scheme) and the trusts set up to house the Broad-based Black Economic Empowerment transaction. These shares may be utilised to meet the requirements of the trusts.

17.

Ordinary share capital and share premium [continued](#)

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

Ordinary treasury shares:

Ordinary treasury shares at beginning of year (including Scheme shares)

Treasury shares issued to participants of the Scheme

– Share options (per note 28)

– Share plan options (per note 28)

– Scheme shares forfeited, released and other

Ordinary treasury shares at end of year

'A' ordinary treasury shares:

'A' ordinary shares issued to the Broad-based Black Economic Empowerment trusts

US\$ million	Number of shares	
	2011	2010
	21,935,119	21,384,559
	(953,688)	550,560
	(32,312)	–
	(1,087,556)	–
	166,180	550,560
	20,981,431	21,935,119
	19,961,476	19,961,476
	40,942,907	41,896,595

Included in the issued and unissued share capital of 725,000,000, is a total of 42,700,870 shares (adjusted for the rights issue in fiscal 2009) which may be used to meet the requirements of the Scheme and/or The Sappi Limited Performance Share Incentive Trust (the Plan). In terms of the rules of the Scheme and the Plan, the maximum number of shares which may be acquired in aggregate by the Scheme and/or the Plan and allocated to participants of the Scheme and/or the Plan from time to time is 42,700,870 shares, subject to adjustment in case of any increase or reduction of Sappi's issued share capital on any conversion, redemption, consolidation, sub-division and/or any rights or capitalisation issue of shares. Sappi is obliged to reserve and keep available at all times out of its authorised but unissued share capital such number of shares (together with any treasury shares held by Sappi subsidiaries which may be used for the purposes of the Scheme and/or the Plan) as shall then be required in terms of the Scheme and/or the Plan. Authority to use treasury shares for the purposes of the Scheme and/or the Plan was granted by shareholders at the annual general meeting held on 7 March 2005.

Since March 1994, 3,002,894 (2010: 2,970,582) shares have been allocated to the Scheme participants and paid for, and 13,617,202 (2010: 14,799,182) shares have been allocated to the Scheme participants and not yet paid for. In terms of the Plan, 7,380,900 (2010: 9,312,840) shares have been allocated and remain unpaid for, and 1,742,677 (2010: 176,491) shares have been allocated and paid for by the Plan participants.

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 and obligations due under finance leases disclosed under note 20; and
- cash and cash equivalents.

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

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

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

During fiscal 2011 and 2010, we were in compliance with the financial covenants relating to the loans payable.

The group's strategy with regard to capital risk management remains unchanged from 2010.

18.

US\$ million	2011	2010	2009
Other comprehensive (loss) income			
Exchange differences on translation of foreign operations	(151)	52	14
Gross amount	(151)	52	14
Tax	–	–	–
Actuarial losses on post-employment benefit funds	(60)	(60)	(197)
Gross amount (refer note 27)	(59)	(71)	(229)
Tax	(1)	11	32
Fair value adjustment on available-for-sale financial instruments	2	2	–
Gross amount	2	2	–
Tax	–	–	–
Hedging reserves	4	14	(14)
Gross amount	6	14	(14)
Tax	(2)	–	–
Other comprehensive (loss) income recorded directly in equity	(205)	8	(197)
(Loss) profit for the year	(232)	66	(177)
Total comprehensive (loss) income for the year	(437)	74	(374)

19.

US\$ million	2011	2010
Non-distributable reserves		
Legal reserves in subsidiaries	77	78
Share-based payment reserve	70	69
Other	16	14
Capital reduction ⁽¹⁾	1	1
Capitalisation of distributable reserves ⁽²⁾	11	11
Available-for-sale financial assets	4	2
	163	161

	2011				2010			
	Legal reserves ⁽²⁾	Share-based payment reserve	Other	Total	Legal reserves ⁽²⁾	Share-based payment reserve	Other	Total
Opening balance	78	69	14	161	82	48	13	143
Transfer from retained earnings	–	–	–	–	2	–	–	2
Transfers of vested share options	–	(7)	–	(7)	–	–	–	–
Share-based payment expense	–	20	–	20	–	17	–	17
Movement on available-for-sale financial assets	–	–	2	2	–	–	2	2
Translation difference	(1)	(12)	–	(13)	(6)	4	(1)	(3)
	77	70	16	163	78	69	14	161

(1) Reduction in capital arising from the transfer of share premium under a special resolution dated 14 April 1975.

(2) Represents equity of the company that is not available for distribution as a result of appropriations of equity by subsidiaries and legal requirements, respectively.

20.

US\$ million	2011	2010
Interest-bearing borrowings		
Secured borrowings		
– Mortgage and pledge over trade receivables and certain assets (refer note 24 for details of encumbered assets)	1,929	1,605
– Capitalised lease liabilities (refer note 24 for details of encumbered assets)	37	50
Total secured borrowings	1,966	1,655
Unsecured borrowings	772	1,353
Total borrowings (refer note 29)	2,738	3,008
Less: Current portion included in current liabilities	449	691
	2,289	2,317
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2011 ⁽¹⁾		691
2012	449	892
2013	201	352
2014	1,111	842
2015	6	7
2016 (September 2010: thereafter)	62	224
Thereafter	909	
	2,738	3,008

(1) Included in the US\$691 million reflected as payable in 2010 is US\$447 million debt relating to securitisation funding which had the characteristics of a short-term revolving facility.

Capitalised lease liabilities

Finance leases are primarily for plant and equipment. Lease terms generally range from five to ten years with options to make early settlements or renew at varying terms. At the time of entering into capital lease agreements, the commitments are recorded at their present value using applicable interest rates. As of September 2011, the aggregate amounts of minimum lease payments and the related imputed interest under capitalised lease contracts payable in each of the next five financial years and thereafter are as follows:

	2011			2010		
	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
Payable in the year ended September:						
2011				16	(5)	11
2012	19	(4)	15	17	(3)	14
2013	14	(2)	12	15	(2)	13
2014	5	(1)	4	6	(1)	5
2015	7	(1)	6	7	–	7
Total future minimum lease payments	45	(8)	37	61	(11)	50

20. Interest-bearing borrowings continued

Set out below are details of the more significant non-current interest-bearing borrowings in the group at September 2011:

	Currency	Interest rate ⁽¹⁾	Principal amount outstanding	Balance sheet value	Security/cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	EUR	Fixed	€350 million	€322 million ⁽²⁾⁽³⁾	Property, plant and equipment, inter-company receivables and shares in subsidiaries	August 2014	No financial covenants
Public bond	US\$	Fixed ⁽⁴⁾	US\$300 million	US\$285 million ⁽²⁾⁽³⁾	Property, plant and equipment, inter-company receivables and shares in subsidiaries	August 2014	No financial covenants
Public bond	EUR	Fixed	€250 million	€245 million ⁽²⁾⁽³⁾	Property, plant and equipment, inter-company receivables and shares in subsidiaries	April 2018	No financial covenants
Public bond	US\$	Variable ⁽⁵⁾	US\$350 million	US\$361 million ⁽²⁾⁽³⁾	Property, plant and equipment, inter-company receivables and shares in subsidiaries	April 2021	No financial covenants
Public bond	US\$	Fixed	US\$221 million	US\$218 million ⁽³⁾⁽⁶⁾⁽⁷⁾	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed	ZAR1,000 million	ZAR1,000 million	Unsecured	June 2013	No financial covenants
Public bond	ZAR	Fixed	ZAR1,000 million	ZAR1,000 million	Unsecured	October 2011 ⁽⁸⁾	No financial covenants
Public bond	ZAR	Fixed	ZAR499 million	ZAR499 million ⁽³⁾	Unsecured	June 2012	No financial covenants
Public bond	ZAR	Fixed	ZAR499 million	ZAR499 million ⁽⁹⁾	Unsecured	June 2016	No financial covenants
Private placement bond	ZAR	Fixed	ZAR149 million	ZAR149 million	Unsecured	November 2012	No financial covenants
Private placement bond	ZAR	Fixed	ZAR148 million	ZAR148 million	Unsecured	January 2013	No financial covenants
Private placement bond	ZAR	Fixed	ZAR37 million	ZAR37 million	Unsecured	March 2013	No financial covenants
Private placement bond	ZAR	Fixed	ZAR68 million	ZAR68 million ⁽³⁾	Unsecured	December 2013	No financial covenants

20. Interest-bearing borrowings continued

	Currency	Interest rate ⁽⁸⁾	Principal amount outstanding	Balance sheet value	Security/cession	Expiry	Financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€192 million	€192 million	Trade receivables	August 2014	EBITDA to net interest, net debt to EBITDA and net debt to total capitalisation ⁽¹⁰⁾
UniCredit Bank	US\$	Variable	US\$111 million	US\$111 million	Trade receivables	August 2014	EBITDA to net interest, net debt to EBITDA and net debt to total capitalisation ⁽¹⁰⁾
Revolving credit facility	EUR	Variable	€100 million	€100 million	Property, plant and equipment, inter-company receivables and shares in subsidiaries	April 2016	EBITDA to net interest, net debt to EBITDA and net debt to total capitalisation ⁽¹⁰⁾
Österreichische Kontrollbank	EUR	Variable	€17 million	€17 million ⁽⁶⁾⁽⁹⁾	Property, plant and equipment, inter-company receivables and shares in subsidiaries	June 2013	EBITDA to net interest, net debt to EBITDA and net debt to total capitalisation ⁽¹⁰⁾
Capitalised leases							
Fortum	EUR	Variable	€15 million	€15 million	Plant and equipment	November 2012	No financial covenants
Rand Merchant Bank	ZAR	Fixed	ZAR131 million	ZAR131 million ⁽⁹⁾	Buildings	September 2015	No financial covenants
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million ⁽⁹⁾		December 2011	No financial covenants
Nedbank	ZAR	Fixed	ZAR281 million	ZAR281 million		March 2014	Gearing ratio/ interest and dividend cover ⁽¹¹⁾
Peritum Trading	ZAR	Fixed	ZAR15 million	ZAR15 million ⁽⁹⁾		June 2014	No financial covenants
Royal Bank of Scotland	EUR	Fixed	€10 million	€10 million		December 2011	No financial covenants

20. Interest-bearing borrowings continued

The analysis of the currency per debt is:	Local currency million	US\$ million
US Dollar ^(1,2)	975	975
Euro	964	1,290
ZAR	3,827	473
		2,738

- (1) The nature of the rates for the group bonds is explained in note 29 to the financial statements. The nature of the interest rates is determined with reference to the underlying economic hedging instrument.
- (2) Under the relevant indenture, certain limitations exist including, on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations. In case of a change of control, holders have a right to require the relevant issuer to repurchase all or any part of their bonds at a purchase price of 101% of the principal amount of bonds.
- (3) The principal value of the loans/bonds corresponds to the amount of the facility, however, the outstanding amount has been adjusted by the discounts paid upfront and the fair value adjustments relating to hedge accounting.
- (4) US Dollar fixed interest rates have been swapped into Euro fixed interest rates. These swaps are subject to hedge accounting.
- (5) US Dollar fixed interest rates have been swapped into variable US Dollar interest rates. These swaps are subject to hedge accounting.
- (6) Under the relevant indenture, limitations exist on liens, sale and leaseback transactions and mergers and consolidation. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH Group.
- (7) Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time redeem the 2032 public bonds (the 'Securities'), in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus 30 basis points, together with interest calculated on the principal amount of the securities to be redeemed up to the date of redemption.
- (8) The bond was repaid. Refer note 31.
- (9) The value outstanding equals the total facility available.
- (10) Financial covenants relate to the Sappi Limited Group.
- (11) The financial covenant relates to the financial position of Sappi Southern Africa (Pty) Limited, a wholly-owned subsidiary of Sappi Limited.
- (12) This amount includes debt of US\$300 million that is swapped into Euro.

A detailed reconciliation of total interest-bearing borrowings has been performed in note 29.

Other restrictions

As is the norm for bank loan debt, a portion of Sappi Limited's financial indebtedness is subject to cross default provisions. Breaches in bank covenants in certain subsidiaries, if not corrected in time, might result in a default in group debt, and in this case, a portion of Sappi Limited consolidated liabilities might eventually become payable on demand.

During fiscal 2011 and 2010, we were in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are regularly monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institutions before such breach occurs.

Borrowing facilities secured by trade receivables

On 25 August 2011, Sappi entered into a three-year committed trade receivables purchase programme with UniCredit Bank AG with a programme limit of €360 million. The proceeds from the programme was used to refinance the group's short-term securitisation programme with Galleon Capital LLC that was due to mature in December 2011.

In terms of the programme, the securitisation sellers being Sappi Lanaken NV on behalf of Sappi Fine Paper Europe, Sappi NA Finance LLC (a special purpose entity) on behalf of Sappi Fine Paper North America and, Sappi Deutschland GmbH and Sappi Papier Holding GmbH on behalf of Sappi Trading sell certain eligible trade receivables to Elektra Purchase N° 29 Ltd (Elektra), an Irish bankruptcy remote entity, that is consolidated by the Sappi group. Elektra has a commissioning agreement with Arabella Finance Limited (Arabella), an entity belonging to UniCredit Bank AG that issues commercial paper to fund the purchase of the trade receivables (alternative funding resources are available should the market for commercial paper be disrupted). The funding is settled in US Dollar and Euro.

As at September 2011, a reserve, that is reset on a monthly basis, amounting to 25% as well as a letter of credit covering the credit risk up to the maximum facility was required.

The cost of the programme includes a variable component based on the cost of funding of Arabella, a fixed margin of 1.75% in addition to a commitment fee of 0.90% computed on the difference between €330 million and the used portion of the programme limit.

The trade receivables are legally transferred; however, these receivables do not qualify for de-recognition under IAS 39 as most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi. As a result, the trade receivables sold under the programme is accounted for as on-balance sheet with a corresponding liability (external loan) being recognised. The corresponding interest is recorded within finance costs.

Further detail of the value of trade receivables pledged as security for this programme is included in notes 16 and 24.

20. **Interest-bearing borrowings** [continued](#)**Unutilised facilities**

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

US\$ million	Currency	Interest rate	2011	2010
Unutilised committed facilities				
Syndicated loan/revolving credit facility ⁽¹⁾	EUR	Variable (EURIBOR)	335	282
Cash management overdraft facility	EUR	Variable (EURIBOR)	24	–
Various Southern African facilities	ZAR	Variable (JIBAR)	62	–
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	114	–
			535	282
Unutilised uncommitted facilities				
Southern Africa	ZAR	Variable (JIBAR)	43	61
Total unutilised facilities (committed and uncommitted) excluding cash			578	343

(1) Syndicated loan with a consortium of banks with JP Morgan Europe Limited as facility agent with a remaining revolving facility available of €250 million, which is subject to financial covenants relating to the Sappi group and is secured by the same assets as the public bonds maturing in 2014, 2018 and 2021. In April 2011, the then undrawn syndicated loan facility maturing in 2012 was increased from €209 million to a €350 million facility and extended to April 2016. We have paid a total commitment fee of US\$7 million (2010: US\$7 million) in respect of the syndicated loan facility.

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 29.

21. **Other non-current liabilities**

US\$ million	2011	2010
Post-employment benefits – pension liability (refer note 27)	311	298
Post-employment benefits other than pension liability (refer note 27)	175	178
Long-term employee benefits (refer note 27)	4	5
Workmen's compensation (refer note 27)	11	9
Long service awards	22	26
Land restoration provision	21	19
Deferred income	3	3
Other	6	8
	553	546

22.

US\$ million	2011	2010
Provisions		
Restructuring provisions	105	29
Other provisions	2	4
Balance at September	107	33

Details of the restructuring provisions are provided below. These provisions are expected to be utilised within the next financial year and consequently, are disclosed as current liabilities.

Restructuring provisions	Severance, retrenchment & related costs	Lease cancellation & penalty costs	Other closure costs	Total
Balance at September 2009	18	3	11	32
Increase in provisions	10	–	31	41
Utilised	(19)	–	(23)	(42)
Released during the year	–	–	(2)	(2)
Other movements	–	–	1	1
Translation effect	–	(1)	–	(1)
Balance at September 2010	9	2	18	29
Increase in provisions ⁽¹⁾	76	22	40	138
Utilised	(17)	–	(37)	(54)
Released during the year	–	–	(1)	(1)
Translation effect	(5)	(1)	(1)	(7)
Balance at September 2011	63	23	19	105

(1) Pursuant to the group's strategy review, the group implemented a number of initiatives during the year which resulted in significant restructuring charges being recorded during fiscal 2011.

September 2011 restructuring provisions

Sappi Fine Paper Europe

Biberist Mill. In March 2011, Sappi announced the potential closure of its Biberist Mill in Switzerland. A total of 550 employee positions were affected by the closure and a restructuring charge related to severance, retrenchment and other related closure costs of US\$70 million was raised during the year. US\$26 million was utilised by fiscal year-end.

Sappi Fine Paper Europe: Central Services. As a result of the Biberist Mill closure, approximately 100 employees are expected to be made redundant across Europe, 30 of whom were made redundant by fiscal year-end. A restructuring charge of US\$6 million was raised in the last quarter of fiscal 2011. US\$1 million was utilised by fiscal year-end.

A further fixed cost optimisation programme commenced in the last fiscal quarter affecting approximately 330 positions across Europe. A restructuring charge of US\$14 million was raised in the last fiscal quarter. At fiscal year-end, four employees were impacted.

Sappi Southern Africa

Adamas Mill. During the financial year ended September 2011, Sappi Southern Africa announced the decision to permanently close the Adamas Mill and integrate the mill's products into the production lines at the Stanger Mill and Enstra Mill. A total of 215 employees were affected by the closure of the Adamas Mill. The mill was a producer of uncoated woodfree specialties paper. A provision of approximately US\$7 million relating to restructuring charges and scrapping of spares was raised and utilised during the year.

Sappi Paper and Paper Packaging Operations. Our latest review of the paper and paper packaging operations, completed in the fourth fiscal quarter of 2011, indicated that the production of certain paper and paper packaging products would need to be curtailed. As a result of the curtailment, a restructuring charge of US\$29 million was raised. Approximately 560 employees are expected to be affected.

Usutu Mill. At the end of January 2010, Usutu Mill ceased operations and the pulp mill was permanently closed. An additional restructuring charge of US\$3 million was incurred against the spares related to the mill.

Sappi Southern Africa: Central Services. During the financial year ended September 2011, Sappi announced the decision to restructure the support function which includes Human Resources, Finance, Procurement and Corporate Affairs. A total of 200 employees will be affected by this restructure. A restructuring provision of approximately US\$5 million relating to restructuring charges was raised.

22. Provisions [continued](#)**September 2010 restructuring provisions****Sappi Fine Paper Europe**

Kangas Mill. In January 2010, Sappi Fine Paper Europe ceased operations at its Kangas Mill. A total of 150 employees were affected by the closure of the mill. A restructuring provision of US\$14 million was raised during the year, of which, US\$8 million was utilised by September 2010. The balance of the provision at the end of fiscal 2011 was US\$4 million.

Sappi Southern Africa

Usutu Mill. In January 2010, Sappi Southern Africa ceased production at Usutu Mill affecting 491 employees by that fiscal year- end. Adverse market conditions and the cumulative severe impact of fire damage over previous years had made the mill unviable. A provision relating to severance, retrenchment and other related closure costs of US\$24 million was raised during fiscal 2010. At the end of fiscal 2011, the balance of the provision was US\$5 million.

US\$ million		2011	2010	2009
23. Notes to the group statements of cash flows				
23.1 Cash generated from operations				
(Loss) profit for the year		(232)	66	(177)
Adjustment for:				
– Depreciation		414	411	396
– Fellings		82	71	69
– Amortisation		3	2	2
– Taxation charge (benefit)		11	20	(41)
– Net finance costs		307	255	145
– Impairments (reversals) of assets and investments		167	(20)	79
– Restructuring provisions raised and closure costs		135	46	34
– Fair value adjustment gains and growth on plantations		(65)	(98)	(6)
– Post-employment benefits funding		(70)	(73)	(62)
– Broad-based Black Economic Empowerment transaction charge		5	23	–
– Other non-cash items		41	34	(7)
		798	737	432
23.2 (Increase) decrease in working capital				
Decrease (increase) in inventories		62	(72)	116
Decrease (increase) in receivables		66	(74)	175
(Decrease) increase in payables		(226)	141	(139)
		(98)	(5)	152
23.3 Finance costs paid				
Gross interest and other finance costs		(348)	(309)	(198)
Net foreign exchange gains		13	17	17
Net fair value gains (losses) on financial instruments		16	21	(25)
Non-cash movements included in items above		53	65	99
		(266)	(206)	(107)

US\$ million		2011	2010	2009
23.	Notes to the group statements of cash flows continued			
23.4	Taxation paid			
	Amounts unpaid at beginning of year	(35)	(54)	(54)
	Translation effects	(2)	4	(2)
	Taxation (charge) benefit to profit or loss	(14)	6	(3)
	Net amounts unpaid at end of year	13	35	54
	Cash amounts paid	(38)	(9)	(5)
23.5	Replacement of non-current assets			
	Property, plant and equipment	(213)	(173)	(146)
	Plantations	–	–	(1)
		(213)	(173)	(147)
23.6	Proceeds on disposal of non-current assets			
	Book value of property, plant and equipment disposed of	5	16	–
	Profit on disposal	1	5	2
		6	21	2
23.7	Acquisition			
	On 31 December 2008, Sappi acquired M-real's coated graphic paper business for an enterprise value of €750 million (approximately US\$1.1 billion). The final purchase consideration was reduced by assumed debt and other adjustments (including working capital). The transaction was settled through a vendor loan note, an issue of Sappi Limited shares and cash. The transaction included M-real's coated graphic paper business, including brands and company knowledge, as well as four coated graphic mills.			
23.8	Cash and cash equivalents			
	Cash and deposits on call	595	791	727
	Money market instruments	44	1	43
		639	792	770

24.

Encumbered assets

The book values of assets which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third party ownership in terms of capitalised leases or suspensive sale agreements, are as follows:

US\$ million	2011	2010	2009
Land and buildings	278	309	322
Plant and equipment	1,164	1,295	1,542
Inventory	178	186	164
Trade receivables	491	486	460
	2,111	2,276	2,488

Suspensive sale agreements are instalment sale agreements which the group has entered into in respect of certain property, plant and equipment where the assets purchased are encumbered as security for the outstanding liability until such time that the liability is discharged.

The encumbered assets relate mainly to the security provided under the following facilities:

- Public high yield bonds of (refer note 20):
 - US\$300 million due in 2014;
 - €350 million due in 2014;
 - €250 million due in 2018; and
 - US\$350 million due in 2021.
- An Österreichische Kontrollbank loan of €25 million with an outstanding balance of €17 million (refer note 20).
- The committed revolving credit facility of €350 million with a drawn amount of €100 million (refer note 20).
- The securitisation facility with UniCredit Bank of €360 million with a current balance of €275 million (refer notes 16 and 20).

The security consists substantially of (i) the land, plant and equipment located at Sappi's production facilities in Gratkorn, Austria; Kirkniemi, Finland; Maastricht, The Netherlands; Nijmegen, The Netherlands; Skowhegan/Somerset, Maine, USA, and Cloquet, Minnesota, USA and (ii) certain inventory owned by SD Warren Company and Sappi Cloquet LLC. The security also includes certain shares in subsidiaries and certain inter-company receivables which are not reflected in the total above.

25.

US\$ million	2011	2010	2009
Commitments			
Capital commitments			
Contracted but not provided	61	62	62
Approved but not contracted ⁽¹⁾	416	109	126
	477	171	188
Future forecasted cash flows of capital commitments at September:			
2010			102
2011		104	48
2012 (2009: thereafter)	365	32	38
2013 (2010: thereafter)	75	35	
Thereafter	37		
	477	171	188

(1) Includes approximately US\$302 million related to our chemical cellulose expansion project in Southern Africa.

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

US\$ million	2011	2010	2009
Lease commitments			
Future undiscounted minimum operating lease obligations payable in the year ended September:			
2010			31
2011		20	14
2012	29	16	7
2013	17	10	4
2014	12	7	2
2015 (2009: thereafter)	8	5	38
2016 (2010: thereafter)	3	37	
Thereafter	36		
	105	95	96

The lease commitments for 2010 were previously disclosed as US\$130 million. This has been revised to US\$95 million as certain purchase obligations were previously recorded as operating leases in terms of IFRIC 4.

	As previously reported	Adjustment	Adjusted
Future undiscounted minimum operating lease obligations payable in the year ended September:			
2011	40	(20)	20
2012	23	(7)	16
2013	16	(6)	10
2014	9	(2)	7
2015	5	–	5
2016 (2010: thereafter)	37	–	37
	130	(35)	95

Further information on capital commitments relating to environmental matters can be found in note 32.

26.

Contingent liabilities

US\$ million	2011	2010
Guarantees and suretyships	33	48
Other contingent liabilities	15	8

Included under guarantees and suretyships are bills of exchange where Sappi has guaranteed third party funding of payments to Sappi for certain German accounts receivables.

Other contingent liabilities mainly relate to taxation queries in respect of certain group companies.

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these suits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that they are not expected to have a material effect on the group's consolidated financial position, results of operations or cash flows.

27.

Post-employment benefits – pensions and other benefits**Summary of results**

	All plans	Defined contribution plans	Defined benefit pension plans	Other defined benefit plans
US\$ million	2012	2011	2010	2011
Post-retirement plan costs recognised in income statements	46	42	14	15
Employer contributions paid over the fiscal year	47	40	58	66
Expected employer contributions to be paid over next fiscal year				
– Defined contribution plans	37			
– Defined benefit pension plans	47			
– Other defined benefit plans	12			
Pension/other benefit plan liabilities are presented on the balance sheets as follows:				
Pension/other benefit liabilities (refer note 21)			311	298
Pension assets (refer note 14)			(43)	(37)
Accrued contributions ⁽¹⁾ /obligations (included in other payables)	3	4	–	–
Net balance sheet liabilities	3	4	268	261

(1) Amounts to defined contribution plans due in respect of the current reporting period that had not yet been paid over to the plans.

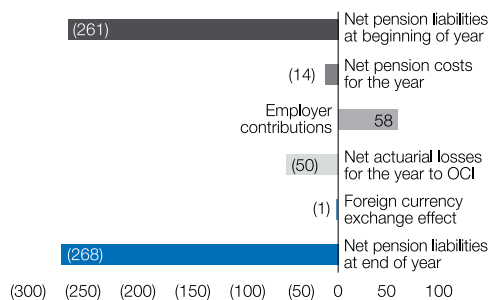
27. Post-employment benefits – pensions and other benefits continued

US\$ million	Defined benefit pension plans		Other defined benefit plans	
	2011	2010	2011	2010
Development in the balance sheets for the pension/other benefit plans				
Net pension/other benefit liabilities at beginning of year	(261)	(256)	(185)	(179)
Net pension/other benefit costs for the year	(14)	(15)	(14)	(14)
Employer contributions	58	66	11	11
Net actuarial (losses) gains for the year to other comprehensive income (OCI)	(50)	(73)	(9)	2
Foreign currency (losses) gains exchange effect	(1)	17	15	(5)
Net pension/other benefit liabilities at end of year	(268)	(261)	(182)	(185)

Accumulated liabilities exceeded assets in all defined benefit plans except for two plans in Southern Africa and one plan in Europe.

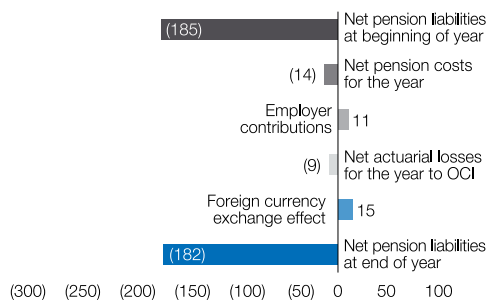
Defined benefit pension plans

Sources of credits and debits to the balance sheet liabilities
(US\$ million)



Other defined benefit plans

Sources of credits and debits to the balance sheet liabilities
(US\$ million)



27. Post-employment benefits – pensions and other benefits [continued](#)

The following pages set out the summarised results as disclosed on pages 146 and 147 in more detail.

[Detailed results](#)

Defined contribution plans

The group operates defined contribution plans of various sizes for all qualifying employees in most regions throughout the group. The assets of the plans are held separately from those of the group in funds under the control of trustees. In addition, the group participates in country-wide union/industry plans in certain locations open to eligible employees.

The total cost charged to the income statement of US\$46 million (2010: US\$42 million, 2009: US\$33 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans. As at September 2011, US\$3 million (2010: US\$4 million, 2009: US\$2 million) was due in respect of the current reporting period that had not yet been paid over to the plans.

Defined benefit pension plans

The group operates 13 principal defined benefit pension and/or lump sum plans plus a number of smaller plans. These include plans closed to new entrants and plans closed to future accrual for existing members. Plans open to new entrants or future accrual cover all qualifying employees. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country. Plans remain open to new members except for the following: plans in Southern Africa, Austria and some in Germany. Plans in the United Kingdom and one in North America are closed to future accrual.

Benefits are generally based upon compensation and years of service, with varying definitions of compensation such as average salary near retirement or career average revalued earnings. Exceptions to these are certain plans in Germany and Austria that provide fixed benefits and certain plans in North America that provide benefits based on years of service and a '\$ multiplier'. The \$ multiplier is a nominal US Dollar amount that historically has increased from time to time.

With the exception of our German and Austrian plans (which are unfunded), the assets of these plans are held in separate trustee-administered funds which are subject to varying statutory requirements in the particular countries concerned. In terms of these requirements, periodic actuarial valuations of these funds are performed by independent actuaries.

As of September 2011, the total number of active members (ie accruing benefits) in our defined benefit pension plans is approximately 6,500.

During the year, our plan in Switzerland was sold to an unrelated third party entity. A small contingent liability remains at year-end, due to delays from regulatory clearance. The plan shows a nil net liability on the group's balance sheet. In Southern Africa, a small plan consisting of legacy pensioners was settled with a local insurance company. The agreement was set up prior to year-end, but due to timing, the benefits will be settled after fiscal year end. The plan shows a nil net liability on the group's balance sheet.

Post-employment benefits other than pensions ('other defined benefit' plans)

The group sponsors two defined benefit post-employment plans that provide certain healthcare and life insurance benefits to eligible retired employees of the North American and South African operations. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of service.

Other employee benefits

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

- Jubilee (long service award plans) in continental Europe of US\$22 million, an early retirement benefit plan in Belgium of US\$9 million (of which US\$4 million is long-term per note 21).
- 'ATZ' (early retirement) benefit obligations in Germany and Austria totalling US\$9 million (within 'other payables').
- Workmen's compensation benefit obligations in North America totalling US\$15 million (of which US\$11 million is long-term per note 21).

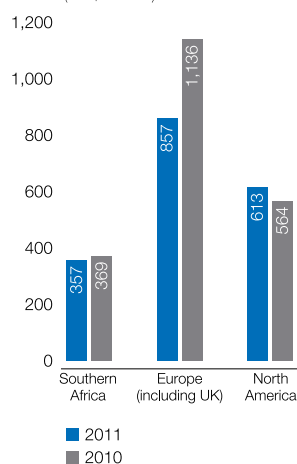
Actuarial valuations of all plans are performed annually with the exception of our South African and United Kingdom defined benefit pension plans where an actuarial review is performed annually with an actuarial valuation being performed on a tri-annual basis.

All post-employment obligations were measured at the end of the financial year.

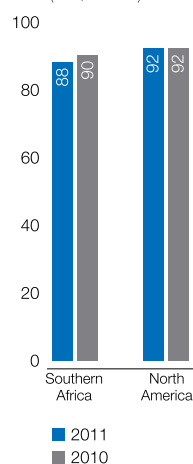
27. Post-employment benefits – pensions and other benefits continued

US\$ million	2011		2010	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
Change in present value of defined benefit obligations				
Defined benefit obligations at beginning of years	2,069	182	1,945	175
Current service costs	29	4	27	4
Past service (credits) costs	(4)	–	1	–
Interest costs	105	11	107	11
Plan participants' contributions	7	–	7	–
Actuarial (gains) losses experience	(4)	5	21	(9)
Actuarial losses assumptions	23	4	122	7
Gains on curtailments and settlements	(233)	–	–	–
Benefits paid	(123)	(11)	(128)	(11)
Translation differences	(42)	(15)	(33)	5
Defined benefit obligations at end of years	1,827 ⁽¹⁾	180 ⁽²⁾	2,069 ⁽¹⁾	182 ⁽²⁾
Present value of wholly unfunded obligations	134	180	144	182
Present value of wholly and partly funded obligations	1,693	–	1,925	–

(1) Defined benefit pension plans

Regional split of liabilities
(US\$ million)


(2) Other defined benefit plans

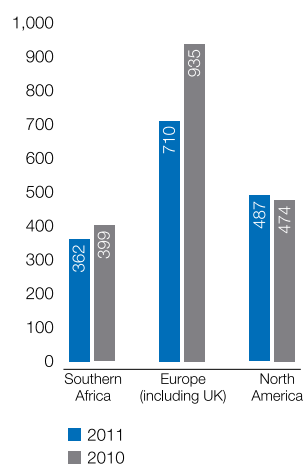
Regional split of liabilities
(US\$ million)


27. Post-employment benefits – pensions and other benefits continued

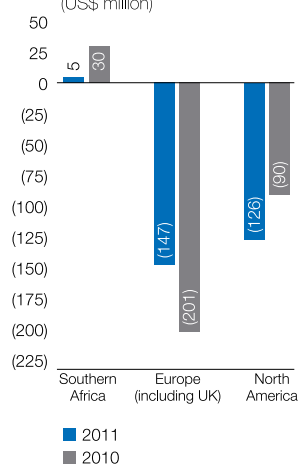
US\$ million	2011		2010	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
Change in fair value of plan assets				
Fair value of plan assets at beginning of years	1,808	–	1,695	–
Expected returns on plan assets*	111	–	114	–
Actuarial (losses) gains on plan assets	(31)	–	70	–
Employer contributions	58	11	66	11
Plan participants' contributions	7	–	7	–
Benefits paid	(123)	(11)	(128)	(11)
Losses on curtailments and settlements	(228)	–	–	–
Translation differences	(43)	–	(16)	–
Fair value of plan assets at end of years	1,559 ⁽¹⁾	–	1,808 ⁽¹⁾	–
Deficits	(268)	(180)	(261)	(182)
Unrecognised past service credits	–	(2)	–	(3)
Recognised pension/other benefit plan liabilities	(268) ⁽²⁾	(182) ⁽³⁾	(261) ⁽²⁾	(185) ⁽³⁾

* Net of administration costs.

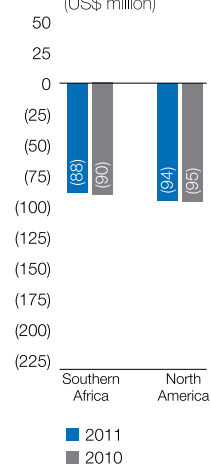
(1) Defined benefit pension plans
Regional split of assets
(US\$ million)



(2) Defined benefit pension plans
Regional split of recognised liabilities
(US\$ million)



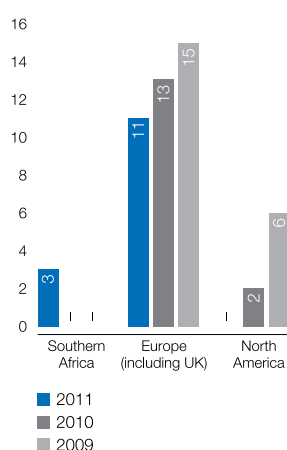
(3) Other defined benefit plans
Regional split of recognised liabilities
(US\$ million)



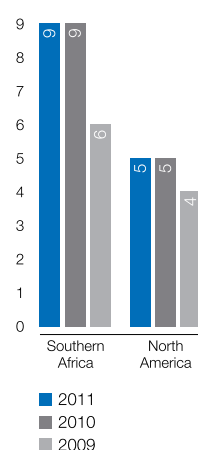
27. Post-employment benefits – pensions and other benefits continued

US\$ million	2011		2010		2009	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
Periodic pension/other benefit costs recognised in income statements						
Current service costs	29	4	27	4	21	2
Past service costs	(4)	–	1	–	–	–
Interest costs	105	11	107	11	103	10
Expected returns on plan assets*	(111)	–	(114)	–	(104)	–
Amortisation of past service (credits) costs	–	(1)	(6)	(1)	1	(1)
Gains on curtailments and settlements	(5)	–	–	–	–	(1)
Net periodic pension/other benefit costs charged to costs of sales and selling, general and administrative expenses	14 ⁽¹⁾	14 ⁽²⁾	15 ⁽¹⁾	14 ⁽²⁾	21 ⁽¹⁾	10 ⁽²⁾
* Net of administration costs.						
Actual returns on plan assets	80	–	184	–		
Actual returns on plan assets (%)	4.4% ⁽³⁾	–	10.9% ⁽³⁾	–		
Amounts recognised in the statements of other comprehensive income						
Actuarial (losses) gains	(50) ⁽⁴⁾	(9) ⁽⁴⁾	(73) ⁽⁴⁾	2 ⁽⁴⁾		
Cumulative actuarial losses recognised in the statements of other comprehensive income						
Actuarial losses	(457)	(61)	(407)	(52)		

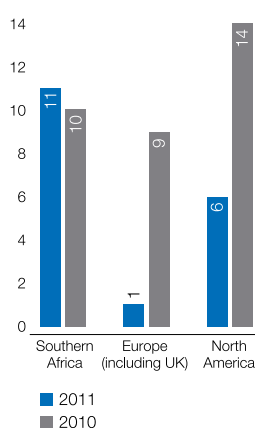
(1) Defined benefit pension plans
Regional split of pension costs
(US\$ million)



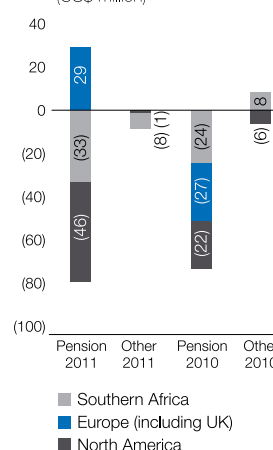
(2) Other defined benefit plans
Regional split of benefit costs
(US\$ million)



(3) Defined benefit pension plans
Regional asset investment returns
(%)



(4) Regional gains (losses) to other comprehensive income
(US\$ million)



Assumptions

Financial assumptions are derived by reference to market financial data and established methods recommended by actuaries.

In determining the expected long-term return assumption on plan assets, Sappi considers the relative weighting of plan assets to various asset classes, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance.

Peer data and historical returns are reviewed for reasonableness and appropriateness. In addition, Sappi may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.

27. Post-employment benefits – pensions and other benefits continued

	2011			2010		
	Southern Africa	Europe	North America	Southern Africa	Europe	North America
Weighted average actuarial assumptions at balance sheet dates						
Discount rates (pensions) (%)	8.75	5.02	4.50	8.25	4.05	4.90
Compensation increases (%)**	6.75	2.00	3.50	6.20	2.40	3.50
Expected long-term returns on assets (%)	9.65	4.43	7.25	9.15	4.20	8.00
Discount rates (other benefits) (%)	9.00	–	4.10	8.25	–	4.40
Initial healthcare costs trend rates (%)	7.25	–	7.00	6.50	–	7.00
...which gradually reduce to an ultimate rate of (%)	7.25	–	5.00	6.50	–	5.00
...over a period of (years)	–	–	6	–	–	7

	2011			2010		
	Southern Africa	Europe	North America	Southern Africa	Europe	North America
Weighted average actuarial assumptions used to determine pension/other benefit costs						
Discount rates (pensions) (%)	8.25	4.05	4.90	9.00	4.90	5.50
Compensation increases (%)**	6.20	2.40	3.50	6.70	2.60	3.50
Expected long-term return on assets (%)	9.15	4.20	8.00	9.90	5.30	8.00
Discount rates (other benefits) (%)	8.25	–	4.40	9.00	–	5.20
Initial healthcare costs trend rates (%)	6.50	–	7.00	7.25	–	8.00
...which gradually reduce to an ultimate rate of (%)	6.50	–	5.00	7.25	–	5.00
...over a period of (years)	–	–	7	–	–	5

** Weighted average compensation increases of plans that use a compensation assumption.

Demographic assumptions (the expected change in membership), are derived by reference to historic and likely future changes in membership and using established methods recommended by actuaries. Changing life expectancy of members (particularly in retirement) can have a significant effect on defined benefit obligations. The group makes provision in its defined benefit obligations for realistic life expectancy by reference to established mortality tables. Further, where recommended by actuaries, extended provisions are included in the obligations to account for expected improvements in life expectancy that are likely to be experienced by future retirees.

Illustrating life expectancy

The table below shows sample life expectancy for a male aged 60 at fiscal year-end, and life expectancy for a male aged 60 in 20 years' time, taken from mortality tables used in determining regional plan obligations.

	2011			2010		
	Southern Africa	Europe (incl UK)*	North America	Southern Africa	Europe (incl UK)*	North America
Life expectancy of male aged 60 at fiscal 2011	18.6	24.6	23.2	18.6	24.6	22.1
Life expectancy of male aged 60 at fiscal 2031	19.5	26.7	23.2	19.5	26.7	22.1

* Weighted by defined benefit obligation.

27. Post-employment benefits – pensions and other benefits continued

Illustrating sensitivity

The discount and salary increase rates can have a significant effect on the amounts reported. The table below illustrates the effect of changing key assumptions:

US\$ million	2011					
	1% increase in discount rate	1% decrease in discount rate	1% increase in salary increase rate	1% decrease in salary increase rate	1% increase in health- care cost trend rate	1% decrease in health- care cost trend rate
(Decrease) increase in defined benefit pension obligations	(214)	258	30	(26)		
(Decrease) increase in aggregate of current service costs and interest costs	(4)	3				
(Decrease) increase in defined other benefit obligations	(18)	21			16	(13)
Increase (decrease) in aggregate of current service costs and interest costs					2	(1)

Investment management and strategy

Plan fiduciaries set investment policies and strategies for the local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment in each region. The plan fiduciaries oversee the investment allocation process, which include selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Target versus actual weighted average allocations (by region) are shown below:

	2011			2010		
	Southern Africa	Europe (incl UK)	North America	Southern Africa	Europe (incl UK)	North America
	%	%	%	%	%	%
Weighted average target asset allocation by region						
Equity securities	37	22	38	26	21	38
Debt securities*	44	60	44	47	60	44
Real estate	5	2	–	5	5	–
Other**	14	16	18	22	14	18
Weighted average actual asset allocation by region						
	%	%	%	%	%	%
Equity securities	34	20	36	27	20	38
Government debt securities	29	37	6	27	45	6
Debt securities	18	22	42	23	19	38
Real estate	5	2	–	5	5	–
Other**	14	19	16	18	11	18

* Target asset allocations do not routinely split between corporate and government bonds.

** Investments that can transcend several asset classes, equity overlay on bond strategy, cash and near cash, funds heavily influenced by currency.

27. Post-employment benefits – pensions and other benefits continued

Expected benefit payments from pension and other benefit plans are as follows:

US\$ million	Defined benefit pension plans	Other defined benefit plans
Payable in the year ending September:		
2012	88	12
2013	86	12
2014	88	13
2015	91	13
2016	96	13
Years 2017 – 2021	554	77

The four tables below show summary data for the current annual period and the previous four annual periods:

Aggregate total of present value of the defined benefit obligations, fair value of assets and derived balance sheet liability in the defined benefit pension plans

US\$ million	2011	2010	2009	2008	2007
Defined benefit obligations	1 827	2 069	1 945	1 414	1 607
Fair value of assets	1 559	1 808	1 695	1 387	1 545
Deficits	(268)	(261)	(250)	(27)	(62)
Unrecognised past service (credits) costs	–	–	(6)	–	1
Balance sheet liabilities	(268)	(261)	(256)	(27)	(61)

Aggregate total of present value of the defined benefit obligations and derived balance sheet liabilities in the other benefit plans

Defined benefit obligations – deficits	(180)	(182)	(175)	(143)	(173)
Unrecognised past service credits	(2)	(3)	(4)	(5)	(6)
Balance sheet liabilities	(182)	(185)	(179)	(148)	(179)

Actuarial (losses) gains arising in the defined benefit pension plan liabilities and plan assets

Plan liabilities (losses) gains	(19)	(143)	(254)	173	60
Plan assets (losses) gains	(31)	70	47	(189)	41
Net (losses) gains	(50)	(73)	(207)	(16)	101

Actuarial (losses) gains arising in the other benefit plan liabilities and plan assets

Plan liabilities (losses) gains	(9)	2	(22)	23	–
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Reconciliation of (losses) gains in group statement of comprehensive income

Net (losses) gains from pensions	(50)	(73)	(207)	(16)	101
Net (losses) gains from other defined benefits	(9)	2	(22)	23	–
Net (losses) gains in group statement of comprehensive income	(59)	(71)	(229)	7	101

28. 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 19,000,000 shares (equivalent to 7.89% of the shares then in issue). Subsequent to the December 2008 rights offering, this number of shares increased to 42,700,870 shares (still equivalent to 7.89% of the 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), (b) may be offered the opportunity to acquire ordinary shares (Scheme shares), or (c) may be granted options to enter into agreements with the company to acquire ordinary shares (Allocation shares). In recent years, only Share options have been offered to participants.

Under the rules of the Scheme:

- Share options entitle the participant to purchase one ordinary share per share option.
- 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.
- Allocation shares entitle the participant to accept an option to acquire one Allocation share per option. These options must be exercised by the participant within 12 months, failing which the option will automatically lapse. The Allocation shares entitle the participant to pay for one ordinary share per allocation share.

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, Scheme shares, or Allocation shares, as the case may be.

The Share options, Scheme shares and Allocation 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 shares vest, may Share options be exercised by the participants, may Scheme shares be released from the Scheme to participants and may Allocation shares be delivered to participants. For allocations prior to November 2004, the Share options, Scheme shares and Allocation shares vested in blocks of 20% per annum on the anniversary date of the offer and expired 10 years after the offer date.

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, then 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 to be 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:

- (a) the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself; or
- (b) 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 obligated to notify every Participant thereof on the basis 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.

28. Share-based payments continued

Rights offer

Following the December 2008 rights offer and in accordance with the provisions of the Scheme and the Plan, adjustments were made in fiscal 2009 to the rights of the Participants so that they were neither better nor worse off than prior to the rights offer. This resulted in additional offers being made to Participants in respect of all outstanding offers at the time of the rights offer. As in the case of shareholders that exercised their rights, the Participants of the Plan will be required to pay the rights offer price of ZAR20.27 per share should the shares vest. Similarly, the Participants of the Scheme may only exercise their additional options, awarded as a result of the rights offer, in conjunction with exercising their pre-rights offer options and upon payment of the rights offer price of ZAR20.27 per share.

	2011	2010
Number of shares	Total	Total
Allocations		
During the year, the following offers were made to employees:		
Share options	2,818,000	2,889,010
Conditional share awards	1,567,400	2,565,300
Share options and conditional share awards declined	(41,900)	(65,900)
	4,343,500	5,388,410

Scheme shares, Share options, Restricted shares, Performance shares and Allocation shares activities were as follows during the financial years ended September 2011 and 2010:

	Scheme shares ⁽¹⁾	Restricted shares ⁽²⁾	Share options ⁽³⁾	Performance shares ⁽²⁾⁽⁴⁾	Weighted average exercise price (ZAR) ⁽⁵⁾	Allocation shares ⁽³⁾	Weighted average exercise price (ZAR) ⁽⁵⁾	Total shares
Outstanding at September 2009	2,860,372	–	8,244,380	9,965,560	29.33	1,845,950	65.24	22,916,262
– Offered and accepted	–	–	2,889,010	2,565,300	17.93	–	–	5,454,310
– Paid for/released	–	–	–	(11,000)	11.06	–	–	(11,000)
– Returned, lapsed and forfeited	–	–	(974,630)	(3,207,020)	14.48	(806 800)	77.61	(4,988,450)
Outstanding at September 2010	2,860,372	–	10,158,760	9,312,840	27.91	1,039,150	56.15	23,371,122
– Offered and accepted	–	–	2,776,100	1,567,400	22.50	–	–	4,343,500
– Paid for/released	(855,191)	–	(32,312)	(1,566,186)	22.17	–	–	(2,453,689)
– Returned, lapsed and forfeited	–	–	(1,379,508)	(1,933,154)	28.36	(606,650)	62.43	(3,919,312)
Outstanding at September 2011	2,005,181	–	11,523,040	7,380,900	27.28	432,500	47.34	21,341,621
Exercisable at September 2009	752,600	–	4,835,090	–	55.60	1,845,950	65.24	7,433,640
Exercisable at September 2010	202,040	–	5,184,568	–	49.33	1,039,150	56.15	6,425,758
Exercisable at September 2011	35,860	–	5,565,298	–	44.70	432,500	47.34	6,033,658

(1) The number of Scheme shares, which are not subject to credit sales amounts to 1,969,321 (2010: 2,658,332), includes 1,026,794 rights offer Scheme shares taken up at ZAR20.27 per share, included in offered and accepted in the 2009 year.

(2) Restricted shares (awarded on an ad-hoc basis to certain individuals on various terms and conditions) and Performance shares are issued for no cash consideration. The value is determined on the day the shares are taken up.

(3) Issued in terms of the Scheme.

(4) Issued in terms of the Plan.

(5) The share options are issued in South African Rands.

28. Share-based payments continued

The fair value of Scheme shares held at September 2011 was US\$5.9 million (2010: US\$13.5 million).

The following table sets out the number of share options outstanding at the end of September, excluding the Scheme shares:

		2011	2010	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:							
13 February 2003	(i)		1,274 980	Time	(ii)	13 February 2011	62.34
30 December 2003	(i)	238,150	267 190	Time	(ii)	30 December 2011	47.08
14 January 2004	(i)	1,106,640	1,208 280	Time	(ii)	14 January 2012	47.08
25 March 2004	(i)	2,200	2 200	Time	(ii)	25 March 2012	50.42
13 December 2004	(i)	1,800,080	1,993 900	Time	(ii)	13 December 2012	46.51
12 December 2007	(i)	1,055,260	1,168 560	Time	(ii)	12 December 2015	52.57
19 March 2008	(i)	518,760	531 740	Time	(ii)	19 March 2016	55.97
22 December 2008		1,846,640	1,990 850	Time	(ii)	22 December 2016	35.50
09 December 2009		2,631,810	2,760 210	Time	(ii)	09 December 2017	33.85
03 December 2010		2,756,000		Time	(ii)	03 December 2017	35.20
Performance shares:							
29 January 2007	(i)		110 000	Performance	29 January 2011	N/A	N/A
31 May 2007	(i)		2,960 540	Performance	31 May 2011	N/A	N/A
02 July 2007	(i)		220 000	Performance	02 July 2011	N/A	N/A
10 September 2007	(i)		55 000	Performance	10 September 2011	N/A	N/A
12 December 2007	(i)	1,124,200	1,155 000	Performance	12 December 2011	N/A	N/A
19 March 2008	(i)	451,000	451,000	Performance	12 March 2012	N/A	N/A
23 December 2008		1,782,000	1,815,000	Performance	22 December 2012	N/A	N/A
09 December 2009		2,496,300	2,546,300	Performance	09 December 2013	N/A	N/A
03 December 2010		1,527,400		Performance	03 December 2014	N/A	N/A
		19,336,440	20,510,750				

(i) During the 2009 year, there was a rights issue of 6 shares for every 5 shares held at ZAR20.27 per share. According to the rules of the Scheme, this was also offered to participants. Not all the participants took up their rights.

(ii) These vest over four or five years depending on the date of allocation.

28. Share-based payments continued

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 36	Issue 36	Issue 36
Date of grant	03-Dec-10	03-Dec-10	03-Dec-10
Type of award	Normal option	Performance	Performance
Share price at grant date	ZAR35.57	ZAR35.57	ZAR35.57
Strike price of share	ZAR35.20	–	–
Vesting period	4 years	4 years	4 years
			Cash flow return
	Proportionately	Market related –	on net assets
Vesting conditions	over time	relative to peers	relative to peers
Life of options	8 years	N/A	N/A
Market related vesting conditions	N/A	Yes	No
Percentage expected to vest	N/A	41,0%	100%
Number of shares offered	2 818 000	783 700	783 700
Volatility	42.3%	55.0%	N/A
Risk free discount rate	5.7%	1.4% (US yield)	N/A
Expected dividend yield	2.5%	1.7%	1.7%
Expected percentage of issuance	95%	95%	95%
Model used to value	Modified binomial	Monte-carlo	Market price
Fair value of option	ZAR14.05	ZAR25.06	ZAR26.68

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

Share options, Allocation shares, Restricted shares and Performance shares to executive directors that are included earlier in this note, are as follows:

	2011	2010
	Number of options/shares	Number of options/shares
At beginning of year	1,087,200	968,000
Share options, Restricted shares and Performance shares granted	283,000	315,000
Share options and Allocation shares exercised or declined	(110,000)	–
Shares removed on resignation, retirement of directors or forfeited	(143,000)	(195,800)
At end of year	1,117,200	1,087,200

28. Share-based payments continued

The following table sets forth certain information with respect to the 1,117,200 Share options and Performance shares granted by Sappi to executive directors:

Issue date	Number of options/shares ⁽¹⁾	Expiry date	Exercise price (ZAR) ⁽¹⁾
30 December 2003	39,600	30 December 2011	47.08
13 December 2004	39,600	13 December 2012	46.51
12 December 2007 ⁽²⁾	198,000	12 December 2011	–
22 December 2008 ⁽²⁾	242,000	13 December 2012	–
09 December 2009 ⁽²⁾	315,000	09 December 2013	–
03 December 2010 ⁽²⁾	283,000	03 December 2014	–
	1,117,200		

(1) Adjusted for the Share options, Restricted shares and Performance shares granted as a result of the rights issue.

(2) Performance shares.

Refer to the compensation report for further information on Directors' participation in the Scheme and the Plan.

No new loans have been granted to the executive directors since 28 March 2002.

Black Economic Empowerment

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

In April 2006, Sappi announced a BEE transaction (the 'Plantation BEE Transaction') that included a consortium of investors and certain categories of Sappi's South African employees. However, the Plantation BEE Transaction did not meet Sappi's undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for BBBEE ('Broad-based Black Economic Empowerment') 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 BEE Transaction and to implement the BEE Transaction, a new sustainable transaction of equivalent value using its listed securities.

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

- Sappi's South African Employees (62.5%);
- South African Black Managers (15%);
- Strategic Partners (12.5%) (refer to the section 'The BEE Transaction' in this note); and
- Communities surrounding the South African mill operations and plantations (10%).

28. **Share-based payments** [continued](#)**The BEE Transaction**

The BEE Transaction comprised two distinct parts:

- The value created through the Plantation BEE 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 ZAR33.50.
- 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 ZAR1 to a trust formed for the benefit of certain Sappi employees including HDSAs (the 'ESOP Trust'), a trust formed for the benefit of certain Sappi managers that are HDSAs (the 'MSOP Trust') and a trust formed for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the 'Sappi Foundation Trust', and together with the ESOP Trust and the MSOP Trust, the 'BEE Trusts'). The issuance of the 'A' ordinary shares was financed through notional non-interest-bearing loans extended by Sappi to the BEE Trusts. The BEE Transaction resulted in the BEE 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 BEE legislation in general.

The number of ordinary shares allocated to the Strategic Partners and Sappi employees who were participants of the Plantation BEE Transaction are as follows:

Entity	Ordinary share allocation
Strategic partners:	
Lereko Investments (Proprietary) Limited	1,971,693
Malibongwe Women Development Trust	432,842
AMB Capital Limited	643,221
	3,047,756
Employees (through the ESOP Trust)	1,280,597
Total	4,328,353

The number of 'A' ordinary shares allocated to the BEE Trusts are as follows:

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

The group recognised a share-based payment expense of US\$5 million (2010: US\$4 million) in fiscal 2011 that related to the 'A' Ordinary shares that were awarded.

28. Share-based payments continued

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

Base price for hurdle rate price	32.50
Share price hurdle rate	9.1%
Hurdle rate price	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)	6.6%
Management turnover (annual)	9.4%
Model used to value	Black Scholes Model

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

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

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

Refer note 17 for further details regarding the 'A' ordinary shares.

29. 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 principal risks to which Sappi is exposed through financial instruments are:

- a) market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:
 - interest rate risk
 - currency risk
 - commodity price risk
- b) liquidity risk
- c) credit risk

The group's main financial risk management objectives are to identify, measure and manage the above risks as more fully discussed under the individual risk headings below.

Sappi's Group Treasury is comprised of two components: Sappi International, 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 the group's interest rate, foreign currency, liquidity and credit risk (insofar as it relates to deposits of cash, cash equivalents and financial investments).

Credit risk (insofar 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 the 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 2011 and thereafter are based on the yield curves for each respective currency as published by Reuters on 02 October 2011. The information is presented in US Dollar, which is the group's reporting currency.

29. Financial instruments continued

	Expected maturity date									
US\$ equivalent in millions	2012	2013	2014	2015	2016	2017+	Total carrying value	2011 fair value	2010 carrying value	2010 fair value
US Dollar										
Fixed rate debt ⁽¹⁾	–	–	285	–	–	218	503	541	1,015	1,133
Average interest rate (%)	–	–	12.65	–	–	7.58	10.45		8.50	
Variable rate debt ⁽²⁾	–	–	111	–	–	361	472	476	136	136
Average interest rate (%)	–	–	4.58	–	–	7.36	6.71		2.31	
Euro										
Fixed rate debt	15	2	432	–	–	330	779	888	868	1,066
Average interest rate (%)	5.64	3.97	12.74	–	–	6.73	10.03		10.80	
Variable rate debt ⁽³⁾	234	20	257	–	–	–	511	511	453	453
Average interest rate (%)	3.68	4.00	5.08	–	–	–	3.24		2.74	
Rand										
Fixed rate debt	200	179	26	6	62	–	473	507	536	556
Average interest rate (%)	11.11	9.77	11.01	11.67	9.63	–	10.41		10.36	
Total										
Fixed rate debt	215	181	743	6	62	548	1,755	1,936	2,419	2,755
Average interest rate (%)	10.72	9.70	12.65	11.10	9.59	7.07	10.25		9.74	
Variable rate debt	234	20	368	–	–	361	983	987	589	589
Average interest rate (%)	3.68	4.00	4.93	–	–	7.36	4.90		2.64	
Fixed and variable	449	201	1,111	6	62	909	2,738	2,923	3,008	3,344
Current portion							449	463	691	732
Long-term portion							2,289	2,460	2,317	2,612
Total interest-bearing borrowings (refer note 20)							2,738	2,923	3,008	3,344

(1) US Dollar fixed rates have been swapped into Euro fixed rates. These swaps are subject to hedge accounting.

(2) The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).

(3) The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).

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.

The range of interest rates in respect of all non-current borrowings comprising both fixed and floating rate obligations, is between 3.68% and 12.74% (depending on currency). At September 2011, 64% of Sappi's borrowings were at fixed rates of interest, and 36% were at floating rates. Fixed rates of interest are based on contract rates.

A detailed analysis of the group's borrowings is presented in note 20.

29. **Financial instruments** [continued](#)**Interest rate derivatives**

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

There is an existing fixed for fixed interest and currency swap which has been designated as a hedge of future cash flows linked to fixed rate debt denominated in foreign currency. The swap corresponds to the underlying US\$300 million Senior Secured Notes due 2014 and converts all future US Dollar cash flows to Euro.

As at September 2011, the effectiveness test of the abovementioned hedge showed a 100% hedge effectiveness. The swaps showed a total positive fair value of US\$21 million, of which, the positive fair value of the currency leg of the swap of US\$18 million was booked to profit or loss to offset the corresponding foreign currency unrealised gain on the revaluation of the underlying hedged item, while the remaining positive fair value of the interest leg of the swap of US\$3 million was deferred in equity.

In April 2011, Sappi entered into a new interest rate swap (IRS) converting the fixed rate of 6.625% on the underlying US\$350 million Senior Secured Notes due 2021 into variable rates. This hedge has been designated as a fair value hedge whereby changes in the fair value of the fixed rate debt including the principal par value as well as the first ten coupon payments (October 2011 until April 2016) resulting from fluctuations in the US LIBOR swap curve, are offset against the changes in the fair value of the hedging instrument. Changes in the fair value of the underlying debt attributable to changes in the credit spread are excluded from the hedging relationship. The carrying value of the hedged debt is adjusted to reflect the changes in fair value related to changes in interest rates only. This is offset by the change in fair value of the derivative which reflects changes in fair value related to both interest rate risk and credit risk. Sappi has determined at inception and in subsequent periods that the derivative is highly effective in offsetting the fair value exposure of the designated debt.

At September 2011, the abovementioned fair value hedge was highly effective and the swaps had a positive fair value of US\$19 million which has been offset by the negative fair value adjustment to the bonds of US\$22 million, resulting in a net negative impact on the income statement of US\$3 million.

Overview of the outstanding derivatives as at fiscal year-end:

US\$ million	Interest rate	2011			2010	
		Maturity date	Nominal value	Fair value ⁽¹⁾	Nominal value	Fair value ⁽¹⁾
IRCS	US Dollar 12.00% into EUR 12.19%	August 2014	300	21	300	19
IRS	US Dollar 6.625% to variable (LIBOR)	April 2016	350	19	–	–
				40		19

(1) This refers to the carrying value.

The fair values of the IRCS and IRS are the estimated amount that Sappi would pay or receive to terminate the agreement at the 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 Sappi 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.

Please refer to the 'Hedge accounting' section in this note for further information.

29. Financial instruments continued

Summary sensitivity analyses: external interest rate derivatives

The following is a sensitivity analysis of the impact on profit or loss in US Dollar of a change in fair value of interest rate derivative instruments due to changes in the interest rate basis points (bps). The sensitivity analysis of floating rate debt, is carried out separately (see below).

IRCS converting fixed US Dollar rates into fixed Euro rates in US\$ million:

Scenario name	Base value	Scenario value	Change	% Change
- 50 bps EURIBOR-6M	(380.1)	(384.9)	(4.8)	(1.3)
+ 50 bps EURIBOR-6M	(380.1)	(375.4)	4.7	1.2

Scenario name	Base value	Scenario value	Change	% Change
- 50 bps USD-LIBOR-3M	401.1	406.2	5.1	1.3
+ 50 bps USD-LIBOR-3M	401.1	396.2	(4.9)	(1.2)

The derivative converts fixed US Dollar interest payments of 12% into fixed EUR interest coupons, as well as the redemption of principal amounts at maturity. The fair value of the instrument is subject to changes of both, the inherent exchange rates and interest rates. Fair value changes of the derivative caused by currencies are neutralised by currency changes in the underlying external debt.

At the end of fiscal 2011, the net fair value of the derivative amounted to a positive amount of US\$21 million (gross 'Base value' in the table above: negative US\$380.1 million for the EUR leg and a positive US\$401.1 million for the US Dollar leg) of which a positive amount of US\$18 million was due to the exchange rate movement between inception and the reporting date. This amount is compensated for by the opposite movement of the underlying US Dollar external debt and therefore has no impact on profit or loss. The portion of the fair value due to interest rate movements amounts to a positive value of US\$3 million and has been recorded in other comprehensive income. This value will reduce to zero at maturity.

For the period outstanding, the table above shows the impact that a shift of 50 bps on the LIBOR/EURIBOR curve would have on fair value. A decrease in the US Dollar LIBOR adds to the fair value, as does an increase of the EURIBOR. When the EUR and the US Dollar interest rates move the same way, the one roughly compensates the other. If the rates would drift in opposite directions, a shift of 50 bps would result in an impact of approximately US\$9.8 million.

The largest shift experienced over the last 12-month period was a positive net movement of 0.47%, due to a decrease in US Dollar rates of 0.29% and an increase in the EUR rates of 0.76%. Applied to the fair value as at the end of fiscal 2011, this would have resulted in a positive change in fair value of US\$10 million.

Scenario name	Base value	Scenario value	Change	% Change
- 29 bps USD-LIBOR-3M	401.1	404.0	2.9	0.7
+ 76 bps EURIBOR-6M	(380.1)	(373.0)	7.1	1.9
Total			10.0	

The above analysis measures the impact on profit or loss that a change in fair value of the interest rate derivatives would have if the specified scenarios were to occur.

IRS converting fixed US Dollar rates into variable rates:

Scenario name	Base value	Scenario value	Change	% Change
- 50 bps USD-LIBOR-3M	(353.4)	(353.5)	(0.1)	(0.03)
+ 50 bps USD-LIBOR-3M	(353.4)	(353.3)	0.1	0.03
- 50 bps ST-/LT+ USD-LIBOR-3M	(353.4)	(353.5)	(0.1)	(0.03)
+ 50 bps ST+/LT- USD-LIBOR-3M	(353.4)	(353.3)	0.1	0.03

The combination of the interest rate swaps and the underlying bonds is sensitive to the change in short-term and long-term interest rates. However, as the critical terms of the bond and the swap match, the residual ineffectiveness is not expected to be material.

The above sensitivity analysis demonstrates this effect. The first scenario tests movements on the US Dollar interest rate curve in the same direction (parallel shift), whereas the second scenario tests the impact of a pivoting curve where short-term and long-term rates move in opposite directions.

29. **Financial instruments** [continued](#)*Sensitivity analysis: interest rate risk – in case of a credit rating downgrade of Sappi*

The following table shows the sensitivity of securitisation debt to changes in the group's own credit rating. The on-balance sheet securitisation agreement (refer note 20) stipulates that upon a downgrade of the corporate family rating of Sappi Limited below BB- by Standard & Poor's or a downgrade of the long-term issuer credit rating of Sappi Limited below Ba3 by Moody's, the transaction margin would increase by 25 basis points.

Please note that the change in value of the securitisation debt is included in the sensitivity analysis of floating rate debt in the table below:

Securitisation programme covering Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Trading

US\$ million	Notional	Impact on income statement of a one notch downgrade below current credit rating
Elektra Purchase N° 29 Ltd.	368	1
Sub-total	368	1
Impact calculated on total portfolio amounts to	0.30%	

The table below shows the sensitivity of certain fixed rate debt to changes in the group's own credit rating. The agreements of these specific external loans stipulate that if the company were downgraded below our current rating, an additional margin would be added to the contractual funding rate.

External loan agreements sensitive to the group's own credit rating

US\$ million	Notional	Impact on income statement of downgrade below BB 'secured' credit rating
Commitment fee on unused revolving credit facility	335	1
Interest on utilised bank syndicated loan	134	1
Interest on utilised bank loan	23	–
Sub-total	492	2
Impact calculated on total portfolio amounts to	0.52%	

Sensitivity analysis: interest rate risk of floating rate debt

US\$ million	Total	Fixed rate	Floating rate	Impact on income statement of 50 bps interest
Total debt	2,738	1,755	983	5
Ratio fixed/floating to total debt		64%	36%	

The floating rate debt represents 36% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by US\$5 million.

29. Financial instruments continued

Currency risk

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

- Economic exposure consists of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders;
- Transaction exposure arises due to transactions entered into, which result in a flow of cash in foreign currency such as payments under foreign currency long- and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts; and
- Translation exposure arises when translating the group's assets, liabilities, income and expenditure into the group's presentation currency. Borrowings are taken out in a range of currencies which are based on the group's preferred ratios of gearing and interest cover based on a judgement of the best financial structure for the group. This gives rise to translation exposure on consolidation.

In managing currency risk, the group first makes use of internal hedging techniques with external hedging being applied thereafter. External hedging techniques consist primarily of foreign currency forward exchange contracts and currency options. 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, the derivative instrument has been allocated to the currency which the underlying instrument has been hedging.

September 2011

US\$ million	Total	Total in scope ⁽¹⁾	USD	EUR	ZAR	GBP	Other
Financial assets							
Other non-current assets	104	25	–	12	9	–	4
Non-current derivative financial assets ⁽²⁾	41	41	414	(411)	38	–	–
Trade and other receivables	831	735	284	351	21	39	40
Current derivative financial assets ⁽²⁾	3	3	(2)	(52)	68	–	(11)
Cash and cash equivalents	639	639	130	225	278	1	5
		1,443	826	125	414	40	38
Financial liabilities							
Non-current interest-bearing borrowings	2,289	2,289	975	1,042	272	–	–
Other non-current liabilities	553	2	2	–	–	–	–
Current interest-bearing borrowings	449	449	–	249	200	–	–
Overdraft	1	1	–	–	–	–	1
Current derivative financial liabilities ⁽²⁾	10	10	9	–	–	1	–
Trade and other payables	1,065	840	145	475	208	–	12
		3,591	1,131	1,766	680	1	13
Foreign exchange gap		(2,148)	(305)	(1,641)	(266)	39	25

(1) This refers to items that are within the scope of IAS 39.

(2) The amount disclosed with respect to derivative instruments, reflects the currency which the derivative instrument is covering.

29. Financial instruments continued

Currency risk analysis continued

September 2010

US\$ million	Total	Total in scope ⁽¹⁾	USD	EUR	ZAR	GBP	Other
Financial assets							
Other non-current assets	105	29	2	13	13	–	1
Non-current derivative financial assets ⁽²⁾	19	19	422	(403)	–	–	–
Trade and other receivables	889	777	296	366	24	56	35
Current derivative financial assets ⁽²⁾	15	15	15	–	–	–	–
Cash and cash equivalents	792	792	337	320	128	1	6
		1,632	1,072	296	165	57	42
Financial liabilities							
Non-current interest-bearing borrowings	2,317	2,317	1,015	830	472	–	–
Current interest-bearing borrowings	691	691	136	490	65	–	–
Overdraft	5	5	4	1	–	–	–
Current derivative financial liabilities ⁽²⁾	3	3	(2)	(1)	6	–	–
Trade and other payables	1,270	991	221	436	286	18	30
		4,007	1,374	1,756	829	18	30
Foreign exchange gap		(2,375)	(302)	(1,460)	(664)	39	12

(1) This refers to items that are within the scope of IAS 39.

(2) The amount disclosed with respect to derivative instruments, reflects the currency which the derivative instrument is covering.

The above table does not indicate the group's foreign exchange exposure, it only shows the financial instruments assets and liabilities classified per underlying currency.

The group's foreign currency forward exchange contracts at September 2011 are detailed below:

US\$ million	2011		2010	
	Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value (unfavourable) favourable
Foreign currency				
Bought: US Dollar	4	–	7	–
Euro	(21)	–	43	–
ZAR	–	–	–	–
Sold: US Dollar	(109)	(8)	(232)	15
Euro	117	(1)	(98)	(2)
ZAR	(100)	4	(5)	–
	(109)	(5)	(285)	13

The fair value of foreign currency contracts has been computed by the group using the market data at the end of fiscal 2011.

All forward currency exchange contracts are valued at fair value with the resultant profit or loss included in net finance costs for the period.

Forward exchange contracts are used to hedge the group against potential unfavourable exchange rate movements that may occur on recognised financial assets and liabilities or planned future commitments.

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being September 2013.

As at the year-end, there was an open exposure of US\$49 million that has since been hedged.

29. Financial instruments continued

Sensitivity analysis – (loss) gain

Base currency (US\$ million)	Exposure	+10%	–10%
EUR	(10.0)	(0.9)	1.2
GBP	(1.0)	(0.1)	0.1
CHF	11.0	1.0	(1.2)
SEK	1.0	0.1	(0.2)
JPY	2.0	0.1	(0.2)
ZAR	(20.0)	(1.8)	2.2
Other currencies	(32.0)	(2.9)	3.6
Total	(49)	(4.5)	5.5

Based on the exposure as at the end of fiscal 2011, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a loss of US\$4.5 million or a gain of US\$5.5 million respectively.

During 2011, we have contracted non-deliverable average rate foreign exchange transactions for a total notional value of US\$145 million which were used as an overlay hedge of export sales. Since these contracts have all matured before the end of fiscal 2011, these constitute non-representative positions. The total impact on profit or loss amounts to a loss of US\$0.2 million.

Hedge accounting

1. Fair value hedges

The group has the following fair value hedges which qualify for hedge accounting:

Until June 2009, the group had fair value hedges which qualified for hedge accounting. As the hedging instrument was sold in 2009, hedge accounting was ceased. The result of the sale of the hedging instrument was booked to the income statement in 2009.

The final life-to-date fair value adjustment of the underlying bonds on the date of the sale of the swaps is amortised over the life of the initial hedge designation period and amounted to US\$46 million. In the course of 2010, US\$136 million of the underlying bonds have been redeemed prior to maturity and the corresponding amortisation had been booked immediately to the income statement. During 2011, Sappi repurchased and redeemed its US\$500 million 6.75% Guaranteed Notes due June 2012. This resulted in the immediate release to the income statement of the corresponding non-amortised portion of the fair value adjustment.

The table below discloses the impact of the amortisation on the profit and loss account:

Fiscal period	US\$ million
2009	4
2010	21
2011	18
2012	3
Total	46

Sappi Papier Holding issued US\$350 million Senior Secured Notes due 2021. The fixed rates of the bonds were swapped into six-month US Dollar LIBOR rates set in advance. The new hedge qualifies for fair value hedge accounting as all the material terms of the swaps match the terms of the underlying bond.

The bonds and the swaps are revalued on a monthly basis and show movements in line with changing market conditions. All market movements are reversed over time and the fair value of the bonds will at maturity revert to the nominal amount of the bonds. As the swaps were contracted at the same time as the issuance of the bonds, the designated benchmark value of the bonds corresponds to the nominal amount. The only income statement impact will be any residual ineffectiveness, which is not expected to be material. The initial mark-to-market value of the swaps of US\$2.1 million is reflecting the pricing of the swap and the difference between the mid-market curve, used for marking-to-market, and the effective market curve at which the swaps were contracted.

Sappi uses the REVALHedgeRx module (REVAL), a web-based application that provides treasury and risk management solutions. The application is supplied by Reval.Com, Inc., a financial technology company based in New York and is used to assess both the prospective and the retrospective effectiveness of a fair value hedge relationship.

29. **Financial instruments** [continued](#)1. **Fair value hedges** [continued](#)

The statistical method chosen to measure prospective and retrospective effectiveness is the linear regression analysis.

REVAL uses past data to demonstrate that a hedge relationship is expected to be highly effective in a prospective hedge effectiveness test.

The number of data points used to measure the effectiveness and the frequency of the data must be consistent over the life of the hedge for both prospective and retrospective testing and must be appropriate given the particularities of the hedge. It is therefore considered appropriate to use 60 monthly rolling data points. The monthly data points correspond to the historical Sappi month-end dates.

In order to create a complete set of data for the regression analysis, both the hedging instrument and the hedged item are back-dated at inception date by creating a proxy trade. Actual historical three-month US Dollar LIBOR curves are used to generate net present values of the proxy trades. As time passes, REVAL will update the regression by adding new actual observations and excluding the same number of the oldest simulated observations from the data set.

The prospective test is considered to be identical to the retrospective test, which implies that for the prospective test, the same past data (ie actual historical curves and remaining cash flows at each Sappi month-end date of the retrospective test) is used as for the retrospective test.

The swap was highly effective in a retrospective hedge effectiveness test.

Changes in fair value will represent period-to-period changes in 'clean' fair value (accruals of interest excluded).

The following is an analysis of the impact on pre-tax profit and loss for the period based on the consolidated accounts translated at average rates:

	2011	2010
US\$ million	At average rate favourable (unfavourable)	At average rate favourable
Fair value hedges		
Realised result on termination of interest rate swaps	1	–
Amortisation of de-designated hedges	18	21
Residual ineffectiveness	(3)	–
– gain on hedging instruments	19	–
– loss on hedged item	(22)	–
Total	16	21

29. Financial instruments continued

2. Cash flow hedges

Interest and currency swaps

In August 2009, Sappi entered into a fixed for fixed interest and currency swap, which has been designated as a hedge of future cash flows linked to fixed rate debt denominated in foreign currency. The swap corresponds to the underlying US\$300 million Senior Secured Notes due 2014. The swap converts all future US Dollar cash flows into Euro.

The effective gains and losses from changes in fair value of these derivatives are recorded in other comprehensive income. These accumulated gains and losses will be recycled to profit or loss in the same line as the hedged item at the moment the hedged item affects profit or loss (interest expense and foreign currency revaluation).

Sappi uses REVAL to assess the fair value of the IRCS and to measure the effectiveness of the cash flow hedge relationship.

At inception and at the beginning of each quarterly reporting period, the future effectiveness of the hedge relationship is assessed using the critical terms match.

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 counterparties of the hedging instruments are tested for creditworthiness on a quarterly basis. If the credit risk of a given counterparty would fall under the minimum required rating, any positive fair value of the hedging instrument would be adjusted to cater for the additional credit risk. This would not affect the hypothetical derivative.

US\$ million	2011		2010	
	Hedged notional	Interest result deferred in other comprehensive income	Hedged notional	Interest result deferred in other comprehensive income
Senior Secured Notes 2014	300	3	300	3

Ngodwana Mill expansion – acquisition of property, plant and equipment in foreign currency

Sappi started the expansion of its Ngodwana Mill in fiscal 2011 to increase its capacity to produce chemical cellulose. The group had a highly probable forecast transaction for the importation of property, plant and equipment from May 2011 which the group became firmly committed to in August 2011. The acquisition of the property, plant and equipment was hedged for foreign currency risk from May 2011 by forward exchange contracts which were designated as hedging instruments in a cash flow hedge.

The cash flows related to the expansion of Ngodwana began in September 2011 and are estimated to keep occurring until September 2013.

The hedging instrument is recorded at fair value on the balance sheet with changes in fair value recorded through other comprehensive income. 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.

The total net gain recognised in equity through other comprehensive income since the inception of the hedge amounted to US\$9 million for fiscal 2011. This is made up of a realised gain of US\$4 million relating to forward exchange contracts that have matured and an unrealised gain of US\$5 million resulting from forward exchange contracts yet to mature.

29. **Financial instruments** [continued](#)3. **Net investment hedges**

In February 2010, Sappi designated a hedge of a net investment for an indeterminate period of Sappi Papier Holding ('SPH') in SD Warren Holdings Corporation ('SFPNA') including all its subsidiaries and incorporating all net assets. The hedged risk is the currency risk associated with the spot retranslation of the net assets of the foreign operation into the functional currency of the consolidating parent entities at the level of which the hedge is designated, ie SPH for US Dollar-Euro spot exchange risk and Sappi Limited for US Dollar-ZAR spot exchange risk. The hedging instrument is non-derivative foreign currency external debt. At inception of the hedge, both the net investment in the foreign operation (as hedged item) and the foreign currency denominated debt (as hedging instrument) have been recorded at the spot rate in effect on the hedge designation date.

Exchange differences linked to the subsequent revaluation of the foreign currency debt in the books of the entity holding the debt are deferred in other comprehensive income to the extent effective until the foreign operation is disposed of or liquidated. These exchange differences are recognised in the income statement on disposal or liquidation as part of the gain or loss on disposal.

Ineffectiveness can only occur if the net investment carrying value of the foreign operation would fall below the designated amount of the hedging instruments. The net investment value of the foreign operation is validated each quarter. Ineffective gains and losses are booked directly to the income statement. As at the end of fiscal 2011, the hedge was 100% effective.

US\$ million	2011		2010	
	Hedged notional	Foreign exchange result deferred in other comprehensive income	Hedged notional	Foreign exchange result deferred in other comprehensive income
Bond 2012	–	–	30	–
Bond 2021	28	–	–	–
Bond 2032	219	(3)	227	2
	247	(3)	257	2
Net investment value of Sappi Fine Paper North America	372		310	

Commodity price risk

Commodity price risk arises mainly from price volatility and threats to security of raw material supply and other inputs to the production process.

A combination of contract and spot deals are used to manage price volatility and contain costs. Contracts are limited to the group's own use requirements. The group aims to improve its understanding of the direction, magnitude and duration of future commodity price changes and to develop commodity specific expertise.

The pulp swaps contracted in 2010 have matured in January 2011 and no other pulp swaps have been contracted during fiscal 2011.

There were no pulp swap contracts outstanding at the end of fiscal 2011.

US\$ million	Base currency	2011		2010	
		Contract amount (notional amount)	Fair value favourable	Contract amount (notional amount)	Fair value favourable (unfavourable)
Bleached Hardwood Kraft Pulp (BHKP) bought	US Dollar	–	–	1	0.2
Northern Bleached Softwood Kraft (NBSK) bought	Euro	–	–	2	(0.1)
		–	–	3	0.1

29. Financial instruments continued

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 20.

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

Liquidity risk management

September 2011

US\$ million	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows					Total
			0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years	
Financial assets								
Other non-current assets	25	25	12	1	–	4	8	25
Non-current derivative financial assets	41	41	4	4	8	28	–	44
Receive leg			30	30	95	405	–	560
Pay leg			(26)	(26)	(87)	(377)	–	(516)
Trade and other receivables	735	735	735	–	–	–	–	735
Current derivative financial assets	3	3	2	1	–	–	–	3
Receive leg			72	24	–	–	–	96
Pay leg			(70)	(23)	–	–	–	(93)
Cash and cash equivalents	639	639	639	–	–	–	–	639
Financial liabilities			1,392	6	8	32	8	1,446
Interest-bearing borrowings	2,289	2,460	85	85	380	1,511	1,333	3,394
Other non-current liabilities	2	2	–	–	1	1	–	2
Interest-bearing borrowings	449	463	372	99	–	–	–	471
Overdraft	1	1	1	–	–	–	–	1
Current derivative financial liabilities	10	10	10	–	–	–	–	10
Pay leg			222	–	–	–	–	222
Receive leg			(212)	–	–	–	–	(212)
Trade and other payables	840	840	791	9	–	–	–	800
			1,259	193	381	1,512	1,333	4,678
Liquidity gap			133	(187)	(373)	(1,480)	(1,325)	(3,232)

29. Financial instruments continued

Liquidity risk management

September 2010

US\$ million	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows					Total
			0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years	
Financial assets								
Other non-current assets	29	29	13	–	1	4	11	29
Non-current derivative financial assets	19	19	–	1	1	17	–	19
Receive leg			18	18	36	372	–	444
Pay leg			(18)	(17)	(35)	(355)	–	(425)
Trade and other receivables	777	777	776	–	1	–	–	777
Current derivative financial assets	15	15	17	–	–	–	–	17
Receive leg			267	–	–	–	–	267
Pay leg			(250)	–	–	–	–	(250)
Cash and cash equivalents	792	792	792	–	–	–	–	792
			1,598	1	3	21	11	1,634
Financial liabilities								
Interest-bearing borrowings	2,317	2,612	71	71	1,084	1,571	507	3,304
Non-current derivative financial liabilities	–	–	–	–	–	–	–	–
Pay leg			3	3	–	–	–	6
Receive leg			(3)	(3)	–	–	–	(6)
Interest-bearing borrowings	691	732	571	211	–	–	–	782
Overdraft	5	5	5	–	–	–	–	5
Current derivative financial liabilities	3	3	2	1	–	–	–	3
Pay leg			130	5	–	–	–	135
Receive leg			(128)	(4)	–	–	–	(132)
Trade and other payables	991	991	951	1	–	–	–	952
			1,600	284	1,084	1,571	507	5,046
Liquidity gap			(2)	(283)	(1,081)	(1,550)	(496)	(3,412)

29. Financial instruments continued

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for 2011 and 2010, included within the various categories on the face of the balance sheet.

The reported maturity analysis is calculated on an undiscounted basis.

September 2011

US\$ million	Total	Fair value hedge	Cash flow hedge	No hedge accounting	Maturity analysis ⁽¹⁾				
					Undiscounted cash flows				
					0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years
Classes of derivative financial instruments									
ASSETS									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	40	19	21	–	4	4	7	28	–
– receiving leg	506	111	395	–	30	30	59	405	–
– paying leg	(466)	(92)	(374)	–	(26)	(26)	(52)	(377)	–
Foreign exchange risk									
FX forward contracts	4	–	4	–	2	2	1	–	–
– receiving leg	132	–	100	32	72	24	36	–	–
– paying leg	(128)	–	(96)	(32)	(70)	(22)	(35)	–	–
LIABILITIES									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	–	–	–	–	–	–	–	–	–
– paying leg	–	–	–	–	–	–	–	–	–
– receiving leg	–	–	–	–	–	–	–	–	–
Foreign exchange risk									
FX forward contracts	10	–	–	10	10	–	–	–	–
– paying leg	222	–	–	222	222	–	–	–	–
– receiving leg	(212)	–	–	(212)	(212)	–	–	–	–

(1) The reported maturity analysis is calculated on an undiscounted basis.

29. Financial instruments continued

September 2010

	Maturity analysis ⁽¹⁾								
	Total	Fair value hedge	Cash flow hedge	No hedge accounting	Undiscounted cash flows				
					0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years
Classes of derivative financial instruments									
ASSETS									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	19	–	19	–	–	1	1	17	–
– receiving leg	422	–	422	–	18	18	36	372	–
– paying leg	(403)	–	(403)	–	(18)	(17)	(35)	(355)	–
Foreign exchange risk									
FX forward contracts	15	–	–	15	17	–	–	–	–
– receiving leg	265	–	–	265	267	–	–	–	–
– paying leg	(250)	–	–	(250)	(250)	–	–	–	–
LIABILITIES									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	–	–	–	–	–	–	–	–	–
– paying leg	6	–	–	6	3	3	–	–	–
– receiving leg	(6)	–	–	(6)	(3)	(3)	–	–	–
Foreign exchange risk									
FX forward contracts	3	–	–	3	2	1	–	–	–
– paying leg	135	–	–	135	130	5	–	–	–
– receiving leg	(132)	–	–	(132)	(128)	(4)	–	–	–

(1) The reported maturity analysis is calculated on an undiscounted basis.

29. Financial instruments continued

Fair values

All financial instruments are carried at fair value or amounts that approximate fair value except for the non-current interest-bearing borrowings at fixed rates of interest. The carrying amounts for cash, cash equivalents, accounts receivable, certain investments, accounts payable and current portion of interest-bearing borrowings approximate fair value due to the short-term nature of these instruments. Where these fixed rates of interest have been hedged into variable rates of interest and fair value hedge accounting has been applied, then the non-current interest-bearing borrowings are carried at fair value calculated by discounting all future cash flows at market data valid at closing date. The same data is used to value the related hedging instrument.

The best evidence of the fair value of a financial asset or financial liability at initial recognition is the transaction price, unless the fair value of the instrument is evidenced by comparison with other current observable market transactions. Where market prices or rates are available, such market data is used to determine the fair value of financial assets and financial liabilities.

If quoted market prices are unavailable, the fair value of financial assets and financial liabilities is calculated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, market-related inputs are used to measure fair value at the balance sheet date.

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.

Fair values of foreign exchange and interest rate derivatives are calculated by using recognised treasury tools which use discounted cash flow techniques based on effective market data valid at closing date. The fair values of loan commitments are based on the commitment fees effectively paid.

29. Financial instruments continued

September 2011

US\$ million	Total balance	Categories according to IAS 39					Total in scope	Fair value
		Out of scope IAS 39 ⁽¹⁾	Held for trading	Loans and receivables	Held to maturity	Available-for-sale		
Classes of financial instruments								
NON-CURRENT ASSETS								
Other non-current assets⁽²⁾	104	79	–	5	–	20	25	25
Loans to associates (minority interests)		–	–	3	–	–	3	3
AFS – Club debentures		–	–	–	–	3	3	3
AFS – Investment funds		–	–	2	–	17	19	19
Other assets		79	–	–	–	–	–	–
Non-current derivative financial assets	41	–	41	–	–	–	41	41
CURRENT ASSETS								
Trade and other receivables	831	96	–	735	–	–	735	735
Trade receivables		–	–	700	–	–	700	700
Other accounts receivable – current		96	–	35	–	–	35	35
Current derivative financial assets	3	–	3	–	–	–	3	3
Cash and cash equivalents	639	–	–	639	–	–	639	639
Overnight deposits and current accounts (including petty cash)		–	–	271	–	–	271	271
Time deposit (<3 months)		–	–	324	–	–	324	324
Money market funds		–	–	44	–	–	44	44

(1) This refers to items that are outside the scope of IAS 39.

(2) Includes license fees and brands (refer note 12).

29. Financial instruments continued

September 2011

US\$ million	Total balance	Categories according to IAS 39			Total in scope	Fair value
		Out of scope IAS 39 ⁽¹⁾	Held for trading	Other financial liabilities		
Classes of financial instruments						
NON-CURRENT LIABILITIES						
Interest-bearing borrowings	2,289	–	–	2,289	2,289	2,460
Bank loans payable (> 1 year)						
– including syndicated loans		–	–	78	78	80
Bonds		–	–	1,809	1 809	1,975
Financial leasing liabilities		–	–	22	22	25
Securitisation debt		–	–	368	368	368
Secured loans		–	–	12	12	12
Other non-current liabilities	553	551	–	2	2	2
CURRENT LIABILITIES						
Interest-bearing borrowings	449	–	–	449	449	463
Bank loans payable (< 1 year)						
– including syndicated loans		–	–	93	93	93
Current portion of other non-current loans payable		–	–	197	197	211
Financial leasing liabilities		–	–	14	14	14
Secured loans (< 1 year)		–	–	145	145	145
Overdraft						
Bank overdrafts (< 3 months)	1	–	–	1	1	1
Current derivative financial liabilities	10	–	10	–	10	10
Trade and other payables	1,065	225	–	840	840	840
Accruals		225	–	243	243	243
Accounts payable to associates		–	–	4	4	4
Other accounts payable – current		–	–	593	593	593

(1) This refers to items that are outside the scope of IAS 39.

29. Financial instruments continued

September 2010

US\$ million	Total balance	Out of scope IAS 39 ⁽¹⁾	Categories according to IAS 39				Total in scope	Fair value	
			Held for trading	Loans and receivables	Held to maturity	Available-for-sale			
Classes of financial instruments									
NON-CURRENT ASSETS									
Other non-current assets ⁽²⁾	105	76	–	6	–	23	29	29	
Loans to associates (minority interests)		–	–	4	–	–	4	4	
AFS – Club debentures		–	–	–	–	2	2	2	
AFS – Investment funds		–	–	2	–	19	21	21	
Other assets		76	–	–	–	2	2	2	
Non-current derivative financial assets	19	–	19	–	–	–	19	19	
CURRENT ASSETS									
Trade and other receivables	888	111	–	773	–	4	777	777	
Trade receivables		–	–	740	–	–	740	740	
Other accounts receivable – current		111	–	33	–	4	37	37	
Current derivative financial assets	15	–	15	–	–	–	15	15	
Cash and cash equivalents	792	–	–	792	–	–	792	792	
Overnight deposits and current accounts (including petty cash)		–	–	115	–	–	115	115	
Time deposits (< 3 months)		–	–	676	–	–	676	676	
Money market funds		–	–	1	–	–	1	1	

(1) This refers to items that are outside the scope of IAS 39.

(2) Includes license fees and brands (refer note 12).

29. Financial instruments continued

September 2010

US\$ million	Total balance	Categories according to IAS 39			Total in scope	Fair value
		Out of scope IAS 39 ⁽¹⁾	Held for trading	Other financial liabilities		
Classes of financial instruments						
NON-CURRENT LIABILITIES						
Interest-bearing borrowings	2,317	–	–	2,317	2,317	2,612
Bank loans payable (> 1 year)						
– including syndicated loans		–	–	103	103	107
Bonds		–	–	1,796	1,796	2,052
Financial leasing liabilities		–	–	39	39	34
Secured loans		–	–	379	379	419
CURRENT LIABILITIES						
Interest-bearing borrowings	691	–	–	691	691	732
Bank loans payable (< 1 year)						
– including syndicated loans		–	–	96	96	96
Current portion of other non-current loans payable		–	–	62	62	62
Financial leasing liabilities		–	–	13	13	13
Secured loans (< 1 year)		–	–	148	148	182
Securitisation debt		–	–	372	372	379
Overdraft						
Bank overdrafts (< 3 months)	5	–	–	5	5	5
Current derivative financial liabilities	3	–	3	–	3	3
Trade and other payables	1,271	280	–	991	991	991
Accruals		278	–	249	249	249
Accounts payable to associates		–	–	1	1	1
Other accounts payable – current		2	–	741	741	741

(1) This refers to items that are outside the scope of IAS 39.

29. **Financial instruments** [continued](#)

Hierarchy of fair value measurements for financial instruments measured at fair value on the balance sheet:

US\$ million	2011				2010			
	Fair value hierarchy				Fair value hierarchy			
	Total fair value	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3
NON-CURRENT ASSETS								
Other non-current assets								
AFS – Club debentures	3	3	–	–	2	2	–	–
AFS – Investment funds	17	17	–	–	19	19	–	–
Non-current derivative financial assets	41	–	41	–	19	–	19	–
CURRENT ASSETS								
Current derivative financial assets	3	–	3	–	15	–	15	–
	64	20	44	–	55	21	34	–
NON-CURRENT LIABILITIES								
Non-current derivative financial liabilities	–	–	–	–	–	–	–	–
CURRENT LIABILITIES								
Current derivative financial liabilities	10	–	10	–	3	–	3	–
	10	–	10	–	3	–	3	–

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 debtor management is the responsibility of regional management and is co-ordinated on a 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 the credit policies and procedures. Appropriate collateral is obtained to minimise risk. Exposures are monitored on an ongoing basis utilising various reporting tools which highlight potential risks.

In the event of deterioration of credit risk, the appropriate measures are taken by the regional credit management. 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 57% of our trade receivables are credit insured.

Quantitative disclosures on credit risk are included in note 16 of the annual financial statements.

30. Related party transactions

Transactions between group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

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

	Sale of goods			Purchases of goods			Amounts owed by related parties		Amounts owed to related parties	
US\$ million	2011	2010	2009	2011	2010	2009	2011	2010	2011	2010
Joint ventures:										
– Jiangxi Chenming Paper Company Limited	1.1	1.1	2.0	0.7	0.6	1.5	–	–	1.8	0.9
– Sapin S.A.	0.8	0.5	0.4	35.1	22.1	21.3	0.1	0.1	3.9	0.6
– VOF Warmtekracht ⁽¹⁾	–	10.8	38.1	–	7.1	25.0	–	–	–	–
– Umkomaas Lignin (Pty) Limited	6.5	5.6	0.9	0.4	0.3	–	0.8	1.8	–	–
– Papierholz Austria GmbH	–	–	–	105.1	90.5	68.5	–	–	0.2	8.1
– Energie Biberist AG ⁽²⁾	–	–	–	31.1	38.6	–	–	–	1.1	3.8
	8.4	18.0	41.4	172.4	159.2	116.3	0.9	1.9	7.0	13.4

(1) The entity was acquired by Sappi in fiscal 2010 and is fully consolidated into the group accounts.

(2) The entity provided Biberist Mill with steam and electricity. Biberist Mill was closed in the last quarter of fiscal 2011.

A description concerning the joint venture, Timber IV, is discussed in note 13.

Sales of goods and purchases to and from related parties were made on an arm's length basis. The amounts outstanding at balance sheet date are unsecured and will be settled in cash. Guarantees given by the group are disclosed in note 26. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Shareholders

The company's shares are widely held by shareholders across the world. The principal shareholders of the company are disclosed in this annual report on page 70.

Broad-based Black Economic Empowerment (BEE) transaction

Refer notes 17 and 28 for details of our BEE transaction.

Key management personnel

Key management personnel include our executive directors and prescribed officers. The details of our key management personnel, including emoluments, interests in contracts and participation in The Sappi Limited Share Incentive Trust (Scheme) and The Sappi Limited Performance Share Incentive Trust (Plan) are disclosed in notes 33 to 35.

31. Events after balance sheet date

In October 2011, Sappi Southern Africa utilised some of its cash resources to repay its 10.64% fixed rate public bond of ZAR1,000 million.

In November 2011, the board approved an investment of approximately US\$170 million to convert the Cloquet Mill pulp mill in North America to produce chemical cellulose.

32. Environmental matters

We are subject to a wide range of environmental laws and regulations in the various jurisdictions in which we operate which have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration in our businesses, and we expect to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions such as carbon dioxide (CO₂) and other greenhouse gases (GHG), waste water discharges and solid and hazardous wastes. We closely monitor the potential for changes in pollution control laws and take actions with respect to our operations accordingly.

North America

Sappi Fine Paper North America is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and their respective state counterparts and implementing regulations.

On 29 June 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the 'Commissioner'), issued a decision requiring Sappi Fine Paper North America to install a fish passage at the Cumberland Mill's dam associated with the Westbrook Mill, the most downriver dam on the Presumpscot River. Pursuant to a final order issued by the Commissioner, construction of the fish passage must be completed by 01 May 2013. Costs associated with construction and related engineering of this fish passage are estimated to be approximately US\$4 million to US\$5 million. Fish passage at the next dam upstream, the Saccarappa hydrofacility, must be operational two years after the Cumberland Mill's dam fish passage is completed, during the spring of 2015. Installation of the Cumberland Mill's dam fish passage may also trigger, over a period of approximately ten years, the obligation to install fish passages for at least some of Sappi Fine Paper North America's other upstream hydrofacilities as well, to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of all fish passages associated with Sappi's dams along the Presumpscot River is estimated to be in the range of approximately US\$18 million to US\$28 million, which includes costs expected to be incurred in the next several years for the fish passage on the Cumberland Mill's dam and Saccarappa hydrofacility as well as estimated costs for upstream fish passages which may be incurred in the future. Because construction of additional fish passages depends on several future contingencies, including the results of data gathering on fish populations in the river, we do not know the precise timing for incurring related future costs, assuming such obligations are triggered.

We closely monitor state, regional and Federal GHG initiatives and other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol, and has not yet adopted a Federal program for regulating GHG emissions, Congress has considered comprehensive federal legislation regarding climate change and various regional initiatives regarding emissions associated with climate change are either in effect or proposed. In addition, the US Environmental Protection Agency (USEPA) has finalised or proposed several rules relating to emissions reporting and emissions reductions, including rules issued in March 2011 known as 'Boiler MACT' which would establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers. In May 2011, the USEPA stayed the Boiler MACT rules indefinitely. When announcing the stay, the USEPA stated that the stay will remain in effect until it completed an ongoing reconsideration process with respect to certain requirements in the rules or until various court proceedings concerning Boiler MACT were completed, whichever came first. Based on motions before the court, it is not clear whether the reconsideration process or whether the litigations will be resolved first, or what the timing for completion or implementation of a revised rule would be. Capital expenditures, currently estimated to range between US\$10 million and US\$15 million, could be required for emissions control equipment at Sappi Fine Paper North America's mills in order to comply with the Boiler MACT rules as proposed in March 2011 although the anticipated impact of the rules as well as the related costs may be subject to revision in the future, particularly in light of the on-going reconsideration process and litigation. The nature, scope, and timing of any proposed legislation, including climate change legislation and other proposed rules regarding GHGs is highly uncertain and, currently, we do not know what the precise effect, if any, such legislation will have on Sappi Fine Paper North America, both financially and on our operations.

Europe

Our European facilities are subject to extensive environmental regulation in the various countries in which we operate. The air emissions, water discharges and pollution control requirements of the permits of our mill operations in the European Union are based on Best Available Techniques (BAT). These are defined in the BAT reference documents (BREFs) of the Integrated Pollution Prevention and Control directive (IPPC). These documents are currently being revised but this exercise is taking longer than initially expected. The revised documents are expected to be adopted in early 2013.

32. Environmental matters continued

Other laws and regulations that apply to all our facilities in the European Union include:

- The national European laws that regulate the waste disposal framework and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, re-use and recycling (material or thermal) are the preferred waste management methods. Consequently most of the waste material generated at our facilities is recycled. The small share of waste material that is still placed in landfills is inert material (ash or building rubble).
- The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonise existing European and national regulations to provide better protection of human health and the environment is not directly applicable to the pulp and paper industry. It does, however, apply to a number of raw materials that we source. We also registered some intermediate substances in our pulp production processes.
- A timber and timber product regulation adopted by the European Commission, the obligations, of which, will also apply to our European operations. The requirements apply as from 03 March 2013. We think that we are well prepared for these new requirements as we have an effective certification and risk assessment system in place which allows us to trace wood and timber material back to its source.
- An agreement with the national government in The Netherlands which we, together with other paper manufacturers, have signed to improve environmental management and further limit emissions.

The countries within which Sappi operates in Europe have all ratified the Kyoto Protocol and we have developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reductions cost effectively.

South Africa

In Southern Africa, the environmental regulatory legal framework is still evolving, as is the enforcement process. We work with government authorities in striving to find a balance between economic development and social and environmental considerations.

The Minister of Water and Environmental Affairs considered it necessary to strengthen enforcement of legislation by the Environmental Management Inspectors (EMIs) in her department. The EMIs prioritised various sectors of industry and inspected those sectors in the course of the past four years. From 2008 to 2011, the EMIs focused attention on the pulp and paper sector, signaling more stringent enforcement for Sappi mills.

Our Ngodwana, Enstra and Tugela Mills have undergone comprehensive initial inspections with subsequent follow up audits done by the EMIs during the course of 2008 to 2011. We are continuing to make progress on addressing the issues that were identified by the inspectors and, as appropriate, have been voluntarily submitting progress reports to the EMI lead team member's office. The purpose of submitting regular updates is to maintain a sound working relationship with the EMI based on effective communication in a transparent manner.

The primary South African environmental laws affecting our operations are:

- The National Water Act that addresses the water shortages in South Africa and relates to both our manufacturing and our forestry operations. Abstraction of water, discharge of effluent and management of forests are all regulated under a license system in which first allocations go to, among other things, human consumption, before allocations are made to agriculture, industry and forestry. All water use is subject to a charge.
- The National Environmental Management Act that provides for the integration of environmental considerations into all stages of any development process. The Act includes a number of significant principles, such as private prosecution of companies in the interest of the protection of the environment and the establishment of aggressive waste reduction goals.
- The National Environmental Management Act: Air Quality Act was promulgated at the beginning of 2005 and has now replaced the 1965 Atmospheric Pollution Prevention Act. The new Act will impose more stringent compliance standards on our operations over a period of five to ten years.
- The National Environmental Management Act: Waste Act was enacted on 01 July 2009. The Waste Act regulates the use, re-use, recycling and disposal of waste and regulates waste management by way of a licensing system.
- The Kyoto Protocol: South Africa has also ratified the Kyoto Protocol, which obligates signatory countries to take measures to reduce their greenhouse gas emissions through the initial commitment period, which expires in December 2012. It is unclear whether there will be a successor agreement to the Kyoto Protocol post-2012, or what the implications will be for signatory countries if the Kyoto Protocol is not extended past the initial commitment period.

The requirements under these statutes, predominantly with respect to air emissions from our mills, will result in additional capital and operating expenditures, some of which may be significant. Newly enacted legislation in South Africa typically provides for a phase-in period for new standards. As a result, the impact of new standards, contained in the Air Quality Act and the Waste Act on our mills, is expected to be distributed over the next five to ten years. We are in frequent contact with regulatory authorities during the phasing in of these requirements, in an attempt to manage the transition period.

33. Directors' and prescribed officers' remuneration

Non-executive directors

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

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

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

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

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

The extreme volatility of currencies, in particular the Rand/US Dollar exchange rate in the past few years, caused distortions of the relative fees in US Dollars paid to individual directors.

Non-executive directors' fees are proposed by the executive committee, agreed by the compensation committee, recommended by the board and approved at the annual general meeting by the shareholders.

US\$	2011			
	Board fees	Committee fees	Travel allowance	Total
M Feldberg	84,750	53,800	11,600	150,150
J E Healey	56,450	99,020	11,600	167,070
D Konar	39,438	74,320	5,800	119,558
H C Mamsch ⁽¹⁾	14,692	13,697	–	28,389
B Radebe	39,438	12,791	5,800	58,029
A N R Rudd	58,769	49,638	11,600	120,007
K Osar	56,450	28,500	11,600	96,550
J McKenzie	39,438	37,368	5,800	82,606
D C Cronje	287,449	–	5,800	293,249
N P Mageza	39,438	33,236	5,800	78,474
R Thummer	58,769	24,819	11,600	95,188
M V Moosa	39,438	–	5,800	45,238
M A Fallon ⁽²⁾	4,897	–	2,900	7,797
G P F Beurskens ⁽³⁾	–	–	–	–
	819,416	427,189	95,700	1,342,305

33. Directors' and prescribed officers' remuneration continued

Non-executive directors continued

US\$	2010			
	Board fees	Committee fees	Travel allowance	Total
D C Brink ⁽⁴⁾	12,711	12,250	2,800	27,761
M Feldberg	66,600	49,183	14,000	129,783
J E Healey	55,100	75,000	14,000	144,100
D Konar	33,918	62,056	5,600	101,574
H C Mamsch	56,818	81,949	2,800	141,567
B Radebe	33,918	10,999	5,600	50,517
A N R Rudd	56,818	48,077	5,600	110,495
F A Sonn ⁽⁴⁾	8,479	2,750	2,800	14,029
K Osar	55,100	27,500	11,200	93,800
J McKenzie	33,918	27,860	5,600	67,378
D C Cronje	235,662	–	2,800	238,462
N P Mageza ⁽⁵⁾	25,438	18,572	2,800	46,810
R Thummer ⁽⁶⁾	37,879	11,206	2,800	51,885
M V Moosa ⁽⁷⁾	5,653	–	–	5,653
	718,012	427,402	78,400	1,223,814

US\$	2009			
	Board fees	Committee fees	Travel allowance	Total
D C Brink	39,496	38,054	5,400	82,950
M Feldberg	54,000	51,700	13,500	119,200
J E Healey	54,000	73,500	13,500	141,000
D Konar	26,350	51,811	5,400	83,561
H C Mamsch	55,615	80,072	8,100	143,787
B Radebe	26,349	8,543	5,400	40,292
A N R Rudd	55,615	47,046	8,100	110,761
F A Sonn	26,350	8,543	5,400	40,293
K Osar	54,000	27,000	13,500	94,500
J McKenzie	26,350	23,215	5,400	54,965
D C Cronje	183,059	–	5,400	188,459
	601,184	409,484	89,100	1,099,768

(1) Retired in December 2010.

(2) Appointed in September 2011.

(3) Appointed in October 2011.

(4) Retired in December 2009.

(5) Appointed in January 2010.

(6) Appointed in February 2010.

(7) Appointed in August 2010.

33. Directors' and prescribed officers' remuneration continued

Executive directors

Our pay philosophy is to pay our executive directors' a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

2011					
US\$	Salary	Prior year bonuses and performance related payments ⁽¹⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
R J Boëttger ⁽²⁾	806,887	908,619	8,011	234,772	1,958,289
M R Thompson ⁽³⁾	401,038	378,188	11,794	211,616	1,002,636
	1,207,925	1,286,807	19,805	446,388	2,960,925

2010					
US\$	Salary	Prior year bonuses and performance related payments ⁽¹⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
R J Boëttger	710,148	–	7,605	206,244	923,997
M R Thompson	339,708	–	9,280	117,927	466,915
	1,049,856	–	16,885	324,171	1,390,912

2009					
US\$	Salary	Prior year bonuses and performance related payments ⁽¹⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
R J Boëttger	551,185	347,548	–	171,550	1,070,283
M R Thompson	261,921	102,582	357	152,230	517,090
	813,106	450,130	357	323,780	1,587,373

(1) Bonuses and performance related payments are in respect of the previous year's performance paid in the current year.

(2) R J Boëttger received an 8% increase on his South African portion (70% of total salary), and a 3.25% increase on his off-shore portion of his salary (30% of total salary). R J Boëttger's compensation package in US\$ terms increased by 112% from 2010 to 2011.

(3) M R Thompson received a 10% salary increase on his South African portion (70% of total salary), and 2% increase on his off-shore portion (30% of total salary) of his salary. M R Thompson's compensation package in US\$ terms increased by 114.7% from 2010 to 2011.

The seemingly large increases in compensation for R J Boëttger and M R Thompson is due to no bonus and performance related payments in fiscal 2010.

Details of directors' service contracts

The executive directors have service contracts with notice periods of two years or less. These notice periods are in line with international norms for executive directors.

None of the non-executive directors have service contracts with the company.

None of the directors have provisions for predetermined compensation on termination of their contracts exceeding two years' gross remuneration and benefits-in-kind.

33. Directors' and prescribed officers' remuneration continued

Prescribed officers⁽¹⁾

As with our executive directors, our pay philosophy is to pay our prescribed officers a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

2011					
US\$	Salary	Prior year bonuses and performance related payments ⁽²⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	772,280	364,740	3,487	131,898	1,272,405
Officer 2	423,659	391,576	–	39,145	854,380
Officer 3	368,734	317,555	6,417	68,789	761,495
Officer 4	335,280	267,110	10,940	125,399	738,729
Officer 5	304,108	222,697	10,792	150,704	688,301
Officer 6	264,440	225,295	9,045	94,342	593,122
Officer 7	658,738	359,782	595	70,030	1,089,145
	3,127,239	2,148,755	41,276	680,307	5,997,577

2010					
US\$	Salary	Prior year bonuses and performance related payments ⁽²⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	728,937	27,502	3,415	100,418	860,272
Officer 2	411,320	45,891	–	22,482	479,693
Officer 3	266,197	102,437	3,746	27,123	399,503
Officer 4	287,719	–	8,812	85,824	382,355
Officer 5	260,322	–	9,263	92,340	361,925
Officer 6	231,353	–	2,246	80,261	313,860
Officer 7	360,735	–	2,835	88,832	452,402
	2,546,583	175,830	30,317	497,280	3,250,010

2009					
US\$	Salary	Prior year bonuses and performance related payments ⁽²⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	644,916	222,620	(3,491)	146,152	1,010,197
Officer 2	364,000	255,763	2,529	23,920	646,212
Officer 3	239,909	71,896	(2,999)	33,318	342,124
Officer 4	223,560	86,935	479	90,952	401,926
Officer 5	210,626	78,798		90,069	379,493
Officer 6	169,965	64,160	1,867	69,118	305,110
Officer 7	250,921	143,947	2,277	66,476	463,621
	2,103,897	924,119	662	520,005	3,548,683

(1) The prescribed officers of the group consist of M Gardner; R Hope; J Labuschagne (terminated 30 November 2011); A Rossi; L Swartz; A Thiel and B Wiersum. They form the group executive committee together with the executive directors.

(2) Bonuses and performance related payments are in respect of the previous year's performance paid in the current year.

34. Directors' and prescribed officers' interests

The following table sets out the directors' and prescribed officers' interests in shares and other securities in Sappi Limited. For the purposes of this table, directors' and prescribed officers' interests include shares that are owned either directly or indirectly as well as those shares in which directors and prescribed officers have vested obligations to purchase or to repay loans in terms of the Sappi Limited Share Incentive Trust.

Director	2011			2010		
	Direct interests		Indirect interests	Direct interests		Indirect interests
	Beneficial	Vested obligations to purchase or repay loans	Beneficial	Beneficial	Vested obligations to purchase or repay loans	Beneficial
Non-executive directors						
R Thummer	7,542	–	–	7,542	–	–
M V Moosa ⁽¹⁾	–	–	626,998	–	–	626,998
Executive directors						
M R Thompson ⁽²⁾	20,517	39,600	–	20,517	72,600	–
R J Boëtger	122,038	–	–	85,000	–	–
Prescribed officers						
Officer 1	11,000	–	–	11,000	–	–
Officer 2	–	–	–	–	–	–
Officer 3	13,419	–	–	3,459	–	–
Officer 4	12,243	–	–	6,917	33,000	–
Officer 5	109,737	39,600	–	96,052	72,600	–
Officer 6	47,184	2,200	–	37,990	19,800	–
Officer 7	24,105	22,000	–	3,459	44,000	–
Total	367,785	103,400	626,998	271,936	242,000	626,998

(1) M V Moosa holds a 31.8% share of Lereko Investment (Pty) Ltd which holds a total of 1,971,693 Sappi Limited shares as part of the BEE Transaction described in notes 17 and 28. M V Moosa was appointed a director of the company after the conclusion of the BEE Transaction.

(2) M R Thompson purchased 142,000 of the Sappi Senior Secured Notes due 2014 at a total cost of €144,837.16.

There have been no changes in the direct or indirect beneficial interests of the directors and their associates between fiscal year-end and the date of this report.

Directors' interests in contracts

Meyer Feldberg, a non-executive director of the company, disclosed his role as senior advisor of Morgan Stanley & Co. Limited, a financial advisor to Sappi, and Morgan Stanley South Africa (Pty) Limited, a transaction sponsor to Sappi Limited.

Other than M Feldberg's role as senior advisor of Morgan Stanley & Co. Limited, M V Moosa's interest in the BEE Transaction described above and in note 28, and M R Thompson's interest in the Senior Secured Notes due 2014, the directors have certified that they did not have any material interest in any significant transaction with either the company or any of its subsidiaries, other than those on a normal employment basis.

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

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

Executive directors

	R J Boëtger		M R Thompson		Total 2011	Total 2010
	Allocated price	No of shares	Allocated price	No of shares	No of shares	No of shares
Outstanding at beginning of year						
Number of shares held		679,000		408,200	1,087,200	968,000
Issue 27			ZAR62.34	33,000		
Issue 28a			ZAR47.08	39,600		
Issue 29			ZAR46.51	39,600		
Performance shares 31a	ZAR11.06	220,000				
Performance shares 32	ZAR11.06	110,000	ZAR11.06	88,000		
Performance shares 34		154,000		88,000		
Performance shares 35		195,000		120,000		
Offered and accepted during the year						
Performance shares 35						315,000
Performance shares 36		195,000		88,000	283,000	
Paid for during the year						
Number of shares		(110,000)		–	(110,000)	–
Returned, lapsed and forfeited during the year						
Number of shares		(110,000)		(33,000)	(143,000)	(195,800)
Outstanding at end of year						
Number of shares held		654,000		463,200	1,117,200	1,087,200
Issue 28a			ZAR47.08	39,600		
Issue 29			ZAR46.51	39,600		
Performance shares 32	ZAR11.06	110,000	ZAR11.06	88,000		
Performance shares 34		154,000		88,000		
Performance shares 35		195,000		120,000		
Performance shares 36		195,000		88,000		

Performance shares are issued when all conditions per note 28 are met. The position of participants in regard to the rights offer is also explained in note 28.

Expiry dates

Issue 27	13 February 2011
Issue 28a	30 December 2011
Issue 29	13 December 2012
Performance shares 31a	02 July 2011
Performance shares 32	12 December 2011
Performance shares 34	22 December 2012
Performance shares 35	09 December 2013
Performance shares 36	03 December 2014

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

Prescribed officers

	Officer 1		Officer 2		Officer 3	
	Allocated price	No of shares	Allocated price	No of shares	Allocated price	No of shares
Outstanding at beginning of year						
Number of shares held		406,000		413,700		209,800
Issue 27			ZAR62.34	5,500		
Issue 28			ZAR47.08	11,000	ZAR47.08	1,980
Issue 28a						
Issue 29			ZAR46.51	17,600	ZAR46.51	4,620
Performance shares 30a1	ZAR11.06	110,000				
Performance shares 31			ZAR11.06	28,600	ZAR11.06	28,600
Performance shares 31a3				55,000		
Performance shares 32	ZAR11.06	88,000			ZAR11.06	39,600
Performance shares 33			ZAR11.06	88,000		
Performance shares 34		88,000		88,000		55,000
Performance shares 35		120,000		120,000		80,000
Offered and accepted during the year						
Performance shares 35						
Performance shares 36		88,000		88,000		65,000
Paid for during the year						
Number of shares		(55,000)		(41,800)		(14,300)
Returned, lapsed and forfeited during the year						
Number of shares		(55,000)		(47,300)		(14,300)
Outstanding at end of year						
Number of shares held		384,000		412,600		246,200
Issue 27			ZAR62.34			
Issue 28			ZAR47.08	11,000	ZAR47.08	1,980
Issue 28a						
Issue 29			ZAR46.51	17,600	ZAR46.51	4,620
Performance shares 32	ZAR11.06	88,000			ZAR11.06	39,600
Performance shares 33			ZAR11.06	88,000		
Performance shares 34		88,000		88,000		55,000
Performance shares 35		120,000		120,000		80,000
Performance shares 36		88,000		88,000		65,000

Performance shares are issued when all conditions per note 28 are met. The position of participants in regard to the rights offer is also explained in note 28.

Expiry dates

Issue 27	13 February 2011
Issue 28	14 January 2012
Issue 28a	30 December 2011
Issue 29	13 December 2012
Performance shares 30a1	29 January 2011
Performance shares 31	31 May 2011
Performance shares 31a3	10 September 2011
Performance shares 32	12 December 2011
Performance shares 33	19 March 2012
Performance shares 34	22 December 2012
Performance shares 35	09 December 2013
Performance shares 36	03 December 2014

Officer 4		Officer 5		Officer 6		Officer 7		Total 2011	Total 2010
Allocated price	No of shares	Allocated price	No of shares	Allocated price	No of shares	Allocated price	No of shares	No of shares	No of shares
	280,600		437,200		260,400		456,600	2,464,300	2,124,100
ZAR62.34	33,000	ZAR62.34	33,000	ZAR62.34	17,600	ZAR62.34	22,000		
ZAR47.08	33,000								
		ZAR47.08	39,600	ZAR47.08	17,600	ZAR47.08	22,000		
ZAR46.51	33,000	ZAR46.51	39,600	ZAR46.51	30,800	ZAR46.51	28,600		
ZAR11.06	30,800	ZAR11.06	66,000	ZAR11.06	26,400	ZAR11.06	88,000		
ZAR11.06	41,800	ZAR11.06	77,000	ZAR11.06	33,000	ZAR11.06	88,000		
	44,000		77,000		55,000		88,000		
	65,000		105,000		80,000		120,000		
	50,000		55,000		55,000		–	401,000	690,000
	(15,400)		(33,000)		(13,200)		(44,000)	(216,700)	(11,000)
	(48,400)		(66,000)		(30,800)		(66,000)	(327,800)	(338,800)
	266,800		393,200		271,400		346,600	2,320,800	2,464,300
ZAR47.08	33,000	ZAR47.08	39,600	ZAR47.08	17,600	ZAR47.08	22,000		
ZAR46.51	33,000	ZAR46.51	39,600	ZAR46.51	30,800	ZAR46.51	28,600		
ZAR11.06	41,800	ZAR11.06	77,000	ZAR11.06	33,000	ZAR11.06	88,000		
	44,000		77,000		55,000		88,000		
	65,000		105,000		80,000		120,000		
	50,000		55,000		55,000				

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

Executive directors

Director		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
September 2011					
R J Boëttger	Performance Plan 31a	10 August 2011	50,000	ZAR 0,00	ZAR 25,20
	Performance Plan Rights 31a	10 August 2011	60,000	ZAR 20,27	ZAR 25,20
			110,000		
September 2010					
None					

Prescribed officers		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
September 2011					
Officer 1	Performance Plan	29 January 2011	25,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	29 January 2011	30,000	ZAR20.27	ZAR36.43
			55,000		
Officer 2	Performance Plan	20 December 2010	19,000	ZAR0.00	ZAR33.80
	Performance Plan Rights	20 December 2010	22,800	ZAR20.27	ZAR33.80
			41,800		
Officer 3	Performance Plan	31 May 2011	6,500	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	7,800	ZAR20.27	ZAR36.43
			14,300		
Officer 4	Performance Plan	31 May 2011	7,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	8,400	ZAR20.27	ZAR36.43
			15,400		
Officer 5	Performance Plan	31 May 2011	15,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	18,000	ZAR20.27	ZAR36.43
			33,000		
Officer 6	Performance Plan	31 May 2011	6,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	7,200	ZAR20.27	ZAR36.43
			13,200		
Officer 7	Performance Plan	31 May 2011	20,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	24,000	ZAR20.27	ZAR36.43
			44,000		
September 2010					
Officer 1	Performance Plan	02 March 2010	5,000	ZAR0.00	ZAR30.01
	Performance Plan Rights	02 March 2010	6,000	ZAR20.27	ZAR30.01
			11,000		

condensed company financial statements

for the year ended September 2011

Independent auditor's report to the shareholders of Sappi Limited

The accompanying condensed financial statements, which comprise the condensed balance sheets as at 02 October 2011, the condensed income statements, the condensed statements of comprehensive income, condensed statements of changes in equity and condensed statements of cash flows for the year then ended, and related notes, are derived from the audited financial statements of Sappi Limited set out on pages 197 to 202, for the year ended 02 October 2011. We expressed an unmodified audit opinion on those financial statements in our report dated 07 December 2011. Those financial statements, and the condensed financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The condensed financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the condensed financial statements, therefore, is not a substitute for reading the audited financial statements of Sappi Limited.

Directors' responsibility for the condensed financial statements

The directors are responsible for the preparation of the condensed financial statements in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the AC 500 standards as issued by the Accounting Practices Board and the information as required by IAS 34 *Interim Financial Reporting*.

Auditor's responsibility

Our responsibility is to express an opinion on the condensed financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, *"Engagements to Report on Summary Financial Statements."*

Opinion

In our opinion, the condensed financial statements derived from the audited financial statements of Sappi Limited for the year ended 02 October 2011 are consistent, in all material respects, with those financial statements, in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the AC 500 standards as issued by the Accounting Practices Board and the information as required by IAS 34 *Interim Financial Reporting*.

Deloitte & Touche

Per R C Campbell
Partner

07 December 2011

Johannesburg, South Africa

Deloitte & Touche – Registered Auditors
Buildings 1 and 2, Deloitte Place
The Woodlands, Woodlands Drive, Woodmead Sandton
Johannesburg, South Africa

National Executive: G G Gelink Chief Executive A E Swiegers Chief Operating Officer G M Pinnock Audit D L Kennedy Risk Advisory and Legal N B Kader Tax L Geeringh Consulting L Barn Corporate Finance J K Mazzocco Human Resources C R Beukman Finance T J Brown Chairman of the Board M J Comber Deputy Chairman of the Board

A full list of partners and directors is available on request.

ZAR million	note	2011	2010
Operating loss	1	(29)	(34)
Income from subsidiaries	2	–	22
Net finance (cost) income	3	(1)	7
Loss before taxation		(30)	(5)
Taxation – Current		3	(3)
– Deferred		3	(2)
Loss for the year		(36)	–

Condensed Sappi Limited company statements of comprehensive income
for the year ended September 2011

ZAR million	2011	2010
Loss for the year	(36)	–
Other comprehensive income, net of tax	–	–
Total comprehensive loss for the year	(36)	–

Condensed Sappi Limited company balance sheets
at September 2011

ZAR million	2011	2010
Assets		
Non-current assets	20,723	20,697
Intangible assets	9	1
Investments in subsidiaries	18,207	18,177
Inter-company receivables	2,469	2,453
Loan to Executive Share Purchase Trust	38	64
Deferred tax asset	–	2
Current assets	70	46
Trade and other receivables	2	2
Inter-company receivables	67	36
Taxation receivable	1	8
Total assets	20,793	20,743
Equity and liabilities		
Shareholders' equity	20,620	20,578
Ordinary share capital	561	561
Share premium	12,183	12,183
Non-distributable reserves	510	432
Retained earnings	7,366	7,402
Non-current liabilities		
Inter-company payables	59	66
Current liabilities	114	99
Trade and other payables	63	51
Inter-company payables	51	48
Total equity and liabilities	20,793	20,743

ZAR million	2011	2010
Loss before interest and taxation	(29)	(34)
Adjustments:		
Subsidiary transactions	(22)	(28)
Other	20	25
Cash utilised in operations	(31)	(37)
Movement in working capital	12	13
Net finance (cost) income	(1)	7
Net taxation recovered (paid)	4	(20)
Cash utilised in operating activities	(16)	(37)
Fixed asset purchases	(10)	–
Decrease in non-current assets	26	16
Increase in equity and reserves	–	21
Net movement in cash and cash equivalents	–	–
Cash and cash equivalents at beginning of year	–	–
Cash and cash equivalents at end of year	–	–

Condensed Sappi Limited company statements of changes in equity
for the year ended September 2011

ZAR million	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non- distributable reserves	Distributable reserves	Total equity
Balance – September 2009	537,1	537	12,061	12,598	333	7,402	20,333
Share-based payments	–	–	–	–	99	–	99
Total comprehensive income for the year	–	–	–	–	–	–	–
Share issue – BEE Transaction	24,3	24	122	146	–	–	146
Balance – September 2010	561,4	561	12,183	12,744	432	7,402	20,578
Share-based payments	–	–	–	–	78	–	78
Total comprehensive loss for the year	–	–	–	–	–	(36)	(36)
Balance – September 2011	561,4	561	12,183	12,744	510	7,366	20,620

ZAR million		2011	2010
1.	Operating loss		
	The operating loss is arrived at after taking into account the items detailed below:		
	Depreciation and amortisation	1	1
	Technical and administrative services paid other than to bona fide employees of the company	13	5
	Auditors' remuneration	12	13
	– fees for audit and related services	9	9
	– fees for other services	3	4
	Staff costs	114	119
	Management fees received from subsidiaries	252	227
2.	Income from subsidiaries		
	Dividends received from subsidiaries	–	22
3.	Net finance income		
	Interest paid	–	–
	Interest received	4	4
	Net foreign exchange (losses) gains	(5)	3
		(1)	7
4.	Commitments		
	Operating leases and rentals		
	Payable within one year	–	1
	Capital commitments contracted		
	Payable within one year	1	–
		1	1
5.	Contingent liabilities		
	Guarantees and suretyships	13 738	13 747
6.	Basis of preparation		
	The annual financial statements from which these condensed financial statements have been derived have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).		

Set out below are the more significant subsidiaries and joint ventures or those that have a loan with Sappi Limited:

			Share capital	Effective holding	Book value of investment		Loan to subsidiary		Loan from subsidiary	
Annexure A Investments in subsidiaries and joint ventures				2011 %	2010 %	2011 ZAR million	2010 ZAR million	2011 ZAR million	2010 ZAR million	
Southern Africa										
Sappi Southern Africa (Pty) Ltd	O	ZAR12,026,250	100	100	1,915	1,885	1,674	1,644	-	-
Sappi Share Facilitation Company (Pty) Ltd	O	ZAR1,000	100	100	-	-	775	789	-	-
Usutu Forest Products Company Ltd ⁽¹⁾	O	SZL10,000,000	100	100	-	-	-	-	-	-
Sappi Property Company (Pty) Ltd ⁽²⁾	P	ZAR7,000	100	100	-	-	-	-	-	-
Umkomaas Lignin (Pty) Ltd	JV	ZAR1,000	50	50	-	-	-	-	-	-
America										
SD Warren Company	O	US\$1,000	100	100	-	-	-	-	(20)	(14)
Sappi Cloquet LLC	O	— ⁽³⁾	100	100	-	-	-	-	-	-
Europe										
Sappi Alfeld GmbH	O	€31,200,000	100	100	-	-	-	-	-	-
Sappi Austria Produktions GmbH and CoKG	O	€35,000	100	100	-	-	-	-	-	-
Sappi Deutschland GmbH	O	€25,565	100	100	-	-	-	-	-	-
Sappi Ehingen GmbH	O	€20,800,000	100	100	-	-	-	-	-	-
Sappi Esus Beteiligungsverwaltungs GmbH	H	€1,000,000	100	100	-	-	-	-	-	-
Sappi Europe SA	O	€15,130,751	100	100	-	-	-	-	(25)	(15)
Sappi Finland Oy	O	€2,500	100	100	-	-	-	-	-	-
Sappi Fine Paper plc	D	GBP50,000	100	100	1	1	-	-	-	-
Sappi Holding GmbH	H	€72,700	100	100	16,288	16,288	-	-	-	-
Sappi International SA	F	€1,200,603,930	100	100	-	-	38	35	-	-
Sappi Lanaken NV	O	€51,377,000	100	100	-	-	-	-	-	-
Sappi Lanaken Press Paper NV	O	€57,179,613	100	100	-	-	-	-	-	-
Sappi Maastricht BV	O	€31,992	100	100	-	-	-	-	-	-
Sappi Nijmegen BV	O	€59,037	100	100	-	-	-	-	-	-
Sappi Schweiz AG	O	CHF10,000	100	100	-	-	-	-	-	-
Sappi Stockstadt GmbH	O	€40,000	100	100	-	-	-	-	-	-
Sappi Papier Holding GmbH	O	€72,700	100	100	-	-	29	-	-	(8)
Sappi Trading Pulp AG	O	CHF100,000	100	100	-	-	-	-	-	(7)
PE Paper Escrow GmbH	F	€35,000	100	100	-	-	-	-	-	-
Sappi UK Ltd	O	GBP74,020,000	100	100	-	-	-	-	-	-
Asia										
Jiangxi Chenming Paper Co Ltd	JV	RMB1,424,160,000	34	34	-	-	-	-	-	-
Other										
Lignin Insurance Co Ltd	F	US\$656,000	100	100	3	3	-	-	-	-
Employee Share Participation Trusts					-	-	20	20	(59)	(66)
Various other companies					-	-	-	1	(6)	(4)
					18,207	18,177	2,536	2,489	(110)	(114)

Holding companies	H	Management companies	M	Dormant	D
Operating companies	O	Joint venture	JV	Property holding	P
Finance companies	F				

(1) Usutu Pulp Company Limited changed its name to Usutu Forest Products Company Limited on 25 March 2011.

(2) Lereko Property Company (Pty) Ltd changed its name to Sappi Property Company (Pty) Ltd on 08 September 2011.

(3) No issued share capital, only additional paid in capital of US\$14 million.

General definitions

ABET – adult basic education and training

AF&PA – American Forest and Paper Association

air dry tons (ADT) – meaning dry solids content of 90% and moisture content of 10%

biofuels – organic material such as wood, waste and alcohol fuels, as well as gaseous and liquid fuels produced from these feedstocks when they are burned to produce energy

bleached pulp – pulp that has been bleached by means of chemical additives to make it suitable for fine paper production

CEPI – Confederation of European Paper Industries

chemical oxygen demand (COD) – the amount of oxygen required to break down the organic compounds in effluent

chemical cellulose – highly purified chemical pulp intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament

chemical pulp – a generic term for pulp made from wood fibre that has been produced in a chemical process

CHP – combined heat and power

coated papers – papers that contain a layer of coating material on one or both sides. The coating materials, consisting of pigments and binders, act as a filler to improve the printing surface of the paper

coated mechanical – coated paper made from groundwood pulp which has been produced in a mechanical process, primarily used for magazines, catalogues and advertising material

coated woodfree – coated paper made from chemical pulp which is made from wood fibre that has been produced in a chemical process, primarily used for high end publications and advertising material

contractor – refers to an independent employer or self-employed person performing work for Sappi, excludes temporary or fixed-term employees

corrugating medium – paperboard made from chemical and semi-chemical pulp, or waste paper, that is to be converted to a corrugated board by passing it through corrugating cylinders. Corrugating medium between layers of linerboard form the board from which corrugated boxes are produced

COSO – the Committee of Sponsoring Organisations of the Treadway Commission

CSI and CSR – corporate social investment and corporate social responsibility

elemental chlorine free (ECF) – refers to bleaching sequences in which no chlorine is used

energy – is present in many forms such as solar, mechanical, thermal, electrical and chemical. Any source of energy can be tapped to perform work. In power plants, coal is burnt and its

chemical energy is converted into electrical energy. To generate steam, coal and other fossil fuels are burned, thus converting stored chemical energy into thermal energy

fibre – fibre is generally referred to as pulp in the paper industry. Wood is treated chemically or mechanically to separate the fibres during the pulping process

fine paper – paper usually produced from chemical pulp for printing and writing purposes and consisting of coated and uncoated paper

Forestry SA – largest forestry organisation representing growers of timber in South Africa

FSC – in terms of the Forest Stewardship Council (FSC) scheme, there are two types of certification. In order for land to achieve FSC endorsement, its forest management practices must meet the FSC's ten principles and other assorted criteria. For manufacturers of forest products, including paper manufacturers like Sappi, Chain-of-Custody 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

Green-e® – an independent consumer protection programme created by the Centre for Resource Solutions for the sale of renewable energy and greenhouse gas reduction (www.green-e.org)

Greenhouse gases (GHGs) – the GHGs included in the Kyoto Protocol are carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride

HFO – heavy fuel oil

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

JSE Limited – the main securities exchange in South Africa, previously known as the Johannesburg Stock Exchange

kraft paper – packaging paper (bleached or unbleached) made from kraft pulp

kraft pulp – chemical wood pulp produced by digesting wood by means of the sulphate pulping process

Kyoto Protocol – a document signed by over 160 countries at Kyoto, Japan in December 1997 which commits signatories to reducing their emission of greenhouse gases relative to levels emitted in 1990

liquor – white liquor is the aqueous solution of sodium hydroxide and sodium sulphide used to extract lignin during kraft pulping. Black liquor is the resultant combination of lignin, water and chemicals

Lost Time Injury Frequency Rate (LTIFR) =
$$\frac{\text{number of lost time injuries} \times 200\,000}{\text{dividend by man hours}}$$

linerboard – the grade of paperboard used for the exterior facings of corrugated board. Linerboard is combined with corrugating medium by converters to produce corrugated board used in boxes

market pulp – pulp produced for sale on the open market, as opposed to that produced for own consumption in an integrated mill

mechanical pulp – pulp produced by means of the mechanical grinding or refining of wood or wood chips

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. The price of NBSK is a benchmark widely used in the pulp and paper industry for comparative purposes

NGO – Non-governmental organisation

newsprint – paper produced for the printing of newspapers mainly from mechanical pulp and/or recycled waste paper

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

packaging paper – paper used for packaging purposes

PAMSA – Paper Manufacturers Association of South Africa

PEFC – the world's largest forest certification system, the PEFC is focused on promoting sustainable forest management. Using multi-stakeholder processes, the organisation develops forest management certification standards and schemes which have been signed by 37 nations in Europe and other inter-governmental processes for sustainable forestry management around the world

power – the rate at which energy is used or produced

pulpwood – wood suitable for producing pulp – usually not of sufficient standard for saw-milling

red data list – a global index of endangered species published by the World Conservation Union

release paper – embossed paper used to impart design in polyurethane or polyvinyl chloride plastic films for the production of synthetic leather and other textured surfaces. The term also applies to backing paper for self adhesive labels

sackkraft – kraft paper used to produce multiwall paper sacks

Scope 1 and 2 GHG emissions – The Green House Gas Protocol defines Scope 1 (direct) and Scope 2 (indirect) emissions as follows:

- Direct GHG emissions are emissions from sources that are owned or controlled by the reporting entity
- Indirect GHG emissions are emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity

silviculture costs – growing and tending costs of trees in forestry operations

SMMEs – small, medium and micro enterprises

solid waste – dry organic and inorganic waste materials

speciality paper – a generic term for a group of papers intended for commercial and industrial use such as flexible packaging, metallised base paper, coated bag paper, etc

specific – when data is expressed in specific form, this means that the actual quality consumed during the year indicated, whether energy, water, emissions or solid waste, is expressed in terms of a production parameter. For Sappi, as with other pulp and paper companies, this parameter is air dry tons of saleable product

Sustainable Forestry Initiative (SFI®) – the SFI® programme is a comprehensive system of objectives and performance measures which integrate the sustained growing and harvesting of trees and the protection of plants and animals

TAPPI – Technical Association of the Pulp and Paper Industry – for the worldwide pulp, paper, packaging, and converting industries

thermo-mechanical pulp – pulp produced by processing wood fibres using heat and mechanical grinding or refining wood or wood chips

tons – term used in this report to denote a metric ton of 1,000kg

Total Chlorine-Free (TCF) – refers to bleaching sequences in which no chlorine containing compounds such as chlorine dioxide are used

Total Suspended Solids (TSS) – refers to matter suspended or dissolved in effluent

uncoated woodfree paper – printing and writing paper made from bleached chemical pulp used for general printing, photocopying and stationery, etc. Referred to as uncoated as it does not contain a layer of pigment to give it a coated surface

woodfree paper – paper made from chemical pulp

World Wide Fund for Nature (WWF) – the world's largest conservation organisation, focused on supporting biological diversity

2011 Refinancing – relates to the refinancing that we implemented in April 2011 which was comprised of the following transactions:

- (a) the issuance of the 2018 and 2021 Notes
- (b) the redemption of the remaining US\$350 million 2012 Notes,
- (c) to repay €200 million of the outstanding borrowings under our OeKB Term Loan Facility; and
- (d) the increase of our existing, then undrawn revolving credit facility from €209 million to €350 million and maturity extension from 2012 to 2016.

General financial definitions

acquisition – the acquisition of M-real's coated graphic paper business on 31 December 2008

acquisition date – the date on which control in respect of subsidiaries, joint control in joint ventures and significant influence in associates commences

associate – an entity, other than a subsidiary or joint venture, over which the group has significant influence over financial and operating policies

basic earnings per share – net profit for the year divided by the weighted average number of shares in issue during the year

commissioning date – the date that an item of property, plant and equipment, whether acquired or constructed, is brought into use

control – the ability, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefit from its activities. When assessing the ability to control an entity, the existence and effect of potential voting rights that are presently exercisable or convertible are taken into account

diluted earnings per share – is calculated by assuming conversion or exercise of all potentially dilutive shares, share options and share awards unless these are anti-dilutive

discount rate – this is the pre-tax interest rate that reflects the current market assessment of the time value of money for the purposes of determining discounted cash flows. In determining the cash flows the risks specific to the asset or liability are taken into account in determining those cash flows and are not included in determining the discount rate

disposal date – the date on which control in respect of subsidiaries, joint control in joint ventures and significant influence in associates ceases

fair value – the value for which an asset could be exchanged or a liability settled in a market related transaction

financial results – comprise the financial position (assets, liabilities and equity), results of operations (revenue and expenses) and cash flows of an entity and of the group

functional currency – the currency of the primary economic environment in which the entity operates

foreign operation – an entity whose activities are based or conducted in a country or currency other than that of the reporting entity

group – the group comprises Sappi Limited, its subsidiaries and its interest in joint ventures and associates

joint venture – an economic activity over which the group exercises joint control established under a contractual arrangement

operation – a component of the group:

- that represents a separate major line of business or geographical area of operation; and

- is distinguished separately for financial and operating purposes

presentation currency – the currency in which financial results of an entity are presented

qualifying asset – an asset that necessarily takes a substantial period (normally in excess of six months) to get ready for its intended use

recoverable amount – the amount that reflects the greater of the net selling price and the value in use that can be attributed to an asset as a result of its ongoing use by the entity. In determining the value in use, expected future cash flows are discounted to their present values using the discount rate

related party – parties are considered to be related if one party directly or indirectly has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or is a member of the key management of Sappi Limited

segment assets – total assets (excluding deferred taxation and cash) less current liabilities (excluding interest-bearing borrowings and overdraft)

share-based payment – a transaction in which Sappi Limited issues shares or share options to group employees as compensation for services rendered

significant influence – the ability, directly or indirectly, to participate in, but not exercise control over, the financial and operating policy decisions of an entity so as to obtain economic benefit from its activities

Non-GAAP financial definitions

The group believes that it is useful to report certain non-GAAP measures for the following reasons:

- these measures are used by the group for internal performance analysis;
- the presentation by the group's reported business segments of these measures facilitates comparability with other companies in our industry, although the group's measures may not be comparable with similarly titled profit measurements reported by other companies; and
- it is useful in connection with discussion with the investment analyst community and debt rating agencies. These non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS

asset turnover (times) – sales divided by total assets

average – averages are calculated as the sum of the opening and closing balances for the relevant period divided by two

Black Economic Empowerment – as envisaged in the Black Economic Empowerment (BEE) legislation in South Africa

Black Economic Empowerment charge – represents the IFRS 2 non-cash charge associated with the BEE transaction implemented in fiscal 2010

capital employed – shareholders' equity plus net debt

cash interest cover – cash generated by operations divided by finance costs less finance revenue

current asset ratio – current assets divided by current liabilities

dividend yield – dividends per share, which were declared after year end, in US cents divided by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate

earnings yield – headline earnings per share divided by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate

EBITDA excluding special items – earnings before interest (net finance costs), taxation, depreciation, amortisation and special items

fellings – the amount charged against the income statement representing the standing value of the plantations harvested

headline earnings – as defined in circular 3/2009 issued by the South African Institute of Chartered Accountants, separates from earnings all separately identifiable re-measurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share

inventory turnover (times) – cost of sales divided by inventory on hand at balance sheet date

net assets – total assets less total liabilities

net asset value per share – net assets divided by the number of shares in issue at balance sheet date

net debt – current and non-current interest-bearing borrowings, and bank overdraft (net of cash, cash equivalents and short-term deposits)

net debt to total capitalisation – net debt divided by capital employed

net operating assets – total assets (excluding deferred taxation and cash and cash equivalents) less current liabilities (excluding interest-bearing borrowings and overdraft)

ordinary dividend cover – profit for the period divided by the ordinary dividend declared multiplied by the actual number of shares in issue at period-end

ordinary shareholders' interest per share – shareholders' equity divided by the actual number of shares in issue at year-end

price/earnings ratio – the financial year end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate divided by headline earnings per share

ROCE – return on average capital employed. Operating profit excluding special items divided by average capital employed

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

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

SG&A – selling, general and administrative expenses

special items – special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash

total market capitalisation – ordinary number of shares in issue (excluding treasury shares held by the group) multiplied by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate

trade receivables days outstanding (including securitised balances) – gross trade receivables, including receivables securitised, divided by sales multiplied by the number of days in the year

Notice of annual general meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to what action you should take, please consult your stockbroker, banker, attorney, accountant or other professional advisor immediately.

Sappi Limited
(Registration No 1936/008963/06)
('Sappi' or 'the Company')

The seventy-fifth annual general meeting of Sappi will be held in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg on Wednesday, 08 February 2012, at 14:30. The following business will be transacted and, if deemed fit, the following resolutions will be passed with or without modification.

The record date on which shareholders must be recorded as such in the register maintained by the transfer secretaries of the company for the purposes of determining which shareholders are entitled to attend and vote at the annual general meeting is Friday, 03 February 2012.

1. **Ordinary resolution number 1:** Ordinary resolution number 1 is proposed to receive and accept the annual financial statements of the company for the year ended September 2011, including the directors' report, the report of the auditors and the report of the audit committee.

"Resolved that the annual financial statements for the year ended September 2011 of the company, including the directors' report, the report of the auditors and the report of the audit committee, be and are hereby received and accepted."

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

2. **Ordinary resolution number 2:** Confirmation of appointment of directors appointed subsequent to the last annual general meeting and subsequent to the financial year-end, and re-election of those directors.

Ordinary resolution number 2.1:

"Resolved that the appointment of Mr Godefridus Peter Franciscus Beurskens with effect from 01 October 2011 is confirmed and as, in terms of the Memorandum of Incorporation of Sappi, he retires from office at the conclusion of the Annual General Meeting at which this resolution is considered, he is re-elected as a director of Sappi."

For Mr Beurskens's personal details, refer Note 1 under Notes on page 211.

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the

resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

Ordinary resolution number 2.2:

"Resolved that the appointment of Mr Michael Anthony Fallon with effect from 01 September 2011 is confirmed and as, in terms of the Memorandum of Incorporation of Sappi, he retires from office at the conclusion of the annual general meeting at which this resolution is considered, he is re-elected as a director of Sappi."

For Mr Fallon's personal details, refer Note 1 under Notes on page 212.

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

3. **Ordinary resolutions numbers 3.1 to 3.4:** Re-election of the directors retiring by rotation in terms of Sappi's Memorandum of Incorporation. The board has evaluated the performances of each of the directors who are retiring by rotation, and recommends and supports the re-election of each of them. For personal details on those directors, refer Note 2 under Notes on pages 212 to 213.

It is intended that all the directors who retire by rotation will, if possible, attend the annual general meeting, either in person or by means of videoconferencing.

Ordinary resolution number 3.1:

Dr Deenadayalen Konar's tenure on the board exceeds nine years and in his case the board, through the nomination and governance committee, considered his independence and satisfied itself that his independence was not in any way affected or impaired by his length of service, and that he could be regarded as being totally independent.

"Resolved that Dr Deenadayalen Konar is re-elected as a director of Sappi."

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

Ordinary resolution number 3.2:

"Resolved that Mr Nkateko Peter Mageza is re-elected as a director of Sappi."

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

Ordinary resolution number 3.3:

“Resolved that Mr John David McKenzie is re-elected as a director of Sappi.”

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

Ordinary resolution number 3.4:

“Resolved that Sir Anthony Nigel Russell Rudd is re-elected as a director of Sappi.”

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

4. Ordinary resolution number 4: Election of audit committee

Ordinary resolution number 4 is proposed to elect an audit committee in terms of section 94(2) of the South African Companies Act, 71 of 2008 (as amended) (‘the Companies Act’) and the King Report on Corporate Governance for South Africa (‘King III’).

Section 94 of the Companies Act requires that, at each annual general meeting, shareholders of the company must elect an audit committee comprising at least three members.

The nomination and governance committee conducted an assessment of the performance and independence of each of the directors proposed to be members of the audit committee and the board considered and accepted the findings of the nomination and governance committee. The board is also satisfied that the proposed members meet the requirements of section 94(4) of the Companies Act, that they are independent according to King III and that they possess the required qualifications and experience as prescribed in Regulation 42 of the Companies Act Regulations, 2011, which requires that at least one-third of the members of a company’s audit committee at any particular time must have academic qualifications or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

Brief biographical notes of each member standing for election are set out on pages 211 to 213 of the integrated report.

“Resolved that an audit committee comprising the persons set out below be and is hereby appointed, in terms of section 94(2) of the Companies Act of South Africa, to hold office until the conclusion of the next annual general meeting and to perform the duties and responsibilities stipulated in section 94(7) of the Companies Act and in King III and to perform

such other duties and responsibilities as may from time to time be delegated to it by the board.

Dr Deenadayalen Konar	Chairman*
Mr Godefridus Peter Franciscus Beurskens	Member**
Mr Michael Anthony Fallon	Member**
Mr Nkateko Peter Mageza	Member
Mrs Karen Rohn Osar	Member

* Subject to his election as a director pursuant to ordinary resolution number 3.

** Subject to his election as a director pursuant to ordinary resolution number 2.”

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

5. Ordinary resolution number 5: Re-appointment of auditors

The board has evaluated the performance of Deloitte & Touche and recommends and supports their re-appointment as auditors of Sappi.

“Resolved to re-appoint Deloitte & Touche (with the designated registered auditor currently being Mr R C Campbell) as the auditors of Sappi Limited for the financial year ending September 2012 and to remain in office until the conclusion of the next annual general meeting.”

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

6. Ordinary resolutions number 6.1 to 6.3: The Sappi Limited Performance Share Incentive Trust and The Sappi Limited Share Incentive Trust

The passing of resolutions 6.1 to 6.3 will enable the directors to continue to meet the share requirements of The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust (‘collectively the Schemes’), both of which Schemes were approved by shareholders, are already in place and are subject to the Listings Requirements of the JSE Limited. The passing of resolution 6.3 will provide directors with the flexibility to utilise shares repurchased from time to time by a wholly-owned subsidiary of Sappi and held in treasury by the subsidiary company, for the purposes of satisfying the share requirements of the Schemes, at times when the directors consider that to be more efficient than issuing new shares in the capital of Sappi.

In terms of the Schemes the combined maximum number of shares that can be issued pursuant to both the Schemes is 42,700,870 shares (being 7.89% of the issued share capital of Sappi at 30 September 2011) of which 13,892,146 shares

have already been issued to, or transferred to the Schemes, leaving a balance of up to 28,808,724 shares which could still need to be issued or transferred to the Schemes.

Ordinary resolution number 6.1

“Resolved as an ordinary resolution that all the ordinary shares required for the purpose of carrying out the terms of The Sappi Limited Performance Share Incentive Trust (‘the Plan’), other than those which have specifically been appropriated for the Plan in terms of ordinary resolutions duly passed at previous general meetings of Sappi, be and are hereby specifically placed under the control of the directors who be and are hereby authorised to allot and issue those shares in terms of the Plan.”

Ordinary resolution number 6.2

“Resolved as an ordinary resolution that all the ordinary shares required for the purpose of carrying out the terms of The Sappi Limited Share Incentive Trust (‘the Scheme’), other than those which have specifically been appropriated for the Scheme in terms of ordinary resolutions duly passed at previous general meetings of Sappi, be and are hereby specifically placed under the control of the directors who be and are hereby authorised to allot and issue those shares in terms of the Scheme.”

Ordinary resolution number 6.3

“Resolved as an ordinary resolution that any subsidiary of Sappi (‘Subsidiary’) be and is hereby authorised in terms of the Listings Requirements of the JSE Limited to sell at the price at which the participant is allowed to acquire the Company’s shares and to transfer to The Sappi Limited Share Incentive Trust and/or The Sappi Limited Performance Share Incentive Trust (collectively ‘the Schemes’) those number of Sappi’s shares acquired by that Subsidiary from time to time but not exceeding the maximum number of Sappi’s shares available to the Schemes as may be required by the Schemes when a participant to whom Sappi’s shares will be allocated has been identified.”

In order for these resolutions to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

7. Ordinary resolution number 7: Remuneration policy

“Resolved as an ordinary resolution, that the company’s remuneration policy as contained in the compensation report on pages 82 to 89 of the annual report, be and is hereby endorsed by way of a non-binding advisory vote.”

This non-binding resolution is being proposed in accordance with the recommendations of King III.

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the

resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

8. Special resolution number 1:

Non-executive directors’ fees

“Resolved that, with effect from 01 October 2011 and until otherwise determined by Sappi in general meeting, the remuneration of the non-executive directors for their services shall be increased as follows:

	from	to
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1. Sappi board fees

Chairperson	ZAR2,000,000*	ZAR2,120,000*
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* Inclusive of all committee fees.

Senior independent non-executive director

If South African resident	ZAR410,000	ZAR434,600
If European resident	GBP56,500	GBP58,760
If USA resident	US\$84,750	US\$87,290

Other directors

If South African resident	ZAR274,400	ZAR290,440
If European resident	GBP37,650	GBP39,160
If USA resident	US\$56,450	US\$58,140

	from	to
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2. Audit committees

Group committee

Chairperson

If South African resident	ZAR284,500	ZAR301,570
If European resident	GBP38,200	GBP39,730
If USA resident	US\$58,500	US\$60,260

Other members

If South African resident	ZAR142,250	ZAR150,790
If European resident	GBP19,200	GBP19,970
If USA resident	US\$28,500	US\$29,360

Regional committees

Chairperson

If South African resident	ZAR35,900	ZAR38,000 per meeting
If European resident	GBP4,900	GBP5,100 per meeting
If USA resident	US\$7,160	US\$7,370 per meeting

	from	to
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3. Human resources and transformation committee, compensation committee, nomination and governance committee, sustainability committee and any other committees

Chairperson		
If South African resident	ZAR171,000	ZAR181,260 pa
If European resident	GBP22,700	GBP23,610 pa
If USA resident	US\$33,400	US\$34,400 pa
Other members		
If South African resident	ZAR89,000	ZAR94,340 pa
If European resident	GBP15,900	GBP16,540 pa
If USA resident	US\$20,400	US\$21,010 pa

	from	to
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4. Additional meeting fees for board meetings in excess of five meetings per annum (whether attended in person or by teleconference/videoconference)

	ZAR27,450	ZAR29,100
If South African resident	per meeting	per meeting
	GBP3,720	GBP3,870
If European resident	per meeting	per meeting
	US\$5,640	US\$5,810
If USA resident	per meeting	per meeting

	from	to
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5. Travel compensation (increase of 3.45%)

For more than 10 flight hours return	US\$2,900 per meeting	US\$3,000 per meeting
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Sappi indicated in the notice to shareholders dated 06 December 2004 that it planned to review directors' fees annually in future. Special resolution number 1 increases the remuneration currently paid to non-executive directors and board committee members by between approximately 2.5% and 6.0% per annum depending generally on the domicile of the directors and the currency in which they are paid, with effect from 01 October 2011. The fees were last increased with effect from 01 October 2010 and have been reviewed to ensure that Sappi's fees remain generally comparable with those of its peer companies in the various countries in which its directors are domiciled.

The responsibility of non-executive directors continues to increase substantially flowing from legislative, regulatory and corporate governance requirements.

The practice has been and will continue to be that directors' and board committee fees are paid to non-executive directors only.

Fees are paid twice annually (in March and September each year) and the proposed increase, if approved, will be applicable to payments to be made in March 2012 onwards.

In order for this resolution to be adopted, the support of at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

9. Special resolution number 2: Loans or other financial assistance to related or inter-related companies

The Companies Act provides, among other things, that, except to the extent that the memorandum of incorporation of a company provides otherwise, the board may authorise the company to provide direct or indirect financial assistance (which includes lending money, guaranteeing a loan or other obligation and securing any debt or obligation) to a related or inter-related company or corporation, provided that such authorisation shall be made pursuant to a special resolution of the shareholders adopted within the previous two years, which approved such assistance either for the specific recipient or generally for a category of potential recipients and the specific recipient falls within that category.

"Resolved that the directors of the company be and are hereby authorised, in accordance with the Companies Act, to authorise the company to provide direct or indirect financial assistance to any company which is related or inter-related to the company."

In order for this resolution to be adopted, the support of at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

10. Ordinary resolution number 8: Signature of documents

"Resolved that any director of Sappi is authorised to sign all such documents and do all such things as may be necessary for or incidental to the implementation of the resolutions passed at the annual general meeting held on 08 February 2012 or any adjournment thereof."

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

Proxies

A shareholder is entitled to appoint one or more proxies to attend, speak and on a poll to vote in his stead. A proxy need

not be a shareholder. For the convenience of shareholders, a form of proxy is enclosed.

The attached form of proxy is only to be completed by a shareholder who holds Sappi shares in certificated form or has dematerialised his shares (ie has replaced the paper share certificates with electronic records of ownership under JSE's electronic settlement system (Strate Limited) and is recorded in the sub-register in 'own name' dematerialised form (ie a shareholder who has specifically instructed his Central Securities Depository Participant ("CSDP") or broker to hold his shares in his own name on Sappi's sub-register)).

A shareholder who has dematerialised his shares and who is not registered as an 'own name' dematerialised shareholder and who wishes to:

- attend the annual general meeting must instruct his CSDP or broker to provide him with a letter of representation to enable him to attend such meeting; or
- vote but not to attend the annual general meeting, must provide his CSDP or broker with his voting instructions in terms of the relevant custody agreement between him and his CSDP or broker.

Such a shareholder must not complete the attached form of proxy.

When authorised to do so, CSDPs or brokers recorded in Sappi's sub-register or their nominees should vote either by appointing a duly authorised representative to attend and vote at the annual general meeting to be held on 08 February 2012 or any adjournment thereof or by completing the attached form of proxy and returning it to one of the addresses indicated on the form of proxy in accordance with the instructions thereon.

Electronic participation by shareholders

Should any shareholder (or any proxy for a shareholder) wish to participate in the annual general meeting by way of electronic participation, that shareholder should make application in writing (including details as to how the shareholder or its representative (including its proxy) can be contacted) to so participate to the transfer secretaries, at their address as reflected on page 217, to be received by the transfer secretaries at least five business days prior to the annual general meeting in order for the transfer secretaries to arrange for the shareholder (or its representative or proxy) to provide reasonably satisfactory identification to the transfer secretaries for the purposes of section 63(1) of the Companies Act and for the transfer secretaries to provide the shareholder (or its representative) with details as to how to access any electronic participation to be provided. The company reserves the right to elect not to provide for electronic participation at the annual general meeting in the event that it determines that it is not practical to do so. The costs of accessing any means of electronic participation provided by the company will be borne by the company.

It should be noted, however, that voting will not be possible via the electronic facilities and for shareholders wishing to vote, their shares will need to be represented at the meeting either in person, by proxy or by letter of representation, as provided for in the notice of meeting.

QUESTIONS

The board encourages shareholders to attend and to ask questions at the annual general meeting. In order to facilitate the answering of questions at the meeting, shareholders who wish to ask questions in advance are encouraged to submit their questions in writing to the group secretary by 17:00 on Monday, 06 February 2012 at:

7th Floor
48 Ameshoff Street
Braamfontein
Johannesburg 2001

or

PO Box 31560
Braamfontein
2017

or

By e-Mail to Denis.O'Connor@sappi.com

Sappi Southern Africa (Pty) Limited

Secretaries: per D J O'Connor
48 Ameshoff Street
Braamfontein, Johannesburg 2001
15 December 2011

Notes

1. **Confirmation of appointment of directors appointed since the last annual general meeting and subsequent to the year-end, and the re-election of these directors**

Godefridus (Frits) Peter Franciscus Beurskens

(Independent)

Age: 64

Qualifications: BSc Mechanical Engineering, MSc Industrial Engineering and Management Science

Nationality: Dutch

Appointed: October 2011

Sappi board committee memberships

Audit committee (with effect from January 2012)

Sappi Fine Paper audit committee (chairman) (with effect from January 2012)

Other board and organisation memberships

Smurfit Kappa group

A number of supervisory boards of companies

Skills, expertise and experience

The Smurfit Kappa group is an almost €7 billion global leader in paper-based packaging. As president and CEO of Kappa Packaging, prior to their merger with the Smurfit group, he oversaw the establishment of Kappa Packaging as a top performer and one of Europe's largest companies operating in the production, development and sale of containerboard, corrugated board, solid board packaging, graphic board and speciality board. He is a past chairman of CEPI (the Confederation of European Print Industries) and of ICCA (the International Corrugated Case Association). In December 2007, he was appointed by the Dutch Queen as officer in the Order of Oranje Nassau (Knighthood).

[Michael \(Mike\) Anthony Fallon](#)

(Independent)

Age: 53

Qualifications: BSc Hons (First Class)

Nationality: British

Appointed: September 2011

Sappi board committee memberships

Audit committee (with effect from January 2012)

Other board and organisation memberships

Nippon Sheet Glass Company Limited (NSG Group)
(executive director)

Skills, expertise and experience

Mr Fallon is President of NSG's global automotive division. With annual sales of around €6 billion, the NSG Group is one of the world's largest manufacturers of glass and glazing products for the building, automotive and specialty glass sectors. His management and leadership experience extends across a wide range of functions from plant management, sales and marketing and supply chain to general management, including M&A experience. He has been a director and chairman of companies in the United Kingdom, New Zealand and Finland. He is of British nationality and holds a First Class Honours BSc in Physics.

2. Directors retiring by rotation who are seeking re-election

[Deenadayalen \(Len\) Konar](#)

(Independent)

Age: 57

Qualifications: BCom, MAS, DCom, CA (SA)

Nationality: South African

Appointed: March 2002

Sappi board committee memberships

Audit committee (chairman)

Nomination and governance committee

Other board and organisation memberships

Exxaro Resources Limited (chairman)

Illovo Sugar Limited

Lonmin plc

JD Group Limited

Mustek Limited (chairman)

Steinhoff International Holdings Limited (chairman)

Skills, expertise and experience

Previously professor and head of the department of Accountancy at the University of Durban Westville, Dr Konar is a member of the King Committee on Corporate Governance in South Africa and the SA Institute of Directors, past member and chairman of the external audit committee of the International Monetary Fund and member of the Safeguards Panel and Implementation Oversight Panel of the World Bank (co-chairman).

[Nkateko Peter Mageza](#)

(Independent)

Age: 57

Qualifications: FCCA (UK)

Nationality: South African

Appointed: January 2010

Sappi board committee memberships

Audit committee

Human resources and transformation committee

Other board and organisation memberships

Baird's Renaissance (Pty) Limited

Clover Industries Limited

Eqstra Holdings Limited (chairman)

Ethos Private Equity (Pty) Limited

Rainbow Chickens Limited

Remgro Limited

MTN Group Limited

Skills, expertise and experience

Mr Mageza joined the Sappi board after having held senior executive positions across a wide range of industries. He is a former group chief operating officer and executive director of ABSA Group Limited, assistant general manager at Nedcor Limited and chief executive officer of Autonet, the Road Passenger and Freight Logistics Division of Transnet Limited.

John (Jock) David McKenzie

(Independent)

Age: 64

Qualifications: BSc Chemical Engineering (cum laude), MA

Nationality: South African

Appointed: September 2007

Sappi board committee memberships

Compensation committee

Sustainability committee (chairman)

Other board and organisation memberships

Accelerate Cape Town (chairman)

Coronation Fund Managers

University of Cape Town Foundation (chairman)

WESGRO

Save the Children Fund (Cape)

Skills, expertise and experience

Mr McKenzie joined the Sappi board after having held senior executive positions globally and in South Africa. He is a former president for Asia, Middle East and Africa Downstream of the Chevron Texaco Corporation and also served as the chairman and chief executive officer of the Caltex Corporation. He was a member of the Singapore Economic Development Board from 2000 – 2003.

Sir Anthony Nigel Russell Rudd

(Independent)

Age: 65

Qualifications: DL, Chartered Accountant

Nationality: British

Appointed: April 2006

Sappi board committee memberships

Compensation committee

Nomination and governance committee

Other board and organisation memberships

BAA Limited (chairman)

Barclays Wealth (chairman of the UK & Ireland Private Bank Advisory Board)

Business Growth Fund (chairman)

Cyden Limited (chairman)

Invensys plc (chairman)

Skills, expertise and experience

Sir Nigel Rudd has held various senior management and board positions in a career spanning more than 35 years. He founded Williams plc in 1982 and the company went on to become one of the largest industrial holding companies in the United Kingdom. He was knighted by the Queen for services to the manufacturing industry in the UK in 1996 and holds honorary doctorates from the Loughborough and Derby Universities. In 1995, he was awarded the Founding Societies Centenary Award by the Institute of Chartered Accountants. He is a Deputy Lieutenant of Derbyshire and a Freeman of the City of London.

Sappi Limited

Chief executive officer

*Ralph Boëtter (50) BAcc Hons, CA (SA)

Chief financial officer

*Mark Thompson (59) BCom, BAcc, LLB, CA (SA)

Group financial manager

John Shaw (35) BCom, PG Dip Man Acc, PG Dip Acc, CA (SA)

Group financial controller

Laurence Newman (55) BCom, BAcc, CA (SA)

Group head internal audit

Roland Agar (47) BCom, BAcc, CA (SA)

Group management accountant

Wikus van Zyl (43) BCom Hons, CA (SA)

Group tax manager

Bernd Ross (52) MS (Economics and Business Administration)

Group treasurer

Jörg Pässler (51) BCom Hons, MCom, HDip Tax, CAIB (SA)

Group internal control and risk manager

Wouter van den Heever (48) BCom, Hons BCompt, MCom, CA(SA), CPA

Group head technology

*Andrea Rossi (57) BSc (Engineering) Hons, C Eng

Chief information officer

Bradley Coward (56) Grad Dip (Corporate Direction and Business Management), Cert (Senior Management and Leadership Development)

Group head strategic development

*Robert Hope (59) BA Hons (Economics), MRICS

Group investor relations and sustainability manager

Graeme Wild (39) BSc (Forestry), MBA

Group head human resources

*Lucia Swartz (54) BA, Dip HR

Group head corporate affairs

André Oberholzer (45) BCom (Law)

Group head legal

Maarten van Hoven (38) BProc, LLM (International Business Law)

Group company secretary

Denis O'Connor (60) BA LLB

Europe

Sappi Fine Paper Europe

Chief executive officer

*Berry Wiersum (56) MA (Medieval and Modern History)

Chief financial and IT officer

Glen Pearce (48) BCom Hons, CA (SA)

General counsel

Hannes Boner (48) lic iur, DHEE, Admitted Attorney

Human resources director

Rainer Neumann (49) MS (Administrative Sciences), MS (Industrial Relations and HRM)

Manufacturing, research and development director

Mat Quaedvlieg (61) BS (Electronics)

Marketing and sales director

Marco Eikelenboom (44) MS (Economics and Business Administration)

Supply chain, procurement and speciality paper director

Gregory Gettinger (49) PhD (Economics and Business Administration)

North America

Sappi Fine Paper North America

President and chief executive officer

*Mark Gardner (56) BSc (Industrial Technology)

Vice president and chief financial officer

Annette Luchene (49) BS (Accounting), MBA

Executive vice president, strategic marketing and chief sustainability officer

Jennifer Miller (56) BA (Economics), Juris Doctor

Vice president corporate development and chief information officer

Anne Ayer (46) BA (Psychology), MBA

Vice president human resources and general counsel

Sarah Manchester (46) BA (History), Juris Doctor

Vice president manufacturing

John Donahue (56), BS (Chemical Engineering)

Vice president and general manager specialties business

Bob Weeden (60) BS (Chemistry), MS (Management)

Vice president sales

Bob Forsberg (49) BA (Economics and Art History)

Vice president supply chain

Randy Rotermund (49) BS (Imaging Technology), MBA

Southern Africa

Chief executive officer

*Alex Thiel (50) BSc (Mechanical Engineering),
MBA (Financial Management and IT)

Finance director

Colin Mowatt (54) BCom Acc, CA (SA), EDP, MBL

Human resources director

Esther Letlape (44) BA Hons (Industrial Psychology)

Information technology director

Deon van Aarde (51) BCompt

Technical director

Bertus van der Merwe (58) BSc, MBA, HDip (Engineering)

Sappi regional procurement director

Nat Maelane (52) MDP, Senior Executive Programme

Strategy and business development director

Tyrone Hawkes (44) BCom Hons, CA (SA)

Sappi Chemical Cellulose

Managing director

Gary Bowles (51) BSc (Electrical Engineering), GCC (Electrical),
Global Executive Development Programme, Production
Management Diploma

Sappi Forests

Managing director

Hendrik de Jongh (56), NDip (Elec), GCC (Electrical), MDP

Sappi Paper and Paper Packaging

Manufacturing Director

Pat McGrady (54), BSc (Electrical Engineering),
GCC (Factories), EDP

Sappi Trading

Chief executive officer

Wayne Rau (49) HND (Marketing), Senior Executive Programme

Chief financial officer

Henri Kirsten (58) BCom, BCompt Hons, CA (SA)

* Group executive committee.

Shareholder's diary

Annual general meeting	08 February 2012
First quarter results released	February 2012
Second quarter and half-year results released	May 2012
Third quarter results released	August 2012
Financial year-end	September 2012
Preliminary fourth quarter and year results	November 2012
Integrated annual report posted to shareholders and posted on website	December 2012

Sappi Limited

Registration number 1936/008963/06

JSE code: SAP

ISIN code: ZAE 000006284

NYSE code: SPP

Group secretary

Denis O'Connor

Secretaries

Sappi Southern Africa (Pty) Limited

48 Ameshoff Street

2001 Braamfontein

South Africa

PO Box 31560

2017 Braamfontein

South Africa

Telephone +27 (0)11 407 8111

Fax +27 (0)11 339 1881

e-Mail Denis.oconnor@sappi.com

www.sappi.com

Transfer secretaries

South Africa

Computershare Investor Services (Pty) Limited

70 Marshall Street

2001 Johannesburg

PO Box 61051

2107 Marshalltown

Telephone +27 (0)11 370 5000

Fax +27 (0)11 370 5217

e-Mail registrar@computershare.co.za

www.computershare.com

Corporate affairs

André Oberholzer – Group Head Corporate Affairs

Telephone +27 (0)11 407 8111

Fax +27 (0)11 403 8236

e-Mail Andre.Oberholzer@sappi.com

Investor relations

Graeme Wild – Group Investor Relations and Sustainability Manager

Telephone +27(0)11 407 8391

Fax +27(0)11 403 1493

e-Mail Graeme.Wild@sappi.com

United States ADR Depositary

The Bank of New York Mellon

Investor Relations

PO Box 11258

Church Street Station

New York, NY 10286-1258

Telephone (US only) 1 888 BNYADRS

Telephone (outside the US) +1 201 680 6825

e-Mail shrrelations@bnymellon.com

www.bnymellon.com/shareowner

Note: The proxy form included in the notice of the annual general meeting dated 15 December 2011, contained an error in respect of ordinary resolution number 3.4 and shareholders must use this Amended proxy form instead.

Sappi Limited

(Registration number 1936/008963/06)

(Incorporated in the Republic of South Africa)

('Sappi' or 'the company')

Issuer code: SAP JSE code: SAP ISIN code: ZAE000006284

For use by shareholders who:

- hold shares in certificated form; or
- hold dematerialised shares (ie where the paper share certificates representing the shares have been replaced with electronic records of ownership under the electronic settlement and depository system (Strate Limited) of the JSE Limited) and are recorded in Sappi's sub-register with 'own name' registration) (ie shareholders who have specifically instructed their Central Securities Depository Participant ('CSDP') to record the holding of their shares in their own name in Sappi's sub-register).

If you are unable to attend the seventy-fifth annual general meeting of the members to be held at 14:30 on Wednesday, 08 February 2012 in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, Republic of South Africa, you should complete and return the form of proxy as soon as possible, but in any event to be received by not later than 14:30 South African time on Monday, 06 February 2012, to Sappi's transfer secretaries, Computershare Investor Services (Proprietary) Limited, by way of hand delivery to 70 Marshall Street, Johannesburg, 2001, Republic of South Africa or by way of postal delivery to PO Box 61051, Marshalltown, 2107 Republic of South Africa.

Shareholders who have dematerialised their shares and who do not have 'own name' registration and wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with the relevant letter of representation to enable them to attend such meeting, or, alternatively, should they wish to vote but not to attend the annual general meeting, they must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. **Such shareholders must not complete this form of proxy.**

I/We

of

being a shareholder(s) of Sappi holding

Sappi shares and entitled to vote at the abovementioned

annual general meeting, appoint

or failing him/her

or failing him/her

or failing him/her, the chairman of the meeting as my/our proxy to attend and speak and, on a poll, to vote for me/us on the resolutions to be proposed (with or without modification) at the annual general meeting of Sappi to be held at 14:30 on Wednesday, 08 February 2012 or any adjournment thereof, as follows.

	Number of shares		
	For	Against	Abstain
Ordinary resolution number 1 – receipt and acceptance of annual financial statements, including directors' report, auditors' report and audit committee report			
Ordinary resolution number 2 – confirmation of appointment and re-election of directors appointed since the last annual general meeting*			
Ordinary resolution 2.1 – confirmation of appointment and re-election of Mr Godefridus Peter Franciscus Beurskens as a director of Sappi			
Ordinary resolution 2.2 – confirmation of appointment and re-election of Mr Michael Anthony Fallon as a director of Sappi			
Ordinary resolution number 3 – re-election of directors retiring by rotation in terms of Sappi's Memorandum of Incorporation*			
Ordinary resolution number 3.1 – re-election of Dr Deenadayalen Konar as a director of Sappi			
Ordinary resolution number 3.2 – re-election of Mr Nkateko Peter Mageza as a director of Sappi			
Ordinary resolution number 3.3 – re-election of Mr John David McKenzie as a director of Sappi			
Ordinary resolution number 3.4 – re-election of Sir Anthony Nigel Russell Rudd as a director of Sappi			
Ordinary resolution No 4 – election of audit committee			
Ordinary resolution number 5 – re-appointment of Deloitte & Touche as auditors of Sappi for the year ending 30 September 2012 and until the next annual general meeting of Sappi thereafter			
Ordinary resolution number 6.1 – the placing of all ordinary shares required for the purpose of carrying out the terms of the Sappi Limited Performance Share Incentive Trust ('the Plan') under the control of the directors to allot and issue in terms of the Plan			
Ordinary resolution number 6.2 – the placing of all ordinary shares required for the purpose of carrying out the terms of the Sappi Limited Share Incentive Trust ('the Scheme') under the control of the directors to allot and issue in terms of the Scheme			
Ordinary resolution number 6.3 – the authority of/for any subsidiary of Sappi to sell and to transfer to the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust (collectively 'the Schemes') such shares as may be required for the purposes of the Schemes			
Ordinary resolution number 7 – non-binding endorsement of Remuneration Policy			
Special resolution number 1 – increase in non-executive directors' fees			
Special resolution number 2 – authority for loans or other financial assistance to related or inter-related companies			
Ordinary resolution number 8 – authority for directors to sign all documents and do all such things necessary to implement the above resolutions			

Insert X in the appropriate block if you wish to vote all your shares in the same manner. If not, insert the number of votes in the appropriate block. If no indication is given, the proxy will vote as he/she thinks fit.

Signed at

on

Assisted by me (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be shareholders of Sappi) to attend, speak, and on a poll, vote in place of that shareholder at the annual general meeting or any adjournment thereof.

* Refer note to Notice of annual general meeting on page 207.

Notes to proxy

The form of proxy must only be used by certificated shareholders or shareholders who hold dematerialised shares with 'own name' registration. Other shareholders are reminded that the onus is on them to communicate with their CSDP or broker.

Instructions on signing and lodging the annual general meeting proxy form

1. A deletion of any printed matter (only where a shareholder is allowed to choose between more than one alternative option) and the completion of any blank spaces need not be signed or initialled. Any alteration must be signed, not initialled.
2. The chairman shall be entitled to decline to accept the authority of the signatory:
 - 2.1 under a power of attorney; or
 - 2.2 on behalf of a company,

if the power of attorney or authority has not been lodged at the offices of the company's transfer secretaries, Computershare Investor Services (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001, Republic of South Africa or posted to PO Box 61051, Marshalltown, 2107, Republic of South Africa.
3. The signatory may insert the name(s) of any person(s) whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose.
4. When there are joint holders of shares and if more than one of such joint holders is present or represented, the person whose name stands first in the register in respect of such shares or his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof.
5. The completion and lodging of the form of proxy will not preclude the signatory from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.
6. Forms of proxy must be lodged with, or posted to, the offices of Sappi's transfer secretaries, Computershare Investor Services (Proprietary) Limited, at 70 Marshall Street, Johannesburg, 2001, Republic of South Africa (for hand delivery) or PO Box 61051, Marshalltown, 2107, Republic of South Africa (for postal delivery), to be received by not later than 14:30 on Monday, 06 February 2012.
7. If the signatory does not indicate in the appropriate place on the face hereof how he/she wishes to vote in respect of a particular resolution, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution.
8. The chairman of the annual general meeting may reject any proxy form which is completed other than in accordance with these instructions and may accept any proxy form when he is satisfied as to the manner in which a member wishes to vote.

Summary in terms of section 58(8)(b)(i) of the Companies Act, 2008, as amended

Section 58(8)(b)(i) provides that if a company supplies a form of instrument for appointing a proxy, the form of proxy supplied by the company for the purpose of appointing a proxy must bear a reasonably prominent summary of the rights established by section 58 of the Companies Act, 2008, as amended, which summary is set out below:

- A shareholder of a company may, at any time, appoint any individual, including an individual who is not a shareholder of that company, as a proxy, among other things, to participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder.
- A shareholder may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder.
- A proxy may delegate the proxy's authority to act on behalf of the shareholder to another person.
- A proxy appointment must be in writing, dated and signed by the shareholder; and remains valid only until the end of the meeting at which it was intended to be used, unless the proxy appointment is revoked, in which case the proxy appointment will be cancelled with effect from such revocation.
- A shareholder may revoke a proxy appointment in writing.
- A proxy appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder.
- A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction.

Certain statements in this report that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives.

The words 'believe', 'anticipate', 'expect', 'intend', 'estimate', 'plan', 'assume', 'positioned', 'will', 'may', 'should', 'risk' and other similar expressions, which are predictions of or indicate future events and future trends, which do not relate to historical matters, identify forward-looking statements. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and company plans and objectives to differ materially from those expressed or implied in the forward-looking statements (or from past results). Such risks, uncertainties and factors include, but are not limited to:

- the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing);
- the impact on our business of the global economic downturn;
- unanticipated production disruptions (including as a result of planned or unexpected power outages);
- changes in environmental, tax and other laws and regulations;
- adverse changes in the markets for the group's products;
- consequences of substantial leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;
- adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;
- the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructurings or other strategic initiatives, and achieving expected savings and synergies; and
- currency fluctuations.

We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.



SCOTT

www.sappi.com