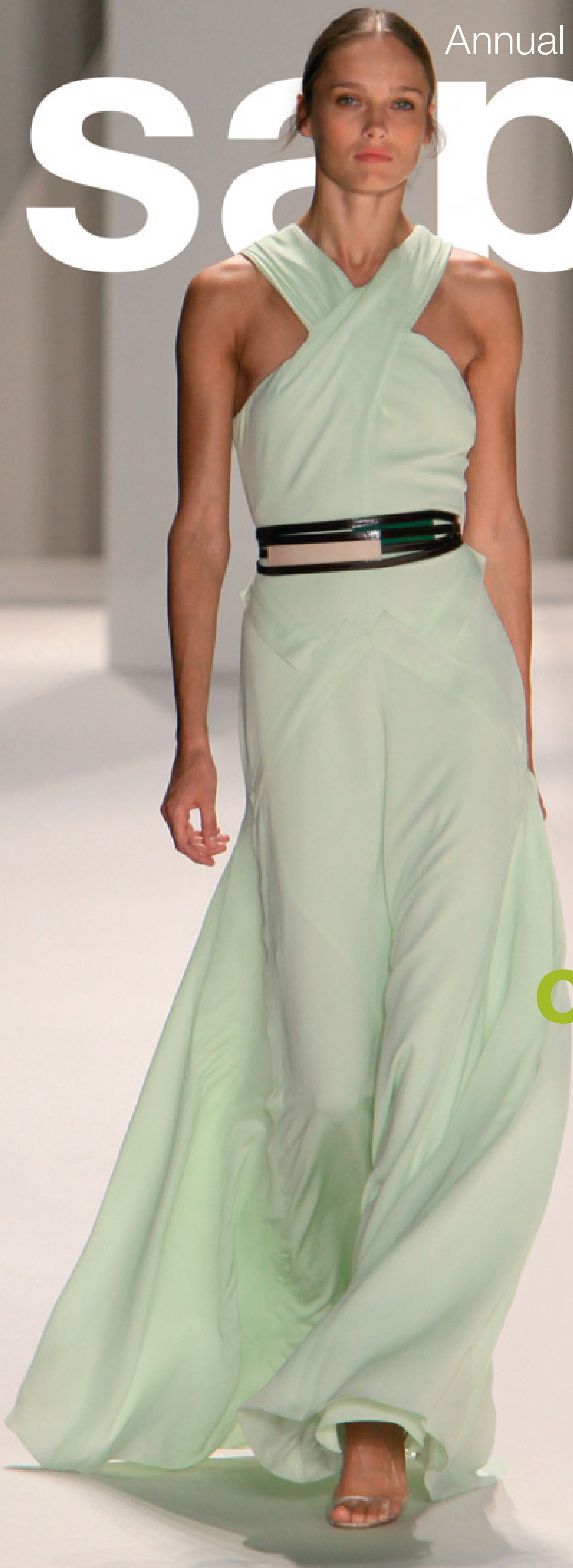
Annual Report **2012**

sappi

Sappi Southern Africa
Proprietary Limited



Growing, high margin, specialised **cellulose** business

sappi

Inspired by life

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 paper, office and business paper (stationery, printing and photocopying), security and speciality paper (passport and election ballot paper), containerboard (such as cardboard boxes used for exporting fruit) and packaging paper for the petfood, agriculture and fast moving consumer goods market. Bleached paper pulp produced is sold on the South African paper markets.

Dissolving wood pulp, 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 dissolving wood pulp and we export almost all of the production of our Sappi Saiccor Mill in 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 554,000 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™) certified. Approximately 150,000 hectares of our land is set aside and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there, including indigenous forests and wetlands.

Sappi Southern Africa is a net seller of pulp.

We have identified investment in low cost wood as both a growth driver and a strategic resource in order to supply our operations and to secure our margins in competitive commodity markets such as dissolving wood pulp. To this end we continue to work with local government and communities to accelerate afforestation in the northern region of the Eastern Cape. This development not only provides one of the only sources of income and job opportunities to these local communities but will also secure valuable hardwood timber resources close to our Saiccor Mill in KwaZulu-Natal. In addition to Sappi's own plantation area, we continue to identify ways to ensure access to pulpwood in the wood baskets close to our key operations, by means of land or timber delivery swaps.

			Capacity ('000)		
Divisions	**Plantations**	**Products produced**	**Hectares**	**m^3**	**Employees***
Sappi Forests	KwaZulu-Natal	Plantations (pulpwood and sawlogs)*	225		
	Mpumalanga	Plantations (pulpwood and sawlogs)*	262		
	Swaziland	Plantations (pulpwood)***	67		
	Sawmills	Sawn timber (m^3)		85	
		Total Sappi Forests	**554**	**85**	**1,400**

			Capacity ('000 tons)		
Divisions	**Mills**	**Products produced**	**Paper**	**Pulp**	**Employees***
Sappi Specialised Cellulose	Saiccor Mill	Dissolving wood pulp		800	
		Total Sappi Specialised Cellulose		**800**	**1,170**

			Capacity ('000 tons)		
Divisions	**Mills**	**Products produced**	**Paper**	**Pulp**	**Employees***
Sappi Paper and Paper Packaging	Cape Kraft Mill	Waste based linerboard and corrugating medium	60		
	Enstra Mill	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		210	
		Kraft linerboard and corrugating medium	280		
	Sappi ReFibre**	Waste paper collection and recycling for own consumption		200	
		Total Sappi Paper and Paper Packaging	**1,030**	**980**	**3,290**
		Total Sappi Southern Africa	**1,030**	**1,780**	**5,860**

* *Plantations include title deed and lease area as well as projects.*
** *Sappi ReFibre collects waste paper in the SA market which is used to produce packaging paper.*

Sappi Southern Africa Proprietary Limited

(Incorporated in the Republic of South Africa)
Registration number 1951/003180/07

Annual Financial Statements

September 2012

Sappi Southern Africa Proprietary Limited

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Year ended September 2012

Sappi Southern Africa Proprietary Limited

Financial Highlights

Year ended September 2012

	September 2012 R million	September 2011 R million
Sales	**12 114**	12 071
EBITDA excluding special items	**1 758**	1 710
Operating profit excluding special items	**1 013**	941
Profit (loss) for the year	**498**	(256)
Net debt	**1 799**	1 572
Total capitalisation	**9 648**	9 030
Net debt over EBITDA	**1.02**	0.92
Operating profit excluding special items to sales (%)	**8.4%**	7.8%
Return on net assets (RONA) (%)	**13.2%**	10.8%
Return on equity (ROE) (%)	**6.5%**	(3.3%)
Net debt to total capitalisation ratio	**18.6%**	17.4%
Cash interest cover (times)	**8.4**	6.1

Definitions

EBITDA excluding special items – earnings before interest (net finance costs), taxation, depreciation, amortisation and special items

Net debt – current and non-current interest-bearing borrowings, and bank overdraft (net of cash, cash equivalents and short-term deposits)

Total capitalisation – net debt plus equity

Net debt over EBITDA – net debt divided by EBITDA excluding special items

Operating profit excluding special items to sales – operating profit excluding special items divided by sales

RONA – return on average net assets. Operating profit excluding special items divided by average net assets (total assets less total liabilities)

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

Net debt to total capitalisation ratio – net debt divided by total capitalisation

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

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, nonrecurring 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

Sappi Southern Africa Proprietary Limited

Management

Year ended September 2012

Chief Executive Officer
Alex Thiel (51)** BSc Mech Eng, MBA

Finance Director
Colin Mowatt**(55) BCom Acc, CA(SA), EDP, MBL

Technical Director
Bertus van der Merwe** (59) BSc, MBA,
Hdip (Engineering)

Information Technology Director
Deon van Aarde** (52) B Compt

Strategic and New Business Development Director
Tyrone Hawkes ** (44) BCom Hons, CA(SA)

Regional Procurement Director
Nat Maelane** (53) MDP, SEP

Human Resources Director
Esther Letlape** (45) BA, BA (Hons) Industrial Psychology

Sappi Saiccor Managing Director
Gary Bowles ** (53) B.Sc Eng (Elect) and GCC & PMD (UCT)

Executive Director Marketing: Sappi Paper and Paper Packaging SA
Dinga Mncube** (52) Dip (Forestry), BSc (Forest Management), MSc (Forest Products), Dip (Business Management) (resigned 30 November 2011)

Manufacturing Director: Sappi Paper and Paper Packaging SA
Patrick McGrady ** (55) BSc Eng (Elec); GCC (Factories)

Sappi Forests Managing Director
Hendrik de Jongh** (57), GCC (electrical), EDP and post-graduate diploma (Management)

Other Directors
Ralph Boëttger***(51) B Acc Hons, CA(SA)
Steven Binnie***(45) BComm, BAcc, CA(SA), MBA (appointed 1 September 2012)
Mark Thompson***(60) BCom, BAcc, LLB, CA(SA) (resigned 31 August 2012)
Andrea Rossi** (58) BSc (Engineering) (Hons) C Eng
Robert Hope ** (59) BA (Hons) Economics, MRICS (resigned 29 June 2012)
Lucia Swartz ** (55) BA, Dip HR
Maarten Van Hoven**(39) BProc, LLM (appointed 31 March 2012)

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

Group Secretary
Denis O’Connor

Secretaries
Sappi Limited
48 Ameshoff Street
Braamfontein 2001
South Africa
Telephone +27 (0) 11 407 8111
Telefax +27 (0) 11 339 1881
e-Mail Denis.O’Connor@Sappi.com

Sappi Southern Africa Proprietary Limited

Corporate Governance

At September 2012

The Sappi Southern Africa Group of companies ("Group") is a major subsidiary of Sappi Limited ("Sappi"), a company that 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 aspects with the regulations and codes of these exchanges as they apply to Sappi.

Sappi is committed to high standards of corporate governance which form the foundation for the long-term sustainability of our company and creation of value for our stakeholders. The group endorses the recommendations contained in the King Code of Governance Principles for South Africa 2009 (King III) and applies the various principles. The application of certain practices recommended in the King Code is being strengthened, details of which are set out in the relevant sections of the Corporate Governance Report.

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).

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 Sappi board has established committees to assist it with the discharge of its duties. Some of the board committees were restructured in 2012 in order to accommodate the South African Companies Act requirement for certain companies to have a social and ethics committee. These committees operate within written terms of reference set by the board. The Sappi board committees are as follows:

Audit committee
The audit committee consists of one independent member (Dr D Konar – chairman and non executive director of Sappi Limited) and Mr S Binnie Chief Finance Officer of Sappi Limited, and the Chief Executive Officer **-** Southern African (Mr A Thiel) and assists the board in discharging its duties relating to the:

- Safeguarding and efficient use of assets;
- Oversight of the risk management function;
- Operation of adequate systems and control processes;
- Reviewing financial information and the preparing of accurate financial reports in compliance with applicable regulations and accounting standards;
- Reviewing compliance with the group's code of ethics and external regulatory requirements;
- Oversight of the external auditors' qualifications, experience and performance;
- Oversight of the performance of the internal audit function; and
- Oversight of non-financial risks and controls, as well as IT governance, through a combined assurance model.

The audit committee confirms that it has received and considered sufficient and relevant information to fulfill its duties.

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 2012.

The committee met four times during 2012.

Nomination and governance committee
The nomination and governance committee consists of four independent Sappi Limited directors and considers the leadership requirements of the company including a succession plan for the board. The committee identifies and nominates suitable candidates for appointment to the board, for board and shareholders' approval. The committee considers the independence of candidates as well as directors. The committee makes recommendations on corporate governance practices and disclosures, and reviews compliance with corporate governance requirements. The committee has oversight of appraising the performance of the board and all the board committees. The results of this process and recommended improvements are communicated to the chairman of each committee and the board. Following the 2011 appraisal process which was conducted by an external evaluator, the 2012 performance assessments were conducted internally. As with the 2011 process, the 2012 results indicated that the board and all the board committees functioned well and that there were no major shortcomings.

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

Regional human resources and compensation committees meet on an ad-hoc basis to execute HR strategy and implement policy at a regional level.

Social, ethics, transformation and sustainability committee
The social, ethics, transformation and sustainability (SETS) committee comprises three independent non-executive Sappi Limited directors, a non-executive director and the Sappi Limited CEO. Other executive and group management committee members attend SETS committee meetings via invitation. Its mandate is to oversee the group's sustainability strategies, ethics management, good corporate citizenship, labour and employment as well as its contribution to social and economic development and, with regards to the group's South African subsidiaries, the strategic business priority transformation.

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

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.

Sappi risk management team
The Sappi Limited board mandates the group risk management team (GRMT) to establish, coordinate and drive the risk management process throughout Sappi. It has established a risk management system to identify and manage significant risks. The group risk management team reports regularly on risks to the audit committee and the board. The main focus in 2012 was the updating of the risk management policy to improve alignment with practices recommended in King III. In addition, risk management software was implemented to support the risk management process throughout the group. Improvement areas for the GRMT during 2013 include the periodic review of updated risk profiles, risk treatments and related assurance as to the effectiveness thereof. We continue to improve our plant and equipment risk profile by making use of an internationally recognised 3rd party to audit and identify potential risks and where applicable the use of best practices to mitigate such risks. There

will be more focus in 2013 on embedding risk management activities in the business, benchmarking and reporting.

Group IT steering committee
The Group IT steering committee promotes IT governance throughout the group. The committee has a charter approved by the audit committee and the Sappi Limited board. An IT governance framework has been developed and IT feedback reports have been presented to the audit committee and the board. Sappi IT has implemented a standardised approach to IT risk management through a group-wide risk framework supported by the use of risk management software. IT management are improving the quantification of IT project spend, related value to the business, disaster recovery plans, and IT risks, in its reporting to the audit committee.

Financial statements
The directors are responsible for overseeing the preparation and final approval of the group annual financial statements, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. The Group's results are reviewed prior to submission to the board by external audit.

Internal controls
The board is responsible for Sappi's systems of internal financial and operational control. Sappi'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, 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.

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. 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.

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

- Financial information is independently audited by Deloitte & Touche.
- Black Economic Empowerment performance has been internally reviewed by management and Internal Audit as well as externally by Empowerdex.

Corporate Governance (Continued)

At September 2012

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

Nothing has come to the attention of the board nor arose from the internal control self-assessment process, internal audits or year-end external audits that leads the board to an opinion that the group's system of internal controls, the compliance function 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

Sappi Limited's internal audit department is suitably resourced. It has a specific charter from the audit committee and independently appraises the adequacy and effectiveness of the group's systems, internal controls and accounting records. It plays a co-ordination role in obtaining combined assurance and reports its findings to local and divisional management, the external auditors as well as the audit committee. 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 2012, apart from the on-going focus on financial controls, internal audit undertook reviews of non-financial risk areas such as energy and water management. This coincided with its co-ordination of the combined assurance model and advising on other practices recommended in King III. Internal audit maintains an internal quality assurance programme, which includes periodic external review. A full review was conducted by the Institute of Internal Auditors (IIA) in 2010 and a 'generally complies' rating was received. Internal audit's in-house review in 2012 highlighted, amongst other things, the need to update the group's fraud risk assessment, and to improve the time metrics for audit assignments and reporting.

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 supported by the group's code of ethics, which commits the group and its employees to sound business practices and compliance with applicable legislation. During 2012 a board committee was established to oversee social, ethics, transformation and sustainability matters throughout the group. Refer to www.sappi.com for the code of ethics.

Legal compliance programme

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

Conflict of interests

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

Corporate Governance (Continued)

At September 2012

Whistle-blower hotlines and follow up of tip-offs

Whistle-blower ‘hotlines’ have been implemented in all the regions in which Sappi 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. The hotline call rates, categories of calls and outcomes of cases broadly align with international whistle-blower benchmark data.

Stakeholder engagement

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 introduced a policy addressing Alternate Dispute Resolution (ADR) in 2012 and relevant ADR clauses are now generally included in 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).

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF SAPPI SOUTHERN AFRICA PROPRIETARY LIMITED

We have audited the consolidated and separate annual financial statements of Sappi Southern Africa Proprietary Limited set out on pages 17 to 111, which comprise the balance sheets as at 30 September 2012, and the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these 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 about 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 and separate financial position of Sappi Southern Africa Proprietary Limited as at 30 September 2012, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 30 September 2012, we have read the Directors' Report and the Company Secretary's Certificate, for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.
These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche

Deloitte & Touche
Registered Auditors

Per: Andrew Kilpatrick
Partner
11 February 2013

Sappi Southern Africa Proprietary Limited

Directors' Approval

Year ended September 2012

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

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

The report and annual financial statements of the Group and the company appear on the following pages:

The above statements were approved by the Board of directors on 11 February 2013 and were signed on 11 February 2013 on its behalf by:

Director

Director

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 2012, all such returns as are required of a private company in terms of this Act and that such returns appear to be true, correct and up to date.

Sappi Limited
Secretaries
per D J O'Connor
Group secretary
11 February 2013

Sappi Southern Africa Proprietary Limited

Directors' Report

Year ended September 2012

The directors submit their report for the year ended September 2012.

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

Supervisor of the preparation of the annual financial statements

Chief financial officer, C Mowatt CA(SA).

Business of Sappi Southern Africa Proprietary Limited ("Sappi Southern Africa" 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 based in South Africa and Swaziland, and produces pulp, paper, paper packaging, dissolving wood pulp and forest & timber products for Southern Africa and export markets.

Sappi Southern Africa overview

Sappi Southern Africa produces commodity paper products, pulp, dissolving wood pulp, uncoated fine paper and forest and timber products for Southern Africa and export markets. Sappi Southern Africa operates five paper and paper packaging mills, one dissolving wood pulp mill and one sawmill.

Sappi Southern Africa is a major pulp and paper producer in Africa, with a production capacity of 580,000 tons of paper packaging products, 450,000 tons of paper products, 800,000 tons of dissolving wood pulp and 780,000 tons of paper pulp per annum. It is also a major timber grower and manages directly and indirectly approximately 554,000 hectares of forestland. Currently, we have access to approximately 400,000 hectares of plantable forestland; however, due to forest fires and timing differences between felling and planting activities, approximately 378,000 hectares is planted with primarily pine and eucalyptus. Approximately 70% of our southern African timber requirements are from our managed, owned and leased plantations. The term "directly manages" relates to plantations in Southern Africa established on land that we either own or lease from a third party. The term "indirectly manages" relates to plantations in Southern Africa established on land held by independent commercial farmers, where we provide technical assistance in the form of advice on the growing and tending of trees.

The business produces 780 million tons of paper pulp and on a net basis, we are approximately self sufficient for our paper pulp requirements in Southern Africa.

The paper products produced by our Southern African business are largely sold regionally, where we have strong market positions in most of these products.

The 800 000 tons of dissolving wood pulp is almost exclusively exported to customers in Asia, Europe and North America.

Markets and operations

Dissolving wood pulp accounts for the majority of our third-party pulp sales. The dissolving wood pulp at our Saiccor mill is used principally as an input in the production of various textiles, microcrystalline cellulose for the food and pharmaceutical industries, and acetate flake used in the manufacturing of acetate tow for cigarette filter tips. Most of our chemical cellulose sales contracts are multi-year contracts with pricing generally based on a formula linked to the NBSK price, which resets on a quarterly basis. However, higher technical grade specifications allow dissolving wood pulp to typically trade at a premium to NBSK. NBSK prices in US dollar terms reached a high point of US$1,023 per metric ton in June 2011 before retreating steadily to reach a low of US$762 per metric ton by the end of September 2012. Spot prices for dissolving pulp reached record highs at the beginning of calendar 2011 but have since steadily declined as new supply entered the market.

Demand growth for dissolving wood pulp continues to be strong. After showing demand growth of approximately 6% in 2011, demand for dissolving wood pulp is forecast to show growth of 9% for the 2012 calendar year. Forecasts beyond calendar 2012 show an increasing trend in demand for dissolving wood pulp of between 8% and 9% driven largely by global population growth and an emerging middle class in developing economies. Some impetus to growth is expected to be provided by the demand stimulus from significantly lower viscose staple fiber (VSF) prices.

Operating profit increased from an operating loss of R3 million in fiscal 2011 to an operating profit of R810 million in fiscal 2012. The operating profit for fiscal 2012 included unfavorable net special items of R81 million which consisted mainly of asset impairments (R71 million) and a release of restructuring charges (R53 million). The asset impairments included R76 million related to announced moth balling of Tugela Mill's PM4 (a sackkraft and containerboard machine), R61m related to an impairment of some of the equipment at Ngdowana Mill which will be taken out of production as part of the conversion project to produce dissolving wood pulp and certain fixed assets that were impaired in fiscal 2011 were transferred to other cash generating units during the year resulting in an impairment reversal of R65 million. The operating loss for fiscal 2011 included unfavorable net special items of R830 million which consisted mainly of asset impairments (R475 million) and restructuring charges (R311 million). The asset impairments included R71 million related to the closure of our Adamas Mill and R404 million related to impairments of assets in our paper and paper packaging business where we have decided to cease production of certain products. The restructuring charges related to our revised strategy for our South African paper and paper packaging business.

Sales increased by 0.4% in Rand terms in fiscal 2012 (R12 114 million) compared to fiscal 2011 (R12 071 million). Sales volumes decreased by 1% in fiscal 2012 compared to fiscal 2011. Demand for dissolving wood pulp was strong in fiscal 2012 resulting in a 2% increase in the sales volume of the Sappi Specialised Cellulose business compared to fiscal 2011. The sales volumes for the Sappi Paper and Paper Packaging business declined by 4% compared to fiscal 2011, due to weak market conditions for packaging and graphic paper products exacerbated by strong competition from imported products. The sales volumes of the Sappi Forests business increased by 22% in fiscal 2012 compared to fiscal 2011.

A major determinant of sales pricing in the Specialised Cellulose Business is the NBSK pulp market price. During fiscal 2012, the average NBSK pulp price decreased by 14% from an average of US$978/ton in fiscal 2011 to an average of US$838/ton in fiscal 2012. During fiscal 2012, our average dissolving wood pulp selling prices in US dollar terms decreased by 15% compared to fiscal 2011, but decreased by only 2% in Rand terms due to the weakening of the Rand against the US dollar during fiscal 2012.

Average selling prices realised in the Sappi Paper and Paper Packaging business increased by 4% in Rand terms compared to fiscal 2011. Average selling prices of timber, in Rand terms, increased by 1% in fiscal 2012 compared to fiscal 2011.

Variable input costs per ton increased by 7% compared to fiscal 2011. Compared to fiscal 2011, the pulp and paper business experienced sharp increases in the prices of raw materials and input costs, particularly for pulping chemicals and energy. Purchased electricity prices increased by approximately 15% compared to fiscal 2011.

Fixed costs decreased by 4% compared to fiscal 2011, consisting of a decrease in cash fixed costs of 5% and a decrease in depreciation of 3%. The decrease in fixed costs was a direct result of the restructuring actions initiated during fiscal 2011. We expect to see more benefits from our restructuring initiatives during our 2013 financial year. However, personnel cost, the largest component of fixed costs, remains under pressure in South Africa due to a high inflation environment and the impact of a skills shortage on labor rates, particularly in skilled technical functions.

EBITDA excluding special items increased by 3% from R1 710 million to R1 758 million, in fiscal 2012 compared to fiscal 2011.

Sappi is a global leader in dissolving wood pulp production, a fast growing and high margin business serving the textiles, consumer goods, foodstuffs and pharmaceutical industries. In May 2011 we announced the conversion of the Ngodwana bleached pulp mill to produce 210 000 tons of chemical cellulose per annum. This conversion is expected to commence production during calendar 2013.

We continue to work with customers to develop new product and service solutions, including the design of high-performance packaging and new uses for chemical cellulose.

We continue to explore opportunities to invest in power cogeneration facilities to increase our power self-sufficiency, and to increase the proportion of renewables in our total energy mix.

Outlook

Our Specialised Cellulose business is well placed as a result of the strong growth in demand for viscose fibres based on strong demand for textile fibres, and more particularly as a result of the need for a sustainable supply of absorbent cellulosic fibres in fibre blends. The primary cellulosics which fulfill this role are viscose and cotton. Cotton is currently in short supply and it is likely to remain so as a result of the need for land for food security.

We will continue to work with customers on more effective product and service offerings, and on finding more efficient ways to take our products to market.

We have a positive view of the year ahead and are looking forward to an improvement in returns for the year.

Reporting period

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

Basis of preparation

Sappi'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.

Share Capital

There were no changes in the authorised share capital during the financial year. During the financial year 808 class "B" and 1 154 class "D" cumulative non-convertible redeemable preference shares of R0.01 each were redeemed for no cash consideration. Sappi Property Company (Pty) Ltd also redeemed 1 008 cumulative non-convertible redeemable preference shares that Sappi Southern Africa (Pty) Ltd owned. A legal right to offset these preference shares exists.

Authorised

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

Issued

6 015 769	Ordinary shares of R2 each
19 520	Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate
219 985	Class "B" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate
831	Class "C" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate
121 014	Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate

Financing

In April 2012, Sappi Southern Africa (Pty) Ltd issued a R750 million floating rate of 7.04% bond 'SSA02' at a 144 basis points spread over the government reference rate. The bond is repayable on 20 April 2015, with interest payable quarterly at a current floating rate of 7.04%. An interest rate swop was taken out to convert the floating rate to a fixed rate of 7.78%. The proceeds of the bond were used to partially refinance the R500 SMF3 bond that matured on 29 June 2012.

At year end, the average tenure of term debt is 1.7 years, requiring refinancing in the next financial year of R1.5 billion in 2013. The amount to be refinanced mainly relates to a R1 billion bond that is repayable in June 2013 and loans from Sanlam to the value of R371m . Various options are being considered for the refinancing and Sappi has begun discussions with advisors in the renewal process and Sappi does not anticipate any problems to refinance this debt.

In March 2012 Fitch confirmed their Sappi Southern Africa's local credit rating of A/ F1, with a stable outlook for Sappi Southern Africa, commenting on the expected improvement of cash generation over the coming 12 to 18 months.

Net borrowings

Net Group borrowings at September 2012 amount to R1.8 billion. Details of the non-current term borrowings are set out in note 16 of the annual financial statements.

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 on-going and aims to lower the risk of incurring losses from uncontrolled incidents.

Fixed assets

In July 2012, the land and buildings of Adamas Mill that were closed in August 2011 of the prior year were sold resulting in a profit on disposal of R18 million. During the year the group had additions of R1 735 million to property, plant and equipment which included R1 187 million relating to the dissolving wood pulp projects. See note 6 to the annual financial statements for further details regarding the fixed assets of Sappi South Africa.

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.

Sappi Southern Africa Proprietary Limited

Directors’ Report (Continued)

Year ended September 2012

Directors and secretaries

The names of the directors are indicated on page 3

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

Subsidiary companies

Details of the company’s significant subsidiaries are given in Annexure A on page 112.

Special resolutions

The following is a list of the special resolutions passed by the company and it’s incorporated subsidiaries during the year:

- The provision of direct or indirect financial assistance to related or inter-related companies

Holding company and ultimate holding company

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

Going concern

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 group annual financial statements.

Sappi Southern Africa Proprietary Limited

Group and Company Income Statements

For the year ended September 2012

	Notes	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Sales		**12 114 013**	12 070 707	**12 120 903**	12 074 939
Cost of sales	3.1	**10 760 185**	10 815 199	**10 914 677**	10 737 981
Gross profit		**1 353 828**	1 255 508	**1 206 226**	1 336 958
Selling, general and administrative expenses	3.1	**499 276**	438 539	**483 909**	409 354
Share of (profit) loss on joint venture	9	**(37 197)**	(10 437)	**-**	54 779
Investment income	3.4	**-**	-	**(357 408)**	(52 863)
Other expenses (incomes)	3.3	**81 488**	830 356	**(22 811)**	961 722
Operating profit (loss)	3	**810 261**	(2 950)	**1 102 536**	(36 034)
Net finance costs	4	**140 695**	262 769	**164 713**	288 743
Finance costs		**307 475**	400 231	**307 434**	400 231
Finance revenue		**(114 837)**	(141 311)	**(90 778)**	(115 358)
Finance costs capitalised		**(49 134)**	(1 364)	**(49 134)**	(1 364)
Net fair value profit on financial instruments		**-**	(4 733)	**-**	(4 733)
Net foreign exchange (gains) losses		**(2 809)**	9 946	**(2 809)**	9 967
Profit (loss) before taxation		**669 566**	(265 719)	**937 823**	(324 777)
Taxation charge (benefit)	5	**171 695**	(9 642)	**171 573**	(4 679)
Profit (loss) for the year		**497 871**	(256 077)	**766 250**	(320 098)

Sappi Southern Africa Proprietary Limited

Group and Company Statement of Comprehensive Income

For the year ended September 2012

		Group		Company	
	Note	**2012**	2011	**2012**	2011
		R'000	R'000	**R'000**	R'000
Profit (Loss) for the year		**497 871**	(256 077)	**766 250**	(320 098)
Other comprehensive loss, net of tax	14	**(108 598)**	(156 806)	**(107 854)**	(151 340)
Items that may subsequently be reclassified to the combined and consolidated income statement:					
Exchange differences on translation of foreign operations		**-**	28	**-**	-
Movement on available-for-sale financial asset		**4 653**	3 513	**-**	-
Movement on hedging reserves		**(85 609)**	60 269	**(85 609)**	60 269
Deferred tax on above items		**23 970**	(16 875)	**23 970**	(16 875)
Items that will not subsequently be reclassified to the combined and consolidated income statement:					
Actuarial losses on post-employment benefit funds		**(69 585)**	(279 470)	**(64 188)**	(270 463)
Deferred tax on above items		**17 973**	75 729	**17 973**	75 729
Total comprehensive income (loss) for the year		**389 273**	(412 883)	**658 396**	(471 438)

Sappi Southern Africa Proprietary Limited

Group and Company Balance Sheets

At September 2012

	Notes	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Assets					
Non-current assets		**13 749 189**	12 934 504	**12 847 873**	12 392 391
Property, plant and equipment	6	**8 787 384**	7 911 825	**8 739 207**	7 857 110
Plantations	7	**4 618 183**	4 696 372	**3 904 531**	4 137 541
Equity investments	9	**134 788**	112 591	**72 540**	260 721
Derivative financial instruments	26	**-**	9 305	**-**	9 305
Other non-current assets	10	**208 834**	204 411	**131 595**	127 714
Current assets		**3 967 077**	4 863 226	**4 708 657**	5 377 083
Inventories	11	**1 487 193**	1 353 744	**1 473 619**	1 343 061
Derivative financial instruments	26	**-**	25 067		25 067
Trade and other receivables	12	**317 634**	186 017	**290 664**	156 301
Amounts owing by Group companies	27	**963 602**	1 042 026	**2 097 864**	1 957 348
Cash and cash equivalents		**1 198 648**	2 256 372	**846 510**	1 895 306
Total assets		**17 716 266**	17 797 730	**17 556 530**	17 769 474
Equity and liabilities					
Shareholders' equity		**7 848 777**	7 458 843	**7 754 777**	7 064 161
Ordinary share capital and share premium	13	**221 100**	221 100	**221 100**	221 100
Other reserves	15	**96 025**	63 642	**94 200**	61 980
Retained earnings		**7 531 652**	7 174 101	**7 439 477**	6 781 081
Non-current liabilities		**4 554 258**	5 171 933	**4 535 447**	5 159 624
Interest-bearing borrowings	16	**1 517 657**	2 205 514	**1 517 657**	2 205 514
Deferred tax liabilities	8	**2 197 123**	2 236 310	**2 197 119**	2 236 306
Derivative financial instruments	26	**21 330**	-	**21 330**	-
Other non-current liabilities	17	**818 148**	730 109	**799 341**	717 804
Current liabilities		**5 313 231**	5 166 954	**5 266 306**	5 545 689
Interest-bearing borrowings	16	**1 480 258**	1 621 910	**1 480 258**	1 621 910
Overdraft		**4**	540	**4**	-
Provisions	19	**2 385**	246 055	**2 385**	190 431
Derivative financial instruments	26	**690**	-	**690**	-
Trade and other payables		**2 442 571**	2 016 590	**2 398 868**	1 959 382
Taxation payable		**127 020**	12 798	**126 912**	13 138
Amounts owing to Group companies	27	**1 260 303**	1 269 061	**1 257 189**	1 760 828
Total equity and liabilities		**17 716 266**	17 797 730	**17 556 530**	17 769 474

Sappi Southern Africa Proprietary Limited

Group and Company Cash Flow Statements

For the year ended September 2012

		Group		Company	
	Notes	**2012 R'000**	2011 R'000	**2012 R'000**	2011 R'000
Cash retained from operating activities		**1 344 886**	1 063 891	**1 824 061**	1 118 889
Cash generated from operations	18.1	**1 599 600**	1 611 288	**1 732 061**	1 678 676
Decease (increase) in working capital	18.2	**48 954**	(308 531)	**62 513**	(345 468)
Cash generated from operating activities		**1 648 554**	1 302 757	**1 794 574**	1 333 208
Finance costs paid	18.3	**(363 788)**	(378 205)	**(363 656)**	(376 291)
Finance revenue received		**114 837**	141 311	**90 778**	115 358
Dividends received		**-**	-	**357 408**	52 863
Taxation paid	18.4	**(54 717)**	(1 972)	**(55 043)**	(6 249)
Cash utilised in investing activities		**(1 600 116)**	(679 584)	**(1 469 256)**	(642 958)
Investment to maintain operations		**(605 056)**	(466 410)	**(474 196)**	(429 784)
- Replacement of non-current assets	18.5	**(606 303)**	(436 194)	**(605 387)**	(431 518)
- Proceeds on disposal of non-current assets	18.6	**48 793**	436	**48 225**	436
- Disposal of plantations		**6 223**	-	**6 223**	-
- (Increase) decrease in investments and loans		**(53 769)**	(30 652)	**76 743**	1 298
Investment to expand properties		**(995 060)**	(213 174)	**(995 060)**	(213 174)
- Addition of non-current assets		**(995 060)**	(213 174)	**(995 060)**	(213 174)
Cash effects of financing activities		**(801 958)**	971 081	**(1 403 605)**	860 458
Proceeds from interest-bearing borrowings		**796 304**	838 577	**796 304**	838 577
Repayment of interest-bearing borrowings		**(1 625 814)**	(777 047)	**(1 625 814)**	(777 047)
Share-based payment reserve redeemed		**(14 438)**	(19 505)	**(14 438)**	(19 505)
Increase in other non-current liabilities		**(27 676)**	(49 385)	**(27 930)**	(4 032)
Increase (decrease) in amounts owing to Group companies		**69 666**	978 441	**(531 727)**	822 465
Net movement in cash and cash equivalents		**(1 057 188)**	1 355 388	**(1 048 800)**	1 336 389
Cash and cash equivalents at beginning of year		**2 255 832**	900 416	**1 895 306**	558 917
Translation effects		**-**	28	**-**	-
Cash and cash equivalents at end of year	18.7	**1 198 644**	2 255 832	**846 506**	1 895 306

Sappi Southern Africa Proprietary Limited

Group and Company Statements of Changes in Equity

For the year ended September 2012

Group

	Ordinary share capital R'000	Share premium R'000	Other reserve R'000	Foreign currency translation reserve R'000	Hedging reserve	Retained earnings R'000	Total R'000
Balance - September 2010	12 030	209 070	22 735	(1 315)	-	7 587 012	7 829 532
Share based payment	-	-	29 509	-	-	-	29 509
Sappi Limited share incentive trust	-	-	(19 505)	-	-	-	(19 505)
Share based payment - BBBEE	-	-	30 903	-	-	-	30 903
Foreign currency translation reserve realised	-	-	-	1 287	-	-	1 287
Total comprehensive income (expense)	-	-	-	28	43 394	(456 305)	(412 883)
Balance - September 2011	12 030	209 070	63 642	-	43 394	7 130 707	7 458 843
Share based payment	**-**	**-**	**19 542**	**-**	**-**	**-**	**19 542**
Sappi Limited share incentive trust	**-**	**-**	**(14 438)**	**-**	**-**	**-**	**(14 438)**
Share based payment – BBBEE	**-**	**-**	**27 279**	**-**	**-**	**-**	**27 279**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(31 722)**	**(31 722)**
Total comprehensive (expense) income	**-**	**-**	**-**	**-**	**(61 639)**	**450 912**	**389 273**
Balance - September 2012	**12 030**	**209 070**	**96 025**	**-**	**(18 245)**	**7 549 897**	**7 848 777**

Sappi Southern Africa Proprietary Limited

Group and Company Statements of Changes in Equity

For the year ended September 2012

Company

	Ordinary share capital R'000	Share premium R'000	Other reserve R'000	Hedging reserve R'000	Retained earnings R'000	Total R'000
Balance - September 2010	12 030	209 070	21 661	-	7 252 519	7 495 280
Share based payment	-	-	28 921	-	-	28 921
Sappi Limited share incentive trust	-	-	(19 505)	-	-	(19 505)
Share based payment – BBBEE	-	-	30 903	-	-	30 903
Total comprehensive income (expense)	-	-	-	43 394	(514 832)	(471 438)
Balance - September 2011	12 030	209 070	61 980	43 394	6 737 687	7 064 161
Share based payment	**-**	**-**	**19 379**	**-**		**19 379**
Sappi Limited share incentive trust	**-**	**-**	**(14 438)**	**-**		**(14 438)**
Share based payment – BBBEE	**-**	**-**	**27 279**	**-**		**27 279**
Total comprehensive income (expense)	**-**	**-**	**-**	**(61 639)**	**720 035**	**658 396**
Balance - September 2012	**12 030**	**209 070**	**94 200**	**(18 245)**	**7 457 722**	**7 754 777**

1. Business

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

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

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 Southern Africa group financial statements.

2.1 Basis of preparation

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

The group annual 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 are stated at fair value less costs to sell and non-current assets held for sale are stated at the lower of cost or fair value less costs to sell.

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

The group has made the following significant accounting policy elections in terms of IFRS:
- regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting;
- cumulative gains and losses recognised in other comprehensive income ('OCI') for cash flow hedge relationships are transferred from equity and included in the initial measurement of the non-financial asset or liability when the hedged item is recognised;
- jointly controlled entities are accounted for using the equity method;
- property, plant and equipment are accounted for using the cost model;
- actuarial gains or losses on post-employment benefits are recognised in OCI; and
- step-by-step method of reclassification of foreign currency translation reserves from equity to profit or loss on disposal.

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

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

(i) Fiscal year
The group's financial year-end is on the Sunday closest to the last day of September. Accordingly, the last two financial years were as follows:
- 03 October 2011 to 30 September 2012 (52 weeks)
- 27 September 2010 to 02 October 2011 (53 weeks)

(ii) Underlying concepts
The group annual 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 curency 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-Rand functional currencies, are translated at the period-end 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, using the step-by-step consolidation method in terms of IFRIC 16 Hedges of a Net Investment in a Foreign Operation.

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

Period-end rate	Sept 12	Sept 11	Sept 10
US$1 = ZAR	8.3096	8.0963	7.0190
€1 = US$	1.2859	1.3386	1.3491
Annual average rate			
US$1 = ZAR	8.0531	6.9577	7.4917
€1 = US$	1.2988	1.3947	1.3658

2. Accounting policies (continued)

2.2.2 Group accounting

(i) Subsidiary undertakings and special-purpose entities

The group annual 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 annual financial statements. Intra-group 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 annual 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 requirements of IAS 39 Financial Intruments: Recognition and Measurement 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 recognised, which is recorded in other operating expenses, is deducted from the carrying amount of the investment. Any reversal of an impairment loss increases the carrying value of the investment to the extent recoverable, but not higher than the depreciated historical amount.

2.2.3 Financial instruments

(i) Initial recognition

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

(ii) Initial measurement

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

(iii) Subsequent measurement

- **Financial assets and financial liabilities at fair value through profit or loss**
  Financial instruments at fair value through profit or loss consist of items classified as held for trading or when they have been designated as fair value through profit or loss. The group has not designated any financial instruments as fair value through profit or loss.

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

2. Accounting policies (continued)

2.2.3 Financial instruments (continued)

- **Loans and receivables**
  Loans and receivables are carried at amortised cost, with interest revenue recognised in profit or loss for the period using the effective interest rate 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 recognised in equity are reclassified to profit or loss even though the financial asset has not been derecognised.

  Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised. Impairment reversals other than available-for-sale debt securities are not reversed through profit or loss but through 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 payments through the expected life of the financial asset or financial liability to that asset's or liability's net carrying amount on initial recognition.

2.2.4 Government grants

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

2. Accounting policies (continued)

2.2.5 Intangible assets

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

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

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

2.2.6 Inventories

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

Cost is determined on the following basis:

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

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

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. Accounting policies (continued)

2.2.9 Borrowing costs

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

Borrowing costs capitalised are calculated at the group's average funding cost, 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.

2.2.10 Revenue

Revenue, arising from the sale of goods, is recognised when the significant risks and rewards of ownership have been transferred, delivery has been made and title has passed, the amount of the revenue and the related costs can be reliably measured and 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 the group's customers' destination are included in cost of sales. These costs, when included in the sales price charged for the group's products are recognised in net sales.

2.2.11 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 recognized in selling, general and administrative expenses in profit or loss for the period.

2.2.12 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.

2. Accounting policies (continued)

2.2.12 Share-based payments (continued)

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 shares-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 25 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of September 2012.

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. Additionally assets are also assessed against their fair value less costs to sell.

2. Accounting policies (continued)

2.3.1 Impairment of assets other than goodwill and financial instruments (continued)

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 6 for the assumptions and inputs used in assessing assets for impairment or impairment reversals.

2.3.2 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes 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 are used to depreciate property, plant and equipment to estimated residual values:

Buildings	straight-line	10 to 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

2.3.3 Taxation

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

2. Accounting policies (continued)

2.3.3 Taxation (continued)

Secondary Tax on Companies (STC) is a South African income tax that arises from the distribution of dividends and is recognised in the current tax charge of the income statement at the time the dividend is declared. STC was replaced with dividends withholding tax in South Africa for dividends declared after 01 April 2012.

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

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

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

(iii) Dividend withholding tax
Dividend withholding tax is payable at a rate of 15% on dividends distributed to shareholders. This tax is not attributable to the company paying the dividend but is collected by the company and paid to the tax authorities on behalf of the shareholder. On receipt of a dividend, the dividend withholding tax is recognised as part of the current tax charge in the income statement in the period in which the dividend is received.

2.3.4 Derivatives and hedge accounting

(i) 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.

(ii) 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 of 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.

2. Accounting policies (continued)

2.3.4 Derivatives and hedge accounting (continued)

(iii) Discontinuance of hedge accounting

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised 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 recognized immediately in profit or loss.

Refer note 26 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.

2.3.5 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 recognized 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 7.

- **Estimated prices less cost of delivery**

  The group uses a 12 quarter rolling historical average price to estimate the fair value of all immature timber and mature timber that is to be felled in more than 12 months from the reporting date. 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.

2. Accounting policies (continued)

2.3.5 Plantations (continued)

- **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 plantations are recognised as silviculture costs in cost of sales (see note 3.1).

2.3.6 Pension plans and other post-retirement benefits

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

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

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

2. Accounting policies (continued)

2.3.6 Pension plans and other post-retirement benefits (continued)

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 23 for the key estimates, assumptions and other information on post-employment benefits applicable as at the end of September 2012.

2.3.7 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-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

Environmental accruals are recorded based on current interpretation of environmental laws and regulations.

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

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

2.3.8 Environmental restoration and decommissioning obligations

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

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

2. Accounting policies (continued)

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:

Standards, interpretations and amendments to standards
The group adopted the following standards, interpretations and amendments to standards during the current year, all of which had no material impact on the group's reported results or financial position:
- IAS 24 Related Party Disclosures – Revised definition of related parties;
- IFRS 7 Financial Instruments: Disclosures – Transfers of financial assets;
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction; and
- Various improvements to IFRSs.

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 the group's accounting periods beginning on or after October 2012 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:
- 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;
- IFRS 13 Fair Value Measurements - establishes a single source of guidance for fair value measurements under IFRS – September 2014;
- IAS 28 Investments in Associates and Joint Ventures – amendment to conform changes based on the issuance of IFRS 10 and IFRS 11 – September 2014; and
- IFRS 9 Financial Instruments – IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities – September 2016

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:
- IAS 1 Presentation of Financial Statements – Other Comprehensive Income – September 2013;
- IAS 12 Deferred Tax – Investment property measured at fair value – September 2013;
- IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – 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 12 Disclosure of Interests in Other Entities – September 2014;
- IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities – September 2015
- IAS 27 Separate Financial Statements – amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements - September 2014; and
- Various improvements to IFRSs.

Sappi Southern Africa Proprietary Limited

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

Year ended September 2012

3. Operating profit (loss)

3.1 Cost of sales and selling, admin and general

	Group				Company			
	2012 R'000		2011 R'000		**2012 R'000**		2011 R'000	
	Cost of sales	**Selling, admin and general**	Cost of sales	Selling, admin and general	**Cost of sales**	**Selling, admin and general**	Cost of sales	Selling, admin and general
Raw materials, energy and other direct input costs	**5 953 739**	**-**	5 581 370	-	**6 064 535**	**-**	5 644 025	-
Fair value adjustment on plantations	**71 966**	**-**	128 673	-	**226 787**	**-**	108 338	-
Employee costs	**1 659 343**	**384 847**	1 800 595	345 579	**1 626 926**	**359 512**	1 766 771	322 238
Depreciation	**703 870**	**40 647**	729 546	39 201	**694 712**	**40 647**	725 271	39 201
Delivery charges	**970 800**	**-**	1 030 412	-	**971 850**	**-**	1 028 410	-
Maintenance	**689 532**	**-**	764 747	-	**685 711**	**-**	760 447	-
Other overheads	**710 935**	**-**	779 856	-	**644 156**	**-**	704 719	-
Marketing and selling expenses	**-**	**37 053**	-	39 766	**-**	**36 521**	-	39 418
Administrative and general expenses	**-**	**36 729**	-	13 993	**-**	**47 229**	-	8 497
	10 760 185	**499 276**	10 815 199	438 539	**10 914 677**	**483 909**	10 737 981	409 354

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
3.1 Operating profit (loss) (continued)				
Fair value loss (gains) on plantations (note 7)				
Changes in volumes				
Fellings	**591 874**	567 753	**552 174**	554 896
Growth	**(641 485)**	(553 703)	**(551 757)**	(475 644)
	(49 611)	14 050	**417**	79 252
Plantation price fair value adjustment	**121 577**	114 623	**226 370**	29 086
	71 966	128 673	**226 787**	108 338
Silviculture costs (included within cost of sales)	**582 614**	564 379	**508 706**	501 670
Leasing charges for premises	**26 799**	19 640	**26 799**	19 640
Leasing charges for plant and equipment	**28 479**	32 579	**28 479**	32 579
Leasing charges for vehicles	**18 034**	17 767	**17 370**	17 274
Leasing charges for office equipment	**15 287**	16 209	**14 997**	15 842
Cost of derecognition of loans and receivables	**77 238**	76 393	**77 238**	76 393
Remuneration paid other than to bona fide employees of the company in respect of:	**14 752**	16 020	**13 356**	13 442
• technical services	**9 224**	8 302	**9 224**	8 302
• administration services	**5 528**	7 718	**4 132**	5 140
Auditors' remuneration	**7 791**	8 547	**7 743**	8 133
• audit and related services	**7 276**	7 968	**7 228**	7 554
• tax planning and tax advice	**515**	579	**515**	579
Research and development costs	**19 799**	19 428	**19 175**	18 804

Sappi Southern Africa Proprietary Limited

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

Year ended September 2012

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
3.2 Employee costs				
Wages and salaries	**1 486 512**	1 571 538	**1 464 802**	1 547 711
Pension costs (refer note 23)	**51 038**	19 226	**50 159**	17 329
Post employment benefits other than pension expense (refer note 24)	**74 292**	62 503	**74 292**	62 503
Defined contribution expense	**103 657**	107 435	**101 336**	105 631
Other company contributions	**80 567**	86 833	**52 179**	61 328
Overtime	**114 366**	132 599	**113 781**	132 215
Share-based payment expense	**19 452**	29 395	**19 289**	28 808
Other	**114 306**	136 645	**110 600**	133 484
	2 044 190	2 146 174	**1 986 438**	2 089 009
3.3 Other expenses (income)				
Loss on sale and write-off of property, plant and equipment	**14 016**	7 095	**16 290**	6 334
Costs and Losses due to major events (Fires and floods)	**43 162**	3 826	**10 403**	1 970
Profit on sale of plantation	**(3 155)**	-	**(3 155)**	-
Profit on assets held for sale	**(18 242)**	-	**(18 242)**	-
Impairments of property, plant and equipment (refer note 6)	**71 333**	474 652	**71 333**	414 209
Write down investments	**-**	-	**38 558**	-
(Impairment reversal) impairment of intercompany balances	**-**	-	**(112 428)**	219 383
Black economic empowerment transaction charge	**27 279**	31 153	**27 279**	31 153
Restructuring costs	**(53 107)**	311 440	**(53 107)**	287 765
Other	**202**	2 190	**258**	908
	81 488	830 356	**(22 811)**	961 722
Attributable tax	**6 484**	1 739	**(14 025)**	1 739
	75 004	828 617	**(8 786)**	959 983
3.4 Investment income				
Dividend received	**-**	-	**(357 408)**	(52 863)

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
4. Net finance costs				
Gross interest and other finance costs on liabilities carried at amortised cost	**307 475**	400 231	**307 434**	400 231
• Interest on bank overdrafts	**4 332**	13 255	**4 310**	13 255
• Interest on redeemable bonds and other loans	**289 824**	371 535	**289 805**	371 535
• Interest on obligations under finance lease	**13 319**	15 351	**13 319**	15 351
• Inter-group finance costs	**-**	90	**-**	90
Finance revenue received on assets carried at amortised cost	**(114 837)**	(141 311)	**(90 778)**	(115 358)
• Interest on bank accounts	**(76 194)**	(53 821)	**(52 144)**	(27 868)
• Interest revenue on loans and investments	**(1 821)**	(900)	**(1 812)**	(900)
• Inter-group finance revenue	**(36 822)**	(86 590)	**(36 822)**	(86 590)
Interest capitalised	**(49 134)**	(1 364)	**(49 134)**	(1 364)
Net foreign exchange loss	**(2 809)**	9 946	**(2 809)**	9 967
Net fair value gain on financial instruments	**-**	(4 733)	**-**	(4 733)
	140 695	262 769	**164 713**	288 743
5. Taxation charge (benefit)				
Current taxation:				
• Current year	**121 375**	(18 078)	**121 253**	(18 078)
• Prior year under (over) provision	**47 564**	(389)	**47 564**	-
Deferred taxation: (refer note 8)				
• Current year	**54 463**	23 356	**54 463**	23 356
• Prior year under provision	**(51 707)**	(14 531)	**(51 707)**	(9 957)
	171 695	(9 642)	**171 573**	(4 679)

In addition to income taxation expense charges to profit and loss, deferred taxation expense charge of R41 945 thousand (2011: R58 854 thousand) has been recognised directly in other comprehensive income (refer note 8).

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2012

	Group		Company	
	2012	2011	**2012**	2011
	%	%	**%**	%
5. Taxation charge (benefit) (continued)				
Reconciliation of the tax rate:				
Statutory tax rate	**28.0**	28.0	**28.0**	28.0
Foreign tax differential	**0.4**	0.1	**-**	-
Non-deductible expenses/(non-taxable income)	**3.6**	(30.3)	**(9.3)**	(29.7)
Deferred tax asset not recognised	**(5.8)**	0.2	**-**	-
Prior year adjustments	**(0.6)**	5.6	**(0.4)**	3.1
Effective taxation rate for the year	**25.6**	3.6	**18.3**	1.4

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
6. Property, plant and equipment				
Land and buildings				
At cost	**2 367 946**	2 300 570	**2 307 543**	2 243 938
Accumulated depreciation	**821 943**	764 967	**753 981**	702 199
	1 546 003	1 535 603	**1 553 562**	1 541 739
Plant and equipment				
At cost	**17 223 622**	15 768 432	**16 328 505**	14 867 644
Accumulated depreciation	**10 029 590**	9 456 592	**9 190 209**	8 616 655
	7 194 032	6 311 840	**7 138 296**	6 250 989
Capitalised leased assets				
At cost	**224 145**	224 145	**200 477**	200 477
Accumulated depreciation	**176 796**	159 763	**153 128**	136 095
	47 349	64 382	**47 349**	64 382
Aggregate cost	**19 815 713**	18 293 147	**18 836 525**	17 312 059
Aggregate accumulated depreciation	**11 028 329**	10 381 322	**10 097 318**	9 454 949
Aggregate book value	**8 787 384**	7 911 825	**8 739 207**	7 857 110

6. Property, plant and equipment (continued)

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

	Land and buildings R'000	Plant and equipment R'000	Capitalised leased assets R'000	Total R'000
Group				
Net book value at September 2010	1 548 353	6 854 452	81 416	8 484 221
Additions	60 806	616 364	-	677 170
Finance costs capitalised	-	1 364	-	1 364
Disposals	(2 174)	(5 357)	-	(7 531)
Depreciation	(71 382)	(680 331)	(17 034)	(768 747)
Impairments of property, plant and equipment (refer note 3.3)	-	(474 652)	-	(474 652)
Net book value at September 2011	1 535 603	6 311 840	64 382	7 911 825
Additions	**110 250**	**1 576 592**	**-**	**1 686 842**
Finance costs capitalised	**-**	**49 134**	**-**	**49 134**
Disposals	**(4 141)**	**(18 923)**	**-**	**(23 064)**
Depreciation	**(74 206)**	**(653 278)**	**(17 033)**	**(744 517)**
Impairments of property, plant and equipment (refer note 3.3)	**-**	**(71 333)**	**-**	**(71 333)**
Assets transferred to held for sale	**(21 503)**	**-**	**-**	**(21 503)**
Net book value at September 2012	**1 546 003**	**7 194 032**	**47 349**	**8 787 384**
Company				
Net book value at September 2009	1 553 787	6 733 500	81 416	8 368 703
Additions	59 693	612 801	-	672 494
Finance costs capitalised	-	1 364	-	1 364
Disposals	(1 413)	(5 357)	-	(6 770)
Depreciation	(70 328)	(677 110)	(17 034)	(764 472)
Impairments of property, plant and equipment (refer note 3.3)	-	(414 209)	-	(414 209)
Net book value at September 2011	1 541 739	6 250 989	64 382	7 857 110
Additions	**106 427**	**1 579 501**	**-**	**1 685 928**
Finance costs capitalised	**-**	**49 134**	**-**	**49 134**
Disposals	**(4 141)**	**(20 629)**	**-**	**(24 770)**
Depreciation	**(68 960)**	**(649 366)**	**(17 033)**	**(735 359)**
Impairments of property, plant and equipment (refer note 3.3)	**-**	**(71 333)**	**-**	**(71 333)**
Assets transferred to held for sale	**(21 503)**	**-**	**-**	**(21 503)**
Net book value at September 2012	**1 553 562**	**7 138 296**	**47 349**	**8 739 207**

Details of land and buildings are available at the registered offices of the respective companies (refer note 20 for details of encumbrances).

6. Property, plant and equipment (continued)

Impairments

September 2012

Sappi Paper and Paper Packaging operations
Certain fixed assets that were impaired in fiscal 2011 were transferred to other cash generating units during the year resulting in an impairment reversal of R65 million.

Ngodwana Mill
Some of the equipment at Ngdowana Mill with a book value of R66 million will be taken out of production as part of the conversion project to produce dissolving wood pulp resulting in an impairment charge of R61 million to profit or loss.

Tugela Mill
At the end of fiscal 2012, there were indicators of impairment at Tugela Mill in Sappi Southern Africa. Difficult market conditions as well as the cost structure of a paper machine ('PM4') at the mill did not allow the paper machine to operate profitably. As a result, PM4 (a sackkraft and containerboard machine) was tested for impairment in accordance with IAS 36 by comparing the recoverable amount with the carrying amount. As a result, an impairment charge of R76 million has been recorded in other operating expenses in profit or loss for the period. The recoverable amount was calculated on a value in use basis, using a real pre-tax discount rate of 7.96%. On 12 October 2012, Sappi announced the decision to mothball PM4 from 01 January 2013 with the intention to restart the machine when the market conditions improve.

September 2011

Usutu Mill

At the end of January 2011, Usutu Mill ceased operations and the pulp mill was permanently closed. The property, plant and equipment related to the mill had been substantially impaired in previous years and the final balance of the assets were impaired by a further R60 million in the current fiscal year.

Sappi continues its forestry operations in Swaziland, and is investigating the establishment of various timber processing operations at the Usutu Mill site.

Adamas Mill

At the end of July 2012, Adamas Mill ceased operations. The more profitable grades produced at Adamas were transferred to Enstra and Stanger. The property, plant and equipment other than land and buildings have been impaired by R72 million. The carrying amount of land and buildings is R22 million.

Sappi Paper and Paper Packaging Operations

Our latest review of the paper and paper packaging operations, completed in the fourth fiscal quarter of 2012, 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 R343 million being incurred for the year.

7. Plantations

	Group		Company	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Fair value of plantations at the beginning of the year	**4 696 372**	4 825 045	**4 137 541**	4 245 879
Fire, hazardous weather and other damages	**(29 693)**	-	**-**	-
Disposals	**(6 223)**	-	**(6 223)**	-
Gains arising from growth	**671 178**	553 703	**551 757**	475 644
Loss arising from fair value price charges	**(121 577)**	(114 623)	**(226 370)**	(29 086)
Harvesting - agriculture produce (fellings)	**(591 874)**	(567 753)	**(552 174)**	(554 896)
Fair value of plantations at the end of the year	**4 618 183**	4 696 372	**3 904 531**	4 137 541

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.

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 and range 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 sheet (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 complies with FSC standards.

7. Plantations (continued)

Changes in estimate prices, discount rate, costs to sell and, volume and growth assumptions applied in the valuation of timber may impact the calculated fair value as tabled below.

	2012	2011
	R'000	R'000
Fair value changes		
1% increase in market prices	**30 587**	29 356
1% decrease in market prices	**(30 587)**	(29 356)
Discount rate (for immature timber)		
1% increase in rate	**(32 108)**	(28 418)
1% decrease in rate	**32 108**	28 418
Volume assumption		
1% increase in estimate of volume	**44 092**	45 702
1% decrease in estimate of volume	**(44 092)**	(45 702)
Costs to sell		
1% increase in costs to sell	**(21 802)**	(21 048)
1% decrease in costs to sell	**21 802**	21 048
Growth assumptions		
1% increase in rate of growth	**13 408**	11 407
1% decrease in rate of growth	**(13 408)**	(11 407)

8. Deferred tax liabilities

	2012		2011	
	Assets R'000	**Liabilities R'000**	Assets R'000	Liabilities R'000
Group				
Taxation loss carry forward	**-**	**-**	126 157	-
Other non current liabilities	**160 546**	**-**	226 027	47 564
Accrued and other liabilities	**219 411**	**-**	117 849	-
Property, plant and equipment	**-**	**1 498 183**	-	1 514 449
Plantations	**-**	**1 078 897**	-	1 144 330
Total deferred taxation	**379 957**	**2 577 080**	470 033	2 706 343
Company				
Taxation loss carry forward	**-**	**-**	126 157	-
Other non current liabilities	**160 550**	**-**	226 027	47 560
Accrued and other liabilities	**219 411**	**-**	117 849	-
Property, plant and equipment	**-**	**1 498 183**	-	1 514 449
Plantations	**-**	**1 078 897**	-	1 144 330
Total deferred taxation	**379 961**	**2 577 080**	470 033	2 706 339

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
8. Deferred tax liabilities (continued)				
Unrecognised deferred taxation assets				
The unrecognised deferred taxation assets relate to the following items in subsidiary companies, where the recoverability of these are uncertain at the balance sheet date:				
• Deductible temporary differences	**(185 914)**	(132 697)	**-**	-
• Taxation losses	**372 833**	357 991	**-**	-
	186 919	225 294	**-**	-

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
8. Deferred tax liabilities (continued)				
Reconciliation of deferred taxation				
Deferred taxation balances at beginning of year				
• Deferred taxation assets	**(470 033)**	(309 007)	**(470 033)**	(308 933)
• Deferred taxation liabilities	**2 706 343**	2 595 347	**2 706 339**	2 595 343
	2 236 310	2 286 340	**2 236 306**	2 286 410
Deferred taxation charge for the year (refer to note 5)	**50 322**	8 824	**50 322**	13 398
• Other liabilities, accruals and prepayments	**(752)**	(137 262)	**(752)**	(137 261)
• Taxation loss carry forward	**126 157**	39 507	**126 157**	39 432
• Accrued and other liabilities	**6 616**	37 839	**6 616**	37 839
• Property, plant and equipment	**(16 267)**	96 747	**(16 267)**	101 395
• Plantations	**(65 432)**	(28 007)	**(65 432)**	(28 007)
Amounts recorded directly against equity	**(41 945)**	(58 854)	**(41 945)**	(58 854)
Transfer from current taxation	**(47 564)**	-	**(47 564)**	-
Transfer to Sappi Southern Africa	**-**	-	**-**	(4 648)
Deferred taxation balances at end of year	**2 197 123**	2 236 310	**2 197 119**	2 236 306
• Deferred taxation assets	**(379 957)**	(470 033)	**(379 961)**	(470 033)
• Deferred taxation liabilities	**2 577 080**	2 706 343	**2 577 080**	2 706 339

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000

9. Equity investments

Investment in joint venture	**134 788**	112 591	**72 375**	72 375
Unlisted investments (Refer Annexure A on page 112)	**-**	-	**165**	188 346
	134 788	112 591	**72 540**	260 721

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

Unlisted investments reduced due to the reserves of Bonuskor Houtverwerkers (Edms) Bpk and Safor Limited being distributed as a dividend to Sappi Southern Africa Proprietary Limited.

The Group has the following joint venture:

Umkomaas Lignin (Pty) Ltd

A 50% joint venture agreement with Borregaard AS for the construction and operation of a lignin plant at Umkomaas and the development, production and sale of products based on lignosulphates in order to build a sustainable lignin business. The financial statements of Umkomaas Lignin (Pty) Ltd are to 31 December of each year which is the year end of Borregaard. The last audited financials were to 31 December 2011.

The joint venture is accounted for using the equity method.

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
Issued share capital	**1**	1	**1**	1
Cost of investment in joint venture	**1 985**	1 985	**1 985**	1 985
Share of post acquisition profits	**62 413**	40 216		-
• Opening balance	**40 216**	54 779	**-**	-
• Current year profit	**37 197**	10 437	**-**	-
• Dividend received	**(15 000)**	(25 000)	**-**	-
Loan*	**70 390**	70 390	**70 390**	70 390
	134 788	112 591	**72 375**	72 375
Summarised financial information in respect of the group's joint ventures is set out below:				
Total assets	**387 080**	363 981	**-**	-
Total liabilities	**(117 504)**	(138 799)	**-**	-
Net assets	**269 576**	225 182	**-**	-

*The loan is unsecured, with interest payable at South African prime interest rate in arrears and has no fixed repayment terms.

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
9. Equity investments (continued)				
Group's share of joint ventures net assets	**134 788**	112 591	**-**	**-**
Sales	**477 586**	319 353	**-**	**-**
Profit for the period	**74 394**	20 874	**-**	**-**
Group's share of joint ventures profit for the period	**37 197**	10 437	**-**	**-**
10. Other non-current assets				
Advances to tree growers	**59 456**	59 000	**59 175**	58 673
Licence fee	**668**	873	**668**	873
Pension asset (refer note 23)	**50 585**	46 998	**50 585**	46 998
Unlisted investment*	**91 866**	91 279	**-**	-
Other	**6 259**	6 261	**21 167**	21 170
	208 834	204 411	**131 595**	127 714
11. Inventories				
Raw materials	**413 471**	347 543	**407 434**	343 151
Work-in-progress	**117 112**	106 818	**111 344**	101 883
Finished goods	**612 972**	572 905	**611 877**	571 902
Consumable stores and spares	**343 638**	326 478	**342 964**	326 125
	1 487 193	1 353 744	**1 473 619**	1 343 061

* The investment is carried at market value.

The charge to the group income statement relating to the adjustment of inventories to net realisable value amounted to R44 565 thousand (2011: R3 646 thousand credit).

The cost of inventories recognised as an expense and included in cost of sales amounted to R10 760 185 thousand (2011: R10 815 199 thousand).

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
12. Trade and other receivables				
Trade accounts receivable	**71 044**	64 257	**51 708**	41 533
Receiver of Revenue	**123 241**	38 935	**123 173**	38 243
Prepaid insurance	**23 655**	22 355	**21 575**	20 537
Prepayments and other receivables	**99 694**	60 470	**94 208**	55 988
	317 634	186 017	**290 664**	156 301

Management rates the quality of the trade and other receivables, which are neither past due nor impaired, periodically against its internal credit rating parameters. The quality of these trade receivables is such that management believes no impairment provision is necessary, except in situations where they are part of individually impaired trade receivables.

The carrying amount of R317 634 thousand (2011: R186 017 thousand) represents the group's maximum credit risk exposure from trade and other receivables.

Prepayments and other receivables primarily represent prepaid insurance and other sundry receivables.

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
12.1. Reconciliation of the provision for impairment				
Opening balance	**-**	2 662	**-**	**2 662**
Decrease in impairment provision to income statement	**-**	(2 662)	**-**	**(2 662)**
Closing balance	**-**	-	**-**	**-**

No allowance has been made for estimated irrecoverable amounts from the sale of goods. This allowance has been determined by reference to specific customer delinquencies.

12. Trade and other receivables (continued)

12.2 Analysis of amounts past due

There are no amounts that are past the due contractual maturity dates.

The group has granted facilities to customers to buy on credit for the following amounts:

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Value of limits (approved in line with limits of authority)				
Less than R4.1 million	**195 830**	164 085	**195 830**	164 085
Less than R8.2 million but equal to or greater than R4.1 million	**178 995**	168 280	**178 995**	168 280
Less than R24.8 million but equal to or greater than R8.2 million	**401 466**	334 562	**401 466**	334 562
Less than R41.2 million but equal to or greater than R24.8 million	**249 065**	123 209	**249 065**	123 209
Equal to or greater than R41.2 million	**1 905 495**	1 910 870	**1 905 495**	1 910 870
	2 930 851	2 701 006	**2 930 851**	2 701 006

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 no provision against trade receivables that are past due.

The group holds collateral of R18 150 thousand (2011: R28 925 thousand) against these trade receivables that are past due.

12. Trade and other receivables (continued)

12.3 Fair value

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

12.4 Off balance sheet structures

Sappi sells the majority of its 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 was entered into.

The total amount of trade receivables sold at the end of September 2012 amounted to R1 043 877 thousand (September 2011: R978 803 thousand). Details of the securitisation programme at the end of fiscal 2012 and 2011 are disclosed in the tables below.

Bank	**Currency**	**Value**	**Facility**	**Discount charges**
2012				
Rand Merchant Bank	ZAR	1 044 million	Unlimited*	Linked to 3 month JIBAR
2011				
Rand Merchant Bank	ZAR	979 million	Unlimited*	Linked to 3 month JIBAR

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

The expense with regard to the securitisation programme have been recognised in selling, general and distribution costs (refer note 3).

Refer to note 26 for further details on credit risk.

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
13. Ordinary share capital and share premium				
Authorised share capital				
6 052 500 Ordinary shares of R2 each	**12 105**	12 105	**12 105**	12 105
19 520 Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate [(1) (2)]	**-**	-	**-**	-
221 107 Class "B" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate [(1) (2)]	**-**	-	**2**	2
831 Class "C" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate [(1) (2)]	**-**	-	**-**	-
123 321 Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate [(1) (2)]	**-**	-	**1**	1
	12 105	12 105	**12 108**	12 108

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
13. Ordinary share capital and share premium (continued)				
Issued share capital				
6 015 769 Ordinary shares of R2 each	**12 030**	12 030	**12 030**	12 030
19 520 Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate [(1) (2)]	**-**	-	**-**	-
219 985 (2011: 220 793) Class "B" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate [(1) (2)]	**-**	-	**2**	2
831 Class "C" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate [(1) (2)]	**-**	-	**-**	-
121 014 (2011: 122 168) Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate [(1) (2))]	**-**	-	**1**	1
Investment in 363 237 (2011: 364 245) Sappi Property Company (Pty) Ltd cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (Share Capital) [(1) (2)]	**-**	-	**(3)**	(3)
	12 030	12 030	**12 030**	12 030
Share premium	**209 070**	209 070	**209 070**	209 070
Share premium on new preference shares issued	**-**	-	**223 431**	224 050
Investment in 363 237 (2011: 364 245) Sappi Property Company (Pty) Ltd cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (Share Premium) [(2)]	**-**	-	**(223 431)**	(224 050)
	221 100	221 100	**221 100**	221 100

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

(2) The Class "A", "B", "C" and "D" cumulative non-convertible redeemable preference shares of R0.01 each were issued to Sappi Property Company (Pty) Ltd for no cash consideration on 30 June 2008. Sappi Southern Africa acquired all the ordinary shares of Sappi Property Company (Pty) Ltd on 11 June 2011, and is therefore a wholly owned subsidiary. Sappi Southern Africa (Pty) Ltd holds 363 237 (2011: 364 245) cumulative non-convertible redeemable preference shares of R0.01 each in Sappi Property Company (Pty) Ltd. A legal right to offset these preference shares exists.

13. Ordinary share capital and premium (continued)

Capital Risk Management

The capital structure of the group consists of:

- issued share capital and 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 16; 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 capitalization (shareholders' equity plus net debt).

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

During fiscal 2012 and 2011 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 2011.

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
14. Other comprehensive loss				
Items that will not subsequently be reclassified to the combined and consolidated income statement:				
Actuarial losses on post-employment benefit funds	**(51 612)**	(203 741)	**(46 215)**	(194 734)
Gross amount	**(69 585)**	(279 470)	**(64 188)**	(270 463)
Tax	**17 973**	75 729	**17 973**	75 729
Items that may subsequently be reclassified to the combined and consolidated income statement:				
Exchange difference on translation of foreign operations	**-**	28	**-**	-
Gross amount	**-**	28	**-**	-
Movement on available-for-sale financial asset	**4 653**	3 513	**-**	-
Gross amount	**4 653**	3 513	**-**	-
Hedging reserve	**(61 639)**	43 394	**(61 639)**	43 394
Gross amount	**(85 609)**	60 269	**(85 609)**	60 269
Tax	**23 970**	(16 875)	**23 970**	(16 875)
Other comprehensive loss recoded directly in equity	**(108 598)**	(156 806)	**(107 854)**	(151 340)
Profit (loss) for the year	**497 871**	(256 077)	**766 250**	(320 098)
Total comprehensive income (loss) for the year	**389 273**	(412 883)	**658 396**	(471 438)

15. Other reserves

	Group 2012	Group 2011	Company 2012	Company 2011
Share-based payment reserve (refer note 25)	**3 255**	(1 849)	**1 430**	(3 512)
Share based payment reserve – BBBEE (refer note 25)	**92 770**	65 491	**92 770**	65 492
	96 025	63 642	**94 200**	61 980

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
16. Interest-bearing borrowings				
Capitalised lease liabilities (refer note 20 for details of encumbered assets)	**110 087**	131 360	**110 087**	131 360
Unsecured borrowings	**2 887 828**	3 696 064	**2 887 828**	3 696 064
Total borrowings	**2 997 915**	3 827 424	**2 997 915**	3 827 424
Less: Current portion included under current liabilities	**1 480 258**	1 621 910	**1 480 258**	1 621 910
	1 517 657	2 205 514	**1 517 657**	2 205 514

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

Payable in the year ended September:

2012	**-**	1 621 910	**-**	1 621 910
2013	**1 480 258**	1 447 307	**1 480 258**	1 447 307
2014	**218 229**	208 779	**218 229**	208 779
2015	**799 428**	49 428	**799 428**	49 428
2016	**500 000**	500 000	**500 000**	500 000
	2 997 915	3 827 424	**2 997 915**	3 827 424

16. Interest-bearing borrowings (continued)

Capitalised lease liabilities

Finance leases are primarily for buildings. At the time of entering into capital lease agreements, the commitments are recorded at their present value using applicable interest rates. As of September 2012 the aggregate amounts of minimum lease payments and the related imputed finance costs under capitalised lease contracts payable in each of the next five financial years and thereafter are as follows:

	Minimum lease payments R'000	Finance costs R'000	**2012 Present value of minimum lease payments R'000**	2011 Present value of minimum lease payments R'000
Payable in the year ended September:				
2012	**-**	**-**	**-**	21 273
2013	**37 705**	**(10 712)**	**26 993**	26 993
2014	**41 098**	**(7 432)**	**33 666**	33 666
2015	**52 797**	**(3 369)**	**49 428**	49 428
Total future minimum lease payments	**131 600**	**(21 513)**	**110 087**	131 360

16. Interest-bearing borrowings (continued)

Set out below are details of the more significant interest-bearing borrowings in the Group at September 2012:

	Currency	Interest rate	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry	Financial covenants
Redeemable bonds (listed)							
Public bond	ZAR	Fixed	R 1 000 million	R 1 000 million	Unsecured	June 2013	No financial covenants
Public bond	ZAR	Fixed	R 500 million	R 499 million *	Unsecured	June 2016	No financial covenants
Public bond	ZAR	Fixed**	R 750 million	R 748 million	Unsecured	April 2015	No financial covenants
Redeemable bonds (unlisted private placement)							
Bravura Sanlam	ZAR	Fixed	R 166 million	R 166 million	Unsecured	November 2012	No financial covenants
Bravura Sanlam	ZAR	Fixed	R 164 million	R 164 million	Unsecured	January 2013	No financial covenants
Bravura Sanlam	ZAR	Fixed	R 41 million	R 41 million	Unsecured	March 2013	No financial covenants
Bravura Sanlam	ZAR	Fixed	R 75 million	R 75 million *	Unsecured	December 2013	No financial covenants
Capitalised leases							
Rand Merchant Bank	ZAR	Fixed	R 110 million	R 110 million**	Buildings	September 2015	No financial covenants
Unsecured bank term loans							
Nedbank	ZAR	Fixed	R 177 million	R 177 million	Unsecured	March 2014	Gearing ratio interest and dividend cover
Petitum Trading	ZAR	Fixed	R 16 million	R 16 million**	Unsecured	June 2014	No financial covenants

* 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.

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

16. Interest-bearing borrowings (continued)

Other restrictions

During fiscal 2012 and 2011 we were in compliance with the financial covenants relating to all loans payable. Regular monitoring of compliance with applicable covenants occurs. If a possible breach of a financial covenant is anticipated, negotiations would commence with the applicable institution before such breach occurs.

Borrowing facilities secured by trade receivables

The Group undertakes a trade receivables securitisation program due to the cost effectiveness of the structure.

Further detail of the value of trade receivables sold are in note 12 of the financial statements.

Un-utilised committed facilities

Group treasury determines the headroom on a weekly basis. The net cash balances included in current assets and current liabilities are included in the determination of the headroom available.

Un-utilised uncommitted facilities

	Currency	**Interest rate**	**2012 R'000**	2011 R'000
DMTN (Domestic Medium Term Note)	ZAR	Variable (JIBAR)	**2 750 000**	2 000 000

The DMTN programme is a R5 billion uncommitted programme that is listed on the JSE and is sponsored by Nedbank, RMB and Investec Bank. An amount of R2.25 billion was utilised at 30 September 2012 with available headroom of R2.75 billion.

This programme allows for short-term commercial paper as well as long-term notes to be issued.

	Group		Company	
	2012 **R'000**	2011 R'000	**2012** **R'000**	2011 R'000
17. Other non-current liabilities				
Severance benefits (refer note 23)	**12 605**	6 792	**-**	-
Post-employment benefits other than pension liability (refer note 24)	**799 341**	713 773	**799 341**	713 773
Income received in advance	**-**	4 031	**-**	4 031
Retirement liability	**2 310**	1 875	**-**	-
Other	**3 892**	3 638	**-**	-
	818 148	730 109	**799 341**	717 804

18. Notes to the cash flow statements

18.1 Cash generated from operations

	Group 2012	Group 2011	Company 2012	Company 2011
Profit (loss) after taxation per income statement	**497 871**	(256 077)	**766 250**	(320 098)
Adjustment for:				
Depreciation	**744 517**	768 747	**735 359**	764 472
Fellings	**591 874**	567 753	**552 174**	554 896
Impairment of assets	**71 333**	474 652	**(2 537)**	633 592
Taxation (benefit) charge	**171 695**	(9 642)	**171 573**	(4 679)
Net finance costs	**140 695**	262 769	**164 713**	288 743
Dividends received	**-**	-	**(357 408)**	(52 863)
Dividends paid	**(31 722)**	-	**-**	-
(Profit) loss on disposal of assets	**(4 226)**	7 095	**(1 952)**	6 334
Fair value adjustment gains and growth on plantations	**(549 601)**	(439 080)	**(325 387)**	(446 558)
Movement in provisions	**(243 670)**	145 139	**(188 046)**	190 431
Other non-cash items	**210 834**	89 932	**217 322**	64 406
	1 599 600	1 611 288	**1 732 061**	1 678 676

18.2 Decrease (increase) in working capital

	Group 2012	Group 2011	Company 2012	Company 2011
Increase in inventories	**(133 449)**	(128 560)	**(130 558)**	(148 002)
(Increase) decrease in receivables	**(134 810)**	65 673	**(137 647)**	70 009
Increase (decrease) in payables	**317 213**	(245 644)	**330 718**	(267 475)
	48 954	(308 531)	**62 513**	(345 468)

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
18. Notes to the cash flow statements (continued)				
18.3 Finance costs paid				
Gross interest and other finance costs	**(258 341)**	(398 867)	**(258 300)**	(398 867)
Net foreign exchange losses	**2 809**	(9 946)	**2 809**	(9 967)
Net profit (loss) on market to market financial instruments	**-**	4 733	**-**	4 733
Non cash movements included in items above	**(108 256)**	25 875	**(108 165)**	27 810
	(363 788)	(378 205)	**(363 656)**	(376 291)
18.4 Taxation paid				
Amounts unpaid at beginning of year	**(12 798)**	(33 237)	**(13 138)**	(32 817)
Amounts recovered from the income statement	**(168 939)**	18 467	**(168 817)**	18 078
Acquisition of business	**-**	-	**-**	(4 648)
Amounts unpaid at end of year	**127 020**	12 798	**126 912**	13 138
	(54 717)	(1 972)	**(55 043)**	(6 249)
18.5 Replacement of non-current assets				
Property, plant and equipment	**(606 303)**	(436 194)	**(605 387)**	(431 518)
18.6 Proceeds on disposal of non-current assets				
Book value of property, plant and equipment disposed of	**44 567**	7 531	**46 273**	6 770
Profit (loss) on disposal	**4 226**	(7 095)	**1 952**	(6 334)
	48 793	436	**48 225**	436
18.7 Cash and cash equivalents				
Cash and deposits on call	**1 198 648**	2 256 372	**846 510**	1 895 306
Overdraft	**(4)**	(540)	**(4)**	-
	1 198 644	2 255 832	**846 506**	1 895 306

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000

19. Provisions

Restructuring provisions	**2 385**	246 055	**2 385**	190 431

Group	Severance, retrenchment and related costs	Lease cancellation and penalty costs	Other closure costs	**Total**
Balance as at September 2010	-	-	100 916	**100 916**
Increase in provision	176 811	35 944	27 956	**240 711**
Utilsed	(19 973)	(2 351)	(73 248)	**(95 572)**
Balance as at September 2011	156 838	33 593	55 624	**246 055**
Increase / (decrease) in provision	(11 116)	-	5 483	**(5 633)**
Utilsed	(101 783)	(15 347)	(61 107)	**(178 237)**
Released during the year	(41 554)	(18 246)	-	**(59 800)**
Balance as at September 2012	2 385	-	-	**2 385**

Company	Severance, retrenchment and related costs	Lease cancellation and penalty costs	Other closure costs	**Total**
Balance as at September 2010	-	-	5 948	**5 948**
Increase in provision	176 811	35 944	22 008	**234 763**
Utilsed	(19 973)	(2 351)	(27 956)	**(50 280)**
Balance as at September 2011	156 838	33 593	-	**190 431**
Increase / (decrease) in provision	(11 116)	-	5 483	**(5 633)**
Utilsed	(101 783)	(15 347)	(5 483)	**(122 613)**
Released during the year	(41 554)	(18 246)		**(59 800)**
Balance as at September 2012	2 385	-	-	**2 385**

Usutu Mill
At the end of January 2010, Usutu Mill ceased operations and the pulp mill was permanently closed. In fiscal 2011, an additional provision of R24 million was incurred against the spares related to the mill in the current year.

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 specialities paper. A provision of approximately R46 million relating to restructuring charges and scrapping of spares was raised and utillised during the year ended September 2012.

19. Provisions (continued)

Sappi Paper and Paper Packaging Operations
Our 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 R201 million was raised. Approximately 560 employees were expected to be affected. By the end of fiscal 2012, 325 employees had been impacted and the remaining provision of R47.5 million was released to profit and loss.

Sappi Southern Africa Support function
During the financial year ended September 2011, Sappi Southern Africa announced the decision to restructure the support function which include Human Resources, Finance, Procurement and Corporate Affairs. A total of 200 employees were to be affected by this restructure. A provision of approximately R34 million relating to restructuring charges was raised. By the end of fiscal 2012, 91 employees had been affected and the remaining provision of R12.2 million was released to profit and loss.

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
20. Encumbered assets				
Land and buildings	**47 349**	64 382	**47 349**	64 382
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 lease agreements.				
21. Commitments				
Capital commitments				
Contracted but not provided	**1 168 308**	45 667	**1 168 308**	45 667
Approved but not contracted	**680 925**	2 913 028	**680 925**	2 913 028
	1 849 233	2 958 695	**1 849 233**	2 958 695
Future forecasted cashflows of capital commitments:				
Payable in the year ended September:				
2012	**-**	2 269 808	**-**	2 269 808
2013	**1 732 300**	571 944	**1 732 300**	571 944
2014	**116 933**	116 943	**116 933**	116 943
	1 849 233	2 958 695	**1 849 233**	2 958 695
The capital expenditure will be funded by funds generated by the business, existing cash resources and borrowing facilities available to the group.				

21. Commitments (continued)

Lease commitments

	Group		Company	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Future minimum obligations under operating leases:				
Payable in the year ended September:				
2012	**-**	44 434	**-**	44 040
2013	**57 578**	35 683	**56 985**	35 289
2014	**36 105**	16 416	**35 769**	16 119
2015	**21 751**	9 237	**21 461**	9 237
2016	**11 971**	3 449	**11 971**	3 449
2017	**3 045**	-	**3 045**	-
	130 450	109 219	**129 231**	108 134

22. Contingent liabilities

	Group		Company	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Guarantees and suretyships	**4 121**	4 121	**4 121**	4 121
Other	**10 000**	7 500	**10 000**	7 500
	14 121	11 621	**14 121**	11 621

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 the 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.

23. Post-employment benefits – pensions

Defined contribution plans

The Group operates a number of defined contribution retirement plans covering all qualifying employees. The assets of the schemes are held separately from those of the group, in funds under the control of trustees.

The total cost charged to income for the Group of R103 657 thousand (2011: R107 435 thousand) and total charged to income for the company of R101 336 thousand (2011: R105 631 thousand) represents contributions payable to these schemes by the Group based on the rates specified in the rules of the scheme. At September 2012 R12 906 thousand (September 2011: R13 893 thousand) was the contributions in respect of the current reporting period that had not yet been paid over to the schemes. Part of the increase in total charges relates to a rearrangement whereby effective from May 2010, members no longer pay contributions and the company meets all contributions. 4 413 employees (2011: 5 179 employees) are members of various defined contribution funds.

Defined benefit plans

The Group operates a number of defined benefit pension schemes covering full-time permanent employees. Such plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country. Benefits are generally based upon compensation and years of service. In terms of these requirements, periodic actuarial valuations of these funds are performed by independent actuaries. The Sappi Pension and Disability Fund are defined benefit funds which are subject to the South African Pension Funds Act 1956 and are closed to new entrants. Actuarial valuations were performed in 2011 and the next valuations are to be performed in 2014. Actuarial reviews are performed annually.

759 (2011: 957 employees) and 758 (2011: 956 employees) are active members of the various defined benefit funds which are controlled by different administrators for the Group and company respectively. There is no commitment by the company, formal or otherwise, to meet unfounded benefits for these funds.

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

Group companies have no other significant post-employment benefit liabilities except for the health care benefits provided to qualifying employees (refer note 24).

The pension obligation and plan assets were measured at the end of August and projected to September. There were no material changes or other changes in circumstances up to balance sheet date.

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
23. Post-employment benefits - pensions (continued)				
Change in present value of defined benefit obligation				
Defined benefit obligations at beginning of year	**2 890 390**	2 588 037	**2 883 598**	2 571 113
Current service cost	**70 720**	57 906	**70 444**	57 748
Past service cost	**420**	580	**420**	580
Interest cost	**256 404**	216 162	**255 801**	214 839
Plan participants' contributions	**27 020**	29 557	**27 020**	29 557
Actuarial (gain) loss - experience	**(5 519)**	(2 947)	**(9 979)**	(7 257)
Actuarial loss - assumptions	**190 133**	268 784	**189 198**	263 838
Benefits paid	**(496 583)**	(248 611)	**(496 122)**	(246 820)
Loss on settlement and curtailments	**-**	(19 078)	**-**	-
Defined benefit obligations at end of year	**2 932 985**	2 890 390	**2 920 380**	2 883 598
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**2 930 596**	2 798 260	**2 930 596**	2 798 123
Expected return on plan assets	**281 842**	255 848	**281 842**	255 838
Actuarial gain on plan assets	**162 265**	35 349	**162 265**	35 099
Employer contribution	**65 825**	79 697	**65 364**	58 799
Plan participants contribution	**27 020**	29 557	**27 020**	29 557
Benefits paid	**(496 583)**	(248 611)	**(496 122)**	(246 820)
Loss on settlement and curtailments	**-**	(19 504)	**-**	-
Fair value of plan assets at end of year	**2 970 965**	2 930 596	**2 970 965**	2 930 596
Surplus	**37 980**	40 206	**50 585**	46 998
Recognised pension plan asset	**37 980**	40 206	**50 585**	46 998

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
23. Post-employment benefits - pensions (continued)				
Pension cost recognised in income statement				
Current service cost	**70 720**	57 906	**70 444**	57 748
Past service cost	**420**	580	**420**	580
Fund administration cost	**5 336**	4 751	**5 336**	4 751
Interest cost	**256 404**	216 162	**255 801**	214 839
Expected return on plan assets	**(281 842)**	(260 599)	**(281 842)**	(260 589)
Loss on sale of Usutu fund	**-**	426	**-**	-
Pension cost charged to cost of sales and selling, general and administrative expenses	**51 038**	19 226	**50 159**	17 329
Amounts recognised in the statement of comprehensive income				
Actuarial losses	**(22 349)**	(230 488)	**(16 954)**	(221 482)
Cumulative actuarial losses recognised in the statement of comprehensive income				
Actuarial losses	**(316 297)**	(293 948)	**(305 692)**	(288 738)
	%	%	**%**	%
Actuarial assumptions at balance sheet date:				
Discount rate	**8.3**	8.8	**8.3**	8.8
Compensation increase	**6.7**	6.8	**6.7**	6.8
Expected long-term return on assets	**9.4**	9.7	**9.4**	9.7
Actuarial assumptions used to determine periodic pension cost:				
Discount rate	**8.8**	8.3	**8.8**	8.3
Compensation increase	**6.8**	6.2	**6.8**	6.2
Expected long-term return on assets	**9.7**	9.1	**9.7**	9.1
	R'000	R'000	**R'000**	R'000
Pension plan liability is presented on the balance sheet as follows:				
Pension liability (refer note 17)	**(12 605)**	(6 792)	**-**	-
Pension asset (refer note 10)	**50 585**	46 998	**50 585**	46 998
	37 980	40 206	**50 585**	46 998

23. Post-employment benefits - pensions (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:

	2012				**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 discount rate	1% decrease in discount rate	1% increase in discount rate	1% increase in salary increase rate
(Decrease) increase in defined benefit obligation	**(400 494)**	**504 693**	**186 640**	**(163 140)**	(364 400)	457 908	144 555	(125 697)
(Decrease) increase in net periodic pension cost	**(49 741)**	**51 575**	**-**	**-**	(49 053)	55 354	-	-

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 to check for reasonableness and appropriateness. In addition, Sappi may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.

Plan fiduciaries set investment 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. The plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Target versus actual weighted average allocations below:

	Group		**Company**	
	2012 %	2011 %	**2012 %**	2011 %
Target asset allocation				
Equity Securities	**37**	37	**37**	37
Debt securities	**44**	44	**44**	44
Real Estate	**7**	5	**7**	5
Other	**12**	14	**12**	14
Actual asset allocation				
Equity Securities	**40**	34	**40**	34
Government Debt Securities	**46**	29	**46**	29
Debt securities	**5**	18	**5**	18
Real Estate	**9**	5	**9**	5
Other	**-**	14	**-**	14

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
23. Post-employment benefits - pensions (continued)				
The expected company contributions for 2013	**89 657**	63 133	**89 657**	62 768
Expected benefit payments for pension benefits are as follows:				
Payable in the year ending September:				
2012	**-**	107 439	**-**	107 092
2013	**112 668**	112 800	**112 431**	112 648
2014	**119 426**	119 157	**118150**	118 485
2015	**124 945**	125 204	**124 153**	124 617
2016	**130 771**	131 266	**130 457**	131 058
2017 (2011: 2016 – 2020)	**139 110**	769 498	**137 075**	763 957
2018 -2021	**805 548**	-	**796 853**	-

24. Post-employment benefits - other than pensions

The company sponsors a defined post-retirement plan that provides certain health care and life insurance benefits to eligible retired employees. Full provision is made for this liability. Employees are generally eligible for benefits upon retirement and completion of a specified number of years service. An actuarial valuation was performed in 2012 and the next will be performed in 2012. The expense has been included in employee costs as detailed in note 3.2.

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
Change in present value of defined benefit obligation				
Defined benefit obligations at beginning of year	**713 773**	633 488	**713 773**	633 488
Current service cost	**11 728**	11 502	**11 728**	11 502
Interest cost	**62 564**	51 001	**62 564**	51 001
Actuarial (gain) loss – experience	**(584)**	46 782	**(584)**	46 782
Actuarial loss – assumptions	**47 820**	2 200	**47 820**	2 200
Benefits paid	**(35 960)**	(31 200)	**(35 960)**	(31 200)
Defined benefit obligations at end of year	**799 341**	713 773	**799 341**	713 773

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
24. Post-employment benefits - other than pensions (continued)				
Cost recognised in income statement				
Current service cost	**11 728**	11 502	**11 728**	11 502
Interest cost	**62 564**	51 001	**62 564**	51 001
Cost charged to cost of sales and selling, general and administrative expenses	**74 292**	62 503	**74 292**	62 503
Amounts recognised in the statement of comprehensive income				
Actuarial losses	**(47 236)**	(48 982)	**(47 236)**	(48 982)
Cumulative actuarial losses recognised in the statement of comprehensive income				
Actuarial losses	**(241 074)**	(193 838)	**(241 074)**	(193 838)
Actuarial assumptions at balance sheet date:	**%**	%	**%**	%
Discount rate	**8.00**	9.00	**8.00**	9.00
Health care cost trends	**6.75**	7.25	**6.75**	7.25

Sensitivity analysis

The discount rate and healthcare cost trend rate can have a significant effect on the amounts reported. The table below illustrates the effect of changing key assumptions:

	2012				**2011**			
	1% increase in discount rate	1% decrease in discount rate	1% increase in health care cost trend rate	1% decrease in health care cost trend rate	1% increase in discount rate	1% decrease in discount rate	1% increase in health care cost trend rate	1% decrease in health care cost trend rate
(Decrease) increase in defined benefit obligation	**(94 394)**	**116 876**	**119 006**	**(97 967)**	(83 677)	102 126	104 542	(86 865)
(Decrease) increase in net periodic post employment benefit cost	**(2 806)**	**3 068**	**12 367**	**(10 024)**	(3 388)	3 783	12 143	(9 934)

	Group		Company	
	2012	2011	**2012**	2011
	R'000	R'000	**R'000**	R'000
24. Post-employment benefits - other than pensions (continued)				
Plan liability is presented on the balance sheet as follows:				
Post employment benefits other than pension liability (refer note 17)	**799 341**	713 773	**799 341**	713 773
The expected company contributions for 2012	**39 868**	35 960	**39 868**	35 960

25. Share-based payment

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

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

25. Share-based payment (continued)

The Share Options, Scheme Shares and Allocation Shares vest in blocks of 25% per annum on the anniversary date of the offer and expire 8 years after the offer date. Only once the shares vest may Share Options be exercised by the participants, Scheme Shares released from the Scheme to participants and Allocation Shares 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.

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 R20.27 per share should the shares vest. Similarly, the Participants of the Scheme may only exercise their additional options, awarded as a result of the rights offer, in conjunction with exercising their pre-rights offer options and upon payment of the rights offer price of R20.27 per share.

25. Share-based payment (continued)

During the year the following offers were made to employees of the group:

Allocations (Number of shares)

	2012	2011
Share options	**1 057 590**	908 900
Performance shares	**350 000**	261 000
Performance shares	**1 407 590**	1 169 900

Scheme shares, share options, restricted shares, performance shares and allocation shares activity was as follows during the financial years ended September 2012 and 2011:

	Trust shares	Performance shares	Share options	Weighted average exercise price (ZAR)	Allocation shares	Weighted average exercise price (ZAR)	Total
Outstanding at September 2010	2 200	2 133 220	3115 640	27.35	671 750	56.36	5 922 810
Offered and accepted	-	261 000	908 900	27.35	-	-	1 169 900
Paid for released		(1 333 605)	(20 162)	3.93	-	-	(1 353 767)
Returned, lapsed and forfeited	-	(504 715)	(463 078)	28.27	(386 650)	(62.92)	(1 354 443)
Outstanding at September 2011	2 200	555 900	3 541 300	28.56	285 100	47.47	4 384 500
Offered and accepted	**-**	**350 000**	**1 057 590**	**17.21**	**-**	**-**	**1 407 590**
Paid for released	**-**	**759 927**	**-**	**(2.26)**	**-**	**-**	**759 927**
Returned, lapsed and forfeited	**(2 200)**	**(205 527)**	**(477 620)**	**30.67**	**(285 100)**	**47.47**	**(970 447)**
Outstanding at September 2012	**-**	**1 460 300**	**4 121 270**	**25.90**	**-**	**-**	**5 581 570**
Exercisable at September 2011	2 200	-	1 550 608	43.64	285 100	47.47	1 837 908
Exercisable at September 2012	**-**	**-**	**2 012 125**	**41.20**	**-**	**-**	**2 012 125**

Restricted shares and performance shares are issued for no cash consideration. The value is determined on the day the shares are taken up.

25. Share-based payment (continued)

The following assumptions have been utilised to determine the fair value of the options granted in the financial period:

	Issue 37	Issue 37	Issue 37
Date of grant	2 December 2011	2 December 2011	2 December 2011
Type of award	Normal Option	Performance	Performance
Share Price at grant date	R23.09	R23.09	R23.09
Strike Price of share	R22.90	-	-
Vesting period	4 years	4 years	4 years
Vesting conditions	Proportionately over time	Market related - relative to peers	Cash Flow Return on Net Assets relative to peers
Expected life of options (years)	8 years	N/A	N/A
Market related vesting conditions	N/A	Yes	No
Percentage expected to vest	N/A	32.0%	100%
Number of shares offered	1 057 590	528 795	528 795
Volatility	41.6%	55.0%	N/A
Risk free discount rate	5.6%	0.85% (US yield)	N/A
Expected dividend yield	2.7%	2.1%	2.1%
Expected percentage of issuance	95%	95%	95%
Model used to value	Modified binomial	Monte-carlo	Market price
Fair value of option	R8.75	R13.29	R17.32

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

Black Economic Empowerment transaction (BEE Transaction)

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

- Sappi's South African Employees (62.5%);
- South African Black Managers (15%);
- Strategic Partners (12.5%); and
- Communities surrounding the South African mill operations and plantations (10%).

25. Share-based payment (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, 5 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.

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

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

The transaction resulted in the formation of the ESOP Trust, the Management Share Option Plan Trust (MSOP Trust or MSOP), whose beneficiaries are the black managers, and the Sappi Foundation Trust, whose beneficiaries include the growers and communities in the geographic areas where Sappi’s Southern African business has operations. The "A" ordinary shares were allocated as follows:

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

The group recognised a share-based payment expense of R27 279 thousand (2011: R30 903 thousand) that related to the “A” Ordinary shares that were awarded.

25. Share-based payment (continued)

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

Base price for hurdle rate price	R32.50
Share price hurdle rate	9.1%
Hurdle rate price	R75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	6.80%
Management turnover (annual)	6.5%
Model used to value	Black Scholes Model

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

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

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

26. 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 Southern Africa 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) credit risk
c) liquidity risk

26. Financial instruments (continued)

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 Limited's Group Treasury is comprised of two components: Sappi International, located in Brussels, which manages the Sappi Limited's Group non-South African treasury activities and, for local regulatory reasons, the treasury operations based in Johannesburg which manage the 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) are primarily managed regionally but are co-ordinated on a group basis, whilst commodity price risk is managed regionally.

The Sappi Limited's Group 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 Sappi Limited's Group including the exposures and transactions relating to the financial instruments and risks referred to in this note.

Market risk

Interest rate risk

Interest rate risk is the risk that the value of a borrowing or an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in 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 table on the next page provides information about the group's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows by expected maturity dates and estimated fair value of the borrowings. The average fixed effective interest rates presented below 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 2012 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 30 Septemebr 2012. The information is presented in ZAR, which is the group's reporting currency.

26. FINANCIAL INSTRUMENTS (continued)

Rand Thousand	Expected maturity date 2012	2013	2014	2015	**Total Carrying Value**	**2012 Fair Value**	2011 Carrying Value	2011 Fair Value
Rand								
Fixed rate	1 480 258	218 229	799 428	500 000	**2 997 915**	**3 172 018**	**3 827 424**	**4 103 607**
Average interest rate (%)	9.79	11.02	8.04	9.63	**9.39**		**10.41**	
Fixed and variable	**1 480 258**	**218 229**	**799 428**	**500 000**	**2 997 915**	**3 172 018**	**3 827 424**	**4 103 607**
Current portion					**1 480 258**	**1 549 740**	**1 621 910**	**1 730 386**
Long-term portion					**1 517 657**	**1 622 278**	**2 205 514**	**2 373 221**
Total Interest-bearing borrowings (refer note 16)					**2 997 915**	**3 172 018**	**3 827 424**	**4 103 607**

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

The above mentioned fair values include Sappi's own credit risk. Please refer to the sensitivity analysis regarding interest rate risk for additional information regarding Sappi's rating.

At September 2012, 100% of Sappi Southern Africa borrowings were at fixed rates of interest.

Interest rate derivatives

Sappi Southern Africa uses interest rate 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 Southern Africa 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 designations as described in a documented hedging strategy.

26. Financial instruments (continued)

Interest rate derivatives (continued)

In April 2012 Sappi issued a new floating rate 2015 bond for an amount of ZAR 750 million and at the same time the company entered into a floating to fixed interest rate swap. The notes and the interest rate swap are designated in a cash flow hedging relationship, allowing all mark-to-market valuations of the swap to be booked to equity. As all critical terms of the hedged item and the hedging instrument perfectly match, the hedge is expected to be highly effective.

At September 2012 the hedge was highly effective and the swap had a negative fair value of R21.3 million which was deferred to equity.

Hedge accounting is applied if and where appropriate, once approved by the Treasury committee.

Interest rate risk sensitivity analysis of floating rate debt.

Sappi Southern Africa has no floating rate debt as at 30 September 2012.

IRS converting floating ZAR rates into fixed rates:

Scenario Name	Base Value	Scenario Value	Change	Change %
- 50 bps USD-LIBOR: 3-month	(23 227)	(32 263)	(9 036)	38.9
+ 50 bps USD-LIBOR: 3-month	(23 227)	(14 305)	8 921	(38.4)

The derivative converts floating ZAR interest payments into fixed ZAR interest coupons of 7.78%. The fair value of the instrument is subject to changes in ZAR interest rates.

At the end of fiscal 2012, the fair value of the derivative amounted to a negative amount of R23 million which has been recorded in other comprehensive income after deduction of the interest accrual. 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 JIBAR curve would have on the fair value of the instrument.

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 purchases 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).

Sappi Southern Africa Proprietary Limited

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

Year ended September 2012

26. Financial instruments (continued)

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.

2012	**Total**	**Total in Scope**	USD	EUR	ZAR	GBP	Other (converted into ZAR)
	R'000	**R'000**	R'000	R'000	R'000	R'000	R'000
Financial Assets							
Other non-current assets	**208 834**	**151 322**	-	-	151 322	-	-
Trade and other receivables	**317 634**	**292 758**	-	-	292 758	-	-
Amounts owing by Group companies	**963 602**	**963 602**	-	-	963 602	-	-
Cash and cash equivalents	**1 198 648**	**1 198 648**	9 565	1 482	1 187 299	302	-
		2 606 330	9 565	1 482	2 594 981	302	-
Financial liabilities							
Interest-bearing borrowings	**1 517 657**	**1 517 657**	-	-	1 517 657	-	-
Interest-bearing borrowings	**1 480 258**	**1 480 258**	-	-	1 480 258	-	-
Long term derivative financial instrument	**21 330**	**21 330**	-	-	21 330	-	-
Overdraft	**4**	**4**	-	-	4	-	-
Trade and other payables	**2 442 571**	**2 130 686**	21 482	135 444	1 919 133	282	54 345
Current derivative financial instruments	**690**	**690**	-	(350 277)	531 009	-	(180 042)
Amounts owing to Group companies	**1 260 303**	**1 260 303**	-	-	1 260 303	-	-
		6 410 928	21 482	(214 833)	6 729 694	282	(125 697)
Foreign exchange gap		**(3 804 598)**	(11 917)	216 315	(4 134 713)	20	125 697

26. Financial instruments (continued)

2011	**Total**	**Total in Scope**	USD	EUR	ZAR	GBP	Other (converted into ZAR)
	R'000	**R'000**	R'000	R'000	R'000	R'000	R'000
Financial Assets							
Other non-current assets	**204 411**	**150 279**	-	-	150 279	-	-
Long term derivative financial instrument	**9 305**	**9 305**	-	(294 793)	304 098	-	-
Trade and other receivables	**186 017**	**162 789**	-	-	162 789	-	-
Current derivative financial instruments	**25 067**	**25 067**	(19 478)	(420 746)	554 344	-	(89 053)
Amounts owing by Group companies	**1 042 026**	**1 042 026**	-	-	1 042 026	-	-
Cash and cash equivalents	**2 256 372**	**2 256 372**	6 607	1 681	2 247 798	286	-
		3 645 838	(12 871)	(713 858)	4 461 334	286	(89 053)
Financial liabilities							
Interest-bearing borrowings	**2 205 514**	**2 205 514**	-	-	2 205 514	-	-
Interest-bearing borrowings	**1 621 910**	**1 621 910**	-	-	1 621 910	-	-
Overdraft	**540**	**540**	-	-	540	-	-
Trade and other payables	**2 016 590**	**1 634 723**	6 280	5 770	1 622 001	15	657
Amounts owing to Group companies	**1 269 061**	**1 269 061**	-	-	1 269 061	-	-
		6 731 748	6 280	5 770	6 719 026	15	657
Foreign exchange gap		**(3 085 910)**	(19 151)	(719 628)	(2 257 692)	271	(89 710)

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.

26. Financial instruments (continued)

The group's foreign currency forward exchange contracts at September 2012 are detailed below.

		2012		2011	
		Contract amount (Notional amount)	**Fair value * (unfavourable) favourable**	Contract amount	Fair value * (unfavourable) favourable
		R'000	**R'000**	R'000	R'000
Foreign currency					
Bought:	US Dollar	**-**	**-**	38 295	2 261
	Euro	**419 838**	**(5 240)**	784 847	31 314
	Other	**181 572**	**3 822**	89 052	4 768
Sold:	US Dollar	**-**	**-**	(18 816)	(1 997)
	Euro	**(69 561)**	**769**	(69 308)	(1 973)
	Other	**(1 528)**	**(41)**	-	-
		530 321	**(690)**	824 070	34 373

* This refers to the carrying value.

The fair value of foreign currency contracts has been computed by the group based upon the market data valid at September 2012.

All forward currency exchange contracts are valued at fair value with the resultant profit or loss included in the net finance costs for the period.

Forward exchange contracts are used to hedge the group from 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 R7 185 thousand which has since been hedged.

Sensitivity analysis

Base currency	**Exposure**	**+10% gain (loss)**	**- 10% gain (loss)**
	R'000	**R'000**	**R'000**
EUR	(7 419)	(674)	824
USD	233	-	-
Other	1	21	(25)
Total	(7 185)	(653)	799

Based on the exposure as at the end of fiscal 2012, 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 R653 thousand (increase of 10 %) or a gain of R799 thousand (decrease of 10 %).

26. Financial instruments (continued)

Commodity 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.

During 2012 we have not contracted any derivatives with respect to commodities.

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 credit worthiness 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.

Quantitative disclosures on credit risk are included in note 12 of the annual financial statements.

97% of our trade receivables are credit insured.

Liquidity risk

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

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

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

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 16.

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

26. Financial instruments (continued)

Cash flow hedges

Interest rate swaps floating to fixed

In April 2012 Sappi issued a new floating rate 2015 bond for an amount of ZAR 750 million and at the same time the company entered into a floating to fixed interest rate swap. The notes and the interest rate swap are designated in a cash flow hedging relationship, allowing all mark-to-market valuations of the swap to be booked to equity. As all critical terms of the hedged item and the hedging instrument perfectly match, the hedge is expected to be highly effective. The 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).

Sappi uses REVAL to assess the fair value of the IRS 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%.

At September 2012 the hedge was highly effective and the swap had a negative fair value of R21.3 million which was deferred to equity.

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 started in September 2011 and are estimated to keep occuring 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 as per fiscal 2012 amounts to R4 million. This is made up only of an unrealised gain resulting from forward exchange contracts yet to mature. During fiscal 2012 a realized gain of R23 million relating to matured forward exchange contracts, was transferred from deferred equity to fixed assets.

26. Financial instruments (continued)

Saiccor Mill export sales

Sappi is exposed to the economic USD foreign exchange risk related to export sales, primarily at its Saiccor Mill. Although the invoices are denominated in ZAR, the ZAR value is linked to the USD rate at the moment the sales are invoiced to the customer by Sappi Trading.

In April 2012 Sappi entered into a cash flow hedge with the objective to eliminate the economic foreign exchange exposure linked to a portion of South African export sales from the order date until the invoicing date by hedging this foreign exchange exposure by non deliverable forward exchange contracts which were designated as hedging instruments.

The hedging instrument is recorded at fair value on the balance sheet with changes in fair value recorded through 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.

During fiscal 2012 the hedge has been fully effective. A realised gain of R43 million relating to matured non-deliverable forward exchange contracts was transferred from deferred equity to the operating result. There is no remaining unrealised mark-to-market result deferred to equity as at September 2012.

26. Financial instruments (continued)

Rand thousand **Liquidity risk management - September 2012**	**Total financial assets and liabilities**	**Fair value of financial instruments**	Undiscounted cash flows 0-6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total
Financial Assets								
Other non-current assets	**151 322**	**151 322**	1 225	1 750	79 621	19 870	48 856	151 322
Trade and other receivables	**292 758**	**292 758**	292 758	-	-	-	-	292 758
Amounts owing by Group Companies	**963 602**	**963 602**	963 602	-	-	-	-	963 602
Cash and cash equivalents	**1 198 648**	**1 198 648**	1 198 648	-	-	-	-	1 198 648
			2 456 233	1 750	79 621	19 870	48 856	2 606 330
Financial liabilities								
LT Interest-bearing borrowings	**1 517 657**	**1 622 278**	48 766	49 351	340 272	889 716	560 500	1 888 605
Interest-bearing borrowings	**1 480 258**	**1 549 740**	511 968	1 098 163	-	-	-	1 610 131
Long term derivative financial instruments	**21 330**	**21 330**	4 690	3 659	4 622	11 804	-	24 775
Pay leg	**150 328**	**150 328**	29 415	28 935	29 415	72 737	-	160 502
Receive leg	**(128 998)**	**(128 998)**	(24 725)	(25 276)	(24 793)	(60 933)	-	(135 727)
Overdraft	**4**	**4**	4	-	-	-	-	4
Trade and other payables	**2 130 686**	**2 130 686**	2 130 686	-	-	-	-	2 130 686
Current derivative financial instruments	**690**	**690**	873	(183)	-	-	-	690
Pay leg	**531 010**	**531 010**	345 013	185 997	-	-	-	531 010
Receive leg	**(530 320)**	**(530 320)**	(344 140)	(186 180)	-	-	-	(530 320)
Amounts owing to Group Companies	**1 260 303**	**1 260 303**	1 260 303	-	-	-	-	1 260 303
			3 957 290	1 150 990	344 894	901 520	560 500	6 915 194
Liquidity gap			(1 501 057)	(1 149 240)	(265 272)	(881 650)	(511 644)	(4 308 863)

26. Financial instruments (continued)

Rand thousand Liquidity risk management - September 2011	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows 0-6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total
Financial Assets								
Other non-current assets	**150 279**	**150 279**	1 162	1 975	78 529	20 255	48 358	150 279
Long term derivative financial instruments	**9 305**	**9 305**	-	-	9 305	-	-	9 305
Pay leg	**(285 857)**	**(285 857)**	-	-	(285 857)	-	-	(285 857)
Receive leg	**295 162**	**295 162**	-	-	295 162	-	-	295 162
Trade and other receivables	**162 789**	**162 789**	162 789	-	-	-	-	162 789
Current derivative financial instruments	**25 067**	**25 067**	16 313	8 754	-	-	-	25 067
Pay leg	**(503 841)**	**(503 841)**	(321 846)	(181 995)	-	-	-	(503 841)
Receive leg	**528 908**	**528 908**	338 159	190 749	-	-	-	528 908
Amounts owing by Group Companies	**1 042 026**	**1 042 026**	1 042 026	-	-	-	-	1 042 026
Cash and cash equivalents	**2 256 372**	**2 256 372**	2 256 372	-	-	-	-	2 256 372
			3 478 662	10 729	87 834	20 255	48 358	3 645 838
Financial liabilities								
LT Interest-bearing borrowings	**2 205 514**	**2 373 221**	70 775	70 775	1 658 281	783 449	-	2 583 280
Interest-bearing borrowings	**1 621 910**	**1 730 386**	1 166 125	610 042	-	-	-	1 776 167
Overdraft	**540**	**540**	540	-	-	-	-	540
Trade and other payables	**2 016 590**	**1 634 723**	1 629 234	3 660	1 829	-	-	1 634 723
Amounts owing to Group Companies	**1 269 061**	**1 269 061**	1 269 061	-	-	-	-	1 269 061
			4 135 735	684 477	1 660 110	783 449	-	7 263 771
Liquidity gap			(657 073)	(673 748)	(1 572 276)	(763 194)	48 358	(3 617 933)

26. Financial instruments (continued)

Derivative financial instruments

The following tables indicates the different types of derivative financial instruments for 2012 and 2011, included within the various categories on the face of the balance sheet. The reported maturity analysis is calculated based on an undiscounted basis.

Rand Thousand				Maturity analysis				
Classes of financial instruments	Total	Cash Flow Hedge	No hedge accounting	< 6 M	> 6 M < 1 Y	> 1 Y < 2 Y	> 2 Y < 5 Y	> 5 Y
September 2012								
LIABILITIES								
Fair value of derivatives by risk factor:								
FX risk – Long term								
Interest rate swap	21 330	21 330	-	4 690	3 659	4 622	11 804	-
paying leg	150 327	150 327	-	29 415	28 935	29 415	72 737	-
receiving leg	(128 997)	(128 997)	-	(24 725)	(25 276)	(24 793)	(60 933)	-
FX risk – Short term								
FEC	690	700	(10)	873	(183)	-	-	-
paying leg	531 010	525 892	5 118	345 012	185 998	-	-	-
receiving leg	(530 320)	(525 192)	(5 128)	(344 139)	(186 181)	-	-	-
September 2011								
ASSETS								
Fair value of derivatives by risk factor:								
FX risk – Long term								
FEC	9 305	9 305	-	-	-	9 305	-	-
paying leg	(285 857)	(285 857)	-	-	-	(285 857)	-	-
receiving leg	295 162	295 162	-	-	-	295 162	-	-
FX risk – Short term								
FEC	25 067	26 103	(1 036)	16 313	8 754	-	-	-
paying leg	(503 841)	(488 606)	(15 235)	(321 846)	(181 995)	-	-	-
receiving leg	528 908	514 709	14 199	338 159	190 749	-	-	-

26. 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 value of loan commitments are based on the commitment fees effectively paid.

26. Financial instruments (continued)

Rand thousand September 2012 Classes of financial instruments	Total balance	Out of scope IAS 39	Categories according to IAS 39				Total in scope	Fair value
			Fair value through profit and loss	Loans and receivables	Held to maturity	Available for sale		
NON CURRENT ASSETS								
Other non-current assets	**208 834**	57 512	15 000	59 456	-	76 866	151 322	151 322
AFS – Investment funds		-	-	-	-	76 866	76 866	76 866
Other assets		57 512	15 000	59 456	-	-	74 456	74 456
CURRENT ASSETS								
Trade and other receivables	**317 634**	24 876	-	292 758	-	-	292 758	292 758
Trade receivables			-	71 044	-	-	71 044	71 044
Other accounts receivable - current		24 876	-	221 714	-	-	221 714	221 714
Amounts owing by Group companies	**963 602**	-	-	963 602	-	-	963 602	963 602
Cash (and cash equivalents)	**1 198 648**	-	-	1 198 648	-	-	1 198 648	1 198 648
Overnight deposits and current accounts (incl. petty cash)		-	-	865 056	-	-	865 056	865 056
Time deposits (< 3 months)		-	-	2 000	-	-	2 000	2 000
Money market funds		-	-	331 592	-	-	331 592	331 592

Sappi Southern Africa Proprietary Limited

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

Year ended September 2012

26. Financial instruments (continued)

Rand thousand **September 2012** **Classes of financial instruments**	**Total balance**	**Out of scope IAS 39**	**Categories according to IAS 39** Held for trading	 Other financial liabilities	**Total in scope**	**Fair value**
NON CURRENT LIABILITIES						
Interest bearing borrowings	**1 517 657**	-	-	1 517 657	1 517 657	1 622 278
Bank loans payable (> 1 year) - incl. syndicated loans		-	-	184 563	184 563	187 971
Bonds		-	-	1 250 000	1 250 000	1 340 895
Financial leasing liabilities		-	-	83 094	83 094	93 412
Fair value of derivatives	**21 330**	-	21 330	-	21 330	21 330
CURRENT LIABILITIES						
Interest bearing borrowings	**1 480 258**	-	-	1 480 258	1 480 258	1 549 740
Bank loans payable (> 1 year) - incl. syndicated loans		-	-	453 265	453 265	469 709
Bonds				1 000 000	1 000 000	1 044 162
Financial leasing liabilities		-	-	26 993	26 993	35 869
Overdraft	**4**	-	-	4	4	4
Trade and other payables	**2 442 571**	311 885	-	2 130 686	2 130 686	2 130 686
Accruals		311 885	-	543 057	543 057	543 057
Other accounts payable - current		-	-	1 587 629	1 587 629	1 587 629
Fair value of derivatives	**690**	-	690	-	690	690
Amounts owing to Group companies	**1 260 303**	-	-	1 260 303	1 260 303	1 260 303

26. Financial instruments (continued)

Rand thousand September 2011	Total balance	Out of scope IAS 39	Categories according to IAS 39				Total in scope	Fair value
Classes of financial instruments			Fair value through profit and loss	Loans and receivables	Held to maturity	Available for sale		
NON CURRENT ASSETS								
Other non-current assets	**204 411**	54 132	15 000	59 000	-	76 279	150 279	150 279
AFS – Investment funds		-	-	-	-	76 279	76 279	76 279
Other assets		54 132	15 000	59 000	-	-	74 000	74 000
Fair value of derivatives	**9 305**	-	9 305	-	-	-	9 305	9 305
CURRENT ASSETS								
Trade and other receivables	**186 017**	23 228	-	162 789	-	-	162 789	162 789
Trade receivables		-	-	64 257	-	-	64 257	64 257
Other accounts receivable - current		23 228	-	98 532	-	-	98 532	98 532
Fair value of derivatives	**25 067**	-	25 067	-	-	-	25 067	25 067
Amounts owing by Group companies	**1 042 026**	-	-	1 042 026	-	-	1 042 026	1 042 026
Cash (and cash equivalents)	**2 256 372**	-	-	2 256 372	-	-	2 256 372	2 256 372
Overnight deposits and current accounts (incl. petty cash)		-	-	1 919 615	-	-	1 919 615	1 919 615
Time deposits (< 3 months)		-	-	5 000	-	-	5 000	5 000
Money market funds		-	-	331 757	-	-	331 757	331 757

Sappi Southern Africa Proprietary Limited

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

Year ended September 2012

26. Financial instruments (continued)

Rand thousand September 2011 Classes of financial instruments	Total balance	Out of scope IAS 39	Categories according to IAS 39		Total in scope	Fair value
			Held for trading	Other financial liabilities		
NON CURRENT LIABILITIES						
Interest bearing borrowings	**2 205 514**	-	-	2 205 514	2 205 514	2 373 221
Bank loans payable (> 1 year) - incl. syndicated loans		-	-	595 426	595 426	619 808
Bonds		-	-	1 500 000	1 500 000	1 619 492
Financial leasing liabilities		-	-	110 088	110 088	133 921
CURRENT LIABILITIES						
Interest bearing borrowings	**1 621 910**	-	-	1 621 910	1 621 910	1 730 386
Financial leasing liabilities		-	-	21 273	21 273	16 587
Other current loans – external		-	-	1 600 637	1 600 637	1 713 799
Overdraft	**540**	-	-	540	540	540
Trade and other payables	**2 016 590**	381 867	-	1 634 723	1 634 723	1 634 723
Accruals		381 867	-	481 600	481 600	481 600
Other accounts payable - current		-	-	1 153 123	1 153 123	1 153 123
Amounts owing to Group companies	**1 269 061**	-	-	1 269 061	1 269 061	1 269 061

Sappi Southern Africa Proprietary Limited

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

Year ended September 2012

26. Financial instruments (continued)

	2012				2011			
	Total fair value R'000	**Fair value hierarchy Level 1 R'000**	**Level 2 R'000**	**Level 3 R'000**	Total fair value R'000	Fair value hierarchy Level 1 R'000	Level 2 R'000	Level 3 R'000
NON CURRENT ASSETS								
Other non current assets	**151 322**	**-**	**76 866**	**74 456**	150 279	-	76 279	74 000
Fair value of derivatives	**-**	**-**	**-**	**-**	9 305	-	9 305	-
CURRENT ASSETS								
Fair value of derivatives		**-**		**-**	25 067	-	25 067	-
	151 322	**-**	**76 866**	**74 756**	184 651	-	110 651	74 000
NON CURRENT LIABILITIES								
Fair value of derivatives	**21 330**	**-**	**21 330**	**-**	-	-	-	-
CURRENT LIABILITIES								
Fair value of derivatives	**690**	**-**	**690**	**-**	-	-	-	-
	22 020	**-**	**22 020**	**-**	-	-	-	-

27. Related party transactions

Rand thousand	Income and sales to related party		Purchases and charges from related party		Amounts owing by group companies		Amounts owing to group companies	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000	**2012 R'000**	2011 R'000	**2012 R'000**	2011 R'000
Bonuskor Houtverwerkers (Edms) Bpk*	**136 610**	-	**-**	-	**-**	-	**-**	136 610
Canonbrae Development Company (Pty) Ltd*	**-**	-	**-**	-	**2 310**	1 721	**-**	-
Guardrisk Cell no. 061*	**-**	-	**-**	-	**354 713**	354 713	**-**	-
Lereko Property Company (Pty) Ltd*	**-**	-	**-**	-	**382**	892	**-**	-
Lotzaba Forests Limited*	**-**	-	**-**	-	**-**	-	**107**	190 715
Pulplink Properties (Pty) Ltd*	**1**	-	**-**	-	**-**	-	**418**	32 137
Safor Limited*	**205 798**	-	**-**	-	**-**	-	**2**	109 764
Sappi Saiccor (Pty) Ltd*	**-**	-	**-**	-	**-**	-	**10**	10
Sappi Europe Limited**	**249**	6 836	**4 914**	4 707	**-**	377	**119**	-
Sappi UK Limited**	**-**	-	**-**	-	**-**	-	**6 837**	5 382
Sappi Export Services (Pty) Ltd**	**-**	-	**511 582**	516 260	**-**	-	**80 258**	65 501
Sappi International SA**	**-**	-	**-**	-	**-**	197	**-**	-
Sappi Limited***	**-**	-	**-**	-	**-**	-	**1 148 350**	1 163 614
Sappi Management Services (Pty) Ltd*	**-**	-	**-**	-	**156 028**	156 405	**-**	-
Sappi Paper Holding GmbH	**5 491 358**	1 396	**7 419**	-	**951 642**	-	**-**	38 072
Sappi Specval Coatings (Pty) Ltd*	**1 251**	1 079	**-**	-	**74 077**	80 990	**-**	-
Sappi Trading Africa (Pty) Ltd**	**-**	-	**-**	-	**-**	-	**17 916**	17 917
Sappi Trading Hong Kong Limited**	**-**	6 163 291	**-**	-	**2**	1 012 632	**-**	-
Sappi Share Incentive Scheme**	**-**	-	**-**	-	**-**	-	**484**	509
Sappi Performance Share Incentive Plan**	**-**	-	**-**	-	**-**	-	**2 688**	554
Sappi Deutchland GmbH**	**624 177**	-	**-**	-	**11 947**	-	**-**	-
Sappi Europe Ltd**	**-**	-	**-**	-	**6**	-	**-**	-
Sappi Austria Productions GmbH & CoKG**	**-**	-	**-**	-	**-**	-	**-**	13
Sappisure Försakrings AB**	**-**	-	**67 658**	-	**-**	-	**-**	-
PTI Leasing Limited*	**-**	27 863	**-**	-	**-**	-	**-**	-
S.D. Warren Company**	**-**	-	**-**	-	**5**	-		30
Usutu Pulp Company Limited*	**-**	-	**-**	-	**986 084**	901 181	**-**	-
Impairments to intercompany loans	**-**	-	**-**	-	**(439 332)**	(551 760)	**-**	-
	6 459 444	6 200 465	**591 573**	520 967	**2 097 864**	1 957 348	**1 257 189**	1 760 828

27. Related party transactions (continued)

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

* Subsidiary
** Fellow subsidiary
*** Holding company

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

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

	Group		Company	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Dividends received from related parties				
PTI Leasing Limited*	**-**	-	**-**	27 863
Umkomaas Lignin (Pty) Ltd	**-**	-	**15 000**	25 000
Safor Limited	**-**	-	**205 798**	-
Bonuskor Houtverwerkers (Edms) Bpk	**-**	-	**136 610**	
	-	-	**357 408**	52 863
Dividends paid to related parties				
Sappi Limited	**31 722**	-	**-**	-
Share premium repaid by related parties				
Safor Limited	**-**	-	**149 624**	-

Shareholders

The company's shares are held by Sappi Limited which has a primary listing on the JSE Limited and secondary listings on the New York Stock Exchange.

Directors

Details relating to directors share incentive trust are disclosed in note 25.

Interest of directors in contracts

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

Subsidiaries

Details of investments in subsidiaries are disclosed in Annexure A.

28. Compensation of key management personnel

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

2012

	Salary	**Prior Year bonuses and performance related payments**	**Sums paid by way of expense allowance**	**Contributions paid under pension and medical aid schemes**	**Total**
	R'000	R'000	R'000	R'000	R'000
Director 1	-	-	-	-	-
Director 2	2 997	2 114	-	584	5 695
Director 3	1 745	924	8	526	3 203
Director 4	1 634	871	17	499	3 021
Director 5	1 484	786	12	458	2 740
Director 6	1 429	761	4	446	2 640
Director 7	1 754	939	10	387	3 090
Director 8	6 113	5 391	66	1 766	13 336
Director 9	2 851	2 326	895	1 450	7 522
Director 10	2 054	1 341	57	835	4 287
Director 11	1 720	1 325	1 165	883	5 093
Director 12	2 469	1 582	88	888	5 027
Director 13	671	-	21	203	895
Director 14	1 089	-	32	361	1 482
Director 15	1 580	828	-	324	2 732
Director 16	-	-	-	-	-
Director 17	1 717	842	19	544	3 122
Director 18	543	1 173	7	136	1 859
Director 19	1 580	823	10	345	2 758
Director 20	1 800	957	3	541	3 301
	35 230	22 983	2 414	11 176	71 803

28. Compensation of key management personnel (continued)

2011

	Salary	Prior Year bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
	R'000	R'000	R'000	R'000	R'000
Director 1	4 585	2 498	7	487	7 577
Director 2	2 567	2 205	41	480	5 293
Director 3	1 626	978	12	415	3 031
Director 4	1 569	975	22	433	2 999
Director 5	1 403	879	14	366	2 662
Director 6	1 367	840	3	362	2 572
Director 7	1 644	1 022	16	361	3 043
Director 8	5 615	6 318	56	1 635	13 624
Director 9	2 790	2 630	83	1 475	6 978
Director 10	1 839	1 567	62	656	4 124
Director 11	2 116	1 549	75	1 048	4 788
Director 12	2 333	1 858	76	872	5 139
Director 13	-	-	-	-	-
Director 14	-	-	-	-	-
Director 15	1 480	-	-	303	1 783
Director 16	484	1 284	3	125	1 896
Director 17	1 464	544	14	406	2 428
Director 18	2 133	1 292	25	534	3 984
Director 19	1 453	526	25	317	2 321
Director 20	1 672	1 048	3	424	3 147
	38 140	28 013	537	10 699	77 389

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

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

28. Compensation of key management personnel (continued)

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

		Director 1	Director 2	Director 3
	Allocated price	No.of shares	No.of shares	No.of shares
Outstanding at beginning of year				
Number of shares held		-	246 200	163 720
Issue 28	R47.08		1 980	7 700
Issue 28a	R47.08			
Issue 29	R46.51		4 620	7 920
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 32	R11.06		39 600	33 000
Performance shares 34	R0.00		55 000	37 400
Performance shares 35	R0.00		80 000	47 700
Performance shares 36	R0.00		65 000	30 000
Offered and accepted during the year				
Performance shares 37		-	100 000	28 000
Paid for during the year				
Number of shares		-	(19 800)	(16 500)
Returned, lapsed and forfeited during the year				
Number of shares		-	(21 780)	(24 200)
Outstanding at end of year		-	304 620	151 020
Issue 29	R46.51		4 620	7 920
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 34	R0.00		55 000	37 400
Performance shares 35	R0.00		80 000	47 700
Performance shares 36	R0.00		65 000	30 000
Performance shares 37	R0.00		100 000	28 000

Sappi Southern Africa Proprietary Limited

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

Year ended September 2012

28. Compensation of key management personnel (continued)

	Allocated price	Director 4 No.of shares	Director 5 No.of shares	Director 6 No.of shares
Outstanding at beginning of year				
Number of shares held		156 800	130 840	86 820
Issue 28	R47.08		2 640	2 200
Issue 28a	R47.08	17 600		
Issue 29	R46.51	22 000	4 400	2 860
Issue 32	R52.57			7 260
Issue 34	R35.50			8 800
Issue 35	R35.20			
Performance shares 32	R11.06	17 600	22 000	
Performance shares 34	R0.00	28 600	30 800	
Performance shares 35	R0.00	43 000	43 000	38 200
Performance shares 36	R0.00	28 000	28 000	27 500
Offered and accepted during the year				
Performance shares 37		25 000	28 000	24 000
Paid for during the year				
Number of shares		(8 800)	(11 000)	-
Returned, lapsed and forfeited during the year				
Number of shares		(26 400)	(13 640)	(2 200)
Outstanding at end of year		146 600	134 200	108 620
Issue 29	R46.51	22 000	4 400	2 860
Issue 32	R52.57			7 260
Issue 34	R35.50			8 800
Issue 35	R35.20			
Performance shares 34	R0.00	28 600	30 800	
Performance shares 35	R0.00	43 000	43 000	38 200
Performance shares 36	R0.00	28 000	28 000	27 500
Performance shares 37	R0.00	25 000	28 000	24 000

28. Compensation of key management personnel (continued)

	Allocated price	Director 7 No.of shares	Director 8 No.of shares	Director 9 No.of shares
Outstanding at beginning of year				
Number of shares held		86 200	654 000	463 200
Issue 28	R47.08			
Issue 28a	R47.08			39 600
Issue 29	R46.51			39 600
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 32	R11.06		110 000	88 000
Performance shares 34	R0.00	13 200	154 000	88 000
Performance shares 35	R0.00	43 000	195 000	120 000
Performance shares 36	R0.00	30 000	195 000	88 000
Offered and accepted during the year				
Performance shares 37		53 000	200 000	70 000
Paid for during the year				
Number of shares		-	(55 000)	(44 000)
Returned, lapsed and forfeited during the year				
Number of shares			(55 000)	(83 600)
Outstanding at end of year		139 200	744 000	405 600
Issue 29	R46.51			39 600
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 34	R0.00	13 200	154 000	88 000
Performance shares 35	R0.00	43 000	195 000	120 000
Performance shares 36	R0.00	30 000	195 000	88 000
Performance shares 37	R0.00	53 000	200 000	70 000

Sappi Southern Africa Proprietary Limited

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

Year ended September 2012

28. Compensation of key management personnel (continued)

		Director 10	Director 11	Director 12
	Allocated price	No.of shares	No.of shares	No.of shares
Outstanding at beginning of year				
Number of shares held		271 400	393 200	266 800
Issue 28	R47.08			33 000
Issue 28a	R47.08	17 600	39 600	
Issue 29	R46.51	30 800	39 600	33 000
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 32	R11.06	33 000	77 000	41 800
Performance shares 34	R0.00	55 000	77 000	44 000
Performance shares 35	R0.00	80 000	105 000	65 000
Performance shares 36	R0.00	55 000	55 000	50 000
Offered and accepted during the year				
Performance shares 37		87 500	60 000	87 500
Paid for during the year				
Number of shares		(16 500)	(38 500)	(20 900)
Returned, lapsed and forfeited during the year				
Number of shares		(34 100)	(78 100)	(53 900)
Outstanding at end of year		308 300	336 600	279 500
Issue 29	R46.51	30 800	39 600	33 000
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 34	R0.00	55 000	77 000	44 000
Performance shares 35	R0.00	80 000	105 000	65 000
Performance shares 36	R0.00	55 000	55 000	50 000
Performance shares 37	R0.00	87 500	60 000	87 500

Sappi Southern Africa Proprietary Limited

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

Year ended September 2012

28. Compensation of key management personnel (continued)

		Director 13	Director 14	Director 15
	Allocated price	No.of shares	No.of shares	No.of shares
Outstanding at beginning of year				
Number of shares held		-	-	12 500
Issue 28	R47.08			
Issue 28a	R47.08			
Issue 29	R46.51			
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 32	R11.06			
Performance shares 34	R0.00			
Performance shares 35	R0.00			
Performance shares 36	R0.00			12 500
Offered and accepted during the year				
Performance shares 37		-	45 000	33 000
Paid for during the year				
Number of shares		-	-	-
Returned, lapsed and forfeited during the year				
Number of shares		-	-	-
Outstanding at end of year		-	45 000	45 500
Issue 29	R46.51			
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 34	R0.00			
Performance shares 35	R0.00			
Performance shares 36	R0.00			12 500
Performance shares 37	R0.00		45 000	33 000

28. Compensation of key management personnel (continued)

	Allocated price	Director 16 No.of shares	Director 17 No.of shares	Director 18 No.of shares
Outstanding at beginning of year				
Number of shares held		-	58 280	178 760
Issue 28	R47.08		5 280	
Issue 28a	R47.08			4 400
Issue 29	R46.51		9 900	7 260
Issue 32	R52.57		7 700	
Issue 34	R35.50		8 250	
Issue 35	R35.20		7 150	
Performance shares 32	R11.06			39 600
Performance shares 34	R0.00			44 000
Performance shares 35	R0.00			53 500
Performance shares 36	R0.00		20 000	30 000
Offered and accepted during the year				
Performance shares 37		-	53 000	-
Paid for during the year				
Number of shares		-	-	(19 800)
Returned, lapsed and forfeited during the year				
Number of shares		-	(5 280)	(24 200)
Outstanding at end of year		-	106 000	134 760
Issue 29	R46.51		9 900	7 260
Issue 32	R52.57		7 700	
Issue 34	R35.50		8 250	
Issue 35	R35.20		7 150	
Performance shares 34	R0.00			44 000
Performance shares 35	R0.00			53 500
Performance shares 36	R0.00		20 000	30 000
Performance shares 37	R0.00		53 000	

28. Compensation of key management personnel (continued)

	Allocated price	Director 19 No.of shares	Director 20 No.of shares
Outstanding at beginning of year			
Number of shares held		39 900	165 780
Issue 28	R47.08		4 180
Issue 28a	R47.08		
Issue 29	R46.51		5 500
Issue 32	R52.57		
Issue 34	R35.50	4 400	
Issue 35	R35.20	10 500	
Performance shares 32	R11.06		35 200
Performance shares 34	R0.00		37 400
Performance shares 35	R0.00		53 500
Performance shares 36	R0.00	25 000	30 000
Offered and accepted during the year			
Performance shares 37		53 000	53 000
Paid for during the year			
Number of shares		-	(17 600)
Returned, lapsed and forfeited during the year			
Number of shares		-	(21 780)
Outstanding at end of year		92 900	179 400
Issue 29	R46.51		5 500
Issue 32	R52.57		
Issue 34	R35.50	4 400	
Issue 35	R35.20	10 500	
Performance shares 34	R0.00		37 400
Performance shares 35	R0.00		53 500
Performance shares 36	R0.00	25 000	30 000
Performance shares 37	R0.00	53 000	53 000

Sappi Southern Africa Proprietary Limited

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

Year ended September 2012

28. Compensation of key management personnel (continued)

		Total 2012	Total 2011
	Allocated price	No.of shares	No.of shares
Outstanding at beginning of year			
Number of shares held		3 374 400	4 294 180
Issue 28	R47.08		
Issue 28a	R47.08		
Issue 29	R46.51		
Issue 32	R52.57		
Issue 34	R35.50		
Issue 35	R35.20		
Performance shares 32	R11.06		
Performance shares 34	R0.00		
Performance shares 35	R0.00		
Performance shares 36	R0.00		
Offered and accepted during the year			
Performance shares 37		1 000 000	769 000
Paid for during the year			
Number of shares		(268 400)	(358 050)
Returned, lapsed and forfeited during the year			
Number of shares		(444 180)	(688 930)
Shares held by previous directors			(641 800)
Outstanding at end of year		3 661 820	3 374 400
Issue 29	R46.51		
Issue 32	R52.57		
Issue 34	R35.50		
Issue 35	R35.20		
Performance shares 34	R0.00		
Performance shares 35	R0.00		
Performance shares 36	R0.00		
Performance shares 37	R0.00		

28. Compensation of key management personnel (continued)

September 2012					
Director		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
Director 2	Performance Plan 32	12 December 2011	9 000	R0.00	R25.20
	Performance Plan Rights 32	12 December 2011	10 800	R20.27	R25.20
			19 800		
Director 3	Performance Plan 32	12 December 2011	7 500	R0.00	R25.20
	Performance Plan Rights 32	12 December 2011	9 000	R20.27	R25.20
			16 500		
Director 4	Performance Plan 32	12 December 2011	4 000	R0.00	R25.20
	Performance Plan Rights 32	12 December 2011	4 800	R20.27	R25.20
			8 800		
Director 5	Performance Plan 32	12 December 2011	5 000	R0.00	R25.20
	Performance Plan Rights 32	12 December 2011	6 000	R20.27	R25.20
			11 000		
Director 8	Performance Plan 32	12 December 2011	25 000	R0.00	R25.20
	Performance Plan Rights 32	12 December 2011	30 000	R20.27	R25.20
			55 000		
Director 9	Performance Plan 32	12 December 2011	20 000	R0.00	R25.20
	Performance Plan Rights 32	12 December 2011	24 000	R20.27	R25.20
			44 000		
Director 10	Performance Plan 32	12 December 2011	7 500	R0.00	R25.20
	Performance Plan Rights 32	12 December 2011	9 000	R20.27	R25.20
			16 500		
Director 11	Performance Plan 32	12 December 2011	17 500	R0.00	R25.20
	Performance Plan Rights 32	12 December 2011	21 000	R20.27	R25.20
			38 500		
Director 12	Performance Plan 32	12 December 2011	9 500	R0.00	R25.20
	Performance Plan Rights 32	12 December 2011	11 400	R20.27	R25.20
			20 900		
Director 18	Performance Plan 32	12 December 2011	9 000	R0.00	R25.20
	Performance Plan Rights 32	12 December 2011	10 800	R20.27	R25.20
			19 800		
Director 20	Performance Plan 32	12 December 2011	8 000	R0.00	R25.20
	Performance Plan Rights 32	12 December 2011	9 600	R20.27	R25.20
			17 600		

Sappi Southern Africa Proprietary Limited

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

Year ended September 2012

28. Compensation of key management personnel (continued)

September 2011					
Director		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
Director 1	Performance Plan	31 May 2012	20 000	R0.00	R36.43
	Performance Plan Rights	31 May 2012	24 000	R20.27	R36.43
			44 000		
Director 2	Performance Plan	31 May 2012	6 500	R0.00	R36.43
	Performance Plan Rights	31 May 2012	7 800	R20.27	R36.43
			14 300		
Director 3	Performance Plan	31 May 2012	7 500	R0.00	R36.43
	Performance Plan Rights	31 May 2012	9 000	R20.27	R36.43
			16 500		
Director 4	Performance Plan	31 May 2012	4 000	R0.00	R36.43
	Performance Plan Rights	31 May 2012	4 800	R20.27	R36.43
			8 800		
Director 5	Performance Plan	31 May 2012	2 000	R0.00	R36.43
	Performance Plan Rights	31 May 2012	2 400	R20.27	R36.43
			4 400		
Director 6	Performance Plan	31 May 2012	2 000	R0.00	R36.43
	Performance Plan Rights	31 May 2012	2 400	R20.27	R36.43
			4 400		
Director 8	Performance Plan 31a	10 August 2012	50 000	R0.00	R25.20
	Performance Plan Rights 31a	10 August 2012	60 000	R20.27	R25.20
			110 000		
Director 10	Performance Plan	31 May 2012	6 000	R0.00	R36.43
	Performance Plan Rights	31 May 2012	7 200	R20.27	R36.43
			13 200		
Director 11	Performance Plan	31 May 2012	15 000	R0.00	R36.43
	Performance Plan Rights	31 May 2012	18 000	R20.27	R36.43
			33 000		
Director 12	Performance Plan	31 May 2012	7 000	R0.00	R36.43
	Performance Plan Rights	31 May 2012	8 400	R20.27	R36.43
			15 400		
Director 13	Performance Plan	31 May 2012	6 000	R0.00	R36.43
	Performance Plan Rights	31 May 2012	7 200	R20.27	R36.43
			13 200		
Director 16	Performance Plan	31 May 2012	7 000	R0.00	R36.43
	Performance Plan Rights	31 May 2012	8 400	R20.27	R36.43
			15 400		

28. Compensation of key management personnel (continued)

September 2011

Director		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
Director 17	Performance Plan	31 May 2012	2 250	R0.00	R36.43
	Performance Plan Rights	31 May 2012	2 700	R20.27	R36.43
			4 950		
Director 18	Performance Plan	31 May 2012	10 000	R0.00	R36.43
	Performance Plan Rights	31 May 2012	12 000	R20.27	R36.43
			22 000		
Director 20	Performance Plan	31 May 2012	7 500	R0.00	R36.43
	Performance Plan Rights	31 May 2012	9 000	R20.27	R36.43
			16 500		
Director 21	Performance Plan	31 May 2012	10 000	R0.00	R36.43
	Performance Plan Rights	31 May 2012	12 000	R20.27	R36.43
			22 000		

Performance shares are issued when all conditions are met.

Expiry dates	
Issue 29	13 December 2012
Issue 32	12 December 2015
Issue 34	22 December 2016
Issue 35	9 December 2017
Performance shares 34	22 December 2012
Performance shares 35	09 December 2013
Performance shares 36	03 December 2014
Performance shares 37	02 December 2015

29. Environmental matters

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 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, and in particular, provides for the issuance of environmental authorizations and imposes a duty of care regarding environmental harm. The Act includes a number of significant principles, such prosecution of companies in the interest of the protection of the environment.

- The National Environmental Management: 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 in 2015 and then again in 2020.

- The National Environmental Management: Waste Act was enacted on July 01, 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 ratified the Kyoto Protocol, which obligates signatory countries to take measures to reduce their greenhouse gas emissions through the initial commitment period. South Africa as a developing country does not presently have targets and timetable commitments. Obligations under the Kyoto Protocol have been extended by the member parties through a second commitment period which runs from 2013 until at least 2017.

The requirements under these statutes and commitments, 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 on our mills of new standards contained in the Air Quality Act and the Waste Act is expected to be distributed over the next three to eight years. We are in frequent contact with regulatory authorities during the phasing in of these requirements, in an attempt to manage the transition period.

Environmental liability assessments were done on a number of Sappi Southern Africa's mills. It was concluded that there was no material environmental liability exposure for Sappi Southern Africa with regard to present operations. The landfill sites at the Enstra and Tugela Mills could incur rehabilitation and remediation costs should Sappi Southern Africa decided to close these sites. We believe that these sites will continue to operate into the foreseeable future. Landfill sites in South Africa are regarded as assets for continued operations and for commercial on-sale due to the scarcity of available air space as the Government is reluctant to approve the development of new landfill sites. Our Enstra Mill is located in a contaminant catchment area currently being investigated by the relevant authorities as to possibly allocate responsibilities to different industries in respect of contributing to the remediation of this specific catchment. This is not expected to materialize within the next five years.

30. Events after balance sheet date

Sale of the Usutu Villages
Following the closure of its Usutu Mill in the 2010 financial year, Sappi Southern Africa has signed an agreement to sell its villages situated around the mill for R100 million that have a book value of R2.5 million. The sale is subject to the provision of guarantees by the buyer and the registration of the transfer of the properties in the name of the buyer.

Mothball Tugela's PM4
On 12 October 2012, Sappi announced the decision to mothball PM4 from 01 January 2013 with the intention to restart the machine when the market conditions improve. Approximately 211 people will be retrenched in January and February 2013. The retrenchment costs have been estimated at R35.6m and have not been provided at year end.

Revolving Credit Facility
The company entered into a JIBAR linked Revolving Credit Facility of R1 000m on 13 December 2012.

Sappi Southern Africa Proprietary Limited

Investments

at September 2012

Annexure A

Investments in subsidiaries		Rands Share capital	**2012 %** Effective holding	2011 %	**2012 R'000** Book value of investment	2011 R'000
Set out below are the more significant subsidiaries of Sappi Southern Africa Proprietary Limited						
Bonuskor Houtverwerkers (Edms) Bpk*	D	2	**100,0%**	100,0%	**-**	83 147
Canonbrae Development Company (Pty) Ltd*	D	1 000	**63,2%**	63,2%	**-**	-
Guardrisk Cell no. 061*	F	100	**100,0%**	100,0%	**100**	100
Lotzaba Forrest Ltd*	O	60 526	**100,0%**	100,0%	**-**	-
Lereko Property Company (Pty) Ltd*	O	7 000	**100,0%**	100,0%	**7**	7
Safor Limited*	H	1 500	**100,0%**	100,0%	**2**	174 094
Saligna Forestry (Pty) Ltd*	D	20	**100,0%**	100,0%	**-**	-
Sappi Fine Papers (Pty) Ltd*	M	1	**100,0%**	100,0%	**-**	-
Sappi Forests (Pty) Ltd*	M	1	**100,0%**	100,0%	**-**	-
Sappi Forest Products (Pty) Ltd*	M	1	**100,0%**	100,0%	**-**	-
Sappi Kraft (Pty) Ltd*	M	1	**100,0%**	100,0%	**-**	-
Sappi Management Services (Pty) Ltd*	M	100	**100,0%**	100,0%	**-**	-
Sappi Mozambique SA****	D	7 018	**100,0%**	100,0%	**7**	7
Sappi Saiccor (Pty) Ltd*	M	10 000	**100,0%**	100,0%	**13**	13
Sappi Timber Industries (Pty) Ltd*	M	1	**100,0%**	100,0%	**-**	-
Sappi Specval Coatings (Pty) Ltd*	F	100	**100,0%**	100,0%	**-**	-
Sappi Waste Paper (Pty) Ltd*	M	900	**100,0%**	100,0%	**36**	36
Pulplink Properties (Pty) Ltd*	O	1 000	**100,0%**	100,0%	**-**	-
Usutu Pulp Company Limited***	O	12 500	**44,8%**	44,8%	**234 462**	234 462
Waterton Timber Company (Pty) Ltd	D	312 000	**100,0%**	100,0%	**-**	-
					234 627	491 866
Write down of investment in subsidiaries					**234 462**	303 520
					165	188 346

Holding company	H	*	Incorporated in South Africa
Operating company	O	**	Incorporated in Mauritius
Finance company	F	***	Incorporated in Swaziland
Management company	M	****	Incorporated in Mozambique
Dormant company	D		

Sappi Southern Africa Proprietary Limited

Definitions

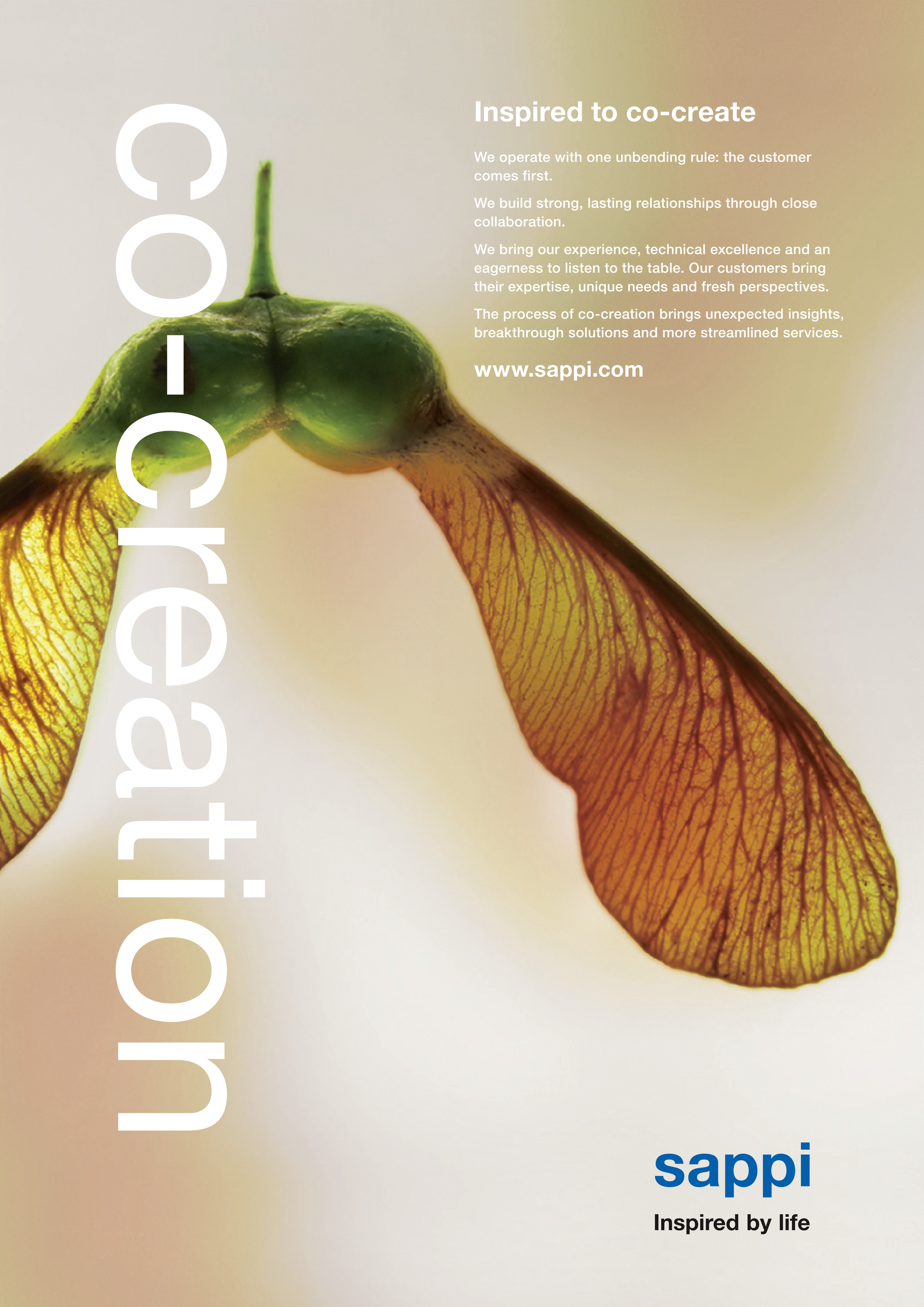
at September 2012

FSC: In terms of the Forest Stewardship Council (FSC) scheme, there are two types of certificates. 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

ISO: Developed by the International Standardisation Organisation (ISO), ISO 9000 is a series of standards focused on quality management systems, while the ISO 14001 series is focused on environmental performance and management

NBSK: Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, produced from coniferous trees (ie spruce, pine) in Scandinavia, Canada and northern USA

OHSAS: Is an international health and safety standard aimed at minimising occupational health and safety risks firstly, by conducting a variety of analyses and secondly, by setting standards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We build strong, lasting relationships through close collaboration.
We bring our experience, technical excellence and an eagerness to listen to the table. Our customers bring their expertise, unique needs and fresh perspectives.
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