Sappi Southern Africa Limited

ANNUAL REPORT

FOR THE YEAR ENDED SEPTEMBER 2013

Inspired by life

sappi

2013 an important transitional year

Major dissolving wood pulp project completed and commissioned

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 (such as shopping bags). We also produce bleached paper-pulp which is sold in the Southern African market.

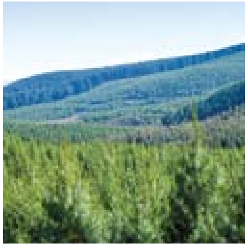
Sappi also produces dissolving wood pulp, which is sold to customers who use the product to manufacture a wide range of consumer products. We are the world's largest manufacturer of dissolving wood pulp and we export almost all of the production of our mills in Southern Africa.

Sappi Forests supplies over 78% of the wood requirements of Sappi Southern Africa from both our own and managed commercial timber plantations of 561,000ha. This equates to more than 35 million tons of standing timber. All wood grown on Sappi-owned land and a large proportion grown on plantations managed by us is Forest Stewardship Council™ (FSC™) and ISO 9000 certified. Approximately 150,000ha 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. Investment in low cost wood is a growth driver and a strategic resource 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 jobs to these local communities, but will also secure valuable hardwood timber resources close to our Saiccor Mill in KwaZulu-Natal. In addition to Sappi's own plantation area, we continue to identify ways to ensure access to pulpwood in the wood baskets close to our key operations, by means of land or timber delivery swaps. Where plantations and wood resources do not fit in with our current strategy in Southern Africa, we may look to unlock value via disposal.

This past winter was a difficult fire season, with dry and abnormally warm weather prevalent in our main forestry regions. In total 2,137ha of plantation was lost to fire in 2013. However, our significant investments over the past years in protecting our plantations against fire, using modern identification, alarm and response technology, as well as continued engagement with the communities in and around our plantations, has kept fire losses in our Southern African operations to a minimum.

Forests



		Capacity ('000)		
Plantations	Products produced	Hectares	m³	Employees
KwaZulu-Natal	Plantations (pulpwood and sawlogs)*	227	11,295	
Mpumalanga	Plantations (pulpwood and sawlogs)*	267	18,060	
Swaziland	Plantations (pulpwood)*	67	5,649	
Sawmills	Sawn timber (m^3)		102	
	Total Sappi Forests	**561**	**35,106**	

Dissolving wood pulp

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

Paper and Paper Packaging

		Capacity ('000 tons)		
Mills	Products produced	Paper	Pulp	
Cape Kraft Mill	Waste based linerboard and corrugating medium	60		
Enstra Mill	Uncoated woodfree and business paper	200		
Ngodwana Mill	Unbleached chemical pulp for own consumption		200	
	Mechanical pulp for own consumption		110	
	Kraft linerboard	230		
	Newsprint	140		
Stanger Mill	Bleached bagasse pulp for own consumption		60	
	Coated woodfree paper and tissue paper	110		
Tugela Mill	Neutral Sulfite semi-chemical pulp for own consumption		130	
	Corrugating medium	210		
Sappi ReFibre**	Waste paper collection and recycling for own consumption		250	
	Total Paper and Paper Packaging	**950**	**750**	
	Total Southern Africa	**950**	**1,760**	**5,637**

* *Plantations include owned and leased areas as well as projects.*
** *Sappi ReFibre collects waste paper in the SA market which is used to produce packaging paper.*

Sappi Southern Africa Limited

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

Annual Financial Statements

September 2013

Sappi Southern Africa Limited

Contents

Year ended September 2013

Sappi Southern Africa Limited

Financial Highlights

Year ended September 2013

	September 2013 R million	September 2012 R million
Sales	**12 490**	12 114
EBITDA excluding special items	**1 437**	1 758
Operating profit excluding special items	**722**	1 013
Profit for the year	**512**	498
Net debt	**2 617**	1 799
Total capitalisation	**11 205**	9 648
Net debt over EBITDA	**1.82**	1.02
Operating profit excluding special items to sales (%)	**5.8%**	8.4%
Return on net assets (RONA) (%)	**8.8%**	13.2%
Return on equity (ROE) (%)	**6.2%**	6.5%
Net debt to total capitalisation ratio	**23.4%**	18.6%
Cash interest cover (times)	**4.9**	8.4

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 and, non-cash gains or losses on the price fair value adjustment of plantations.

Sappi Southern Africa Limited

Management
Year ended September 2013

Chief Executive Officer
Alex Thiel (52)** BSc Mech Eng, MBA

Finance Director
Colin Mowatt**(56) BCom Acc, CA(SA), EDP, MBL

Technical Director
Bertus van der Merwe** (60) BSc, MBA, Hdip (Engineering) (resigned 30 April 2013)

Information Technology Director
Deon van Aarde** (53) B Compt

Strategic and New Business Development Director
Tyrone Hawkes ** (45) BCom Hons, CA(SA)

Regional Procurement Director
Nat Maelane** (54) MDP, SEP

Human Resources Director
Esther Letlape** (46) BA, BA (Hons) Industrial Psychology (resigned 30 September 2013)

Sappi Saiccor Managing Director
Gary Bowles ** (54) B.Sc Eng (Elect) and GCC & PMD (UCT)

Manufacturing Director: Sappi Paper and Paper Packaging SA
Patrick McGrady ** (56) BSc Eng (Elec); GCC (Factories)

Sappi Forests Managing Director
Hendrik de Jongh** (58), GCC (electrical), EDP and post-graduate diploma (Management) (resigned 31 December 2013)
Dr Terence Stanger** (51), BSc, MSc Agriculture and PHD Forestry (appointed 1 January 2014)

Other Directors
Ralph Boëttger***(52) B Acc Hons, CA(SA)
Steven Binnie***(46) BComm, BAcc, CA(SA), MBA
Andrea Rossi** (59) BSc (Engineering) (Hons) C Eng
Lucia Swartz ** (56) BA, Dip HR
Maarten Van Hoven**(39) BProc, LLM

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

Corporate Governance
At September 2013

The Sappi Southern Africa Group of companies ("Group") is a major subsidiary of Sappi Limited ("Sappi"), a company that maintains its listing on the JSE Limited. Sappi complies in all material respects with the JSE listings requirements, regulations and codes.

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

The board of directors
The basis for good governance at Sappi is laid out in the board charter, which sets out the division of responsibilities between the board and executive management. The board collectively determines major policies and strategies and is responsible for managing risk. For further information about the board and the board charter please refer to www.sappi.com.

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

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

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

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

The Audit Committee confirms that it has received and considered sufficient and relevant information to 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 2013.

The committee met four times during 2013.

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

Nomination and governance committee
The Nomination and Governance Committee consists of three independent 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.

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

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

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

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

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

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

Sappi risk management team
The Sappi Limited board mandates the Group risk management team to establish, coordinate and drive the risk management process throughout Sappi. It has established a risk management system to identify and manage significant risks. The Group risk management team reports regularly on risks to the Audit Committee and the board. The main focus in 2013 was improving the alignment of the risk management practices with King III. Risk management software is used to support the risk management process throughout the Group.

Internal control steering committee
The Internal Control Steering Committee meets half yearly to provide oversight and guidance to the business on internal controls and combined assurance for financial, strategic and operational risks.

IT steering committee

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

As part of an on-going comprehensive evaluation process, control self-assessments, year-end external audits and independent reviews by internal audit and other assurance providers were undertaken across the Group to test the effectiveness of various elements of the Group's financial, disclosure and other internal controls as well as procedures and systems. Identified areas of improvement are being addressed to strengthen the Group's controls further. The 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.

During 2013, the Sappi Limited board has decided to delist Sappi Limited from the New York Stock Exchange. Sappi's risk and control framework will remain in place as part of Sappi's application of the King III guidelines. Sappi remains committed to maintaining the same high standard of internal control as in the past.

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, such as insurance, strategic actions or specific internal controls. Feedback as to the effectiveness of the internal controls is obtained from various assurance providers in a coordinated manner which avoids duplication of effort. Combined assurance helps to identify gaps or improvement areas in the internal control framework.

The assurance obtained informs executive management and the Audit Committee about the effectiveness of the Group's internal controls in respect of significant risks. The Audit Committee, which is responsible for the oversight of risk management at Sappi, considers the risks and the assurance provided through the combined assurance framework and periodically advises the board on the state of risks and controls in Sappi's operating environment.

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

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

Board assessment of the company's risk management, compliance function and effectiveness of internal controls
The board has assessed the combined assurance provided and nothing has come to our attention nor has arisen 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 has an effective risk-based internal audit department which is suitably resourced. It has a specific charter from the Audit Committee and independently appraises the adequacy and effectiveness of the Group's systems, internal controls and accounting records. It plays a coordination role in obtaining combined assurance and reports its findings to local and divisional management, the external auditors as well as the regional and Group Audit Committees. 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 2013, apart from the ongoing focus on financial controls, internal audit undertook reviews of non-financial risk areas such as energy and water management. This coincided with its coordination of the combined assurance model and advising on other practices recommended in King III.

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

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

Legal compliance programme
A legal compliance programme designed to increase awareness of, and enhance compliance with, applicable legislation is in place. The Group compliance officer reports 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.

Whistle-blower hotlines and follow up of tip-offs

The Group operates a whistle-blower 'hotline'. This service, operated by independent service providers, enables all stakeholders to anonymously report environmental, safety, ethics, accounting, auditing, control issues or other concerns. It is the responsibility of all employees and stakeholders to report known or suspected unethical or illegal conduct. Retaliation against whistle-blowers is not tolerated. The follow up on all reported matters is coordinated by internal audit and reported to the Audit Committee.

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.

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

Deloitte.

Private Bag X6
Gallo Manor 2052
South Africa

Deloitte & Touche
Registered Auditors
Audit - Johannesburg
Buildings 1 and 2
Deloitte Place
The Woodlands
Woodlands Drive
Woodmead Sandton
Docex 10 Johannesburg

Tel: +27 (0)11 806 5000
Fax: +27 (0)11 806 5111
www.deloitte.com

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

We have audited the consolidated and separate annual financial statements of Sappi Southern Africa Limited set out on pages 18 to 112, which comprise the balance sheets as at 29 September 2013, and the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Sappi Southern Africa Limited as at 29 September 2013, 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 29 September 2013, 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 Auditor

Per: A. J. Wise
Partner
31 January 2014

Sappi Southern Africa Limited

Directors' Approval

Year ended September 2013

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 31 January 2014 and were signed on 31 January 2014 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 2013, 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
31 January 2014

Sappi Southern Africa Limited

Directors' Report
Year ended September 2013

The directors submit their report for the year ended September 2013.

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

Supervisor of the preparation of the annual financial statements

Financial director, C Mowatt CA(SA).

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

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

Sappi Southern Africa overview

Sappi Southern Africa produces a range of products including newsprint, coated and uncoated fine paper, office and business paper (stationery, printing and photocopying), security and speciality paper (passport and election ballot paper), containerboard (cardboard boxes used for exporting fruit) and packaging paper (shopping bags).

Sappi Southern Africa also produce dissolving wood pulp, a product made from wood from our plantations, and which is sold to customers who use the product to manufacture a wide range of consumer products, such as clothing, 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.

Sappi Forests supplies over 78% of the wood requirements of Sappi Southern Africa from both our own and managed commercial timber plantations of 560,000 hectares. This equates to more than 35 million tons of standing timber. All wood grown on Sappi-owned land and a large proportion grown on plantations managed by us is Forest Stewardship Council™ ("FSC™") and ISO 9000 certified. Approximately 150,000 hectares of our land is set aside and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there, including indigenous forests and wetlands.

We have identified investment in low-cost wood as both a growth driver and a strategic resource in order to supply our operations and to secure our margins in competitive commodity markets, such as dissolving wood pulp. To this end we continue to work with 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 jobs to these local communities, but will also secure valuable hardwood timber resources close to our Saiccor Mill in KwaZulu-Natal. In addition to Sappi Southern Africa's own plantation area, we continue to identify ways to ensure access to pulpwood in the wood baskets close to our key operations, by means of land or timber delivery swaps. Where plantations and wood resources do not fit in with our current strategy we may look to unlock value via disposal.

This past winter was a difficult fire season, with dry and abnormally warm weather prevalent in our main forestry regions. In total 2,137 hectares of plantation was lost to fire in 2013. However, the significant investments over the past years in protecting our plantations against fire, using modern identification, alarm and response technology, as well as continued engagement with the communities in and around our plantations, has kept losses in our operations due to fire at a minimum.

The business produces 500 000 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 are largely sold regionally, where we have strong market positions in most of these products.

The 1 010 000 tons of dissolving wood pulp is almost exclusively exported to customers in Asia, Europe and North America.

Markets and operations

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. Dissolving wood pulp accounts for the majority of our third-party pulp sales. The dissolving wood pulp produced at our Saiccor and Ngodwana mills is used principally as an input in the production of various textiles, microcrystalline cellulose for the food and pharmaceutical industries.

The conversion of the Ngodwana softwood bleached pulp mill to produce 210,000 tons of dissolving wood pulp was completed in July 2013. The start-up to date has gone to plan, with good production and quality levels having been reached.

Saiccor Mill had another excellent year, with record dissolving wood pulp production and sales levels. We link the contracted sales prices of our products to the Dollar European NBSK pulp list price plus a suitable premium dependent on market conditions. The benchmark NBSK average price was slightly lower than the average of the past year. The weaker Rand/Dollar exchange rate more than compensated for the lower average pulp price however, leading to excellent EBITDA margins excluding special items for the year.

2012 and 2013 saw a number of major interventions in the paper business, culminating in the mothballing of PM4 at Tugela Mill in January 2013. These changes were made to address environmental issues, more closely align with our customers' needs and to become more competitive and profitable. The graphic paper business became more reliant on imported hardwood paper pulp as a result of these actions, with the consequence that higher Dollar denominated pulp prices and a weaker Rand/Dollar exchange rate had a material adverse impact on the profitability of the graphic business. The paper packaging business had a slow start to the year, but domestic volumes and pricing improved towards the end of the year and we believe that the restructured packaging business is well placed for the packaging market.

Sales increased by 3% in Rand terms in fiscal 2013 (R12 490 million) compared to fiscal 2012 (R12 114 million). Sales volumes increased by 1% in fiscal 2013 compared to fiscal 2012. Demand for dissolving wood pulp was strong in fiscal 2013 resulting in a 1% increase in the sales volume of the Sappi Specialised Cellulose business compared to fiscal 2012. The sales volumes for the paper packaging business declined by 7% compared to fiscal 2012, due to the conversion at Ngodwana Mill. In addition, the paper and packaging market was weaker during the year. The sales volumes of the Sappi Forests business increased by 5% in fiscal 2013 compared to fiscal 2012.

A major determinant of sales pricing in the Specialised Cellulose Business is the NBSK pulp market price. During fiscal 2013, the average NBSK pulp price decreased by 1% from an average of US$838/ton in fiscal 2012 to an average of US$829/ton in fiscal 2013. During fiscal 2013, our average dissolving wood pulp selling prices increased by 9% in Rand terms due to the weakening of the Rand against the US dollar during fiscal 2013.

Average selling prices realised in the paper packaging business increased by 5% in Rand terms compared to fiscal 2012. Average selling prices of timber, in Rand terms, increased by 8% in fiscal 2013 compared to fiscal 2012.

Variable input costs per ton increased by 6% compared to fiscal 2012. Compared to fiscal 2012, the pulp and paper business experienced sharp increases in the prices of raw materials and input costs, particularly for bought in pulp and energy.

Fixed costs increased by a net 2% compared to fiscal 2012, consisting of a increase in cash fixed costs of 3% and a decrease in depreciation of 4%. The increase in fixed costs was a direct result of increased personnel costs and additional costs relating to plantation silviculture and firefighting management. These over-expenditures were offset by depreciation savings relating to impaired assets. We expect to see more benefits from our restructuring initiatives during our 2014 financial year. However, personnel cost, the largest component of fixed costs, remains under pressure due to a high inflation environment and the impact of a skills shortage on labor rates, particularly in skilled technical functions.

Operating profit decreased from R810 million in fiscal 2012 to R637 million in fiscal 2013. The operating profit for fiscal 2013 included unfavorable net special items of R886 million which consisted mainly of asset impairments (R854 million), restructuring charges (R86 million), costs related to major events - plantation fires, (R44 million), scrapping of obsolete stores (R70 million) and a gain on the post-retirement medical aid liability due to the outsourcing of the medical aid (R223 million). As a result of the challenging local market conditions, the PM4 sack-kraft paper machine at the Tugela Mill was closed at the end of the first financial quarter, and the carrying value of the assets of the graphics paper business primarily located at our smaller and higher cost mills of Enstra and Stanger were assessed, resulting in a total impairment of R854 million. A gain of R223 million was however recognised when the Sappi medical aid scheme was incorporated into an external medical aid provider. The cross subsidization achieved within the larger scheme and the expectation of lower future premiums resulted in a reduced post-retirement medical aid liability. During the year, as a result of Ngodwana Mill's dissolving wood pulp conversion project and the closure of the Kraft Continuous Digester at Tugela Mill, a decision was taken that a certain portion of Southern Africa's softwood plantations that was previously utilised in paper pulp production will be sold to the local saw log markets. Consequently, Southern Africa's plantations were revalued resulting in a once-off favourable price fair value adjustment of R863 million which is included in cost of sales.

EBITDA excluding special items decreased by 18% from R1 758 million to R1 437 million, in fiscal 2013 compared to fiscal 2012.

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

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

Outlook

The newly expanded Specialised Cellulose business, including the recently converted Ngodwana production, is expected to take advantage of the continued growth in demand for dissolving wood pulp. Our low cost position and long term contracts with the major producers of viscose staple fibre, who in turn have their own growth plans, should ensure that we maintain a high level of production utilisation in the face of a very competitive market. NBSK prices which we link our dissolving wood pulp sales to, are expected to remain at fairly high levels as they have been for the past year, however competitive forces and lower margins due to oversupply in the viscose staple fibre end use market will put pressure on these linked prices. The Rand/Dollar exchange rate is also expected to remain fairly weak.

The graphic paper business will have to continue to deal with continued high pulp prices, but further actions are being take to take cost out of this business. Paper packaging is one area where we see significant opportunity and here we are looking for a much improved performance during the coming 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 Southern Africa'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 SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and the requirements of the Companies Act of South Africa.

Share Capital

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

Authorised

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

Issued

6 015 769	Ordinary shares of R2 each
19 520	Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate
219 985	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 December 2012, a new R1 billion Revolving Credit Facility ("RCF") was concluded, syndicated amongst four local banks. This facility consolidated a number of local bilateral facilities into a single facility and aligned covenants and conditions within the banking Group. This RCF does not have an expiry date, and subject to meeting the financial covenants and certain terms and conditions, it can only be cancelled by the banks within a 15 month notice period.

The R1 billion SMF1 public bond matured in June 2013. In April 2013 the South African bond market was accessed to raise a R1.5 billion bond. The proceeds were used to refinance the R1 billion SMF1 bond and R500 million was utilised for the partial funding of the Ngodwana specialized cellulose conversion project. The new bond was raised in three tranches of 3,5 and 7-year notes, at a weighted fixed cost of 7.64%.

During the year we also had to refinance approximately R460 million maturing long-term promissory notes, staggered over a 12 month period. In April 2013 Sappi Southern Africa raised a new R400 million bilateral 7-year loan in the South African bank market. This bullet loan carries a floating rate of interest at Jibar plus 205 bp and was swapped to a fixed rate of 7.85%. The terms and conditions of the loan are identical to the Domestic Medium Term Note program under which Sappi Southern Africa raises long term bonds.

At year end, the average tenure of term debt is 3.6 years, requiring refinancing in the next financial year of R224 million.

In February 2013 Fitch confirmed their Sappi Southern Africa's local credit rating of A+/ F1, with a stable outlook for Sappi Southern Africa.

Net borrowings

Net Group borrowings at September 2013 amount to R2.6 billion. Details of the non-current term borrowings are set out in note 17 of the annual financial statements.

Insurance

Sappi Southern Africa has an active programme of risk management 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 coordinated 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.

Asset insurance is renewed on a calendar year basis. The self-insured retention portion for any one property damage occurrence is US$28 million with the annual aggregate set at US$45 million. For property damage and business interruption insurance, cost-effective cover to full value is not readily available. A loss limit cover of US$947 million has been deemed to be adequate for the reasonable foreseeable loss for any single claim.

Fixed assets

Significant capital expenditure of R2 586 million including R65 million of capitalised interest was incurred during the year. This is largely related to the successful completion and commissioning of the major specialized cellulose conversion at Ngodwana Mill in the year.

The closure of the PM4 sack-kraft machine at Tugela and difficult market conditions in the graphic paper business resulted in substantial impairments being taken of R854 million. The major impairments were at our Tugela Mill (R432 million), our Enstra Mill (R297 million), our Stanger Mill (R112 million) and our Ngodwana Mill (R13 million).

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

Litigation

We become involved from time to time in various claims and lawsuits incidental to the ordinary course of our business. We are not currently involved in legal proceedings which, either individually or in the aggregate, are expected to have a material adverse effect on our business, assets or properties.

Directors and secretaries

The names of the directors are indicated on page 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 113.

Special resolutions

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

- Adoption of a new Memorandum of Incorporation
- Conversion from a private to a public company

Holding company and ultimate holding company

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

Going concern

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

Sappi Southern Africa Limited

Group and Company Income Statements

For the year ended September 2013

	Notes	Group		Company	
		2013	2012	**2013**	2012
		R'000	R'000	**R'000**	R'000
Sales		**12 489 964**	12 114 013	**12 499 205**	12 120 903
Cost of sales	3.1	**10 554 897**	10 760 185	**10 614 000**	10 914 677
Gross profit		**1 935 067**	1 353 828	**1 885 205**	1 206 226
Selling, general and administrative expenses	3.1	**462 642**	499 276	**437 749**	483 909
Share of profit on joint venture	9	**(50 167)**	(37 197)	**-**	-
Investment income	3.4	**-**	-	**(17 500)**	(357 408)
Other expenses (incomes)	3.3	**885 850**	81 488	**828 822**	(22 811)
Operating profit	3	**636 742**	810 261	**636 134**	1 102 536
Net finance costs	4	**174 153**	140 695	**196 605**	164 713
Finance costs		**318 030**	307 475	**318 054**	307 434
Finance revenue		**(90 543)**	(114 837)	**(68 115)**	(90 778)
Finance costs capitalised		**(65 475)**	(49 134)	**(65 475)**	(49 134)
Net foreign exchange losses (gains)		**12 141**	(2 809)	**12 141**	(2 809)
Profit before taxation		**462 589**	669 566	**439 529**	937 823
Taxation (benefit) charge	5	**(49 377)**	171 695	**(38 214)**	171 573
Profit for the year		**511 966**	497 871	**477 743**	766 250

Sappi Southern Africa Limited

Group and Company Statements of Comprehensive Income
For the year ended September 2013

	Note	Group		Company	
		2013	2012	**2013**	2012
		R'000	R'000	**R'000**	R'000
Profit for the year		**511 966**	497 871	**477 743**	766 250
Other comprehensive income (loss), net of tax	15	**200 052**	(108 598)	**198 994**	(107 854)
Items that may subsequently be reclassified to the combined and consolidated income statement:					
Movement on available-for-sale financial asset		**698**	4 653	**-**	-
Movement on hedging reserves		**67 764**	(85 609)	**67 764**	(85 609)
Deferred tax on above items		**(18 974)**	23 970	**(18 974)**	23 970
Items that will not subsequently be reclassified to the consolidated and separate income statement:					
Actuarial gains (losses) on post-employment benefit funds		**208 975**	(69 585)	**208 615**	(64 188)
Deferred tax on above items		**(58 411)**	17 973	**(58 411)**	17 973
Total comprehensive income for the year		**712 018**	389 273	**676 737**	658 396

Sappi Southern Africa Limited

Group and Company Balance Sheets

At September 2013

		Group		Company	
	Notes	**2013**	2012	**2013**	2012
		R'000	R'000	**R'000**	R'000
Assets					
Non-current assets		**15 080 594**	13 749 189	**14 889 261**	12 847 873
Property, plant and equipment	6	**9 716 870**	8 787 384	**9 704 565**	8 739 207
Plantations	7	**4 684 542**	4 618 183	**4 684 542**	3 904 531
Deferred tax asset	8	**11 123**	-	**-**	-
Equity investments	9	**167 455**	134 788	**72 540**	72 540
Derivative financial instruments	27	**47 590**	-	**47 590**	-
Other non-current assets	10	**453 014**	208 834	**380 024**	131 595
Current assets		**4 837 025**	3 967 077	**4 841 901**	4 708 657
Inventories	11	**1 456 753**	1 487 193	**1 446 207**	1 473 619
Trade and other receivables	12	**222 490**	317 634	**211 646**	290 664
Amounts owing by Group companies	28	**1 417 784**	963 602	**2 671 238**	2 097 864
Cash and cash equivalents		**806 034**	1 198 648	**465 001**	846 510
		3 903 061	3 967 077	**4 794 092**	4 708 657
Assets classified as held for sale	13	**933 964**	-	**47 809**	-
Total assets		**19 917 619**	17 716 266	**19 731 162**	17 556 530
Equity and liabilities					
Shareholders' equity		**8 588 438**	7 848 777	**8 459 252**	7 754 777
Ordinary share capital and share premium	14	**221 100**	221 100	**221 100**	221 100
Other reserves	16	**123 668**	96 025	**121 938**	94 200
Retained earnings		**8 243 670**	7 531 652	**8 116 214**	7 439 477
Non-current liabilities		**6 060 780**	4 554 258	**6 057 042**	4 535 447
Interest-bearing borrowings	17	**3 199 427**	1 517 657	**3 199 427**	1 517 657
Deferred tax liabilities	8	**2 254 340**	2 197 123	**2 254 335**	2 197 119
Derivative financial instruments	27	**3 534**	21 330	**3 534**	21 330
Other non-current liabilities	18	**603 479**	818 148	**599 746**	799 341
Current liabilities		**5 268 401**	5 313 231	**5 214 868**	5 266 306
Interest-bearing borrowings	17	**223 643**	1 480 258	**223 643**	1 480 258
Overdraft		**-**	4	**-**	4
Provisions	20	**31 254**	2 385	**31 254**	2 385
Derivative financial instruments	27	**1 830**	690	**1 830**	690
Trade and other payables		**2 607 274**	2 442 571	**2 605 029**	2 398 868
Taxation payable		**99 075**	127 020	**99 088**	126 912
Amounts owing to Group companies	28	**2 247 396**	1 260 303	**2 244 248**	1 257 189
		5 210 472	5 313 231	**5 205 092**	5 266 306
Liabilities directly associated with assets held for sale	13	**57 929**	-	**9 776**	-
Total equity and liabilities		**19 917 619**	17 716 266	**19 731 162**	17 556 530

Sappi Southern Africa Limited

Group and Company Cash Flow Statements

For the year ended September 2013

		Group		Company	
	Notes	**2013 R'000**	2012 R'000	**2013 R'000**	2012 R'000
Cash retained from operating activities		**1 262 093**	1 344 886	**1 375 953**	1 824 061
Cash generated from operations	19.1	**1 175 520**	1 599 600	**1 281 812**	1 732 061
Decease in working capital	19.2	**162 722**	48 954	**175 307**	62 513
Cash generated from operating activities		**1 338 242**	1 648 554	**1 457 119**	1 794 574
Finance costs paid	19.3	**(166 609)**	(363 788)	**(166 779)**	(363 656)
Finance revenue received		**90 543**	114 837	**68 115**	90 778
Dividends received		**-**	-	**17 500**	357 408
Taxation paid	19.4	**(83)**	(54 717)	**(2)**	(55 043)
Cash utilised in investing activities		**(2 568 362)**	(1 600 116)	**(2 583 382)**	(1 469 256)
Investment to maintain operations		**(578 214)**	(605 056)	**(593 234)**	(474 196)
- Replacement of non-current assets	19.5	**(527 311)**	(606 303)	**(520 159)**	(605 387)
- Proceeds on disposal of non-current assets	19.6	**14 044**	48 793	**14 044**	48 225
- Disposal of plantations		**-**	6 223	**-**	6 223
- (Increase) decrease in investments and loans		**(64 947)**	(53 769)	**(87 119)**	76 743
Investment to expand properties		**(1 990 148)**	(995 060)	**(1 990 148)**	(995 060)
- Addition of non-current assets		**(1 951 698)**	(995 060)	**(1 951 698)**	(995 060)
- Addition of plantations		**(38 450)**	-	**(38 450)**	-
Cash effects of financing activities		**913 659**	(801 958)	**825 924**	(1 403 605)
Proceeds from interest-bearing borrowings		**3 569 193**	796 304	**3 569 193**	796 304
Repayment of interest-bearing borrowings		**(3 144 038)**	(1 625 814)	**(3 144 038)**	(1 625 814)
Share-based payment reserve redeemed		**(19 486)**	(14 438)	**(19 253)**	(14 438)
Increase in other non-current liabilities		**(24 922)**	(27 676)	**(25 018)**	(27 930)
Increase (decrease) in amounts owing to Group companies		**532 912**	69 666	**445 040**	(531 727)
Net movement in cash and cash equivalents		**(392 610)**	(1 057 188)	**(381 505)**	(1 048 800)
Cash and cash equivalents at beginning of year		**1 198 644**	2 255 832	**846 506**	1 895 306
Cash and cash equivalents at end of year	19.7	**806 034**	1 198 644	**465 001**	846 506

Sappi Southern Africa Limited

Group and Company Statements of Changes in Equity

For the year ended September 2013

Group

	Ordinary share capital R'000	Share premium R'000	Other reserve R'000	Hedging reserve	Retained earnings R'000	Total R'000
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
Share based payment	**-**	**-**	**16 282**	**-**	**-**	**16 282**
Sappi Limited share incentive trust	**-**	**-**	**(19 486)**	**-**	**-**	**(19 486)**
Share based payment – BBBEE	**-**	**-**	**30 847**	**-**	**-**	**30 847**
Total comprehensive income	**-**	**-**	**-**	**48 790**	**663 228**	**712 018**
Balance - September 2013	**12 030**	**209 070**	**123 668**	**30 545**	**8 213 125**	**8 588 438**

Sappi Southern Africa Limited

Group and Company Statements of Changes in Equity

For the year ended September 2013

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 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 (expense) income	-	-	-	(61 639)	720 035	658 396
Balance - September 2012	12 030	209 070	94 200	(18 245)	7 457 722	7 754 777
Share based payment	**-**	**-**	**16 144**	**-**	**-**	**16 144**
Sappi Limited share incentive trust	**-**	**-**	**(19 253)**	**-**	**-**	**(19 253)**
Share based payment – BBBEE	**-**	**-**	**30 847**	**-**	**-**	**30 847**
Total comprehensive income	**-**	**-**	**-**	**48 790**	**627 947**	**676 737**
Balance - September 2013	**12 030**	**209 070**	**121 938**	**30 545**	**8 085 669**	**8 459 252**

1. Business

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

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

2. Accounting policies

The following principal accounting policies have been consistently applied in dealing with items that are considered material in relation to the group annual financial statements.

2.1 Significant accounting policy elections

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

- regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting;
- cumulative gains 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 is accounted for using the cost model;
- actuarial gains or losses on post-employment benefits are recognised in OCI; and
- the step-by-step method of reclassification of foreign currency translation reserves from equity to profit or loss on disposal.

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

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

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

(i) Financial year
The group's financial year-end is on the Sunday closest to the last day of September. Accordingly, the last two financial years were as follows:

- 01 October 2012 to 29 September 2013 (52 weeks)
- 03 October 2011 to 30 September 2012 (52 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.

2. Accounting policies (continued)

(ii) Underlying concepts (continued)
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) Functional and presentation currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in ZAR, which is the groups presentation currency. The functional currency of the parent company is ZAR.

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

(iii) Foreign operations
The results and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
Assets and liabilities are translated at the period-end rate. Income statement items are translated at the average exchange rate for the year.
Exchange differences on translation are accounted for in other comprehensive income. These differences will be recognised in earnings upon realisation of the underlying operation.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations (ie the reporting entity's interest in the net assets of that operation), and of borrowings designated as hedging instruments of such investments, are taken to other comprehensive income.
Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at each reporting date at the closing rate.

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

Period-end rate	**2013**	**2012**
US$1 = ZAR	10.0930	8.3096
€1 = US$	1.3522	1.2859
Annual average rate		
US$1 = ZAR	9.2779	8.0531
€1 = US$	1.3121	1.2988

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. Under the equity method, associates and joint ventures are carried at cost and adjusted for the post-acquisition changes in the group's share of the associates and joint ventures net assets. The share of the 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 group's financial year-end.

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

2.2.3 Financial instruments

(i) Initial recognition
Financial instruments are recognised on the balance sheet when the group becomes a party to the contractual provisions of a financial instrument.

All purchases of financial assets that require delivery within the time frame established by regulation or market convention (‘regular way’ purchases) are recognised at trade date.

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

(iii) Subsequent measurement

- **Financial assets and financial liabilities at fair value through profit or loss**
  Financial instruments at fair value through profit or loss consist of items classified as held for trading or where they have been designated as fair value through profit or loss.

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

- **Loans and receivables**
  Loans and receivables are carried at amortised cost.

2. Accounting policies (continued)

2.2.3 Financial instruments (continued)

- **Available-for-sale financial assets**
  Available-for-sale financial assets are measured at fair value, with any gains and losses recognised directly in other comprehensive income 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. The difference in the respective carrying amounts is recognised in profit or loss for the period.

(vi) Impairment of financial assets

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

- **Available-for-sale financial assets**
  When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains and losses to the extent of the remeasurement, 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

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

2.2.7 Leases

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

Capitalised leased assets are depreciated on a 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 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 recognised in selling, general and administrative expenses in profit or loss for the period.

2.2.12 Cash and cash equivalents

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

2.2.13 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)

2.2.13 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 either the modified binomial option pricing or the Monte-Carlo Simulation model. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

(iii) Broad-Based Black Economic Empowerment transaction
The group accounts for the transaction in accordance with IFRS 2 and the South African Institute of Chartered Accountants Financial Reporting Guide 2 as issued by the Accounting Practices Committee and, the fair value of the services rendered by employees are recorded in profit or loss as they are rendered during the service period.

In accounting for the group’s share-based payment transactions, management uses estimates and assumptions to determine 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 26 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of September 2013.

2.3 Critical accounting policies and key sources of estimation uncertainty

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

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

2.3.1 Impairment of assets other than goodwill and financial instruments

The group assesses all assets (other than goodwill and intangible assets not yet available for use) at each balance sheet date for indications of impairment or the reversal of a previously recognised impairment.

Intangible assets not yet available for use are tested at least annually for impairment.
In assessing assets for impairment, the group estimates the asset’s useful life, discounted future cash flows, including appropriate bases for future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, the planned use of machinery or equipment or closing of facilities. The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the CGU to which the asset belongs. Additionally, assets are also assessed against their fair value less costs to sell.

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

2. Accounting policies (continued)

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

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 to 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.

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

2. Accounting policies (continued)

2.3.3 Taxation (continued)

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

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

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

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

Refer to note 8 to the group annual financial statements for the movement in unrecognised deferred tax assets.

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

2.3.4 Derivatives and hedge accounting

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

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

(ii) Cash flow hedges
Cash flow hedges are designated when hedging the exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction or, the foreign currency risk in an unrecognised firm commitment.

2. Accounting policies (continued)

2.3.4 Derivatives and hedge accounting (continued)

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.

(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 recognised immediately in profit or loss.

Refer to note 27 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 recognised in the period in which they arise.

The impact of changes in estimate prices, discount rates and, volume and growth assumptions may have on the calculated fair value and other key financial information on plantations is disclosed in note 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 to be felled within 12 months from the end of the reporting period are valued using unadjusted current market prices. Such timber is expected to be used in the short-term and consequently, current market prices are considered an appropriate reflection of fair value.
  The fair value is derived by using the prices as explained above 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.

2. Accounting policies (continued)

2.3.5 Plantations (continued)

- **Discount rate**
  The discount rate used is the applicable pre-tax weighted average cost of capital of the business unit.

- **Volume and growth estimations and cost assumptions**
  The group focuses on good husbandry techniques which include ensuring that the rotation of plantations is met with adequate planting activities for future harvesting. The age threshold used for quantifying immature timber is dependent on the rotation period of the specific timber genus which varies between 8 and 18 years. In the Southern African region, softwood less than eight years and hardwood less than five years are classified as immature timber.

  Trees are generally felled at the optimum age when ready for intended use. At the time the tree is felled it is taken out of plantations and accounted for under inventory and reported as 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

2. Accounting policies (continued)

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

between expected and actual outcomes or changes in actuarial assumptions, in other comprehensive income. Any increase in the present value of plan liabilities expected to arise due to current service costs is charged to profit or loss.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in profit or loss when the group is demonstrably committed to the curtailment or settlement. Past service costs or credits are recognised immediately to the extent that the benefits are already vested, and otherwise are amortised on a straight-line basis over the vesting period of those benefits.

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

Refer to notes 24 and 25 for the key estimates, assumptions and other information on post-employment benefits.

2.3.7 Provisions

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

The establishment and review of the provisions requires significant judgement by management as to whether or not there is a probable obligation and as to whether or not a reliable estimate can be made of the amount of the obligation.
Environmental accruals are recorded based on current interpretation of environmental laws and regulations.

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

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

Refer to note 20 to the group annual financial statements for the nature of provisions recorded.

2.3.8 Environmental restoration and decommissioning obligations

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

Due to the uncertainty in the timing of the closure of the group's facilities, some of these obligations have an indeterminate settlement date, and the group believes that adequate information does not exist to apply an expected-present-value technique to estimate any such potential obligations.

2. Accounting policies (continued)

2.3.8 Environmental restoration and decommissioning obligations (continued)

Accordingly, the group does not record a liability for such remediation until a decision is made that allows reasonable estimation of the timing of such remediation.

Refer to note 30 to the group annual financial statements for a description of the major environmental laws and regulations that affect the group, expected new laws and regulations and, the estimated impact thereof.

2.4 Adoption of accounting standards in the current year

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

- IAS 1 Presentation of Financial Statements – Other Comprehensive Income
- IAS 12 Deferred Tax – Investment property measured at fair value
- Circular 2/2013 Headline Earnings

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

Certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective and have not yet been early adopted the group. The impact of these standards is still being evaluated by the group.
These new standards and their effective dates for the group's annual accounting periods are listed below:

- IAS 19 (Revised) Employee Benefits – 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; and
- IFRS 9 Financial Instruments – IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities – Effective date still to be communicated.

The new standards, amendments and revisions and their effective dates mentioned below are not expected to have a material impact on the group's results or financial position:

- 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 Interest in Other Entities – September 2014;
- IAS 27 Separate Financial Statements – amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements – 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;
- IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities – September 2015;
- IAS 36 Impairment of Assets-Recoverable Amount Disclosures for Non-Financial Assets-September 2015;
- IAS 39 Financial Instruments: Recognition and Measurement-Novation of Derivatives and Continuation of Hedge Accounting-September 2015;
- IFRIC 21 Levies-September 2015; and
- Various improvements to IFRS's.

3. Operating profit

3.1 Cost of sales and selling, admin and general

	Group				Company			
	2013 R'000		2012 R'000		**2013 R'000**		2012 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	**6 535 763**	**-**	5 953 739	-	**6 611 796**	**-**	6 064 535	-
Fair value adjustment on plantations	**(892 168)**	**-**	71 966	-	**(776 475)**	**-**	226 787	-
Employee costs	**1 551 577**	**503 771**	1 659 343	384 847	**1 510 099**	**476 147**	1 626 926	359 512
Depreciation	**668 448**	**47 317**	703 870	40 647	**660 949**	**47 317**	694 712	40 647
Delivery charges	**1 030 408**	**-**	970 800	-	**1 030 561**	**-**	971 850	-
Maintenance	**701 371**	**-**	689 532	-	**693 057**	**-**	685 711	-
Other overheads	**959 498**	**-**	710 935	-	**884 013**	**-**	644 156	-
Marketing and selling expenses	**-**	**25 681**	-	37 053	**-**	**25 681**	-	36 521
Administrative and general (income) expenses	**-**	**(114 127)**	-	36 729	**-**	**(111 396)**	-	47 229
	10 554 897	**462 642**	10 760 185	499 276	**10 614 000**	**437 749**	10 914 677	483 909

3.1 Operating profit (continued)

	Group		Company	
	2013 R'000	2012 R'000	**2013 R'000**	2012 R'000
Fair value (gains) loss on plantations (note 7)				
Changes in volumes				
Fellings	**614 149**	591 874	**576 388**	552 174
Growth	**(706 135)**	(641 485)	**(614 982)**	(551 757)
	(91 986)	(49 611)	**(38 594)**	417
Plantation price fair value adjustment	**(800 182)**	121 577	**(737 881)**	226 370
	(892 168)	71 966	**(776 475)**	226 787
Silviculture costs (included within cost of sales)	**640 352**	582 614	**566 156**	508 706
Leasing charges for premises	**26 206**	26 799	**26 206**	26 799
Leasing charges for plant and equipment	**28 450**	28 479	**28 450**	28 479
Leasing charges for vehicles	**14 833**	18 034	**13 779**	17 370
Leasing charges for office equipment	**14 851**	15 287	**14 591**	14 997
Cost of derecognition of loans and receivables	**62 405**	77 238	**62 405**	77 238
Remuneration paid other than to bona fide employees of the company in respect of:	**12 433**	14 752	**11 954**	13 356
• technical services	**7 406**	9 224	**6 931**	9 224
• administration services	**5 027**	5 528	**5 023**	4 132
Auditors' remuneration	**8 230**	7 791	**8 230**	7 743
• audit and related services	**7 683**	7 276	**7 683**	7 228
• tax planning and tax advice	**547**	515	**547**	515
Research and development costs	**22 772**	19 799	**22 772**	19 175

Sappi Southern Africa Limited

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

Year ended September 2013

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
3.2 Employee costs				
Wages and salaries	**1 500 370**	1 486 512	**1 472 303**	1 464 802
Pension costs (refer note 24)	**50 466**	51 038	**48 969**	50 159
Post employment benefits other than pension expense (refer note 25)	**60 314**	74 292	**60 314**	74 292
Defined contribution expense	**107 201**	103 657	**103 641**	101 336
Other company contributions	**73 325**	80 567	**44 771**	52 179
Overtime	**123 919**	114 366	**123 391**	113 781
Share-based payment expense	**16 224**	19 452	**16 086**	19 289
Other	**123 529**	114 306	**116 771**	110 600
	2 055 348	2 044 190	**1 986 246**	1 986 438
3.3 Other expenses (income)				
Loss on sale and write-off of property, plant and equipment	**24 403**	14 016	**24 403**	16 290
Costs and Losses due to major events (Fires and floods)	**43 811**	43 162	**42 484**	10 403
Scrapping of obsolete stores	**70 439**	-	**70 439**	-
Gain on settlement – medical aid buy out	**(222 828)**	-	**(222 828)**	-
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)	**853 997**	71 333	**853 997**	71 333
Write down investments	**-**	-	**-**	38 558
Impairment reversal of intercompany balances	**-**	-	**(31 355)**	(112 428)
Black economic empowerment transaction charge	**30 847**	27 279	**30 847**	27 279
Restructuring costs	**86 030**	(53 107)	**61 686**	(53 107)
Other	**(849)**	202	**(851)**	258
	885 850	81 488	**828 822**	(22 811)
Attributable tax	**232 213**	6 484	**223 433**	(14 025)
	653 637	75 004	**605 389**	(8 786)
3.4 Investment income				
Dividend received	**-**	-	**(17 500)**	(357 408)

Sappi Southern Africa Limited

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

Year ended September 2013

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
4. Net finance costs				
Gross interest and other finance costs on liabilities carried at amortised cost	**318 030**	307 475	**318 054**	307 434
• Interest on bank overdrafts	**24 334**	4 332	**24 358**	4 310
• Interest on redeemable bonds and other loans	**282 985**	289 824	**282 985**	289 805
• Interest on obligations under finance lease	**10 711**	13 319	**10 711**	13 319
Finance revenue received on assets carried at amortised cost	**(90 543)**	(114 837)	**(68 115)**	(90 778)
• Interest on bank accounts	**(52 267)**	(76 194)	**(29 839)**	(52 144)
• Interest revenue on loans and investments	**(1 707)**	(1 821)	**(1 707)**	(1 812)
• Inter-group finance revenue	**(36 569)**	(36 822)	**(36 569)**	(36 822)
Interest capitalised	**(65 475)**	(49 134)	**(65 475)**	(49 134)
Net foreign exchange loss (gain)	**12 141**	(2 809)	**12 141**	(2 809)
	174 153	140 695	**196 605**	164 713
5. Taxation (benefit) charge				
Current taxation:				
• Current year	**(891)**	121 375	**(891)**	121 253
• Prior year (over) under provision	**(26 971)**	47 564	**(26 931)**	47 564
Deferred taxation: (refer note 8)				
• Current year	**(36 869)**	54 463	**(25 671)**	54 463
• Prior year under provision	**15 354**	(51 707)	**15 279**	(51 707)
	(49 377)	171 695	**(38 214)**	171 573

In addition to income taxation (benefits) expense charges to profit and loss, deferred taxation benefit of R77 385 thousand (2012: R41 945 thousand charge) has been recognised directly in other comprehensive income (refer note 8).

5. Taxation (benefit) charge (continued)

Reconciliation of the tax rate:

	Group		Company	
	2013	2012	**2013**	2012
	%	%	**%**	%
Statutory tax rate	**28.0**	28.0	**28.0**	28.0
Foreign tax differential	**0.1**	0.4	**-**	-
(Non-taxable income) / Non-deductible expenses	**(32.0)**	3.6	**(34.0)**	(9.3)
Deferred tax asset not recognised	**(1.8)**	(5.8)	**-**	-
Recognition of previous unrecognized taxation assets	**(2.5)**	-	**-**	-
Prior year adjustments	**(2.5)**	(0.6)	**(2.7)**	(0.4)
Effective taxation rate for the year	**(10.7)**	25.6	**(8.7)**	18.3

6. Property, plant and equipment

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
Land and buildings				
At cost	**2 687 284**	2 367 946	**2 710 308**	2 307 543
Accumulated depreciation	**801 088**	821 943	**821 056**	753 981
	1 886 196	1 546 003	**1 889 252**	1 553 562
Plant and equipment				
At cost	**17 210 784**	17 223 622	**17 164 225**	16 328 505
Accumulated depreciation	**9 410 427**	10 029 590	**9 379 229**	9 190 209
	7 800 357	7 194 032	**7 784 996**	7 138 296
Capitalised leased assets				
At cost	**200 477**	224 145	**200 477**	200 477
Accumulated depreciation	**170 160**	176 796	**170 160**	153 128
	30 317	47 349	**30 317**	47 349
Aggregate cost	**20 098 545**	19 815 713	**20 075 010**	18 836 525
Aggregate accumulated depreciation	**10 381 675**	11 028 329	**10 370 445**	10 097 318
Aggregate book value	**9 716 870**	8 787 384	**9 704 565**	8 739 207

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 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
Additions	**445 720**	**2 074 920**	**-**	**2 520 640**
Finance costs capitalised	**-**	**65 475**	**-**	**65 475**
Disposals	**(5 110)**	**(33 337)**	**-**	**(38 447)**
Depreciation	**(77 851)**	**(620 882)**	**(17 032)**	**(715 765)**
Impairments of property, plant and equipment (refer note 3.3)	**-**	**(853 997)**	**-**	**(853 997)**
Assets transferred to held for sale	**(22 566)**	**(25 854)**	**-**	**(48 420)**
Net book value at September 2013	**1 886 196**	**7 800 357**	**30 317**	**9 716 870**
Company				
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
Additions	**438 568**	**2 074 920**	**-**	**2 513 488**
Finance costs capitalised	**-**	**65 475**	**-**	**65 475**
Disposals	**(16 327)**	**(22 120)**	**-**	**(38 447)**
Depreciation	**(73 656)**	**(617 578)**	**(17 032)**	**(708 266)**
Impairments of property, plant and equipment (refer note 3.3)	**-**	**(853 997)**	**-**	**(853 997)**
Assets transferred to held for sale	**(12 895)**	**-**	**-**	**(12 895)**
Net book value at September 2013	**1 889 252**	**7 784 996**	**30 317**	**9 704 565**

6. Property, plant and equipment (continued)

Details of land and buildings are available at the registered offices of the respective companies (refer note 21 for details of encumbrances).

Impairments

September 2013

Enstra Mill
As a result of difficult market conditions and input costs pressure, Enstra Mill was tested for impairment on a value in use basis resulting in an impairment charge of R296 million in other operating expenses in profit or loss for the period. The recoverable amount was calculated using a real pre-tax discount rate of 9.12%.

Tugela Mill
Due to ongoing losses at Tugela Mill at the end of the second financial quarter, the mill was tested for impairment resulting in an impairment charge of R432 million being 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 9.12%.

Stanger Mill
As a result of difficult local market conditions as well as input costs pressure on the paper production facility at Stanger Mill, the paper production facility was tested for impairment resulting in an impairment charge of R112 million being 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 9.12%.

Ngodwana Mill
Some of the equipment at Ngdowana Mill with a book value of R13 million was taken out of production as part of the conversion project to produce dissolving wood pulp resulting in an impairment charge of R13 million to profit or loss.

September 2012

Sappi Paper and Paper Packaging operations
Certain fixed assets that were impaired in fiscal 2012 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 2013, 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 2013, Sappi announced the decision to mothball PM4 from 01 January 2013 with the intention to restart the machine when the market conditions improve.

7. Plantations

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
Fair value of plantations at the beginning of the year	**4 618 183**	4 696 372	**3 904 531**	4 137 541
Fire, hazardous weather and other damages	**(38 676)**	(29 693)	**(38 676)**	-
Acquisitions	**38 450**	-	**38 450**	-
Disposals	**-**	(6 223)	**-**	(6 223)
Gains arising from growth	**744 811**	671 178	**653 658**	551 757
Gain (loss) arising from fair value price charges	**800 182**	(121 577)	**737 881**	(226 370)
Harvesting - agriculture produce (fellings)	**(614 149)**	(591 874)	**(576 388)**	(552 174)
Reclassified to held for sale	**(864 259)**	-	**(34 914)**	-
Fair value of plantations at the end of the year	**4 684 542**	4 618 183	**4 684 542**	3 904 531

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.

During the year, as a result of Ngodwana Mill's dissolving wood pulp conversion project and the closure of the Kraft Continuous Digester at Tugela Mill, a decision was taken that a certain portion of Southern Africa's softwood plantations that was previously utilised in paper pulp production will be sold to the local saw log markets. Consequently, Southern Africa's plantations were revalued resulting in a once-off favourable price fair value adjustment of R863 million which is included in cost of sales.

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.

	2013 R'000	2012 R'000
Fair value changes		
1% increase in market prices	**23 211**	30 587
1% decrease in market prices	**(23 211)**	(30 587)
Discount rate (for immature timber)		
1% increase in rate	**(26 860)**	(32 108)
1% decrease in rate	**26 860**	32 108
Volume assumption		
1% increase in estimate of volume	**54 936**	44 092
1% decrease in estimate of volume	**(54 936)**	(44 092)
Costs to sell		
1% increase in costs to sell	**(18 130)**	(21 802)
1% decrease in costs to sell	**18 130**	21 802
Growth assumptions		
1% increase in rate of growth	**15 260**	13 408
1% decrease in rate of growth	**(15 260)**	(13 408)

8. Deferred tax

	2013		2012	
	Assets R'000	**Liabilities R'000**	Assets R'000	Liabilities R'000
Group				
Taxation loss carry forward	**14 176**	**(282 626)**	-	-
Other non current liabilities	**-**	**(8 899)**	-	(160 546)
Accrued and other liabilities	**777**	**(147 084)**	-	(219 411)
Property, plant and equipment	**(3 830)**	**1 409 039**	-	1 498 183
Plantations	**-**	**1 283 910**	-	1 078 897
Total deferred taxation	**11 123**	**2 254 340**	-	2 197 123
Company				
Taxation loss carry forward	**-**	**(282 626)**	-	-
Other non current liabilities	**-**	**(8 899)**	-	(160 550)
Accrued and other liabilities	**-**	**(147 084)**	-	(219 411)
Property, plant and equipment	**-**	**1 409 039**	-	1 498 183
Plantations	**-**	**1 283 905**	-	1 078 897
Total deferred taxation	**-**	**2 254 335**	-	2 197 119

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
8. Deferred tax (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	**(216 182)**	(185 914)	**-**	-
• Taxation losses	**383 328**	372 833	**-**	-
	167 146	186 919	**-**	-

8. Deferred tax (continued)

Reconciliation of deferred taxation

	Group **2013** **R'000**	Group 2012 R'000	Company **2013** **R'000**	Company 2012 R'000
Deferred taxation balances at beginning of year				
• Deferred taxation liabilities	**2 197 123**	2 236 310	**2 197 119**	2 236 306
	2 197 123	2 236 310	**2 197 119**	2 236 306
Deferred taxation (released) charge for the year (refer to note 5)	**(21 515)**	50 322	**(10 393)**	50 322
• Other liabilities, accruals and prepayments	**74 261**	(752)	**74 261**	(752)
• Taxation loss carry forward	**(296 802)**	126 157	**(282 626)**	126 157
• Accrued and other liabilities	**71 550**	6 616	**72 327**	6 616
• Property, plant and equipment	**(85 313)**	(16 267)	**(89 143)**	(16 267)
• Plantations	**214 789**	(65 432)	**214 788**	(65 432)
Amounts recorded directly against equity	**77 385**	(41 945)	**77 385**	(41 945)
Transfer from current taxation	**-**	(47 564)	**-**	(47 564)
Transfer to Non current assets held for sale	**(9 776)**	-	**(9 776)**	-
Deferred taxation balances at end of year	**2 243 217**	2 197 123	**2 254 335**	2 197 119
• Deferred taxation assets	**(11 123)**	-	**-**	-
• Deferred taxation liabilities	**2 254 340**	2 197 123	**2 254 335**	2 197 119

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
9. Equity investments				
Investment in joint venture	**167 455**	134 788	**72 375**	72 375
Unlisted investments (Refer Annexure A on page 113)	**-**	-	**165**	165
	167 455	134 788	**72 540**	72 540

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

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 2012.

The joint venture is accounted for using the equity method.

	Group		Company	
	2013	2012	**2013**	2012
	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	**95 080**	62 413	**-**	-
• Opening balance	**62 413**	40 216	**-**	-
• Current year profit	**50 167**	37 197	**-**	-
• Dividend received	**(17 500)**	(15 000)	**-**	-
Loan*	**70 390**	70 390	**70 390**	70 390
	167 455	134 788	**72 375**	72 375
Summarised financial information in respect of the group's joint ventures is set out below:				
Total assets	**434 358**	387 080	**-**	-
Total liabilities	**(99 448)**	(117 504)	**-**	-
Net assets	**334 910**	269 576	**-**	-

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

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
9. Equity investments (continued)				
Group's share of joint ventures net assets	**167 455**	134 788	**-**	**-**
Sales	**570 058**	477 586	**-**	**-**
Profit for the period	**100 334**	74 394	**-**	**-**
Group's share of joint ventures profit for the period	**50 167**	37 197	**-**	**-**
10. Other non-current assets				
Advances to tree growers	**59 581**	59 456	**59 581**	59 175
Licence fee	**447**	668	**447**	668
Pension asset (refer note 24)	**298 828**	50 585	**298 828**	50 585
Unlisted investment*	**87 898**	91 866	**-**	-
Other	**6 260**	6 259	**21 168**	21 167
	453 014	208 834	**380 024**	131 595

* The investment is carried at market value.

11. Inventories

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Raw materials	**452 138**	413 471	**450 175**	407 434
Work-in-progress	**70 362**	117 112	**64 397**	111 344
Finished goods	**618 991**	612 972	**616 631**	611 877
Consumable stores and spares	**315 262**	343 638	**315 004**	342 964
	1 456 753	1 487 193	**1 446 207**	1 473 619

The credit to the group income statement relating to the adjustment of inventories to net realisable value amounted to R44 764 thousand (2012: R44 565 thousand charge).

The cost of inventories recognised as an expense and included in cost of sales amounted to R10 554 897 thousand (2012: R10 760 185 thousand).

12. Trade and other receivables

	Group		Company	
	2013 R'000	2012 R'000	**2013 R'000**	2012 R'000
Trade accounts receivable	**98 054**	71 044	**90 250**	51 708
Receiver of Revenue	**37 112**	123 241	**36 549**	123 173
Prepaid insurance	**20 392**	23 655	**20 392**	21 575
Prepayments and other receivables	**66 932**	99 694	**64 455**	94 208
	222 490	317 634	**211 646**	290 664

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 R222 490 thousand (2012: R317 634 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.

No allowance has been made for estimated irrecoverable amounts from the sale of goods.

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000

12. Trade and other receivables (continued)

12.1 Analysis of amounts past due

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

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Past contract terms but not impaired				
Less than 30 days	**(10)**	-	**(10)**	-
Between 30 and 60 days	**(7)**	-	**(7)**	-
Greater than 60 days	**(15)**	-	**(15)**	-

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

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
Value of limits (approved in line with limits of authority)				
Less than R4.6 million	**269 488**	195 830	**269 488**	195 830
Less than R9.2 million but equal to or greater than R4.6 million	**148 150**	178 995	**148 150**	178 995
Less than R27.8 million but equal to or greater than R9.2 million	**393 523**	401 466	**393 523**	401 466
Less than R46.3 million but equal to or greater than R27.8 million	**398 500**	249 065	**398 500**	249 065
Equal to or greater than R46.3 million	**1 810 570**	1 905 495	**1 810 570**	1 905 495
	3 020 231	2 930 851	**3 020 231**	2 930 851

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 R24 125 thousand (2012: R18 150 thousand) against these trade receivables that are past due.

12. Trade and other receivables (continued)

12.2 Fair value

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

12.3 Off balance sheet structures

Sappi sells the majority of its receivables to Rand Merchant Bank Limited a division of Firstrand Bank Limited. Sappi does not guarantee the recoverability of any amounts, but 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 securitised at the end of September 2013 amounted to R1 234 959 thousand (September 2012: R1 043 877 thousand). Details of the securitisation programme at the end of fiscal 2013 and 2012 are disclosed in the tables below.

Bank	**Currency**	**Value**	**Facility**	**Discount charges**
2013				
Rand Merchant Bank	ZAR	1 235 Million	Unlimited*	Linked to 3 month JIBAR
2012				
Rand Merchant Bank	ZAR	1 044 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.

Refer to note 27 for further details on credit risk.

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
13. Assets classified as held for sale				
The major classes of assets held for sale and liabilities associated with assets held for sale are as follows:				
Assets classified as held for sale	**933 964**	-	**47 809**	-
Property, plant and equipment	**48 420**	-	**12 895**	-
Plantations	**864 259**	-	**34 914**	-
Other non-current assets	**274**	-	**-**	-
Inventories	**2 847**	-	**-**	-
Trade and other receivables	**18 164**	-	**-**	-
Liabilities associated with assets classified as held for sale	**57 929**	-	**9 776**	-
Deferred tax liabilities	**9 776**	-	**9 776**	-
Other non-current liabilities	**16 440**	-	**-**	-
Provisions	**30 876**	-	**-**	-
Trade and other payables	**837**	-	**-**	-
	876 035	-	**38 033**	-

Usutu
During the year, Sappi Southern Africa entered into an agreement with Montigny Investments Limited to sell its shares in Usutu Forest Products Company Limited ("Usutu"). These shares represent assets comprising mainly plantations as well as the shareholder loan claim against Usutu.

The timing of the sale is subject to the fulfilment of certain conditions precedent. No remeasurements were recognised on reclassification of the disposal group as held for sale nor at financial year-end.

Forests
Sappi is in the process of selling certain farms and plantations, it is expected that the sales will be finalised within one year. At the end of September 2013 land with a book value of R13m, Plantations with a fair value of R35m and a deferred tax liability of R10m were classified as held for sale.

		Group		Company	
		2013	2012	**2013**	2012
		R'000	R'000	**R'000**	R'000
14.	**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	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
14. 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 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 Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate [(1) (2))]	**-**	-	**1**	1
Investment in 363 237 Sappi Property Company (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**	223 431
Investment in 363 237 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)**	(223 431)
	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 2010, and is therefore a wholly owned subsidiary. Sappi Southern Africa Limited holds 363 237 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.

14. 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 17; and
- cash and cash equivalents.

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

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

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

During fiscal 2013 and 2012 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 2012.

Sappi Southern Africa Limited

Notes to the Group and Company Annual Financial Statements (Continued)
Year ended September 2013

		Group		Company	
		2013	2012	**2013**	2012
		R'000	R'000	**R'000**	R'000
15.	**Other comprehensive income (loss)**				
	Items that will not subsequently be reclassified to the consolidated and separate income statement:				
	Actuarial gains (losses) on post-employment benefit funds	**150 564**	(51 612)	**150 204**	(46 215)
	Gross amount	**208 975**	(69 585)	**208 615**	(64 188)
	Tax	**(58 411)**	17 973	**(58 411)**	17 973
	Items that may subsequently be reclassified to the consolidated and separate income statement:				
	Movement on available-for-sale financial asset	**698**	4 653	**-**	-
	Gross amount	**698**	4 653	**-**	-
	Hedging reserve	**48 790**	(61 639)	**48 790**	(61 639)
	Gross amount	**67 764**	(85 609)	**67 764**	(85 609)
	Tax	**(18 974)**	23 970	**(18 974)**	23 970
	Other comprehensive income (loss) recoded directly in equity	**200 052**	(108 598)	**198 994**	(107 854)
	Profit for the year	**511 966**	497 871	**477 743**	766 250
	Total comprehensive income for the year	**712 018**	389 273	**676 737**	658 396
16.	**Other reserves**				
	Share-based payment reserve (refer note 26)	**51**	3 255	**(1 680)**	1 430
	Share based payment reserve – BBBEE (refer note 26)	**123 617**	92 770	**123 618**	92 770
		123 668	96 025	**121 938**	94 200

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
17. Interest-bearing borrowings				
Capitalised lease liabilities (refer note 21 for details of encumbered assets)	**83 093**	110 087	**83 093**	110 087
Unsecured borrowings	**3 339 977**	2 887 828	**3 339 977**	2 887 828
Total borrowings	**3 423 070**	2 997 915	**3 423 070**	2 997 915
Less: Current portion included under current liabilities	**223 643**	1 480 258	**223 643**	1 480 258
	3 199 427	1 517 657	**3 199 427**	1 517 657
The repayment profile of the interest-bearing borrowings is as follows. Payable in the year ended September:				
2013	**-**	1 480 258	**-**	1 480 258
2014	**223 643**	218 229	**223 643**	218 229
2015	**799 427**	799 428	**799 427**	799 428
2016	**755 000**	500 000	**755 000**	500 000
2018	**500 000**	-	**500 000**	
Thereafter	**1 145 000**	-	**1 145 000**	
	3 423 070	2 997 915	**3 423 070**	2 997 915

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 2013 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	**2013 Present value of minimum lease payments R'000**	2012 Present value of minimum lease payments R'000
Payable in the year ended September:				
2013	**-**	**-**	**-**	26 993
2014	**41 098**	**(7 432)**	**33 666**	33 666
2015	**52 796**	**(3 369)**	**49 427**	49 428
Total future minimum lease payments	**93 894**	**(10 801)**	**83 093**	110 087

17. Interest-bearing borrowings (continued)

Set out below are details of the more significant interest-bearing borrowings in the Group at September 2013:

	Currency	Interest rate	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry	Financial covenants
Redeemable bonds (listed)							
Public bond	ZAR	Fixed**	R 255 million	R 255 million	Unsecured	April 2016	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 749 million *	Unsecured	April 2015	No financial covenants
Public bond	ZAR	Fixed**	R 500 million	R 499 million *	Unsecured	April 2018	No financial covenants
Public bond	ZAR	Fixed	R 745 million	R 744 million *	Unsecured	April 2020	No financial covenants
Redeemable bonds (unlisted private placement)							
Bravura Sanlam	ZAR	Fixed	R 84 million	R 84 million	Unsecured	December 2013	No financial covenants
Capitalised leases							
Rand Merchant Bank	ZAR	Fixed	R 83 million	R 83 million**	Buildings	September 2015	No financial covenants
Unsecured bank term loans							
Nedbank	ZAR	Fixed	R 92 million	R 92 million	Unsecured	March 2014	Gearing ratio interest and dividend cover
Petitum Trading	ZAR	Fixed	R 18 million	R 18 million	Unsecured	June 2014	No financial covenants
GroCapital Financial Services	ZAR	Fixed**	R 400 million	R 400 million*	Unsecured	May 2020	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.

17. Interest-bearing borrowings (continued)

Other restrictions

During fiscal 2013 and 2012 we were in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are regularly monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable 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.

Unutilised facilities

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

	Currency	**Interest rate**	**2013 R'000**	2012 R'000
Unutilised committed facilities				
Revolving credit facility *	ZAR	Variable (JIBAR)	**1 000 000**	-
Various other facilities	ZAR	Variable (JIBAR)	**50 000**	504 000
Unutilised uncommitted facilities				
Cash management overdraft facility / short term banking facilities	ZAR	Variable (JIBAR)	**250 000**	350 000

*Syndicated loans with a consortium of banks with revolving facilities available of R1 000 000 thousand. The R1 000 000 thousand facility is an evergreen facility with a 15 month notice period and is subject to financial covenants relating to the financial position of the Group.

Sappi Southern Africa Limited

Notes to the Group and Company Annual Financial Statements (Continued)
Year ended September 2013

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
18. Other non-current liabilities				
Severance benefits (refer note 24)	**-**	12 605	**-**	-
Post-employment benefits other than pension liability (refer note 25)	**599 746**	799 341	**599 746**	799 341
Retirement liability	**-**	2 310	**-**	-
Other	**3 733**	3 892	**-**	-
			-	-
	603 479	818 148	**599 746**	799 341
19. Notes to the cash flow statements				
19.1 Cash generated from operations				
Profit after taxation per income statement	**511 966**	497 871	**477 743**	766 250
Adjustment for:				
Depreciation	**715 765**	744 517	**708 266**	735 359
Fellings	**614 149**	591 874	**576 388**	552 174
Impairment of assets	**853 997**	71 333	**822 642**	(2 537)
Taxation (benefit) charge	**(49 377)**	171 695	**(38 214)**	171 573
Net finance costs	**174 153**	140 695	**196 605**	164 713
Dividends received	**-**	-	**(17 500)**	(357 408)
Dividends paid	**-**	(31 722)	**-**	-
Loss (profit) on disposal of assets	**24 403**	(4 226)	**24 403**	(1 952)
Fair value adjustment gains and growth on plantations	**(1 544 993)**	(549 601)	**(1 391 539)**	(325 387)
Movement in provisions	**29 706**	(243 670)	**28 869**	(188 046)
Other non-cash items	**(154 249)**	210 834	**(105 851)**	217 322
	1 175 520	1 599 600	**1 281 812**	1 732 061
19.2 Decrease in working capital				
Decrease (increase) in inventories	**27 593**	(133 449)	**27 412**	(130 558)
Decrease (increase) in receivables	**74 594**	(134 810)	**76 778**	(137 647)
Increase in payables	**60 535**	317 213	**71 117**	330 718
	162 722	48 954	**175 307**	62 513

		Group		Company	
		2013	2012	**2013**	2012
		R'000	R'000	**R'000**	R'000
19.	**Notes to the cash flow statements (continued)**				
19.3	**Finance costs paid**				
	Gross interest and other finance costs	**(252 555)**	(258 341)	**(252 579)**	(258 300)
	Net foreign exchange (losses) gains	**(12 141)**	2 809	**(12 141)**	2 809
	Non cash movements included in items above	**98 087**	(108 256)	**97 941**	(108 165)
		(166 609)	(363 788)	**(166 779)**	(363 656)
19.4	**Taxation paid**				
	Amounts unpaid at beginning of year	**(127 020)**	(12 798)	**(126 912)**	(13 138)
	Amounts recovered from the income statement	**27 862**	(168 939)	**27 822**	(168 817)
	Amounts unpaid at end of year	**99 075**	127 020	**99 088**	126 912
		(83)	(54 717)	**(2)**	(55 043)
19.5	**Replacement of non-current assets**				
	Property, plant and equipment	**(527 311)**	(606 303)	**(520 159)**	(605 387)
19.6	**Proceeds on disposal of non-current assets**				
	Book value of property, plant and equipment disposed of	**38 447**	44 567	**38 447**	46 273
	(Loss) profit on disposal	**(24 403)**	4 226	**(24 403)**	1 952
		14 044	48 793	**14 044**	48 225
19.7	**Cash and cash equivalents**				
	Cash and deposits on call	**806 034**	1 198 648	**465 001**	846 510
	Overdraft	**-**	(4)	**-**	(4)
		806 034	1 198 644	**465 001**	846 506

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000

20. Provisions

	2013 R'000	2012 R'000	**2013 R'000**	2012 R'000
Restructuring provisions	**31 254**	2 385	**31 254**	2 385

Group	Severance, retrenchment and related costs	Lease cancellation and penalty costs	Other closure costs	**Total**
Balance as at September 2011	156 838	33 593	55 624	**246 055**
(Decrease) / increase 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**
Increase / (decrease) in provision	85 073	-	(1 028)	**84 045**
Utilised	(46 192)	-	1 028	**(45 164)**
Released during the year	(10 012)	-	-	**(10 012)**
Balance as at September 2013	31 254	-	-	**31 254**

Company	Severance, retrenchment and related costs	Lease cancellation and penalty costs	Other closure costs	**Total**
Balance as at September 2011	156 838	33 593	-	**190 431**
(Decrease) / increase in provision	(11 116)	-	5 483	**(5 633)**
Utilised	(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**
Increase / (decrease) in provision	69 073	-	(1 028)	**68 045**
Utilsed	(33 845)	-	1 028	**(32 817)**
Released during the year	(6 359)	-	-	**(6 359)**
Balance as at September 2013	31 254	-	-	**31 254**

2013

Tugela

The mothballing of paper machine 4 at Tugela Mill resulted in a restructuring provision of R35 million being raised. The provision was fully utilised by financial year-end.

Sappi Southern Africa Support function

A review of the activities and costs of Southern Africa's shared services (communications, information technology, human resources, procurement and finance) was undertaken during the financial year to ensure that resources were utilised more efficiently resulting in a restructuring charge of R31 million being raised. The provision, which was unutilised at year-end, is expected to be fully utilised by December 2013.

Usutu Mill

At the end of January 2010, Usutu Mill ceased operations and the pulp mill was permanently closed. In fiscal 2013, an additional closure provision of R16 million was incurred.

20. Provisions (continued)

2012

Usutu Mill
At the end of January 2010, Usutu Mill ceased operations and the pulp mill was permanently closed. In fiscal 2012, 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 2012, 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 2013.

Sappi Paper and Paper Packaging Operations
Our 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. 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 2013, 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 2012, 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 2013, 91 employees had been affected and the remaining provision of R12.2 million was released to profit and loss.

21. Encumbered assets

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
Land and buildings	**30 317**	47 349	**30 317**	47 349

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.

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
22. Commitments				
Capital commitments				
Contracted but not provided	**181 875**	1 168 308	**181 875**	1 168 308
Approved but not contracted	**299 335**	680 925	**299 335**	680 925
	481 210	1 849 233	**481 210**	1 849 233
Future forecasted cashflows of capital commitments:				
Payable in the year ended September:				
2013	**-**	1 732 300	**-**	1 732 300
2014	**247 750**	116 933	**247 750**	116 933
2015	**-**	-	**-**	-
Thereafter	**233 460**	-	**233 460**	-
	481 210	1 849 233	**481 210**	1 849 233

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

	Group		Company	
Lease commitments				
Future minimum obligations under operating leases:				
Payable in the year ended September:				
2013	**-**	96 991	**-**	93 138
2014	**80 500**	45 402	**77 120**	41 806
2015	**41 540**	30 927	**38 160**	27 377
2016	**30 266**	17 523	**27 006**	14 263
2017	**18 337**	7 906	**15 077**	4 646
2018 (September 2012: Thereafter)	**9 423**	245 881	**6 163**	4 007
2019 and thereafter	**250 344**	-	**11 730**	-
	430 410	444 630	**175 256**	185 237

23. Contingent liabilities

	Group 2013	Group 2012	Company 2013	Company 2012
Guarantees and suretyships	**12 721**	4 121	**12 721**	4 121
Other	**10 000**	10 000	**10 000**	10 000
	22 721	14 121	**22 721**	14 121

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 outflow of resources in connection with these lawsuits and administrative proceedings is considered to be remote.

23. Contingent liabilities (continued)

In September 2012, the Competition Commission of South Africa notified the group that it has initiated an investigation into alleged anti-competitive behavior between Sappi and a competitor in the South African pulp and paper market. At that time, we reported that the investigation was still in the early stages. As at the end of the 2013 financial year, we understand there to be no change in the status of the investigation.

24. 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 R107 201 thousand (2012: R103 657 thousand) and total charged to income for the company of R103 641 thousand (2012: R101 336 thousand) represents contributions payable to these schemes by the Group based on the rates specified in the rules of the scheme. At September 2013 R13 575 thousand (September 2012: R12 906 thousand) was the contributions in respect of the current reporting period that had not yet been paid over to the schemes. 4 694 employees (2012: 4 413 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 2012 and the next valuations are to be performed in 2014. Actuarial reviews are performed annually.

653 (2012: 759 employees) and 652 (2012: 758 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 25).

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	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
24. Post-employment benefits - pensions (continued)				
Change in present value of defined benefit obligation				
Defined benefit obligations at beginning of year	**2 932 985**	2 890 390	**2 920 380**	2 883 598
Current service cost	**67 492**	70 720	**66 910**	70 444
Past service cost	**2 042**	420	**2 042**	420
Interest cost	**245 093**	256 404	**244 178**	255 801
Plan participants' contributions	**24 259**	27 020	**24 259**	27 020
Actuarial gain - experience	**(81 122)**	(5 519)	**(80 640)**	(9 979)
Actuarial (gain) loss – assumptions	**(151 141)**	190 133	**(151 262)**	189 198
Benefits paid	**(348 630)**	(496 583)	**(348 630)**	(496 122)
Gain on settlement and curtailments	**(944 913)**	-	**(944 913)**	-
Reclassified as held for sale	**(13 741)**	-	**-**	-
Defined benefit obligations at end of year	**1 732 324**	2 932 985	**1 732 324**	2 920 380
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**2 970 965**	2 930 596	**2 970 965**	2 930 596
Expected return on plan assets	**278 550**	281 842	**278 550**	281 842
Fund administration cost	**(5 538)**	(5 336)	**(5 538)**	(5 336)
Actuarial (loss) gain on plan assets	**(25 096)**	162 265	**(25 096)**	162 265
Employer contribution	**90 406**	71 163	**90 406**	70 702
Plan participants contribution	**24 259**	27 020	**24 259**	27 020
Benefits paid	**(348 630)**	(496 585)	**(348 630)**	(496 124)
Loss on settlement and curtailments	**(953 764)**	-	**(953 764)**	-
Fair value of plan assets at end of year	**2 031 152**	2 970 965	**2 031 152**	2 970 965
Surplus	**298 828**	37 980	**298 828**	50 585
Recognised pension plan asset	**298 828**	37 980	**298 828**	50 585

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
24. Post-employment benefits - pensions (continued)				
Pension cost recognised in income statement				
Current service cost	**67 492**	70 720	**66 910**	70 444
Past service cost	**2 042**	420	**2 042**	420
Fund administration cost	**5 538**	5 336	**5 538**	5 336
Interest cost	**245 093**	256 404	**244 178**	255 801
Expected return on plan assets	**(278 550)**	(281 842)	**(278 550)**	(281 842)
Loss on settlement	**8 851**	-	**8 851**	-
Pension cost charged to cost of sales and selling, general and administrative expenses	**50 466**	51 038	**48 969**	50 159
Amounts recognised in the statement of comprehensive income				
Actuarial gains (losses)	**207 167**	(22 349)	**206 806**	(16 954)
Cumulative actuarial losses recognised in the statement of comprehensive income				
Actuarial losses	**(109 130)**	(316 297)	**(98 886)**	(305 692)
	%	%	**%**	%
Actuarial assumptions at balance sheet date:				
Discount rate	**9.5**	8.3	**9.5**	8.3
Compensation increase	**7.6**	6.7	**7.6**	6.7
Expected long-term return on assets	**9.5**	9.4	**9.5**	9.4
Actuarial assumptions used to determine periodic pension cost:				
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
	R'000	R'000	**R'000**	R'000
Pension plan liability is presented on the balance sheet as follows:				
Pension liability (refer note 18)	**(13 741)**	(12 605)	**-**	-
Pension asset (refer note 10)	**298 828**	50 585	**298 828**	50 585
Reclassified as held for sale (refer note 13)	**13 741**	-	**-**	-
	298 828	37 980	**298 828**	50 585

24. 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:

	2013				**2012**			
	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	**(296 941)**	**378 526**	**144 890**	**(115 887)**	(400 494)	504 693	186 640	(163 140)
(Decrease) increase in net periodic pension cost	**(43 584)**	**48 889**	**-**	**-**	(49 741)	51 575	-	-

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**	
	2013	2012	**2013**	2012
	%	%	**%**	%
Target asset allocation				
Equity Securities	**51**	37	**51**	37
Debt Securities	**29**	44	**29**	44
Real Estate	**12**	7	**12**	7
Other	**8**	12	**8**	12
Actual asset allocation				
Equity Securities	**55**	40	**55**	40
Government Debt Securities	**8**	46	**8**	46
Debt Securities	**17**	5	**17**	5
Real Estate	**9**	9	**9**	9
Other	**11**	-	**11**	-

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
24. Post-employment benefits - pensions (continued)				
The expected company contributions for 2013	**92 165**	89 657	**91 355**	89 657
Expected benefit payments for pension benefits are as follows:				
Payable in the year ending September:				
2013	**-**	112 668	**-**	112 431
2014	**21 629**	119 426	**20 819**	118 150
2015	**23 349**	124 945	**22 534**	124 153
2016	**24 688**	130 771	**24 366**	130 457
2017	**28 445**	139 110	**26 323**	137 075
2018 (2012: 2017 – 2021)	**31 055**	805 548	**28 414**	796 853
2019 - 2022	**186 244**	-	**178 810**	-

25. Post-employment benefits - other than pensions

The company sponsors a defined post-retirement plan that provides certain health care and life insurance benefits to eligible retired employees. 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 2013 and the next will be performed in 2014. The expense has been included in employee costs as detailed in note 3.2.

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
Change in present value of defined benefit obligation				
Defined benefit obligations at beginning of year	**799 341**	713 773	**799 341**	713 773
Current service cost	**10 187**	11 728	**10 187**	11 728
Interest cost	**54 631**	62 564	**54 631**	62 564
Actuarial gain– experience	**(3 887)**	(584)	**(3 887)**	(584)
Actuarial loss – assumptions	**2 078**	47 820	**2 078**	47 820
Benefits paid	**(35 272)**	(35 960)	**(35 272)**	(35 960)
Gain on settlement	**(227 332)**	-	**(227 332)**	-
Defined benefit obligations at end of year	**599 746**	799 341	**599 746**	799 341

	Group 2013 R'000	Group 2012 R'000	Company 2013 R'000	Company 2012 R'000
25. Post-employment benefits - other than pensions (continued)				
Cost recognised in income statement				
Current service cost	**10 187**	11 728	**10 187**	11 728
Interest cost	**54 631**	62 564	**54 631**	62 564
Gain on settlement	**(227 332)**	-	**(227 332)**	-
(Income) cost charged to cost of sales and selling, general and administrative expenses	**(162 514)**	74 292	**(162 514)**	74 292
Amounts recognised in the statement of comprehensive income				
Actuarial gains (losses)	**1 809**	(47 236)	**1 809**	(47 236)
Cumulative actuarial losses recognised in the statement of comprehensive income				
Actuarial losses	**(239 265)**	(241 074)	**(239 265)**	(241 074)
Actuarial assumptions at balance sheet date:	**%**	%	**%**	%
Discount rate	**9.00**	8.00	**9.00**	8.00
Health care cost trends	**7.75**	6.75	**7.75**	6.75

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:

	2013				2012			
	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	**(68 371)**	**83 964**	**85 764**	**(70 770)**	(94 394)	116 876	119 006	(97 967)
(Decrease) increase in net periodic post employment benefit cost	**(3 632)**	**1 793**	**8 562**	**(8 969)**	(2 806)	3 068	12 367	(10 024)

25. Post-employment benefits - other than pensions (continued)

	Group		Company	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
Plan liability is presented on the balance sheet as follows:				
Post employment benefits other than pension liability (refer note 18)	**599 746**	799 341	**599 746**	799 341
The expected company contributions for 2013	**30 374**	39 868	**30 374**	39 868

26. Share-based payment

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

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

The Sappi Limited Share Incentive Trust ('Scheme')

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

Under the rules of the Scheme:

- Share options entitle the participant to purchase one ordinary share per share option.
- Scheme shares entitle the participant to enter into a loan with the Scheme to acquire Sappi Limited shares at a specific issue price. The Scheme shares are registered in the participant's name and pledged to the Scheme as security for the loan. Upon payment of the loan, the Scheme shares become unsecured Sappi Limited shares owned by the participant.

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

The Share options and Scheme shares vest in blocks of 25% per annum on the anniversary date of the offer and expire eight years after the offer date. Only once the options vest, may Share options be exercised by the participants and may Scheme shares be released from the Scheme to participants. For allocations prior to November 2004, the Share options and Scheme 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.

26. Share-based payment (continued)

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

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

The Plan rules provide that appropriate adjustments are made to the rights of participants in the event that the company, inter alia, undertakes:
- a rights offer; or
- is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital.

The Plan rules also provide that if:
(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 obliged to notify every participant thereof that such participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the performance criteria been achieved.

Rights offer

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

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

Allocations (Number of shares)

	2013	**2012**
Share options	**-**	1 057 590
Performance shares	**917 440**	350 000
Performance shares	**917 440**	1 407 590

Scheme shares, share options, restricted shares, performance shares and allocation shares activity was as follows during the financial years ended September 2013 and 2012:

26. Share-based payment (continued)

	Trust shares	Performance shares	Share options	Weighted average exercise price (R)	Allocation shares	Weighted average exercise price (R)	Total
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
Transferred to Sappi Limited	**-**		**(10 000)**	**27.82**	**-**	**-**	**(10 000)**
Offered and accepted	**-**	**917 440**	**-**	**-**	**-**	**-**	**917 440**
Paid for released	**-**	**(106 902)**	**(21 114)**	**3.78**	**-**	**-**	**(128 016)**
Returned, lapsed and forfeited	**-**	**(276 798)**	**(946 418)**	**31.30**	**-**	**-**	**(1 223 216)**
Outstanding at September 2013	**-**	**1 994 040**	**3 143 738**	**20.53**	**-**	**-**	**5 137 778**
Exercisable at September 2012	-	-	2 012 125	41.20	-	-	2 012 125
Exercisable at September 2013	**-**	**-**	**1 998 099**	**36.71**	**-**	**-**	**1 998 099**

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

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

	Issue 38	Issue 38
Date of grant	2 December 2012	2 December 2012
Type of award	Performance	Performance
Share Price at grant date	R30.50	R30.50
Vesting period	4 years	4 years
Vesting conditions	Market related - relative to peers	Cash Flow Return on Net Assets relative to peers
Life of options	N/A	N/A
Market related vesting conditions	Yes	No
Percentage expected to vest	42.0%	100%
Number of shares offered	458 720	458 720
Volatility	55.0%	N/A
Risk free discount rate	0.6% (US yield)	N/A
Expected dividend yield	1.7%	1.7%
Expected percentage of issuance	95%	95%
Model used to value	Monte-carlo	Market price
Fair value of option	R20.95	R22.63

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

26. Share-based payment (continued)

Black Economic Empowerment

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

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

The BEE transaction has resulted in potentially 4.5% of the issued share capital of Sappi being held as follows:
- Sappi’s South African Employees (62.5%);
- South African Black Managers (15%);
- Strategic Partners (12.5%) (refer to the section 'The BEE transaction' in this note); and
- Communities surrounding the South African mill operations and plantations (10%).

The BEE transaction

The BEE transaction comprised two distinct parts:
- The value created through the Plantation BEE transaction was settled by the issue of 4.3 million fully paid up ordinary shares at a price based on the 30 day volume weighted average share price ('VWAP') of Sappi as at Friday, 05 February 2010 of R33.50.
- The creation and issuance of a new class of unlisted equity shares referred to as 'A' ordinary shares. The 'A' ordinary shares were issued at their par value of R1 to a trust formed for the benefit of certain Sappi employees including HDSAs (the 'ESOP Trust'), a trust formed for the benefit of certain Sappi managers that are HDSAs (the 'MSOP Trust') and a trust formed for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the 'Sappi Foundation Trust', and together with the ESOP Trust and the MSOP Trust, the '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.

26. Share-based payment (continued)

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 R30 847 thousand (2012: R27 279 thousand) that related to the "A" Ordinary shares that were awarded.

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

Base price for hurdle rate price	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)	8.02%
Management turnover (annual)	5.22%
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.

26. Share-based payment (continued)

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

27. Financial instruments

The group's financial instruments consist mainly of cash and cash equivalents, accounts receivable, certain investments, accounts payable, borrowings and derivative instruments.

Introduction

The group's main financial risk management objectives are to identify, measure and manage, through financial instruments, the following principal risks to which the group is exposed to:
a) market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:
  - interest rate risk
  - currency risk
  - commodity price risk
b) liquidity risk
c) credit risk

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

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

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

Market risk

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

27. Financial instruments (continued)

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

Interest-bearing borrowings

The following table provides information about Sappi's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2013 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 29 September 2013. The information is presented in ZAR, which is the group's reporting currency.

27. FINANCIAL INSTRUMENTS (continued)

Rand Thousand			**Expected maturity date**				**Total**		2012	
	2014	2015	2016	2017	2018	2019+	**Carrying Value**	**2013 Fair Value**	Carrying Value	2012 Fair Value
Rand										
Fixed rate	223 643	799 427	755 000	-	500 000	1 145 000	**3 423 070**	**4 057 092**	2 997 915	3 172 018
Average interest rate (%)	11.09	8.02	8.65		7.46	7.99	**8.27**		9.39	
Fixed and variable	**223 643**	**799 427**	**755 000**	**-**	**500 000**	**1 145 000**	**3 423 070**	**4 057 092**	2 997 915	3 172 018
Current portion							**223 643**	**240 595**	1 480 258	1 549 740
Long-term portion							**3 199 427**	**3 816 497**	1 517 657	1 622 278
Total Interest-bearing borrowings (refer note 17)							**3 423 070**	**4 057 092**	2 997 915	3 172 018

ZAR floating rates of R1 905 million debt have been swapped into ZAR fixed rates. These swaps are subjected to hedge accounting.

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

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

At September 2013, 100% of Sappi Southern Africa borrowings were at fixed rates of interest.

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

Hedging of interest rate risk

Sappi uses interest rate swaps (“IRSs”) and interest rate and currency swaps (“IRCSs”) as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. Sappi does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period or in other comprehensive income (“OCI”), depending on the hedge designation as described in a documented hedging strategy.

27. Financial instruments (continued)

Cash flow hedges

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

At inception and at the beginning of each quarterly reporting period, the future effectiveness of the hedge relationship is assessed using the critical terms match.

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

The counterparties of the hedging instruments are tested for creditworthiness on a quarterly basis. If the credit risk of a given counterparty would fall under the minimum required rating, any positive fair value of the hedging instrument would be adjusted to cater for the additional credit risk. This would not affect the hypothetical derivative.

Interest rate swaps floating to fixed

In April 2012, Sappi issued a floating rate 2015 bond for an amount of R750 million and at the same time the company entered into a floating to fixed interest rate swap. In April and May 2013, Sappi issued additional floating rate debt to the total amount of R1,155 million maturing in 2016, 2018 and 2020 and swapped the floating rates into fixed rates. All above mentioned debt and the corresponding interest rate swaps are designated in cash flow hedging relationships, allowing all mark-to-market valuations of the swaps to be booked to equity. As all critical terms of the hedged items and the hedging instruments match perfectly, the hedges are expected to continue being highly effective.

At September 2013, the hedges were highly effective and the swaps had in total a net positive fair value of R32 million which was deferred to equity.

Interest rate risk sensitivity analysis of floating rate debt.

Sappi Southern Africa has no floating rate debt as at 30 September 2013.

IRS converting floating ZAR rates into fixed rates:

Scenario Name	Base Value	Scenario Value	Change	Change %
- 50 bps USD-LIBOR: 3-month	40 480	14 947	(25 533)	(63.1)
+ 50 bps USD-LIBOR: 3-month	40 480	65 552	25 073	61.9

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

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.

27. Financial instruments (continued)

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

- Economic exposure consists of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders;

- Transaction exposure arises due to transactions entered into, which result in a flow of cash in foreign currency such as payments under foreign currency long- and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts; and

- Translation exposure arises when translating the group's assets, liabilities, income and expenditure into the group's presentation currency. Borrowings are taken out in a range of currencies which are based on the group's preferred ratios of gearing and interest cover based on a judgement of the best financial structure for the group. This gives rise to translation exposure on consolidation.

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

Currency risk analysis

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

The following tables for the 2013 and 2012 financial years discloses financial instruments as determined by IAS 39 Financial Instruments: Recognition and Measurement, classified by underlying currency, and does not indicate the group's foreign currency exchange exposure.

27. Financial instruments (continued)

Currency risk analysis

2013	**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
NON CURRENT ASSETS							
Other non-current assets	**453 014**	**147 478**	-	-	147 478		
Long term derivative financial instruments	**47 590**	**47 590**	-	-	47 590	-	-
CURRENT ASSETS							
Trade and other receivables	**222 490**	**164 221**	-	-	164 221	-	-
Amounts owing by Group companies	**1 417 784**	**1 417 784**	-	-	1 417 784	-	-
Assets classified as held for sale	**933 964**	**10 339**	-	-	10 339	-	-
Cash and cash equivalents	**806 034**	**806 034**	1 901	2 327	801 443	363	-
		2 593 446	1 901	2 327	2 588 855	363	-
NON CURRENT LIABILITIES							
Interest-bearing borrowings	**3 199 427**	**3 199 427**	-	-	3 199 427	-	-
Long term derivative financial instrument	**3 534**	**3 534**	-	-	3 534	-	-
CURRENT LIABILITIES							
Interest-bearing borrowings	**223 643**	**223 643**	-	-	223 643	-	-
Trade and other payables	**2 607 274**	**2 295 389**	78 837	21 168	2 185 201	(280)	10 463
Current derivative financial instruments	**1 830**	**1 830**	(23 359)	(140 655)	169 655	-	(3 811)
Amounts owing to Group companies	**2 247 396**	**2 247 396**	-	-	2 247 396	-	-
Liabilities directly associated with assets held for sale	**57 929**	**15 399**	-	-	15 399	-	-
		7 986 618	55 478	(119 487)	8 044 255	(280)	6 652
Foreign exchange gap		**(5 393 172)**	(53 577)	121 814	(5 455 400)	643	(6 652)

27. Financial instruments (continued)

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
NON CURRENT ASSETS							
Other non-current assets	**208 834**	**151 322**	-	-	151 322	-	-
CURRENT ASSETS							
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	-
NON CURRENT LIABILITIES							
Interest-bearing borrowings	**1 517 657**	**1 517 657**	-	-	1 517 657	-	-
Long term derivative financial instrument	**21 330**	**21 330**	-	-	21 330	-	-
CURRENT LIABILITIES							
Interest-bearing borrowings	**1 480 258**	**1 480 258**	-	-	1 480 258	-	-
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

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.

27. Financial instruments (continued)

The group's foreign currency forward exchange contracts at September 2013 are detailed below.

		2013		2012	
		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	**25 038**	**226**	-	-
	Euro	**140 655**	**(1 937)**	419 838	(5 240)
	Other	**3 812**	**(109)**	181 572	3 822
Sold:	US Dollar	**(1 678)**	**(10)**	-	-
	Euro	**-**	**-**	(69 561)	769
	Other	**-**	**-**	(1 528)	(41)
		167 827	**(1 830)**	530 321	(690)

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2013 financial year.

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

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being September 2013.

As at September 2013, there was an open exposure of R3 379 thousand that has since been hedged.

Sensitivity analysis

Base currency	**Exposure**	**+10% gain (loss)**	**- 10% gain (loss)**
	R'000	**R'000**	**R'000**
EUR	43	4	(4)
USD	3 374	306	(375)
Other	(38)	(3)	4
Total	3 379	307	(375)

Based on the exposure as at the end of fiscal 2013, if the foreign currency rates had moved 10 % upwards or downwards compared to the closing rates, the result would have been impacted by a gain of R307 thousand (increase of 10 %) or a loss of R375 thousand (decrease of 10 %).

During 2013, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$184 million which were used as an overlay hedge of export sales from South Africa. Since these contracts have all matured before the end of September 2013, these constitute non-representative positions. The total impact on profit or loss amounts to a loss of R32 832 thousand.

27. Financial instruments (continued)

Cash flow hedges

Ngodwana Mill expansion - acquisition of property, plant and equipment in foreign currency
Sappi started the conversion of its Ngodwana Mill in the 2011 financial year to produce dissolving wood pulp. The group had a highly probable forecast transaction for the importation of property, plant and equipment from May 2011 to 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 relating to the Ngodwana project began in September 2011 and ceased in October 2013.

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

The total foreign currency exchange gains recognised through OCI in the 2013 financial year amounted to R42 762 thousand. As this gain was also realized during the financial year, a basis adjustment was processed transferring the amount from OCI to property, plant and equipment. There were no reclassifications to profit or loss during the year.

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

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

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

During the 2013 financial year, the hedge was highly effective and a net realised loss of R32 832 thousand. relating to the realised non-deliverable forward exchange contracts was transferred from OCI to sales in profit or loss. At the financial year-end, there were no amounts deferred in equity.

27. Financial instruments (continued)

Commodity price risk

Commodity price risk arises mainly from price volatility and threats to supply of raw material 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.

No pulp swaps have been contracted during the 2013 financial year.

Liquidity risk

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

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

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

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

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

Liquidity risk management

The following tables for the 2013 and 2012 financial years discloses financial instruments, as determined by IAS 39 Financial Instruments: Recognition and Measurement, are classified by liquidity and does not necessarily indicate the group's actual cash flows.

27. Financial instruments (continued)

Rand thousand **Liquidity risk management - September 2013**	**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
NON CURRENT ASSETS								
Other non-current assets	**147 478**	**147 478**	1 025	1 875	76 720	25 101	42 757	147 478
Long term derivative financial instruments	**47 590**	**47 590**	(3 433)	417	7 364	34 253	18 740	57 341
Pay leg	**(330 140)**	**(330 140)**	(43 382)	(42 676)	(85 800)	(150 646)	(59 298)	(381 802)
Receive leg	**377 730**	**377 730**	39 949	43 093	93 164	184 899	78 038	439 143
CURRENT ASSETS								
Trade and other receivables	**164 221**	**164 221**	164 221	-	-	-	-	164 221
Amounts owing by Group Companies	**1 417 784**	**1 417 784**	1 417 784	-	-	-	-	1 417 784
Cash and cash equivalents	**806 034**	**806 034**	806 034	-	-	-	-	806 034
Assets classified as held for sale	**10 339**	**10 339**	10 339	-	-	-	-	10 339
			2 395 970	2 292	84 084	59 354	61 497	2 603 197
NON CURRENT LIABILITIES								
Interest-bearing borrowings	**3 199 427**	**3 816 497**	45 110	124 746	1 048 792	2 158 580	865 094	4 242 322
Long term derivative financial instruments	**3 534**	**3 534**	4 306	1 382	(330)	-	-	5 358
Pay leg	**95 789**	**95 789**	29 414	28 935	43 802	-	-	102 151
Receive leg	**(92 255)**	**(92 255)**	(25 108)	(27 553)	(44 132)	-	-	(96 793)
CURRENT LIABILITIES								
Interest-bearing borrowings	**223 643**	**240 595**	168 894	73 238	-	-	-	242 132
Trade and other payables	**2 295 389**	**2 295 389**	2 295 389	-	-	-	-	2 295 389
Current derivative financial instruments	**1 830**	**1 830**	1 830	-	-	-	-	1 830
Pay leg	**169 657**	**169 657**	169 657	-	-	-	-	169 657
Receive leg	**(167 827)**	**(167 827)**	(167 827)	-	-	-	-	(167 827)

27. Financial instruments (continued)

Rand thousand	**Total**	**Fair value of**			**Undiscounted cash flows**			
Liquidity risk management - September 2013 (continued)	**financial assets and liabilities**	**financial instruments**	0-6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total
CURRENT LIABILITIES (continued)								
Amounts owing to Group Companies	**2 247 396**	**2 247 396**	2 247 396	-	-	-	-	2 247 396
Liabilities directly associated with assets held for sale	**15 399**	**15 399**	15 399	-	-	-	-	15 399
			4 778 324	199 366	1 048 462	2 158 580	865 094	9 049 826
Liquidity gap			(2 382 354)	(197 074)	(964 378)	(2 099 226)	(803 597)	(6 446 629)
September 2012								
NON CURRENT 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
CURRENT ASSETS								
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
NON CURRENT LIABILITIES								
LT Interest-bearing borrowings	**1 517 657**	**1 622 278**	48 766	49 351	340 272	889 716	560 500	1 888 605
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)

27. 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
CURRENT LIABILITES								
Interest-bearing borrowings	**1 480 258**	**1 549 740**	511 968	1 098 163	-	-	-	1 610 131
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)	(265 273)	(881 650)	(511 644)	(4 308 864)

27. Financial instruments (continued)

Derivative financial instruments

The following tables indicates the different types of derivative financial instruments for 2013 and 2012, 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**
Fair value of derivatives by risk factor:								
September 2013								
ASSETS								
FX risk – Long term Interest rate swap	47 590	47 590	-	(3 433)	417	7 364	34 253	18 740
paying leg	(330 140)	(330 140)	-	(43 382)	(42 676)	(85 800)	(150 646)	(59 298)
receiving leg	377 730	377 730	-	39 949	43 093	93 164	184 899	78 038
LIABILITIES								
FX risk – Long term Interest rate swap	3 534	3 534	-	4 306	1 382	(330)	-	-
paying leg	95 789	95 789	-	29 414	28 935	43 802	-	-
receiving leg	(92 255)	(92 255)	-	(25 108)	(27 553)	(44 132)	-	-
FX risk – Short term FEC	1 830	2 046	(216)	1 830	-	-	-	-
paying leg	169 657	146 513	23 144	169 657	-	-	-	-
receiving leg	(167 827)	(144 467)	(23 360)	(167 827)	-	-	-	-
September 2012								
LIABILITIES								
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)	-	-	-

27. 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 and 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, the non-current interest-bearing borrowings are carried at fair value, which is 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 on 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 commitment fees that are, in effect, paid.

27. Financial instruments (continued)

Rand thousand September 2013 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	**453 014**	305 536	15 000	59 581	-	72 897	147 478	147 478
AFS – Investment funds		-	-	-	-	72 897	72 897	72 897
Other assets		305 536	15 000	59 581	-	-	74 581	74 581
Fair value of derivatives	**47 590**	-	47 590	-	-	-	47 590	47 590
CURRENT ASSETS								
Trade and other receivables	**222 490**	58 269	-	164 221	-	-	164 221	164 221
Trade receivables		-	-	98 054	-	-	98 054	98 054
Other accounts receivable - current		58 269	-	66 167	-	-	66 167	66 167
Amounts owing by Group companies	**1 417 784**	-	-	1 417 784	-	-	1 417 784	1 417 784
Cash (and cash equivalents)	**806 034**	-	-	806 034	-	-	806 034	806 034
Overnight deposits and current accounts (incl. petty cash)		-	-	471 301	-	-	471 301	471 301
Time deposits (< 3 months)		-	-	2 000	-	-	2 000	2 000
Money market funds		-	-	332 733	-	-	332 733	332 733
Assets classified as held for sale	**933 964**	923 625	-	-	-	10 339	10 339	10 339

27. Financial instruments (continued)

Rand thousand September 2013 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 or loss	Other financial liabilities		
NON CURRENT LIABILITIES						
Interest bearing borrowings	**3 199 427**	-	-	3 199 427	3 199 427	3 816 497
Fair value of derivatives	**3 534**	-	3 534	-	3 534	3 534
CURRENT LIABILITIES						
Interest bearing borrowings	**223 643**	-	-	223 643	223 643	240 595
Fair value of derivatives	**1 830**	-	1 830	-	1 830	1 830
Trade and other payables	**2 607 274**	311 885	-	2 295 389	2 295 389	2 295 389
Accruals		311 885	-	717 980	717 980	717 980
Other accounts payable - current		-	-	1 577 409	1 577 409	1 577 409
Amounts owing to Group companies	**2 247 396**	-	-	2 247 396	2 247 396	2 247 396
Liabilities directly associated with assets held for sale	**57 929**	42 530	-	15 399	15 399	15 399

27. Financial instruments (continued)

Rand thousand	**Total balance**	**Out of scope IAS 39**	**Categories according to IAS 39**				**Total in scope**	**Fair value**
September 2012								
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	**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

27. 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 or loss	Other financial liabilities		
NON CURRENT LIABILITIES						
Interest bearing borrowings	**1 517 657**	-	-	1 517 657	1 517 657	1 622 278
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
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

27. Financial instruments (continued)

	2013				2012			
	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	**147 478**	**-**	**72 897**	**74 581**	151 322	-	76 866	74 456
Fair value of derivatives	**47 590**	**-**	**47 590**	**-**	-	-	-	-
	195 068	**-**	**120 487**	**74 581**	151 322	-	76 866	74 756
NON CURRENT LIABILITIES								
Fair value of derivatives	**3 534**	**-**	**3 534**	**-**	21 330	-	21 330	-
CURRENT LIABILITIES								
Fair value of derivatives	**1 830**	**-**	**1 830**	**-**	690	-	690	-
	5 364	**-**	**5 364**	**-**	22 020	-	22 020	-

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 coordinated on a group basis. The group's objective in relation to credit risk is to limit the exposure to credit risk through specific group-wide policies and procedures. Credit control procedures are designed to ensure the effective implementation of best trade receivable practices, the comprehensive maintenance of all related records, and effective management of credit risk for the group.

The group assesses the creditworthiness of potential and existing customers in line with the credit policies and procedures. Collateral is obtained to minimise risk. Exposures are monitored on an ongoing basis utilising various reporting tools which highlight potential risks when considered appropriate. In the event of deterioration of credit risk, the appropriate measures are taken by the regional credit management team. All known risks are required to be fully disclosed, accounted for, and provided for as bad debts in accordance with the applicable accounting standards.

On average 98% of our trade receivables, including those off-balance sheet, are credit insured. Quantitative disclosures on credit risk are included in note 17 of the group annual financial statements.

28. 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	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
Bonuskor Houtverwerkers (Edms) Bpk*	**-**	136 610	**-**	-	**-**	-	**-**	-
Canonbrae Development Company (Pty) Ltd*	**-**	-	**-**	-	**2 310**	2 310	**-**	-
Guardrisk Cell no. 061*	**-**	-	**-**	-	**354 713**	354 713	**-**	-
Lereko Property Company (Pty) Ltd*	**-**	-	**-**	-	**488**	382	**-**	-
Lotzaba Forests Limited*	**-**	-	**-**	-	**-**	-	**107**	107
Pulplink Properties (Pty) Ltd*	**-**	1	**-**	-	**-**	-	**418**	418
Safor Limited*	**-**	205 798	**-**	-	**-**	-	**2**	2
Sappi Saiccor (Pty) Ltd*	**-**	-	**-**	-	**-**	-	**10**	10
Sappi Europe Limited**	**-**	249	**1 304**	4 914	**-**	-	**750**	119
Sappi UK Limited**	**-**	-	**-**	-	**-**	-	**-**	6 837
Sappi Export Services (Pty) Ltd**	**-**	-	**572 969**	511 582	**-**	-	**86 174**	80 258
Sappi International SA**	**-**	-	**-**	-	**956**	-	**-**	-
Sappi Limited***	**-**	-	**-**	-	**-**	-	**2 141 023**	1 148 350
Sappi Management Services (Pty) Ltd*	**-**	-	**-**	-	**39 531**	156 028	**-**	-
Sappi Paper Holding GmbH	**6 057 976**	5 491 358	**22 563**	7 419	**1 307 271**	951 642	**-**	-
Sappi Specval Coatings (Pty) Ltd*	**-**	1 251	**-**	-	**67 886**	74 077	**-**	-
Sappi Trading Africa (Pty) Ltd**	**29 547**	-	**-**	-	**-**	-	**14 882**	17 916
Sappi Trading Hong Kong Limited**	**-**	-	**-**	-	**37**	2	**-**	-
Sappi Share Facilitation Company (Pty) Ltd	**-**	-	**-**	-	**-**	-	**882**	-
Sappi Share Incentive Scheme**	**-**	-	**-**	-	**54**	-	**-**	484
Sappi Performance Share Incentive Plan**	**-**	-	**-**	-	**-**	-	**-**	2 688
Sappi Deutchland GmbH**	**646 022**	624 177	**-**	-	**104 652**	11 947	**-**	-
Sappi Europe Ltd**	**-**	-	**-**	-	**-**	6	**-**	-
Sappisure Försakrings AB**	**-**	-	**64 197**	67 658	**328**	-	**-**	-
Sappi Holdings GMBH**	**-**	-	**-**	-	**3 717**	-	**-**	-
S.D. Warren Company**	**-**	-	**-**	-	**769**	5	**-**	-
Usutu Pulp Company Limited*	**-**	-	**-**	-	**1 196 503**	986 084	**-**	-
Impairments to intercompany loans	**-**	-	**-**	-	**(407 977)**	(439 332)	**-**	-
	6 733 545	6 459 444	**661 033**	591 573	**2 671 238**	2 097 864	**2 244 248**	1 257 189

28. 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	
	2013 R'000	2012 R'000	**2013 R'000**	2012 R'000
Dividends received from related parties				
Umkomaas Lignin (Pty) Ltd	**-**	-	**17 500**	15 000
Safor Limited	**-**	-	**-**	205 798
Bonuskor Houtverwerkers (Edms) Bpk	**-**	-	**-**	136 610
	-	-	**17 500**	357 408
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.

Directors

Details relating to directors share incentive trust are disclosed in note 26.

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.

29. Compensation of key management personnel

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

2013

	Salary	**Prior Year bonuses and performance related payments**	**Sums paid by way of expense allowance**	**Contributions paid under pension and medical aid schemes**	**Total**
	R'000	R'000	R'000	R'000	R'000
Director 1	1 708	580	-	366	2 654
Director 2	3 288	1 808	-	636	5 732
Director 3	1 845	616	-	666	3 127
Director 4	993	574	2	364	1 933
Director 5	1 569	524	4	573	2 670
Director 6	1 493	491	4	558	2 546
Director 7	1 859	621	-	409	2 889
Director 8	6 643	4 486	77	1 925	13 131
Director 9	-	-	-	-	-
Director 10	2 303	1 147	67	1 073	4 590
Director 11	-	-	-	-	-
Director 12	2 794	1 413	102	826	5 135
Director 13	3 134	494	99	951	4 678
Director 14	1 490	572	45	490	2 597
Director 15	1 680	555	-	343	2 578
Director 16	1 919	648	3	691	3 261
Director 17	1 876	624	16	693	3 209
Director 18	-	-	-	-	-
	34 594	15 153	419	10 564	60 730

29. Compensation of key management personnel (continued)

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	1 580	823	10	345	2 758
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	1 800	957	3	541	3 301
Director 17	1 717	842	19	544	3 122
Director 18	543	1 173	7	136	1 859
	35 230	22 983	2 414	11 176	71 803

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.

29. Compensation of key management personnel (continued)

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

	Allocated price	Director 1 No. of shares	Director 2 No. of shares	Director 3 No. of shares
Outstanding at beginning of year				
Number of shares held		92 900	304 620	151 020
Issue 29	R46.51		4 620	7 920
Issue 32	R52.57			
Issue 34	R35.50	4 400		
Issue 35	R35.20	10 500		
Performance shares 34	R0.00		55 000	37 400
Performance shares 35	R0.00		80 000	47 700
Performance shares 36	R0.00	25 000	65 000	30 000
Performance shares 37	R0.00	53 000	100 000	28 000
Offered and accepted during the year				
Performance shares 38		39 000	100 000	29 000
Paid for during the year				
Number of shares		-	(20 625)	(14 025)
Returned, lapsed and forfeited during the year				
Number of shares		-	(38 995)	(31 295)
Outstanding at end of year		131 900	345 000	134 700
Issue 32	R52.57			
Issue 34	R35.50	4 400		
Issue 35	R35.20	10 500		
Performance shares 35	R0.00		80 000	47 700
Performance shares 36	R0.00	25 000	65 000	30 000
Performance shares 37	R0.00	53 000	100 000	28 000
Performance shares 38	R0.00	39 000	100 000	29 000

Sappi Southern Africa Limited

Notes to the Group and Company Annual Financial Statements (Continued)
Year ended September 2013

29. Compensation of key management personnel (continued)

		Director 4	Director 5	Director 6
	Allocated price	No. of shares	No. of shares	No. of shares
Outstanding at beginning of year				
Number of shares held		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
Offered and accepted during the year				
Performance shares 38		26 000	26 000	20 000
Paid for during the year				
Number of shares		(10 725)	(11 550)	-
Returned, lapsed and forfeited during the year				
Number of shares		(39 875)	(23 650)	(2 860)
Outstanding at end of year		122 000	125 000	125 760
Issue 32	R52.57			7 260
Issue 34	R35.50			8 800
Issue 35	R35.20			
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
Performance shares 38	R0.00	26 000	26 000	20 000

29. 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		139 200	744 000	-
Issue 29	R46.51			
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 34	R0.00	13 200	154 000	
Performance shares 35	R0.00	43 000	195 000	
Performance shares 36	R0.00	30 000	195 000	
Performance shares 37	R0.00	53 000	200 000	
Offered and accepted during the year				
Performance shares 38		26 000	200 000	-
Paid for during the year				
Number of shares		(4 950)	(57 750)	-
Returned, lapsed and forfeited during the year				
Number of shares		(8 250)	(96 250)	-
Outstanding at end of year		152 000	790 000	-
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 35	R0.00	43 000	195 000	
Performance shares 36	R0.00	30 000	195 000	
Performance shares 37	R0.00	53 000	200 000	
Performance shares 38	R0.00	26 000	200 000	

Sappi Southern Africa Limited

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

Year ended September 2013

29. 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		308 300	-	279 500
Issue 29	R46.51	30 800		33 000
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 34	R0.00	55 000		44 000
Performance shares 35	R0.00	80 000		65 000
Performance shares 36	R0.00	55 000		50 000
Performance shares 37	R0.00	87 500		87 500
Offered and accepted during the year				
Performance shares 38		85 500	-	85 500
Paid for during the year				
Number of shares		(20 625)	-	(16 500)
Returned, lapsed and forfeited during the year				
Number of shares		(65 175)	-	(60 500)
Outstanding at end of year		308 000	-	288 000
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 35	R0.00	80 000		65 000
Performance shares 36	R0.00	55 000		50 000
Performance shares 37	R0.00	87 500		87 500
Performance shares 38	R0.00	85 500		85 500

Sappi Southern Africa Limited

Notes to the Group and Company Annual Financial Statements (Continued)
Year ended September 2013

29. Compensation of key management personnel (continued)

	Allocated price	Director 13 No. of shares	Director 14 No. of shares	Director 15 No. of shares
Outstanding at beginning of year				
Number of shares held		-	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
Offered and accepted during the year				
Performance shares 38		100 000	60 000	26 000
Paid for during the year				
Number of shares		-	-	-
Returned, lapsed and forfeited during the year				
Number of shares		-	-	-
Outstanding at end of year		100 000	105 000	71 500
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 35	R0.00			
Performance shares 36	R0.00			12 500
Performance shares 37	R0.00		45 000	33 000
Performance shares 38	R0.00	100 000	60 000	26 000

Sappi Southern Africa Limited

Notes to the Group and Company Annual Financial Statements (Continued)
Year ended September 2013

29. 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		179 400	106 000	-
Issue 29	R46.51	5 500	9 900	
Issue 32	R52.57		7 700	
Issue 34	R35.50		8 250	
Issue 35	R35.20		7 150	
Performance shares 34	R0.00	37 400		
Performance shares 35	R0.00	53 500		
Performance shares 36	R0.00	30 000	20 000	
Performance shares 37	R0.00	53 000	53 000	
Offered and accepted during the year				
Performance shares 38		39 000	39 000	-
Paid for during the year				
Number of shares		(14 025)	-	-
Returned, lapsed and forfeited during the year				
Number of shares		(28 875)	(9 900)	-
Outstanding at end of year		175 500	135 100	-
Issue 32	R52.57		7 700	
Issue 34	R35.50		8 250	
Issue 35	R35.20		7 150	
Performance shares 35	R0.00	53 500		
Performance shares 36	R0.00	30 000	20 000	
Performance shares 37	R0.00	53 000	53 000	
Performance shares 38	R0.00	39 000	39 000	

29. Compensation of key management personnel (continued)

	Allocated price	Total 2013 No. of shares	Total 2012 No. of shares
Outstanding at beginning of year			
Number of shares held		2 784 860	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		
Offered and accepted during the year			
Performance shares 38		901 000	1 000 000
Paid for during the year			
Number of shares		(170 775)	(268 400)
Returned, lapsed and forfeited during the year			
Number of shares		(405 625)	(444 180)
Shares held by previous director			(876 960)
Outstanding at end of year		3 109 460	2 784 860
Issue 32	R52.57		
Issue 34	R35.50		
Issue 35	R35.20		
Performance shares 35	R0.00		
Performance shares 36	R0.00		
Performance shares 37	R0.00		
Performance shares 38	R0.00		

29. Compensation of key management personnel (continued)

September 2013					
Director		Date Paid for	Number of shares Paid for	Allocation price	Market value at date of payment
Director 2	Performance Plan 34	22 December 2012	20 625	R0.00	R30.49
			20 625		
Director 3	Performance Plan 34	22 December 2012	14 025	R0.00	R30.49
			14 025		
Director 4	Performance Plan 34	22 December 2012	10 725	R0.00	R30.49
			10 725		
Director 5	Performance Plan 34	22 December 2012	11 550	R0.00	R30.49
			11 550		
Director 7	Performance Plan 34	22 December 2012	4 950	R0.00	R30.49
			4 950		
Director 8	Performance Plan 34	22 December 2012	57 750	R0.00	R30.49
			57 750		
Director 10	Performance Plan 34	22 December 2012	20 625	R0.00	R30.49
			20 625		
Director 12	Performance Plan 34	22 December 2012	16 500	R0.00	R30.49
			16 500		

29. 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 16	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		
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		

29. Compensation of key management personnel (continued)

Performance shares are issued when all conditions are met.

Expiry dates

Issue 32	12 December 2015
Issue 34	22 December 2016
Issue 35	9 December 2017
Performance shares 35	09 December 2013
Performance shares 36	03 December 2014
Performance shares 37	02 December 2015
Performance shares 38	07 December 2016

30. Environmental matters

In Southern Africa, the environmental regulatory legal framework is evolving, as is the enforcement process. The group works 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 the group's manufacturing and our forestry operations. Abstraction of water, discharge of effluent and management of forests are all regulated under a licensing 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 as 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. The Act imposes more stringent compliance standards on the group's operations in 2015 and then again in 2020.

- The National Environmental Management: Waste Act was enacted on July 01, 2009. The Act regulates the use, re-use, recycling and disposal of waste and regulates waste management by way of a licensing system.

- The Kyoto Protocol: As a responsible global citizen with moral as well as legal obligations under the United Nations Framework Convention on Climate Change and its Kyoto Protocol, South Africa is committed to contributing its fair share to global GHG mitigation efforts. Accordingly, South Africa has committed itself to an emissions trajectory that peaks at 34% below a "Business as Usual" trajectory in 2020 and 40% in 2025, remains stable for around a decade, and declines thereafter in absolute terms. 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 several years.

Carbon tax is a potential risk going forward for Sappi Southern Africa and we expect legislation to be introduced early next year (implementation date early 2015), we have engaged the Department of Trade and Industry via our industry representative, Paper Manufacturers Association of South Africa, in an attempt to get Sappi exempted from paying tax on the understanding that our process starts from planting of trees and that our total supply chain is actually carbon neutral.

31. Events after balance sheet date

There were no reportable changes that occurred subsequent to our financial year end.

Sappi Southern Africa Limited

Investments
at September 2013

Annexure A

Investments in subsidiaries		Rands Share capital	**2013 %**	2012 %	**2013 R'000**	2012 R'000
			Effective holding		**Book value of investment**	
Set out below are the more significant subsidiaries of Sappi Southern Africa Limited						
Bonuskor Houtverwerkers (Edms) Bpk*	D	2	**100,0%**	100,0%	**-**	-
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%	**-**	-
Sappi Property Company (Pty) Ltd*	O	7 000	**100,0%**	100,0%	**7**	7
Safor Limited*	H	1 500	**100,0%**	100,0%	**2**	2
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 Refibre Paper (Pty) Ltd*	M	900	**100,0%**	100,0%	**36**	36
Pulplink Properties (Pty) Ltd*	O	1 000	**100,0%**	100,0%	**-**	-
Usutu Forest Products 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	234 627
Write down of investment in subsidiaries					**234 462**	234 462
					165	165

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		

Definitions
at September 2013

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

sappi

www.sappi.com