

Integrated report 2012

sappi

Focused, low cost
paper
business

Growing, high margin,
specialised
cellulose
business

A
healthier
balance sheet

sappi
Inspired by life

About this report

Introduction

Our primary goal is to be an exciting, growing and profitable leader in paper and dissolving wood pulp, providing value for our shareholders, employees and customers by leveraging our resources effectively to create wealth.

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



About the 2012 cover

The bulk of our dissolving wood pulp production is used to make viscose staple fibre, a biodegradable, natural, organic product with breathability and moisture absorbency properties. As the global population grows, particularly in Asia where most of our dissolving wood production is currently exported, so too, will demand for comfortable clothing. We are a market leader in the VSF segment and are ideally positioned to take advantage of increased demand.

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

The scope of our annual integrated report for the year ended September 2012 includes all our operations, as set out on page 4.

For a complete view of Sappi's strategy, performance for the year ended September 2012, and longer term prospects, stakeholders are directed to the following additional sources of company information:

- > Quarterly results announcements and analyst presentations.
- > Annual reports and accounts, prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).
- > Form 20-F, prepared in accordance with US Securities and Exchange Commission (SEC) regulations.
- > Due to the regional differences in material issues and related sustainability management, and given that the most material group-level sustainability disclosure is included in our integrated report, this year we will produce sustainable development reports for North America and Southern Africa, and an update of the European Report for 2011 all of which available on www.sappi.com from early 2013. A full GRI response table can also be found on the website.
- > Our online report (http://sappi.investoreports.com/sappi_ar_2012/) follows the same structure as the printed report, but incorporates additional detail and includes a comprehensive Global Reporting Initiative (GRI) index which has links to relevant sections in the annual report, the Form 20-F and previous sustainability reports.
- >  Group website – www.sappi.com

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

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

For information on the combined assurance model relevant to the disclosure in this report, and for the external audit opinion, please refer to pages 72 and 99 respectively.

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

sappi Magno™ This report is printed on Sappi Magno™ Satin – cover 250g/m² and text 115g/m² and 150g/m².

Sappi Magno™ coated fine papers, manufactured at Sappi's European mills, are made from pulp bleached without the use of chlorine. The wood for this pulp is sourced from sustainably managed forests and plantations. The paper mills have ISO 9001 quality, ISO 14001 and EMAS environmental certification. Magno is acid-free and fully recyclable and biodegradable.

Cover photograph: Anton Oparin/Shutterstock.com

© Sappi Corporate Communications 2012.

contents

Group overview

Our strategy	2
Our key stakeholders	3
Our operations	4
Introduces our products and sets out the group structure, our operations and their assets, strategies and relative contributions	
How we performed in 2012	6
Provides integrated performance highlights for the year	
Letter to stakeholders from the chairman and chief executive officer	8
Reviews performance against objectives and the group strategy, and gives expectations for the year ahead	
Focus on growth and profitability	12
Q&A with the chief executive officer on matters of strategic importance to stakeholders	13
Focus on product development	15

Five-year review 44

Share statistics 46

Chief financial officer's report	48
Focus on paper	49
Chief financial officer's report	
A detailed assessment of the group's financial standing and results, followed by a regional business analysis	

Sustainability

Our process	16
Our key sustainability drivers	18
Discusses our material issues and key risk factors, and what we are doing in each case	
Focus on innovation	27
Our products	28
Sets out the share of sales, uses, demand trends and market dynamics for each of our product categories	

Governance and compensation

Focus on exceptional performance	66
Corporate governance	67
Summary of how Sappi applies the principles contained in King III	74
Stakeholder engagement report	81
Compensation report	83
Top risks	92
Social, ethics, transformation and sustainability committee report	94
Focus on local communities	95

Our leadership

Introduces our board and executive management team	30
--	-----------

Review of operations

Focus on low cost production	34
Sappi Fine Paper	35
Focus on skills development	39
Sappi Southern Africa	40

Annual financial statements 97

Glossary	183
Notice to the shareholders	187
Including shareholders' diary, administration and proxy form for annual general meeting	

Our strategy

Goal

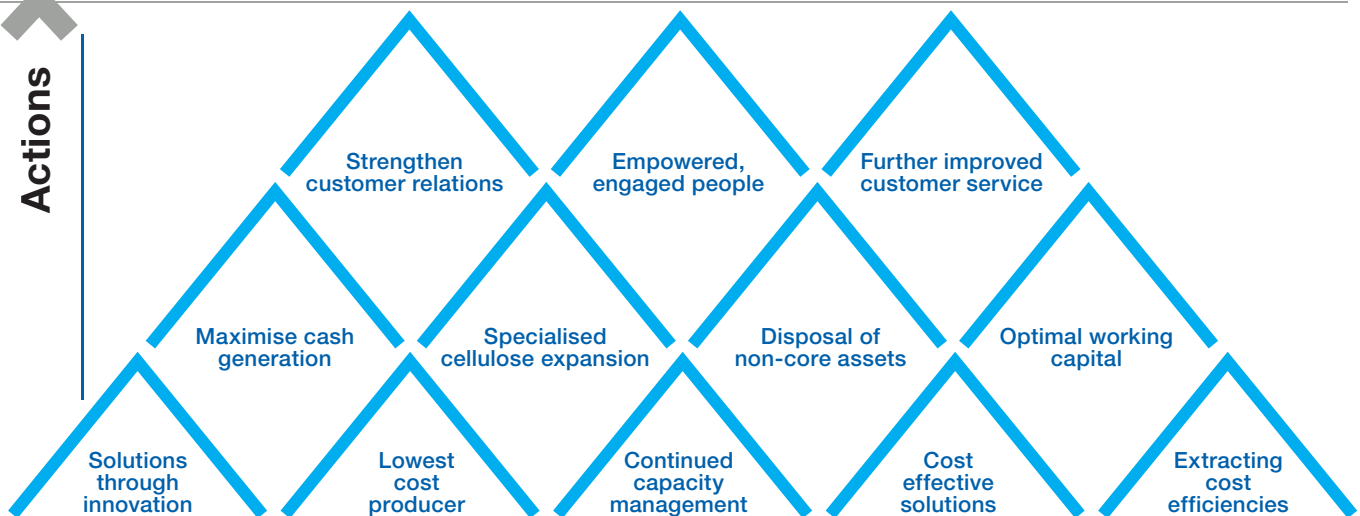
To be an exciting, growing and profitable leader in paper and specialised cellulose, providing value for our shareholders, people and customers by leveraging our resources effectively to create wealth.

Targets

ROCE **>15%**

Net debt/EBITDA excluding special items
>1.5 and <2.0

Actions



Themes

1

Grow our Sappi specialised cellulose business

2

Further optimise and improve the profitability of our paper businesses

3

Reduce debt, strengthen balance sheet and resume paying dividends

Values

integrity

excellence

respect

resourcefulness



2012 was a year that positioned us well for the tough business environment that's likely to continue in 2013; and for us to significantly improve performance in 2014 and beyond.

Our key stakeholders

Shareholders

20 asset managers hold 85%
75% South African and
25% international institutions

Customers

Majority business-to-business model through merchants or direct to customers. Buying decisions influenced by: paper merchants, printers, publishers, corporate end-users, advertising agencies, designers, packaging, release and fibre (cellulose) converters. Southern Africa retail business model for uncoated office paper

Employees and contractors

14,000 employees in over 20 countries

Communities

Major employer in many remote or rural communities or small towns

Suppliers

Mix of local and global relationships with preference for long term value partnerships

Industry bodies

Participation in business and industry bodies, associations and campaigns

Governments and regulators

Interaction at local, national and regional levels to inform development of policy and regulations, coordinate social investment and support the sustainability of operations

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

Our operations

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



Sappi Fine Paper
North America
23% of group sales
 3 Mills, 4 Sales offices

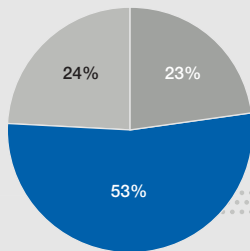
Our dissolving wood pulp products are used worldwide by converters to create viscose fibre for clothing and textiles, acetate tow, pharmaceutical products as well as a wide range of consumer products. Our market-leading range of paper products includes: coated fine papers used by printers, publishers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

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

Sappi Fine Paper
Europe
53% of group sales
 8 Mills, 16 Sales offices

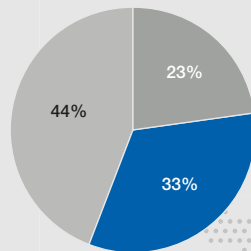


Sales by source
2012: US\$6,347 million



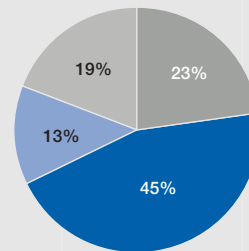
■ North America
■ Europe
■ Southern Africa

Operating profit excluding special items
2012: US\$403 million



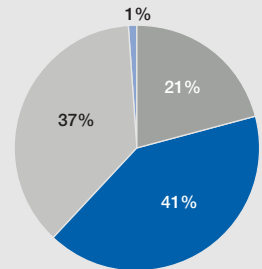
■ North America
■ Europe
■ Southern Africa

Sales by destination
2012: US\$6,347 million

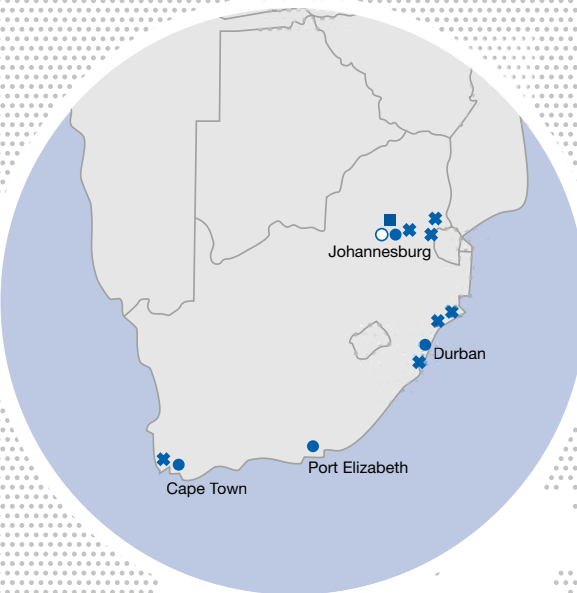


■ North America
■ Europe
■ Asia and other
■ Southern Africa

Share of group's net operating assets
2012: US\$4,320 million



■ North America
■ Europe
■ Southern Africa
■ Corporate



Sappi

Southern Africa

24% of group sales

Sappi

Paper and Packaging 5 Mills, 4 Sales offices

Sappi

Specialised Cellulose 1 Mill

Sappi

Forests 1 Sawmill, 554,000ha

Sappi Trading

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

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

Logistics offices Durban | New York

■ Corporate head office
○ Regional head offices
✱ Mills
● Sales offices

How we performed in 2012

2012 was a year of improved earnings despite challenging market conditions. Further actions were taken to position the group for enhanced shareholder wealth creation going forward.

The South African specialised cellulose business had another strong year, with improved operating efficiencies and continued strong demand for our products offsetting a weaker average price for our products. The investments in expanding the group's dissolving wood pulp capacity at our mills at Ngodwana and Cloquet are progressing well and remain on track for start-up in the third financial quarter of 2013.

Our European business is benefiting from the actions taken over the past two years to reduce costs, and realised a marked improvement in the operating margins in a tough market. This business continues to generate a significant proportion of the group's free cash flow and we believe the business is now well placed to continue generating improved margins going forward.

The North American business saw continued good coated paper sales and margins, but was negatively impacted by lower average pulp prices and weak global economies affecting our release paper business when compared to 2011.

In the Southern African paper business the restructuring plans announced during 2011 were implemented during the course of the year and helped the business reduce the operating loss, excluding special items experienced in 2011 and bring the business close to a break-even position.

We refinanced US\$700 million of high cost debt during the year, resulting in a significant improvement not only in the maturity profile of our debt, but also in our on-going finance costs.

Net cash generation
US\$127 million

Operating profit
(excluding special items)
US\$403 million

9.3% reduction in
specific purchased energy

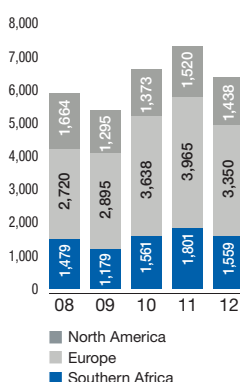
Net debt down to
US\$1,979 million
(a year ahead of schedule)

Cash on hand
US\$645 million

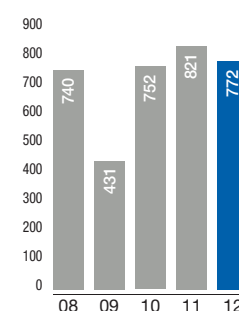
EPS 20 US cents
(2011: loss of 45 US cents)

Financial highlights

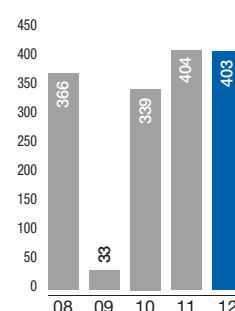
Sales
(US\$ million)



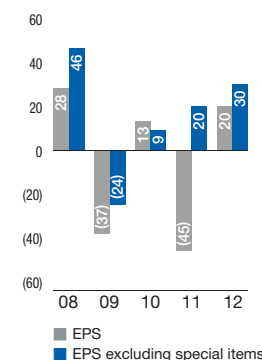
EBITDA excluding special items
(US\$ million)



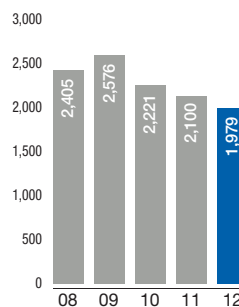
Operating profit excluding special items
(US\$ million)



EPS and EPS excluding special items
(US cents)



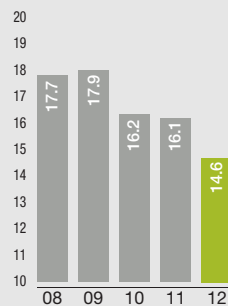
Net debt
(US\$ million)



Loading dissolving wood pulp for export at Durban harbour in South Africa.

Non-financial highlights

Specific purchased energy
(GJ/adt)

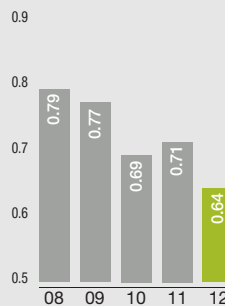


The term 'specific purchased energy'¹ is the energy that is purchased by the mills and excludes 'own energy' such as black liquor², bark and sludges, and is expressed in terms of air dried tons of product produced. The definition has been refined to conform more closely to the GRI requirements. Purchased energy is thus calculated on the energy value of fuel used to produce it. The definition has been refined to conform more closely to the GRI requirements. Purchased energy is thus calculated on the energy value of the fuel used to produce it. There has been a steady decline since 2008 with the largest decrease for 2012*. In Europe there were energy efficiency improvements in all mills. In North America, Westbrook Mill purchased less coal due to reduced power sales; Somerset Mill used more renewable fuel due to increased black liquor solids burning and dryer purchased biomass. Cloquet Mill also used more renewable fuel than prior years.

In South Africa, purchased energy decreased significantly in 2012 as manufacturing efficiencies at Saiccor Mill improved and the mill increased the percentage of own renewable fuel (black liquor) generated. The partial curtailment of pulping operations at Tugela Mill and complete mothballing of pulping operations at Enstra Mill also contributed to the decrease in purchased energy. Ngodwana Mill also generated more electrical energy from renewable resources in 2012, thereby reducing the amount purchased from Eskom.

For definitions on ¹ and ² see page 183.

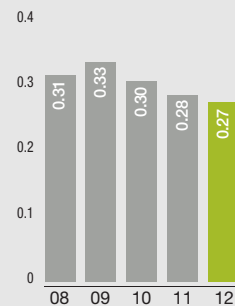
Scope 1 emissions
(ton CO₂ eq/adt)



*The decrease in Scope 1 emissions can be attributed to the following: In Europe, Gratkorn and Kirkniemi Mills reduced natural gas demand and increased their use of biofuel. In North America, Westbrook Mill improved significantly due to less coal burned. In South Africa, improved manufacturing efficiencies and increased use of black liquor at Saiccor Mill resulted in reduced purchases of fossil fuel.

> Scope 1 GHG emissions are emissions from sources that are owned or controlled by the reporting entity.

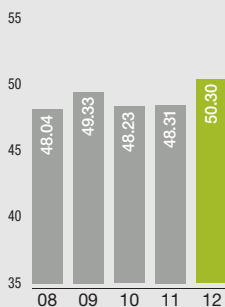
Scope 2 emissions
(ton CO₂ eq/adt)



*The decreasing trend apparent from 2009 was maintained. In South Africa, the decrease is attributable to the mothballing of pulping operations at Enstra Mill which meant a reduction in purchased power, improved manufacturing efficiencies and increased use of own fuel (black liquor) at Saiccor Mill which also led to a reduction in fossil fuel purchases. Ngodwana Mill generated more electrical energy in 2012 and therefore reduced the amount imported from Eskom, which is largely fossil based.

> Scope 2 GHG emissions are emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity.

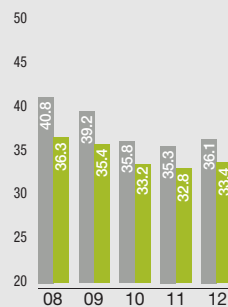
Renewable energy to total energy
(%)



All mills increased the use of renewable energy compared with 2011.

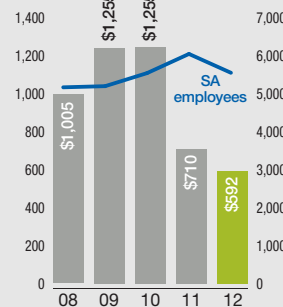
The closure of Biberist Mill in 2011 contributed to the improvement in Europe. Less power from the gas turbines at Kirkniemi and Gratkorn Mills was used as more power was bought from the grid, and the proportion of biofuels increased. (In the countries where these mills are situated, bought-in power contains biofuels.) In North America the most positive contribution was made by Somerset Mill, attributable to the recent rebuild of the recovery boiler. In South Africa, Saiccor Mill decreased fossil fuel usage by increasing the solids content of black liquor. Ngodwana Mill increased bark and black liquor usage.

Process water and water returned
(m³/adt)



The overall downward trend apparent from 2008 was maintained with a slight increase noticeable for 2012. Performance in Europe and North America was relatively stable. In South Africa, water drawn from the environment used in the manufacturing processes showed an increase due to Saiccor Mill experiencing high turbidity in incoming raw water. Globally, 92% of the water drawn is returned to the environment after being treated.

Training and development spend per employee
(US\$)

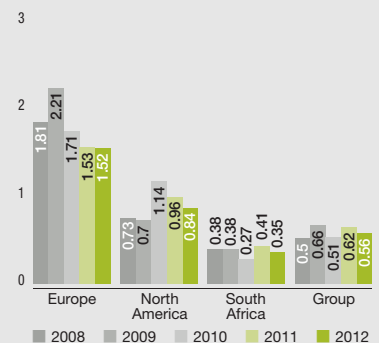


During 2011 and 2012 we embarked on major business restructuring in the European and South African businesses which resulted in headcount reductions and cost saving initiatives.

Despite the tough business environment, the investment in development skills to ensure sustainability has continued to be a priority. The focus has been on:

- > Creating a safe work environment;
- > Ensuring compliance;
- > Continuously developing the existing skills base for operational efficiency;
- > Developing employees for the future; and
- > Upskilling employees for the new dissolving wood pulp production units, due to come on stream in 2013.

Lost time injury frequency rate
(Own employees and contractors)



Tragically in our Sappi Southern African operations in 2012, there were two contractor fatalities in the year under review. The safety performance of employees improved in all three regions and the continued safety focus with our contractors has resulted in a noticeable reduction in lost time injuries.

The OHSAS18001 safety management system continues to be our foundation and structure with all paper mill sites maintaining their certification in 2012. Our behaviour-based safety (BBS) programme, together with the hazard identification and risk assessment process, has helped to identify task-specific hazards and risks, and also to quantify exposures and risk reduction activities. The output of the process has driven many physical enhancements and improved our safe work procedures. Going forward we will continue to focus on employee involvement and working with line supervisors to further embed a positive safety culture.

* To ensure consistency with the Carbon Disclosure Project, for 2012 we have excluded biogenic CO₂ emissions (emissions generated during the combustion or decomposition of biologically based material). These were previously included.

Letter to stakeholders

from the chairman and chief executive officer

Sappi returned to profitability in 2012. During the year we continued to implement our strategy which is focused on our low cost paper business, growing our high margin, specialised cellulose business and a healthier balance sheet.



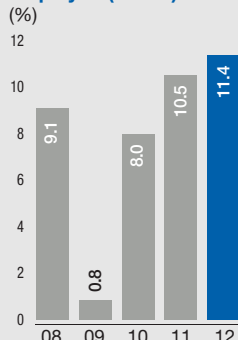
Ralph Boëttger – CEO

Danie Cronjé – Chairman

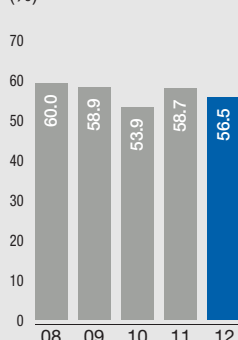
Market conditions were more challenging than expected with generally weaker demand and pricing compared to 2011. Despite the difficult operating environment, we generated an operating profit excluding special items equivalent to that achieved in 2011 and substantially improved earnings. Our improved performance was achieved through major interventions in our cost base, gains in operational efficiencies and a reduction in the cost of debt.

From a regional perspective, Sappi's European business delivered a much improved operating result for the year in a market that remains challenging and where demand continues to decline as expected. The actions taken to further improve customer service, reduce costs and increase efficiencies have greatly benefited this business. Sappi's North American business was characterised by a particularly good performance in coated paper. Pulp prices were, however, under pressure and this negatively impacted our pulp sales margin, resulting in a lower operating result for

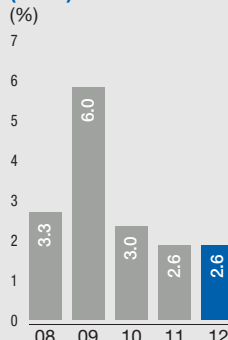
Operating profit excluding special items to capital employed (ROCE) (%)



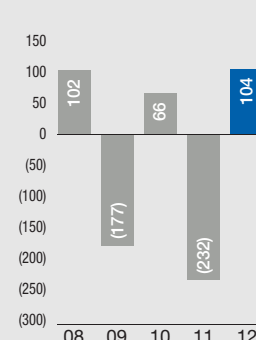
Net debt to total capitalisation (%)



Net debt to EBITDA excluding special items (times)



Net profit (loss) (US\$ million)



performance

the region as a whole. The Southern African business performed reasonably well on the back of another good result from our specialised cellulose operation. The paper operations made important progress in lowering its cost base and becoming a more competitive player in the local market. Returns, however, are not yet at targeted levels and further improvements are being made.

Cash generated after finance costs and taxation, as well as after capital expenditure, which has started to accelerate due to the two specialised cellulose investment projects, was US\$127 million. We were able to further reduce our net debt to US\$1,979 million, achieving our short term target of reducing net debt to below US\$2 billion, a year ahead of schedule. Our maturity profile and cost of debt is much improved following the successful refinancing activities conducted during the year. At year end we had cash on hand of US\$645 million and undrawn committed revolving credit facilities of €350 million (US\$450 million).

The benefits of the initiatives undertaken and implemented over the past two years have not only enabled us to generate improved earnings and reduce our debt in these tough market conditions, but have also positioned us well for further improvements on returns going forward and to take advantage of any recovery in our major markets.

Strategic review

During the past year we refined our strategy further, with the overarching aim of accelerating our drive towards increased profitability, earnings growth and a stronger financial position.

Our refined strategy now encompasses three main themes:

1. Focused, low cost paper businesses with reasonable margins and strong cash flows.
2. Growth in profitable specialised cellulose based solutions.
3. A healthy balance sheet.

We aim to generate at least 60% of operating profit from higher margin and growth businesses including specialised cellulose, and believe we can do so consistently within the next two to three years. We expect to achieve this goal taking into account our expectation that the profitability and margins of the paper businesses will also improve during this period.

We expect demand in the coated graphic market in developed countries to continue to decline, while the developing world and global demand on the whole will continue to show an increasing demand trend. We are not aware of any new significant coated paper capacity coming to market, although overcapacity remains a reality. This situation is expected to improve over time as a result of actions taken by both ourselves and, hopefully, by other players in the industry.

We are encouraged by the continued good performance from our North American paper business and the improvement in our European and Southern African paper businesses.

We believe that our strategy of focusing on improved efficiencies, cost competitiveness and capacity management as well as best in class customer service will generate reasonable net profits as well as strong cash flows from these businesses for years to come.

The current initiatives for the further advancement of our three strategic themes are outlined below.

A focused paper business with strong cash flows

Our actions to reduce the cost base in all our paper operations via the closure of higher cost mills and machines, increased efficiency, product simplification and rationalisation, as well as disciplined capital expenditure control, have enabled us to improve margins and generate strong cash flows from these businesses despite challenging market conditions. We will continue to follow this strategy.

We also announced the conversion of Paper Machine 2 at our Alfeld Mill in Germany from coated woodfree paper production to coated speciality packaging papers. This conversion addresses our highest cost graphics capacity in Europe, and further reduces this capacity. The investment also enables us to grow our sales in a market segment with more attractive growth prospects and higher margins. The conversion is scheduled to take place at the end of fiscal 2013.



Sappi's quality paper grades are used in the production of publications such as premium magazines, catalogues, brochures, books and annual reports.

Letter to stakeholders continued

Our North American coated business continued to perform well, with improved margins driven by a focus on strategic growth segments and customers within our markets. In 2012, we invested US\$13 million in upgrades to Paper Machine 3 at our Somerset Mill to further leverage our capabilities and efficiencies in these markets.

The restructuring of our paper operations in South Africa resulted in the lowering of their cost base and the simplification of the product range. The focus in the coming year will be on aligning more closely with our customers and on continued efficiency and cost optimisation.

Growth in specialised cellulose

We are the global leader in dissolving wood pulp production with 800,000 tons of capacity at our Saiccor Mill in South Africa. The product is used in the textile, consumer goods, food and pharmaceutical industries. This business has historically been a high growth and high margin business. This growth is expected to continue, if not accelerate, as a result of a number of market dynamics in the textile and agriculture industries, as well as demographic trends. Our leading market position and lowest quartile cost structure from our new expanded capacity will position us well to take advantage of this growth and to generate continued good margins.

The investments at our Ngodwana Mill in South Africa and at our Cloquet Mill in the USA to produce 210,000 tons and 330,000 tons of dissolving wood pulp a year respectively are progressing well. Both projects are on track to start up in the third financial quarter of 2013. We have secured customer commitments for a substantial portion of the increased capacity with medium to long term contracts.

A healthy balance sheet

Our strategy seeks to find a balance between growth and debt reduction. In the past year, despite accelerating capital expenditure as a result of the two investments in specialised cellulose, we have achieved a further reduction in our net debt. We aim to keep net debt in a relatively narrow range in the coming year as we complete these investments. The successful refinancing of our 2014 bonds has resulted in a significant reduction in our interest cost and has extended our maturity profile, giving us more flexibility over the next five to seven years to implement our strategy. Beyond the short term target of keeping our net debt below US\$2 billion at the end of financial year 2013, we look to maintain a Net Debt to EBITDA ratio of between 1.5 to 2.0 times.

In the past year we disposed of assets such as our Adamas and Biberist Mill sites, which were closed in the last two years, as well as our Chinese joint venture (Jiangxi Chenming Paper Company) which we acquired in 2004. Collectively these disposals have raised nearly US\$100 million in cash.

Looking forward

Given continued uncertainty in global financial markets, questions around the timing of any economic recovery in our major markets, we expect trading conditions to remain challenging for the next 12 months. We expect demand for coated paper in Europe and North America to continue to decline, on average, by 2 – 3% per annum over the medium term, but anticipate continued growth in demand from the developing world, which will assist in exports from both Europe and North America. Our strategy for our paper businesses is aligned with these market dynamics.

Demand for dissolving wood pulp in our specialised cellulose operations is expected to continue to grow in the coming year and beyond. Sappi, as the global leader, particularly with its low cost base and additional capacity, is well positioned to take advantage of this growth.

Pulp prices appear to have bottomed, but our expectations are for only modest increases in pulp prices for the coming year, resulting in lower average pulp prices in 2013 than we experienced in 2012. This will negatively impact our North American and Southern African businesses, which are net sellers of pulp, but will have a favourable impact on our European business which is a net buyer of pulp.



Print is particularly effective at reaching certain niche markets, including wealthy consumers (footnote 5 page 24).

The restructuring of our paper operations in South Africa resulted in the lowering of their cost base and the simplification of the product range.

Currency movements affect margins in our various regions, having both transactional and translation impacts. Our Southern African businesses are particularly sensitive to the value of the Rand in relation to the Dollar. All other factors being equal, a 10 cent weakening in the Rand adds US\$9 million to the group's operating profit per annum. The European paper business is also impacted by the strength of the Euro. In the short term our US Dollar priced exports match our US Dollar priced pulp imports, but over a sustained period a weaker Euro favours the pricing of coated paper within Europe.

Input costs are expected to remain generally flat as the continued global economic weakness is reflected in commodity prices. We are, however, continuing to focus on reducing the costs of our major inputs, which are wood, pulp, chemicals and energy. We are addressing this through more efficient procurement, product composition and increasing operational efficiencies.

Additional downtime, variable costs and paper pulp purchases during the start-up phase of the Ngodwana and Cloquet projects are expected to have a once-off negative impact of approximately US\$40 million in the 2013 financial year.

We expect a modest cash outflow for the year ahead due to increased capital expenditure on strategic investments. We expect our finance costs to be substantially lower following the refinancing in 2012 and for net debt to end the year essentially flat year-on-year.

Provided that there is no further deterioration in global market conditions, we expect to continue the improving trend in earnings growth, with the once-off negative operational impact of the conversion projects and the expected lower pulp prices being offset by the lower finance costs.

The actions we have taken in all our paper businesses over the past two years, and the strategy of investing in higher margin, higher growth businesses such as specialised cellulose will, we believe, enable us to continue to improve our ability to generate shareholder value in the coming year. Importantly this will also position us for accelerated growth in the years to come.

The principal risks that could affect our achievement of these strategic goals and financial objectives are discussed on pages 92 to 93.

We remain committed to our goals of accelerating improved returns, a stronger balance sheet and creating shareholder value.

Appreciation

We would like to thank our wide groupings of stakeholders for the many ways in which they contributed and supported our development during the past year.

Our customers have once again given us strong support during this period of investment and rationalisation of our product and asset portfolio. We continue to work together with our customers to provide relevant products and services which provide sustainable value to all parties.

Our employees have demonstrated continued belief in our strategy and have shown commitment to and pride in their work, embracing the values and ethics of our company. During the course of the year some of our colleagues regrettably lost their jobs as a result of the restructuring initiatives, and this was painful for them, their families and communities. The cooperation between management, employees, unions and government was important in making these restructuring efforts as effective as possible. We thank each and every Sappi employee for that.

We express our appreciation to the board for its continued encouragement, support, guidance and insight in these important times for the group.

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

Professor Meyer Feldberg, the lead independent director, will retire from the board at the end of December 2012 after almost 12 years' service. He played a valuable role, not only in the affairs of the board, but also as chairman and as a member of both the nomination and governance committee and the human resources and compensation committee (formerly the compensation committee). We thank him for his valuable contribution which will be missed. Sir Nigel Rudd will succeed Professor Feldberg as lead independent director from 07 January 2013.

We thank two members of the executive committee who retired in the last year for their services and contribution to the group. Mark Thompson, the chief financial officer and previously group counsel, retired at the end of August 2012 after 13 years at Sappi. Robert Hope, group head strategic development, who joined Sappi in 1977 and helped guide Sappi through its growth from a purely South African forest products company to a global leader in coated paper and specialised cellulose, retired in June 2012.

We thank our shareholders for their support, particularly as we continue to position the group for the future, and look forward to their participation at the annual general meeting on 06 February 2013.

Danie Cronjé
Chairman
10 December 2012

Ralph Boëttger
Chief executive officer



sappi

Inspired by life

Focus on **growth and profitability**

Many people believe woodfibre is only used to make paper. What they do not realise is that many products they use contain cellulose, or dissolving wood pulp, as a key component. Sappi is the world's leading producer of dissolving wood pulp, mainly used to create viscose staple fibre for clothing and textiles. Sappi's conversion projects at its Ngodwana Mill in South Africa and Cloquet Mill in the USA will increase the company's capacity from 800,000 tons to 1.3 million tons in this rapidly growing and high margin business which forms a key component of the company's strategy for growth and profitability into the future.

Q&A with Ralph Boëttger

– chief executive officer



Q: Are you satisfied with the performance and delivery against your strategy in the past year?

A: We have made good progress with the execution of our strategy. Sappi returned to a net profit of over US\$100 million for the year and reduced net debt to below US\$2 billion. Our European business has made substantial progress in improving its margins and profitability, and the specialised cellulose and North American businesses continued to perform well given the impact of lower pulp sales prices. We have also been able to significantly improve the maturity profile and reduce the cost of our debt in the past year. This was achieved in tough economic and market conditions. The investments in the two specialised cellulose projects at Ngodwana and Cloquet are progressing well. There are still areas that require further improvement and attention. The South African paper business, although improved,

Our strategy is relevant, clear and simple. It is to ensure that we have a focused paper business with strong cash flows and good profitability, to achieve profitable growth in specialised cellulose and have a healthy balance sheet.

needs to make further strides towards greater profitability. Further cost reductions and efficiency improvements remain focus areas in all our businesses.

Q: Sappi is not the only company that announced capacity additions into the specialised cellulose market. Is this cause for concern? How will Sappi compete in what could be an oversupplied market?

A: We have witnessed actual and announced additional capacity, but we have also seen a tempering of expectations and a slowdown in capacity additions by some new entrants. Given what we know today, we do expect a period of some excess capacity in the next two to three years as demand grows to match supply. We believe that we have a substantial competitive advantage in terms of cost, particularly for woodfibre, and as a result of the scale of our operations. We are also well placed from a cost perspective for deliveries to our major markets. Our experience and know-how in the manufacture of dissolving wood pulp, where our customers require a high level of reliability, differentiation, consistency and specialisation, is also a key differentiator. We have concluded multiple long term supply contracts with key customers in Asia, Europe and elsewhere in addition to the existing contracts for the dissolving wood pulp from our Saiccor Mill in South Africa. Consequently, almost all of Sappi's existing and new dissolving wood pulp production capacity is secured at prices that we believe will continue to generate good margins.

Q: How confident are you that your paper businesses, which are mostly in difficult and declining markets, will be able to produce reasonable returns in years to come?

A: Demand for coated paper is declining in more mature markets, specifically in North America and Europe, yet continues to grow in emerging economies. Globally, the net effect is marginally positive. Over capacity remains a concern in the European market, despite significant action by ourselves and other industry players in the last four years. North America and Europe are the two largest markets for coated paper, and we have made very good progress to ensure we have low cost, efficient and focused operations in those regions and that we can continue to profitably service those customers for many years to come. We continue to grow and optimise our paper businesses in the packaging and specialised markets in which we operate. Looking forward, we intend to continue improving our cost base, efficiencies and customer service, and matching capacity with demand.

Q&A with Ralph Boëttger – chief executive officer continued

Q: With the large increase in capital spending on the specialised cellulose projects, how do you expect to meet your reduced debt targets?

A: Our businesses have always been strong cash generators. With a sound business strategy, tight working capital and capital expenditure management as well as a continued focus on cost control and improved efficiencies they will continue to do so. The increased capital expenditure during the next year will also be offset to some extent by a reduction in cash interest costs of approximately US\$30 million per year as well as further cost savings. We may also have additional sales of non-revenue generating assets. We are confident that our debt targets are realistic and attainable. During the next year we expect debt to be slightly higher than where we ended 2012, but for net debt to end the year essentially flat year-on-year. Once the conversion projects are completed and running at design capacity, we aim to reduce our Net Debt to EBITDA ratio to a range between 1.5 to 2 times.

Q: There appears to be growing political, social and economic uncertainty in South Africa at the moment. How are you dealing with these issues?

A: To date the effect on our South African operations has been limited to disruptions to inbound and outbound logistics as a result of the road transport strikes. The effect of these disruptions was largely mitigated by actions we were able to implement, albeit at some additional cost. It is critical that we continue to communicate with our employees, unions, customers, suppliers and the communities in which we operate. We have good relationships with our stakeholders and we continue to listen and interact wherever possible to address their concerns and to work together to unlock potential new opportunities. We engage where appropriate with relevant government departments on various aspects of our business in South Africa. The investment in dissolving wood pulp capacity at our Ngodwana and Cloquet Mills provides geographic diversification of risk, which is important to our customers. Finally our actions in the Southern African paper businesses to match assets with market requirements, together with our Ngodwana investment also places us in a position to offer more sustainable work opportunities.

Q: What is your main focus for the coming year?

A: 2013 is an important transitional year for us. We have achieved much in the past two years in terms of reducing cost and improving the margins in our paper businesses. In the coming year the focus is on continuing that momentum but, most importantly, on achieving the goals we set ourselves in regards to our specialised cellulose expansion projects. Both projects are progressing well and should start up on time. We need to ensure this happens, that we supply the contracted volumes to our customers, and that these volumes are of the consistent high quality for which we are known.

Q: Are you still confident that your strategy is sound, and how do you see Sappi's performance going forward?

A: Our strategy is relevant, clear and simple. It is to ensure that we have a focused paper business with strong cash flows and good profitability, to achieve profitable growth in specialised cellulose and have a healthy balance sheet. The year ahead is an important year for us and, at the same time, it is expected to be a challenging year in terms of the economic environment. It is important that we successfully complete the two specialised cellulose projects, maintain our momentum of improved profitability and contain our debt at the same time. Looking ahead I am confident that we have put in place the right plans and that we have highly motivated, committed and competent employees who will enable us to deliver on our strategy. Through this strategy, and as the world economy improves, I expect us to deliver good returns and exciting growth in the near future.

Q: What is Sappi's approach to sustainability and what do you see as the key risks?

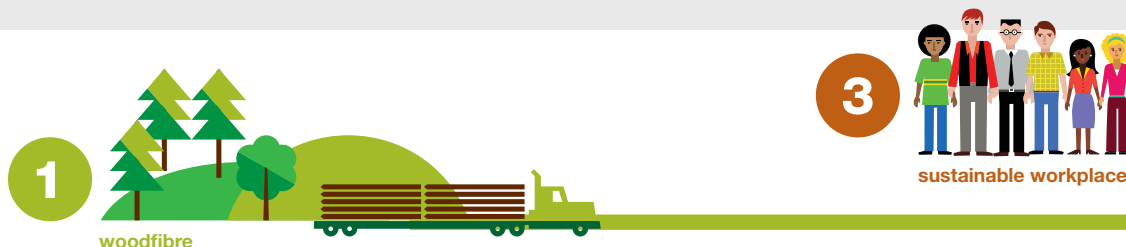
A: By understanding the environmental, social and financial interactions that occur in our business on a daily basis, and through the measurement and management of these interactions we can improve the performance of the business, lessen any negative impact on the world around us, generate value for our stakeholders and offer a secure and rewarding workplace to our employees. Sustainability is not merely about the reporting of statistics, but the management of risks, whether by mitigation or positive action, to secure long term profitability. These risks are dealt with in more detail in our sustainability review elsewhere in this report, and include our use of energy, water and fibre, the safety of our employees, our impact in the communities where we operate and how we deal with opportunities to grow the business.



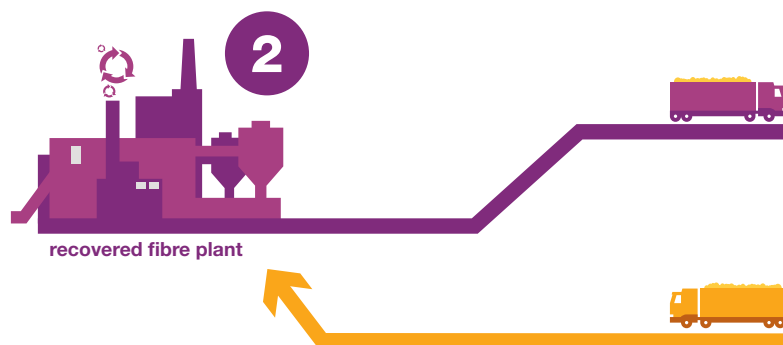
Focus on product development

Product development ensures that Sappi remains relevant to its existing customers and can attract and develop new customers. As customer requirements have changed, so too has Sappi's product portfolio. The introduction of digital printing is one such example and customer requirements for improved surfaces for packaging printing is another. Sappi Fine Paper Europe's Jaz Silk digital paper was recently nominated for a global PPI Award from RISI, the leading global information provider to the industry, and its Fusion premium white topliner designed for lamination onto corrugated board received the PPI Award for advanced innovation in speciality papers. Fusion is especially attractive for brand owners requiring high shelf impact for applications from displays to packaging for consumer electronics, bag in box and pet food.

Our process



One of the greatest benefits of our paper and paper packaging and specialised cellulose solutions is that the woodfibre from which they are derived is a sustainable, renewable resource.



1

Woodfibre

Our woodfibre is grown in sustainably managed forests (North America and Europe) and plantations (South Africa). We use independent, internationally accredited forest certification systems including PEFC*, FSC™**, and SFI®***. These internationally recognised, independent auditing procedures mean that it is possible to trace our virgin fibre from source to end product.

Globally, approximately 70.2% of the fibre we procure is certified, with the rest being procured from known and controlled sources. We do not source from old-growth or endangered forests anywhere in the world.

Non-certified pulp and fibre

In terms of non-certified fibre, wood/pulp is sourced from known and trusted suppliers close to each mill, regularly visited by our buyers. Certification requirements are incorporated into our purchasing specifications and contracts and are in line with our ISO 14001 accredited purchasing policy.

Mitigating climate change

The sustainably managed forests and plantations from which we source woodfibre, help to mitigate climate change. They do this by absorbing carbon from the atmosphere.

2

Sappi and recovered fibre

Sappi specialises in the manufacturing of high quality coated printing papers – something not easily accomplished with high recovered fibre content. There is some confusion in the marketplace as to why uncoated papers can be manufactured with very high levels of post-consumer waste content, yet coated papers, such as those manufactured by Sappi, often cannot.

For the same weight of coated paper vs uncoated paper, the coated papers have more clay and less fibre which reduces their strength.

Adding recovered fibre reduces the strength even further which can affect the runnability of paper on a printing press. A constant input of virgin fibre into the manufacturing of high quality papers will always be necessary because recycled wood fibres are typically worn out after five to eight cycles, depending on the type of fibre and products recycled.

Regional recycling rates

Recovered fibre is a locally and globally traded commodity. In Europe, North America and South Africa, the recovery rates of paper consumed are 70.4%, 66.8% and 60% respectively.

3

Sustainable workplace

Our pulp, paper and dissolving wood pulp solutions touch the lives of millions of people around the world; create direct employment for approximately 14,000 people and indirect employment for thousands of others; have a positive impact on communities and generate significant economic benefits.

Through best practice training programmes, our focus is on equipping our people with the skills that help promote their own development and help us build a worldclass organisation.

Safety is a top priority throughout our operations and is driven by our global safety programme Project Zero.

Through our corporate social responsibility programme, we invest in the socio-economic development of the communities in which our operations are situated.

4

Lean manufacturing

We use the principles of lean manufacturing to reduce energy, re-use resources and minimise waste throughout our mills.

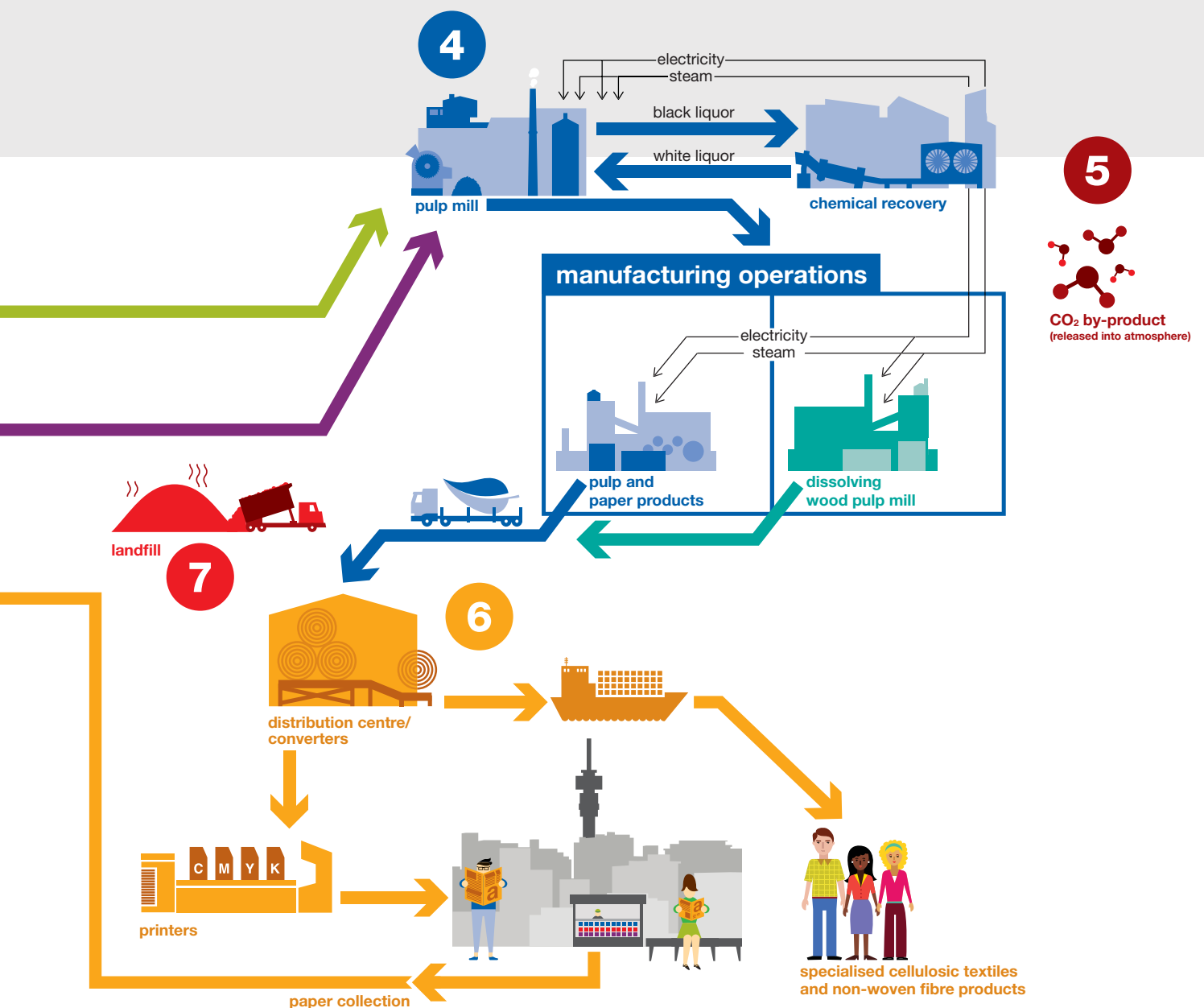
Pulp, paper and dissolving woodfibre

Some of our paper mills buy in pulp, while others are integrated (make both pulp and paper). The pulping process for paper involves the use of cellulose and hemicellulose in woodfibre for its physical properties. The pulping process for dissolving wood pulp, however, uses only cellulose for its chemical properties, making the process more expensive, but resulting in a highly specialised product with high added value.

Energy

Energy costs are rising significantly in each area where we operate. So too are concerns about greenhouse gases (GHGs) in the earth's atmosphere. Against this backdrop it makes sense to aggressively manage our energy usage and promote the use of renewable energy. Globally, 50.3% of energy used in our mills is derived from renewable sources. In addition, over five years our specific purchased (per air dry ton of pulp) energy usage has decreased by 19.6%.

* PEFC – Programme for the Endorsement of Forest Certification, ** FSC™ – Forest Stewardship Council™, *** SFI® – Sustainable Forestry Initiative.



4 continued

Water

Globally, we return approximately 92% of process water to the environment. Over five years our specific water usage has decreased by 10.5%.

Transportation

Throughout our operations we are focused on streamlining our transport processes. For further information go to our regional sustainability reports or our group online report available at

www.sappi.com.

5

Carbon dioxide

Our focus is on reducing our carbon footprint by improving energy use efficiency and decreasing our reliance on fossil fuels. We are achieving this by making process changes, installing more efficient equipment, reducing purchased energy (electricity and fossil fuel) and by increasing our use of renewable energy – an approach that ultimately results in a reduction in CO₂ emissions. Globally, over five years, Scope 1 (direct) and 2 (indirect) CO₂ emissions have dropped by 18.5%.

6

Our customers

Paper is transported to regional distribution centres, merchants and printers. Designers specify paper which printers convert into products such as books, magazines, brochures, bags and labels. The **dissolving wood pulp** we produce at Saiccor Mill accounts for 15% of global demand and is exported from South Africa to markets mostly in Asia and Europe. We will increase capacity by 63% in 2013. Our dissolving wood pulp is used in the manufacture of cellulosic textiles and non-woven fibre products used in the fashion, pharmaceutical and consumer markets.

7

Landfill

Decomposition of organic materials in landfills can generate methane, a greenhouse gas with a global warming potential of approximately 25 times higher than CO₂. Recovering and recycling paper and board helps to minimise the emissions associated with landfill. Over five years the amount of solid waste we send to landfill offsite has decreased by 31.4%.

Our key sustainability drivers

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

Employees

Sappi's relationship with employees and their representatives is a key business driver. Protecting the right to freedom of association and collective bargaining is fundamental to the manner in which Sappi does business. Approximately 62% of our workforce is represented by unions. We firmly believe that, in common with all organisations, the success of our business depends on our employees' levels of engagement and commitment to the company.

South Africa

Labour relations

Employees in our Southern Africa operations are represented by four trade unions, with union representation standing at 48%. Most of the union members in this region are blue collar workers and artisans. Our wage negotiations with recognised trade unions take place at the Pulp and Paper and Sawmilling Chambers under the auspices of the Bargaining Council for the Wood and Paper Sector in South Africa, and our agreements are generally annual.

The complexity of the work environment in this region is impacted by various legislated labour requirements. Against this backdrop, we have established a number of forums with our shop stewards and trade unions with a view to sharing information and discussing matters of mutual interest as well as working together on matters that pertain to Sappi specifically and not to the industry as a whole. These forums include:

- > The National Employment Equity and Skills Development Forum which meets quarterly and is attended by union officials from three unions, shop steward representatives and management representatives. The primary focus of this forum is to mutually agree on the Employment Equity Plan and Workplace Skills Plan submitted to the Department of Labour and to the Fibre Processing and Manufacturing Skills Education Training Authorities.
- > Shop Steward Forums at each mill which meet with management to discuss mill-specific work issues and conditions.

**Investing
US\$4.3 million**
in training and
development
in South Africa

**Investing
US\$1.5 million**
in corporate social
responsibility projects

**Committing
US\$16.7 million**
to enterprise
development

**62% of employees
represented by 21 unions**


- > The Partnership Forum, a joint union and Sappi senior management forum that meets quarterly to share information on business performance, strategy direction, industry developments and union priorities.

Shortly after year end, Sappi Southern Africa announced plans to mothball Paper Machine 4 (PM4) at Tugela Mill. Consultation with the unions has begun and, in line with the required legal framework, a section 189A filing has been submitted to the Commission for Conciliation, Mediation and Arbitration.

Transformation

As a company headquartered in South Africa, with significant assets and people in the region, Broad-based Black Economic Empowerment (BBBEE) is an important component of our reputation and licence to trade. We see BBBEE as pivotal to economic and social stability and hence to the sustainability of South Africa.

The Forest Sector Charter was published in the Government Gazette in June 2009 as the 'Forest Sector Code'. This charter applies to all enterprises involved with commercial forestry and the first level processing of wood products. Our South African businesses are signatories to this charter via their membership of both Forestry South Africa (FSA) and the Paper Making Association of South Africa (PAMSA). The charter sets the objectives and principles for BBBEE, and includes the scorecard and targets to be applied within the industry, as well as certain undertakings by the government and the private sector (or South African forestry companies) to assist the forestry industry to achieve its BBBEE targets. With effect from calendar 2010, our South African businesses were evaluated against the Forest Sector's BBBEE scorecard.

 Further information related to our BBBEE progress and transformation initiatives can be found in the 'Frequently Asked Questions about BBBEE' document available on www.sappi.com.

h1>commitment

Europe

Our European employees are represented by 13 trade unions. Membership of the unions in Europe comprises both blue and white collar employees. Of all the regions in which Sappi operates, Europe is the most unionised, with membership of the bargaining unit standing at approximately 77% of the workforce.

Negotiations occur at the various country and industry-specific Collective Labour Associations, and the contract terms range from one to two years. The labour framework in Europe consists of Works Councils and collective labour agreements and differs from country to country.

The European Works Council meetings take place twice a year and representatives meet with the leadership of Sappi Fine Paper Europe to share information and consult on topics of interest, including market developments and macro-economic effects, as well as industry and organisational changes. Within the collective labour framework, Sappi is represented by industry employer representatives.

North America

In North America, 63% of our workforce is represented by 11 collective bargaining agreements covering each of the plant sites. The majority of our hourly employees – generally production unit employees – are represented by the United Steelworkers (USW) union, but employees are also represented by various craft, guard and railroad unions. In this region, labour agreements are usually for three years.

In addition to meeting with local union leadership for the purposes of bargaining contracts and resolving grievances, the company relies on local unions to help with safety and wellness initiatives, as well as various forms of community outreach. On a national level, the unions have been a valuable partner in terms of lobbying and government affairs on issues of importance to the paper industry. During 2009 and 2010, Sappi and two other industry companies worked with the USW to bring a successful trade case protesting the dumping and subsidy practices of Chinese and Indonesian paper manufacturers.



Paper pulp used in making coated paper.

Our key sustainability drivers continued

Safety

“While the overall safety improvement is encouraging, I deeply regret having to report two contractor fatalities – one in Sappi’s forestry operations and one at our Tugela Mill in South Africa. Our sympathies go out to the families of the deceased. We view contractor safety as being as important as that of our own employees and our focus, throughout all operations, is on trying to realise the goals of our Project Zero safety programme so that all employees can go home safely to their families at the end of every day.”

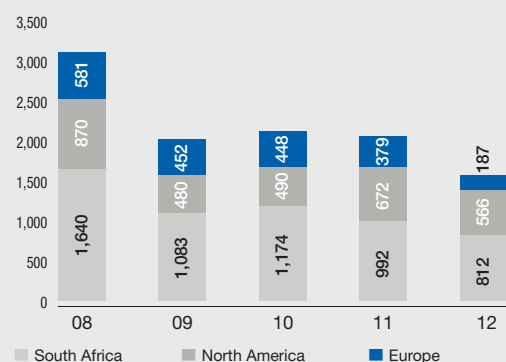
Ralph Boëttger

Chief executive officer, Sappi Limited

The goal of our safety programme, Project Zero, is to eliminate fatalities and lost time injuries and achieve constant ‘front of mind’ safety awareness for all employees and contractors. We continue to seek improvements in our systems, procedures and, in particular, the safety awareness programmes. Our ‘Do you know what’s in your Safety Circle’ campaign has gained positive traction at all our operations. This programme, as well as a refocus on our behaviour based safety programme, was used as the theme for our Group Safety Awareness Day and proved to be an excellent safety motivational initiative. Despite a slight drop in performance in South Africa, we believe that ongoing, disciplined adherence to the processes in place will achieve more positive results going forward.

Further information on all the issues discussed here is available in our group online sustainability report and in our regional reports, available at www.sappi.com.

CSR spend per region
(US\$ '000)



South Africa
60% improvement
in eucalypt plantation
yield over 15 years

70.2% Globally our use of certified
fibre, with the balance procured from
known and controlled sources

South Africa:
8% improvement
in pine yield since
first rotation

Communities

A review of the alignment between certain Corporate Social Responsibility (CSR) programmes and our strategic priorities, coupled with our challenging operational environment, has led to a reduction in our overall CSR spend. However, our spend in South Africa again exceeded our regional target that CSR spend should represent 1% of Net Profit After Tax (NPAT). Given that we are headquartered in South Africa, which as a developing country has greater needs than the other regions in which we operate, the bulk of our CSR spend is allocated to this region.

Please refer to the glossary for an explanation of CSR and CSI. Further details are available in our regional sustainability report for South Africa, available at www.sappi.com.

In the year under review, we refocused our CSR policy and strategy to ensure greater alignment with community and business priorities. The majority of our funding goes towards:

- > Literacy and education with a particular focus on developing mathematics and science skills
- > The environment and conservation programmes with a particular focus on the natural resources and ecosystems on which our business depends
- > Health and welfare with a particular focus on the communities surrounding our operations, and
- > Community engagement and upliftment including projects to improve basic infrastructure and services as well as projects which improve community life.

h1>biodiversity

Sustainable fibre supply

Together with energy and water, woodfibre is the most important input into our production processes. Consequently, ensuring sustainable fibre supply is a key priority for our business.

Against the backdrop of increasing concerns globally about the deforestation of endangered tropical forests, the use of internationally recognised, independently verified forest certification systems gives us an important competitive edge. The forest certification systems we use include the Forest Stewardship Council™ (FSC™), Programme for the Endorsement of Forest Certification (PEFC) and Sustainable Forestry Initiative® (SFI®). Globally, our use of certified fibre stands at 70.2%, with the balance procured from known and controlled sources.

Europe

In this region we do not own plantations or land. Woodfibre is predominantly sourced from forests in the regions in which our mills are located. Softwood and hardwood pulp is sourced from Europe and the Americas. The main wood species used include spruce (used for mechanical pulp and softwood chemical pulp) and beech (used for hardwood pulp). Lanaken Mill can also process significant amounts of poplar. Market pulp species are predominantly eucalyptus, pine and spruce.

North America

As in Europe, in this region we do not own forest plantations or land. Wood is sourced from landowners and commercial loggers in the temperate forests of Maine, New Hampshire, Michigan, Minnesota and Wisconsin and from the Canadian provinces of New Brunswick, Quebec and Ontario. The tree species used in this region include maple, poplar, aspen, beech and birch (hardwoods) and spruce, pine and fir (softwoods).

In both Europe and North America, we mitigate fibre supply risk through a combination of approaches which include both short and long term wood supply agreements and shareholdings in wood sourcing cooperatives and companies.

Southern Africa

We source woodfibre from plantations (planted forests of exotic trees) of softwoods and hardwoods. In this region, owning, managing and leasing 554,000ha of land gives us a high degree of self-sufficiency in woodfibre. We supply approximately 70% of our own fibre requirements. In addition we are:

- > Investing around US\$7.5 million a year to rehabilitate our 52,000ha Usutu plantation in Swaziland, almost half of which was destroyed by fires in 2007 and 2008
- > Working with communities in the Eastern Cape to establish 30,000ha of plantations – a project in line with Government's goal of driving rural development

- > Promoting Project Grow, a small grower initiative, which currently supplies 2% of our total timber requirements – the value of the standing timber currently covered by the scheme is approximately US\$36 million
- > Assisting with land reform projects on which timber is grown
- > Mitigating the risk of climate change through our tree improvement programmes which have resulted in the development of hybrids, allowing us to closely match species to site and to a variety of climatic conditions including drought.
- > Lowering costs by improving yield:
 - Over 15 years, our research efforts have resulted in a 60% improvement in eucalypt plantation yield.
 - In our Usutu pine plantations we have maintained sample plots to allow comparison of four successive rotations of pine since the first rotation planted in the 1950s. The latest measurements taken in 2011 indicate an 8% yield improvement – consistent with the expectation from genetically superior planting stock and measures taken to maintain site productivity.
- > Since the devastating fires experienced in 2007 and 2008, we have implemented a more aggressive, extensive fire protection strategy. Risks are now managed via an integrated Fire Risk Management System comprising a comprehensive risk assessment, monthly compliance checks for monitoring, management procedures, standards, and general back-up information. We have also increased community participation in fire prevention activities.

Biodiversity


According to the Convention on Biodiversity, “biological diversity – or biodiversity – is the term given to the variety of life on Earth and the natural patterns it forms ... Biodiversity also includes genetic differences within each species – for example, between varieties of crops and breeds of livestock. Chromosomes, genes, and DNA – the building blocks of life – determine the uniqueness of each individual and each species.”

Biodiversity is key to the healthy functioning of the plantations (in South Africa) and managed natural forests (Europe and North America) from which we source woodfibre. Neither our plantations nor managed natural forests would be productive without biotic processes taking place. Both our plantations and managed natural forests are actively managed to enhance these beneficial processes and restrict harmful processes like pests and disease.

Our key sustainability drivers continued

Management of biodiversity takes place in terms of internationally accepted, independently verified forest certification systems PEFC, SFI® and FSC™, all of which make provision for effective biodiversity management. For example, Principle 6 of the FSC™'s 'Principles and Criteria', states: "Forest management shall conserve biological diversity and its associated values, water resources, soils, and unique and fragile ecosystems and landscapes, and, by so doing, maintain the ecological functions and the integrity of the forest". PEFC certification is dependent on forest biodiversity being "maintained or enhanced", while the SFI® guidelines stipulate the protection of biodiversity.

In the year under review, Sappi Forests undertook an analysis of the supply of ecosystems services from their landholdings and the importance of these to stakeholders.

 This is described in the expanded 'Key sustainability drivers' section of our group sustainability report, available at www.sappi.com.

Energy

As pulp and paper production is an energy-intensive process, the cost and availability of energy are key considerations for Sappi. Energy costs currently account for just under 11% of cost of sales. We mitigate this risk by focusing on reducing specific purchased energy, improving the energy efficiency of our mills, increasing our use of renewable energy and selling surplus electricity.

Renewable energy

We have a major advantage over other industrial companies in that globally, 50.3% of our energy is derived from renewable sources, namely: black liquor – a by-product of the pulping process, sludges (in North America and Europe) and biomass.

Sales of power

Many of our mills have excess power which we sell on to third-party customers. In FY2012, in Europe we sold 554,100MWh (1,994,700GJ) and in North America 130,230MWh (468,800GJ). In South Africa, the state power utility Eskom has established a scheme that allows independent power producers to supply power to the grid at levels higher than they would be charged for power. In South Africa, in FY2012 we sold 32,200MWh (115,941GJ) to Eskom, from Ngodwana Mill.

Emissions – regulatory developments

Our extensive use of renewable energy results in a high degree of energy self-sufficiency and lower levels of greenhouse gas emissions from fossil fuels. We believe that emissions from renewable energy should not be subject to carbon tax.

Europe

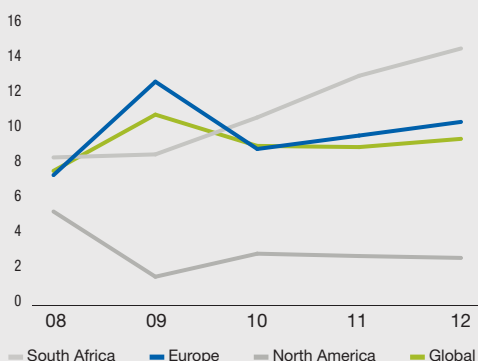
Carbon taxes

The carbon tax proposal formulated by the European Commission in 2010 has yet to be agreed to by the 27 member states. The current proposal by the European Commission would charge firms between €4 and €30 per ton of CO₂. Several European countries have enacted national carbon taxes including Denmark, Finland, Ireland, the Netherlands, Norway, Slovenia, Sweden, Switzerland and the UK.

EU ETS

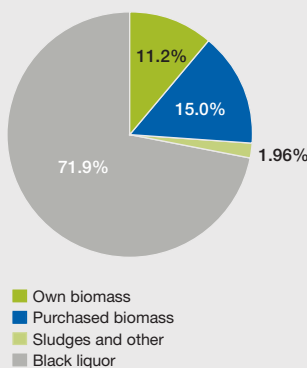
Launched in 2005, the European Union Emissions Trading Scheme (EU ETS) works on the 'cap and trade' principle. The scheme now covers the 27 countries of the European Union, and three non-European Union members.

Energy costs as a percentage of cost of sales (%)



Comment: Between 2011 and 2012, in Europe, the cost of sales decreased due to lower variable costs, while energy costs remained more or less stable. In North America, energy costs remained stable while in South Africa, the cost of coal increased by 13.3%/GJ and electricity generated by Eskom by 19.6%/kWh in 2012.

Renewable energy breakdown (%)



Exciter value delivery was US\$23.9 million with spend standing at US\$8.1 million

50.3% use of renewable energy globally

Our plantations in South Africa absorb 13 million tons of CO₂ annually

Globally, we return approximately 92% of process water to the environment (water that is recycled, cleaned and treated)

From 2013, new rules come into effect in terms of which the mill's emissions have to be covered by emission rights (allowances) which are partly received for free and partly have to be bought at government auctions. According to the legislative framework that sets the new allocation rules, CO₂ allowances for the pulp and paper industry are based on benchmarks which are set for the top performing 10% of installations in every pulp and paper grade in terms of CO₂ emissions.

In 2012, our mills were allocated CO₂ allowances of 2,131,667 tons (2011: 2,140,478 tons). However, the new allowances are significantly lower and, beginning in 2013, Sappi Fine Paper Europe expects to incur additional costs. The current estimate to purchase additional rights is €4 million for 2013. The European paper industry is very concerned about carbon leakage to production outside the EU. The Confederation of European Paper Industries (CEPI) is lobbying on behalf of industry to reduce the negative impact on the industry.

North America

Carbon taxes

There is no nationwide carbon tax levelled in the US. However, as part of the Better Practices, Better Planet 2020 sustainability goals announced in March 2011, the American Forest & Paper Association (AF&PA) has committed to reduce the intensity of the industry's GHG emissions by at least 15% and to improve the industry's energy efficiency in purchased energy use by at least 10% by 2020.

With a 53% reduction in GHG emissions over a 2007 baseline, our performance in this region has already exceeded the AF&PA goals. The fact that over 80% of our energy in our North American operations is produced from renewable energy (black liquor, sludges and purchased biomass) should help to mitigate the effect of any potential carbon taxes.

South Africa

Carbon taxes

In his February 2012 budget speech, the Minister of Finance confirmed the Government's commitment to the implementation of a carbon tax in South Africa. The tax is to come into effect in 2013-14 and increase by 10% a year until 2020.

Our view is that papers imported from countries without carbon taxes would mean unfair competition. While we await clarity on the final nature of carbon tax, we are mitigating this risk by engaging with a number of bodies including Business Unity South Africa (BUSA), Treasury, the Department of Energy and the Department of Environmental Affairs. In addition, the Pulp and Papermakers' Association of South Africa (PAMSA) has been seeking greater recognition by Treasury of the role that commercial forests play in acting as a carbon sink.

Annually, Sappi's plantations absorb 13 million tons of CO₂ and give off eight million tons of oxygen. This more than offsets the CO₂ emissions from our manufacturing and forestry operations. Taking into account our CO₂ emissions from our own biofuels (black liquor) and coal, oil and gas (direct or scope 1 emissions); purchased power and steam (indirect or scope 2 emissions); transport, goods and services (scope 3), as well as plantation decay, our absorptions exceed our emissions by 0.5 million tons CO₂.

Water

Water is a critical issue for papermaking operations and forestry. We monitor water usage both through volumetric consumption and water quality parameters at our mills and in our forestry operations.

Forestry operations

A misconception exists that timber plantations in South Africa use vast amounts of water. Forestry uses just under 3% of South Africa's available water by reducing run-off into rivers and streams. Agriculture, on the other hand uses as much as 62% of the country's available water, mostly through irrigation. The trees we grow require no irrigation and as the only designated stream flow reduction activity in the country, commercial forestry pays for the water it uses in the form of planting licences.

In South Africa, dissolving wood pulp is produced using eucalyptus fibre. Some stakeholders have concerns in this regard, as eucalypts (hardwoods) use more water than pines (softwoods). However, converting a plantation of pine trees to eucalypts does not automatically mean that stream flow will reduce because the rotation length (the point at which trees are harvested) is different and older trees use more water. In Sappi's plantations, eucalypts are generally harvested at 10 years while pines are generally harvested at 18 years. In other words, the average age of a pine plantation is almost twice that of the average eucalypt plantation.

Our key sustainability drivers continued

Manufacturing operations

Pulp and paper operations are highly dependent on the responsible use and management of water resources. Water is used in all major process stages, including raw materials preparation (wood chip washing), pulp washing and screening, and paper machines (pulp slurry dilution and fabric showers). Water is also used for process cooling, materials transport, equipment cleaning, general facilities operations and to generate steam for use in processes and on-site power generation.

While we use a significant amount of water in our production processes, it is recycled many times before being treated and returned to the environment. All effluent complies with the highest environmental standards.

In addition, unlike most other industries, globally we return approximately 92% of our process water back into the watershed, mostly into the same rivers and lakes from which it was extracted from or into agricultural irrigation systems.

Research and development

To ensure that our solutions remain relevant to the needs of our customers in more than 100 countries, our total research and development spend in 2012 was US\$32.6 million, including spend of US\$8.1 million related to our 'Exciter' programme. This programme, which operates alongside our more traditional research and development work, aims to accelerate the development of breakthrough technological competency in our core markets.

Exciter value delivery for FY2012 was US\$23.9 million, bringing the total value delivered from Exciter, from FY2005 to date, to US\$115.2 million against a total expenditure of US\$62.6 million.

Magazines increase purchase intent **5X** more than television or the internet

Our products add value to people's lives every day

Viscose staple fibre is a **biodegradable, natural, organic** product with **breathability** and **moisture absorbency** properties

Our markets

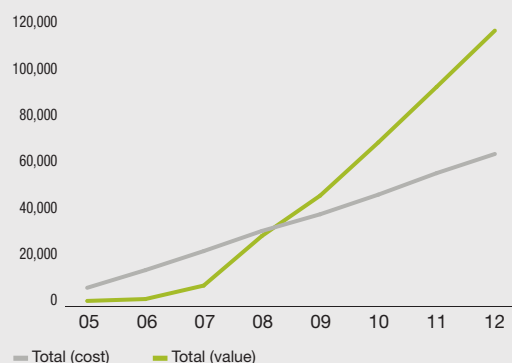
Paper

While there is no doubt that the use of graphic paper is declining around the world, research studies show that print continues to be the most effective medium in terms of branding and memory retention, as well as sales, merchandising and marketing return on investment. Research recently conducted for the Hearst Corporation shows that magazines, for example, increase purchase intent five times as much as television or the internet¹.

Some recent findings about the value of print include the following:

- > Direct mail transcends the age demographic: younger consumers (the 18 to 34 year-old demographic) prefer to learn about marketing offers via postal mail rather than online sources²
- > Adding direct mail to a marketing campaign increases return on investment by 20%³
- > Print conveys trust: consumers say the most trustworthy channels are newspapers (21%), company websites (21%) and direct mail (16%)⁴, and

Investment/value delivered by our Exciter programme (US\$ '000)



1. *Magazinemediainfactbook.org The Conversation*, conducted on behalf of the Hearst Corporation by Russel Research, 2010.
2. *ORC International Study: Alternative Media Research and Print Channel Trends*.
3. *Meta Analysis of Direct Mail*, conducted by marketing analysis firm Brand Science, as reported, *Print in the Mix*, June 2011.
4. *Epsilon Targeting, Consumer Survey Results Reveal Direct Mail is Most Preferred Channel for Receipt of Brand Communications*, December 1, 2011 – As reported in *Print in the Mix*, April 2012.
5. *American Express Publishing & Harrison Group, The American Express Publishing Luxury Summit 2012*.

market leaders

- > Print is particularly effective at reaching certain niche demographics, including wealthy consumers⁵.

In terms of our Exciter programmes, we have been focusing on work into specialised and niche markets. In addition, our focus is on investing in higher-growth and higher-margin businesses. For example, we recently began the process of converting our Alfeld Mill, in Germany, to focus exclusively on producing one-sided coated paper for packaging, labels and technical applications in response to strong demand growth. This 12-month conversion project will turn the mill into the biggest and lowest-cost producer of these one-sided coated speciality grades globally.

Dissolving wood pulp

As the world population grows, so there is an increasing need for clothes. Currently, the bulk of our dissolving wood pulp (also known as chemical cellulose) is exported to Asia, where the middle class is expected to grow from the current 1.9 billion to 2.7 billion by 2030, accounting for 43% of global consumption expenditure. It is anticipated that this growth will be accompanied by greater urbanisation and higher standards of living – including increased demand for comfortable clothing.

However, global production of cotton is forecast to remain stagnant or shrink, with the growth in total fibre consumption covered by man-made fibres. The fact that oil-based synthetic fibres lack certain moisture management properties – such as

the ability to breathe – enhances the opportunity for cellulose products such as viscose staple fibre (VSF) which is a biodegradable, natural, organic product with breathability and moisture absorbency properties. Our expansion projects to manufacture dissolving wood pulp at Ngodwana and Cloquet Mills, on track for commissioning during 2013, will increase our present capacity from 800,000 tons per annum (tpa) to over 1.3 million tpa.

We are market leaders in the VSF segment and there is potential to enter even higher value speciality/acetate markets in future. The opportunities are enhanced by our low cost base.

Underpinning these growth ambitions, our strengths in the dissolving wood pulp field include:

- > Secure and sustainable wood baskets – such as Saiccor Mill, Ngodwana Mill will use locally sourced eucalyptus while Cloquet Mill will use mixed northern hardwoods, primarily aspen (approximately 65%) and maple (35%), also sourced locally
- > A business model anchored on long term contracts with leading customers and minimal spot business
- > Strong and mature customer relationships
- > Very competitive cost positions
- > Supply flexibility, and
- > In-depth technical knowledge in all target segments.



Alfeld Mill in Europe is undergoing a conversion to produce speciality products.

Our key sustainability drivers continued



Sappi Forests supports local employment as well as many small businesses.

Creating shareholder value

Our business is built on a renewable and sustainable resource, woodfibre, the growing and harvesting of which supports local employment as well as many small businesses, individual farmers, contractors and rural communities. Our paper and pulp mills are mostly situated in peri-urban or rural areas where they are the largest or one of the largest employers and businesses. These mills also support significant local economic activity including everything from the provision of security and cleaning services to the supply of raw materials, goods transportation and specialised maintenance work.

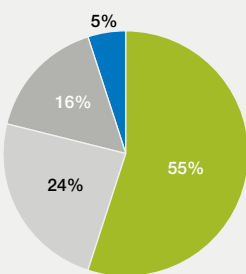
In all the communities where we operate we also contribute to health and welfare services, education and other community services. In some instances we also contribute to public infrastructure. As a public company, we contribute to the economies where we operate through the taxes and fees we pay, and by focusing on delivering acceptable profitability we create value for our shareholders and our staff.

Sappi's products add value to people's lives each and every day. Our dissolving wood pulp is turned into viscose fabrics and textiles, and used in foodstuffs, cosmetics and pharmaceutical products. Our graphics papers are used for commercial printing including magazines, brochures, catalogues, direct mail, corporate reports and calendars. Our packaging papers are used for convenience food, fast food and to protect and transport fresh produce. Our speciality, security and release papers are used for consumer goods, labels, and a variety of other applications including new South African passport, regarded as the most advanced and secure passport globally.

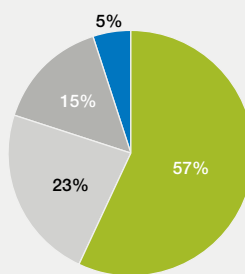
Growing awareness of environmental impact has increased the demand for natural and renewable products, a demand which Sappi is well placed to meet.

Adding value

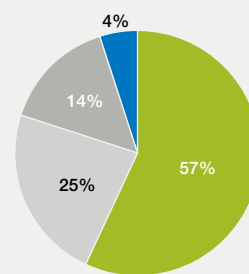
2012: US\$1,913 million



2011: US\$2,125 million



2010: US\$1,981 million



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

Focus on innovation

Knowledge, insight and innovation drive progress and competitive advantage in all successful businesses. Forestry R&D in Sappi Southern Africa is no different. The team recently participated in the mapping of the Eucalyptus genome which will support improvements to this commercial timber species. Using natural cloning techniques, the team have been able to increase fibre yields by 60% in 15 years; improve disease resistance and produce more consistent fibres; all critical to the increased quality and production of paper pulp and dissolving wood pulp in the South African business.

Our products

Woodfree paper

made from pulp produced in a chemical process

Share of sales

coated **49%**
uncoated **7%**
speciality **7%**

Description and typical uses	Demand trends	Our markets in 2012
Coated Higher level of smoothness than uncoated paper achieved by applying a coating (typically clay based) on the surface of the paper. As a result, higher reprographic quality and printability is achieved. Uses include marketing promotions and brochures, catalogues, corporate communications materials, direct mail, textbooks and magazines. Customers are typically large paper merchants.	Demand for coated woodfree paper is expected to continue to grow on a global level but, the impact of electronic media is likely to see a gradual decline in developed economies in the long term. Advertising, retail sales and consumer demand for printed products are primary drivers of demand.	Demand for coated woodfree paper fell in our major markets by approximately 2.9% from last year. Demand in the rest of the world grew approximately 0.6%.
Uncoated Uses include business forms, business stationery, tissue and photocopy paper as well as cutsize, preprint and office paper. Certain brands are used for books, brochures and magazines. Customers are typically large paper merchants.	Over the last few years, strong demand in the cutsize business has helped the uncoated office markets. There is a growing trend to print some brochures and magazines on uncoated grades such as Tauro.	Prices dropped throughout the year for uncoated woodfree paper in Europe. Sentiment in the business sector weakened and demand continued to decline as a result.
Speciality Can be either coated or uncoated. Uses include bags, labels, flexible and rigid packaging and release paper for casting innovative surface textures (eg, artificial leather, decorative laminates) for use in the textile, automotive, furniture and engineering film markets. Customers cover a wide range of industries depending on the particular product.	Flexible paper packaging driven by steady consumption growth in the healthy food and drink markets. Paper based packaging is highly regarded as a sustainable solution. Release paper demand is expected to grow along with the textile and automotive industry, as well as in new and innovative applications.	Demand for our speciality paper products was strong in Europe as we repositioned our offering and mix of products. From our US operations, volumes were down as manufacturing activity slowed, particularly in China.

Mechanical paper

made from pulp produced in a mechanical process

Share of sales

coated **14%**
newsprint + packaging paper **7%**

Description and typical uses	Demand trends	Our markets in 2012
Coated A coated mechanical fibre-based paper, primarily used for magazines, catalogues and advertising material. Manufactured from mechanical pulp. Customers are typically large merchants and large printers and publishers in the case of many magazine titles.	Magazines, one of the main end uses related to this product group, are doing marginally better than last year mainly due to growing consumption in special interest magazines. As with coated woodfree advertising, expenditure is a key demand driver.	The ongoing decline in print circulation and advertising in magazines contributed to a further decline in demand for coated mechanical paper as almost 50% of coated mechanical paper is used in magazines.
Newsprint Manufactured from mechanical and bleached chemical pulp. Uses include advertising inserts and newspapers.	Demand is highly dependent on newspaper circulation and retail advertising. Advertising spend in electronic media continues to grow worldwide, with many newsprint titles becoming 'digital-only' publications. This has led to demand declines in global markets.	South African demand has fallen over the last two years as some smaller newspaper titles have stopped printing. Advertising-subsidised free daily newspapers offer steady orders for newsprint producers.

Pulp

Share of sales

paper pulp + dissolving wood pulp

14%

	Description and typical uses	Demand trends	Our markets in 2012
Paper pulp	Main raw material used in production of printing, writing and packaging paper. Pulp is the generic term that describes the cellulose fibre derived from wood. These cellulose fibres may be separated by mechanical, thermo-mechanical or chemical processes. The chemical processes involve removing the glues (lignins) which bind the woodfibres to leave cellulose fibres. Paper made from chemical pulp is generally termed "woodfree". Uses include paper, paperboard and tissue.	With gradually improving global demand for paper products, demand for paper pulp is expected to recover.	Global demand for paper pulp varied by region in fiscal 2012. Demand for paper pulp declined in more mature economies as paper consumption continued to decline. In China, however, demand for paper pulp grew as non-integrated facilities continued to come on-line.
Dissolving wood pulp	Manufactured by a similar process to paper grade pulp, but purified further to leave virtually pure cellulose fibres. Dissolving wood pulp is used in the manufacture of a variety of cellulose textile and non-woven fibre products, including viscose staple fibre (rayon), solvent spun fibre (lyocell) and filament. It is also used in various other cellulose based applications in the food, film, cigarette, chemical and pharmaceutical industries. These include the manufacture of acetate flake, microcrystalline cellulose, cellophane, ethers and moulding powders. The various grades of dissolving wood pulp are manufactured in accordance with the specific requirements of customers in different market segments. The purity of the dissolving wood pulp is one of the key determinants of its suitability for particular applications with the purer grades of dissolving wood pulp generally supplied into the speciality segments. Our most significant customers include Lenzing and the Aditya Birla Group.	Dissolving wood pulp has a wide range of applications, demand for many of which are expected to continue growing at good rates. The textile uses in particular are predicted to show increasing demand as the growth in the supply of cotton becomes increasingly constrained.	Demand for dissolving wood pulp continues to be strong. We announced two expansion projects in 2012 due to come on-line in mid-2013 to meet the continuing growth in demand for dissolving wood pulp.

Timber/ other products

Share of sales
2%

Description and typical uses

Sawn timber for construction and furniture manufacturing purposes.

Demand trends

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

Our markets in 2012

The South African Government continued to focus on infrastructure spend, mainly housing. Despite this, the South African lumber market remained flat in 2012.

Packaging paper

	Description and typical uses	Demand trends	Our markets in 2012
Packaging paper	Heavy and lightweight grades of paper and board primarily used for primary and secondary packaging of fast moving consumer goods, agricultural and industrial products. Products include containerboard (corrugated shipping containers), sack kraft (multi-walled shipping sacks) and machine glazed kraft (grocer's bags). Can be coated to enhance barrier and aesthetics properties. Customers are typically converters of the packaging paper.	Packaging demand is driven by population growth, higher standards of living, urbanisation and globalisation. Paper packaging is seen as playing an increasingly important role in an environmentally conscious world.	2012 was marked by flat volumes and prices in the South African market. Cost saving initiatives have boosted margin growth in this business.

Our leadership

Non-executive directors



Daniël (Danie) Christiaan Cronjé (*Chairman*) Age **66** Qualifications **BCom (Hons), MCom, DCom**
Nationality **South African** Appointed **January 2008**

Sappi board committee memberships Nomination and governance committee (chairman). Attends audit committee meetings, human resources and compensation committee meetings and social, ethics, transformation and sustainability committee meetings ex officio

Other board and organisation memberships Die Dagbreek Trust (chairman)

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



Godefridus (Frits) Peter Franciscus Beurskens (*Independent*) Age **65** Qualifications **BSc Mechanical Engineering, MSc Industrial Engineering and Management Science** Nationality **Dutch** Appointed **October 2011**

Sappi board committee memberships Audit committee

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

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



Michael (Mike) Anthony Fallon (*Independent*) Age **54** Qualifications **BSc Hons (First Class)**
Nationality **British** Appointed **September 2011**

Sappi board committee memberships Audit committee

Other board and organisation memberships Nippon Sheet Glass Company Limited (NSG Group) (executive director – retired 30 June 2012)

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



Professor Meyer Feldberg* (*Lead independent director*) Age **70** Qualifications **BA, MBA, PhD**
Nationality **American** Appointed **March 2002**

Sappi board committee memberships Human resources and compensation committee (chairman), nomination and governance committee

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

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

* Professor Feldberg retires in December 2012, when Sir Nigel Rudd becomes lead independent director.

governance



Deenadayalen (Len) Konar (*Independent*) Age **58** Qualifications **BCom, MAS, DCom, CA(SA)**
Nationality **South African** Appointed **March 2002**

Sappi board committee memberships Audit committee (chairman), nomination and governance committee
Other board and organisation memberships Exxaro Resources Limited (chairman), Illovo Sugar Limited, Lonmin plc, JD Group Limited, Mustek Limited (chairman), Steinhoff International Holdings Limited (chairman)
Skills, expertise and experience Previously professor and head of the Department of Accountancy at the University of Durban-Westville, Dr Konar is a member of the King Committee on Corporate Governance in South Africa and the SA Institute of Directors, past member and chairman of the external audit committee of the International Monetary Fund and member of the Safeguards Panel and Implementation Oversight Panel of the World Bank (co-chairman).



Nkateko Peter Mageza (*Independent*) Age **58** Qualifications **FCCA (UK)** Nationality **South African**
Appointed **January 2010**

Sappi board committee memberships Audit committee, human resources and compensation committee
Other board and organisation memberships Eqstra Holdings Limited (chairman), Clover Industries Limited, Ethos Private Equity (Pty) Limited, Rainbow Chickens Limited, Remgro Limited, MTN Group Limited
Skills, expertise and experience Mr Mageza joined the Sappi board after having held senior executive positions across a wide range of industries. He is a former group chief operating officer and executive director of ABSA Group Limited, assistant general manager at Nedcor Limited and chief executive officer of Autonet, the Road Passenger and Freight Logistics Division of Transnet Limited.



John (Jock) David McKenzie (*Independent*) Age **66** Qualifications **BSc Chemical Engineering (cum laude), MA**
Nationality **South African** Appointed **September 2007**

Sappi board committee memberships Human resources and compensation committee, social, ethics, transformation and sustainability committee (chairman)
Other board and organisation memberships Accelerate Cape Town (chairman), Capitec Bank, Coronation Fund Managers, University of Cape Town Foundation (chairman), WESGRO, Save the Children Fund (Cape), Rondebosch Schools Education Trust (chairman), The Carleton Lloyd Educational Trust (chairman)
Skills, expertise and experience Mr McKenzie joined the Sappi board after having held senior executive positions internationally and in South Africa. He is a former president for Asia, Middle East and Africa Downstream of the Chevron Texaco Corporation and also served as the chairman and chief executive officer of the Caltex Corporation. He was a member of the Singapore Economic Development Board from 2000 – 2003.



Mohammed Valli (Valli) Moosa Age **55** Qualifications **BSc (Mathematics)** Nationality **South African**
Appointed **August 2010**

Sappi board committee memberships Social, ethics, transformation and sustainability committee
Other board and organisation memberships Auditor General's Advisory Committee (South Africa), Anglo Platinum Limited (deputy chairperson and lead independent director), Imperial Holdings Limited, Lereko Investments (Pty) Ltd and various other associate companies of Lereko Investments (Pty) Ltd, Sanlam Limited, Sun International Limited (chairman), WWF South Africa (chairman)
Skills, expertise and experience Mr Moosa is currently the deputy chairman of Lereko Investments (Pty) Ltd, Sappi's Strategic Black Economic Empowerment partner. He has held numerous leadership positions across business, government, politics and civil society in South Africa. His previous positions include South African Minister of Environmental Affairs and Tourism; the President of the International Union for the Conservation of Nature; and chairman of the UN Commission for Sustainable Development, and he was a long serving member of the National Executive Committee of the African National Congress.



Karen Rohn Osar (*Independent*) Age **63** Qualifications **MBA, Finance** Nationality **American**
Appointed **May 2007**

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

Our leadership continued

Non-executive directors continued



Bridgette Radebe (*Independent*) Age **52** Qualifications **BA (Pol Sc and Socio)** Nationality **South African**
Appointed **May 2004**

Sappi board committee memberships Social, ethics, transformation and sustainability committee
Other board and organisation memberships Mmakau Mining (Pty) Ltd (executive chairperson), South African Mining Development Association (president), New Africa Mining Fund (founder and board trustee)
Skills, expertise and experience Ms Radebe was the first black South African deep level hard rock mining entrepreneur in the 1980s. She has more than a decade of experience in contract mining, mining construction and mining mergers and acquisitions. She is founder of Mmakau Mining which has investments in platinum, coal, chrome and gold mines. She participated in the design of the South African Mining Charter and present mining legislation.



Sir Anthony Nigel Russell Rudd (Nigel)* (*Independent*) Age **66** Qualifications **DL, Chartered Accountant**
Nationality **British** Appointed **April 2006**

Sappi board committee memberships Human resources and compensation committee, nomination and governance committee
Other board and organisation memberships Heathrow Airport Holdings Limited (chairman), Barclays Wealth (chairman of the UK & Ireland Private Bank Advisory Board), Business Growth Fund (chairman), Cyden Limited (chairman), Invensys plc (chairman)
Skills, expertise and experience Sir Nigel has held various senior management and board positions in a career spanning more than 35 years. He founded Williams plc in 1982 and the company went on to become one of the largest industrial holding companies in the United Kingdom. He was knighted by the Queen for services to the manufacturing industry in the UK in 1996 and holds honorary doctorates from Loughborough and Derby universities. In 1995, he was awarded the Founding Societies Centenary Award by the Institute of Chartered Accountants. He is a Deputy Lieutenant of Derbyshire and a Freeman of the City of London.



Rudolf Thummer (*Independent*) Age **65** Qualifications **Dr Techn, Dipl-Ing** Nationality **Austrian**
Appointed **February 2010**

Sappi board committee memberships Social, ethics, transformation and sustainability committee
Skills, expertise and experience Dr Thummer joined the Sappi board after having served many years in the pulp and paper industry. He joined Hannover Papier in 1979 (later purchased by Sappi) as manager of Research and Development. In 1982, he became the Paper Mill manager at Alfeld Mill and in 1990 he was appointed technical director of this mill. In 1992, Dr Thummer became an executive board member of the Hannover Papier Group, responsible for Manufacturing at the Alfeld and Ehingen Mills. In 1998, he moved to Sappi Fine Paper Europe based in Brussels as technical director and executive board member. He served as group head technology of Sappi Limited from January 2006 up to his retirement at the end of December 2007.

Executive directors



Roeloff (Ralph) Jacobus Boëttger (*Chief executive officer*) Age **51** Qualifications **BAcc Hons, CA(SA)**
Nationality **South African** Appointed **July 2007**

Sappi board committee memberships Social, ethics, transformation and sustainability committee. Attends meetings of all other board committees by invitation
Skills, expertise and experience At the age of 34 he was appointed chief executive officer of Safair and the next year appointed to the executive committee of Safmarine Limited. From 1998 until July 2007, he was with Imperial Holdings when Imperial acquired Safair. From 2002, he was an executive director of Imperial Holdings with responsibility for their local and international logistics operations, the aviation division and the heavy commercial vehicle distribution operations. His field of responsibility encompassed businesses operating in Southern Africa, numerous European countries, the Middle East and Asia. He is well versed in managing an operation with diverse cultures.



Stephen (Steve) Robert Binnie** (*Chief financial officer*) Age **45** Qualifications **BCom, BAcc, CA(SA), MBA**
Nationality **British** Appointed **September 2012**

Sappi board committee memberships Expected to attend audit committee meetings by invitation
Skills, expertise and experience Mr Binnie joined Sappi in July 2012 as chief financial officer designate and was appointed chief financial officer and executive director from 01 September 2012. Prior to joining Sappi, he held various senior finance roles and was most recently chief financial officer of Edcon (Pty) Limited for 10 years after having been financial manager at Investec Bank Limited for four years.

* The executive directors and the people listed as senior leadership above are the executive officers of Sappi.

** Mr Binnie joined Sappi as CFO-designate on 09 July 2012, and on the retirement of Mark Thompson, became CFO and joined the Sappi Limited board as an executive director on 01 September 2012.

Executive management



Mark Gardner (President and chief executive officer of Sappi Fine Paper North America) Age 57
Qualifications **BSc (Industrial Technology)**

Mr Gardner was named president and chief executive officer of Sappi Fine Paper North America (SFPNA) in 2007 and is responsible for leading all Sappi operations in the region. That same year, he was also appointed to the SFPNA board. He joined Sappi in 1981 and his experience includes serving as the vice-president of manufacturing and vice-president of supply chain, prior to which he worked in a variety of production management roles at Sappi, including production manager at the Westbrook Mill, Paper Mill manager at the Somerset Mill, managing director at the Muskegon Mill and director of Engineering and Manufacturing Technology at the regional head office in Boston. In 2009, Mr Gardner received the TAPPI (Technical Association of the Pulp and Paper Industry)/PIMA (Paper Industry Management Association) Executive of the Year Award. The award is the highest recognition for leadership and management given by PIMA. He currently serves on the board of directors of the American Forest & Paper Association. In September 2012, he was appointed to the Board of Trustees for the University of Maine System.



Alexander van Collier Thiel (Chief executive officer of Sappi Southern Africa) Age 51
Qualifications **BSc Mechanical Engineering, MBA (Financial Management and IT)**

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



Berend (Berry) John Wiersum (Chief executive officer of Sappi Fine Paper Europe) Age 57
Qualifications **MA (Medieval and Modern History)**

Mr Wiersum joined Sappi in January 2007 as chief executive officer Sappi Fine Paper Europe. Prior to joining Sappi, Mr Wiersum was a freelance mergers and acquisitions consultant for one year. He previously was managing director of Kappa Packaging and member of the management board in Eindhoven (The Netherlands) where he was responsible for overseeing over 90 packaging plants across Europe, Russia, the Middle East and North Africa. Mr Wiersum was chairman of Cepi (Confederation of European Paper Industries) from 2011 – 2012.



Andrea Rossi (Group head technology) Age 59
Qualifications **BSc Eng (Hons), C Eng**

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



Lucia Adele Swartz (Group head human resources) Age 55
Qualifications **BA, Dip HR**

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



Maarten van Hoven (Group head strategy and legal) Age 39
Qualifications **BProc, LLM (International Business Law)**

Mr van Hoven joined Sappi in December 2011. Mr van Hoven, an admitted attorney of the High Court in South Africa, has held various positions at the South African Competition Commission, most recently as Divisional Manager: Mergers & Acquisitions. As well as being on the group executive committee he has joined the boards of Sappi Fine Paper Europe, Sappi Fine Paper North America and Sappi Southern Africa.

* The executive directors and the people listed as senior management above are the executive officers of Sappi.

The Sappi logo is positioned in the top right corner of the page. It consists of the word "sappi" in a bold, lowercase, sans-serif font. The background of the entire page is a photograph of a paper mill. Two workers wearing hard hats and safety gear are visible in the middle ground, working on a large piece of industrial machinery. The scene is dimly lit, with a strong light source from above creating a bright spot on the machinery and casting long shadows. The overall tone is industrial and professional.

sappi

Inspired by life

Focus on low cost production

Machine efficiency is the bedrock of low cost production. To achieve, maintain and increase such efficiency requires carefully planned maintenance and equipment and process upgrades. One such project has recently been completed at the Sappi Fine Paper North America Somerset Mill where the drives and pumps on Paper Machine 3 were replaced. The net impact of these upgrades has been a reduction in over 50% of horsepower required to maintain the same capacity (equivalent to the power consumed by over 600 homes in Maine in one year), as well as a reduction in the consumption of fresh water and steam.

Sappi Fine Paper

75%
of group sales



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

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

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

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

Sappi Fine Paper is approximately 74% integrated in terms of capacity based pulp supply. On a regional basis, we purchase slightly less than half of the Sappi Fine Paper business' pulp requirements in Europe and are net sellers of pulp in North America. The Sappi group, including Southern Africa, is approximately 98% integrated in terms of capacity based pulp supply.

Europe

The generation of reasonable returns and strong cash flows from our paper businesses is a core strategic theme. In 2012, our European paper business delivered a significantly better operating result compared to the prior year and continued to generate significant cash. The improvement in operating result was achieved through a number of actions taken over the past year, including further improving customer service, reduction in costs, increased efficiencies and capacity management. The continued economic and market uncertainty in Europe increased competition in the export markets and ongoing competition from electronic media led to weaker demand for coated graphic paper for the year, with our own sales volumes down 9% year-on-year, though this included the impact of lost sales volumes from the closure of the Biberist Mill and the resultant loss of uncoated woodfree sales volumes for which we had no additional capacity elsewhere. Excluding the impact of the shut, volumes would have been lower by approximately 4% on a comparative basis.

During the course of the year, we successfully completed a project in which we engaged with our major customers in the creation of new value propositions, product positioning, streamlined branding and servicing. This project achieved its overall aim which was to make Sappi easy to do business with.

Sappi Fine Paper continued

Divisions	Mills	Products produced	Capacity ('000 tons)		Employees*
			Paper	Pulp	
North America	Cloquet Mill	Bleached chemical pulp for own consumption and market pulp ¹		455	
		Coated woodfree paper	330		
	Somerset Mill	Bleached chemical pulp for own consumption and market pulp		525	
		Coated woodfree paper	795		
	Westbrook Mill	Coated specialities paper	35		
		Total North America	1,160	980	2,190

Divisions	Mills	Products produced	Capacity ('000 tons)		Employees*
			Paper	Pulp	
Europe	Alfeld Mill	Bleached chemical pulp for own consumption		120	
		Coated woodfree paper, coated and uncoated speciality paper ²	330		
	Ehingen Mill	Bleached chemical pulp for own consumption and market pulp		135	
		Coated woodfree paper	285		
	Gratkorn Mill	Bleached chemical pulp for own consumption		250	
		Coated woodfree paper	990		
	Kirkniemi Mill	Bleached chemical pulp for own consumption		330	
		Coated mechanical paper	735		
	Lanaken Mill	Bleached chemi-thermo mechanical pulp for own consumption		180	
		Coated mechanical paper	470		
	Maastricht Mill	Coated woodfree paper	280		
	Nijmegen Mill	Coated woodfree paper	240		
	Stockstadt Mill	Bleached chemical pulp for own consumption and market pulp		150	
		Coated woodfree paper, uncoated woodfree paper	440		
		Total Europe	3,770	1,165	5,770
		Total Sappi Fine Paper	4,930	2,145	7,960

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

Notes:

1. As a result of the conversion of this site to produce 330,000 tons per annum of dissolving wood pulp, production of bleached chemical pulp will cease once dissolving wood pulp production commences. We expect the production of dissolving wood pulp to commence in the third financial quarter of 2013.
2. We have announced the conversion of our Paper Machine 2 at the Alfeld Mill from coated woodfree production to speciality packaging paper production. This conversion is scheduled to commence at the end of our 2013 financial year and will result in a reduction of 150,000 tons per annum of coated woodfree production capacity and the addition of 135,000 tons of speciality packaging paper production in our 2014 financial year.



Coated paper manufactured at Somerset Mill in North America.

streamlined

The closure of the Biberist Mill in August 2011 and other fixed and variable cost reduction programmes have resulted in cost savings in excess of €100 million in the past financial year. This, along with lower input prices, particularly for pulp, have enabled the business to offset the volume declines and improve operating profit and cash generation.

During the year, the agreement that Sappi sell the coated paper output of Äänekoski Mill was terminated on the closure of the machine by the owner and part of its production (of the mill) was transitioned to our mills. This has assisted with both the coated woodfree supply and demand balance in Europe, as well as with our own operating rates.

The coated specialties products, produced at the Alfeld Mill, had another good year in terms of a sales and margin, and further growth in this market is expected going forward. It is in this light that we announced in September 2012 the investment in PM2 at the Alfeld Mill to convert the machine from coated woodfree paper to one-sided coated speciality paper for packaging, labels and technical applications. This conversion not only increases our capacity in a specialised, growing and higher margin business, but also improves our cost position in coated woodfree graphic paper and reduces further our graphic paper capacity.

Unfortunately in July, Sappi's Nijmegen Mill suffered a fire in a section of electrical wiring, leading to four weeks of lost production, and a financial impact of US\$4 million to the group.

North America

Sappi's North American operations had a year of mixed fortunes. It was another good year for the coated paper business; sales volumes were flat in a market where demand for coated woodfree paper declined 3% overall while operating margins improved as a result of reduced variable and fixed costs. This business

continues to outperform the industry as it leveraged its strong brand equity, leading market position and low cost base.

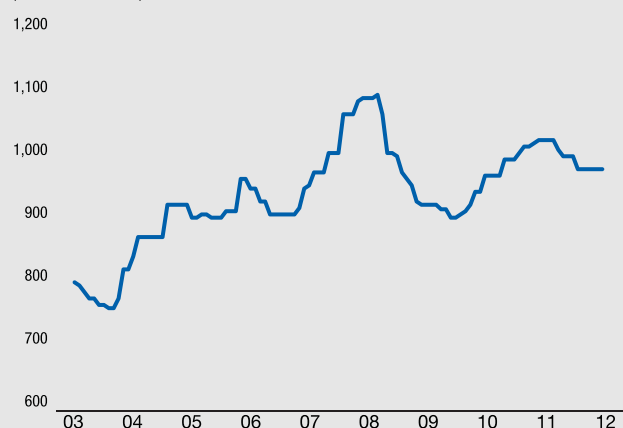
After an excellent 2011, the pulp business was negatively impacted by lower average Northern Bleached Hardwood Kraft (NBHK) pulp prices in 2012 when compared with 2011, unplanned production outages in the first quarter as well as the severe flooding in Minnesota which led to the closure of the pulp and paper mill at Cloquet for a total of seven days in June. The flood had a financial impact of US\$9 million to the group.

The outlook for pulp prices and NBHK in particular, is for a prolonged period of lower than average prices as significant new hardwood pulp capacity is expected to be added in the next few years in Latin America. Given this context, the investment in the Cloquet pulp mill in order to convert the existing mill to manufacture dissolving wood pulp is well timed. Groupwide, our long term contracts for dissolving wood pulp link the pricing to NBSK, a pulp typically sold at a premium to NBHK and a grade of pulp in which there is relatively little new capacity to be added in the next few years.

The process of converting the 450,000 ton paper pulp mill at Cloquet to a 330,000 ton dissolving wood pulp facility started in June 2012 and is due to be completed in the third financial quarter of 2013 at a cost of US\$170 million.

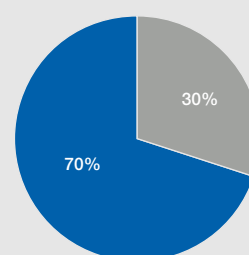
The casting release paper business felt the impact of the economic troubles in Europe and the slowdown in the Chinese economy most directly, both in terms of lower sales volumes as well as pricing pressure due to the stronger US Dollar exchange rate. Continuing pattern development and market development are key to a recovery in demand during these uncertain economic conditions.

Coated woodfree prices No 3 – 60lb (90g) rolls USA (East Coast)
(US\$/short ton*)



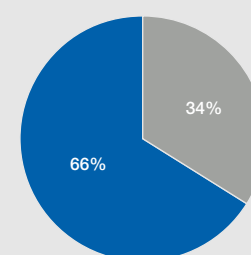
* Prices are list prices. Actual transaction prices could differ from prices shown.
Source: FOEX PIX Pulp Price Index

Fine paper
Share of sales
2012: US\$4,788 million



■ North America
■ Europe

Fine paper
Share of division's net operating assets
2012: US\$2,695 million



Looking forward

Demand for coated paper in our major markets will continue to be impacted by global market sentiment, particularly in Europe, as well as the secular demand impact of electronic media. We expect the pace of the decline to be maintained in 2013 when compared to 2012, but that our competitive position in both Europe and North America will see our sales declining slower than the overall market.

The coated paper supply and demand imbalance created over the past few years as a result of both the declining demand in developed economies, as well as the rapid and unsustainable increase in capacity in China is expected to narrow going forward. This narrowing is expected as a result of the demand decline in the developed economies being matched by capacity closures, the lack of any significant new capacity additions and continued growth in demand for coated paper in developing economies.

Paper prices in our major markets are expected to remain fairly flat for the coming year but variable and fixed costs should

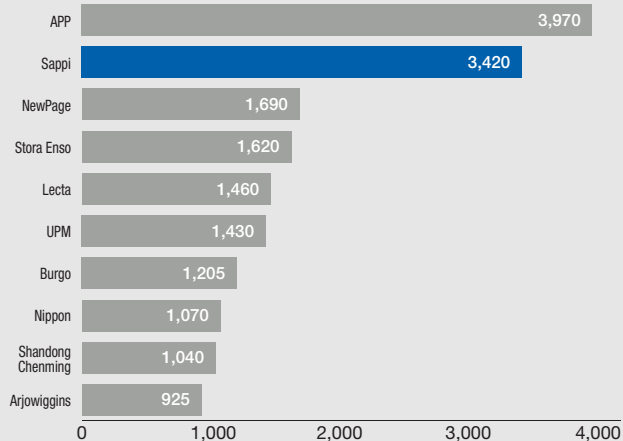
remain well under control, enabling the businesses to earn similar margins.

Pulp prices in dollar terms are expected to be slightly lower on average than they were in 2012, and this will negatively affect our North American business which is a net seller of pulp. The impact on the European business, which is approximately 56% self-sufficient in pulp, will depend on the strength of the Euro, with lower prices being beneficial for their operations.

The investment in the conversion of the Cloquet pulp mill in Minnesota to enable the mill to produce 330,000 tons of dissolving wood pulp will negatively impact the North American business in 2013 due to the extended mill shut required to complete the conversion, the loss of paper pulp sales and additional paper pulp purchases for the paper machines at Cloquet Mill.

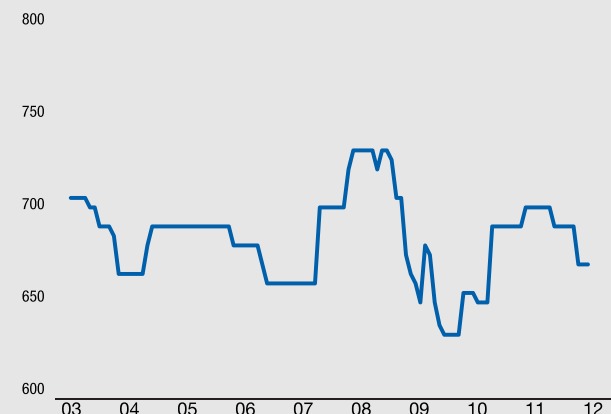
Overall we expect a similar level of operating performance from the fine paper segment in 2013 as was achieved in 2012.

Sappi's global position – coated woodfree paper (capacity '000 tons)



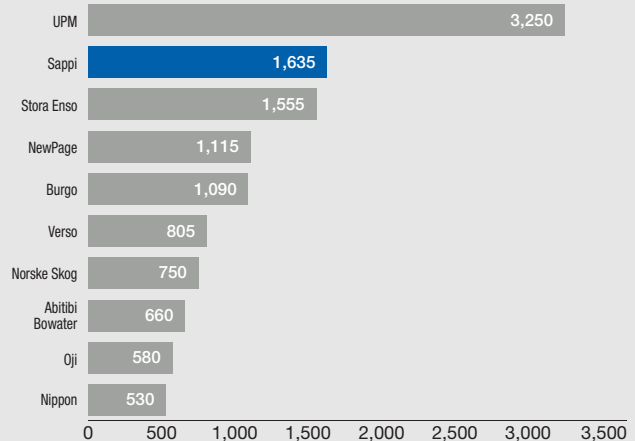
Source: EMGE World Graphics Paper Report, September 2012

Coated mechanical prices – 60g/m² offset reels Germany (Euro/metric ton*)



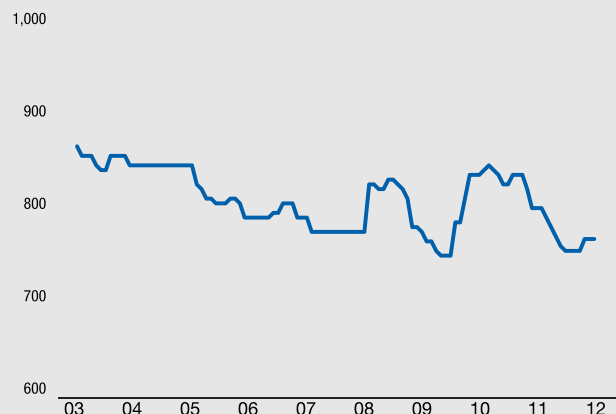
* Prices are list prices. Actual transaction prices could differ from prices shown.
Source: RISI

Sappi's global position – coated mechanical paper (capacity '000 tons)



Source: EMGE World Graphics Paper Report, September 2012

Coated woodfree prices – 100g/m² sheets Germany (Euro/metric ton*)



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

Focus on skills development

Sappi considers training and skills development to be the life-blood of any company. In a developing country such as South Africa, the ability to involve local communities who experience unemployment and a lack of skills in expansion and capital projects is equally important. Sappi Southern Africa's partial conversion of its Ngodwana Mill to manufacture dissolving wood pulp created the opportunity to train and employ local community members in the construction phase of the project. The training and development project, pioneered by Sappi and AMEC during the expansion of Sappi's Saiccor Mill near Durban, was recognised with a national skills development award, training over 550 Ngodwana community members in skills which they can use to find employment beyond this specific project.

Sappi Southern Africa

25%
of group sales

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

Sappi continues this tradition by innovating and developing new products to meet local demand for newsprint, coated and uncoated fine paper, office and business paper (stationery, printing and photocopying), security and speciality paper (passport and election ballot paper), containerboard (such as cardboard boxes used for exporting fruit) and packaging paper for the petfood, agriculture and fast moving consumer goods market. Bleached paper pulp produced is sold on the South African paper markets.

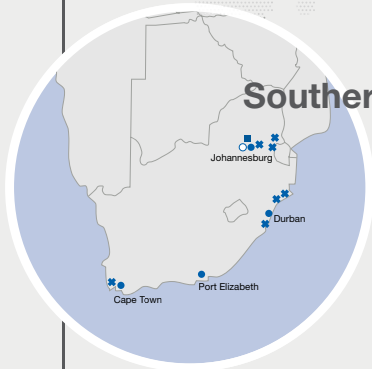
Dissolving wood pulp, a product made from wood, mostly from our plantations, is sold to converters for a wide range of consumer products such as clothing, cellular phone screens, cellophane wrap for sweets and flowers, pharmaceutical and household products, and make-up such as lipstick. We are the world's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

Sappi Forests supplies over 70% of the wood requirements of Sappi Southern Africa from both our own and managed commercial timber plantations of 554,000 hectares. This equates to more than 35 million tons of standing timber. All wood grown on Sappi-owned land and a large proportion grown on plantations managed by us is Forest Stewardship Council™ (FSC™) 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.

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

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

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 once more kept losses in our South African operations due to fire at a minimum. Over the past four years we have lost an average of 266 hectares per annum to fire, compared to an average of more than 7,000 hectares lost in each of 2007 and 2008.



accelerate

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

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

Divisions	Mills	Products produced	Capacity ('000 tons)		Employees*
			Paper	Pulp	
Sappi Paper and Paper Packaging	Cape Kraft Mill	Waste based linerboard and corrugating medium	60		
	Enstra Mill	Uncoated woodfree and business paper	200		
	Ngodwana Mill	Unbleached kraft pulp for own consumption, bleached chemical pulp for own consumption and market pulp		410	
		Mechanical pulp for own consumption		100	
		Kraft and white top linerboard	240		
		Newsprint	140		
	Stanger Mill	Bleached bagasse pulp for own consumption		60	
		Coated woodfree paper and tissue paper	110		
	Tugela Mill	Unbleached kraft and semi-chemical pulp for own consumption		210	
		Kraft linerboard and corrugating medium	280		
	Sappi ReFibre**	Waste paper collection and recycling for own consumption		200	
		Total Sappi Paper and Paper Packaging	1,030	980	3,290
		Total Sappi Southern Africa	1,030	1,780	5,860

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

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



Sappi Forests supplies over 70% of the wood requirements of Sappi Southern Africa.

Sappi Southern Africa continued

Saiccor Mill produced record volumes of dissolving wood pulp this past year as a result of maximum contract volumes and increased production efficiencies. We link the contracted sales prices of our products to the Dollar list price of NBSK pulp plus a suitable premium. The NBSK price declined during the year from a high in October 2011 of US\$942 per ton to a low of US\$762 per ton in September 2012. This decline was offset somewhat by the weakening in the Rand relative to the Dollar over the same period. This enabled us to continue to produce EBITDA margins, excluding special items, of at least 30% throughout the year.

The wage negotiation process with the South African Pulp and Paper Wage Bargaining Council this past year was more constructive than in previous years with no disruptions to our operations. In line with most other major South African industries and government, the July 2012 wage increase was above inflation. Unfortunately, other industries, particularly the road freight industry, were subject to strikes and these had some effect on both inbound and outbound logistics at the end of the financial year. We continue to communicate with employees and unions in order to minimise the harmful impacts of workplace disruption and above-inflation wage increases without increased productivity.


2012 saw a number of major interventions in the South African paper business. The pulp mills at Enstra and Tugela Mills were closed, as well as a paper machine at our Tugela Mill. We have also announced the mothballing of PM4 at Tugela Mill from 01 January 2013. These interventions arose from a review of our markets, assets and business processes.

The repositioned paper business is better aligned with our customers' needs, competitive and more profitable, although much work remains to achieve the desired level of returns from the business.

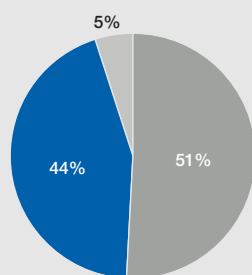
The repositioned paper business is better aligned with our customers' needs, competitive and more profitable although much work remains in this regard to achieve the desired level of returns from the business.

The conversion of the Ngodwana bleached pulp mill to produce 210,000 tons of dissolving wood pulp is progressing well and remains on track for start-up in the third financial quarter of 2013. The conversion is in line with our strategy to grow our specialised cellulose business, with a major portion of the dissolving wood pulp volume from this mill has been signed up on long term export contracts.

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

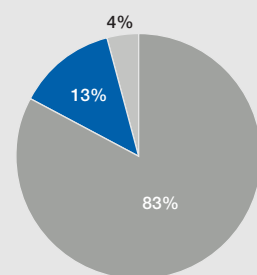
 Full details of our education, training, health and environmental initiatives can be found on our website www.sappi.com.

Sales by product
Southern Africa
2012: US\$1,559 million



■ Sappi paper and paper packaging
■ Dissolving wood pulp
■ Sappi forests and other

Sales by product
Fine paper
2012: US\$4,788 million



■ Coated paper
■ Speciality paper and other
■ Uncoated woodfree paper



Sappi continues product development to meet demand for such products as cardboard containers used for exporting fruit.

The year ahead

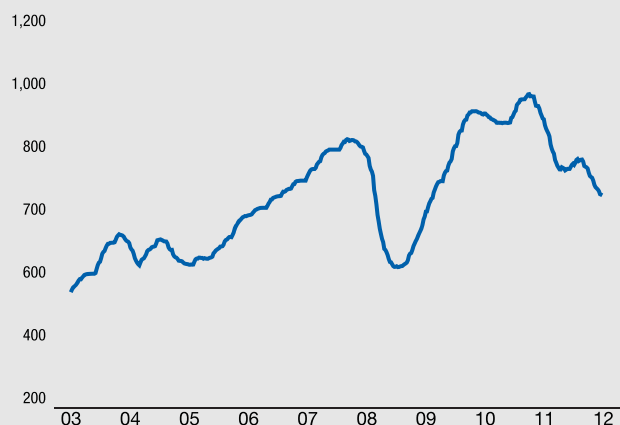
The demand for dissolving wood pulp continued to grow in 2012, albeit at a slower pace than that seen in 2010 and 2011 and we expect to see a continuation of that growth in 2013. As a result of this growth and the long term contracts we have in place in our specialised cellulose business, we expect good demand for our products in the coming year. Our major customers are leading viscose fibre producers who have exciting growth plans. As explained above, our contracted sales are linked to NBSK, and we forecast slightly lower average Dollar prices for NBSK in the coming year, however, this could be offset by a weaker Rand exchange rate. The conversion process at Ngodwana Mill will negatively affect earnings in the third quarter as a result of the extended shut required at the mill, and thereafter the mill is expected to ramp up close to full operational capacity by the end of the financial year.

As the paper business consolidates after the period of restructuring, we expect to see a gradual improvement in performance in a market that continues to be very competitive but where Rand weakness results in less aggressive competition from imports.



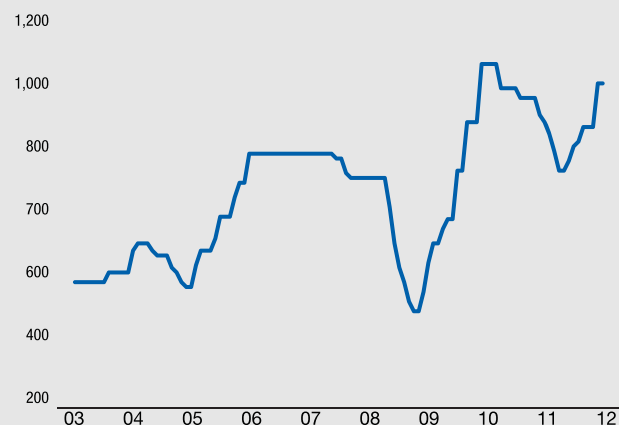
The conversion of Sappi Ngodwana Mill to also produce dissolving wood pulp is on track.

Northern bleached softwood kraft pulp – Europe (US\$/metric ton*)



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

Unbleached kraft linerboard – 175g/m² CIF Germany (Euro/metric ton*)



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

Five-year review

for the year ended September 2012

Five-year review

US\$ million	September 2012	September 2011	September 2010	September 2009	September 2008
Income statement					
Sales	6,347	7,286	6,572	5,369	5,863
Variable manufacturing and delivery costs	3,919	4,559	4,008	3,296	3,494
Fixed costs	1,992	2,296	2,158	1,974	1,923
Sundry expenses ¹	33	27	67	66	80
Operating profit excluding special items	403	404	339	33	366
Special items – (gains) losses	(18)	318	(2)	106	52
Operating profit (loss)	421	86	341	(73)	314
Net finance costs	283	307	255	145	126
Profit (loss) before taxation	138	(221)	86	(218)	188
Taxation charge (benefit)	34	11	20	(41)	86
Profit (loss) for the year	104	(232)	66	(177)	102
EBITDA excluding special items	772	821	752	431	740
Balance sheet					
Total assets	6,168	6,308	7,184	7,297	6,109
Non-current assets	3,990	4,085	4,653	4,867	4,408
Current assets	2,178	2,223	2,531	2,430	1,701
Current liabilities	1,315	1,652	2,039	1,841	1,926
Shareholders' equity	1,525	1,478	1,896	1,794	1,605
Net debt	1,979	2,100	2,221	2,576	2,405
Gross interest-bearing debt	2,624	2,739	3,013	3,346	2,679
Cash	(645)	(639)	(792)	(770)	(274)
Capital employed	3,504	3,578	4,117	4,370	4,010
Cash flow					
Cash generated from operations	728	798	737	432	623
(Increase) decrease in working capital	(102)	(98)	(5)	152	1
Finance costs paid	(206)	(266)	(206)	(107)	(139)
Finance revenue received	11	10	12	26	13
Taxation paid	(20)	(38)	(9)	(5)	(70)
Dividends paid	–	–	–	(37)	(73)
Cash retained from operating activities	411	406	529	461	355
Net cash generated (utilised) excluding acquisitions	127	163	341	289	(139)
Cash effects of financing activities	(103)	(296)	(256)	707	49
Capital expenditure (gross)	358	262	211	175	505
To maintain operations	177	213	173	146	250
To expand operations	181	49	38	29	255

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

US\$ million	September 2012	September 2011	September 2010	September 2009	September 2008
Statistics					
Number of ordinary shares (millions)					
In issue at year end ¹	520.8	520.5	519.5	515.7	229.2
Basic weighted average number of shares in issue during the year ^{1, 2}	520.8	519.9	516.7	482.6	362.2
Per share information (US cents per share)					
Basic earnings (loss) ²	20	(45)	13	(37)	28
Diluted earnings (loss) ²	20	(45)	13	(37)	28
Headline earnings (loss) ²	9	(16)	10	(21)	60
Diluted headline earnings (loss) ²	9	(16)	10	(21)	59
Ordinary dividend declared ³	–	–	–	–	16
Net asset value	293	284	365	348	700
Profitability ratios (%)					
Operating profit (loss) to sales	6.6	1.2	5.2	(1.4)	5.4
Operating profit excluding special items to sales	6.3	5.5	5.2	0.6	6.2
EBITDA excluding special items to sales	12.2	11.3	11.4	8.0	12.6
Operating profit excluding special items to capital employed (ROCE)	11.4	10.5	8.0	0.8	9.1
Return on average equity (ROE)	6.9	(13.8)	3.6	(10.4)	6.0
Debt ratios (%)					
Net debt to total capitalisation	56.5	58.7	53.9	58.9	60.0
Efficiency ratios					
Asset turnover (times)	1.0	1.2	0.9	0.7	1.0
Inventory turnover ratio	7.6	8.6	6.9	6.3	6.9
Liquidity ratios					
Current asset ratio	1.7	1.4	1.2	1.3	0.9
Trade accounts receivable days outstanding (including receivables securitised)	44	43	54	58	48
Cash interest cover (times)	2.4	2.4	2.5	3.2	4.4
Other non-financial information					
Sales volumes	7,705	7,898	7,894	6,707	6,851
Number of full-time equivalent employees	14,039	14,862	15,586	16,427	15,156
Lost time injury frequency rate (including contract employees)	0.56	0.62	0.51	0.66	0.59
Energy					
Specific net purchased energy (GJ/adt)	14.61	16.06	16.23	17.87	17.70
Renewable energy to total energy (%)	50.30	48.31	48.23	49.33	48.04
Water					
Specific process water drawn (m ³ /adt)	36.13	35.27	35.85	39.18	40.76
Specific process water returned (m ³ /adt)	33.42	32.81	33.18	35.41	36.31
Waste					
Specific total landfill (ton/adt)	0.086	0.086	0.080	0.105	0.125
Specific scope 1 emissions from purchased energy (ton CO ₂ eq/adt)	0.64	0.71	0.69	0.77	0.79
Specific scope 2 emissions from purchased energy (ton CO ₂ eq/adt)	0.27	0.28	0.30	0.33	0.31
Exchange rates					
US\$ per one Euro exchange rate – closing	1.2859	1.3386	1.3491	1.4688	1.4615
US\$ per one Euro exchange rate – average (12 month)	1.2988	1.3947	1.3658	1.3657	1.5064
ZAR to one US\$ exchange rate – closing	8.3096	8.0963	7.0190	7.4112	8.0751
ZAR to one US\$ exchange rate – average (12 month)	8.0531	6.9578	7.4917	9.0135	7.4294

Refer to share statistics on page 46 for other market and share related information.

1. Net of treasury shares (refer to note 17).
2. In the 2009 financial year, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR1.00 each to qualifying Sappi shareholders. In accordance with IAS 33, the fiscal 2008 basic, headline and diluted earnings per share have been restated to take into account the bonus element of the rights offer. As such, the 2008 weighted average number of shares have been adjusted by a factor of 1.58 (the adjustment factor). The adjustment factor was calculated using the pre-announcement share price divided by the theoretical ex-rights price (TERP). TERP is the [(number of new shares multiplied by the subscription price) plus the (number of shares held multiplied by the ex-dividend share price)] all divided by the (number of new shares plus the number of shares held prior to the rights offer).
3. The dividends for all the financial years were declared subsequent to year end.

Note: Definitions for various terms and ratios used above are included in the glossary on page 183.

Share statistics

Shareholding

Ordinary shares in issue	Number of shareholders	%	Number of shares ¹	% of shares in issue
1 – 5,000	4,957	83.3	3,136,548	0.6
5,001 – 10,000	139	2.3	1,042,652	0.2
10,001 – 50,000	266	4.5	6,278,649	1.2
50,001 – 100,000	125	2.1	9,275,138	1.8
100,001 – 1,000,000	372	6.2	123,445,830	23.7
Over 1,000,000	95	1.6	377,665,645	72.5
	5,954	100.0	520,844,462	100.0

Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.18
Group directors	0.18
Associates of group directors	–
Trustees of the company's share and retirement funding schemes	–
Shareowners who, by virtue of any agreement, have the right to nominate board members	–
Shareowners interested in 10% or more of the issued shares	–
Public (the number of public shareholders as at September 2012 was 5,946)	99.82
	100.00

1. The number of shares excludes 20,601,761 treasury shares held by the group.

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

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to Section 56(7) of the Companies Act 71 of 2008 (as amended) of South Africa, the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 2012, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

	Shares	%
Public Investment Commissioner (SA)	54,428,941	10.5

Further, as a result of these investigations, the directors have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of September 2012, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

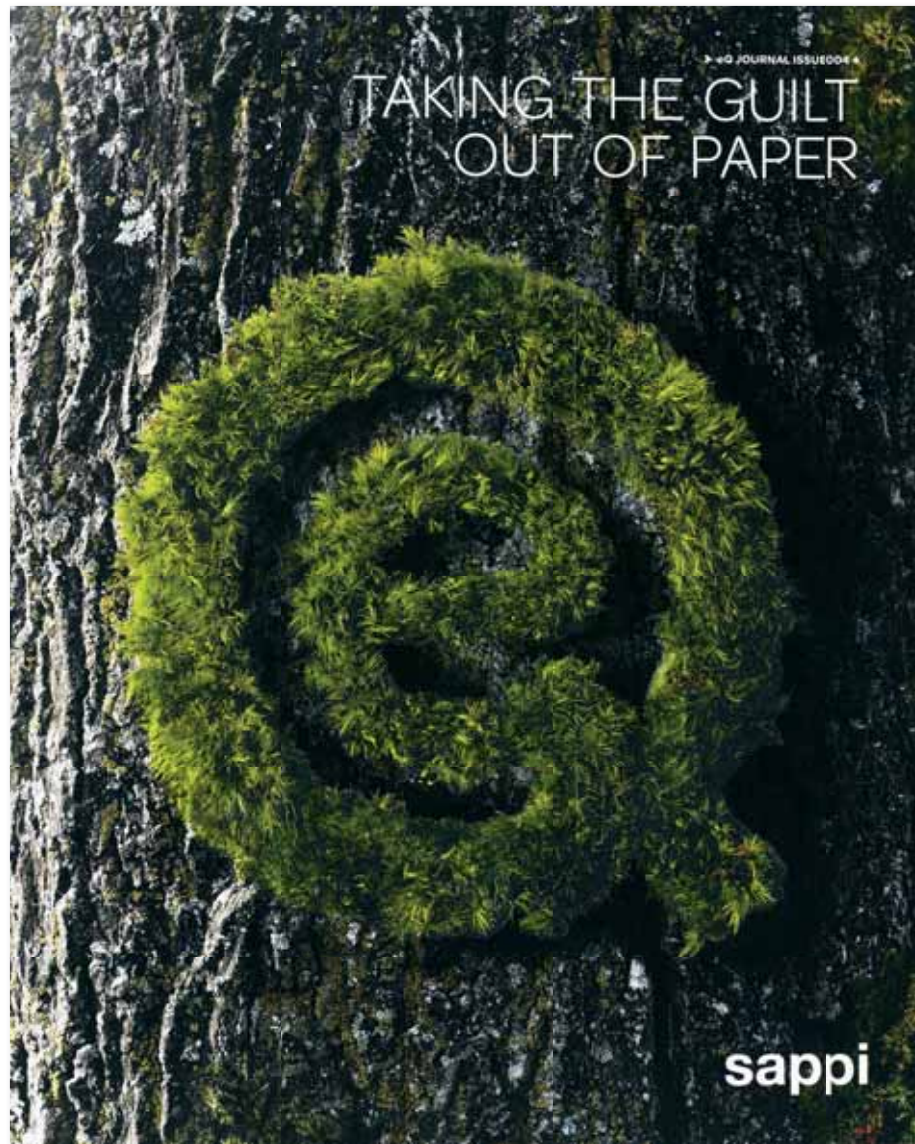
	Shares	%
Allan Gray Limited	111,244,997	21.4
Investec Asset Management	78,606,338	15.1
Coronation Fund Managers	53,977,823	10.4

Share statistics	2012	2011	2010	2009	2008
Ordinary shares in issue (millions) ¹	520.8	520.5	519.5	515.7	229.2
Net asset value per share (US cents)	293	284	365	348	700
Number of shares traded (millions)					
JSE	365.29	469.13	467.00	443.40	241.58
New York	2.84	6.29	11.27	66.28	51.04
Value of shares traded					
JSE (ZAR million)	9,262.9	15,786.4	14,859.9	12,989.4	22,623.4
New York (US\$ million)	8.9	31.1	46.4	259.1	634.3
Percentage of issued shares traded	70.7	91.3	92.1	98.8	127.7
Market price per share					
– year end					
JSE (South African cents)	2,366	2,385	3,565	2,855	5,054
New York (US\$)	2.85	3.04	5.14	3.76	6.32
– highest					
JSE (South African cents)	2,999	3,962	3,792	5,403	7,661
New York (US\$)	3.73	5.95	5.14	6.41	9.98
– lowest					
JSE (South African cents)	2,092	2,107	2,539	1,290	4,700
New York (US\$)	2.57	2.92	3.27	1.24	5.72
Earnings yield (%) ²	7.02	negative	2.56	negative	4.47
Dividend yield (%) ²	–	–	–	–	2.56
Price/earnings ratio (times) ²	14.25	negative	39.08	negative	22.36
Total market capitalisation (US\$ million) ²	1,484	1,535	2,639	1,985	1,435

1. The number of shares excludes 20,601,761 treasury shares held by the group.

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

Note: Definitions for various terms and ratios used above are included in the Glossary on page 183.



Focus on

paper – here today here tomorrow

The death of paper has been prematurely predicted many times over. Sappi, as a leading producer of coated fine paper, used in communication materials from brochures and catalogues to direct mail and books and reports, continuously engages with customers and other stakeholders to explain and demonstrate the ongoing value and critical role that paper plays in effective communication. Sappi also engages with the market on the facts regarding the perceived environmental impact of using paper. One such example is the Sappi Fine Paper North America eQ Journal titled “Taking the guilt out of using paper”. Paper continues to be a key component of Sappi’s strategy into the future. It is a natural and renewable material, easily recycled and extremely versatile. In addition, the industry is part of the low carbon solution promoted to combat climate change and the efforts of responsible companies have greatly contributed to the significant reforestation of large parts of the globe.

Section 1

Financial highlights

A key highlight during the year was the successful refinancing of the vast majority of the 2014 bonds.



Steve Binnie – Chief financial officer

Financial highlights

US\$ million	2012	2011	% Change
Sales	6,347	7,286	(13)
Operating profit excluding special items	403	404	–
EBITDA excluding special items	772	821	(6)
Profit (loss) for the period	104	(232)	n/a
Operating profit excluding special items to sales %	6.3	5.5	n/a
Operating profit excluding special items to capital employed (ROCE) %	11.4	10.5	n/a
Net cash generated	127	163	(22)
Net debt	1,979	2,100	(6)
Earnings (loss) per share (US cents per share)	20	(45)	n/a

During 2012 Sappi benefited from actions undertaken the previous year to improve operational efficiency and cut costs. This enabled us to deliver much stronger results for the year and, importantly, a return to bottom-line profitability. We lifted net profit to US\$104 million from a loss of US\$232 million last year.

Trading conditions continued to be difficult, with both pricing and volumes in our primary markets under pressure. Against this background it was a significant achievement that operating profit before special items of US\$403 million was at the same level as the prior year.

Our financial position has improved and net debt at year end was reduced to US\$1,979 million, with net debt to EBITDA excluding special items at 2.6 times. This is a major step towards our long term target of between 1.5 and 2.0 times and a vast improvement from a recent high of 6 times in 2009. A key highlight during the year was the successful refinancing of the vast majority of the 2014 bonds through the issue of a US\$400 million bond due in 2017 and a US\$300 million bond due in 2019 in September 2012. €31 million of the 2014 bonds remained outstanding and we are currently in the process of repurchasing these bonds. The benefits from the transaction began to be realised in the fourth quarter of financial year 2012. The annual interest charge is expected to decrease by approximately US\$45 million as a result, with the cash interest charge reducing by approximately US\$30 million. Additionally, the improved maturity profile provides greater flexibility to implement our strategic growth initiatives and we now have no substantial debt maturities outside South Africa until 2017.

Last year, we announced two major projects to convert existing facilities in South Africa and North America to produce dissolving wood pulp. Both projects are progressing according to schedule and we anticipate commencing production in the third quarter of 2013. The combined capital cost of these projects is expected to be approximately US\$500 million. US\$156 million and US\$16 million has been paid in 2012 and 2011 respectively. During the 2013 financial year our operating profit will be negatively impacted by once-off costs of approximately US\$40 million associated with the start-up phase of the conversions. We are excited about the prospects for the enlarged Specialised Cellulose business and the projects will start contributing to operating profit and cash flows towards the latter part of the 2013 financial year.

Section 1 – Financial highlights continued



Segment reporting

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

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

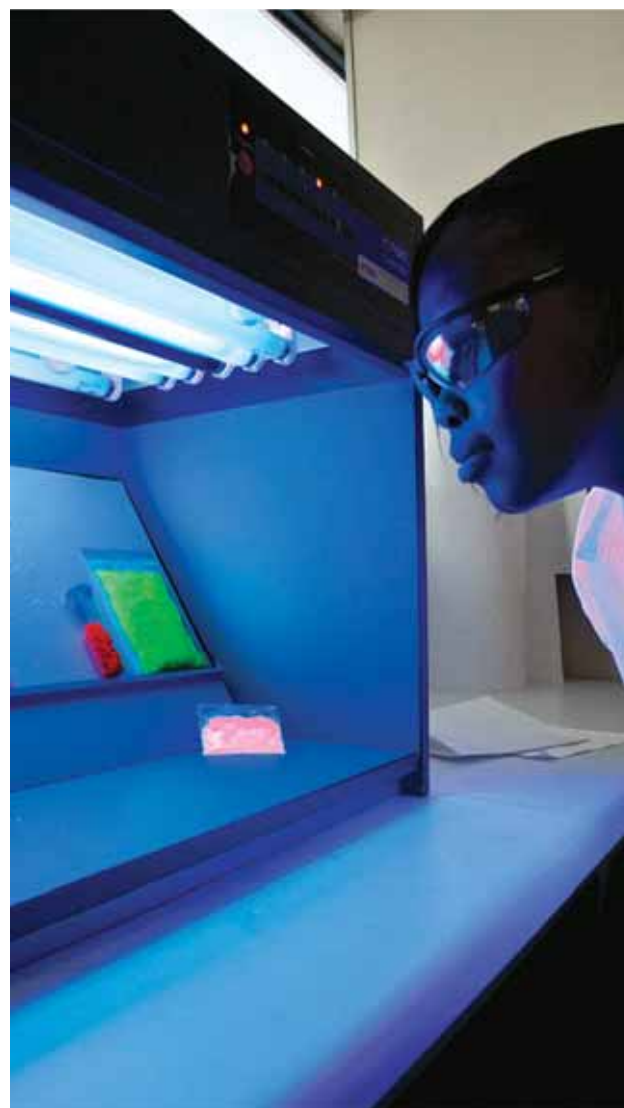
As is required by IFRS 8 – *Operating Segments*, this is the basis on which financial and descriptive information is evaluated by our executive committee in deciding how to allocate resources and evaluate performance.

Exchange rates and their impact on the group's results

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

	Income statement average rates		Balance sheet closing rates	
	2012	2011	2012	2011
Euro (EUR)				
1 = US Dollar (US\$)	1.2988	1.3947	1.2859	1.3386
US Dollar (US\$)				
1 = Rand (ZAR)	8.0531	6.9578	8.3096	8.0963

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



Our specialised security paper is being used in the new South African passport, regarded as the most advanced and secure passport in the world.

Section 2

Financial performance

The discussion in this section focuses on the group financial performance in 2012 compared with 2011. A detailed discussion on the performance, in local currencies, of each of our three operating regions follows in Section 3.

When comparing our results it is important to note that the 2011 financial year contained 53 weeks compared with our 2012 financial year which had 52 weeks. The estimated net impact of the additional week in 2011, on operating profit excluding special items, was a positive US\$8 million (assuming a pro-rata accumulation of operating profit over the period).

Income statement

Our group financial results can be summarised as follows:

Income statement	2012	2011	% Change
Sales volume (metric tons '000)	7,705	7,898	(2)
	US\$ million	US\$ million	% Change
Sales revenue	6,347	7,286	(13)
Variable manufacturing and delivery costs	(3,919)	(4,559)	(14)
Fixed costs	(1,992)	(2,296)	(13)
Sundry items ¹	(33)	(27)	22
Operating profit excluding special items	403	404	–
Special items	18	(318)	n/a
Operating profit	421	86	390
Finance costs	(283)	(307)	(8)
Taxation	(34)	(11)	209
Profit (loss) for the period	104	(232)	n/a
Basic earnings (loss) per share (US cents)	20	(45)	n/a

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

Sales volume

In 2012, sales volume decreased by 193,000 tons, or 2%, compared with 2011. The regional contributions to sales volumes are shown below.

Sales volume (metric tons '000)	2012	2011	% Change
Sappi Fine Paper Europe	3,507	3,845	(9)
Sappi Fine Paper North America	1,400	1,436	(3)
Sappi Southern Africa	2,798	2,617	7
Paper and pulp (excluding dissolving wood pulp)	933	968	(4)
Dissolving wood pulp	743	732	2
Forestry	1,122	917	22
Group	7,705	7,898	(2)

Trading conditions in many of our markets remained challenging throughout the year and demand for our products continued to be under pressure. The notable exception was the Specialised Cellulose business which manufactures and sells dissolving wood pulp and extended its volume growth into financial year 2012.

The 9% reduction in Sappi Fine Paper Europe sales volume was largely attributable to weaker demand for coated paper compared to last year and the closure of the Biberist Mill during August 2011. This reduced the capacity of our European business by 500,000 tons. The supply for many of the Biberist Mill customers was transferred to our other European mills which boosted their capacity utilisation.

Despite the difficult trading environment experienced during the year, capacity utilisation remained on par with last year in all regions as shown in the table below.

Sales volume to capacity	2012	2011
Sappi Fine Paper Europe	93%	94%
Sappi Fine Paper North America	95%	96%
Sappi Southern Africa	87%	86%
Group	92%	92%

Section 2 – Financial performance continued

Sales revenue

Sales revenue decreased by 13% from US\$7.3 billion in 2011 to US\$6.3 billion in 2012. In addition to the lower sales volumes discussed above, average selling prices declined as a result of lower pulp prices and slightly weaker prices in certain grades of paper. The weaker Rand and Euro exchange rates relative to the US Dollar and the translation impact also reduced revenue (see the waterfall chart on page 54).

Variable and delivery costs

Variable and delivery costs reduced by US\$640 million, or 14%, from 2011. This reduction was proportionally much larger than the reduction in sales volume due to significant price decreases, in US Dollar terms, of pulp and a decrease in delivery costs per ton. The prices of other major inputs, including wood, chemicals and energy were largely flat. The exception was the cost of energy in South Africa which continues to experience substantial increases in pricing from the national energy supplier.

Pulp prices continued to fall in financial year 2012. For example, Northern Bleached Softwood Kraft (NBSK) began the year at US\$943 per ton and by 30 September 2012 had dropped to US\$762 per ton. Across the group, we are 98% economically pulp integrated. See the graph below for the integration by region. Lower pulp prices would benefit our European business through reduced input costs but would adversely impact our dissolving wood pulp prices in South Africa (which are largely linked to NBSK prices) and our paper pulp sales in North America.

The table below reflects the breakdown of variable and delivery costs by type.

Variable manufacturing and delivery costs (US\$ million)	2012	2011	% Change
Wood	723	773	(6)
Energy	565	670	(16)
Pulp	753	987	(24)
Chemicals	1,028	1,117	(8)
Other	324	415	(22)
Delivery	526	597	(12)
Group	3,919	4,559	(14)

Fixed costs

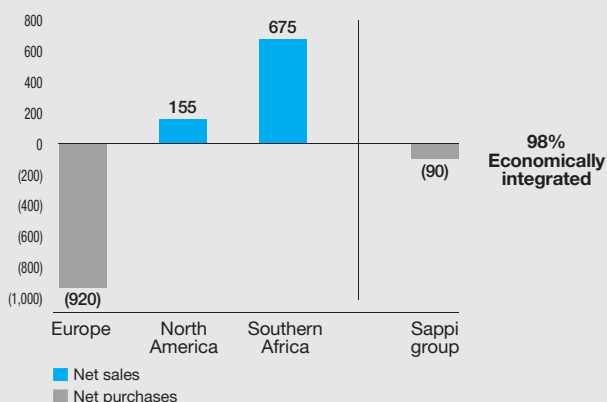
Fixed costs decreased by US\$304 million from last year.

This decrease was the result of restructuring, cost-saving initiatives and the closure of the Biberist Mill in Europe during 2011.

Details of the make-up of fixed costs are provided in the table below.

Fixed costs (US\$ million)	2012	2011	% Change
Personnel	1,098	1,238	(11)
Maintenance	253	300	(16)
Depreciation	367	414	(11)
Other	274	344	(20)
Group	1,992	2,296	(13)

Economic pulp integration
Sappi group pulp balance* ('000 tons)



* Based on pulp production capacity and includes 800,000 tons production capacity per annum of dissolving wood pulp.



Tree research is conducted at our Shaw Research facility in South Africa, in order for Sappi to only grow the most time, fibre and cost effective stock possible.

h1>improvement

Operating profit excluding special items

Our operating profit, excluding special items, of US\$403 million in 2012 was in line with the US\$404 million achieved in 2011. This was achieved despite the more difficult trading conditions.

The tables below show the operating profit excluding special items of our businesses for both 2012 and 2011 and the operating margin of each.

Operating profit excluding special items by region (US\$ million)	2012	2011
Europe	133	68
North America	94	129
Southern Africa	178	199
Corporate and other	(2)	8
Sappi group	403	404

Operating margin by region Percentage	2012	2011
Europe	4.0%	1.7%
North America	6.5%	8.5%
Southern Africa	11.4%	11.0%
Sappi group	6.3%	5.5%

Operating profit excluding special items by product category (US\$ million)	2012	2011
Specialised cellulose (dissolving wood pulp)	200	250
Paper	205	146
Other	(2)	8
Operating profit excluding special items	403	404

Macro-economic uncertainty combined with overcapacity in key segments and increased competition in export markets created difficult trading conditions for our European business. Demand for coated paper, in particular mechanical coated reels, was down significantly. Against this background we are pleased the initiatives taken over the past year to reduce costs and improve efficiency have been successful. The upshot was an operating profit excluding special items of US\$133 million, almost double that of last year while operating margin increased from 1.7% to 4.0%.

North America's markets were also characterised by weak demand, albeit not to the extent of the downward pressure experienced by Europe. Despite this, the coated business sales were strong and we gained market share while the pulp business and release business saw their performance negatively impacted by the weak global economy. As a result, operating profit excluding special items reduced to US\$94 million from US\$129 million and operating margin decreased from 8.5% to 6.5%.

The Southern African business benefited from another good year from specialised cellulose. Unfortunately, profitability towards the end of the year was affected by lower NBSK prices which influence the pricing for our dissolving wood pulp. If these lower prices persist, they would reduce profits going forward. However, this impact is being offset, to some extent, by the weaker Rand against the US Dollar. The sensitivity to the currency and pulp prices in the Southern African business can be assessed from the 'Major Sensitivities' section below. Efforts to lower costs in the paper operations continue but that business did incur a loss in 2012. Conditions were challenging for both containerboard, graphic paper and pulp sales, with the threat of imports adding to price pressure as the Rand remained strong. Despite this productivity improvements and cost savings allowed the region to increase operating margin from 11.0% to 11.4%.

For the overall group, operating margin improved from 5.5% in financial year 2011 to 6.3% this year, a significant achievement considering the lower sales volumes and prices.

Reconciliation of operating profit excluding special items: 2012 compared with 2011

As can be observed from the graph on page 54, the exchange rate movement had a significant impact on both revenue and costs. The lost revenue from lower sales volumes and price decreases was largely offset by savings in variable and fixed costs.

Key operating targets

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

Special items

Special items consist of those items which management believe are material, by nature or amount, to the results for the year and require separate disclosure. A breakdown of special items for 2012 and 2011 is reflected in the table below:

Special items gain (charge): US\$ million	2012	2011
Plantation price fair value adjustment	(15)	(16)
Restructuring provisions released (raised)	2	(135)
Asset and investment impairments	(10)	(167)
Fire, flood and related events	(19)	(6)
Black Economic Empowerment charge	(3)	(5)
Profit on disposal of property, plant and equipment	63	1
Insurance recoveries	-	10
Total	18	(318)

Section 2 – Financial performance continued

The net impact of special items was to improve our net profit in 2012 by US\$18 million. The major components of this were:

- > The negative non-cash US\$15 million plantation price fair value adjustment was largely due to higher fuel and harvesting costs offset by timber market price increases. Please refer to the Balance Sheet section below for more information about the accounting for plantations
- > The asset impairments primarily relate to specific parts of mills in South Africa where production lines have been curtailed
- > Various non-core assets were disposed and we recognised gains of US\$45 million and US\$11 million for Biberist assets and the Jiangxi Joint Venture respectively (including the impact of releasing the foreign currency translation reserve)
- > During the year the Cloquet Mill incurred flood damage of US\$9 million and fires at the Nijmegen Mill and Usutu forests cost US\$4 million each. Since we self-insure up to €20.5 million (with an aggregate loss limit of €33 million for all claims exceeding €4 million), the property damage and business interruption costs of these incidents will be borne by the group. The exact amounts of these costs will be determined once the claims are finalised.

Finance costs in financial 2012 of US\$283 million were US\$24 million lower than last year for the following reasons:

US\$ million	Increase (decrease)
Costs for refinancing the 2014 bonds in 2012	86
Breakage fees on repaying the 2012 bonds and the OeKB loan in 2011	(55)
Interest saved on refinancing the above debt	(25)
Difference on amortisation of costs	(15)
Exchange rate impact and other items	(15)
Total	(24)

The full accounting cost for refinancing the vast majority of the 2014 bonds was US\$86 million. This comprises the cash cost of US\$44 million related to breakage fees due to the early redemption of the bonds and US\$42 million for the accelerated amortisation of the discount on the original issue of the bonds which would have been charged to the Income Statement over the remaining life of the bonds.

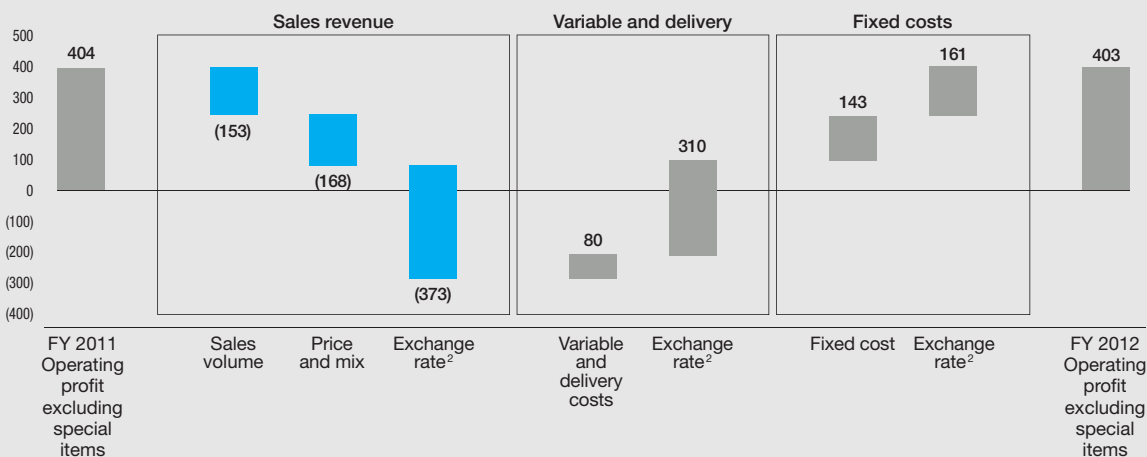
With lower debt levels and benefits from the refinancing, we expect finance costs to run at approximately US\$160 million per annum. We are therefore expecting a substantial reduction of this cost in financial year 2013.

Finance costs

US\$ million	2012	2011
Net interest paid	299	336
Net foreign exchange gains	(5)	(13)
Net fair value gain on financial instruments	(5)	(16)
Interest capitalised	(6)	–
Total	283	307

Reconciliation of operating profit excluding special items: 2012 compared with 2011¹

(US\$ million)



1. All variances were calculated excluding Sappi forestry.

2. Exchange rate reflects the impact of changes in the average rates of translation of foreign currency results.

cost reduction

Taxation

The tax expense increased by US\$23 million to US\$34 million in 2012. The group's effective tax rate was 25%. A regional breakdown of the tax charge is provided below:

Taxation US\$ million	Profit (loss) before tax	Tax charge	Effective tax rate %
Europe	(66)	—	—
North America	72	11	15
Southern Africa	132	23	17
Group	138	34	25

In Europe, the loss before tax is primarily attributable to the once-off expenses of US\$86 million related to the refinancing of the 2014 bonds. We do not book tax relief on all pre-tax losses in Europe because at this time we do not believe there is sufficient certainty that we will generate enough profits in certain countries to recover these losses in the near future. We have large unrecognised tax losses in Austria, Finland and Belgium which will substantially shield any profits earned in those countries in the near future.

The tax charge for the North American business relates mainly to US Federal Alternative Minimum Tax and taxes paid in certain of the states where we operate. At the end of the third quarter of fiscal 2012, we recognised a deferred tax asset of US\$101 million directly into other comprehensive income. The deferred tax arose from the raising of pension fund liabilities which are temporary tax differences and also recognised in other comprehensive income. As a result we began to recognise taxes at statutory federal and state tax rates from the fourth quarter of fiscal 2012.

Southern Africa benefited from the utilisation of tax losses brought forward in South Africa. Also, no tax was charged on profits from our Swaziland forestry business due to the availability of tax losses carried forward.

Profit (loss) for the period, earnings (loss) per share and dividends

After taking into account finance costs and taxation, our profit (loss) for the period and earnings (loss) per share for 2012, with comparatives for 2011, were as follows:

US\$ million	2012	2011
Operating profit	421	86
Finance costs	(283)	(307)
Profit (loss) before tax	138	(221)
Taxation	(34)	(11)
Profit (loss) for the period	104	(232)
Weighted average number of shares in issue (millions)	521	520
Earnings (loss) per share (US cents)	20	(45)

In view of the group's level of debt and the capital expenditure commitments for the dissolving wood pulp conversions, the board does not believe it to be appropriate to declare a dividend for financial 2012.



Upgrade of PM3, Somerset Mill, North America.

Section 3

Here we discuss the performance of the regional businesses. The discussion is based on performance in local currencies as we believe this facilitates a better understanding of the revenue and costs in the European and Southern African operations.

Sappi Fine Paper Europe

	2012	2011	% Change
Sales volume (metric tons '000)	3,507	3,845	(9)

	€ million 2012	€ million 2011	% Change	€ per ton 2012	€ per ton 2011	% Change
Sales	2,579	2,843	(9)	735	739	(1)
Variable manufacturing and delivery costs	(1,690)	(1,946)	(13)	(482)	(506)	(5)
Contribution	889	897	(1)	253	233	9
Fixed costs	(771)	(838)	(8)	(220)	(218)	1
Sundry costs and consolidation entries	(16)	(10)	n/a	(4)	(2)	n/a
Operating profit excluding special items	102	49	108	29	13	123

The European business experienced difficult trading conditions during financial 2012 with persisting overcapacity in the coated paper market exacerbated by economic turmoil in many of our major European markets. The business performed well under these conditions and increased operating profit excluding special items by 108% from €49 million in financial 2011 to €102 million in financial 2012.

Sales volumes were down 9% on last year due to lower sales of all major products and a reduction in uncoated woodfree paper capacity after the Biberist Mill closure in August 2011. Average selling prices in Euro terms were down 1% from fiscal 2011, which included slight decreases in average selling prices for most coated paper products, offset somewhat by increased average selling prices for speciality products.

Variable manufacturing and delivery costs decreased from fiscal 2011 by 13%, or 5% on a per ton basis. Prices of all major raw materials, being wood, pulp and chemicals, reduced compared with last year. Variable manufacturing costs per ton reduced by 6% from an average in financial 2011 of €449 to an average of

€424 in fiscal 2012. The business kept energy costs per ton in line with 2011 despite prices of energy increasing during the year. In addition, the region was able to achieve significant savings from the variable cost reduction programme initiated during financial year 2011. Delivery costs per ton remained at levels similar to those of last year.

The reduction of 8% in fixed costs compared to financial 2011 also reflects the success of our cost reduction programme which included the closure of the Biberist Mill. Cash fixed costs reduced by 8% from €676 million in 2011 to €624 million in 2012. Depreciation decreased from €162 million in 2011 to €147 million in 2012. Going forward, variable and fixed cost control remains a priority.

We plan to convert the PM2 at the Alfeld Mill from 150,000 tons of coated fine paper to 135,000 tons of speciality paper per annum. This conversion will not only increase our capacity in a specialised, growing and higher margin business, but will also improve our cost position in coated woodfree graphic paper and further reduce our graphic paper capacity.

Sappi Fine Paper North America

				2012	2011	% Change
Sales volume (metric tons '000)				1,400	1,436	(3)
	US\$ million 2012	US\$ million 2011	% Change	US\$ per ton 2012	US\$ per ton 2011	% Change
Sales	1,438	1,520	(5)	1,027	1,058	(3)
Variable manufacturing and delivery costs	(879)	(899)	(2)	(628)	(626)	–
Contribution	559	621	(10)	399	432	(8)
Fixed costs	(458)	(482)	(5)	(327)	(336)	(3)
Sundry costs and consolidation entries	(7)	(10)	n/a	(5)	(6)	n/a
Operating profit excluding special items	94	129	(27)	67	90	(26)

The North American business performed well in the face of weak market conditions and pricing pressure on coated paper, speciality products and particular pressure on paper pulp pricing during 2012. The coated paper business mitigated the impact of the weak market conditions to a large extent and increased market share with its continued focus on differentiation through excellent service and product quality. Strong manufacturing performance and good cost control also benefited the coated business performance. Operating profit excluding special items decreased by 27% from US\$129 million in 2011 to US\$94 million this year.

Total sales volume decreased by 3% compared with last year including a 2% reduction in coated paper sales volume, a 6% reduction in pulp sales volume and a 14% reduction in speciality product sales volume. The pulp business was negatively impacted by unplanned production outages in the first quarter as well as the severe flooding which led to the closure of the pulp and paper mill at Cloquet. The specialties business was particularly hard hit by the weak global economy and the impact this had on demand from China for our release papers.

Overall average net selling prices decreased by 3% compared with 2011. Selling prices of our coated paper and speciality products held up relatively well considering the weak markets for these products and decreased on average by 2% and 1% respectively, from 2011. However, pulp selling prices came under severe pressure and reduced by 13% on average.

Cost management remained a priority and costs continued to be well controlled. Variable manufacturing and delivery costs per ton of US\$628 remained on par with last year. Increases in wood and chemical input prices were offset by lower priced purchased pulp. Improved manufacturing efficiencies and successful procurement initiatives kept costs low by reducing overall material usage. Fixed costs decreased by US\$24 million, or 5%, largely due to a reduction in manpower costs.

The Cloquet pulp mill conversion from kraft pulp to dissolving wood pulp remains on track to commence production during the third financial quarter of fiscal 2013.

Sappi Southern Africa

Sales volume (metric tons '000)				2012	2011	% Change	
				Pulp & paper	1,676	1,700	(1)
				Forestry	1,122	917	22
				Total	2,798	2,617	7
	ZAR million 2012	ZAR million 2011	% Change	ZAR per ton 2012	ZAR per ton 2011	% Change	
Sales	12,555	12,531	–	4,487	4,788	(6)	
Variable manufacturing and delivery costs	(6,801)	(6,584)	3	(2,431)	(2,516)	(3)	
Contribution	5,754	5,947	(3)	2,056	2,272	(10)	
Fixed costs	(4,284)	(4,485)	(4)	(1,531)	(1,714)	(11)	
Sundry costs and consolidation entries	(37)	(77)	n/a	(13)	(29)	n/a	
Operating profit excluding special items	1,433	1,385	3	512	529	(3)	

The Southern African business returned an operating profit excluding special items of ZAR1,433 million compared with ZAR1,385 million in financial year 2011.

Section 3 continued

The Specialised Cellulose business experienced strong demand and performed well during the year, but a 14% decline in the average NBSK US Dollar pulp price, to which our dissolving wood product pricing is linked, had a negative impact on selling prices compared with last year. This negative price impact was offset to some extent by the weak Rand exchange rate against the US Dollar relative to last year. Average selling prices for dissolving wood pulp only decreased by 2% in Rand terms. Sales volume was robust and increased by 2%.

The recent restructuring initiatives implemented in the Paper and Paper Packaging business were successful and reduced fixed costs by 12% from 2011. In addition, the business improved operational performance in a number of areas but still made an operating loss. Market conditions were difficult with pressure coming from imports of packaging, coated woodfree and uncoated woodfree paper. Sales volume decreased by 4% compared with 2011. Average selling prices for paper were

2% higher than last year, due to a combination of an improved sales mix of higher priced products and price increases achieved for certain major products.

Variable manufacturing and delivery costs per ton for our Pulp and Paper business increased by 5% compared with 2011. The business experienced sharp increases in the prices of raw materials and input costs, particularly for energy, following increases from the national energy supplier, and pulping chemicals. The increases in input costs and raw material prices were offset by the negotiation of improved contract rates and the optimisation of transport logistics.

Fixed costs for the Southern African business decreased by 4% as a result of restructuring actions that commenced last year. We remain positive that our restructuring initiatives and continued focus on cost management will further reduce costs in 2013 and beyond.

Major sensitivities

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

Sensitivities	Change	Europe € million	North America US\$ million	Southern Africa ZAR million	Group US\$ million
Net selling prices	1%	24	13	120	57
Variable costs	1%	14	7	71	33
Sales volume	1%	9	5	49	22
Fixed costs	1%	8	5	45	20
Oil price	US\$1	3	1	4	5
Pulp prices	US\$10	(6)	1	62	2
Wood prices	1%	2	2	7	6
ZAR/US\$	10 cents	–	–	77	9
Euro/US\$	10 cents	–	2	–	2

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

A rise in international pulp prices positively impacts the Southern African and North American business as these operations are net sellers of pulp whereas the European business, as net purchaser of pulp, is adversely impacted by such a shift.

The calculation of the impact of these sensitivities assumes all other factors remain constant and does not take into account potential management interactions to mitigate negative impacts or enhance benefits.

Section 4

Cash flow

In the table below we present the group's cash flow statement for 2012 and 2011 in a summarised format:

US\$ million	2012	2011
Operating profit excluding special items	403	404
Depreciation and amortisation	369	417
EBITDA excluding special items	772	821
Contributions to post-employment benefits	(62)	(70)
Other non-cash items	18	47
Cash generated from operations	728	798
Movement in working capital	(102)	(98)
Capital expenditure	(358)	(262)
Finance costs	(195)	(256)
Taxation	(20)	(38)
Proceeds from disposal of assets	72	6
Other	2	13
Net cash generated	127	163

Following the net cash generation of US\$163 million in 2011, a further US\$127 million was generated in the current year. This was achieved despite higher capital expenditure associated with the dissolving wood pulp conversion projects.

The net working capital investment of US\$102 million is principally a result of the utilisation of restructuring provisions in Europe that existed at September 2011 for the Biberist Mill and

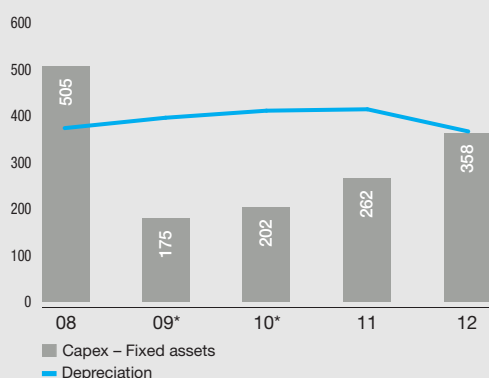
regional management structures. Working capital management remains a high priority and this is discussed in more detail in the Balance Sheet section below.

Capital expenditure for the year of US\$358 million includes an outlay of US\$156 million for the dissolving wood pulp conversions. We strive to keep our expenditure at relatively low levels and the balance of this cost is aimed mainly at maintaining our production facilities. As can be observed from the bar graph below, in recent years, prior to the current year projects, we have spent considerably less on capital expenditure than our depreciation charge. We estimate our annual maintenance capital expenditure to be approximately US\$170 million.

Cash finance costs for the year of US\$195 million were US\$61 million less than last year following the improved liquidity position and lower costs associated with the funding facilities that were refinanced in 2011 and 2012. The income statement charge for finance costs was US\$283 million. The difference largely relates to the once-off costs of US\$86 million for refinancing the 2014 bonds.

An objective for our group is to sell any non-core or underperforming assets. During the year we received US\$72 million for such disposals, including US\$54 million for the sale of the Biberist assets.

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



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



Reels of dissolving pulp being loaded in Durban harbour.

Section 5

Balance sheet

Summarised balance sheet

US\$ million	2012	2011
Property, plant and equipment	3,157	3,235
Plantations	555	580
Net working capital	511	409
Other assets	278	273
	4,501	4,497
Net post-employment liabilities	(510)	(450)
Other liabilities	(487)	(469)
Employment of capital	3,504	3,578
Equity	1,525	1,478
Net debt	1,979	2,100
Capital employed	3,504	3,578

Property, plant and equipment

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

We have 17 mills in seven countries capable of producing approximately four million tons of pulp and six million tons of paper products. For more information on our mills, their production capacities and products, please refer to pages 36 and 41.

Book value of property, plant and equipment

US\$ million	2012	2011
Cost	9,375	9,531
Accumulated depreciation and impairments	6,218	6,296
Net book value	3,157	3,235

During 2012, capital expenditure for property, plant and equipment was US\$404 million, including US\$190 million for the dissolving pulp projects. We depreciated fixed assets by a further US\$367 million. In addition, we processed net asset impairments of US\$10 million, principally related to the curtailing of certain production lines in South Africa.

Currency translation differences reduced the net book value by US\$86 million compared with 2011.

The capacity replacement value of the property, plant and equipment for insurance purposes has been assessed at approximately US\$23 billion.

Plantations

We regard ownership of our plantations in Southern Africa as a key strategic resource which gives us access to low cost fibre to feed our pulp production. We currently have access to approximately 400,000 hectares of plantable land of which approximately 378,000 hectares are planted with pine and eucalyptus. Our plantations provide approximately 70% of the wood requirements for our Southern Africa mills.

The reduction in the carrying value of plantations in fiscal 2012 was mainly due to the weaker South African Rand versus the US Dollar at year end when translating our reporting currency.

In terms of the relevant accounting standard, we value these plantations on our balance sheet at fair value less the estimated cost of delivery, including harvesting and transport costs. In notes 2.3.5 and 10 to the financial statements considerable detail is provided about our accounting policies for plantations.

Working capital

The component parts of our working capital at the 2012 and 2011 financial year ends are shown in the table below:

Net working capital

US\$ million	2012	2011
Inventories	726	750
Trade and other receivables	807	831
Trade and other payables	(1,022)	(1,172)
Net working capital	511	409

Optimising working capital remains a key focus area for us and is incorporated into the management incentive schemes for all businesses. We benchmark our working capital ratios against those of industry peers.

The working capital investment is seasonal and typically peaks during quarter 3 of the financial year. Net working capital increased by US\$102 million during fiscal 2012. The material reasons for the change are the following:

- > Inventories decreased by US\$24 million reflecting lower sales volumes across all three regions;
- > Receivables continue to be tightly managed and reduced by US\$24 million. This was achieved despite a sundry debtor of US\$42 million for the sale of the Jiangxi Joint Venture. The quality of credit management is demonstrated by a bad debt charge of US\$11 million for 2012, only 0.2% of sales; and
- > Payables decreased by US\$150 million, largely as a result of the utilisation of restructuring provisions that existed at September 2011 for the closure of the Biberist Mill and the rationalisation of regional management structures.

Post-employment liabilities

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

Defined benefit liabilities

US\$ million	2012	2011
Liabilities of funded defined benefit plans	(1,862)	(1,693)
Assets of funded defined benefit plans	1,689	1,559
Net deficit on funded plans	(173)	(134)
Liabilities of unfunded plans	(337)	(316)
Net balance sheet liability	(510)	(450)
Cash contributions to defined benefit plans	58	69
Income statement charge for defined benefit plans	37	28
Portion of cash contributions deemed 'Catch-up'*	12	23

* Contributions paid over and above current service cost.

The liabilities of our funded plans increased by US\$169 million and from our unfunded plans by US\$21 million compared with last year mainly due to lower discount rates adopted at this year end compared with last year end, in turn due to yields in bond markets falling over the year.

Assets increased by US\$130 million due to strong investment returns in all asset classes over the year.

Since the increase in liabilities exceeded the growth in assets, the overall net liability for defined benefit plans increased by US\$60 million to US\$510 million at September 2012. For next year we expect our cash contributions and the income statement charge to be similar to the amount reflected in the table above.

Equity

Year-on-year, equity increased by US\$47 million to US\$1,525 million as summarised below:

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

Equity reconciliation

US\$ million	2012
Equity at September 2011	1,478
Profit for the year	104
Actuarial losses on pension funds	(88)
Exchange rate differences on translation of non-Dollar operations	(60)
Recognition of previously unrecognised deferred tax asset ¹	101
Share based payments	12
Other	(22)
Equity at September 2012	1,525

1. Relates to amounts recognised within other comprehensive income in previous financial years.

Debt

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

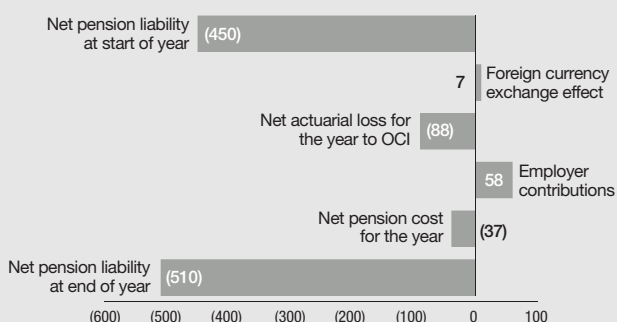
Refinancing activities during financial 2012

Below we highlight the many refinancing activities completed during the year.

- > In April 2012, a new ZAR750 million bond was raised in South Africa, in anticipation of repaying a maturing ZAR500 million bond, which was duly repaid in June 2012. The remainder of the funds were earmarked for other debt repayments in 2012. After swapping the floating rate bond to a fixed rate, the funding cost of this new facility is a fixed rate of 7.78% which is now the lowest cost debt in the South African portfolio and compares favourably to the maturing bond which had a coupon of 12.13%.

Defined benefit pension and other benefit plans

Sources of credits and debits to the balance sheet liability (US\$ million)



Supercalendering paper at Gratkorn Mill in Europe.

Section 5 – Balance sheet continued

- > A key objective for 2012 was the refinancing of the group's most expensive debt, the US\$300 million and €350 million 2014 bonds. In June 2012, we issued a new US\$300 million seven-year bond and a US\$400 million five-year bond issued at a coupon of 8.375% and 7.75% respectively.
- > The full proceeds of these new bonds were used to redeem the majority of the 2014 bonds. The remaining €31 million balance of the 2014 bonds are expected to be redeemed in quarter 1 of the 2013 financial year, using cash proceeds from the sale of the Biberist Mill.
- > The remaining balance of €9 million of the Oesterreichische Kontrollbank (OeKB) China facility was repaid in September 2012 after agreement was reached for the sale of the Jiangxi investment.
- > In August 2012, a new €136 million five-year amortising loan was taken up for the purpose of funding the dissolving wood pulp conversion project at Cloquet. This syndicated loan is funded by the OeKB, an Austrian development bank, and syndicated to Sappi relationship banks. As in previous transactions, the OeKB provides the funding and the Sappi credit risk is guaranteed to the OeKB by four Austrian relationship banks.
- > The early repayment of the 2014 bonds required the simultaneous unwinding of currency swaps attached to the bonds, resulting in a positive cash settlement of US\$43 million as the movement of the US Dollar against the Euro was favourable since taking up the swaps in 2009.
- > The annual reduction in cash finance charges as a result of the above refinancing will be approximately US\$30 million. The accelerated amortisations as a consequence of the 2014 bond refinancing will reduce the income statement charge by a further amount of approximately US\$15 million per annum. Following the refinancing, the normalised finance costs will improve to approximately US\$160 million per annum.

These activities have materially improved the group's debt maturity profile. Please refer to the group debt profile section below.

Structure of net debt and liquidity

The structure of our net debt at September 2012 and 2011 is summarised below:

US\$ million	2012	2011
Long term debt	2,358	2,289
Secured debt	1,424	1,426
Unsecured debt	741	719
Securitisation funding	380	368
Less: Short term portion	(187)	(224)
Net short term debt (cash)	(379)	(189)
Overdrafts and short term loans	79	226
Short term portion of long term debt	187	224
Less: Cash	(645)	(639)
Net debt	1,979	2,100

We believe the liquidity position is good and continues to improve, with our cash holdings exceeding our short term obligations by US\$379 million at the 2012 year end. In addition, we have US\$556 million unutilised committed facilities, including a revolving credit facility in Europe of US\$450 million which provides further flexibility.

Movement in net debt

The movement of our net debt over fiscal 2012 is explained in the table below:

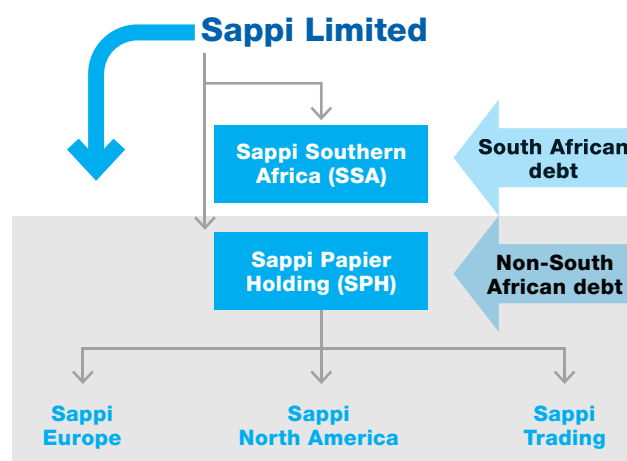
US\$ million	
Net debt at September 2011	2,100
Net cash generated in 2012	(127)
Currency translation impact	(54)
Fair value and other non-cash adjustments	17
Cost of refinancing 2014 bonds	86
Cash settlement of IRCS unwind related to 2014 bond repayment	(43)
Net debt at September 2012	1,979

Debt funding structure

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

The diagram below depicts our debt funding structure.

Sappi Limited guarantee*



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

Group debt profile

We show the major components and maturities of our net debt at September 2012 below. These are split between our debt in South Africa (where we have an investment grade rating) and our debt outside South Africa (where our credit rating is sub-investment grade) – see more on our 'Credit Rating' below.

					Maturity (Sappi fiscal years)				
US\$ million	Amount	Local interest rate weighted	Fixed/ variable	Short term	2013	2014	2015	2016	Thereafter
South Africa									
Bank debt	90	10.81%	Fixed		58	26	6		
Bonds	270	8.89%	Fixed		120		90	60	
Gross debt less cash	360 (144)			(144)					
Net SA debt	216			(144)	178	26	96	60	
Non-South African									
Securitisation	380	2.70%	Variable			380			
OeKB loan	175	3.90%	Variable				23	23	129
Other bank debt	92	1.18%	Variable	80	10	0,2	0,5	0,3	1
2014 Bonds (EUR)	40	11.75%	Fixed			40			
2017 Bonds (US\$)	400	7.75%	Fixed						400
2018 Bonds (EUR)	322	6.63%	Fixed						322
2019 Bonds (US\$)	300	8.38%	Fixed						300
2021 Bonds (US\$)	350	6.63%	Fixed*						350
2032 Bonds	221	7.50%	Fixed						221
Bond IFRS adjustment	(16)								
Gross debt less cash	2,264 (501)			(501)					
Net non-SA debt	1,763			(421)	10	420	24	23	1,723
Net group debt	1,979			(565)	188	446,2	119,5	83,3	1,723

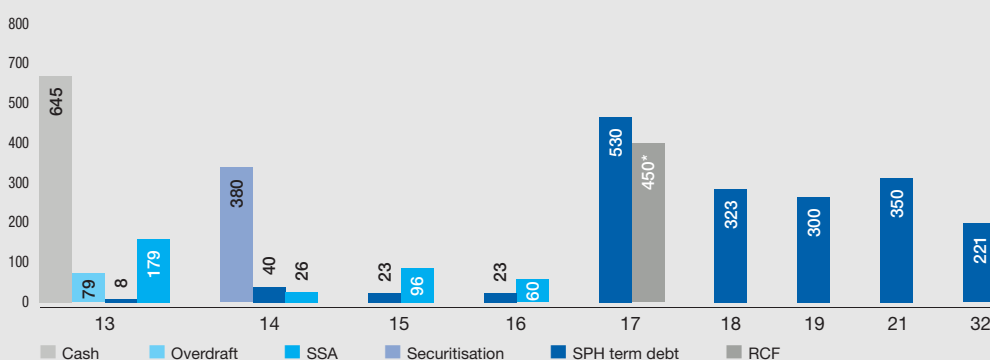
* Swapped to floating.

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

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

A diagram of the debt maturity profile is shown below.

Debt maturity profile (US\$ million)



* This facility is currently undrawn.

Section 5 – Balance sheet *continued*

Outside South Africa we do not have any material debt maturities in the next four years apart from the securitisation facility. We expect to roll over the non-South African revolving credit facility, the securitisation structure and other bank debt as they mature.

We believe that the South African debt maturing in 2013 can be refinanced at a reasonable cost due to an improvement in credit markets and the higher local credit rating of our South African subsidiary, which funds itself independently of the rest of the group.

Covenants

Non-South African covenants

Financial covenants apply to US\$175 million of our non-South African bank debt, the €350 million revolving credit facility and our securitisation borrowings.

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

- > the ratio of group net debt to EBITDA be not greater than 4.5-to-1 at the end of September 2012, reducing over the term of the facility to 3.75-to-1 by March 2015;
- > the ratio of group EBITDA to net interest expense be not less than 2.0-to-1 at the end of September 2012, increasing over the term of the facility to 2.5-to-1 by September 2014; and
- > the percentage of net debt to total capitalisation until March 2016 shall not exceed 65%.

The table below shows that at September 2012 we were well in compliance with these covenants.

Non-South African covenants	2012	Covenant
Net debt to EBITDA	2.5	< 4.50
EBITDA to net interest	3.9	> 2.00
Net debt to total capitalisation	56%	< 65%

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

South African covenants

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

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

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

Below we show that for the year ended September 2012 the South African financial covenants were comfortably met.

South African covenants	2012	Covenant
Net debt to equity	23%	< 65%
EBITDA to net interest	9.6	> 3.00

(This covenant differs from 2011 as the covenant tightened again in 2012.)

Credit ratings

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

Fitch: South African national rating

Sappi Southern Africa (Pty) Limited A/F1/Stable (March 2012)

Moody's:

Sappi Corporate Credit Rating: Ba3/NP/Positive (June 2012)

Secured Debt Rating Ba2 (June 2012)

Unsecured Debt Rating B2 (June 2012)

Standard & Poor's:

Corporate Credit Rating: BB-/B/Stable (June 2012)

Secured Debt Rating BB (June 2012)

Unsecured Debt Rating B (June 2012)

The ratings by Moody's and Standard & Poor's were reviewed in June 2012 ahead of the refinancing transactions that were finalised in July 2012, including the new US\$400 million and US\$300 million bonds. These ratings were confirmed in updated reports published later in 2012 by both ratings agencies.

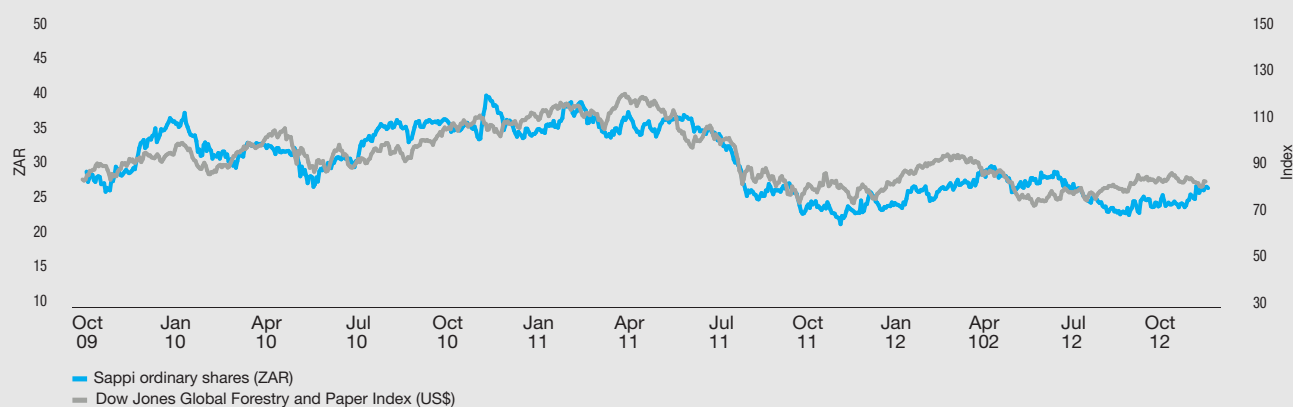
Fitch confirmed the rating for Sappi Southern Africa (Pty) Limited in an updated report published in March 2012.

performance

Section 6

Share price performance

Sappi share price – 1 October 2009 to 20 November 2012
(US\$ million)



Conclusion

See share price performance graph above.

We are pleased with our performance last year in a difficult trading environment. The cost savings initiatives and productivity improvements have enabled us to return to profitability.

The paper businesses are well positioned to generate significant cash flows in the years ahead. We are also very excited about the dissolving wood pulp investments which will further strengthen our position in a high-margin growing business. The recent debt refinancing ensures we have sufficient resources and flexibility to deliver our strategic objectives.

S R Binnie

Chief financial officer
10 December 2012

sappi

Inspired by life



Focus on exceptional performance

The Sappi group has a long history of recognising its people for exceptional performance, whether this performance is safety, innovation, efficiency or service related. One such example is the Sappi Coryphaena Award established by Sappi Fine Paper Europe to recognise truly exceptional achievements. Any member of staff can nominate a colleague but the award will only be made when the selection panel is convinced of the exceptional nature of the person's achievements, including consistently high performance over many years. The trophy awarded to the recipient is a masterpiece created by the famous Venetian glass master, Pino Signoretto. The sculpture is in the shape of a book and contains a feather to symbolise the modest pride that every winner should have. It comes together with a beautiful tie or scarf with the feather motive in recognition of the constant support from the recipient's partner. The continued commitment of Sappi's staff has helped to pull the company through recent challenging times and position the company for future growth.

Corporate governance

Sappi is committed to high standards of corporate governance which form the foundation for the long term sustainability of our company and creation of value for our stakeholders. The group endorses the recommendations contained in the King Code of Governance Principles for South Africa 2009 (King III) and applies the various principles. A summary of how Sappi applies the King III principles is provided on pages 74 to 80. The application of certain practices recommended in the King Code is being strengthened, details of which are set out in the relevant sections of the Corporate Governance Report.

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

The board of directors

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

The composition of the board and attendance at board meetings and board committee meetings is set out in the following two tables. The first table relates to the period October 2011 until the end of January 2012. At this time, certain board committees were restructured in order to cater for the South African Companies Act requirement that certain companies must have a social and ethics committee. The restructured board committees, relevant composition and attendances are set out in the second table, which covers the period from February 2012 until 30 September 2012.

Table (1) Period – October 2011 to January 2012

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

1. Mr Beurskens was appointed to the board with effect from 01 October 2011 and to the audit committee with effect from 01 January 2012.

2. Mr Fallon was appointed to the audit committee with effect from 01 January 2012.

3. Mr Healey retired from the board on 31 December 2011.

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

Corporate governance continued

Table (2) Period – February 2012 to September 2012

					Board committees						
									Nomination and governance	Human resources and compensation	
Name	Status	Board	Audit								
R J Boëttger	Chief executive officer	4/4	B	3/3	B	2/2	B	3/3	✓	1/1	
M R Thompson ¹	Chief financial officer	3/3	B	3/3							
S R Binnie ²	Chief financial officer	1/1	B	0/0							
G P F Beurskens ³	Independent non-executive	4/4	✓	3/3							
D C Cronjé	Independent non-executive, chairman	3/4	E	3/3	✓C	2/2	E	2/3	E	1/1	
M A Fallon ⁴	Independent non-executive	4/4	✓	3/3							
M Feldberg	Lead independent director	4/4			✓	2/2	✓C	3/3			
D Konar	Independent non-executive	4/4	✓C	3/3	✓	2/2					
J D McKenzie	Independent non-executive	4/4					✓	3/3	✓C	1/1	
N P Mageza	Independent non-executive	4/4	✓	3/3			✓	3/3			
M V Moosa	Non-executive	4/4							✓	1/1	
K R Osar	Independent non-executive	4/4	✓	3/3							
B Radebe	Independent non-executive	4/4							✓	1/1	
A N R Rudd	Independent non-executive	4/4			✓	2/2	✓	3/3			
R Thummer	Independent non-executive	4/4							✓	1/1	

1. Mr Thompson retired from the board on 31 August 2012.

2. Mr Binnie was appointed to the board with effect from 01 September 2012.

3. Mr Beurskens was appointed to the board with effect from 01 October 2011 and to the audit committee with effect from 01 January 2012.

4. Mr Fallon was appointed to the audit committee with effect 01 January 2012.

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

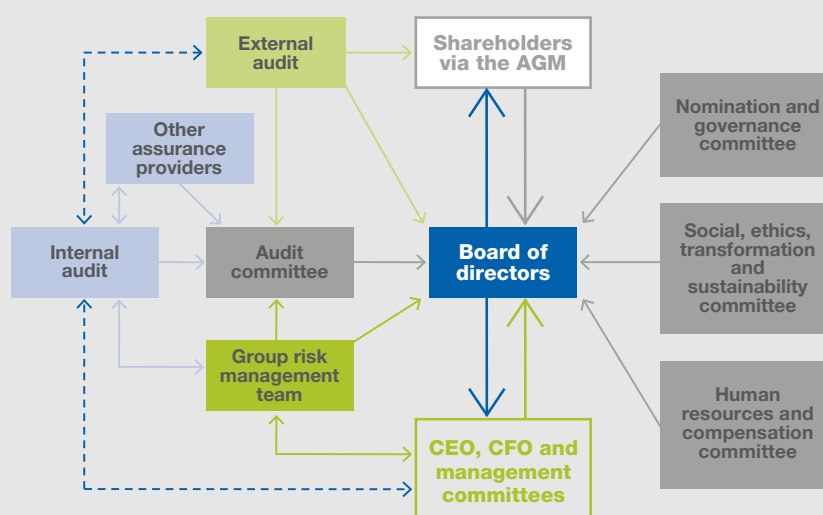
Induction and training of directors

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. Some of the board committees were restructured in 2012 in order to accommodate the South African Companies Act requirement for certain companies to have a social and ethics committee. The board committees are as follows:

Sappi board committees



h1>encourage

Audit committee

The audit committee consists of five independent, non-executive directors and assists the board in discharging its duties relating to the:

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

The audit committee confirms that it has received and considered sufficient and relevant information to fulfil its duties, as set out in the audit committee report on page 100.

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 during 2012.

Regional audit committees exist in the three major regions and are chaired by independent non-executive directors. These committees have a mandate from the group's audit committee, to which they report on a regular basis. The regional committees each met four times during 2012.

Dr D Konar has been designated as the audit committee financial expert as required by the Sarbanes-Oxley Act of 2002, and attended the annual general meeting in 2012.

Nomination and governance committee

The nomination and governance committee consists of four independent directors and considers the leadership requirements of the company including a succession plan for the board. The committee identifies and nominates suitable candidates for appointment to the board, for board and shareholders' approval. The committee considers the independence of candidates as well as directors. The committee makes recommendations on corporate governance practices and disclosures, and reviews compliance with corporate governance

requirements. The committee has oversight of appraising the performance of the board and all the board committees. The results of this process and recommended improvements are communicated to the chairman of each committee and the board. Following the 2011 appraisal process which was conducted by an external evaluator, the 2012 performance assessments were conducted internally. As with the 2011 process, the 2012 results indicated that the board and all the board committees functioned well and that there were no major shortcomings.

Human resources and compensation committee


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

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

Social, ethics, transformation and sustainability committee

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

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

 For more information on sustainability at Sappi refer to pages 16 to 29 for a summary of the group's initiatives and www.sappi.com.

Corporate governance continued

Management committees

The board assigns responsibility for the day-to-day management of the group to the CEO. To assist the CEO in discharging his duties, a number of management committees have been formed. Some of these committees also provide support for specific board committees. The structure is set out below.

Executive committee

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

Disclosure committee

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

Treasury committee

The treasury committee meets regularly to assess risk and advise on treasury related matters.

Technical committees

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

Group risk management team

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

Sappi management committees



Group IT steering committee

The Group IT steering committee promotes IT governance throughout the group. The committee has a charter approved by the audit committee and the 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, related value to the business, disaster recovery plans and IT risk 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, as follows:

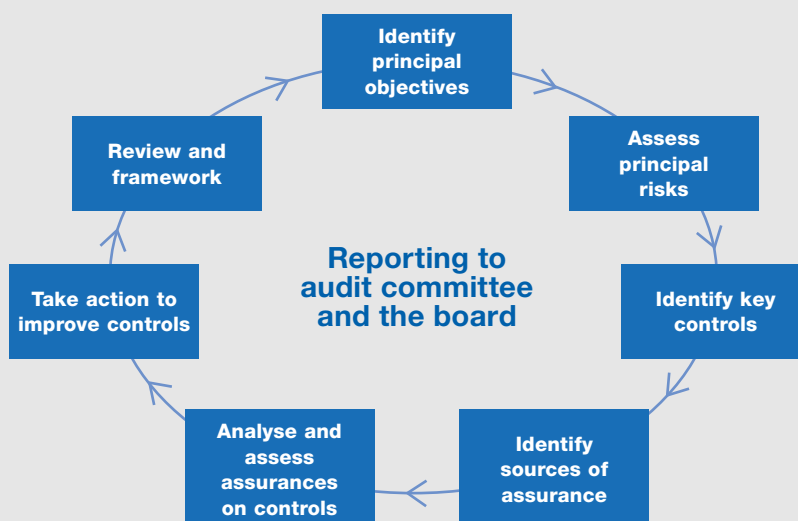
- > All quarterly results – by the disclosure committee and audit committee, and
- > Interim and final results – by external audit.

Internal controls

The board is responsible for the group's systems of internal financial and operational control. The group's internal controls and systems are designed to provide reasonable assurance as to the integrity and reliability of the annual financial statements and operational management information, 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 ongoing comprehensive evaluation process, control self-assessments, year end external audits and independent reviews by internal audit and other assurance providers were undertaken across the group to test the effectiveness of various elements of the group's financial, disclosure and other internal controls as well as procedures and systems. Identified areas of improvement are being addressed to strengthen the group's controls further. The results of the reviews did not indicate any material breakdown in the functioning of these controls, procedures and systems during the year. The internal controls in place, including the financial controls and financial control environment are considered to be effective. A Section 404 report in the Form 20-F is to be filed with the United States Securities and Exchange Commission in this regard.

Sappi combined assurance framework



Corporate governance continued

Sappi combined assurance framework

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

Sappi's combined assurance framework is integrated with the group's risk management approach. Risks facing the group are identified, evaluated and managed by implementing risk mitigations also known as internal controls. Assurance of the effectiveness of the internal controls is obtained from various assurance providers in a coordinated manner which avoids duplication of effort. The combined assurance helps to identify gaps or improvement areas in the internal controls.

The assurance obtained informs executive management and the audit committee about the effectiveness of the group's internal controls in respect of significant risks. The audit committee, which is responsible for the oversight of risk management at Sappi, considers the risks and the assurance provided through the combined assurance framework and periodically advises the board on the state of risks and controls in Sappi's operating environment. This information is used as the basis for the board's review, sign-off and reporting to stakeholders, via the integrated report, on risk management and the effectiveness of internal controls within Sappi.

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

- > Financial data is independently audited by Deloitte & Touche.
- > Sustainability information has been subject to limited reviews by central technical management and internal audit. Specific planet related processes are subject to review by third parties during the year. No external assurance was obtained on the sustainability indicators reported. Currently we do not perceive external assurance as being a cost effective alternative to internal auditing of our indicators, particularly given our global spread of operations and the industry specific nature of many of our indicators.
- > 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

Nothing has come to the attention of the board nor 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

The group's internal audit department is suitably resourced. It has a specific charter from the audit committee and independently appraises the adequacy and effectiveness of the group's systems, internal controls and accounting records. It plays a 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 2012, 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. Internal audit maintains an internal quality assurance programme, which includes periodic external review. A full review was conducted by the Institute of Internal Auditors (IIA) in 2010 and a 'generally complies' rating was received. Internal audit's in-house review in 2012 highlighted, amongst other things, the need to update the group's fraud risk assessment and to improve the time metrics for audit assignments and reporting.

Company secretary

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

Code of ethics

Sappi requires its directors and employees to act with excellence, integrity, respect and resourcefulness in all transactions and in their dealings with all stakeholders. These values are supported by the group's code of ethics which commits the group and its employees to sound business practices and compliance with applicable legislation.

During 2012 a board committee was established to oversee social, ethics, transformation and sustainability matters throughout the group.

 Refer to www.sappi.com for the code of ethics.


Legal compliance programme

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

Conflict of interests

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

Insider trading

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

Whistle-blower hotlines and follow up of tip-offs

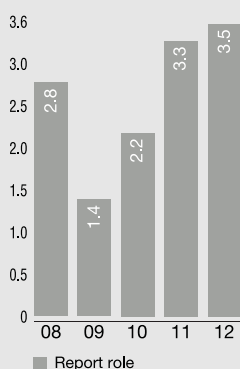
Whistle-blower 'hotlines' have been implemented in all the regions in which the group operates. This service, operated by independent service providers, enables all stakeholders to anonymously report environmental, safety, ethics, accounting, auditing, control issues or other concerns. The follow-up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

Stakeholder communication

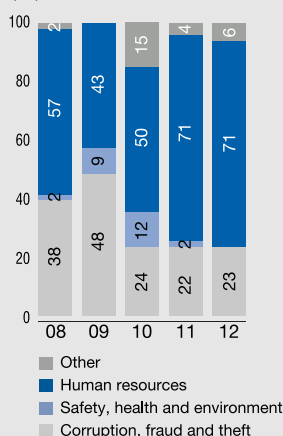
The board is responsible for presenting a balanced and understandable assessment of the group's position in reporting to stakeholders. The group's reporting addresses material matters of significant interest and is based on principles of openness and substance over form. Various policies have been developed to guide engagement with Sappi's stakeholders such as the stakeholder engagement policy and group corporate social responsibility policy. Sappi introduced a policy addressing Alternative Dispute Resolution (ADR) in 2012 and relevant ADR clauses are now generally included in contracts with customers and suppliers. A review is being performed of the policies and processes in place to record and address complaints. There have been no requests for information for the period under review in terms of the Promotion of Access to Information Act (South African legislation).

Hotline calls and outcomes

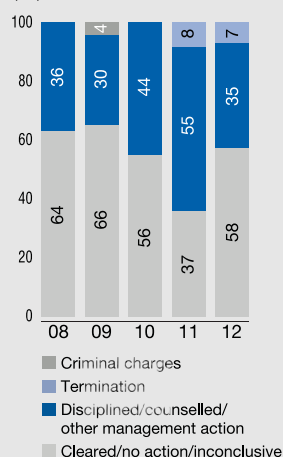
Hotline report rate per 1,000 employees



Analysis of hotline reports per category (%)



Analysis of hotline report case outcomes (%)



Summary of how Sappi applies the principles contained in King III

The following table sets out the principles contained in the King Code of Governance Principles for South Africa 2009 (King III) and how Sappi applies these principles.

Governance element	Principle	Summary of how Sappi applies the King III principles
Chapter 1 – Ethical leadership and corporate citizenship		
Responsible leadership	1.1. The board should provide effective leadership based on an ethical foundation	The board's actions are guided by its charter as well as the company values and the company code of ethics; the board's ethical approach is further strengthened by its diverse membership and its large number of independent non-executives
Ethical foundation	1.2. The board should ensure that the company is and is seen to be a responsible corporate citizen	The board reviews annually the corporate responsibility strategy, priorities and action plans of the company; through the social, ethics, transformation and sustainability (SETS) board committee, guidance and feedback is given to the company; the board ensures that the work of the company is communicated via, amongst others, the corporate website and corporate reports
	1.3. The board should ensure that the company's ethics are managed effectively	The board, with the assistance of the SETS board committee, promotes the integration of ethical policies and standards in all the company's actions; progress is measured through regular surveys; concerns or transgressions are reported through anonymous whistle-blower lines; and there is engagement with suppliers and customers to abide by the same ethics as the board expects of the company. Sappi has an ethics policy in place
Chapter 2 – Boards and directors		
Role and function of the board	2.1. The board should act as the focal point for and custodian of corporate governance	The board's role as focal point of sound corporate governance is set out in the board charter. The board meets regularly throughout the year and provides oversight and guidance on governance matters. The board receives regular updates on key stakeholder relationships through quarterly business unit briefings
	2.2. The board should appreciate that strategy, risk, performance and sustainability are inseparable	The board reviews and approves the strategy, helping to ensure alignment with the purpose of the company, the value drivers, sustainability and legitimate interests and expectations of its stakeholders. The board considers whether risks that could impact on the strategy or business plans have been adequately examined and mitigated by management
	2.3. The board should provide effective leadership based on an ethical foundation	Refer 1.1 above
	2.4. The board should ensure that the company is and is seen to be a responsible corporate citizen	Refer 1.2 above
	2.5. The board should ensure that the company's ethics are managed effectively	Refer 1.3 above
	2.6. The board should ensure that the company has an effective and independent audit committee	Refer 3
	2.7. The board should be responsible for the governance of risk	Refer 4
	2.8. The board should be responsible for information technology (IT) governance	Refer 5
	2.9. The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	Refer 6

Governance element	Principle	Summary of how Sappi applies the King III principles
	2.10. The board should ensure that there is an effective risk-based internal audit	Refer 7
	2.11. The board should appreciate that stakeholders' perceptions affect the company's reputation	Refer 8
	2.12. The board should ensure the integrity of the company's integrated report	Refer 9
	2.13. The board should report on the effectiveness of the company's system of internal controls	Refer 7 and 9
	2.14. The board and its directors should act in the best interests of the company	Conflict of interest rules are set out in Sappi's code of ethics. Conflicts are disclosed to and managed by the board. Directors are required by both the code and the board charter to act in the interests of the company
	2.15. The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act	Solvency, liquidity and cash balances are monitored frequently, as is the debt maturity profile. Sufficient cash and facility headroom is maintained to ensure adequate liquidity in times of financial distress. The audit committee has oversight as part of the quarterly going concern analysis. The new companies act rules regarding solvency and liquidity tests are applied when required. Business rescue or turnaround mechanisms would be considered by the board if the situation arose
	2.16. The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of chairman of the board	The chairman of the board is an independent non-executive director. The chairman's role is formalised and his performance is assessed periodically. The CEO does not fulfil the role of chairman of the board
	2.17. The board should appoint the chief executive officer and establish a framework for the delegation of authority	A CEO has been appointed by the board and an authority framework is in place. The role of the CEO is formalised and is evaluated regularly against specified criteria
Composition of the board	2.18. The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent	The majority of board members are non-executive directors who are independent. The board members have a spread of experience and skills and reflect diversity and demographics all of which help the board to perform its activities
Board appointment process	2.19. Directors should be appointed through a formal process	Appointment of directors is a formal process, with oversight of the nomination and governance committee. Background checks are performed and a letter of appointment is issued. Directors' CVs are included in the integrated report
Director development	2.20. The induction of and ongoing training and development of directors should be conducted through formal processes	There is an induction process as well as ongoing training and development for directors. This process is managed by the company secretary. In general, Sappi appoints experienced directors
Company secretary	2.21. The board should be assisted by a competent, suitably qualified and experienced company secretary	A competent, suitably qualified and experienced company secretary has been appointed by the board and is sufficiently empowered to fulfil his duties
Performance assessment	2.22. The evaluation of the board, its committees and the individual directors should be performed every year	Evaluations of the board, its committees and individual directors are conducted each year. More detailed reviews of individual director's performance are conducted in the year prior to a director's retirement by rotation. The chairman has oversight of the evaluation process

Summary of how Sappi applies the principles contained in King III continued

Governance element	Principle	Summary of how Sappi applies the King III principles
Board committees	2.23. The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities	The board is assisted in fulfilling its duties by well structured board committees. Each committee has formal terms of reference, which are reviewed annually. The majority of members on the committees are non-executive and independent. The board chairman attends board committee meetings ex officio
Group boards	2.24. A governance framework should be agreed between the group and its subsidiary boards	A governance framework is in place between the group board and the boards and management teams of subsidiaries and regional management structures
Remuneration of directors and senior executives	2.25. Companies should remunerate directors and executives fairly and responsibly	Directors and executives are remunerated fairly and responsibly, as provided for in the compensation policy, which is aligned with company strategy and linked to individual performance
	2.26. Companies should disclose the remuneration of each individual director and certain senior executives	The remuneration paid to directors and certain senior executives is disclosed via the remuneration report in the integrated report
	2.27. Shareholders should approve the company's remuneration policy	Shareholders endorse the company's remuneration policy via a non binding advisory vote. The board sets the remuneration of executive directors in line with the policy
Chapter 3 – Audit committees		
Audit committee	3.1. The board should ensure that the company has an effective and independent audit committee	Sappi has an effective and independent audit committee, with terms of reference approved by the board, which meets regularly to fulfil its duties. The performance of the audit committee is periodically assessed and reviewed by the board
Membership and resources of the audit committee	3.2. Audit committee members should be suitably skilled and experienced independent non-executive directors	The audit committee comprises suitably skilled, experienced independent non-executive directors
	3.3. The audit committee should be chaired by an independent non-executive director	The Sappi audit committee is chaired by an independent non-executive director
Responsibilities of the audit committee	3.4. The audit committee should oversee integrated reporting	The audit committee provides oversight of the integrated reporting activities
	3.5. The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities	Sappi has developed a combined assurance model which provides a coordinated approach to assurance activities, with oversight by the audit committee, in respect of key risks facing the company
	3.6. The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function	A review is conducted by the audit committee each year of the finance function, in terms of resources, expertise and experience
Internal assurance providers	3.7. The audit committee should be responsible for overseeing internal audit	The audit committee is responsible for the appointment, performance assessment and dismissal of the chief audit executive. Internal audit's coverage plan is risk based and is approved by the audit committee. The work of internal audit is subject to independent quality review
	3.8. The audit committee should be an integral component of the risk management process	The audit committee is an integral part of the risk management process. Its terms of reference set out the committee's responsibilities for risk management and specifically oversight over financial risks, related business controls and financial reporting fraud risks

Governance element	Principle	Summary of how Sappi applies the King III principles
External assurance providers	3.9. The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process	The audit committee has responsibilities for and oversight of the external audit activities, including their appointment, qualifications, independence, approach, reporting and performance
Reporting	3.10. The audit committee should report to the board and shareholders on how it has discharged its duties	The audit committee reports to the board as well as to the shareholders on how it has discharged its duties. The audit committee's report to stakeholders is included in the integrated report
Chapter 4 – Governance of risk		
The board's responsibility for risk governance	4.1. The board should be responsible for the governance of risk	The board is responsible for the governance of risk at Sappi, assisted by the group risk management team and the audit committee
	4.2. The board should determine the levels of risk tolerance	The board considers and determines the levels of risk tolerance as well as risk appetite during its periodic review of the group's risk profile. In executing the group strategy, management considers risk tolerance and appetite for specific risks and projects, on a case-by-case basis
	4.3. The risk committee or audit committee should assist the board in carrying out its risk responsibilities	The board has appointed the audit committee to assist in carrying out its risk responsibilities by providing oversight of Sappi's risk management activities
Management's responsibility for risk management	4.4. The board should delegate to management the responsibility to design, implement and monitor the risk management plan	The board has delegated the responsibility to design, implement and monitor Sappi's risk management plan, to the group risk management team
Risk assessment	4.5. The board should ensure that risk assessments are performed on a continual basis	Management performs risk assessments on a continual basis and provides regular feedback to the audit committee and the board
	4.6. The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	Risk management meetings comprise multi-disciplinary teams. This together with Sappi's framework and risk methodology increases the probability of anticipating unpredictable risks
Risk response	4.7. The board should ensure that management considers and implements appropriate risk responses	Sappi's risk methodology includes the consideration and implementation of appropriate risk responses
Risk monitoring	4.8. The board should ensure continual risk monitoring by management	Risk monitoring is achieved at Sappi through a combination of daily and periodic activities undertaken by management at various levels in the organisation, culminating in the activities of the group risk management team and audit committee, which oversee the risk management process at Sappi
Risk assurance	4.9. The board should receive assurance regarding the effectiveness of the risk management process	Assurance regarding the effectiveness of the risk management process is provided by both management and internal audit to the audit committee and board
Risk disclosure	4.10. The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders	The relevant risks for the group are disclosed to stakeholders in the integrated report, the report on form 20F and the group and regional sustainability reports

Summary of how Sappi applies the principles contained in King III continued

Governance element	Principle	Summary of how Sappi applies the King III principles
Chapter 5 – IT governance		
IT governance	5.1. The board should be responsible for information technology (IT) governance	The board is responsible for IT governance. The CIO provides regular feedback to the audit committee and board on IT governance matters. An IT steering committee exists and policies are established and implemented. Sappi promotes an ethical IT governance culture and a common IT language
	5.2. IT should be aligned with the performance and sustainability objectives of the company	IT is aligned with the performance and sustainability objectives of the company from a strategic and business process perspective. There are also processes to identify and exploit opportunities to improve performance and sustainability through the use of IT
	5.3. The board should delegate to management the responsibility for the implementation of an IT governance framework	The board has delegated responsibility for the implementation of an IT governance framework to management. All IT matters of a global nature are referred to a group IT council (GITCO) which makes decisions on the most appropriate technological solutions for the group. Decisions are ratified by an executive group IT steering committee
	5.4. The board should monitor and evaluate significant IT investments and expenditure	All IT projects are presented to cross functional teams within the regions for sign-off. Post implementation audits are conducted on large IT projects. The CIO, on behalf of the Group IT steering committee presents to the audit committee and board regarding the value delivered by IT investment
	5.5. IT should form an integral part of the company's risk management	IT is represented on the group and regional risk management teams and ensures that IT risk management is aligned with the company's risk management process. IT risk assessment updates are undertaken every six months using the group's risk management software. Feedback on IT risks, business continuity and disaster recovery is provided by the CIO to the audit committee and the board. IT have processes to identify and comply with relevant IT laws and standards
	5.6. The board should ensure that information assets are managed effectively	IT systems and processes have been developed for managing information assets effectively, including personal information. This includes information security, information management and privacy. The information security strategy has been approved by the board and delegated to management for implementation
	5.7. A risk committee and audit committee should assist the board in carrying out its IT responsibilities	The audit committee which assists the board in risk management has oversight of IT risks, IT controls and related combined assurance. This includes financial reporting matters. Technology is used to improve audit coverage and efficiency
Chapter 6 – Compliance with laws, rules, codes and standards		
Compliance	6.1. The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	Sappi has a compliance culture with a legal compliance programme which supports efforts to identify and comply with applicable laws and regulations. Compliance also forms part of Sappi's code of ethics. The board is briefed on new regulations and reports from the legal compliance programme are provided regularly to the audit committee and board
	6.2. The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business	The board and individual directors are made aware of new regulations or changes that affect the company
	6.3. Compliance risk should form an integral part of the company's risk management process	A compliance function has been established and the risk of non-compliance forms part of the risk management process
	6.4. The board should delegate to management the implementation of an effective compliance framework and processes	Sappi has an established legal compliance programme including policies and procedures to educate, train, measure and communicate compliance matters. Material aspects of non-compliance would be disclosed in the integrated report if applicable. A sufficiently independent and skilled compliance officer has been appointed. Legal compliance works closely with ethics and risk management and the head of the legal function is a member of the executive committee and attends board and audit committee meetings

Governance element	Principle	Summary of how Sappi applies the King III principles
Chapter 7 – Internal audit		
The need for and role of internal audit	7.1. The board should ensure that there is an effective risk based internal audit	Sappi has an effective risk based internal audit function, with a charter approved by the audit committee and board. Internal audit adheres to the IIA Standards and code of ethics. Internal audit focuses on governance, risk management, the internal control framework, follows a systematic approach and investigates and reports on fraud, corruption, unethical behaviour and irregularities
Internal audit's approach and plan	7.2. Internal audit should follow a risk-based approach to its plan	Internal audit is independent and objective and its audit plan is informed by the strategy and risks of the company
	7.3. Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management	Internal audit provides a written assessment of the effectiveness of the company's system of internal controls and risk management, including an assessment of the financial controls to the audit committee and board. Controls and a framework for governance, risk and compliance, have been established over financial, operational, compliance and sustainability matters. Internal audit is integral to the combined assurance model both as a coordinator and assurance provider
	7.4. The audit committee should be responsible for overseeing internal audit	The audit committee oversees the internal audit activity, including review and approval of the audit plan, evaluation of internal audit performance, the independent quality review process, review of reports submitted by internal audit to the audit committee and resourcing. The audit committee is responsible for the appointment and dismissal of the chief audit executive
Internal audit's status in the company	7.5. Internal audit should be strategically positioned to achieve its objectives	Internal audit is strategically positioned to achieve its objectives, is independent, objective and reports functionally to the audit committee. The chief audit executive does not have a standing invitation to all executive committee meetings, however, is briefed on strategic and risk related developments by senior executives who do attend, and has access to minutes of meetings. The chief audit executive meets frequently with senior executives. Internal audit is appropriately skilled and resourced to fulfil its mandate
Chapter 8 – Governing stakeholder relationships		
Stakeholder relationships	8.1. The board should appreciate that stakeholders' perceptions affect a company's reputation	The integrated report, as well as the group and regional sustainability reports, reflect the interests of the group's stakeholders and key actions to maintain positive perceptions about the company and its activities. The board considers on an ongoing basis the feedback regarding the perceptions of particular stakeholder groups
	8.2. The board should delegate to management to proactively deal with stakeholder relationships	Management have been tasked by the board with the management of stakeholder relationships, including identification of important stakeholder groupings, and development of strategies and policies to manage the relationships. There are formal and informal mechanisms for constructive stakeholder engagement with the company and shareholders are encouraged to attend the AGM. Stakeholder policies as well as information on the company's dealings with stakeholders are included in the integrated report
	8.3. The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company	Sappi tries to achieve an appropriate balance between various stakeholder groupings' interests and expectations, in taking decisions in the best interests of the company
	8.4. Companies should ensure the equitable treatment of shareholders	Shareholders are treated equitably
	8.5. Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence	Sappi is committed to transparent and effective communication with all stakeholder groups. Such communication takes place through formal and informal channels; and through general as well as direct communication initiatives, including community, group and individual meetings
Dispute resolution	8.6. The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible	Sappi endeavours to resolve disputes in an effective and efficient manner, through partially formalised processes and management action

Summary of how Sappi applies the principles contained in King III continued

Governance element	Principle	Summary of how Sappi applies the King III principles
Chapter 9 – Integrated reporting and disclosure		
Transparency and accountability	9.1. The board should ensure the integrity of the company's integrated report	The board, assisted by the audit committee and management, has established controls and processes to gather, review and report adequate information regarding the company's financial and sustainability performance in the integrated report
	9.2. Sustainability reporting and disclosure should be integrated with the company's financial reporting	The Sappi integrated report provides a comprehensive view on sustainability information and financial reporting, including disclosures relating to going concern, sources of income, positive and negative impacts of the company's operations including future remediations. The audit committee together with the SETS committee has oversight over sustainability and reporting thereof. The audit committee assists the board by reviewing the reliability of information included in the integrated report and making sure that there are no conflicts with the financial information reported. The audit committee oversees the provision of assurance over sustainability issues



Wood chips being off-loaded at Cloquet Mill in North America.

Stakeholder engagement report

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

Sappi engages with all stakeholder groupings based on the principles of:

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

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

Customers

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

Sappi in Europe and in South Africa has worked very closely with its merchant partners and direct customers to ensure uninterrupted customer service as mills have been closed, production moved, product portfolios simplified and new products introduced.

Sappi has concluded agreements with its specialised cellulose customers which secures the additional production from the expansion projects at the Cloquet (USA) and Ngodwana (South Africa) Mills.

Employees

Various programmes and initiatives have been undertaken to improve staff engagement based on the results of, and feedback from the 2011 engagement survey conducted across the group,

as well as due to the significant restructuring processes undertaken by Sappi in Europe and South Africa.

Sappi maintains open relationships with all unions in the countries and regions where it operates.

Investors

Management and the investor relations team maintained their programme of frequent engagement with shareholders, analysts, banks, bondholders and rating agencies beyond our quarterly results announcements, to ensure that the market is fully appraised of Sappi's strategy and response to global economic conditions.

Sappi was able to restructure its debt profile on favourable terms.



Apprentices at the Stockstadt Mill in Europe.

Stakeholder engagement report continued

Communities around our operations

Regular engagement during 2012 has focused on the environmental performance of mills, the economic contribution of mills to local communities, the impact of the economic recession on the business, and in some communities, the reality of closures as well as retrenchments.

Contractors and suppliers

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

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

Industry

Sappi provides significant support to initiatives aimed at promoting our industry's sustainability credentials, including the 'Two Sides Campaign' in Europe and the USA and PAMSA initiatives in South Africa.

Sappi also works closely with end-user groups such as the design industry to promote the value of paper and paper-based communications. This includes Sappi's international and regional Printers of the Year competition as well as print packaging industry competitions.

Government

Engagement with the authorities at all levels of government has included changes to environmental legislation and permitting; approvals for expansions and modernisations at some mills as well as action to institute anti-dumping duties against paper imports into the South African market following such duties being imposed in our North American and European markets.

Media and other interest groups

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



The Sappi KwaDukuza Resource Centre in South Africa also provides rural schools with teaching resources.

Compensation report

The two large specialised cellulose projects are well on their way and the increase in dissolving wood pulp capacity forms a major part of our business growth strategy.

Arising from the requirements of the New Companies Act 71 of 2008, Sappi's board committees were restructured to accommodate the need for a social and ethics committee. This resulted in the reconstitution of the compensation committee as the human resources and compensation committee.

This report deals only with those matters pertaining to the duties and responsibilities of this committee which relate to compensation.

The 2012 financial year saw improved underlying performance for the group in a continuously challenging environment.

The two large specialised cellulose projects are well on their way and the increase in dissolving wood pulp capacity forms a major part of our business growth strategy.

Restructuring initiatives in the paper and pulp sectors of our business, which commenced in financial year 2011, were largely concluded during this year.

The committee is aware of the sensitivity of our business to the global economic environment and it is a tribute to management that they were able to produce the results which they did in an industry sector characterised by weak performance, volatile exchange rates and over capacity.

The clear strategic objectives and the performance of the business within the global context provided a context for the committee's discussions on compensation. Due cognisance was given to the comments received from some shareholders on the compensation philosophy which was put forward for a non-binding vote at the annual general meeting in February 2012.

Some of the key decisions made by the committee during the course of the year included:

- > Changing the reporting of annual bonus awards so as to be reported in the calendar year in which the bonus was earned (rather than in the next year as had been the practice) in order to make our compensation reporting more easily understood.
- > Introducing an amendment to the annual management incentive scheme (as applicable to executive directors and other members of the group executive committee) so that on receipt of their annual cash bonus, participants will voluntarily undertake to purchase Sappi shares with an agreed portion of their cash bonus and that such shares will be voluntarily held for a period of three years. This amendment was

introduced with the agreement of the executives concerned to address the concern of some shareholders that the longer term element of compensation be increased, thereby increasing alignment with shareholder interests.

- > Discontinuing the granting of share options to eligible participants in general management categories and instead to grant performance plan shares to all eligible participants. The performance share incentive plan incorporates cliff vesting after four years and has performance measures.

This addressed concerns that the share option scheme lacked performance measures and that the vesting of the awards commenced after one year.

- > Amending the performance criteria in the annual management incentive scheme to include a Safety criterion in line with other resource-based organisations.

Further information on the above is provided in the relevant sections of this report.

Compensation committee

The human resources and compensation committee's responsibilities concerning compensation are:

- > Reviewing the terms of employment and compensation of the executive directors and other senior key managers.
- > Ensuring that the compensation policy and practices of the group encourage, reinforce and reward the delivery of growth and shareholder value.
- > Reviewing and approving short and long term incentive plan rules; the award, allocation or issue of shares or payments in cash incentives.
- > Reviewing and approving proposals submitted by the group executive committee on the fees and benefits of non-executive directors, including the chairman.

Part of the committee's responsibilities to shareholders is to assure shareholders that the compensation of senior executives is set by an independent committee and that all disclosure set out in this report is to the best of their knowledge, accurate, complete and transparent.

Compensation report continued

Members of the committee

The committee comprised of four members in 2012.

Professor M Feldberg is the chairman of the committee and he has held this position for three years and served as a committee member since 2005. Professor Feldberg will be retiring from the board in December 2012. Sir A N R Rudd will act as interim chairman of the committee until February 2013 when the composition of all board committees will be reviewed. Sir Rudd has served on the committee since October 2006.

Mr J D McKenzie has served on the committee since November 2007.

Mr N P Mageza has served on the committee since February 2010.

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

Dr D C Cronjé (group chairman) attended committee meetings ex officio and Mr R J Boëttger (group chief executive officer) and Ms L A Swartz (group head human resources) attended meetings by invitation.

Mr D J O'Connor (company secretary) attended the meetings as secretary to the committee.

During the year, the committee had four scheduled meetings and one telephone conference. Prior to each meeting, the chairman of the committee; the group head human resources and the company secretary review the agenda and documents to be tabled.

Attendance at meetings is provided on page 67.

Committee activities during the year

- > Approved the compensation packages of Mr S R Binnie (the newly appointed chief financial officer) and Mr M van Hoven (the newly appointed group head strategy and legal).
- > Reviewed and approved the recommended salary increases and share plan allocations for executive directors and other key senior managers for 2011/2012.
- > Reviewed non-executive directors' fees for 2012 and agreed the recommended fee levels to the Sappi Limited board and shareholders for approval.
- > Reviewed the content of the company's compensation policy and practices, which was put to shareholders for a non-binding vote at the 2012 annual general meeting.
- > Reviewed the compensation report for inclusion in the 2011 integrated report.

- > Reviewed and approved the vesting or otherwise, of the 2008 performance share plan awards.
- > Reviewed and approved the 2011 and 2012 management incentive scheme awards and the performance levels of executive directors and other key senior managers.
- > Approved the allocation of 2012 performance share plan awards to executive directors and all other eligible participants.
- > Approved the 2013 management incentive scheme rules, and reviewed the share incentive plan rules.
- > Reviewed with the assistance of the audit committee, the funding levels and investment arrangements of all benefit plans across the group.
- > Reviewed and approved in principle, the transfer of the Sappi Southern Africa medical aid scheme from a closed scheme to an open scheme.

Independent advice

During the year, the committee and group management received advice from the Hay Group, who reviewed the compensation packages of executive directors and other key senior managers in each of the regions.

Kepler Associates assisted management with the amendments to the annual management incentive scheme and independently calculated the performance of the group in terms of Total Shareholder Return (TSR) relative to the peer group, to determine the vesting of performance share plan awards.

KPMG was engaged by management to verify Sappi's performance on Cash Flow Return on Net Assets (CFRONA) relative to that of a peer group, to determine the vesting of performance share plan awards.

Two legal firms, namely Bowman Gilfillan in South Africa and Cravath, Swaine and Moore L L P in the US and UK, provided legal and tax assistance in determining the rules incorporated into the amendments of the annual management incentive scheme.

Group companies also participate in local industry/national surveys to benchmark compensation practices.

Compensation policy and practices

Sappi's compensation programmes are designed to attract, motivate and retain exceptional employees who deliver on the achievement of financial and strategic goals which build long term shareholder value, and who contribute to making Sappi a great place to work at.

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

The primary components of pay include base salary and benefits eg medical and retirement, which equates to guaranteed pay, short term incentive awards and long term incentives.

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

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

Guiding principles

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

- > In determining the value of work, we use a common job evaluation methodology and combine that with market pricing.
- > Each job is allocated a job grade and Hay Reward Level.
- > Salary ranges are established 25% below and above the midpoint, which is determined at the market median.
- > Market conditions – all components of pay are set competitively with due consideration to market pay practices of companies of similar size and complexity in regional markets.
- > Performance – relevant components of compensation are linked to the performance of individuals and that of his/her specific business unit or function and/or company.
- > The behaviour of individuals in terms of how they achieved results, made decisions and took action must be consistent with our values, ethics and leadership competencies.
- > Cost – compensation programmes are based on costs which are reasonable, affordable, and appropriate, and are aligned to the short and long term financial and strategic business results.
- > Determining an appropriate reward mix for executive directors and other key senior personnel based on base pay and benefits and short and long term incentives, within the context of our industry sector.
- > Risk and reward – our compensation structure is designed to ensure that policies encourage behaviour consistent with the group's risk and reward strategy.
- > Variable pay – our short and long term incentive plans have different performance criteria. Short term incentives are based on absolute performance against budget targets on operating profit, working capital and capital expenditure.

- > In order for an individual to qualify for a payout of a short term incentive under the rules of the scheme, the prescribed performance threshold of 75% of budgeted Operating Profit¹ must be achieved.

For financial year 2013 onwards, we have amended the annual management incentive scheme to incorporate the voluntary purchase of Sappi shares by executive directors and all other group executive committee members from their annual cash incentive and who voluntarily undertake to hold the shares for three years. We have also replaced capital expenditure as a performance criterion with a safety target.

Long term incentives measure total shareholder return and cash flow return on net assets relative to a peer group of 14 other industry related companies.

Under the long term incentive plans, share option awards vest 25% each year and have an eight year term; performance plan shares have cliff vesting after four years.

Share option awards will be discontinued for financial year 2013 onwards, and only performance plan shares will be granted to all eligible participants.

Incentive awards are capped.

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

Employment and separation agreements

Employment agreements typically stipulate notice periods required by the employer and employee in the event of termination of employment, except for our North American operations where employment is generally 'at will'. Some senior North American employees are, however, required to provide three months' notice to the company in exchange for a year of separation benefits if the company terminates their employment other than for cause.

For other employees in the group notice periods are based on seniority and geography and these notice periods vary from one month to eighteen months. Some notice periods are legacy practices, particularly where individuals have long tenure with Sappi.

Separation agreements, when appropriate, are negotiated with an affected employee with prior approval having been obtained in terms of our governance structures.

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

1. Operating Profit excluding Special Items, adjusted for Fair Value Plantations Adjustment – Volume, External Securitisation Costs, MIS and Share Scheme Costs and Other non-operating Costs (where applicable).

Compensation report continued

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

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

Component	Purpose	Characteristics
Fixed		
Base salary	To attract and retain talent by ensuring base salaries are competitive in the market in which the individual is employed	<ul style="list-style-type: none"> > Typically paid monthly > Reviewed annually > Target median of the market > Individual increases are granted based on performance (merit), and influenced by internal and external equity and budget constraints
Retirement benefits	<ul style="list-style-type: none"> > To provide income for an individual after they have stopped working 	<ul style="list-style-type: none"> > Defined benefit and defined contribution plans based on local market practice > Majority of defined benefit plans closed to new hires > Employees in legacy defined benefit plans continue to accrue benefits in such plans for both past and future service
Medical benefits	<ul style="list-style-type: none"> > To provide medical insurance to employees and their families in the event of ill-health > Appropriate in light of position 	<ul style="list-style-type: none"> > Non-pensionable > Market related
Death and disability benefits	<ul style="list-style-type: none"> > To provide assurance to employees' family in the event of disability and/or death 	<ul style="list-style-type: none"> > Based on local market practice > Disability benefit at a percentage of base salary for a defined period > Death benefit is a multiple of base salary
Other benefits		Dependent on location, seniority/grade and regional policy, eg car benefits, education assistance, service awards etc.
Variable		
Short term incentive		
Annual incentive	<ul style="list-style-type: none"> > Focus participants on key annual metrics > Motivate the attainment of short term goals for the applicable period > Provide a competitive target compensation opportunity 	<ul style="list-style-type: none"> > Variable compensation provided to reward performance over the short term > Short term incentive targets are determined annually > Specific performance goals supporting both the company's overall goals for the year and the contributions of individuals in his/her own area of responsibility are established > Linked to the next higher business unit level. A portion of each unit's bonus calculations are linked to the next higher business unit level eg a mill is linked to a region > Paid out annually provided the threshold is achieved

Component	Purpose	Characteristics
Variable		
Long term incentive		
Performance plan shares	<ul style="list-style-type: none"> > Reinforce the guiding principle for long term performance and shareholder interests > Align executive interests with the long term operational growth of the company > Encourage long term commitment to the company > Is a wealth creation mechanism for executive directors and other key senior managers if the company outperforms the peer group 	<ul style="list-style-type: none"> > Conditional grants awarded annually to executive directors and other key senior managers of the company > Cliff vesting after four years if performance hurdles are met > Performance is measured relative to a peer group of 14 other industry related companies > The number of shares allocated is benchmarked externally and is performance based
Broad-based Black Economic Empowerment		
Management share ownership plan	<ul style="list-style-type: none"> > Provide black managers the opportunity to acquire equity in the company > Attract, motivate and retain black managers 	<ul style="list-style-type: none"> > Established to meet the requirements of the Forestry Sector Charter > Eligible employees receive an allocation based on seniority of 'A' ordinary shares > Shares vest 40% after three years and 10% each year thereafter > Shares can only be taken up after September 2019 > Managers receive the net value in shares or cash at the end of the lock-in period

Base salary

Base salaries are normally reviewed annually with effect from 01 January each year.

Increases are determined by reference to market competitive practices among companies of similar size and complexity in local markets; individual performance; experience; and in the context of salary increases across the group as a whole.

The policy is that salaries for executive directors and other key senior managers should typically be at the median of the market.

The company's policy on compa-ratios range from 80% to 120% of market median.

The approach to reviewing the base salary of executive directors is the same as that for other employees.

The base salary increase for executive directors and other senior key managers in 2012, was in line with the general salary increase mandate for all staff, dependent upon location.

Mr Boëttger received a salary increase of 6% on the South African portion of his salary and 4% on the off-shore portion of his salary, in line with general staff increases in South Africa and the United Kingdom respectively. His base salary effective 01 January 2012 was US\$760,640 per annum.

Mr M R Thompson received a salary increase in January 2012 of 10% on his South African salary and 4% on his off-shore portion of his salary. Mr Thompson's salary increases also contain market adjustments to both the on-shore and off-shore portion to bring his pay in line with other chief financial officers of companies of similar size and complexity and to position his pay at the median of the market. Mr Thompson's base salary with effect 01 January 2012 was US\$398,733 per annum.

Retirement benefits

It is the company's policy that retirement benefits should, wherever possible, be in the form of defined contribution arrangements.

Some executive management may still be members of legacy defined benefit plans. Almost all the group's defined benefit funds have been closed to new hires. The contribution rate to executive directors depends on whether they are members of the defined benefit fund or defined contribution fund.

Mr Boëttger and Mr Binnie (Mr Binnie was appointed 09 July 2012, to succeed Mr Thompson who retired at the end of August 2012) are members of defined contribution funds and the company contributions are fixed at 27.7% of base salary. Mr Thompson was a member of a defined benefit fund and a defined contribution

Compensation report continued

fund and the company's contributions in total during 2012 was 37.8% of base salary. This includes a contribution increase all pension fund members received so that the solvency status of the pension fund met the requirements of the South African Financial Services Board.

No additional payments were made to any retirement funds on behalf of the executive directors.

Short term incentive

The annual management incentive scheme bonus is determined by the achievement of pre-determined targets. At the beginning of the financial year, the board approves a budget with financial targets for the group.

Executive directors and other key senior managers participate in the annual management incentive scheme.

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

The performance measures for the management incentive scheme for 2012 were Operating Profit (60%), Working Capital (30%) and Capital Expenditure (10%).

A performance threshold of 75% of Operating Profit is required before a bonus can be paid.

If the group or business unit did not achieve a minimum of 75% of the Operating Profit target for that year, no bonus is paid to the participants in either the group or business unit for that year.

No bonus will be paid to participants in Sappi Fine Paper North America this year, as they did not meet the performance threshold.

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

Group executive bonus payments for financial year 2012, which will be paid in December 2012, were calculated on the achievement of financial targets of 52.2% for the group.

	Weighting	Target points	2012 Actual achievement
Operating profit	60%	48	8.16
Working capital	30%	24	36.00
Capital expenditure	10%	8	8.00
		80	52.16

In December 2012 it is estimated that Mr Boëttger will receive a bonus payout of US\$483,471 (64% of base salary) and that Mr Binnie will receive a bonus payout of US\$53,282 (15% of base salary). Mr Binnie was appointed in July 2012 and his bonus payout is pro-rated for the period he worked for the group.

Mr Thompson, who was the CFO until the end of August 2012, will receive an estimated bonus payout of US\$228,274 (56% of his base salary). Mr Thompson's bonus will be pro-rated for the 11 months he worked in the 2012 financial year.

The bonuses paid in December 2012 fall within the 2013 financial year and relates to performance in the 2012 financial year.

Mr Boëttger has voluntarily offered to buy Sappi shares with 40% of his post-tax 2012 cash bonus and to hold these for a period of three years.

In December 2011, which was in the 2012 financial year, Mr Boëttger received a bonus of US\$669,438 and Mr Thompson received a bonus of US\$288,872. These bonuses relate to performance in the 2011 financial year.

Bonus award targets

Designation	Target bonus as % of base salary	Maximum bonus % of base salary that can be earned
Group CEO	85	116
Regional CEOs	70	95
Executive management	65	88.5

For 2013, a number of changes have been made to the annual management incentive scheme rules:

- > The general rules of the scheme have changed by replacing Capital Expenditure with Safety as a performance measure.

Safety targets will be based on a rolling 12-month average performance of Lost-Time Injury Frequency Rates set to be in the upper quartile of the industry in which the business unit is located. If no industry benchmark exists, the target is set at equal or better than the average of the last three years.

Should one or more fatalities occur within a region, the CEO of the group may recommend that the management incentive scheme of those accountable and responsible for Safety at a mill and/or region, be negatively impacted.

The committee may exercise its discretion in line with the rules of the management incentive scheme and decide that the management incentive scheme award of the group CEO and anyone else who they deem responsible for a poor safety record, also be negatively impacted.

competitive

The policy on fatalities at work serves as a guiding principle to the compensation committee when faced with this decision.

The performance measures for 2013 will therefore be:

Operating Profit (60%)

Working Capital (30%)

Safety (10%)

It is the company's intention to move from Operating Profit as a performance criteria to Net Profit once the group's financial turnaround has delivered Net Profit consistently for at least three consecutive years.

- > From 2013 onwards, executive directors and executive committee members will receive their annual bonus determined in accordance with the 2013 management incentive scheme rules in cash and have voluntarily offered to purchase Sappi shares with a portion of their cash bonus.

The CEO has volunteered to utilise 40% of his after-tax cash bonus to purchase Sappi shares. Other executive committee members have volunteered to utilise 30% of their after-tax cash bonus to purchase Sappi shares.

Shares will be held in trust on behalf of participants.

Participants will be entitled to all rights in respect of the shares, including dividends and voting rights.

In addition, if a participant is still in the employ of Sappi 36 months after purchasing the shares and none of the shares have been sold or encumbered during the 36-month period, then participants will receive a cash amount based on the then current market value of Sappi shares on the JSE Limited of 20% of the original number of shares purchased, which amount will be grossed up for tax as applicable.

The terms and conditions of the annual management incentive scheme for executive directors and group executive committee members afford the company the right to seek redress and recoup from an individual(s) where the board determines within a 12-month period of such payment, that the performance goals (whether for the individual participant or for the group) were in fact not achieved following a restatement of financial results or otherwise.

Long term incentives

During 2012, the company operated two long term incentive plans, namely the Sappi Limited Share Incentive Trust ('Scheme') and the Sappi Limited Performance Incentive Trust ('Plan').

Executive directors and other key senior managers (approximately 40 participants) received a grant from the 'Plan' and all other participants received a grant from the 'Scheme' (approximately 500 participants). From 2013 onwards, all eligible participants will receive grants in terms of the 'Plan' and 'Scheme' grants will be discontinued altogether.

Performance plan share awards

Shares granted to participants under the Performance Plan Share are conditional grants subject to performance conditions measured over a four year period. These awards will only vest if Sappi's performance relative to a peer group of 14 other industry related companies is ranked at median or above the median.

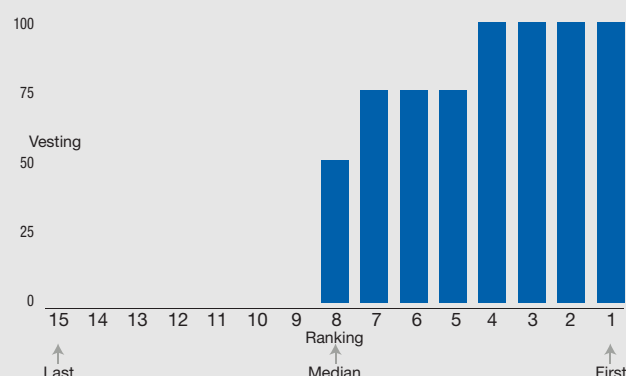
The performance criteria are Total Shareholder Return (TSR) and Cash Flow Return on Net Assets (CFRONA) weighted 50:50.

The peer group consisted of the following companies:

Resolute Forest Products (formerly Abitibi Bowater)
UPM-Kymmene OYJ
Holmen AB
Stora Enso OYJ
Mondi plc
MeadWestvaco
Fibria Celulose SA
Nippon Paper Group
International Paper
Weyerhaeuser
Metsä Board (formerly M-real OYJ)
Norkse Skogindustria
Oji Holdings
Domtar

For the four year period ending September 2011 and a vesting date of December 2011, Sappi performance to the peer group measured on TSR was ranked 12th place, which resulted in no shares vesting.

2011 and 2012 Performance Share Plan vesting schedule
(% of awards vesting)



Compensation report continued

Sappi's performance relative to the peer group measured on CFRONA for the same period, resulted in 50% of shares vesting, as Sappi's performance was ranked 4th place. The total net vesting was 50%.

Executive directors	Number of shares issued under 2007 award	Number of shares vested in December 2011
R J Boëttger	110,000	55,000
M R Thompson	88,000	44,000

In December 2011, Mr Boëttger was awarded 200,000 shares and Mr Thompson, 70,000 shares. The shares will vest in four years' time based on the performance criteria explained on page 89.

In 2015, and if the shares vest, Mr Thompson's shares will be pro-rated accordingly.

Vesting of Performance Plan Share awards to date

Share awards	2008	2009	2010	2011
Total shareholder return	75%	0%	0%	0%
Cash flow return on net assets	–	–	50%	50%

Cash Flow Return on Net Assets was introduced as a performance criteria in 2006; until then the only performance criteria was Total Shareholder Return.

During 2012, neither Mr Boëttger nor Mr Thompson sold any of their beneficially held shares. Both Mr Boëttger and Mr Thompson sold a sufficient number of the shares that vested in 2012, to defray tax payable on the vested shares.

Sappi Limited Share Incentive Scheme ('Scheme')

During 2012, approximately 500 management participants other than participants in the 'Plan' were awarded stock options of which 25% vest each year over four years and expire after eight years.

Employee Share Ownership Plan (Broad-based Black Economic Empowerment)

The Employee Share Ownership Plan was established in 2009 to meet the requirements of Broad-based Black Economic Empowerment established in the South African Forestry Sector Charter.

Eligible employees receive an allocation based on seniority of "A" ordinary shares and ordinary shares. Shares vest 40% after three years and 10% each year thereafter.

Shares can only be taken up after September 2019. Employees receive the net value in shares or cash at the end of the lock-in period.

Share ownership requirements

Our compensation policy does not require executive directors and/or executive committee members to hold a specified number of shares during their tenure with the company.

Mr Boëttger voluntarily holds 140,307 vested shares.

Mr Thompson at the date of his retirement held 34,612 vested shares.

Mr Binnie's employment contract requires him to dispose of any Sappi shares that he might acquire through the Sappi Performance Share Plan or any other scheme, within 30 days of the shares vesting².

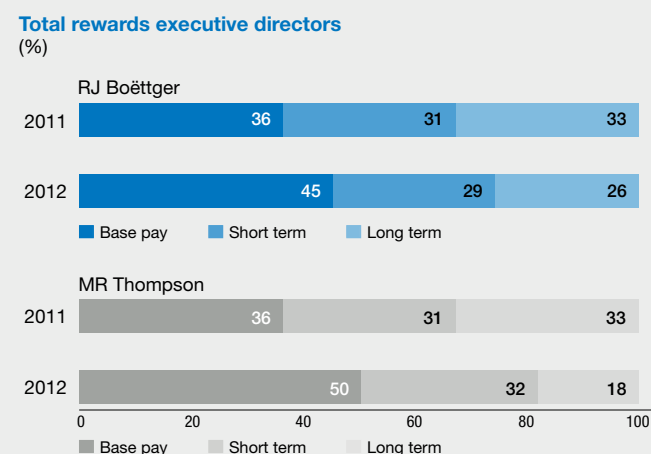
Dilution

In the event that all options and plan awards outstanding as at 30 September 2012 are exercised and/or vest, the resulting dilution effect would be 4% of issued ordinary share capital excluding treasury shares.

It is the company's intention to continue to satisfy the future exercise of options and vesting of awards under the share plans by using Treasury shares and not to issue new shares.

Total reward

The chart below show the split between the different pay elements of the executive directors' compensation packages on a present value basis in both 2011 and 2012:



2. Mr Binnie may not hold any other shares in Sappi Limited, its subsidiaries and/or affiliates. Sappi Limited is a listed entity with the Securities and Exchange Commission of the United States of America and as such as a SEC restricted entity is required to comply with the SEC rule which relates to 'covered person'. Mr Binnie's spouse is a partner at Deloitte & Touche, who in turn are the auditors of Sappi Limited. We are satisfied that all necessary steps have been taken by Deloitte & Touche and Sappi Limited to ensure that Deloitte & Touche's independence is not impaired by Mr Binnie's appointment.

Service contracts

Mr Boëttger has, and Mr Thompson had, ongoing employment contracts that require nine months' notice of termination from the employee and eighteen months' notice of termination from the company.

In reviewing the service contracts of executive directors, the committee changed the terms of notice and therefore Mr Binnie has an employment contract that requires six months' notice of termination from the employee and twelve months' notice of termination from the company.

Executive directors retire at the age of 60 years.

Depending on their location, other key senior managers have ongoing employment contracts which require between three to six months' notice of termination by the employee and six to twelve months' notice of termination from the company.

Generally, in North America, employment is 'at will'. Most senior managers have a retirement age of 60 to 65 years, which differs by region.

Following are details of the compensation and share interests of executive directors and prescribed officers.

Remuneration disclosure of executive directors and prescribed officers

Executive director's emoluments

Remuneration and benefits paid and short term incentives approved in respect of 2012 for executive directors were as follows:

(US Dollars)

Executive directors	Salary	Retirement funding & medical aid	Other benefits	Annual cash bonus	Total 2012	Total 2011
R J Boëttger	759,126	219,316	8,162	483,471	1,470,075	1,719,108
M R Thompson ¹	354,001	180,086	111,106	228,274	873,467	913,320
S R Binnie ²	83,361	25,232	2,583	53,282	164,458	–
	1,196,488	424,634	121,851	765,027	2,508,000	2,632,428

1. Retired at the end of August 2012.

2. Appointed in July 2012.

Prescribed officer/group executive committee members

Remuneration and benefits paid and short term incentive approved in respect of 2012 for prescribed officers and group executive committee members:

(US Dollars)

Prescribed officers	Salary	Retirement funding & medical aid	Other benefits	Annual cash bonus	Total 2012	Total 2011
Prescribed officer 1	749,633	127,926	3,247	501,438	1,382,244	907,665
Prescribed officer 2	456,485	45,384	–	–	501,869	1,427,478
Prescribed officer 3	372,216	72,518	–	194,848	639,582	706,500
Prescribed officer 4	306,574	110,275	10,906	152,320	580,075	668,013
Prescribed officer 5	213,620	109,611	144,650	105,428	573,309	630,173
Prescribed officer 6	255,021	103,686	7,108	123,613	489,428	534,329
Prescribed officer 7 ³	–	–	–	–	–	729,363
Prescribed officer 8	135,184	44,790	3,926	61,631	245,531	–
Total	2,488,733	614,190	169,837	1,139,278	4,412,038	5,603,521

3. Prescribed officer 7 was no longer a Sappi employee from December 2010.

Top risks

Risk philosophy

We have a coordinated risk management approach and methodology to manage, coordinate and execute the risk management process throughout Sappi.

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

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

The dissolving wood pulp capacity conversions at our Ngodwana and Cloquet Mills to increase our market share and strengthen our leading position in the dissolving wood pulp market are on track.

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

Insurance

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

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

Asset insurance is renewed on a calendar year basis. Sappi has negotiated the renewal of its 2012 insurance cover at rates similar to those of 2011. Self-insured retention for any one property damage occurrence is €20.5 million, and the annual aggregate at €33 million. For property damage and business interruption insurance, cost-effective cover to full value is not readily available. However, the directors believe that the loss limit cover of €700 million should be adequate for what they have determined as the reasonable foreseeable loss for any single claim.

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



Printed communication remains effective, cost-efficient and powerful.

Social, ethics, transformation and sustainability committee report

Introduction

The social, ethics, transformation and sustainability (SETS) committee presents its report for the financial year ended September 2012. The SETS committee is a statutory committee with a majority of independent non-executive members, whose duties are delegated to it by the board of directors. The committee has conducted its affairs in compliance with a board approved terms of reference, and has discharged its responsibilities contained therein.

The committee was established during the 2012 financial year in response to the requirements of section 72(4) of the South African Companies Act No. 71 of 2008, read with regulation 43 of the Companies Regulations, 2011. These regulations required the establishment of a social and ethics committee, to which were added the transformation and sustainability oversight roles previously contained in the sustainability and human resources and transformation committees.

During the course of the financial year the committee formally met once at which meeting it contributed to all aspects relating to its terms.

Objectives of the committee

The role of the SETS Committee is to assist the board with the oversight of the company and to provide guidance to management's work in respect of its duties in the fields of social, ethics, transformation and sustainability. The committee relies on international best practice as well as the laws and regulations under which Sappi businesses are operated to ensure that the group not only complies with but fully implements them. The committee addresses issues relating to corporate social investment, ethical conduct, transformation and empowerment initiatives and targets and ongoing sustainability practices to ensure that our business, our environment and our people can prosper. The responsibilities include monitoring the company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice. The committee will meet a minimum of two times per year.

Membership of the committee

The members of the SETS committee during the 2012 financial year were:

Mr J D McKenzie (chairman)
Mr R Thummer
Mr M V Moosa
Mrs B Radebe
Mr R J Boëttger

Three members of the committee are independent non-executive directors; one is a non-executive director and one the chief executive officer. In addition the chairman of the board, attends committee meetings ex officio. The regional chief executive

officers, the group head of strategy and legal, the group head of technology, the group head human resources, the group head corporate affairs and the group head of investor relations and sustainability attend meetings by invitation.

Committee activities during the year

- > Reviewed the training and development plan.
- > Reviewed and approved the CSR-programmes and policy.
- > Reviewed Sappi's standing in terms of social and economic development in terms of the goals and purposes of:
 - The principles set out in the United Global Compact Principles.
 - The OECA recommendations regarding corruption.
 - The Employment Equity Act, and
 - The Broad-based Black Economic Empowerment Act.
- > Reviewed regional sustainability performance against goals for 2012.
- > Reviewed and approved the sustainability charter.
- > Reviewed regional and global public policy matters affecting the group and its operations as they relate to sustainability.
- > Reviewed the participation of the company in various sustainability surveys and indices.
- > Reviewed the various production unit operating efficiencies, reliability and unscheduled downtime metrics for 2012.
- > Reviewed and approved the updated ethics policy.
- > Reviewed the SETS committee report for the integrated report as well as sustainability information presented in the integrated report.
- > Reviewed the company performance relative to the Employment Equity Act.

Conclusion

The committee confirms that the group gives its social, ethics, transformation and sustainability responsibilities necessary attention. Appropriate policies and programmes are in place to contribute to social and economic development, ethical behaviour of staff towards employees and other stakeholders, fair labour practices, environmental responsibility and good customer relations.

There were no substantive areas of non-compliance with legislation and regulation, nor non-adherence with codes of best practice applicable to the areas within the committee mandate that were brought to the committee's attention. The committee has no reason to believe that any such non-compliance or non-adherence has occurred.

J D McKenzie

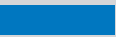
Chairman

Social, ethics, transformation and sustainability committee

Focus on local communities

Our business is founded on long term relationships, particularly with the communities where our timber is grown and those where we manufacture our products. As part of this relationship we invest in many diverse projects to help these communities develop and grow. One such example is Project Grow, a community timber out-grower scheme, begun some 30 years ago by Sappi Southern Africa. To date close to 10,000 farmers have benefited from the scheme, and over 100 small and medium businesses have been established by community members creating around 1,100 jobs. In total almost R500 million (US\$62 million) has been paid to the participants for the timber they have delivered to Sappi. The project, along with Sappi's long standing support of the KwaDukuza Resource Centre caused the company to receive the inaugural Sunday Times Top 100 Companies CSI Award in 2012.





Group annual financial statements

for the year ended September 2012

sappi

contents

Directors' approval	98	Group statements of cash flows	106
Secretary's certificate	98	Group statements of changes in equity	107
Auditor's report	99	Group income statements in Rands (convenience translation)	108
Audit committee report	100	Group statements of comprehensive income in Rands (convenience translation)	108
Directors' report	101	Group balance sheets in Rands (convenience translation)	109
Group income statements	104	Group statements of cash flows in Rands (convenience translation)	110
Group statements of comprehensive income	104		
Group balance sheets	105		

Notes to the group annual financial statements

1. Business	111	16. Trade and other receivables	129
2. Accounting policies	111	17. Ordinary share capital and share premium	132
2.1 Basis of preparation	111	18. Other comprehensive income (loss)	133
2.2 Summary of accounting policies	111	19. Non-distributable reserves	134
2.3 Critical accounting policies and estimates	114	20. Interest-bearing borrowings	135
2.4 Adoption of accounting standards in the current year	117	21. Other non-current liabilities	139
2.5 Accounting standards, interpretations and amendments to existing standards that are not yet effective	117	22. Provisions	139
3. Segment information	118	23. Notes to the group statements of cash flows	140
4. Operating profit	120	24. Encumbered assets	141
4.1 Employment costs	121	25. Commitments	141
4.2 Other operating (income) expenses	121	26. Contingent liabilities	142
5. Net finance costs	122	27. Post-employment benefits – pensions and other benefits	142
6. Taxation charge	122	28. Share-based payments	149
7. Earnings (loss) per share and headline earnings (loss) per share	123	29. Financial instruments	153
8. Dividends	123	29.1 Derivative financial instruments	153
9. Property, plant and equipment	124	29.2 Financial instruments	154
10. Plantations	125	30. Related party transactions	170
11. Deferred tax	126	31. Events after balance sheet date	170
12. Goodwill and intangible assets	127	32. Environmental matters	171
13. Joint ventures and associates	128	33. Directors' and prescribed officers' remuneration	172
14. Other non-current assets	129	34. Directors' and prescribed officers' interests	176
15. Inventories	129	35. Directors' and prescribed officers' participation in the Sappi Limited share schemes	177

Annexure A – Investments 182

Directors' approval

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

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and are committed to maintaining a strong control environment. Details relating to the group's internal control environment, including the requirement to comply with section 404 of the U.S. Sarbanes-Oxley Act (a requirement for companies listed on the New York Stock Exchange), are set out in the corporate governance section of this report.

The directors are of the opinion, based on the information and explanations given by the company's officers and the internal auditors, that the system of internal control provides reasonable

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

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

The directors' report and group annual financial statements appear on pages 101 to 181 and were approved by the board of directors on 10 December 2012 and signed on its behalf by:

R J Boëttger
Chief executive officer

Sappi Limited

S R Binnie
Chief financial officer

Secretary's certificate

In terms of section 88(2)(e) of the Companies Act 71 of 2008 (as amended) of South Africa, I hereby certify that, to the best of my knowledge and belief, the company has lodged with the Companies and Intellectual Property Commission of South Africa, for the financial year ended September 2012, all such returns as are required of a public company in terms of this Act and that such returns appear to be true, correct and up to date.

Sappi Southern Africa (Pty) Limited
Secretaries
per D J O'Connor
Group secretary

10 December 2012

Independent auditor's report

To the shareholders of Sappi Limited

We have audited the group annual financial statements of Sappi Limited set out on pages 104 to 107 and pages 111 to 181, which comprise the group balance sheet as at September 2012, and the group income statement, group statement of comprehensive income, group statement of changes in equity and group statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the group annual financial statements

The group's directors are responsible for the preparation and fair presentation of these group annual 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 the group annual 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 group annual 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 group annual financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the group annual financial statements present fairly, in all material respects, the consolidated financial position of Sappi Limited as at September 2012, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the group annual financial statements for the year ended September 2012, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited group annual 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 group annual financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche

Per R C Campbell
Partner

Registered auditor

10 December 2012

Johannesburg, South Africa

*National Executive: L L Bam Chief Executive A E Swiegers Chief Operating Officer
G M Pinnock Audit D L Kennedy Risk Advisory N B Kader Tax T P Pillay Consulting
K Black Clients & Industries J K Mazzocco Talent & Transformation C R Beukman
Finance M Jordan Strategy S Gwala Special Projects T J Brown Chairman of the
Board M J Comber Deputy Chairman of the Board*

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

Member of Deloitte Touche Tohmatsu Limited

Audit committee report

for the year ended September 2012

Introduction

The audit committee presents its report for the financial year ended September 2012. The audit committee is an independent statutory committee, whose duties are delegated to it by the board of directors. The committee has conducted its affairs in compliance with a board approved terms of reference, and has discharged its responsibilities contained therein.

Objectives and scope

The overall objectives of the committee are:

- To assist the board in discharging its duties relating to the safeguarding of assets and the operation of adequate systems and control processes
- To control reporting processes and the preparation of financial statements in compliance with the applicable legal and regulatory requirements and accounting standards
- To provide a forum for the governance of risk, including control issues and developing recommendations for consideration by the board
- To oversee the internal and external audit appointments and functions
- To perform duties that are attributed to it by the South African Companies Act of 2008 (the Act), the JSE Limited Listings Requirements, the United States Securities Exchange Act of 1934, the rules of the New York Stock Exchange and King III.

Committee performance:

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

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

Membership

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

Dr D Konar (chairman)	(appointed in January 2004, chairman from January 2007)
Mr G P F Beurskens	(appointed in January 2012)
Mr M A Fallon	(appointed in January 2012)
Mrs K R Osar	(appointed in November 2007)
Mr N P Mageza	(appointed in February 2010)

Biographical details of the current members of the committee are set out on pages 30 and 31 of this integrated report.

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

External audit

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

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

The committee has reviewed the performance of the external auditors and nominated, for approval at the annual general meeting, Deloitte & Touche as the external auditor for the 2013 financial year. Mr Roy Campbell is the designated auditor and, in terms of the rotation requirements of the Act, 2013 will be his third year as designated auditor of the company. The committee confirms that the auditor and designated auditor are accredited by the JSE Limited.

Integrated report

The audit committee has evaluated the Integrated Report, incorporating the group annual financial statements, for the year ended September 2012. The audit committee has also considered the sustainability information as disclosed in the integrated report and has assessed its consistency with operational and other information known to audit committee members. The committee has also considered the report and is satisfied that the information is reliable and consistent with the financial results. The annual financial statements have been prepared using appropriate accounting policies, which conform to International Financial Reporting Standards.

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

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

D Konar

Chairman of the audit committee

10 December 2012

Your directors submit their report for the year ended September 2012

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

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

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

Review of results

Net profit for the period ended September 2012 was US\$104 million compared to a loss of US\$232 million in fiscal 2011. Detailed commentary on the 2012 financial results is contained in the various reviews throughout this report.

Full details on the financial position and results of the group are set out in these group annual financial statements.

Reporting period

The group's financial period ends on the Sunday closest to the year-end date and results are reported to that year-end date. For the current year, the reporting period is for the 52 weeks ended 30 September 2012.

International Financial Reporting Standards (IFRS)

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

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

For the convenience of users, the income statements, statements of comprehensive income, balance sheets and statements of cash flows of the group have been translated into South African Rand on pages 108 to 110.

Share capital

As at September 2012 the authorised and issued share capital of Sappi was as follows:

Authorised:	
725,000,000 ordinary shares of ZAR1 each	ZAR725 million
19,961,476 'A' ordinary shares of ZAR1 each	ZAR20 million
Issued:	
541,446,223 ordinary shares of ZAR1 each	ZAR541 million
19,961,476 'A' ordinary shares of ZAR1 each	ZAR20 million
Share premium	US\$1,328 million

There were no share issues or repurchases during the year.

Included in the 541,446,223 issued ordinary shares are 40,563,237 treasury shares including the 19,961,476 'A' ordinary shares. See note 17 of the group annual financial statements for further information relating to the share capital of Sappi Limited.

Purchase of shares by a subsidiary

No shares were acquired during fiscal years 2012 and 2011. Some of these treasury shares have been and will continue to be utilised to meet the requirements of the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust from time to time.

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

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

The announcements were:

- On 08 August 2012, Sappi announced that it had concluded an agreement to sell its entire 34% shareholding in the Jiangxi Chenming Paper Company Limited ('JXCM'), situated in Nanchang City, Jiangxi Province, China, for US\$41.58 million to the Shandong Chenming Paper Holding Company.
- On 25 September 2012, Sappi announced that in response to strong growth and positive market forecasts for the packaging market, Sappi Fine Paper Europe has begun the process of converting its Sappi Alfeld Mill in Germany to focus exclusively on producing one-sided coated paper for packaging, labels and technical applications. The project will take 12 months to complete.
- On 12 October 2012, Sappi announced that it decided to mothball paper machine ('PM4') at Sappi Tugela Mill from 01 January 2013.

Financing

The significant financing events were:

- In October 2011, the group repaid US\$130 million (ZAR1,000 million) of the ZAR 10.64% fixed rate public bonds in Southern Africa from cash resources;
- In April 2012, the group issued a three-year ZAR750 million (US\$98 million) floating rate bond ('SSA02') at a 144 basis points spread over the six-month Johannesburg Inter-bank Agreed Rate. The floating rate of the new bond was swapped into a fixed rate of 7.78%. The proceeds of the bonds were used partly to refinance the ZAR500 million (US\$65 million) bond ('SMF3') that matured on 29 June 2012;
- In June 2012, the group placed a new bond offering comprising two tranches of senior secured notes being US\$400 million notes due 2017 with a coupon of 7.750% per annum and US\$300 million notes due 2019 with a coupon of 8.375% per

Directors' report

for the year ended September 2012

annum. The proceeds of the new notes together with cash on hand, via tender offer and call redemption, were used to early redeem US\$700 million of the principal amount of the senior secured notes due 2014. As a result of the early redemption, a once-off charge consisting of premium and other costs of US\$86 million was recorded to net finance costs for the year. On the early redemption of the US\$300 million tranche of senior secured notes due 2014, the group simultaneously unwound the corresponding interest rate and currency swaps resulting in a cash inflow of US\$43 million;

- In August 2012, the group entered into a €136 million (US\$170 million) five-year term loan facility with the Österreichische Kontrollbank, the proceeds of which will be used to fund the dissolving wood pulp conversion project in North America; and
- In September 2012, the group repaid the drawn amount of €100 million (US\$129 million) of the €350 million (US\$450 million) revolving credit facility from cash resources. At year-end, the facility remained undrawn.

At September 2012, the group had liquidity comprising US\$645 million of cash on hand, which exceeds the amount of short-term interest-bearing debt (including bank overdrafts) of US\$266 million, and the undrawn balance of €350 million (US\$450 million) of the committed revolving credit facility. Substantially all non-South African long-term debt is supported by a Sappi Limited guarantee. Net cash generated for the year was US\$127 million.

Subsequent to year-end, on 09 November 2012, Sappi announced the commencement of an offer to repurchase the remaining €31 million of its senior secured notes due 2014. The offer has been accepted by 76% of the bond investors and the remaining amount has been called for repayment in December 2012.

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

Borrowings and net debt

The group's net debt at September 2012 amounted to US\$1,979 million (2011: US\$2,100 million). During the year, the group conducted a major refinancing as described above. The company's existing Memorandum of Incorporation allow net borrowings of up to US\$4.6 billion. Details of the non-current borrowings are set out in note 20 to the group annual financial statements.

Dividends

The board has decided not to declare a dividend for the current financial year ended September 2012.

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

Sappi has two share incentive schemes in place, namely the Scheme and the Plan for the purpose of enabling Sappi Limited to allot shares and grant options in respect of ordinary shares to present employees, including executive directors, its subsidiaries and employees seconded to joint ventures. The maximum number of shares which may be acquired by participants under both the Scheme and the Plan is 42,700,870 shares of which the maximum number of shares that may be acquired by an individual is 2,200,000. Of the 42,700,870 shares, 14,664,815 shares have already been issued to, or transferred to the Schemes leaving a balance of up to 28,036,055 shares which could still be issued or transferred to the Schemes. The group has 20,601,761 treasury shares at year-end,

some of which have been and will continue to be utilised to meet the requirements of the Scheme and the Plan from time to time.

During the year, 465,940 (2011: 700,890) credit sale and combined option/deferred sale allocations under the Scheme were cancelled in terms of the rules of the Scheme. The allocations were made in December 2003 and January 2004 (in respect of 213,700 shares at a price of ZAR79.25 per share and in December 2008 in respect of 252,240 shares arising from the rights offer at a price of ZAR20.27). The allocations would have expired on 30 December 2011 and on 14 January 2012 at an average price payable by participants for the allocations at that time (ZAR47.08 per share) would have been well above the market price. The board considered that it would not have been in the best interests of the company to enforce payment by the participants concerned. The purpose of the Scheme is to offer participants an incentive and to have insisted that participants pay for the allocations concerned, would have imposed a hardship on the participants and would have served as a disincentive.

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

Insurance

The group has an active programme of risk management in each of its geographical operating regions to address and reduce exposure to property damage and business interruption. All production and distribution units are subjected to regular risk assessments by external risk engineering consultants, the results of which receive the attention of senior management. The risk mitigation programmes are 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.

Property, plant and equipment

In July 2012, the land and buildings of the Biberist and Adamas mills that were closed in August 2011, the prior financial year, were sold resulting in a profit on disposal of US\$48 million. During the year, the group had additions of US\$404 million to property, plant and equipment, which included US\$190 million relating to the dissolving wood pulp projects. Refer to note 9 to the group annual financial statements for further details regarding the fixed assets of Sappi Limited.

Litigation

We become involved from time to time in various claims and lawsuits incidental to the ordinary course of our business. We are not currently involved in any such claims or lawsuits which, individually or in the aggregate, are expected to have a material adverse effect on our business, assets or properties (refer to note 26 to the group annual financial statements).

In September 2012, the Competition Commission of South Africa notified the group that it has initiated an investigation into alleged anti-competitive behaviour between Sappi and a competitor in the South African pulp and paper market. We understand that the investigation is at an early stage.

Directors and secretaries

The composition of the board of directors is provided on pages 30 to 32. During the year, Messrs J E Healey and M R Thompson retired as directors. Mr S R Binnie was appointed to the board with effect from 01 September 2012. In terms of the company's existing Memorandum of Incorporation, it will be necessary to confirm Mr Binnie's appointment at the forthcoming annual general meeting where he will retire from the board at that meeting, and being eligible, has offered himself for re-election.

At the end of September 2012, there were 14 directors, two of whom were executive directors. 11 of the 12 non-executive directors were considered independent. The independence of those directors who are designated as independent was reviewed and confirmed during the year by the nomination and governance committee. This included a more rigorous review of the independence of the two directors who have served more than nine years on the board, Professor M Feldberg and Dr D Konar.

Professor M Feldberg, having reached the mandatory retirement age, will be retiring as a director on 31 December 2012.

In terms of the existing Memorandum of Incorporation, Dr D C Cronjé, Mr M V Moosa, Mrs K R Osar and Dr R Thummer will retire by rotation from the board at the forthcoming annual general meeting and all being eligible, have offered themselves for re-election. Having assessed the individual performances of the directors concerned, the board recommends each of them for re-appointment.

Further information on Dr Cronjé, Mr Moosa, Mrs Osar and Dr Thummer is set out in the notice of annual general meeting on pages 187 to 191 of this report.

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

The beneficial interests of directors in the shares of the company (including options and rights and options in terms of the Scheme and conditional share awards in terms of the Plan) are set out in notes 34 and 35 to the group annual financial statements.

A register of interests of directors and prescribed officers in the shares of the company is available to shareholders and the public on request.

Details of the secretaries and their business and postal addresses are set out on page 197.

Special resolutions

The following is a list of the special resolutions passed by Sappi Limited and its South African incorporated subsidiaries during the year:

- Increase to non-executive directors' fees
- The provision of direct or indirect financial assistance to related or inter-related companies

Subsidiary companies

Details of the company's significant subsidiaries are set out in Annexure A on page 182.

Group income statements

for the year ended September 2012

US\$ million	note	2012	2011	2010
Sales		6,347	7,286	6,572
Cost of sales	4	5,552	6,454	5,786
Gross profit		795	832	786
Selling, general and administrative expenses	4	417	454	448
Other operating (income) expenses	4.2	(41)	298	10
Share of profit from associates and joint ventures	13	(2)	(6)	(13)
Operating profit	4	421	86	341
Net finance costs	5	283	307	255
Finance costs		311	348	309
Finance revenue		(12)	(12)	(16)
Finance cost capitalised		(6)	–	–
Net foreign exchange gains		(5)	(13)	(17)
Net fair value gain on financial instruments		(5)	(16)	(21)
Profit (loss) before taxation		138	(221)	86
Taxation charge	6	34	11	20
Profit (loss) for the year		104	(232)	66
Basic earnings (loss) per share (US cents)	7	20	(45)	13
Weighted average number of ordinary shares in issue (millions)		520.8	519.9	516.7
Diluted earnings (loss) per share (US cents)	7	20	(45)	13
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)		522.2	519.9	520.8

Group statements of comprehensive income

for the year ended September 2012

US\$ million	note	2012	2011	2010
Profit (loss) for the year		104	(232)	66
Other comprehensive (loss) income, net of tax	18	(69)	(205)	8
Exchange differences on translation to presentation currency		(60)	(151)	52
Actuarial losses on post-employment benefit funds		(88)	(59)	(71)
Movement on available-for-sale financial assets		1	2	2
Movement in hedging reserves		(47)	6	14
Deferred tax on other comprehensive income (loss)		24	(3)	11
Recognition of previously unrecognised deferred tax asset ⁽¹⁾		101	–	–
Total comprehensive income (loss) for the year		35	(437)	74

(1) Relates to temporary differences recognised within other comprehensive income in previous fiscal years.

Group balance sheets

at September 2012

US\$ million	note	2012	2011
Assets			
Non-current assets		3,990	4,085
Property, plant and equipment	9	3,157	3,235
Plantations	10	555	580
Deferred tax assets	11	154	45
Goodwill and intangible assets	12	22	25
Joint ventures and associates	13	18	76
Other non-current assets	14	62	83
Derivative financial instruments	29.1	22	41
Current assets		2,178	2,223
Inventories	15	726	750
Trade and other receivables	16	807	831
Derivative financial instruments	29.1	–	3
Cash and cash equivalents	23.7	645	639
Total assets		6,168	6,308
Equity and liabilities			
Shareholders' equity		1,525	1,478
Ordinary share capital and share premium	17	1,391	1,425
Non-distributable reserves	19	171	163
Foreign currency translation reserve		(323)	(304)
Hedging reserves		(39)	5
Retained earnings		325	189
Non-current liabilities		3,328	3,178
Interest-bearing borrowings	20	2,358	2,289
Deferred tax liabilities	11	319	336
Derivative financial instruments	29.1	46	–
Other non-current liabilities	21	605	553
Current liabilities		1,315	1,652
Interest-bearing borrowings	20	261	449
Overdraft		5	1
Derivative financial instruments	29.1	1	10
Trade and other payables		1,005	1,065
Taxation payable		26	20
Provisions	22	17	107
Total equity and liabilities		6,168	6,308

Group statements of cash flows

for the year ended September 2012

US\$ million	note	2012	2011	2010
Cash retained from operating activities		411	406	529
Cash generated from operations	23.1	728	798	737
– Increase in working capital	23.2	(102)	(98)	(5)
Cash generated from operating activities		626	700	732
– Finance costs paid	23.3	(206)	(266)	(206)
– Finance revenue received		11	10	12
– Taxation paid	23.4	(20)	(38)	(9)
Cash utilised in investing activities		(284)	(243)	(188)
Investment to maintain operations	23.5	(177)	(213)	(173)
Investment to expand operations		(181)	(49)	(38)
Proceeds on disposal of non-current assets	23.6	71	6	21
Decrease in other non-current assets		3	13	2
Cash effects of financing activities		(103)	(296)	(256)
Proceeds from interest-bearing borrowings		1,025	1,364	204
Repayment of interest-bearing borrowings		(1,066)	(1,578)	(444)
Share issue costs		–	–	(3)
Cash costs attributable to refinancing transactions		(66)	(78)	–
Movement in bank overdrafts		4	(4)	(13)
Net movement in cash and cash equivalents		24	(133)	85
Cash and cash equivalents at beginning of year		639	792	770
Translation effects		(18)	(20)	(63)
Cash and cash equivalents at end of year	23.7	645	639	792

Group statements of changes in equity

for the year ended September 2012

US\$ million	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Foreign currency translation reserve	Hedging reserves	Retained earnings	Total equity
Balance – September 2009	515.7	70	1,471	1,541	143	(354)	(14)	478	1,794
Transfer from retained earnings	–	–	–	–	2	–	–	(2)	–
Share-based payments	–	–	–	–	17	–	–	–	17
Transfers to Sappi Limited Share Incentive Trust	(0.5)	–	(6)	(6)	–	–	–	–	(6)
Black Economic Empowerment (BEE) transaction	4.3	1	19	20	–	–	–	–	20
Costs directly attributable to the BEE transaction	–	–	(3)	(3)	–	–	–	–	(3)
Total comprehensive income	–	3	83	86	(1)	(31)	15	5	74
Balance – September 2010	519.5	74	1,564	1,638	161	(385)	1	481	1,896
Share-based payments	–	–	–	–	20	–	–	–	20
Transfers from Sappi Limited Share Incentive Trust	1.0	–	6	6	–	–	–	–	6
Transfers of vested share options	–	–	–	–	(7)	–	–	–	(7)
Total comprehensive loss	–	(10)	(209)	(219)	(11)	81	4	(292)	(437)
Balance – September 2011	520.5	64	1,361	1,425	163	(304)	5	189	1,478
Transfer from retained earnings	–	–	–	–	2	–	–	(2)	–
Share-based payments	–	–	–	–	12	–	–	–	12
Transfers from Sappi Limited Share Incentive Trust	0.3	–	2	2	–	–	–	–	2
Transfers of vested share options	–	–	–	–	(2)	–	–	–	(2)
Total comprehensive income	–	(1)	(35)	(36)	(4)	(19)	(44)	138	35
Balance – September 2012	520.8	63	1,328	1,391	171	(323)	(39)	325 ⁽¹⁾	1,525
Note reference:				17	19				

(1) Includes accumulated actuarial losses on post-employment benefits of US\$423 million.

Group income statements in Rands (convenience translation)

for the year ended September 2012

ZAR million	Unaudited		
	2012	2011	2010
Sales	51,113	50,695	49,235
Cost of sales	44,711	44,906	43,347
Gross profit	6,402	5,789	5,888
Selling, general and administrative expenses	3,358	3,159	3,356
Other operating (income) expenses	(329)	2,074	74
Share of profit from associates and joint ventures	(16)	(42)	(97)
Operating profit	3,389	598	2,555
Net finance costs	2,280	2,137	1,911
Finance costs	2,505	2,421	2,315
Finance revenue	(97)	(83)	(120)
Finance cost capitalised	(48)	–	–
Net foreign exchange gains	(40)	(90)	(127)
Net fair value gain on financial instruments	(40)	(111)	(157)
Profit (loss) before taxation	1,109	(1,539)	644
Taxation charge	274	77	150
Profit (loss) for the year	835	(1,616)	494
Basic earnings (loss) per share (ZAR cents)	161	(313)	97
Weighted average number of ordinary shares in issue (millions)	520.8	519.9	516.7
Diluted earnings (loss) per share (ZAR cents)	161	(313)	97
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)	522.2	519.9	520.8

Group statements of comprehensive income in Rands (convenience translation)

for the year ended September 2012

ZAR million	Unaudited		
	2012	2011	2010
Profit (loss) for the year	835	(1,616)	494
Other comprehensive (loss) income, net of tax	(556)	(1,427)	60
Exchange differences on translation to presentation currency	(483)	(1,051)	390
Actuarial losses on post-employment benefit funds	(709)	(411)	(532)
Movement on available-for-sale financial assets	8	14	15
Movement in hedging reserves	(378)	42	105
Deferred tax on other comprehensive income (loss)	193	(21)	82
Recognition of previously unrecognised deferred tax asset ⁽¹⁾	813	–	–
Total comprehensive income (loss) for the year	279	(3,043)	554

(1) Relates to temporary differences recognised within other comprehensive income in previous fiscal years.

Note:

The above financial results have been translated into ZAR from US Dollars using the exchange rates as set out in accounting policies note 2.2.1. The year-end rate was used for translating assets and liabilities and the average rate for translating income, expenditure and cash flow items.

The translation was made solely for the convenience of the readers and is not defined in IAS 21. It should be noted that the translated ZAR figures from US Dollars do not necessarily represent that these US Dollar amounts could be converted into ZAR at the time when the transaction occurred.

Group balance sheets in Rands (convenience translation)

for the year ended September 2012

ZAR million	Unaudited	
	2012	2011
Assets		
Non-current assets	33,155	33,072
Property, plant and equipment	26,233	26,192
Plantations	4,612	4,696
Deferred tax assets	1,280	364
Goodwill and intangible assets	183	202
Joint ventures and associates	150	615
Other non-current assets	514	671
Derivative financial instruments	183	332
Current assets	18,099	17,998
Inventories	6,033	6,072
Trade and other receivables	6,706	6,728
Derivative financial instruments	–	24
Cash and cash equivalents	5,360	5,174
Total assets	51,254	51,070
Equity and liabilities		
Shareholders' equity	12,672	11,966
Non-current liabilities	27,654	25,729
Interest-bearing borrowings	19,594	18,532
Deferred tax liabilities	2,651	2,720
Derivative financial instruments	382	–
Other non-current liabilities	5,027	4,477
Current liabilities	10,928	13,375
Interest-bearing borrowings	2,169	3,635
Overdraft	42	8
Derivative financial instruments	8	81
Trade and other payables	8,352	8,623
Taxation payable	216	162
Provisions	141	866
Total equity and liabilities	51,254	51,070

Note:

The above financial results have been translated into ZAR from US Dollars using the exchange rates as set out in accounting policies note 2.2.1. The year-end rate was used for translating assets and liabilities and the average rate for translating income, expenditure and cash flow items.

The translation was made solely for the convenience of the readers and is not defined in IAS 21. It should be noted that the translated ZAR figures from US Dollars do not necessarily represent that these US Dollar amounts could be converted into ZAR at the time when the transaction occurred.

Group statements of cash flows in Rands (convenience translation)

for the year ended September 2012

ZAR million	Unaudited		
	2012	2011	2010
Cash retained from operating activities	3,311	2,825	3,964
Cash generated from operations	5,863	5,552	5,521
– Increase in working capital	(821)	(682)	(37)
Cash generated from operating activities	5,042	4,870	5,484
– Finance costs paid	(1,659)	(1,851)	(1,543)
– Finance revenue received	89	70	90
– Taxation paid	(161)	(264)	(67)
Cash utilised in investing activities	(2,287)	(1,691)	(1,409)
Investment to maintain operations	(1,425)	(1,482)	(1,296)
Investment to expand operations	(1,458)	(341)	(285)
Proceeds on disposal of non-current assets	572	42	157
Decrease in other non-current assets	24	90	15
Cash effects of financing activities	(831)	(2,060)	(1,917)
Proceeds from interest-bearing borrowings	8,254	9,490	1,528
Repayment of interest-bearing borrowings	(8,585)	(10,979)	(3,326)
Share issue costs	–	–	(22)
Cash costs attributable to refinancing transactions	(532)	(543)	–
Movement in bank overdrafts	32	(28)	(97)
Net movement in cash and cash equivalents	193	(926)	638
Cash and cash equivalents at beginning of year	5,174	5,559	5,707
Translation effects	(7)	541	(786)
Cash and cash equivalents at end of year	5,360	5,174	5,559

Note:

The above financial results have been translated into ZAR from US Dollars using the exchange rates as set out in accounting policies note 2.2.1. The year-end rate was used for translating assets and liabilities and the average rate for translating income, expenditure and cash flow items.

The translation was made solely for the convenience of the readers and is not defined in IAS 21. It should be noted that the translated ZAR figures from US Dollars do not necessarily represent that these US Dollar amounts could be converted into ZAR at the time when the transaction occurred.

1. Business

Sappi Limited, a corporation organised under the laws of the Republic of South Africa (the 'company' and, together with its consolidated subsidiaries, 'Sappi' or the 'group'), was formed in 1936 and is a global company focused on providing dissolving wood pulp, paper-pulp and paper-based solutions to its direct and indirect customer base across more than 100 countries. The group's dissolving wood pulp products are used worldwide by converters to create viscose fibre for clothing and textiles, acetate tow, pharmaceutical products as well as a wide range of consumer products. The group's market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and in the Southern African region newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products.

The group is comprised of Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa reportable segments. Sappi Fine Paper, which comprises Sappi Fine Paper Europe and Sappi Fine Paper North America, has manufacturing and marketing facilities in North America, Europe and Asia and produces mainly high quality branded coated fine paper. The group operates a trading network called Sappi Trading for the international marketing and distribution of dissolving wood pulp and market pulp throughout the world and of the group's other products in areas outside its core operating regions of North America, Europe and Southern Africa. The financial results and position associated with Sappi Trading are allocated to the group's reportable segments.

2. Accounting policies

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

2.1 Basis of preparation

The group's annual financial statements have been prepared in accordance with:

- International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB');
- Interpretations issued by the IFRS Interpretations Committee of the IASB;
- the AC 500 Standards issued by the Accounting Practices Board in South Africa; and
- the requirements of the Companies Act of South Africa.

The group annual financial statements are presented in United States Dollars (US\$), as it is the major trading currency of the pulp and paper industry, and are rounded to the nearest million except as otherwise indicated.

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

The preparation of the group annual financial statements was supervised by the chief financial officer, S R Binnie CA(SA).

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

- regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting;
- cumulative gains and losses recognised in other comprehensive income ('OCI') for cash flow hedge relationships are transferred

from equity included in the initial measurement of the non-financial asset or liability when the hedged item is recognised;

- jointly controlled entities are accounted for using the equity method;
- property, plant and equipment are accounted for using the cost model;
- actuarial gains or losses on post-employment benefits are recognised in OCI; and
- step-by-step method of reclassification of foreign currency translation reserves from equity to profit or loss on disposal.

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

(i) Fiscal year

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

- 03 October 2011 to 30 September 2012 (52 weeks)
- 27 September 2010 to 02 October 2011 (53 weeks)
- 28 September 2009 to 26 September 2010 (52 weeks)

The group has disclosed two years' comparative information for the income statement, statement of comprehensive income and the statement of cash flows to be consistent with its disclosure in the annual report prepared on Form 20-F that is filed with the United States Securities Exchange Commission.

(ii) Underlying concepts

The group annual financial statements are prepared on the going concern basis.

Assets and liabilities and income and expenses are not offset in the income statement or balance sheet unless specifically permitted by IFRS.

Changes in accounting estimates are recognised prospectively in profit or loss, except to the extent that they give rise to changes in the carrying amount of recognised assets and liabilities where the change in estimate is recognised immediately.

2.2 Summary of accounting policies

2.2.1 Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are converted into the functional currency of the group's individual operations at the rate of exchange ruling at the date of such transactions. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The functional currency of the parent company is Rand. The share capital and share premium of the parent company are translated into US Dollars at the period-end rate. The exchange differences arising on this translation are included in the foreign currency translation reserve, but cannot be recycled through profit or loss.

Monetary assets and liabilities in foreign currencies are translated into the functional currency of the entities in the group at rates of exchange ruling at the reporting date.

Exchange gains and losses on the translation and settlement of foreign currency monetary assets and liabilities during the period are recognised in profit or loss in the period in which they arise.

(ii) Consolidation of foreign operations

The assets and liabilities, including goodwill of entities that have non-Dollar functional currencies, are translated at the period-end rate, while the income and expenses are translated using the average exchange rate. The differences that arise on translation are reported directly in other comprehensive income and are only

Notes to the group annual financial statements

for the year ended September 2012

reclassified to profit or loss on disposal of the foreign operation, using the step-by-step consolidation method in terms of IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*.

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

Period-end rate	Sept 12	Sept 11	Sept 10
US\$1 = ZAR	8.3096	8.0963	7.0190
€1 = US\$	1.2859	1.3386	1.3491

Annual average rate	Sept 12	Sept 11	Sept 10
US\$1 = ZAR	8.0531	6.9577	7.4917
€1 = US\$	1.2988	1.3947	1.3658

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 group income statements from the date of acquisition or up to the date of disposal or cessation of control.

Inter-group balances and transactions, and profits and losses arising from inter-group transactions, are eliminated in the preparation of the group annual financial statements. Inter-group losses are not eliminated to the extent that they provide objective evidence of impairment.

(ii) Associates and joint ventures

The results, assets and liabilities of associates and joint ventures are incorporated in the group's annual financial statements using the equity method of accounting. The share of the associate's or joint venture's profit after tax is determined from their latest financial statements or, if their year-ends are different to those of the group, from their unaudited management accounts that corresponds to the group's financial year-end.

The requirements of IAS 39 *Financial Instruments: Recognition and Measurement* are applied to determine whether it is necessary to recognise any impairment loss with respect to the group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised, which is recorded in other operating expenses, is deducted from the carrying amount of the investment. Any reversal of an impairment loss increases the carrying value of the investment to the extent recoverable, but not higher than the 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, with interest revenue recognised in profit or loss for the period using the effective interest rate method.

• Available-for-sale financial assets

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

(iv) Embedded derivatives

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

(v) Derecognition

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

A financial liability is derecognised when and only when the liability is extinguished, ie when the obligation specified in the contract is discharged, cancelled or has expired.

(vi) Impairment of financial assets

• Loans and receivables

An impairment loss is recognised in profit or loss when there is evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

• Available-for-sale financial assets

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

Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised.

Impairment reversals other than available-for-sale debt securities are not reversed through profit or loss but through other comprehensive income.

(vii) Interest income and expense

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

2.2.4 Government grants

Government grants related to income are recognised in sundry income under selling, general and administrative expenses.

Government grants related to assets are recognised by deducting the grant from the carrying amount of the related asset.

2.2.5 Intangible assets

(i) Research activities

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

(ii) Development activities

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

(iii) Brands and patents

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

(iv) Licence fees

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

2.2.6 Inventories

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

Cost is determined on the following basis:

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

2.2.7 Leases

(i) The group as lessee

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

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

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

(ii) Recognition of lease of land

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

2.2.8 Non-current assets held for sale

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

2.2.9 Segment reporting

Sappi reports and discloses segment information on the basis of information that is reviewed by the chief operating decision maker to make decisions when allocating resources and to assess performance of the group's operating segments. The group's reportable segments are Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices.

2.2.10 Borrowing costs

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

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

2.2.11 Revenue

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

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

Shipping and handling costs, such as freight to 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.

2.2.12 Emission trading

The group recognises grants, when allocated by governments for emission rights, as an intangible asset at cost with an equal liability at the time of the grant.

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

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

2.2.13 Alternative fuel mixture credits

Up until 31 December 2009, the U.S. Internal Revenue Code allowed an excise tax credit for alternative fuel mixtures produced by a taxpayer for sale, or for use as a fuel in a taxpayer's trade or business.

Notes to the group annual financial statements

for the year ended September 2012

The group qualified for the alternative fuel mixtures tax credit through its North American operations because it used a bio-fuel known as black liquor, which is a by-product of its wood pulping process, to power its mills.

The group recognises income for the alternative fuel mixture credits when its right to receive the credit is established. This occurs when the group has complied with the requirements of the Internal Revenue Code and has submitted a claim for the credits due. This is recorded in profit or loss under other operating income. The group considers the tax credits earned in fiscal 2010 and fiscal 2009 as fully taxable and have treated them as such in the calculation of its tax provision in the group annual financial statements.

2.2.14 Goodwill

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

Goodwill arising at acquisition is subsequently held at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually or more frequently where there is an indication of impairment within one or more cash generating units ('CGUs') to which goodwill has been allocated and from which the synergies from the business combinations are expected.

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

2.2.15 Share-based payments

(i) Equity-settled share-based payment transactions

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

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

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

(ii) Measurement of fair value of equity instruments granted

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

(iii) Broad-based Black Economic Empowerment transaction

The group accounts for the transaction in accordance with IFRS 2 and AC 503 and, the fair value of the services rendered by

employees are recorded in profit or loss as they are rendered during the service period.

In accounting for the group's share-based payment transactions, management uses estimates and assumptions to determine 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 28 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of September 2012.

2.3 Critical accounting policies and estimates

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

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

2.3.1 Impairment of assets other than goodwill and financial instruments

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

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

In assessing assets for impairment, the group estimates the asset's useful life, discounted future cash flows, including appropriate bases for future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, the planned use of machinery or equipment or closing of facilities.

The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the CGU to which the asset belongs. Additionally assets are also assessed against their fair value less costs to sell.

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

A previously recognised impairment loss will be reversed through profit or loss if the recoverable amount increases as a result of a change in the estimates 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 9 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.

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

(ii) Deferred taxation

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

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

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

(iii) Dividend withholding tax

Dividend withholding tax is payable 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

(i) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument is recognised in the same line of profit or loss as the change in the hedged item.

(ii) Cash flow hedges

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

The gains or losses, which are recognised in other comprehensive income, are transferred to profit or loss in the same period in which the hedged transaction affects profit or loss.

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

(iii) Hedge of a net investment in a foreign operation

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and is only reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

(iv) 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 29.2 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 10.

Notes to the group annual financial statements

for the year ended September 2012

• 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.

• 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 the plantations are recognised as silviculture costs in cost of sales (see note 4).

2.3.6 Pension plans and other post-retirement benefits

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

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

These actuarial models use an attribution approach that generally spread individual events over the service lives of the employees in the plan. Examples of 'events' are changes in actuarial assumptions such as discount rate, expected long-term rate of return on plan assets, and rate of compensation increases.

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

The group's policy is to recognise actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in other 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 note 27 for the key estimates, assumptions and other information on post-employment benefits applicable as at the end of September 2012.

2.3.7 Provisions

Provisions are recognised when the group has a legal or constructive obligation arising from past events that will probably be settled and can be measured reliably. Where the effect of discounting (time value) is material, provisions are discounted and the discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

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

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

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

2.3.8 Environmental restoration and decommissioning obligations

The group initially recognises a liability for management's best present value estimate of costs expected to be incurred in the dismantling and removal of non-current assets where a legal or constructive obligation exists. The liability changes over time and actual costs incurred in future periods could differ materially from

estimates. Additionally, future changes to environmental laws and regulations, life-of-operation estimates and discount rates could affect the carrying amount of this liability.

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

2.4 Adoption of accounting standards in the current year

The following standards, interpretations and significant amendments or revisions to standards have been adopted by the group in the current year:

Standards, interpretations and amendments to standards

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

- IAS 24 *Related Party Disclosures* – Revised definition of related parties;
- IFRS 7 *Financial Instruments: Disclosures* – Transfers of financial assets;
- IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*; and
- Various improvements to IFRSs.

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

The group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for the group's accounting periods beginning on or after October 2012 or later periods. The group is currently evaluating the impact that the adoption of these IFRSs will have on its consolidated financial statements when they are adopted in the respective periods indicated. These new standards and their effective dates for the group's annual accounting periods are listed below:

- IAS 19 (Revised) *Employee Benefits* – IAS 19 (Revised) requires the recognition of changes in the defined benefit obligation and in plan assets when those changes occur eliminating the corridor approach and accelerating the recognition of past service costs. Net interest is calculated by using high quality corporate bond yields – September 2014;
- IFRS 13 *Fair Value Measurements* – establishes a single source of guidance for fair value measurements under IFRS – September 2014;
- IAS 28 *Investments in Associates and Joint Ventures* – amendment to conform changes based on the issuance of IFRS 10 and IFRS 11 – September 2014; and
- IFRS 9 *Financial Instruments* – IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities – September 2016.

Amendments, revisions or issues of the following standards or interpretations which will only become mandatory for the group's consolidated financial statements on the dates indicated are not expected to have a material impact on the group's results or financial position:

- IAS 1 *Presentation of Financial Statements* – Other Comprehensive Income – September 2013;
- IAS 12 *Deferred Tax* – Investment property measured at fair value – September 2013;

- IFRS 7 *Financial Instruments: Disclosures* – Offsetting Financial Assets and Financial Liabilities – September 2014;
- IFRS 10 *Consolidated Financial Statements* – IFRS 10 specifies control as a single basis for consolidation for all entities, regardless of the nature of the investee – September 2014;
- IFRS 11 *Joint Arrangements* – classifies joint arrangements as either joint operations or joint ventures and requires different treatment for these – September 2014;
- IFRS 12 *Disclosure of Interest in Other Entities* – September 2014;
- IAS 32 *Financial Instruments: Presentation* – Offsetting Financial Assets and Financial Liabilities – September 2015;
- IAS 27 *Separate Financial Statements* – amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements – September 2014; and
- Various improvements to IFRSs.

Notes to the group annual financial statements

for the year ended September 2012

3. Segment information

The group's reportable segments are Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa. Reportable segments are components of an entity for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The group regards its primary measure of segment performance as operating profit (loss) excluding special items.

Sappi reports and discloses segment information on the basis of information that is reviewed by the chief operating decision maker to make decisions when allocating resources and to assess performance of the group's reportable segments.

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance is focused on geographical regions. The group accounts for inter-group sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

The group operates a trading network called Sappi Trading for the international marketing and distribution of dissolving wood pulp and market pulp throughout the world and, of the group's other products in areas outside its core operating regions of North America, Europe and Southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

US\$ million	Sappi Fine Paper					
	North America			Europe		
	2012	2011	2010	2012	2011	2010
Income statement						
External sales ⁽¹⁾	1,438	1,520	1,373	3,350	3,965	3,638
Operating profit (loss) excluding special items	94	129	124	133	68	76
Special items – losses (gains) ⁽²⁾	7	(7)	(56)	(45)	139	4
Segment operating profit (loss)	87	136	180	178	(71)	72
EBITDA excluding special items ⁽²⁾	173	203	201	329	300	310
Share of profit (loss) of associates and joint ventures	–	–	–	1	–	1
Depreciation and amortisation	79	74	77	196	232	234
(Impairment reversals) impairments of assets and investments	–	(3)	(2)	1	57	(10)
Profit on disposal of associates and joint ventures	–	–	–	–	–	–
Profit (loss) on disposal of non-current assets	–	2	3	51	–	2
Fellings	–	–	–	–	–	–
Plantation fair value adjustment	–	–	–	–	–	–
Restructuring provisions (released)	–	–	–	–	–	–
raised and closure costs	–	(2)	–	5	89	17
Other non-cash items	10	17	10	10	9	1
Balance sheet						
Capital expenditures	92	58	42	96	111	100
Segment assets ⁽²⁾	919	908	935	1,776	1,889	2,109
Property, plant and equipment	774	762	777	1,314	1,484	1,663

Reconciliation of operating profit (loss) excluding special items to segment operating profit (loss):

US\$ million	Sappi Fine Paper					
	North America			Europe		
	2012	2011	2010	2012	2011	2010
Operating profit (loss) excluding special items	94	129	124	133	68	76
Special items – losses (gains) ⁽²⁾	7	(7)	(56)	(45)	139	4
Segment operating profit (loss)	87	136	180	178	(71)	72

Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to profit (loss) before taxation:

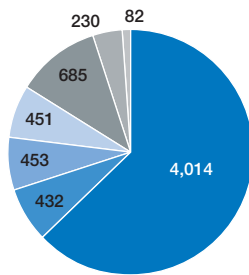
US\$ million	Sappi Fine Paper					
	North America			Europe		
	2012	2011	2010	2012	2011	2010
EBITDA excluding special items ⁽²⁾	173	203	201	329	300	310
Depreciation and amortisation	79	74	77	196	232	234
Operating profit (loss) excluding special items	94	129	124	133	68	76
Special items – losses (gains) ⁽²⁾	7	(7)	(56)	(45)	139	4
Segment operating profit (loss)	87	136	180	178	(71)	72
Net finance costs						
Profit (loss) before taxation						

(1) Sales of products are allocated to where the product is manufactured.

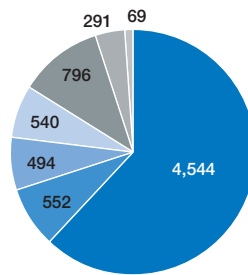
(2) Refer to the glossary on page 183 for the definition of the term.

(3) Primarily includes the group's treasury operations and its self-insurance captive.

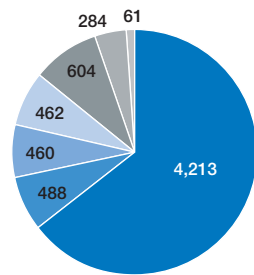
2012: Sales by products (US\$ million)



2011: Sales by products (US\$ million)



2010: Sales by products (US\$ million)



■ Coated paper ■ Uncoated paper ■ Specialty paper ■ Commodity paper ■ Dissolving wood pulp ■ Paper pulp ■ Other

	Sappi Southern Africa			Unallocated and eliminations ⁽³⁾			Group		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
	1,559	1,801	1,561	–	–	–	6,347	7,286	6,572
	178	199	134	(2)	8	5	403	404	339
	25	136	22	(5)	50	28	(18)	318	(2)
	153	63	112	3	(42)	(23)	421	86	341
	271	309	236	(1)	9	5	772	821	752
	4	2	4	(3)	4	8	2	6	13
	93	110	102	1	1	–	369	417	413
	9	68	2	–	45	–	10	167	(10)
	–	–	–	11	–	–	11	–	–
	1	(2)	–	–	1	–	52	1	5
	73	82	71	–	–	–	73	82	71
	(68)	(65)	(98)	–	–	–	(68)	(65)	(98)
	(7)	44	23	–	4	6	(2)	135	46
	21	22	(37)	5	(2)	2	46	46	(24)
	216	97	64	–	2	–	404	268	206
	1,605	1,574	1,887	20	51	65	4,320	4,422	4,996
	1,067	987	1,220	2	2	–	3,157	3,235	3,660

	Sappi Southern Africa			Unallocated and eliminations ⁽³⁾			Group		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
	178	199	134	(2)	8	5	403	404	339
	25	136	22	(5)	50	28	(18)	318	(2)
	153	63	112	3	(42)	(23)	421	86	341

	Sappi Southern Africa			Unallocated and eliminations ⁽³⁾			Group		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
	271	309	236	(1)	9	5	772	821	752
	93	110	102	1	1	–	369	417	413
	178	199	134	(2)	8	5	403	404	339
	25	136	22	(5)	50	28	(18)	318	(2)
	153	63	112	3	(42)	(23)	421	86	341
							283	307	255
							138	(221)	86

Notes to the group annual financial statements

for the year ended September 2012

3. Segment information continued

Reconciliation of segment assets to total assets:

US\$ million	Group		
	2012	2011	2010
Segment assets ⁽¹⁾	4,320	4,422	4,996
Deferred tax assets	154	45	53
Cash and cash equivalents	645	639	792
Derivative financial instruments	1	10	3
Trade and other payables	1,005	1,065	1,271
Provisions	17	107	33
Taxation payable	26	20	36
Total assets	6,168	6,308	7,184

(1) Refer to the glossary on page 183 for the definition of the term.

4. Operating profit

Operating profit has been arrived at after charging (crediting):
Raw materials, energy and other direct input costs

US\$ million	2012		2011		2010	
	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses
Raw materials, energy and other direct input costs	3,393	–	3,962	–	3,461	–
Wood (includes growth and felling adjustments ⁽¹⁾)	723	–	773	–	624	–
Energy	565	–	670	–	611	–
Chemicals	1,028	–	1,117	–	1,025	–
Pulp	753	–	987	–	907	–
Other variable costs	324	–	415	–	294	–
Plantation price fair value adjustment	15	–	16	–	(31)	–
Employment costs	898	200	1,027	211	968	208
Depreciation	345	22	392	22	388	23
Delivery charges	526	–	597	–	547	–
Maintenance	253	–	300	–	275	–
Other overheads	122	–	160	–	178	–
Marketing and selling expenses	–	102	–	112	–	112
Administrative and general expenses	–	93	–	109	–	105
	5,552	417	6,454	454	5,786	448

US\$ million	2012	2011	2010
(1) Changes in plantation volumes			
Fellings	73	82	71
Growth	(83)	(81)	(67)

US\$ million	2012	2011	2010
4. Operating profit continued			
Silviculture costs (included within cost of sales)	70	79	67
Leasing charges for premises	14	14	14
Leasing charges for plant and equipment	18	22	48
Remuneration paid other than to employees of the company in respect of:	28	35	31
– technical services	14	16	12
– administration services	14	19	19
Auditors' remuneration:	8	8	8
– audit and related services	6	6	7
– tax planning and tax advice	2	1	1
– refinancing related services ⁽¹⁾	–	1	–
Research and development costs	24	26	25
Amortisation	2	3	3
Cost on derecognition of loans and receivables ⁽²⁾	10	11	14

(1) These costs have been capitalised.

(2) The cost on derecognition of trade receivables relates to the derecognition of trade receivables related to the securitisation programme in South Africa and to the sale of letters of credit in Hong Kong.

US\$ million	2012	2011	2010
4.1 Employment costs			
Wages and salaries	984	1,112	1,054
Defined contribution plan expense (refer to note 27)	35	46	42
Defined benefit pension plan expense (refer to note 27)	24	14	15
Other defined benefit plan expense (refer to note 27)	13	14	14
Share-based payment expense	9	15	13
Other	33	37	38
	1,098	1,238	1,176
4.2 Other operating (income) expenses			
Included in other operating (income) expenses are the following:			
Impairments (reversals) of assets and investments	10	167	(10)
Restructuring provisions and closure costs (reversed) raised	(2)	135	46
Profit on disposal of associates and joint ventures	(11)	–	–
Profit on disposal of non-current assets	(52)	(1)	(5)
Alternative fuel mixture credits	–	–	(51)
Black Economic Empowerment (BEE) charge:	3	5	23
– unwinding of the 2006 Black Economic Empowerment transaction	–	–	19
– IFRS 2 costs on management and employee share option plans	3	5	4

Notes to the group annual financial statements

for the year ended September 2012

US\$ million	2012	2011	2010
5. Net finance costs			
Interest and other finance costs on liabilities carried at amortised cost	311	348	309
– Interest on bank overdrafts	1	2	1
– Interest on redeemable bonds and other loans	220	282	303
– Premium and costs on early redemption of redeemable bonds and other loans	46	43	–
– Accelerated amortisation on early settlement of redeemable bonds and other loans	42	17	–
– Interest cost on finance lease obligations	2	4	5
Finance revenue received on assets carried at amortised cost	(12)	(12)	(16)
– Interest on bank accounts	(10)	(9)	(6)
– Discount on early redemption of redeemable bonds and other loans	–	–	(5)
– Interest revenue on other loans and investments	(2)	(3)	(5)
Interest capitalised to property, plant and equipment ⁽¹⁾	(6)	–	–
Net foreign exchange gains	(5)	(13)	(17)
Net fair value gain on financial instruments	(5)	(16)	(21)
– Realised gain on termination of swaps	(2)	(1)	–
– Gain on amortisation of de-designated hedges	(3)	(18)	(21)
– Hedge ineffectiveness			
– gain on hedging instrument (derivative)	(3)	(19)	–
– loss on hedged item	3	22	–
	283	307	255

(1) Borrowing costs incurred on the conversion projects at Ngodwana Mill in Sappi Southern Africa and Cloquet Mill in Sappi Fine Paper North America have been capitalised at the weighted average capitalisation rate of 9.3%.

US\$ million	2012	2011	2010
6. Taxation charge			
Current taxation:			
– Current year	28	10	10
– Prior year overprovision	(4)	(2)	(20)
– Other company taxes	4	6	4
Deferred taxation:			
– Current year	10	–	26
– Prior year overprovision	(2)	(3)	–
– Attributable to tax rate changes	(2)	–	–
	34	11	20
In addition to income taxation charges to profit or loss, deferred taxation relief of US\$125 million (2011: US\$3 million charge; 2010: US\$11 million relief) has been recognised directly in other comprehensive income (refer to note 11).			
Reconciliation of the tax rate			
Profit (loss) before taxation	138	(221)	86
Profit-making regions	267	231	307
Loss-making regions	(129)	(452)	(221)
Taxation at the average statutory tax rate	47	(49)	35
Profit-making regions at 29% (2011: 30%; 2010: 30%)	78	69	92
Loss-making regions at 24% (2011: 26%; 2010: 26%)	(31)	(118)	(57)
Net exempt income and non-tax deductible expenditure	(41)	(10)	(10)
Effect of tax rate changes	(2)	–	–
Unrecognised deferred tax assets raised	58	110	65
Unrecognised deferred tax assets utilised	(26)	(41)	(54)
Prior year adjustments	(6)	(5)	(20)
Other taxes	4	6	4
Taxation charge	34	11	20
Effective tax rate for the year	25%	(5%)	23%

7. Earnings (loss) per share and headline earnings (loss) per share

Basic earnings (loss) per share (EPS)

EPS is based on the group's profit (loss) for the year divided by the weighted average number of shares in issue during the year under review.

	2012			2011			2010		
	Profit US\$ million	Shares millions	Earnings per share US cents	Loss US\$ million	Shares millions	Loss per share US cents	Profit US\$ million	Shares millions	Earnings per share US cents
Basic EPS calculation	104	520.8	20	(232)	519.9	(45)	66	516.7	13
Share options and performance shares under Sappi Limited Share Trust	–	1.4	–	–	–	–	–	3.9	–
Share options granted under the Broad-based Black Economic Empowerment transaction	–	–	–	–	–	–	–	0.2	–
Diluted EPS calculation	104	522.2	20	(232)	519.9	(45)	66	520.8	13

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR24.88 (2011: ZAR33.66; 2010: ZAR31.86) and exclude the effect of certain share options granted under the Sappi Share Incentive Scheme as well as share options granted under the Broad-based Black Economic Empowerment transaction as they would be anti-dilutive.

There are 12.8 million (2011: 12.0 million; 2010: 10.6 million) share options that could potentially dilute EPS in the future that are not included in the diluted weighted average number of shares calculation as they are anti-dilutive.

Headline earnings (loss) per share⁽¹⁾

Headline earnings (loss) per share is based on the group's headline earnings (loss) divided by the weighted average number of shares in issue during the year. This is a JSE Limited Listings required measure.

Reconciliation between attributable earnings (loss) to ordinary shareholders and headline earnings (loss):

US\$ million	2012			2011			2010		
	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net
Attributable earnings (loss) to ordinary shareholders	138	34	104	(221)	11	(232)	86	20	66
Impairments (reversals) of assets and investments	10	2	8	167	17	150	(10)	–	(10)
Profit on disposal of associates and joint ventures	(11)	–	(11)	–	–	–	–	–	–
Profit on disposal of non-current assets	(52)	–	(52)	(1)	–	(1)	(5)	–	(5)
Headline earnings (loss)	85	36	49	(55)	28	(83)	71	20	51
Weighted average number of ordinary shares in issue (millions)			520.8			519.9			516.7
Headline earnings (loss) per share (US cents)			9			(16)			10
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			522.2			519.9			520.8
Diluted headline earnings (loss) per share (US cents)			9			(16)			10

(1) Headline earnings – as defined in circular 3/2012 issued by the South African Institute of Chartered Accountants, separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings.

8. Dividends

No dividends were declared in respect of the current and previous financial years.

Notes to the group annual financial statements

for the year ended September 2012

9. Property, plant and equipment

US\$ million	2012	2011
Land and buildings ⁽¹⁾		
At cost	1,494	1,542
Accumulated depreciation and impairments	(841)	(840)
	653	702
Plant and equipment ⁽²⁾		
At cost	7,323	7,408
Accumulated depreciation and impairments	(4,864)	(4,932)
	2,459	2,476
Capitalised leased assets ⁽³⁾		
At cost	558	581
Accumulated depreciation and impairments	(513)	(524)
	45	57
Aggregate cost	9,375	9,531
Aggregate accumulated depreciation and impairments	(6,218)	(6,296)
Aggregate book value	3,157	3,235

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

US\$ million	Land and buildings	Plant and equipment	Capitalised leased assets	Total
Net book value at September 2010	753	2,750	157	3,660
Additions	26	241	1	268
Disposals	–	(5)	–	(5)
Transfers	–	88	(88)	–
Depreciation	(46)	(356)	(12)	(414)
Impairments ⁽⁴⁾	–	(122)	–	(122)
Translation differences	(31)	(120)	(1)	(152)
Net book value at September 2011	702	2,476	57	3,235
Additions	21	376	1	398
Finance costs capitalised	–	6	–	6
Disposals	(15)	(4)	–	(19)
Transfers	1	(1)	–	–
Depreciation	(37)	(319)	(11)	(367)
Impairments	–	(20)	–	(20)
Reversal of impairments	–	10	–	10
Translation differences	(19)	(65)	(2)	(86)
Net book value at September 2012	653	2,459	45	3,157

(1) Details of land and buildings are available at the registered offices of the respective companies who own the assets.

(2) Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.

(3) Capitalised leased assets consist primarily of plant and equipment.

(4) Pursuant to the group's strategy review, the group implemented a number of initiatives during the year which resulted in asset impairment charges being recorded during fiscal 2011.

Refer to note 24 for details of encumbrances.

Asset impairments and impairment reversals

September 2012

Sappi Southern Africa

Sappi Paper and Paper Packaging operations. Certain fixed assets that were impaired in fiscal 2011 were transferred to other cash generating units during the year resulting in an impairment reversal of US\$10 million.

Ngodwana Mill. Some of the equipment at Ngodwana Mill with a book value of US\$8 million will be taken out of production as part of the conversion project to produce dissolving wood pulp resulting in an impairment charge of US\$8 million to profit or loss.

Tugela Mill. At the end of fiscal 2012, there were indicators of impairment at Tugela Mill in Sappi Southern Africa. Difficult market conditions as well as the cost structure of a paper machine ('PM4') at the mill did not allow the paper machine to operate profitably. As a result, PM4 (a sackkraft and containerboard machine) was tested for impairment in accordance with IAS 36 by comparing the recoverable amount with the carrying amount.

As a result, an impairment charge of US\$9 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 7.77%. On 12 October 2012, Sappi announced the decision to mothball PM4 from 01 January 2013 with the intention to restart the machine when the market conditions improve.

9. Property, plant and equipment continued

September 2011

Sappi Fine Paper Europe

Biberist Mill. In March 2011, Sappi announced the potential closure of its Biberist Mill in Switzerland. The mill ceased production during August 2011. The mill's order book was transferred to the other Sappi European mills. An impairment charge of US\$57 million was recorded against plant and equipment for that year. The remaining fixed assets, comprising land and buildings, were sold for US\$56 million in fiscal 2012.

Sappi Southern Africa

Usutu Mill. Usutu Mill ceased operations at the end of January 2010, and the pulp mill was permanently closed. The mill's remaining property, plant and equipment which had already been substantially impaired in previous years, was fully impaired in fiscal 2011 resulting in a charge of US\$9 million being recorded in that fiscal year. Sappi continues its forestry operations in Swaziland.

Adamas Mill. In May 2011, we announced the potential closure of Adamas Mill. The mill was closed in August 2011 and the more profitable grades were transferred to Enstra Mill and Stanger Mill. The plant and equipment other than land and buildings was impaired by US\$10 million. The land and buildings were sold for US\$5 million in fiscal 2012.

Sappi Paper and Paper Packaging Operations. A review of the paper and paper packaging operations completed in the fourth fiscal quarter of 2011, indicated that the production of certain paper and paper packaging products would have to be curtailed. The curtailment of the production of these products resulted in an impairment charge of US\$49 million being recorded in that year.

10.

US\$ million	2012	2011
Plantations		
Fair value of plantations at beginning of year	580	687
Gains arising from growth	83	81
Fire, hazardous weather and other damages	(4)	–
Loss arising from fair value price changes	(15)	(16)
Harvesting – agriculture produce (fellings)	(73)	(82)
Disposals	(1)	–
Translation difference	(15)	(90)
Fair value of plantations at end of year	555	580

Sappi manages the establishment, maintenance and harvesting of its plantations on a compartmentalised basis. These plantations are comprised of pulpwood and sawlogs and are managed in such a way so as to ensure that the optimum fibre balance is supplied to its paper and pulping operations in Southern Africa.

As the group 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.

The group owns plantations on land that the group owns, as well as on land that the group leases. The group discloses both of these as directly managed plantations. With regard to indirectly managed plantations, the group has several different types of agreements with many independent farmers. The terms of the agreements depend on the type and specific needs of the farmer and the areas planted and range in duration from one to more than 20 years. In certain circumstances, the group provides 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 the group provides seedlings, silviculture and/or technical assistance, the costs are expensed when incurred by the group.

The group is exposed to financial risks arising from climatic changes, disease and other natural risks such as fire, flooding and storms as well as human-induced losses arising from strikes, civil commotion and malicious damage. These risks are covered by an appropriate level of insurance as determined by management. The plantations have an integrated management system that complies with FSC standards.

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

US\$ million	2012	2011	2010
Market price changes			
1% increase in market prices	4	4	2
1% decrease in market prices	(4)	(4)	(2)
Discount rate (for immature timber)			
1% increase in rate	(4)	(4)	(5)
1% decrease in rate	4	4	5
Volume assumption			
1% increase in estimate of volume	5	6	9
1% decrease in estimate of volume	(5)	(6)	(9)
Costs to sell			
1% increase in costs to sell	(3)	(3)	(1)
1% decrease in costs to sell	3	3	1
Growth assumptions			
1% increase in rate of growth	2	1	2
1% decrease in rate of growth	(2)	(1)	(2)

Notes to the group annual financial statements

for the year ended September 2012

11.

US\$ million	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Deferred tax				
Other liabilities, accruals and prepayments	(55)	25	(62)	24
Inventory	4	3	3	3
USA alternative minimum tax credit carry forward	18	–	16	–
Tax loss carry forward	203	25	279	38
Property, plant and equipment	(72)	(262)	(98)	(276)
Plantations	(28)	(125)	(22)	(136)
Other non-current assets	63	–	10	–
Other non-current liabilities	21	15	(81)	11
	154	(319)	45	(336)

Negative asset and liability positions

These balances reflect the impact of tax assets and liabilities arising in different tax jurisdictions, which cannot be netted against tax assets and liabilities arising in other tax jurisdictions.

Deferred tax assets recognised on the balance sheet

The recognised deferred tax assets relate mostly to available unused tax losses. It is expected that there will be sufficient future taxable profits against which these losses can be recovered. In the estimation of future taxable profits, future product pricing and production capacity utilisation are taken into account.

Unrecognised deferred tax assets

Deferred tax assets arising from unused tax losses are not recognised for carry forward when it cannot be demonstrated that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

US\$ million	2012	2011
Unrecognised deferred tax assets relate to the following:		
Other non-current liabilities	–	91
Tax losses	645	562
Property, plant and equipment	–	22
	645	675
Attributable to the following tax jurisdictions:		
Belgium	86	86
The Netherlands	18	17
Finland	42	50
Switzerland	–	30
United States of America	–	158
Swaziland	29	34
South Africa	1	1
Austria	469	299
	645	675
Expiry between two and five years	40	29
Expiry after five years	67	174
Indefinite life	538	472
	645	675

11.

US\$ million	2012	2011
Deferred tax continued		
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	675	704
Unrecognised deferred tax assets raised	–	54
Unrecognised deferred tax assets utilised	(57)	(41)
Prior year adjustments	53	(24)
Rate adjustments	(5)	(7)
Movement in foreign exchange rates	(21)	(11)
Balance at end of year	645	675
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	45	53
Deferred tax liabilities	(336)	(386)
	(291)	(333)
Deferred tax (charge) benefit for the year	(6)	3
Other liabilities, accruals and prepayments	(4)	61
Inventory	–	5
USA alternative minimum tax credit	2	2
Tax loss carry forward	(61)	(57)
Property, plant and equipment	10	14
Plantations	1	3
Other non-current assets	54	(15)
Other non-current liabilities	(8)	(10)
Amounts recorded directly in other comprehensive income	125	(3)
Translation differences	7	42
Deferred tax balances at end of year	(165)	(291)
Deferred tax assets	154	45
Deferred tax liabilities	(319)	(336)

12. Goodwill and intangible assets

US\$ million	2012					2011				
	Goodwill	Licence fees	Patents	Brands	Total	Goodwill	Licence fees	Patents	Brands	Total
Net carrying amount at beginning of year	4	3	–	18	25	4	3	–	20	27
Amortisation	–	–	–	(2)	(2)	–	–	–	(3)	(3)
Translation difference	–	–	–	(1)	(1)	–	–	–	1	1
Net carrying amount	4	3	–	15	22	4	3	–	18	25
Cost (gross carrying amount)	4	3	–	23	30	4	3	20	24	51
Accumulated amortisation and impairments	–	–	–	(8)	(8)	–	–	(20)	(6)	(26)
Net carrying amount	4	3	–	15	22	4	3	–	18	25

Notes to the group annual financial statements

for the year ended September 2012

13.

US\$ million	2012	2011
Joint ventures and associates		
Cost of joint ventures and associates ⁽¹⁾	34	96
Share of post-acquisition (loss) profit, net of distributions received	(19)	1
Accumulated impairments	–	(45)
Foreign currency translation effect	3	24
	18	76
Summarised financial information in respect of the group's joint ventures and associates is set out below:		
Total assets	139	679
Total liabilities	97	327
Net assets	42	352
Group's share of joint ventures and associates net assets after accumulated impairments ⁽¹⁾	18	76

US\$ million	2012	2011	2010
Sales	881	942	691
Profit for the period	2	17	35
Group's share of joint ventures and associates profit for the period ⁽¹⁾	2	6	13

⁽¹⁾Jiangxi Chenming

In August 2012, the group entered into a sale agreement for its equity accounted 34% shareholding in Jiangxi Chenming Paper Company Limited ('Jiangxi Chenming') with the majority shareholder and co-founding joint venture partner for US\$42 million resulting in a profit of US\$11 million which includes the realisation of a foreign currency translation reserve of US\$26 million that was previously accounted for in other comprehensive income and which has been realised using the step-by-step consolidation method. The proceeds were received on 06 November 2012. The income statement information includes the results for Jiangxi Chenming up to August 2012.

Umkomaas Lignin (Pty) Limited

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

Sapin SA

A 50% joint venture with Sapin SA located in Belgium for the buying and selling of wood and wood chips to Sappi and other paper manufacturers. The financial statements of Sapin SA are to 31 December of each year which is the year-end of Sapin SA. The most recent audited financials were to 31 December 2011.

Papierholz Austria GmbH

A 43% joint venture agreement for the buying and selling of wood and wood chips to Sappi and other paper and pulp manufacturers. The financial statements of Papierholz Austria GmbH are to 31 December of each year which is the year-end of Papierholz Austria GmbH. The most recent audited financials were to 31 December 2011.

Timber IV

A special-purpose entity ('SPE') into which Sappi contributed promissory notes (relating to certain Timberlands, equipment and machinery sold by Sappi to a third party timber company) which were pledged as collateral for the SPE to issue bonds. The SPE is not consolidated because the group has taken the position that it is controlled by an unrelated investor which has sufficient equity capital at risk. The group's investment in the SPE was nil as at the end of fiscal 2012 and 2011 as the underlying promissory notes and bonds have been repaid. The financial statements of Timber IV are to 30 September of each year. The results are unaudited.

Energie Biberist AG

In July 2012, Sappi disposed of Sappi Schweiz AG together with its 10% investment in Energie Biberist AG ('EBAG'). Sappi exercised significant influence by virtue of the fact that Sappi had the power to appoint one of the five directors. EBAG is an energy company that supplied Biberist Mill with steam and 100% of its electricity requirements. On the cessation of production at Biberist Mill in August 2011, the investment in the associate was impaired by the group resulting in a charge to other operating expenses in profit or loss for the period. The financial statements of EBAG are to 31 December each year which is the year-end of EBAG. The most recent audited financials of EBAG were to 31 December 2011.

Where the year-ends of joint ventures and associates are different to Sappi's, the unaudited management accounts of the joint ventures and associates are used for the periods to Sappi's year-end.

US\$ million	2012	2011
14. Other non-current assets		
Financial assets ⁽¹⁾	22	22
Defined benefit pension plan assets (refer to note 27)	26	43
Advances to tree growers	7	7
Other loans	7	11
	62	83

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

US\$ million	2012	2011
15. Inventories		
Raw materials	156	160
Work in progress	75	79
Finished goods	333	345
Consumable stores and spares	162	166
	726	750

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US\$9 million (2011: US\$14 million and 2010: US\$17 million).

The cost of inventories recognised as an expense and included in cost of sales amounted to US\$5,009 million (2011: US\$5,831 million and 2010: US\$5,197 million).

Refer to note 24 for inventory pledged as security.

US\$ million	2012	2011
16. Trade and other receivables		
Trade accounts receivable, gross	638	715
Allowance for credit losses	(10)	(15)
Trade accounts receivable, net	628	700
Prepayments and other receivables	179	131
	807	831

Management rates the quality of trade and other receivables periodically against its internal credit rating parameters. The quality of these trade receivables is such that management believes no additional allowance for credit losses, other than as provided, is necessary.

Due to the short maturity of trade and other receivables, the directors consider that the carrying amount of these trade and other receivables approximates its fair value.

Prepayments and other receivables primarily represent prepaid insurance, prepaid taxes and other sundry receivables. Included in other sundry receivables, is the vendor receivable of US\$42 million from the sale of the group's 34% shareholding in Jiangxi Chenming.

Trade receivables (including securitised trade receivables) represent 12% (2011: 11%) of turnover.

US\$ million	2012	2011
16.1 Reconciliation of the allowance for credit losses		
Balance at beginning of year	15	14
Raised during the year	6	10
Released during the year	(11)	(9)
Balance at end of year	10	15

The allowance for credit losses has been determined by reference to specific customer delinquencies.

Notes to the group annual financial statements

for the year ended September 2012

16. Trade and other receivables continued

16.2 Analysis of amounts past due

September 2012

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

	Not impaired	Impaired	Total
Less than 7 days overdue	13	–	13
Between 7 and 30 days overdue	14	–	14
Between 30 and 60 days overdue	1	–	1
More than 60 days overdue	–	10	10
	28	10	38

September 2011

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

	Not impaired	Impaired	Total
Less than 7 days overdue	30	–	30
Between 7 and 30 days overdue	12	–	12
Between 30 and 60 days overdue	4	–	4
More than 60 days overdue	2	15	17
	48	15	63

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

The group holds no collateral (2011: no collateral) against overdue trade receivables.

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

	2012	2011
Less than US\$0.5 million	289	299
Less than US\$1 million but equal to or greater than US\$0.5 million	258	277
Less than US\$3 million but equal to or greater than US\$1 million	524	597
Less than US\$5 million but equal to or greater than US\$3 million	219	213
Equal to or greater than US\$5 million	939	1,031
	2,229	2,417

16.3 Trade receivables securitisation

The group operates two trade receivables securitisation programmes due to the cost effectiveness of such structures.

The Sappi Southern African securitisation programme is off-balance sheet and is described in detail in note 16.4.

In fiscal 2011, the group replaced its existing on-balance sheet securitisation programmes with a single three-year committed trade receivables purchase programme with UniCredit Bank AG with a programme limit of €360 million. Trade receivables sold in terms of this programme are disclosed on the balance sheet together with a corresponding liability.

At fiscal year-end, trade receivables with a value of US\$490 million (2011: US\$491 million) have been pledged as collateral for amounts received as funding under the programme of US\$377 million (2011: US\$368 million). The group is restricted from selling or repurchasing the trade receivables that have been pledged as collateral for this liability. For more detail on this programme, refer to note 20.

16.4 Off-balance sheet structures

Letters of credit discounting

To improve the group's working capital, the group sells certain Letters of Credit to Royal Bank of Scotland ('RBS'), Hong Kong and Union Bancaire Privée ('UBP'), Switzerland at each fiscal month-end on a non-recourse basis.

Scheckwechsel

The Scheckwechsel is a financial guarantee supplied by Sappi to the bank of certain customers (trade receivables) who wish to obtain a loan to finance early payment of specified trade receivables (thereby benefiting from an early settlement discount). By signing the Scheckwechsel, Sappi provides a financial guarantee to the bank of the customer.

This financial guarantee contract is initially recognised at fair value. The fair value at inception is zero as the risk of Sappi having to reimburse the bank is nil (there is no evidence that the customer will not reimburse its loan to the bank), there is no guarantee fee payable by the bank and the Scheckwechsel is a short-term instrument (maximum 90 days). Subsequently, the financial guarantee contract is measured at the higher of:

- (i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- (ii) the amount initially recognised less any cumulative amortisation.

As no event of default has occurred, no provision has been set up and the fair value at year-end remains at zero. However, according to IAS 37, a contingent liability of US\$29 million (2011: US\$32 million) has been disclosed in this respect.

16. Trade and other receivables continued

16.4 Off-balance sheet structures continued

Sappi Southern Africa securitisation facility

Sappi sells the majority of its ZAR receivables to Rand Merchant Bank Limited, which issues commercial paper to finance the purchase of the receivables. Sappi does not guarantee the recoverability of any amounts, but shares proportionately with Rand Merchant Bank Limited the credit risk of each underlying receivable, after all recoveries, including insurance recoveries, with Sappi bearing 15% of such risk (and Rand Merchant Bank Limited the remainder). Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is adjusted dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is the Johannesburg Inter-bank Agreed Rate ('JIBAR') plus a spread. This structure is treated as an off-balance sheet arrangement.

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

The total amount of trade receivables sold at the end of September 2012 amounted to US\$126 million (2011: US\$121 million).

Details of the securitisation programme at the end of fiscal 2012 and 2011 are disclosed in the table below:

Bank	Currency	Value	Facility	Discount charges
2012				
Rand Merchant Bank Limited	ZAR	ZAR1,044 million	Unlimited ⁽¹⁾	Linked to 3-month JIBAR
2011				
Rand Merchant Bank Limited	ZAR	ZAR979 million	Unlimited ⁽¹⁾	Linked to 3-month JIBAR

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

Details of the on-balance sheet securitisation facilities are described in note 20.

16.5 Concentration of credit risk

A significant portion of the group's sales and accounts receivable are from a small number of customers. None of the group's significant customers represented more than 10% of our sales during the years ended September 2012 and September 2011. Where appropriate, credit insurance has been taken out over the group's trade receivables.

None of the group's other receivables represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers worldwide.

At balance sheet date, the carrying amount of US\$807 million (2011: US\$831 million) represents the group's maximum credit risk exposure from trade and other receivables.

The group has the following amounts due from single customers:

	2012			2011		
	Number of customers	US\$ million	Percentage	Number of customers	US\$ million	Percentage
Greater than US\$10 million	8	135	21%	9	170	24%
Between US\$5 million and US\$10 million	9	61	10%	8	51	7%
Less than US\$5 million	1,970	432	69%	2,423	479	69%
	1,987	628	100%	2,440	700	100%

At balance sheet date, none of the group's customers with balances equal to or greater than US\$5 million had breached their contractual maturity terms and thus, no impairment charges have been recognised in respect of such customers.

Refer to note 29.2 for further details on credit risk.

Notes to the group annual financial statements

for the year ended September 2012

17. Ordinary share capital and share premium

	2012		2011	
	Number of shares	US\$ million	Number of shares	US\$ million
Authorised share capital:				
Ordinary shares of ZAR1 each	725,000,000		725,000,000	
'A' ordinary shares of ZAR1 each ⁽¹⁾	19,961,476		19,961,476	
Issued share capital:				
Ordinary shares of ZAR1 each	541,446,223	66	541,446,223	67
'A' ordinary shares of ZAR1 each ⁽¹⁾	19,961,476	2	19,961,476	2
Treasury shares ⁽²⁾	(40,563,237)	(5)	(40,942,907)	(5)
Share premium		1,328		1,361
	520,844,462	1,391	520,464,792	1,425

(1) The 'A' ordinary shares are unlisted but rank *pari passu* with the ordinary shares in all respects except for dividend entitlements where the 'A' ordinary shares are entitled to 50% of the dividends payable on the ordinary shares. The 'A' ordinary shares have the same voting rights as ordinary shares but are not listed on the JSE Limited. Sappi will have the option to repurchase a number of 'A' ordinary shares in August 2019. The number of any 'A' ordinary shares that Sappi elects to buy back on the repurchase date will depend on the price performance of the ordinary shares over the period of the transaction with the remaining 'A' ordinary shares being distributed to the beneficiaries and converted into ordinary shares. The 'A' ordinary shares' rights, terms, conditions of conversion and privileges are contained in Article 38 of Sappi's existing Memorandum of Incorporation, details of which are available for inspection at the company's registered offices.

(2) Includes 20,601,761 (2011: 20,981,431) ordinary shares as well as 19,961,476 (2011: 19,961,476) 'A' ordinary shares that are held by group entities, including The Sappi Limited Share Incentive Trust (the Scheme) and the trusts set up to house the Broad-based Black Economic Empowerment transaction. These shares may be utilised to meet the requirements of the trusts.

US\$ million	2012	2011
The movement in ordinary share capital and share premium is reconciled as follows:		
Opening balance	1,425	1,638
Transfers from Sappi Limited Share Incentive Trust	2	6
Translation movements	(36)	(219)
Closing balance	1,391	1,425

	Number of shares	
	2012	2011
The movement in the number of treasury shares is set out in the table below:		
Ordinary treasury shares:		
Ordinary treasury shares at beginning of year (including Scheme shares)	20,981,431	21,935,119
Treasury shares issued to participants of the Scheme	(379,670)	(953,688)
– Share options (per note 28)	–	(32,312)
– Share plan options (per note 28)	(415,530)	(1,087,556)
– Scheme shares forfeited, released and other	35,860	166,180
Ordinary treasury shares at end of year	20,601,761	20,981,431
'A' ordinary treasury shares:		
'A' ordinary shares issued to the Broad-based Black Economic Empowerment trusts	19,961,476	19,961,476
	40,563,237	40,942,907

Included in the issued and unissued share capital of 725,000,000, is a total of 42,700,870 shares which may be used to meet the requirements of the Scheme and/or The Sappi Limited Performance Share Incentive Trust (the 'Plan'). In terms of the rules of the Scheme and the Plan, the maximum number of shares which may be acquired in aggregate by the Scheme and/or the Plan and allocated to participants of the Scheme and/or the Plan from time to time is 42,700,870 shares, subject to adjustment in case of any increase or reduction of Sappi's issued share capital on any conversion, redemption, consolidation, sub-division and/or any rights or capitalisation issue of shares. Sappi is obliged to reserve and keep available at all times out of its authorised but unissued share capital such number of shares (together with any treasury shares held by Sappi subsidiaries which may be used for the purposes of the Scheme and/or the Plan) as shall then be required in terms of the Scheme and/or the Plan. Authority to use treasury shares for the purposes of the Scheme and/or the Plan was granted by shareholders at the annual general meeting held on 07 March 2005.

Since March 1994, 3,002,894 (2011: 3,002,894) shares have been allocated to the Scheme participants and paid for, and 14,570,507 (2011: 13,617,202) shares have been allocated to the Scheme participants and not yet paid for. In terms of the Plan, 7,938,200 (2011: 7,380,900) shares have been allocated and remain unpaid for, and 2,483,034 (2011: 1,742,677) shares have been allocated and paid for by the Plan participants.

17. Ordinary share capital and share premium continued

Capital risk management

The capital structure of the group consists of:

- issued share capital and share premium and accumulated profits disclosed above and in the statement of changes in equity respectively;
- debt, which includes interest-bearing borrowings and obligations due under finance leases disclosed under note 20; and
- cash and cash equivalents.

The objectives of the group in managing capital are:

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

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

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

During fiscal 2012 and 2011, the group was in compliance with the financial covenants relating to the loans payable.

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

18.

US\$ million	2012	2011	2010
Other comprehensive income (loss)⁽¹⁾			
Exchange differences on translation to presentation currency	(60)	(151)	52
Exchange differences on translation of share capital and share premium	(36)	(219)	86
Translation of foreign operations	12	81	(31)
Exchange differences arising on non-distributable reserves	(5)	(13)	(3)
Reclassification adjustments to profit or loss on disposal of foreign operations	(31)	–	–
Tax	–	–	–
Actuarial gains (losses) on post-employment benefit funds	34	(60)	(60)
Gross amount	(88)	(59)	(71)
Tax ⁽²⁾	122	(1)	11
Fair value adjustment on available-for-sale financial instruments	1	2	2
Gross amount	1	2	2
Tax	–	–	–
Hedging reserves	(44)	4	14
Movements during the year	(37)	6	14
Reclassified to profit or loss	(7)	–	–
Reclassified to property, plant and equipment	(3)	–	–
Tax	3	(2)	–
Other comprehensive (loss) income recorded directly in equity	(69)	(205)	8
Profit (loss) for the year	104	(232)	66
Total comprehensive income (loss) for the year	35	(437)	74

(1) The tax effect has been allocated to each individual category.

(2) The 2012 financial year includes US\$101 million that relates to temporary differences recognised within other comprehensive income in previous financial years.

Notes to the group annual financial statements

for the year ended September 2012

19.

US\$ million	2012	2011
Non-distributable reserves		
Legal reserves in subsidiaries	76	77
Share-based payment reserve	78	70
Other	17	16
Capital reduction	1	1
Capitalisation of distributable reserves ⁽¹⁾	11	11
Revaluation of available-for-sale financial assets	5	4
	171	163

	2012				2011			
	Legal reserves ⁽¹⁾	Share-based payment reserve	Other	Total	Legal reserves ⁽¹⁾	Share-based payment reserve	Other	Total
Opening balance	77	70	16	163	78	69	14	161
Transfer from retained earnings	2	–	–	2	–	–	–	–
Transfers of vested share options	–	(2)	–	(2)	–	(7)	–	(7)
Share-based payment expense	–	12	–	12	–	20	–	20
Movement on available-for-sale financial assets	–	–	1	1	–	–	2	2
Translation difference	(3)	(2)	–	(5)	(1)	(12)	–	(13)
	76	78	17	171	77	70	16	163

(1) Represents equity of the company that is not available for distribution as a result of appropriations of equity by subsidiaries and legal requirements, respectively.

20.

US\$ million	2012	2011
Interest-bearing borrowings		
Secured borrowings		
– Mortgage and pledge over trade receivables and certain assets (refer note 24 for details of encumbered assets)	1,783	1,929
– Capitalised lease liabilities (refer to note 24 for details of encumbered assets)	21	37
Total secured borrowings	1,804	1,966
Unsecured borrowings	815	772
Total borrowings (refer to note 29.2)	2,619	2,738
Less: Current portion included in current liabilities	(261)	(449)
Total non-current interest-bearing borrowings	2,358	2,289
The repayment profile of the interest-bearing borrowings is as follows: Payable in the year ended September:		
2012		449
2013	261	201
2014	446	1,111
2015	119	6
2016	83	62
2017 (September 2011: thereafter)	517	909
Thereafter	1,193	
	2,619	2,738

Capitalised lease liabilities

Finance leases are primarily for buildings and, plant and equipment. Lease terms generally range from five to ten years with options to make early settlements or renew at varying terms. At the time of entering into capital lease agreements, the commitments are recorded at their present value using applicable interest rates. The aggregate amounts of minimum lease payments and the related imputed interest under capitalised lease contracts payable in each of the next five financial years and thereafter are as follows:

	2012			2011		
	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
Payable in the year ended September:						
2012				19	(4)	15
2013	13	(2)	11	14	(2)	12
2014	5	(1)	4	5	(1)	4
2015	6	–	6	7	(1)	6
Total future minimum lease payments	24	(3)	21	45	(8)	37

Notes to the group annual financial statements

for the year ended September 2012

20. Interest-bearing borrowings continued

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

	Currency	Interest rate ⁽¹⁾	Principal amount outstanding	Balance sheet value	Security/cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	EUR	Fixed	€31 million ⁽²⁾	€33 million ⁽³⁾⁽⁴⁾	Property, plant and equipment, inter-company receivables and shares in subsidiaries	August 2014	No financial covenants
Public bond	US\$	Fixed ⁽⁵⁾	US\$400 million	US\$390 million ⁽³⁾⁽⁴⁾	Property, plant and equipment, inter-company receivables and shares in subsidiaries	July 2017	No financial covenants
Public bond	EUR	Fixed	€250 million	€245 million ⁽³⁾⁽⁴⁾	Property, plant and equipment, inter-company receivables and shares in subsidiaries	April 2018	No financial covenants
Public bond	US\$	Fixed ⁽⁵⁾	US\$300 million	US\$293 million ⁽³⁾⁽⁴⁾	Property, plant and equipment, inter-company receivables and shares in subsidiaries	June 2019	No financial covenants
Public bond	US\$	Variable ⁽⁶⁾	US\$350 million	US\$365 million ⁽³⁾⁽⁴⁾	Property, plant and equipment, inter-company receivables and shares in subsidiaries	April 2021	No financial covenants
Public bond	US\$	Fixed	US\$221 million	US\$216 million ⁽⁴⁾⁽⁷⁾⁽⁸⁾	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed	ZAR1,000 million	ZAR1,000 million	Unsecured	June 2013	No financial covenants
Public bond	ZAR	Fixed ⁽⁹⁾	ZAR750 million	ZAR748 million	Unsecured	April 2015	No financial covenants
Public bond	ZAR	Fixed	ZAR500 million	ZAR499 million ⁽⁴⁾	Unsecured	June 2016	No financial covenants
Private placement bond	ZAR	Fixed	ZAR166 million	ZAR166 million	Unsecured	November 2012	No financial covenants
Private placement bond	ZAR	Fixed	ZAR164 million	ZAR164 million	Unsecured	January 2013	No financial covenants
Private placement bond	ZAR	Fixed	ZAR41 million	ZAR41 million	Unsecured	March 2013	No financial covenants
Private placement bond	ZAR	Fixed	ZAR75 million	ZAR75 million	Unsecured	December 2013	No financial covenants

20. Interest-bearing borrowings continued

	Currency	Interest rate ⁽¹⁾	Principal amount outstanding	Balance sheet value	Security/cession	Expiry	Financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€187 million	€185 million ⁽⁴⁾	Trade receivables	August 2014	EBITDA to net interest, net debt to EBITDA and net debt to total capitalisation ⁽¹⁰⁾
UniCredit Bank	US\$	Variable	US\$139 million	US\$138 million ⁽⁴⁾	Trade receivables	August 2014	EBITDA to net interest, net debt to EBITDA and net debt to total capitalisation ⁽¹⁰⁾
Capitalised leases							
Fortum	EUR	Variable	€6 million	€6 million	Plant and equipment	November 2012	No financial covenants
Rand Merchant Bank	ZAR	Fixed	ZAR110 million	ZAR110 million	Buildings	September 2015	No financial covenants
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million		December 2012	No financial covenants
Nedbank	ZAR	Fixed	ZAR177 million	ZAR177 million		March 2014	Gearing ratio/ interest and dividend cover ⁽¹¹⁾
Peritum Trading	ZAR	Fixed	ZAR16 million	ZAR16 million		June 2014	No financial covenants
Österreichische Kontrollbank	EUR	Variable	€136 million	€134 million ⁽⁴⁾		June 2017	EBITDA to net interest, net debt to EBITDA and net debt to total capitalisation ⁽¹⁰⁾

	Local currency million	US\$ million
The analysis of the currency per debt is:		
US Dollar ⁽¹²⁾	1,404	1,404
Euro	665	856
ZAR	2,998	359
		2,619

- (1) The nature of the rates for the group bonds is explained in note 29.2 to the group annual financial statements. The nature of the interest rates is determined with reference to the underlying economic hedging instrument.
- (2) An amount of €319 million was early redeemed in 2012.
- (3) Under the relevant indenture, certain limitations exist including, on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and mergers and consolidations. In case of a change of control, holders have a right to require the relevant issuer to repurchase all or any part of their bonds at a purchase price of 101% of the principal amount of bonds.
- (4) 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.
- (5) US Dollar fixed interest rates have been swapped into Euro fixed interest rates. These swaps are subject to hedge accounting.
- (6) US Dollar fixed interest rates have been swapped into variable US Dollar interest rates. These swaps are subject to hedge accounting.
- (7) Under the relevant indenture, limitations exist on liens, sale and leaseback transactions and mergers and consolidations. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH Group.
- (8) Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time redeem the 2032 public bonds (the 'Securities'), in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the Securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus 30 basis points, together with interest calculated on the principal amount of the securities to be redeemed up to the date of redemption.
- (9) ZAR variable interest rates have been swapped into fixed ZAR interest rates. These swaps are subject to hedge accounting.
- (10) Financial covenants relate to the Sappi Limited Group.
- (11) The financial covenant relates to the financial position of Sappi Southern Africa (Pty) Limited, a wholly-owned subsidiary of Sappi Limited.
- (12) This amount includes debt of US\$700 million that is swapped into Euro.

A detailed reconciliation of total interest-bearing borrowings has been performed in note 29.2.

Notes to the group annual financial statements

for the year ended September 2012

20. Interest-bearing borrowings continued

Other restrictions

As is the norm for bank loan debt, a portion of the group's financial indebtedness is subject to cross default provisions. Breaches in bank covenants in certain subsidiaries, if not corrected in time, might result in a default in group debt, and in this case, a portion of the group's consolidated liabilities might eventually become payable on demand.

During fiscal 2012 and 2011, the group was in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are regularly monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institutions before such breach occurs.

Borrowing facilities secured by trade receivables

On 25 August 2011, Sappi entered into a three-year committed trade receivables purchase programme with UniCredit Bank AG with a programme limit of €360 million.

The proceeds from the programme were used to refinance the group's short-term securitisation programme with Galleon Capital LLC that was due to mature in December 2011.

In terms of the programme, the securitisation sellers being Sappi Lanaken NV on behalf of Sappi Fine Paper Europe, Sappi NA Finance LLC (a special purpose entity) on behalf of Sappi Fine Paper North America and, Sappi Deutschland GmbH and Sappi Papier Holding GmbH on behalf of Sappi Trading sell certain eligible trade receivables to Elektra Purchase N° 29 Ltd (Elektra), an Irish bankruptcy remote entity, that is consolidated by the Sappi group. Elektra has a commissioning agreement with Arabella Finance Limited (Arabella), an entity belonging to UniCredit Bank AG that issues commercial paper to fund the purchase of the trade receivables (alternative funding resources are available should the market for commercial paper be disrupted). The funding is settled in US Dollar and Euro.

As at September 2012, a reserve, that is reset on a monthly basis, amounting to 22.3% as well as a letter of credit covering the credit risk up to the maximum facility was required.

The cost of the programme includes a variable component based on the cost of funding of Arabella, a fixed margin of 1.75% in addition to a commitment fee of 0.90% computed on the difference between €330 million and the used portion of the programme limit.

The trade receivables are legally transferred; however, these receivables do not qualify for de-recognition under IAS 39 as most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi. As a result, the trade receivables sold under the programme are accounted for as on-balance sheet with a corresponding liability (external loan) being recognised. The corresponding interest is recorded within finance costs.

Further detail of the value of trade receivables pledged as security for this programme is included in notes 16 and 24.

Unutilised facilities

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

US\$ million	Currency	Interest rate	2012	2011
Unutilised committed facilities				
Syndicated loan/revolving credit facility ⁽¹⁾	EUR	Variable (EURIBOR)	450	335
Various Southern African facilities	ZAR	Variable (JIBAR)	61	62
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	45	74
			556	471
Unutilised uncommitted facilities				
Southern Africa	ZAR	Variable (JIBAR)	43	43
Cash management overdraft facility	EUR	Variable (EURIBOR)	23	24
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	39	40
			105	107
Total unutilised facilities (committed and uncommitted) excluding cash			661	578

(1) Syndicated loan with a consortium of banks with J.P. Morgan Europe Limited as facility agent with a revolving facility available of €350 million (2011: €250 million), which is subject to financial covenants relating to the Sappi Limited group and is secured by the same assets as the public bonds maturing in 2014, 2017, 2018, 2019 and 2021. The facility matures in April 2016. The group has paid a total commitment fee of US\$4 million (2011: US\$7 million) in respect of the syndicated loan facility.

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 29.

US\$ million	2012	2011
21. Other non-current liabilities		
Defined benefit pension plan liabilities (refer to note 27)	344	311
Other defined benefit plan liabilities (refer to note 27)	185	175
Long-term employee benefits (refer to note 27)	3	4
Workmen's compensation (refer to note 27)	14	11
Long service awards	23	22
Land restoration provision	20	21
Restructuring provisions (refer to note 22)	10	–
Deferred income	3	3
Other	3	6
	605	553

US\$ million	2012	2011
22. Provisions		
Restructuring provisions	27	105
Long-term	10	–
Short-term	17	105
Other provisions	–	2
Balance at September	27	107

Details of restructuring provisions are provided below:

Restructuring provisions	Severance, retrenchment and related costs	Lease cancellation and penalty costs	Other closure costs	Total
Balance at September 2010	9	2	18	29
Increase in provisions ⁽¹⁾	76	22	40	138
Utilised	(17)	–	(37)	(54)
Released during the year	–	–	(1)	(1)
Translation effect	(5)	(1)	(1)	(7)
Balance at September 2011	63	23	19	105
Increase in provisions	17	–	–	17
Utilised	(41)	(16)	(12)	(69)
Released during the year	(10)	(5)	(6)	(21)
Other movements	(2)	(1)	–	(3)
Translation effect	–	(1)	(1)	(2)
Balance at September 2012	27	–	–	27

(1) Pursuant to the group's strategy review, the group implemented a number of initiatives during the year which resulted in significant restructuring charges being recorded in fiscal 2011.

September 2012 restructuring provisions

Sappi Fine Paper Europe

In June 2012, Sappi announced that, as a potential measure to further reduce fixed costs, it envisaged the transfer and outsourcing of certain central functions from various European locations to Cracow, Poland. It was expected that approximately 60 positions would be affected by March 2013 resulting in a restructuring charge of US\$6 million being raised during the year. By year-end, five employees had already been affected and the provision largely unutilised.

September 2011 restructuring provisions

Sappi Fine Paper Europe

Biberist Mill. In August 2011, Sappi ceased operations at Biberist Mill in Switzerland. A total of 550 employee positions were affected by the closure and a restructuring charge related to severance, retrenchment and other related closure costs of US\$70 million was raised during the year. The legal entity, Sappi Schweiz AG, together with its associated assets and liabilities was sold during fiscal 2012. A restructuring charge of US\$7 million remained unutilised at the end of fiscal 2012 and is only expected to be utilised from fiscal 2014.

Sappi Fine Paper Europe: Central Services. As a result of the Biberist Mill closure, approximately 100 employees were expected to be made redundant across Europe. By the end of fiscal 2012, 95 employees were made redundant and the restructuring charge of US\$6 million that was raised in the last quarter of fiscal 2011 had been utilised.

A fixed cost optimisation programme commenced in the last fiscal quarter of 2011 affecting approximately 330 positions across Europe. Of this, 205 employees were affected by the end of fiscal 2012 with approximately 75 employees still expected to be affected. Of the restructuring charge of US\$14 million that was raised in fiscal 2011, approximately US\$10 million was unutilised at the end of fiscal 2012 and is expected to be utilised by fiscal 2021. As a result, US\$3 million has been reclassified as long-term.

Notes to the group annual financial statements

for the year ended September 2012

22. Provisions continued

Sappi Southern Africa

Adamas Mill. During the fiscal year ended September 2011, Sappi Southern Africa announced the decision to permanently close the Adamas Mill and integrate the mill's products into the production lines at Stanger Mill and Enstra Mill. A total of 215 employees were affected by the closure of Adamas Mill. The mill was a producer of uncoated woodfree specialities paper. A provision of approximately US\$7 million relating to restructuring charges and scrapping of spares was raised and utilised during that year.

Sappi Paper and Paper Packaging Operations. Our review of the paper and paper packaging operations, completed in the fourth fiscal quarter of 2011, indicated that the production of certain paper and paper packaging products would need to be curtailed. As a result of the curtailment, a restructuring charge of US\$29 million was raised and approximately 560 employees were expected to be affected. By the end of fiscal 2012, 325 employees had been impacted and the remaining provision of US\$6 million was released to profit or loss.

Usutu Mill. At the end of January 2010, Usutu Mill ceased operations and the pulp mill was permanently closed. In fiscal 2011, an additional restructuring charge of US\$3 million was incurred against the spares related to the mill.

Sappi Southern Africa: Central Services. During the fiscal year ended September 2011, Sappi announced the decision to restructure the support function which included Human Resources, Finance, Procurement and Corporate Affairs. A total of 200 employees were expected to be affected by this restructure and a restructuring provision of US\$5 million was raised. By the end of fiscal 2012, 91 employees were affected and the remaining provision of US\$2 million was released to profit or loss.

	US\$ million	2012	2011	2010
23. Notes to the group statements of cash flows				
23.1 Cash generated from operations				
Profit (loss) for the year		104	(232)	66
Adjustment for:				
– Depreciation		367	414	411
– Fellings		73	82	71
– Amortisation		2	3	2
– Taxation charge		34	11	20
– Net finance costs		283	307	255
– Impairments (reversals) of assets and investments		10	167	(20)
– Restructuring provisions and closure costs (reversed) raised		(2)	135	46
– Fair value adjustment gains and growth on plantations		(68)	(65)	(98)
– Post-employment benefits funding		(62)	(70)	(73)
– Profit on disposal of investment		(11)	–	–
– Profit on disposal of non-current assets		(52)	(1)	(5)
– Broad-based Black Economic Empowerment transaction charge		3	5	23
– Other non-cash items		47	42	39
		728	798	737
23.2 Increase in working capital				
Decrease (increase) in inventories		1	62	(72)
Decrease (increase) in receivables		35	66	(74)
(Decrease) increase in payables		(138)	(226)	141
		(102)	(98)	(5)
23.3 Finance costs paid				
Interest and other finance costs on liabilities carried at amortised cost		(311)	(348)	(309)
Net foreign exchange gains		5	13	17
Net fair value gains on financial instruments		5	16	21
Premium and costs on early redemption of redeemable bonds and other loans		46	43	–
Non-cash movements included in items above		49	10	65
		(206)	(266)	(206)
23.4 Taxation paid				
Amounts unpaid at beginning of year		(13)	(35)	(54)
Translation effects		1	(2)	4
Taxation (charge) benefit to profit or loss		(28)	(14)	6
Net amounts unpaid at end of year		20	13	35
Cash amounts paid		(20)	(38)	(9)
23.5 Investments to maintain operations				
Property, plant and equipment		(177)	(213)	(173)
23.6 Proceeds on disposal of non-current assets				
Book value of non-current assets disposed of		93	5	16
Profit on disposal		52	1	5
Realisation of foreign currency translation reserves related to assets sold		(32)	–	–
Other sundry receivables		(42)	–	–
		71	6	21

US\$ million	2012	2011	2010
23. Notes to the group statements of cash flows continued			
23.7 Cash and cash equivalents			
Cash and deposits on call	593	595	791
Money market instruments	52	44	1
	645	639	792

US\$ million	2012	2011
24. Encumbered assets		
The book values of assets which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third party ownership in terms of capitalised leases or suspensive sale agreements, are as follows:		
Land and buildings	261	278
Plant and equipment	1,327	1,164
Inventory	174	178
Trade receivables	490	491
	2,252	2,111

Suspensive sale agreements are instalment sale agreements which the group has entered into in respect of certain property, plant and equipment where the assets purchased are encumbered as security for the outstanding liability until such time that the liability is discharged.

The encumbered assets relate mainly to the security provided under the following facilities:

- Public high yield bonds of (refer to note 20):
 - €31 million due in 2014;
 - US\$400 million due in 2017;
 - €250 million due in 2018;
 - US\$300 million due in 2019; and
 - US\$350 million due in 2021.
- The committed revolving credit facility of €350 million that was undrawn at year-end (refer to note 20).
- The securitisation facility with UniCredit Bank of €360 million with a current balance of €293 million (refer to notes 16 and 20).

The security consists substantially of (i) the land, plant and equipment located at Sappi's production facilities in Gratkorn, Austria; Kirkniemi, Finland; Maastricht, The Netherlands; Nijmegen, The Netherlands; Skowhegan/Somerset, Maine, USA, and Cloquet, Minnesota, USA and (ii) certain inventory owned by SD Warren Company and Sappi Cloquet LLC. The security also includes certain shares in subsidiaries and certain inter-company receivables which are not reflected in the total above.

US\$ million	2012	2011
25. Commitments		
Capital commitments		
Contracted but not provided	267	61
Approved but not contracted	244	416
	511	477
Future forecasted cash flows of capital commitments at September:		
2011		365
2012		75
2013	458	37
2014 (2011: thereafter)	40	
Thereafter	13	
	511	477

Capital commitments largely relate to the dissolving wood pulp conversion projects in Sappi Southern Africa and Sappi Fine Paper North America as well as a conversion project to increase the production of speciality paper in Sappi Fine Paper Europe. These projects are expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group.

Notes to the group annual financial statements

for the year ended September 2012

US\$ million	2012	2011
25. Commitments continued		
Lease commitments		
Future undiscounted minimum operating lease obligations payable in the year ended September:		
2012		29
2013	27	17
2014	17	12
2015	12	8
2016	7	3
2017 (2011: thereafter)	5	36
Thereafter	36	
	104	105

Further information on capital commitments relating to environmental matters can be found in note 32.

US\$ million	2012	2011
26. Contingent liabilities		
Guarantees and suretyships	31	33
Other contingent liabilities	10	15

Included under guarantees and suretyships are bills of exchange where Sappi has guaranteed third party funding of payments to Sappi for certain German accounts receivables.

Other contingent liabilities mainly relate to taxation queries in respect of certain group companies.

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these suits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that the possibility of a material outflow of resources in connection with these lawsuits and administrative proceedings is considered to be remote.

In September 2012, the Competition Commission of South Africa notified the group that it has initiated an investigation into alleged anti-competitive behaviour between Sappi and a competitor in the South African pulp and paper market. We understand that the investigation is at an early stage.

27. Post-employment benefits – pensions and other benefits

Summary of results

	All plans	Defined contribution plans		Defined benefit pension plans		Other defined benefit plans	
US\$ million	2013	2012	2011	2012	2011	2012	2011
Post-retirement plan costs recognised in income statements		35	46	24	14	13	14
Employer contributions paid over the fiscal year		36	47	48	58	10	11
Expected employer contributions to be paid over next fiscal year							
– Defined contribution plans	34						
– Defined benefit pension plans	63						
– Other defined benefit plans	12						
Pension/other benefit plan liabilities are presented on the balance sheets as follows:							
Net pension/other benefit liabilities (refer to note 21)				344	311	185	175
Net pension assets ⁽¹⁾ (refer to note 14)				(26)	(43)	–	–
Accrued contributions/obligations (included in other payables)		2	3	–	–	7	7
Net balance sheet liabilities		2	3	318	268	192	182

(1) Consists of two defined benefit plans in Southern Africa and one in Europe where the assets exceed accumulated liabilities.

27. Post-employment benefits – pensions and other benefits continued

	Defined benefit pension plans		Other defined benefit plans	
	2012	2011	2012	2011
Development in the balance sheets for the pension/other benefit plans				
Net pension/other benefit liabilities at beginning of year	(268)	(261)	(182)	(185)
Net pension/other benefit costs for the year	(24)	(14)	(13)	(14)
Employer contributions	48	58	10	11
Net actuarial losses for the year to other comprehensive income (OCI)	(79)	(50)	(9)	(9)
Translation differences	5	(1)	2	15
Net pension/other benefit liabilities at end of year	(318)	(268)	(192)	(182)

The rest of this note sets out the summary of results above in more detail.

Detailed results

Defined contribution plans

The group operates defined contribution plans of various sizes for all qualifying employees in most regions throughout the group. The assets of the plans are held, separately from those of the group, in funds under the control of trustees. In addition, the group participates in country-wide union/industry plans in certain locations open to eligible employees.

The total cost charged to the income statement of US\$35 million (2011: US\$46 million, 2010: US\$42 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans. As at September 2012, US\$2 million (2011: US\$3 million, 2010: US\$4 million) was due in respect of the current reporting period that had not yet been paid over to the plans.

Defined benefit pension plans

The group operates several principal defined benefit pension and/or lump sum plans in all regions plus a number of smaller plans. The extent of employee access to these plans vary. Plans open to new entrants or future accrual cover all qualifying employees. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country. Plans remain open to new hires except for the following: plans in Southern Africa, Austria and some in Germany. Plans in the United Kingdom and one in North America are closed to future accrual.

Benefits are formula-driven, based upon varying definitions of compensation (such as average salary near retirement or career average revalued earnings) and years of service. Exceptions to these are certain plans in Germany and Austria that provide fixed value benefits (in Euro) and certain plans in North America that provide benefits based on years of service and a '\$ multiplier'. The \$ multiplier is a formula that is based on a nominal US Dollar value which historically, has increased from time to time.

With the exception of our German and Austrian plans, which are unfunded, the assets of our funded plans are held in separate trustee-administered funds which are subject to varying statutory requirements in the particular countries concerned. In terms of these requirements, periodic actuarial valuations of these funds are performed by independent actuaries.

As of September 2012, the total number of active members in our defined benefit pension plans is approximately 6,100.

Post-employment benefits other than pensions ('other defined benefit' plans)

The group sponsors two defined benefit post-employment plans that provide certain healthcare and life insurance benefits to eligible retired employees of the North American and South African operations. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of service.

Other employee benefits

Group companies have no other significant post-employment defined benefit obligations except for the following:

- Jubilee (long service award plans per note 21) in continental Europe of US\$23 million and an early retirement benefit plan in Belgium of US\$6 million (of which US\$3 million is long-term per note 21).
- 'ATZ' (early retirement) benefit obligations in Germany and Austria totalling US\$9 million (within 'other payables').
- Workmen's compensation benefit obligations in North America totalling US\$18 million (of which US\$14 million is long-term per note 21).

Actuarial valuations of all plans are performed annually with the exception of our South African and United Kingdom defined benefit pension plans where an actuarial review is performed annually with an actuarial valuation being performed on a tri-annual basis.

All post-employment obligations were measured at the end of the financial year.

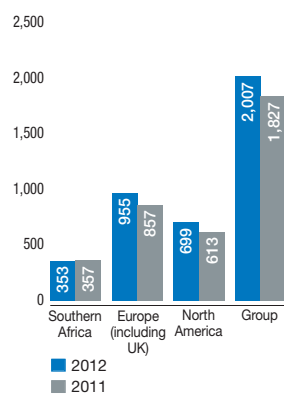
Notes to the group annual financial statements

for the year ended September 2012

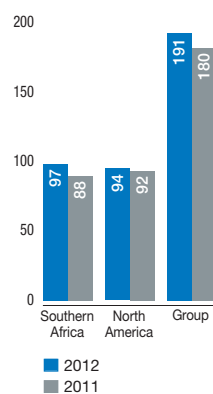
27. Post-employment benefits – pensions and other benefits continued

US\$ million	2012		2011	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
Change in present value of defined benefit obligations				
Defined benefit obligations at beginning of years	1,827	180	2,069	182
Current service costs	23	3	29	4
Past service costs (credits)	1	–	(4)	–
Interest costs	100	11	105	11
Plan participants' contributions	3	–	7	–
Actuarial (gains) losses experience	(2)	(5)	(4)	5
Actuarial losses assumptions	221	14	23	4
Curtailments and settlements	–	–	(233)	–
Benefits paid	(137)	(10)	(123)	(11)
Translation differences	(29)	(2)	(42)	(15)
Defined benefit obligations at end of years	2,007 ⁽¹⁾	191 ⁽²⁾	1,827 ⁽¹⁾	180 ⁽²⁾
Present value of wholly unfunded obligations	145	191	134	180
Present value of wholly and partly funded obligations	1,862	–	1,693	–

(1) Defined benefit pension plans
Regional split of obligations
(US\$ million)



(2) Other defined benefit plans
Regional split of obligations
(US\$ million)

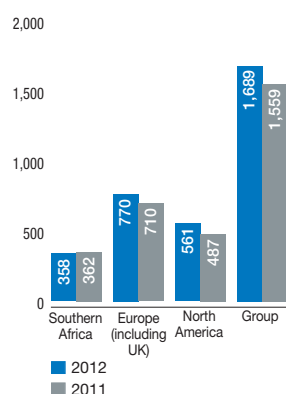


27. Post-employment benefits – pensions and other benefits continued

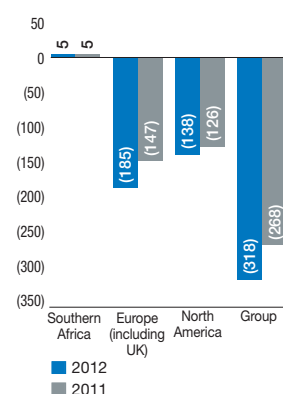
US\$ million	2012		2011	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
Change in fair value of plan assets				
Fair value of plan assets at beginning of years	1,559	–	1,808	–
Expected returns on plan assets*	100	–	111	–
Actuarial gains (losses) on plan assets	140	–	(31)	–
Employer contributions	48	10	58	11
Plan participants' contributions	3	–	7	–
Benefits paid	(137)	(10)	(123)	(11)
Curtailments and settlements	–	–	(228)	–
Translation differences	(24)	–	(43)	–
Fair value of plan assets at end of years	1,689 ⁽¹⁾	–	1,559 ⁽¹⁾	–
Deficits	(318)	(191)	(268)	(180)
Unrecognised past service credits	–	(1)	–	(2)
Recognised pension/other benefit plan liabilities	(318) ⁽²⁾	(192) ⁽³⁾	(268) ⁽²⁾	(182) ⁽³⁾

* Net of administration costs.

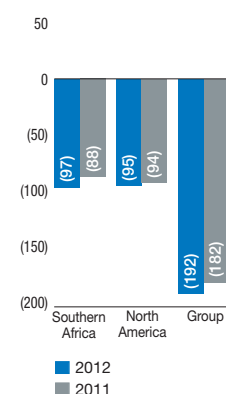
(1) Defined benefit pension plans
Regional split of assets
(US\$ million)



(2) Defined benefit pension plans
Regional split of recognised liabilities
(US\$ million)



(3) Other defined benefit plans
Regional split of recognised liabilities
(US\$ million)



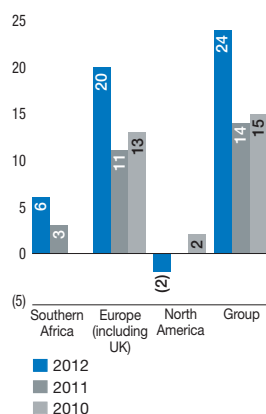
Notes to the group annual financial statements

for the year ended September 2012

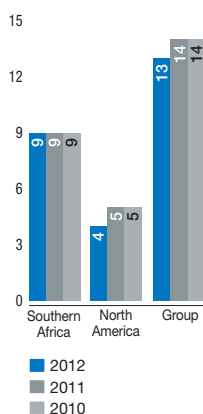
27. Post-employment benefits – pensions and other benefits continued

US\$ million	2012		2011		2010	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
Pension/other benefit costs recognised in income statements						
Current service costs	23	3	29	4	27	4
Past service costs (credits)	1	–	(4)	–	1	–
Interest costs	100	11	105	11	107	11
Expected returns on plan assets*	(100)	–	(111)	–	(114)	–
Amortisation of past service credits	–	(1)	–	(1)	(6)	(1)
Gains on curtailments and settlements	–	–	(5)	–	–	–
Net periodic pension/other benefit costs charged to cost of sales and selling, general and administrative expenses	24⁽¹⁾	13⁽²⁾	14⁽¹⁾	14⁽²⁾	15⁽¹⁾	14⁽²⁾
* Net of administration costs						
Actual returns on plan assets	240	–	80	–		
Actual returns on plan assets (%)	15.4%⁽³⁾	–	4.4%⁽³⁾	–		
Amounts recognised in the statements of other comprehensive income						
Net actuarial losses for the period	(79) ⁽⁴⁾	(9) ⁽⁴⁾	(50) ⁽⁴⁾	(9) ⁽⁴⁾		
Cumulative actuarial losses recognised in the statements of other comprehensive income						
Net actuarial losses	(536)	(70)	(457)	(61)		

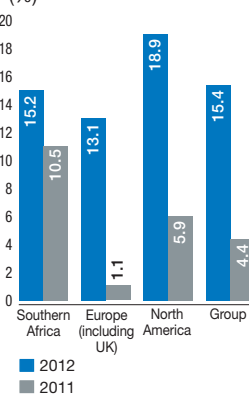
(1) Defined benefit pension plans
Regional split of pension costs
(US\$ million)



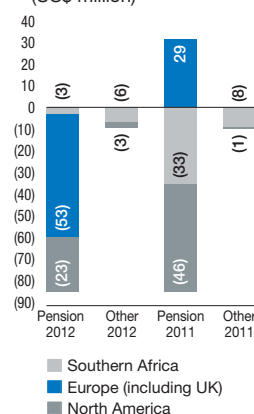
(2) Other defined benefit plans
Regional split of benefit costs
(US\$ million)



(3) Defined benefit pension plans
Regional average asset investment returns
(%)



(4) Regional gains (losses) to other comprehensive income
(US\$ million)



Assumptions

Financial assumptions are derived by reference to market financial data and established methods recommended by actuaries.

In determining the expected long-term return assumption on plan assets, Sappi considers the relative weighting of plan assets to various asset classes, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. Peer data and historical returns are reviewed for reasonableness and appropriateness. In addition, Sappi may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.

27. Post-employment benefits – pensions and other benefits continued

	2012			2011		
	Southern Africa	Europe	North America	Southern Africa	Europe	North America
Weighted average actuarial assumptions at balance sheet dates						
Discount rates (pensions) (%)	8.27	3.90	3.60	8.75	5.02	4.50
Compensation increases (%)*	6.69	1.73	–	6.75	2.00	3.50
Expected long-term returns on assets (%)	9.36	4.40	7.25	9.65	4.43	7.25
Discount rates (other benefits) (%)	8.00	–	3.30	9.00	–	4.10
Initial healthcare costs trend rates (%)	6.75	–	7.00	7.25	–	7.00
...which gradually reduce to an ultimate rate of (%)	6.75	–	5.00	7.25	–	5.00
...over a period of (years)	–	–	9	–	–	6

	2012			2011		
	Southern Africa	Europe	North America	Southern Africa	Europe	North America
Weighted average actuarial assumptions used to determine pension/other benefit costs						
Discount rates (pensions) (%)	8.75	5.02	4.50	8.25	4.05	4.90
Compensation increases (%)*	6.75	2.00	3.50	6.20	2.40	3.50
Expected long-term return on assets (%)	9.65	4.43	7.25	9.15	4.20	8.00
Discount rates (other benefits) (%)	9.00	–	4.10	8.25	–	4.40
Initial healthcare costs trend rates (%)	7.25	–	7.00	6.50	–	7.00
...which gradually reduce to an ultimate rate of (%)	7.25	–	5.00	6.50	–	5.00
...over a period of (years)	–	–	6	–	–	7

* Weighted average compensation increases of plans that use a compensation assumption. The North American salaried plan is closed to future accrual.

Demographic assumptions (the expected change in membership) are derived by using established methods recommended by actuaries and make reference to historic and probable future changes in membership. Changing life expectancy of members (particularly in retirement) can have a significant effect on defined benefit obligations. The group makes provision in its defined benefit obligations for realistic life expectancy by reference to established mortality tables. Further, where recommended by actuaries, extended provisions are included in the obligations to account for expected improvements in life expectancy by future retirees.

Illustrating life expectancy

The table below shows sample life expectancy for a male aged 60 at fiscal year-end, and life expectancy for a male aged 60 in 20 years' time, taken from mortality tables used in determining regional plan obligations.

	2012		
	Southern Africa	Europe (incl UK)**	North America
Life expectancy of male aged 60 at fiscal 2012	18.6	24.2	23.3
Life expectancy of male aged 60 at fiscal 2031	19.5	25.9	23.3

** Weighted by defined benefit obligations of individual plans.

Notes to the group annual financial statements

for the year ended September 2012

27. Post-employment benefits – pensions and other benefits continued

Illustrating sensitivity

The discount and salary increase rates can have a significant effect on the amounts reported. The table below illustrates the effect of changing key assumptions:

US\$ million	2012					
	Change in discount rate		Change in salary increase rate		Change in healthcare cost trend rate	
	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Defined benefit pension plans						
(Decrease) increase in obligations	(251)	305	38	(33)		
(Decrease) increase in aggregate of current service and interest costs	(2)	1				
Other defined benefit plans						
(Decrease) increase in obligations	(20)	23			17	(14)
Increase (decrease) in aggregate of current service and interest costs					1	(1)

Investment management and strategy

Plan fiduciaries set investment policies and strategies for the local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment in each region. The plan fiduciaries oversee the investment allocation process, which include selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Target versus actual weighted average allocations (by region) are shown below:

%	2012			2011		
	Southern Africa	Europe (incl UK)	North America	Southern Africa	Europe (incl UK)	North America
Weighted average target asset allocation by region						
Equity securities and multi-asset mandates*	40	37	56	37	36	56
Debt securities	46	55	44	44	60	44
Real estate	5	2	–	5	2	–
Cash/liquid assets	9	6	–	14	2	–
Weighted average actual asset allocation by region						
Equity securities and multi-asset mandates*	37	37	55	34	37	51
Government debt securities	24	43	7	29	37	6
Debt securities	20	14	37	18	22	42
Real estate	7	2	–	5	2	–
Cash/liquid assets	12	4	1	14	2	1

* Includes investments that can transcend several asset classes such as equity overlays on bond strategies and funds heavily influenced by currency.

Expected benefit payments from pension and other benefit plans are as follows:

US\$ million	Defined benefit pension plans	Other defined benefit plans
Payable in the year ending September:		
2013	90	12
2014	86	12
2015	88	12
2016	92	12
2017	96	13
Years 2018 – 2022	550	76

27. Post-employment benefits – pensions and other benefits continued

Summary data for current and previous four annual periods:

US\$ million	2012	2011	2010	2009	2008
Aggregate defined benefit obligations, fair value of assets and balance sheet liabilities					
Defined benefit pension plans					
Defined benefit obligations	2,007	1,827	2,069	1,945	1,414
Fair value of assets	1,689	1,559	1,808	1,695	1,387
Deficit	(318)	(268)	(261)	(250)	(27)
Unrecognised past service credit	–	–	–	(6)	–
Net balance sheet liability	(318)	(268)	(261)	(256)	(27)
Other defined benefit plans					
Defined benefit obligations	(191)	(180)	(182)	(175)	(143)
Unrecognised past service credit	(1)	(2)	(3)	(4)	(5)
Net balance sheet liability	(192)	(182)	(185)	(179)	(148)
Reconciliation of (losses) gains recognised in other comprehensive income					
Defined benefit pension plans					
Plan liabilities (losses) gains	(219)	(19)	(143)	(254)	173
Plan assets gains (losses)	140	(31)	70	47	(189)
Net actuarial losses	(79)	(50)	(73)	(207)	(16)
Other defined benefit plans					
Plan liabilities (losses) gains	(9)	(9)	2	(22)	23
Actuarial (losses) gains recognised in other comprehensive income	(88)	(59)	(71)	(229)	7

28. Share-based payments

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

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

28. Share-based payments 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, then the number of shares allotted are adjusted downwards from 100% to 75%, or 50%, or none depending on the degree of not meeting the criteria. The performance criteria, which entails a benchmarking of the company's performance against an appropriate peer group of companies, is set by the board at the offer date, for each conditional share award.

The Plan rules provide that appropriate adjustments are made to the rights of participants in the event that the company, *inter alia*, undertakes:

- a rights offer; or
- is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital.

The Plan rules also provide that if:

- the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself; or
- the persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action the effect of which is to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action; then the company is obligated to notify every participant thereof on the basis that such participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the performance criteria been achieved.

Rights offer

Following the December 2008 rights offer and in accordance with the provisions of the Scheme and the Plan, adjustments were made in fiscal 2009 to the rights of the Participants so that they were neither better nor worse off than prior to the rights offer. This resulted in additional offers being made to Participants in respect of all outstanding offers at the time of the rights offer. As in the case of shareholders that exercised their rights, the Participants of the Plan will be required to pay the rights offer price of ZAR20.27 per share should the shares vest. Similarly, the Participants of the Scheme may only exercise their additional options, awarded as a result of the rights offer, in conjunction with exercising their pre-rights offer options and upon payment of the rights offer price of ZAR20.27 per share.

Number of shares	2012 Total	2011 Total
Allocations		
During the year, the following offers were made to employees:		
Share options	3,326,815	2,818,000
Performance shares	2,145,000	1,567,400
Share options and conditional share awards declined	(74,300)	(41,900)
	5,397,515	4,343,500

Scheme shares, Share options, Performance shares and Allocation shares activities were as follows during the financial years ended September 2012 and 2011:

	Scheme shares ⁽¹⁾	Share options ⁽²⁾	Performance shares ⁽³⁾⁽⁴⁾	Weighted average exercise price (ZAR) ⁽⁵⁾	Allocation shares ⁽²⁾	Weighted average exercise price (ZAR) ⁽⁵⁾	Total shares
Outstanding at September 2010	2,860,372	10,158,760	9,312,840	27.91	1,039,150	56.15	23,371,122
– Offered and accepted	–	2,776,100	1,567,400	22.50	–	–	4,343,500
– Paid for/released	(855,191)	(32,312)	(1,566,186)	22.17	–	–	(2,453,689)
– Returned, lapsed and forfeited	–	(1,379,508)	(1,933,154)	28.36	(606,650)	62.43	(3,919,312)
Outstanding at September 2011	2,005,181	11,523,040	7,380,900	27.28	432,500	47.34	21,341,621
– Offered and accepted	–	3,252,515	2,145,000	13.80	–	–	5,397,515
– Paid for/released	(415,530)	–	(740,357)	23.19	–	–	(1,155,887)
– Returned, lapsed and forfeited	–	(1,883,740)	(847,343)	32.65	(432,500)	47.34	(3,163,583)
Outstanding at September 2012	1,589,651	12,891,815	7,938,200	23.59	–	–	22,419,666
Exercisable at September 2010	202,040	5,184,568	–	49.33	1,039,150	56.15	6,425,758
Exercisable at September 2011	35,860	5,565,298	–	44.70	432,500	47.34	6,033,658
Exercisable at September 2012	–	6,326,377	–	42.06	–	–	6,326,377

(1) The number of Scheme shares, which are not subject to credit sales amounts to 1,589,651 (2011: 1,969,321), includes 1,026,794 rights offer Scheme shares taken up at ZAR20.27 per share, included in offered and accepted in the 2009 year.

(2) Issued in terms of the Scheme.

(3) Performance shares are issued for no cash consideration. The value is determined on the day the shares are taken up.

(4) Issued in terms of the Plan.

(5) The share options are issued in South African Rands.

28. Share-based payments continued

The fair value of Scheme shares held at September 2012 was US\$4.5 million (2011: US\$5.9 million).

The following table sets out the number of share options and performance shares outstanding at the end of September, excluding the Scheme shares:

		2012	2011	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:							
30 December 2003	(i)		238,150	Time	(ii)	30 December 2011	47.08
14 January 2004	(i)		1,106,640	Time	(ii)	14 January 2012	47.08
25 March 2004	(i)		2,200	Time	(ii)	25 March 2012	50.42
13 December 2004	(i)	1,609,120	1,800,080	Time	(ii)	13 December 2012	46.51
12 December 2007	(i)	952,300	1,055,260	Time	(ii)	12 December 2015	52.57
19 March 2008	(i)	495,660	518,760	Time	(ii)	19 March 2016	55.97
22 December 2008		1,711,450	1,846,640	Time	(ii)	22 December 2016	35.50
09 December 2009		2,397,570	2,631,810	Time	(ii)	09 December 2017	33.85
03 December 2010		2,589,600	2,756,000	Time	(ii)	03 December 2018	35.20
02 December 2011		3,136,115		Time	(ii)	02 December 2019	22.90
Performance shares:							
12 December 2007	(i)		1,124,200	Performance	12 December 2011	N/A	N/A
19 March 2008	(i)		451,000	Performance	19 March 2012	N/A	N/A
22 December 2008		1,782,000	1,782,000	Performance	22 December 2012	N/A	N/A
09 December 2009		2,496,300	2,496,300	Performance	09 December 2013	N/A	N/A
03 December 2010		1,514,900	1,527,400	Performance	03 December 2014	N/A	N/A
02 December 2011		2,145,000		Performance	02 December 2015	N/A	N/A
		20,830,015	19,336,440				

(i) During the 2009 year, there was a rights issue of 6 shares for every 5 shares held at ZAR20.27 per share. According to the rules of the Scheme, this was also offered to participants. Not all the participants took up their rights.

(ii) These vest over four or five years depending on the date of allocation.

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

	Issue 37	Issue 37	Issue 37
Date of grant	02 December 2011	02 December 2011	02 December 2011
Type of award	Normal option	Performance	Performance
Share price at grant date	ZAR23.09	ZAR23.09	ZAR23.09
Strike price of share	ZAR22.90	–	–
Vesting period	4 years	4 years	4 years
Vesting conditions	Proportionately over time	Market related – relative to peers	Cash flow return on net assets relative to peers
Life of options	8 years	N/A	N/A
Market related vesting conditions	N/A	Yes	No
Percentage expected to vest	N/A	32.0%	100%
Number of shares offered	3,326,815	1,072,500	1,072,500
Volatility	41.6%	55.0%	N/A
Risk free discount rate	5.6%	0.9% (US yield)	N/A
Expected dividend yield	2.7%	2.1%	2.1%
Expected percentage of issuance	95%	95%	95%
Model used to value	Modified binomial	Monte-carlo	Market price
Fair value of option	ZAR8.75	ZAR13.29	ZAR17.32

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

Share options and Performance shares to executive directors that are included in the above figures, are as follows:

	2012	2011
	Number of options/shares	Number of options/shares
At beginning of year	1,117,200	1,087,200
Granted during the year	270,000	283,000
Exercised or declined during the year	(99,000)	(110,000)
Forfeited upon resignation or retirement	(138,600)	(143,000)
At end of year	1,149,600	1,117,200

Notes to the group annual financial statements

for the year ended September 2012

28. Share-based payments continued

The following table sets forth certain information with respect to the 1,149,600 Share options and Performance shares granted by Sappi to executive directors:

Issue date	Number of options/shares ⁽¹⁾	Expiry date	Exercise price (ZAR) ⁽¹⁾
13 December 2004	39,600	13 December 2012	46.51
22 December 2008 ⁽²⁾	242,000	22 December 2012	–
09 December 2009 ⁽²⁾	315,000	09 December 2013	–
03 December 2010 ⁽²⁾	283,000	03 December 2014	–
02 December 2011 ⁽²⁾	270,000	02 December 2015	–
	1,149,600		

(1) Adjusted for the Share options and Performance shares granted as a result of the rights issue.

(2) Performance shares.

Refer to note 35 for more information on directors' participation in the Scheme and the Plan.

No new loans have been granted to the executive directors since 28 March 2002.

Black Economic Empowerment

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

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

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

- Sappi's South African Employees (62.5%);
- South African Black Managers (15%);
- Strategic Partners (12.5%) (refer to the section 'The BEE transaction' in this note); and
- Communities surrounding the South African mill operations and plantations (10%).

The BEE transaction

The BEE transaction comprised two distinct parts:

- The value created through the Plantation BEE Transaction was settled by the issue of 4.3 million fully paid up ordinary shares at a price based on the 30 day volume weighted average share price ('VWAP') of Sappi as at Friday, 05 February 2010 of ZAR33.50.
- The creation and issuance of a new class of unlisted equity shares referred to as 'A' ordinary shares. The 'A' ordinary shares were issued at their par value of ZAR1 to a trust formed for the benefit of certain Sappi employees including HDSAs (the 'ESOP Trust'), a trust formed for the benefit of certain Sappi managers that are HDSAs (the 'MSOP Trust') and a trust formed for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the 'Sappi Foundation Trust', and together with the ESOP Trust and the MSOP Trust, the 'BEE Trusts'). The issuance of the 'A' ordinary shares was financed through notional non-interest-bearing loans extended by Sappi to the BEE Trusts. The BEE transaction resulted in the BEE Trusts and the Strategic Partners holding, collectively, ordinary and 'A' ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's South African business under the Forestry Charter and BEE legislation in general.

The number of ordinary shares allocated to the Strategic Partners and Sappi employees who were participants of the Plantation BEE Transaction are as follows:

Entity	Ordinary share allocation
Strategic Partners:	
Lereko Investments (Pty) Limited	1,971,693
Malibongwe Women Development Trust	432,842
AMB Capital Limited	643,221
	3,047,756
Employees (through the ESOP Trust)	1,280,597
Total	4,328,353

28. Share-based payments continued

The number of 'A' ordinary shares allocated to the BEE Trusts are as follows:

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

The group recognised a share-based payment expense of US\$3 million (2011: US\$5 million) in fiscal 2012 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	32.50
Share price hurdle rate	9.1%
Hurdle rate price	75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	6.8%
Management turnover (annual)	6.5%
Model used to value	Black Scholes Model

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

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

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

Refer to note 17 for further details regarding the 'A' ordinary shares.

29. Financial instruments

29.1

US\$ million		2012	2011
Derivative financial instruments			
Hedging instrument	Hedged item		
Non-current assets			
Interest rate currency swap	Secured notes due August 2014 (repaid 2012)	–	21
Fair value hedge	Secured notes due April 2021	22	19
Forward exchange contracts	Property, plant and equipment	–	1
		22	41
Current assets			
Forward exchange contracts	Property, plant and equipment	–	3
Non-current liabilities			
Interest rate currency swap	Secured notes due July 2017	21	–
Interest rate currency swap	Secured notes due June 2019	22	–
Interest rate swap	Unsecured ZAR750 million bond due April 2015	3	–
		46	–
Current liabilities			
Forward exchange contracts	Various	1	10

Refer below for a more detailed description of our financial instruments.

29.2 Financial instruments

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

Introduction

The principal risks to which Sappi is exposed through financial instruments are:

a) market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:

- interest rate risk
- currency risk
- commodity price risk

b) liquidity risk

c) credit risk

The group's main financial risk management objectives are to identify, measure and manage the above risks as more fully discussed under the individual risk headings below.

Sappi's Group Treasury is comprised of two components: Sappi International, located in Brussels, which manages the group's non-South African treasury activities and, for local regulatory reasons, the operations based in Johannesburg which manage the group's Southern African treasury activities.

These two operations collaborate closely and are primarily responsible for managing the group's interest rate, foreign currency, liquidity and credit risk (in so far as it relates to deposits of cash, cash equivalents and financial investments).

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

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

a) Market risk

Interest rate risk

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

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

Interest-bearing borrowings

The following table provides information about Sappi's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2012 and thereafter are based on the yield curves for each respective currency as published by Bloomberg (effective 30 September 2012). The information is presented in US Dollar, which is the group's reporting currency.

29.2 Financial instruments continued

	Expected maturity date						Total carrying value	2012 fair value	2011 carrying value	2011 fair value
US\$ equivalent in millions	2013	2014	2015	2016	2017	2018+				
US Dollar										
Fixed rate debt ⁽¹⁾	–	–	–	–	391	509	900	1,057	503	541
Average interest rate (%)	–	–	–	–	7.94	8.19	8.08		10.45	
Variable rate debt ⁽²⁾	–	138	–	–	–	366	504	554	472	476
Average interest rate (%)	–	2.24	–	–	–	6.93	5.65		6.71	
Euro										
Fixed rate debt	1	44	–	–	–	318	363	417	779	888
Average interest rate (%)	3.97	11.02	2.17	1.93	1.76	6.72	7.20		10.03	
Variable rate debt ⁽³⁾	83	238	23	23	126	–	493	493	511	511
Average interest rate (%)	2.35	2.49	5.50	5.50	5.63	–	3.55		3.24	
Rand										
Fixed rate debt ⁽⁴⁾	177	26	96	60	–	–	359	381	473	507
Average interest rate (%)	9.79	11.02	8.04	9.63	–	–	9.39		10.41	
Total										
Fixed rate debt	178	70	96	60	391	827	1,622	1,855	1,755	1,936
Average interest rate (%)	9.73	11.02	8.02	9.59	7.93	7.63	8.17		10.25	
Variable rate debt	83	376	23	23	126	366	997	1,047	983	987
Average interest rate (%)	2.35	2.40	5.50	5.50	5.63	6.93	4.61		4.90	
Fixed and variable	261	446	119	83	517	1,193	2,619	2,902	2,738	2,923
Current portion							261	275	449	463
Long-term portion							2,358	2,627	2,289	2,460
Total interest-bearing borrowings (refer to note 20)							2,619	2,902	2,738	2,923

(1) US Dollar fixed rates of US\$700 million debt have been swapped into Euro fixed rates. These swaps are subject to hedge accounting.

(2) The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).

(3) The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).

(4) ZAR floating rates of ZAR750 million debt have been swapped into ZAR fixed rates. These swaps are subject to hedge accounting.

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

The range of interest rates in respect of all non-current borrowings comprising both fixed and floating rate obligations, is between 2.24% and 11.02% (depending on currency).

At September 2012 after giving effect to interest rate swaps, 62% of Sappi's borrowings were at fixed rates of interest, and 38% were at floating rates. Fixed rates of interest are based on contract rates.

A detailed analysis of the group's borrowings is presented in note 20.

Notes to the group annual financial statements

for the year ended September 2012

29.2 Financial instruments continued

Interest rate derivatives

US\$ million	Interest rate	2012			2011	
		Maturity date	Nominal value	Fair value ⁽¹⁾	Nominal value	Fair value ⁽¹⁾
IRCS	US Dollar 7.75% into EUR 7.56%	July 2017	400	(21)	–	–
IRCS	US Dollar 8.375% into EUR 8.33%	June 2019	300	(22)	–	–
IRCS	US Dollar 12.00% into EUR 12.19%	Terminated	–	–	300	21
IRS	US Dollar 6.625% fixed to variable (LIBOR)	April 2016	350	22	350	19
IRS	ZAR variable (JIBAR) to ZAR 7.78% fixed	April 2015	90	(3)	–	–
				(24)		40

(1) This refers to the carrying value.

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

The fixed for fixed IRCS designated as a hedge of future cash flows linked to the underlying US\$300 million senior secured notes due 2014 was sold during 2012 resulting in a realised gain of US\$2 million in the income statement and a cash inflow of US\$43 million. The termination of the swap was the result of the early redemption of the underlying bond.

In July 2012, Sappi entered into new fixed for fixed IRCSs, which have been designated as cash flow hedges of future cash flows linked to fixed rate debt denominated in foreign currency. The swaps correspond to the underlying US\$400 million senior secured notes due 2017 and to the US\$300 million senior secured notes due 2019. The swaps convert all future US\$ cash flows to EUR.

The effective gains and losses from changes in fair value of these derivatives are recorded in other comprehensive income. These accumulated gains and losses will be recycled to profit or loss in the same line as the hedged item at the moment the hedged item affects the income statement (interest expense and foreign currency revaluation).

In order to measure hedge effectiveness, a hypothetical derivative with identical critical terms as the hedged item, has been built as a perfect hedge. The changes in fair value of the actual derivatives are compared with the changes in fair value of the hypothetical derivative.

As at September 2012, the effectiveness tests for the above mentioned hedges showed a 100% hedge effectiveness. The swaps showed a total negative fair value of US\$43 million. The negative fair value of the currency leg of the swaps of US\$21 million was booked to profit or loss to offset the unrealised corresponding foreign currency gain on the revaluation of the underlying hedged item. The remaining negative fair value of the interest leg of the swaps of US\$22 million has been deferred in equity.

In April 2011, Sappi entered into an IRS converting the fixed rate of 6.625% on the underlying US\$350 million senior secured notes due 2021 into variable rates. This hedge has been designated as a fair value hedge whereby changes in the fair value of the fixed rate debt including the principal par value as well as the first ten coupon payments (October 2011 until April 2016) resulting from fluctuations in the US LIBOR swap curve, are offset against the changes in the fair value of the hedging instrument. Changes in the fair value of the underlying debt attributable to changes in the credit spread are excluded from the hedging relationship. The carrying value of the hedged debt is adjusted to reflect the changes in fair value related to changes in interest rates only. This is offset by the change in fair value of the derivative which reflects changes in fair value related to both interest rate risk and credit risk. Sappi has determined at inception and in subsequent periods that the derivative is highly effective in offsetting the fair value exposure of the designated debt.

At September 2012, the above mentioned fair value hedge was highly effective and the swaps had a positive fair value of US\$21.9 million which has been offset by the negative fair value adjustment to the bonds of US\$24.4 million, resulting in a net negative impact on the income statement of US\$2.5 million.

In April 2012, Sappi issued a new floating rate 2015 bond for an amount of ZAR750 million and at the same time the company entered into a floating to fixed interest rate swap. The notes and the interest rate swap are designated in a cash flow hedging relationship, allowing all mark-to-market valuations of the swap to be booked to equity. As all critical terms of the hedged item and the hedging instrument perfectly match, the hedge is expected to be highly effective.

At September 2012, the hedge was highly effective and the swap had a negative fair value of US\$2.8 million which has been deferred to equity.

The fair values of the IRCS and IRS are the estimated amount that Sappi would pay or receive to terminate the agreement at the balance sheet date after taking into account current interest rates and the current creditworthiness of the counterparties as well as the specific relationships of the Sappi group with those counterparties. However, this amount excludes the possible breakage and other fees that would be incurred in case of a sale before the maturity date.

Please refer to the 'Hedge accounting' section in this note for further information.

29.2 Financial instruments continued

Summary sensitivity analyses: external interest rate derivatives

The following is a sensitivity analysis of the impact on profit or loss in US Dollar of a change in fair value of interest rate derivative instruments due to changes in the interest rate basis points ('bps'). The sensitivity analysis of floating rate debt, is carried out separately (see below).

IRCS converting fixed US Dollar rates into fixed Euro rates in US\$ million:

Scenario name	Base value	Scenario value	Change	% Change
– 50 bps EURIBOR: 6-month	(1,031.8)	(1,056.8)	(25.0)	2.42
+ 50 bps EURIBOR: 6-month	(1,031.8)	(1,007.7)	24.1	(2.34)

Scenario name	Base value	Scenario value	Change	% Change
– 50 bps USD-LIBOR: 3-month	988.3	1,012.1	23.8	2.41
+ 50 bps USD-LIBOR: 3-month	988.3	965.2	(23.1)	(2.34)

The derivatives convert fixed US Dollar interest payments of 7.75% and 8.375% into fixed Euro interest coupons as well as the redemption of principal amounts at maturity. The fair value of the instrument is subject to changes of both the inherent exchange rates and interest rates. Fair value changes of the derivative caused by currencies are neutralised by currency changes in the underlying external debt.

For the period outstanding, the table above shows the impact that a shift of 50 bps on the LIBOR/EURIBOR curve would have on fair value. A decrease in the US Dollar LIBOR adds to the fair value, as does an increase of the EURIBOR. When the Euro and the US Dollar interest rates move the same way, the one roughly compensates the other. If the rates would drift in opposite directions, a shift of 50 bps would result in an impact of approximately US\$48 million.

The largest shift experienced over the last 12-month period was a negative net movement of 1.33%, due to an increase in US Dollar rates of 0.18% and a decrease in the Euro rates of 1.15%. Applied to the fair value as at the end of fiscal 2012, this would have resulted in a negative change in fair value of US\$67 million.

Scenario name	Base value	Scenario value	Change	% Change
– 115 bps EURIBOR: 6-month	(1,031.8)	(1,090.1)	(58.3)	5.70
+ 18 bps USD-LIBOR: 3-month	988.3	979.9	(8.4)	(0.85)
Total			(66.7)	

The above analysis measures the impact on profit or loss that a change in fair value of the interest rate derivatives would have if the specified scenarios were to occur.

IRS converting fixed US Dollar rates into variable rates:

Scenario name	Base value	Scenario value	Change	% Change
– 50 bps USD-LIBOR: 3-month	(353.8)	(353.9)	(0.1)	0.03
+ 50 bps USD-LIBOR: 3-month	(353.8)	(353.7)	0.1	(0.03)

Scenario name	Base value	Scenario value	Change	% Change
– 50 bps ST–/LT+ USD-LIBOR: 3-month	(353.8)	(353.9)	(0.1)	0.03
+ 50 bps ST+/LT– USD-LIBOR: 3-month	(353.8)	(353.7)	0.1	(0.03)

The combination of the interest rate swaps and the underlying bonds is sensitive to the change in short-term and long-term interest rates. However, as the critical terms of the bond and the swap match, the residual ineffectiveness is not expected to be material.

The above sensitivity analysis demonstrates this effect. The first scenario tests movements on the US Dollar interest rate curve in the same direction (parallel shift), whereas the second scenario tests the impact of a pivoting curve where short-term and long-term rates move in opposite directions.

IRS converting floating ZAR rates into fixed rates:

Scenario name	Base value	Scenario value	Change	% Change
– 50 bps USD-LIBOR: 3-month	(2.8)	(3.9)	(1.1)	39.29
+ 50 bps USD-LIBOR: 3-month	(2.8)	(1.7)	1.1	(39.29)

29.2 Financial instruments continued

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

For the period outstanding, the table above shows the impact that a shift of 50 bps on the JIBAR curve would have on the fair value of the instrument.

Sensitivity analysis: interest rate risk – in case of a credit rating downgrade of Sappi

The following table shows the sensitivity of securitisation debt to changes in the group's own credit rating. The on-balance sheet securitisation agreement (refer to note 20) stipulates that upon a downgrade of the corporate family rating of Sappi Limited below BB– by Standard & Poor's or a downgrade of the long-term issuer credit rating of Sappi Limited below Ba3 by Moody's, the transaction margin would increase by 25 basis points.

Please note that the change in value of the securitisation debt is included in the sensitivity analysis of floating rate debt in the table below:

Securitisation programme covering Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Trading

US\$ million	Notional	Impact on income statement of a one notch downgrade below current credit rating
Elektra Purchase N° 29 Ltd.	380	1
Impact calculated on total portfolio amounts to		0.30%

The table below shows the sensitivity of certain fixed rate debt to changes in the group's own credit rating. The agreements of these specific external loans stipulate that if the company were downgraded below our current rating, an additional margin would be added to the contractual funding rate.

External loan agreements sensitive to the group's own credit rating

US\$ million	Notional	Impact on income statement of downgrade below BB 'secured' credit rating
Commitment fee on unused revolving credit facility	450	2
Interest on utilised bank syndicated loan	175	1
Sub-total	625	3
Impact calculated on total portfolio amounts to		0.39%

Sensitivity analysis: interest rate risk of floating rate debt

US\$ million	Total	Fixed rate	Floating rate	Impact on income statement of 50 bps interest
Total debt	2,619	1,622	997	5
Ratio fixed/floating to total debt		62%	38%	

The floating rate debt represents 38% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by US\$5 million.

29.2 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 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, the derivative instrument has been allocated to the currency which the underlying instrument has been hedging.

US\$ million	Total	Total in scope ⁽¹⁾	USD	EUR	ZAR	GBP	Other
September 2012							
Financial assets							
Other non-current assets	80	22	–	10	9	–	3
Non-current derivative financial assets ⁽²⁾	22	22	22	–	–	–	–
Trade and other receivables	807	723	311	301	36	41	34
Current derivative financial assets ⁽²⁾	–	–	–	–	–	–	–
Cash and cash equivalents	645	645	194	300	143	–	8
		1,412	527	611	188	41	45
Financial liabilities							
Non-current interest-bearing borrowings	2,358	2,358	1,403	772	183	–	–
Non-current financial liabilities	46	46	(981)	1,024	3	–	–
Other non-current liabilities	605	1	1	–	–	–	–
Current interest-bearing borrowings	261	261	–	83	178	–	–
Overdraft	5	5	5	–	–	–	–
Current derivative financial liabilities ⁽²⁾	1	1	–	(42)	64	1	(22)
Trade and other payables	1,005	784	167	364	240	–	13
		3,456	595	2,201	668	1	(9)
Foreign exchange gap		(2,044)	(68)	1,590	(480)	40	54
September 2011							
Financial assets							
Other non-current assets	104	25	–	12	9	–	4
Non-current derivative financial assets ⁽²⁾	41	41	414	(411)	38	–	–
Trade and other receivables	831	735	284	351	21	39	40
Current derivative financial assets ⁽²⁾	3	3	(2)	(52)	68	–	(11)
Cash and cash equivalents	639	639	130	225	278	1	5
		1,443	826	125	414	40	38
Financial liabilities							
Non-current interest-bearing borrowings	2,289	2,289	975	1,042	272	–	–
Other non-current liabilities	553	2	2	–	–	–	–
Current interest-bearing borrowings	449	449	–	249	200	–	–
Overdraft	1	1	–	–	–	–	1
Current derivative financial liabilities ⁽²⁾	10	10	9	–	–	1	–
Trade and other payables	1,065	840	145	475	208	–	12
		3,591	1,131	1,766	680	1	13
Foreign exchange gap		(2,148)	(305)	(1,641)	(266)	39	25

(1) This refers to items that are within the scope of IAS 39.

(2) The amount disclosed with respect to derivative instruments, reflects the currency which the derivative instrument is covering.

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.

Notes to the group annual financial statements

for the year ended September 2012

29.2 Financial instruments continued

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

US\$ million	2012		2011	
	Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value (unfavourable) favourable
Foreign currency				
Bought: US Dollar	6	–	4	–
Euro	44	–	117	–
Sold: US Dollar	(99)	–	(109)	(8)
Euro	(27)	–	(21)	(1)
ZAR	(64)	–	(100)	4
	(140)	–	(109)	(5)

The fair value of foreign currency contracts was US\$Nil at the end of the 2012 financial year. This amount was computed by the group using market data on that date.

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

Forward exchange contracts are used to hedge the group against potential unfavourable exchange rate movements that may occur on recognised financial assets and liabilities or planned future commitments.

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

As at the year-end, there was an open exposure of US\$43 million that has since been hedged.

Sensitivity analysis – (loss) gain

Base currency (US\$ million)	Exposure	+10%	–10%
EUR	(15.3)	(1.4)	1.7
GBP	(4.5)	(0.4)	0.5
CHF	0.4	–	–
SEK	0.2	–	–
JPY	1.8	0.2	(0.2)
ZAR	(15.2)	(1.4)	1.7
Other currencies	(10.3)	(0.9)	1.1
Total	(42.9)	(3.9)	4.8

Based on the exposure as at the end of fiscal 2012, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a loss of US\$3.9 million or a gain of US\$4.8 million respectively.

During 2012, we have contracted non-deliverable average rate foreign exchange transactions for a total notional value of US\$215 million which were used as an overlay hedge of export sales from South Africa. Since these contracts have all matured before the end of fiscal 2012, these constitute non-representative positions. The total impact on profit or loss was a gain of US\$6.2 million.

29.2 Financial instruments continued

Hedge accounting

1. Fair value hedges

In June 2009, a partial-term fair value hedging instrument that hedged the unsecured notes due 2012 and unsecured notes due 2032 was sold. The gain on the hedging instrument was capitalised to the bonds and, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, was amortised over the shorter of the expected life of the bonds or the hedging instrument. The unsecured notes due 2012 were redeemed in fiscal 2011 which resulted in the related unamortised gain related to those notes being released to profit or loss. In fiscal 2012, the remaining unamortised gain of US\$3 million was released to profit or loss as the original term of the hedging instrument had expired.

In April 2011, Sappi Papier Holding issued US\$350 million senior secured notes due 2021. The fixed rates of the bonds were swapped into six-month US Dollar LIBOR rates set in advance. The hedge qualifies for fair value hedge accounting as all the material terms of the swaps match the terms of the underlying bond.

The bonds and the swaps are revalued on a monthly basis and show movements in line with changing market conditions. All market movements are reversed over time and the fair value of the bonds will at maturity revert to the nominal amount of the bonds. As the swaps were contracted at the same time as the issuance of the bonds, the designated benchmark value of the bonds corresponds to the nominal amount. The only income statement impact will be any residual ineffectiveness, which is not expected to be material. The initial mark-to-market value of the swaps of US\$2.1 million reflects the pricing of the swap and the difference between the mid-market curve that was used to mark-to-market, and the effective market curve at which the swaps were contracted.

Sappi uses the REVALHedgeRx module ('REVAL'), a web-based application that provides treasury and risk management solutions. The application is supplied by Reval.Com, Inc., a financial technology company based in New York and is used to assess both the prospective and the retrospective effectiveness of a fair value hedge relationship.

The statistical method chosen to measure prospective and retrospective effectiveness is the linear regression analysis.

REVAL uses past data to demonstrate that a hedge relationship is expected to be highly effective in a prospective hedge effectiveness test.

The number of data points used to measure the effectiveness and the frequency of the data must be consistent over the life of the hedge for both prospective and retrospective testing and must be appropriate given the particularities of the hedge. It is therefore considered appropriate to use 60 monthly rolling data points. The monthly data points correspond to the historical Sappi month-end dates.

In order to create a complete set of data for the regression analysis, both the hedging instrument and the hedged item are back-dated at inception date by creating a proxy trade. Actual historical three-month US Dollar LIBOR curves are used to generate net present values of the proxy trades. As time passes, REVAL will update the regression by adding new actual observations and excluding the same number of the oldest simulated observations from the data set.

The prospective test is considered to be identical to the retrospective test, which implies that for the prospective test, the same past data (ie actual historical curves and remaining cash flows at each Sappi month-end date of the retrospective test) is used as for the retrospective test.

The above swap was highly effective in a retrospective hedge effectiveness test.

Changes in fair value will represent period-to-period changes in 'clean' fair value (accruals of interest excluded).

The following is an analysis of the impact on pre-tax profit or loss for the period based on the consolidated accounts translated at average rates:

	2012	2011
US\$ million	At average rate favourable (unfavourable)	At average rate favourable (unfavourable)
Fair value hedges		
Realised result on termination of interest rate swaps	–	1
Amortisation of de-designated hedges	3	18
Residual ineffectiveness	–	(3)
– gain on hedging instruments	3	19
– loss on hedged item	(3)	(22)
Total	3	16

29.2 Financial instruments continued

Hedge accounting continued

2. Cash flow hedges

Interest and currency swaps

The fixed for fixed IRCS designated as a hedge of future cash flows linked to the underlying US\$300 million senior secured notes due 2014 was sold during 2012 resulting in a realised gain of US\$2 million in the income statement and a cash inflow of US\$43 million. The termination of the swap was the result of the early redemption of the underlying 2014 bond.

In July 2012, Sappi entered into new fixed for fixed IRCS which have been designated as cash flow hedges of future cash flows linked to fixed rate debt denominated in foreign currency.

The swaps correspond to the underlying US\$400 million senior secured notes due 2017 and to the US\$300 million senior secured notes due 2019. The swaps convert all future US Dollar cash flows to Euro.

The effective gains and losses from changes in fair value of these derivatives are recorded in other comprehensive income. These accumulated gains and losses will be recycled to profit or loss in the same line as the hedged item at the moment the hedged item affects profit or loss (interest expense and foreign currency revaluation).

Sappi uses REVAL to assess the fair value of the IRCS and to measure the effectiveness of the cash flow hedge relationship.

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

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

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

	2012			2011	
	Hedged notional	Interest result deferred in other comprehensive income	Interest result reclassified to profit or loss	Hedged notional	Interest result deferred in other comprehensive income
US\$ million					
Senior secured notes 2014 (terminated)	300	–	2	300	3
Senior secured notes 2017 – 2019	700	(22)	–	–	–

Interest rate swaps floating to fixed

In April 2012, Sappi issued a new floating rate 2015 bond for an amount of ZAR750 million and at the same time the company entered into a floating to fixed interest rate swap.

The notes and the interest rate swap are designated in a cash flow hedging relationship, allowing all mark-to-market valuations of the swap to be booked to equity. As all critical terms of the hedged item and the hedging instrument perfectly match, the hedge is expected to be highly effective. The accumulated gains and losses will be recycled to profit or loss in the same line as the hedged item at the moment the hedged item affects profit or loss (interest expense).

Sappi uses REVAL to assess the fair value of the IRS and to measure the effectiveness of the cash flow hedge relationship.

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

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

At September 2012, the hedge was highly effective and the swap had a negative fair value of US\$2.5 million which was deferred to equity.

29.2 Financial instruments continued

Hedge accounting continued

2. Cash flow hedges continued

Ngodwana Mill expansion – acquisition of property, plant and equipment in foreign currency

Sappi started the expansion of its Ngodwana Mill in fiscal 2011 to increase its capacity to produce dissolving wood pulp. The group had a highly probable forecast transaction for the importation of property, plant and equipment from May 2011 which the group became firmly committed to in August 2011. The acquisition of the property, plant and equipment was hedged for foreign currency risk from May 2011 by forward exchange contracts which were designated as hedging instruments in a cash flow hedge.

The cash flows related to the expansion of Ngodwana began in September 2011 and are estimated to keep occurring until September 2013.

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

The total net gain recognised in equity through other comprehensive income as per fiscal 2012 amounts to US\$0.5 million. This is only made up of an unrealised gain resulting from forward exchange contracts yet to mature. During fiscal 2012, a realised gain of US\$2.8 million relating to matured forward exchange contracts was transferred from equity to fixed assets.

Saiccor Mill export sales

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

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

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

During fiscal 2012, the hedge has been fully effective. A realised gain of US\$5 million relating to matured non-deliverable forward exchange contracts was transferred from deferred equity to the operating result. There is no remaining unrealised mark-to-market result to equity as at September 2012.

3. Net investment hedges

In February 2010, Sappi designated a hedge of a net investment for an indeterminate period of Sappi Papier Holding ('SPH') in SD Warren Holdings Corporation ('SFPNA') including all its subsidiaries and incorporating all net assets. The hedged risk is the currency risk associated with the spot retranslation of the net assets of the foreign operation into the functional currency of the consolidating parent entities at the level of which the hedge is designated, ie SPH for US Dollar-Euro spot exchange risk and Sappi Limited for US Dollar-ZAR spot exchange risk. The hedging instrument is non-derivative foreign currency external debt. At inception of the hedge, both the net investment in the foreign operation (as hedged item) and the foreign currency denominated debt (as hedging instrument) have been recorded at the spot rate in effect on the hedge designation date.

Exchange differences linked to the subsequent revaluation of the foreign currency debt in the books of the entity holding the debt are deferred in other comprehensive income to the extent effective until the foreign operation is disposed of or liquidated. These exchange differences are recognised in the income statement on disposal or liquidation as part of the gain or loss on disposal.

Ineffectiveness can only occur if the net investment carrying value of the foreign operation would fall below the designated amount of the hedging instruments. The net investment value of the foreign operation is validated each quarter. Ineffective gains and losses are booked directly to the income statement. As at the end of fiscal 2012, the hedge was 100% effective.

US\$ million	2012		2011	
	Hedged notional	Foreign exchange result deferred in other comprehensive income	Hedged notional	Foreign exchange result deferred in other comprehensive income
Bond 2021	28	–	28	–
Bond 2032	216	–	219	(3)
	244	–	247	(3)
Net investment value of Sappi Fine Paper North America	510		372	

Notes to the group annual financial statements

for the year ended September 2012

29.2 Financial instruments continued

Hedge accounting continued

3. Net investment hedges continued

Commodity price risk

Commodity price risk arises mainly from price volatility and threats to security of raw material supply and other inputs to the production process.

A combination of contract and spot deals are used to manage price volatility and contain costs. Contracts are limited to the group's own use requirements. The group aims to improve its understanding of the direction, magnitude and duration of future commodity price changes and to develop commodity specific expertise.

The pulp swaps contracted in 2010 matured in January 2011 and no other pulp swaps have been contracted during fiscal 2012.

b) Liquidity risk

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

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

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

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 20.

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

Liquidity risk management

US\$ million	Total financial assets and liabilities ⁽¹⁾	Fair value of financial instruments	Undiscounted cash flows					Total
			0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years	
September 2012								
Financial assets								
Other non-current assets	22	22	12	–	–	4	7	23
Non-current derivative financial assets	22	22	3	3	7	12	–	25
Receive leg			12	11	23	47	–	93
Pay leg			(9)	(8)	(16)	(35)	–	(68)
Trade and other receivables	723	723	722	1	–	–	–	723
Current derivative financial assets	–	–	–	–	–	–	–	–
Receive leg			60	–	–	–	–	60
Pay leg			(60)	–	–	–	–	(60)
Cash and cash equivalents	645	645	645	–	–	–	–	645
Financial liabilities			1,382	4	7	16	7	1,416
Interest-bearing borrowings	2,358	2,282	69	69	588	1,118	1,607	3,451
Non-current derivative financial liabilities	46	46	2	1	2	18	11	34
Pay leg			33	32	62	595	361	1,083
Receive leg			(31)	(31)	(60)	(577)	(350)	(1,049)
Other non-current liabilities	1	1	–	–	1	1	–	2
Interest-bearing borrowings	261	270	140	137	–	–	–	277
Overdraft	5	5	5	–	–	–	–	5
Current derivative financial liabilities	1	1	–	–	–	–	–	–
Pay leg			157	22	–	–	–	179
Receive leg			(157)	(22)	–	–	–	(179)
Trade and other payables	784	784	746	–	–	–	–	746
			962	207	591	1,137	1,618	4,515
Liquidity surplus (gap)			420	(203)	(584)	(1,121)	(1,611)	(3,099)

(1) Refers to items that are in scope in terms of IAS 39 Financial Instruments: Recognition and Measurement.

29.2 Financial instruments continued

b) Liquidity risk continued

Liquidity risk management

US\$ million	Total financial assets and liabilities ⁽¹⁾	Fair value of financial instruments	Undiscounted cash flows					Total
			0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years	
September 2011								
Financial assets								
Other non-current assets	25	25	12	1	–	4	8	25
Non-current derivative financial assets	41	41	4	4	8	28	–	44
Receive leg			30	30	95	405	–	560
Pay leg			(26)	(26)	(87)	(377)	–	(516)
Trade and other receivables	735	735	735	–	–	–	–	735
Current derivative financial assets	3	3	2	1	–	–	–	3
Receive leg			72	24	–	–	–	96
Pay leg			(70)	(23)	–	–	–	(93)
Cash and cash equivalents	639	639	639	–	–	–	–	639
			1,392	6	8	32	8	1,446
Financial liabilities								
Interest-bearing borrowings	2,289	2,460	85	85	380	1,511	1,333	3,394
Other non-current liabilities	2	2	–	–	1	1	–	2
Interest-bearing borrowings	449	463	372	99	–	–	–	471
Overdraft	1	1	1	–	–	–	–	1
Current derivative financial liabilities	10	10	10	–	–	–	–	10
Pay leg			222	–	–	–	–	222
Receive leg			(212)	–	–	–	–	(212)
Trade and other payables	840	840	791	9	–	–	–	800
			1,259	193	381	1,512	1,333	4,678
Liquidity surplus (gap)			133	(187)	(373)	(1,480)	(1,325)	(3,232)

(1) Refers to items that are in scope in terms of IAS 39 Financial Instruments: Recognition and Measurement.

Notes to the group annual financial statements

for the year ended September 2012

29.2 Financial instruments continued

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for 2012 and 2011, included within the various categories on the face of the balance sheet.

The reported maturity analysis is calculated on an undiscounted basis.

US\$ million	Total	Fair value hedge	Cash flow hedge	No hedge accounting	Maturity analysis ⁽¹⁾				
					Undiscounted cash flows				
					0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years
September 2012									
Classes of derivative financial instruments									
ASSETS									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	22	22	–	–	3	3	7	12	–
– receiving leg	89	89	–	–	12	11	23	47	–
– paying leg	(67)	(67)	–	–	(9)	(8)	(16)	(35)	–
Foreign exchange risk									
FX forward contracts	–	–	–	–	–	–	–	–	–
– receiving leg	60	–	–	60	60	–	–	–	–
– paying leg	(60)	–	–	(60)	(60)	–	–	–	–
LIABILITIES									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	3	–	3	–	1	–	1	1	–
– paying leg	19	–	19	–	4	3	4	9	–
– receiving leg	(16)	–	(16)	–	(3)	(3)	(3)	(8)	–
Foreign exchange risk									
FX forward contracts	44	–	43	1	1	1	1	17	11
– paying leg	1,203	–	1,087	116	186	51	58	586	361
– receiving leg	(1,159)	–	(1,044)	(115)	(185)	(50)	(57)	(569)	(350)
September 2011									
Classes of derivative financial instruments									
ASSETS									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	40	19	21	–	4	4	7	28	–
– receiving leg	506	111	395	–	30	30	59	405	–
– paying leg	(466)	(92)	(374)	–	(26)	(26)	(52)	(377)	–
Foreign exchange risk									
FX forward contracts	4	–	4	–	2	2	1	–	–
– receiving leg	132	–	100	32	72	24	36	–	–
– paying leg	(128)	–	(96)	(32)	(70)	(22)	(35)	–	–
LIABILITIES									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	–	–	–	–	–	–	–	–	–
– paying leg	–	–	–	–	–	–	–	–	–
– receiving leg	–	–	–	–	–	–	–	–	–
Foreign exchange risk									
FX forward contracts	10	–	–	10	10	–	–	–	–
– paying leg	222	–	–	222	222	–	–	–	–
– receiving leg	(212)	–	–	(212)	(212)	–	–	–	–

(1) The reported maturity analysis is calculated on an undiscounted basis.

29.2 Financial instruments continued

Fair values

All financial instruments are carried at fair value or amounts that approximate fair value except for the non-current interest-bearing borrowings at fixed rates of interest. The carrying amounts for cash, cash equivalents, accounts receivable, certain investments, accounts payable and current portion of interest-bearing borrowings approximate fair value due to the short-term nature of these instruments. Where these fixed rates of interest have been hedged into variable rates of interest and fair value hedge accounting has been applied, then the non-current interest-bearing borrowings are carried at fair value calculated by discounting all future cash flows at market data valid at closing date. The same data is used to value the related hedging instrument.

The best evidence of the fair value of a financial asset or financial liability at initial recognition is the transaction price, unless the fair value of the instrument is evidenced by comparison with other current observable market transactions. Where market prices or rates are available, such market data is used to determine the fair value of financial assets and financial liabilities.

If quoted market prices are unavailable, the fair value of financial assets and financial liabilities is calculated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, market related inputs are used to measure fair value at the balance sheet date.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

Fair values of foreign exchange and interest rate derivatives are calculated by using recognised treasury tools which use discounted cash flow techniques based on effective market data valid at closing date. The fair values of loan commitments are based on the commitment fees effectively paid.

US\$ million	Total balance	Categories according to IAS 39						Fair value
		Out of scope IAS 39 ⁽¹⁾	Fair value through profit or loss	Loans and receivables	Held to maturity	Available-for-sale	Total in scope	
September 2012								
Classes of financial instruments								
NON-CURRENT ASSETS								
Other non-current assets⁽²⁾	80	58	–	2	–	20	22	22
Loans to associates (minority interests)		–	–	2	–	–	2	2
Club debentures		–	–	–	–	3	3	3
Investment funds		–	–	–	–	17	17	17
Other assets		58	–	–	–	–	–	–
Non-current derivative financial assets	22	–	22	–	–	–	22	22
CURRENT ASSETS								
Trade and other receivables	807	84	–	723	–	–	723	723
Trade receivables		–	–	628	–	–	628	628
Other accounts receivable – current		84	–	95	–	–	95	95
Current derivative financial assets		–	–	–	–	–	–	–
Cash and cash equivalents	645	–	–	645	–	–	645	645
Overnight deposits and current accounts (including petty cash)		–	–	149	–	–	149	149
Time deposits (< 3 months)		–	–	444	–	–	444	444
Money market funds		–	–	52	–	–	52	52

(1) This refers to items that are outside the scope of IAS 39.

(2) Includes licence fees and brands (refer to note 12).

Notes to the group annual financial statements

for the year ended September 2012

29.2 Financial instruments continued

Fair values continued

US\$ million	Total balance	Categories according to IAS 39				Fair value
		Out of scope IAS 39 ⁽¹⁾	Held for trading	Other financial liabilities	Total in scope	
NON-CURRENT LIABILITIES						
Interest-bearing borrowings	2,358	–	–	2,358	2,358	2,282
Bank loans payable (> 1 year) – including syndicated loans		–	–	26	26	26
Bonds		–	–	1,945	1,945	1,869
Financial leasing liabilities		–	–	10	10	10
Securitisation debt		–	–	377	377	377
Secured loans		–	–	–	–	–
Other non-current liabilities	605	604	–	1	1	1
Non-current derivative financial liabilities	46	–	46	–	46	46
CURRENT LIABILITIES						
Interest-bearing borrowings	261	–	–	261	261	270
Bank loans payable (< 1 year) – including syndicated loans		–	–	130	130	132
Current portion of other non-current loans payable		–	–	120	120	126
Financial leasing liabilities		–	–	11	11	12
Overdraft						
Bank overdrafts (< 3 months)	5	–	–	5	5	5
Current derivative financial liabilities	1	–	1	–	1	1
Trade and other payables	1,005	221	–	784	784	784
Accruals		221	–	229	229	229
Accounts payable to associates		–	–	–	–	–
Other accounts payable – current		–	–	555	555	555

US\$ million	Total balance	Categories according to IAS 39						Fair value
		Out of scope IAS 39 ⁽¹⁾	Fair value through profit or loss	Loans and receivables	Held to maturity	Available-for-sale	Total in scope	
September 2011								
Classes of financial instruments								
NON-CURRENT ASSETS								
Other non-current assets⁽²⁾	104	79	–	5	–	20	25	25
Loans to associates (minority interests)		–	–	3	–	–	3	3
Club debentures		–	–	–	–	3	3	3
Investment funds		–	–	2	–	17	19	19
Other assets		79	–	–	–	–	–	–
Non-current derivative financial assets	41	–	41	–	–	–	41	41
CURRENT ASSETS								
Trade and other receivables	831	96	–	735	–	–	735	735
Trade receivables		–	–	700	–	–	700	700
Other accounts receivable – current		96	–	35	–	–	35	35
Current derivative financial assets	3	–	3	–	–	–	3	3
Cash and cash equivalents	639	–	–	639	–	–	639	639
Overnight deposits and current accounts (including petty cash)		–	–	271	–	–	271	271
Time deposits (< 3 months)		–	–	324	–	–	324	324
Money market funds		–	–	44	–	–	44	44

(1) This refers to items that are outside the scope of IAS 39.

(2) Includes licence fees and brands (refer to note 12).

29.2 Financial instruments continued

Fair values continued

US\$ million	Total balance	Categories according to IAS 39				Fair value
		Out of scope IAS 39 ⁽¹⁾	Held for trading	Other financial liabilities	Total in scope	
NON-CURRENT LIABILITIES						
Interest-bearing borrowings	2,289	–	–	2,289	2,289	2,460
Bank loans payable (> 1 year) – including syndicated loans		–	–	78	78	80
Bonds		–	–	1,809	1,809	1,975
Financial leasing liabilities		–	–	22	22	25
Securitisation debt		–	–	368	368	368
Secured loans		–	–	12	12	12
Other non-current liabilities	553	551	–	2	2	2
Non-current derivative financial liabilities	–	–	–	–	–	–
CURRENT LIABILITIES						
Interest-bearing borrowings	449	–	–	449	449	463
Bank loans payable (< 1 year) – including syndicated loans		–	–	93	93	93
Current portion of other non-current loans payable		–	–	197	197	211
Financial leasing liabilities		–	–	14	14	14
Secured loans (< 1 year)		–	–	145	145	145
Overdraft						
Bank overdrafts (< 3 months)	1	–	–	1	1	1
Current derivative financial liabilities	10	–	10	–	10	10
Trade and other payables	1,065	225	–	840	840	840
Accruals		225	–	243	243	243
Accounts payable to associates		–	–	4	4	4
Other accounts payable – current		–	–	593	593	593

(1) This refers to items that are outside the scope of IAS 39.

Hierarchy of fair value measurements for financial instruments measured at fair value on the balance sheet:

US\$ million	2012				Total fair value	2011			
	Total fair value	Fair value hierarchy (in accordance with IFRS 7)				Total fair value	Fair value hierarchy (in accordance with IFRS 7)		
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
NON-CURRENT ASSETS									
Other non-current assets									
Club debentures	3	3	–	–	3	3	–	–	
Investment funds	17	17	–	–	17	17	–	–	
Non-current derivative financial assets									
	22	–	22	–	41	–	41	–	
CURRENT ASSETS									
Current derivative financial assets									
	–	–	–	–	3	–	3	–	
	42	20	22	–	64	20	44	–	
NON-CURRENT LIABILITIES									
Non-current derivative financial liabilities									
	46	–	46	–	–	–	–	–	
CURRENT LIABILITIES									
Current derivative financial liabilities									
	1	–	1	–	10	–	10	–	
	47	–	47	–	10	–	10	–	

Notes to the group annual financial statements

for the year ended September 2012

29.2 Financial instruments continued

c) Credit risk

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

Credit risk relating to trade debtor management is the responsibility of regional management and is co-ordinated on a group basis.

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

The group assesses the creditworthiness of potential and existing customers in line with the credit policies and procedures. Collateral is obtained to minimise risk. Exposures are monitored on an on-going basis utilising various reporting tools which highlight potential risks.

In the event of deterioration of credit risk, the appropriate measures are taken by the regional credit management. All known risks are required to be fully disclosed, accounted for, and provided for as bad debts in accordance with the applicable accounting standards.

On average 53% of our trade receivables, including those off-balance sheet, are credit insured.

Quantitative disclosures on credit risk are included in note 16 of the group annual financial statements.

30. Related party transactions

Transactions between group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

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

US\$ million	Sales of goods			Purchases of goods			Amounts owed by related parties		Amounts owed to related parties	
	2012	2011	2010	2012	2011	2010	2012	2011	2012	2011
Joint ventures and associates:										
– Jiangxi Chenming ⁽¹⁾	0.4	1.1	1.1	0.2	0.7	0.6	–	–	–	1.8
– Sapin S.A.	0.6	0.8	0.5	28.3	35.1	22.1	–	0.1	1.6	3.9
– VOF Warmtekracht ⁽²⁾	–	–	10.8	–	–	7.1	–	–	–	–
– Umkomaas Lignin (Pty) Limited	8.2	6.5	5.6	0.3	0.4	0.3	1.0	0.8	–	–
– Papierholz Austria GmbH	–	–	–	96.0	105.1	90.5	–	–	5.3	0.2
– Energie Biberist AG ('EBAG') ⁽³⁾	–	–	–	5.6	31.1	38.6	–	–	–	1.1
	9.2	8.4	18.0	130.4	172.4	159.2	1.0	0.9	6.9	7.0

(1) The group disposed of its 34% shareholding in this entity during fiscal 2012.

(2) The entity was acquired by Sappi in fiscal 2010 and is fully consolidated into the group accounts.

(3) The group disposed of Sappi Schweiz AG during fiscal 2012. Sappi Schweiz AG held the 10% shareholding in EBAG.

Sales of goods and purchases to and from related parties were made on an arm's length basis. The amounts outstanding at balance sheet date are unsecured and will be settled in cash. Guarantees given by the group are disclosed in note 26. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Shareholders

The company's shares are widely held by shareholders across the world. The principal shareholders of the company are disclosed in this integrated report on page 46.

Broad-based Black Economic Empowerment ('BEE') transaction

Refer to notes 17 and 28 for details of the BEE transaction.

Key management personnel

Key management personnel include our executive directors and prescribed officers. The details of key management personnel, including emoluments, interests in contracts and participation in The Sappi Limited Share Incentive Trust ('Scheme') and The Sappi Limited Performance Share Incentive Trust ('Plan') are disclosed in notes 33 to 35.

31. Events after balance sheet date

On 09 November 2012, Sappi announced the commencement of an offer to repurchase the remaining €31 million of its senior secured notes due 2014. The offer has been accepted by 76% of the bond investors and the remaining amount has been called for repayment in December 2012.

32. Environmental matters

The group is subject to a wide range of environmental laws and regulations in the various jurisdictions in which it operates and these have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration for the group's businesses, and the group expects to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions such as carbon dioxide ('CO₂') and other greenhouse gases ('GHG'), wastewater discharges and solid and hazardous wastes. The group closely monitors the potential for changes in pollution control laws and take actions with respect to its operations accordingly.

North America

Sappi Fine Paper North America is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and their respective state counterparts and implementing regulations.

On 29 June 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the 'Commissioner'), issued a decision requiring Sappi Fine Paper North America to install a fish passage at the Cumberland Mills dam associated with the Westbrook mill, the most downriver dam on the Presumpscot River. Pursuant to a final order issued by the Commissioner, construction of the fish passage must be completed by 01 May 2013. Costs associated with construction and related engineering of this fish passage are estimated to be approximately US\$4 million to US\$5 million. The fish passage at the next dam upstream, the Saccarappa hydrofacility, must be operational two years after the Cumberland Mills dam fish passage is completed during the spring of 2015. Installation of the Cumberland Mills dam fish passage may also trigger, over a period of approximately ten years, the obligation to install fish passages for at least some of Sappi Fine Paper North America's other upstream hydrofacilities in order to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of all fish passages associated with Sappi Fine Paper North America's dams along the Presumpscot River is estimated to be in the range of approximately US\$18 million to US\$28 million. This estimate includes costs expected to be incurred in the next several years for the fish passage on the Cumberland Mills dam and Saccarappa hydrofacility as well as estimated costs for the upstream fish passages which may be incurred in the future. As the construction of additional fish passages depends on several future contingencies, including the results of data gathering on fish populations in the river, Sappi Fine Paper North America does not know the precise timing for the incurrence of the related future costs, assuming such obligations are triggered.

The group closely monitors state, regional and federal GHG initiatives and other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol and has not yet adopted a federal programme for regulating GHG emissions, Congress has considered comprehensive federal legislation regarding climate change and various regional initiatives regarding emissions associated with climate change that are either in effect or proposed. In addition, the US Environmental Protection Agency ('USEPA') has finalised or proposed several rules relating to emissions reporting and emissions reductions, including rules issued in March 2011 known as 'Boiler MACT' which would establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers. In May 2011, the USEPA stayed the Boiler MACT rules until such time as the USEPA completes its reconsideration process or the various court proceedings are completed, whichever comes first. While a recent court decision has vacated the USEPA's stay of the rules, the USEPA has since issued a no action letter, indicating that it will not enforce technical violations of the Boiler MACT rule deadlines, at least until the earlier of 31 December 2012 or the effective date of the final reconsidered rules. It is not clear what the timing will be for completion or implementation of a revised rule. Capital expenditures, currently estimated to range between US\$10 million and US\$15 million, could be required for emissions control equipment at Sappi Fine Paper North America's mills in order to comply with the rules as proposed in March 2011 although the anticipated impact of the rules and the related costs may be subject to revision in the future, particularly in light of the on-going reconsideration process and litigation. The nature, scope and timing of any proposed legislation, including climate change legislation and other proposed rules regulating GHGs is highly uncertain and, currently, the group does not know what precise effect, if any, such legislation will have on its financial condition and operations.

Europe

The group's European facilities are subject to extensive environmental regulation in the various countries in which it operates. The air emissions, water discharges and pollution control requirements of the permits of our mill operations in the European Union are based on Best Available Techniques ('BAT'). These are defined in the BAT reference documents ('BREFs') of the Integrated Pollution Prevention and Control directive ('IPPC'). These documents are currently being revised but this exercise is taking longer than initially expected. The revised documents are expected to be adopted in early 2013.

Other laws and regulations that apply to all of the group's facilities in the European Union include:

- The national European laws that regulate the waste disposal framework and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, re-use and recycling (material or thermal) are the preferred waste management methods. Consequently most of the waste material generated at our facilities is recycled. The small share of waste material that is still placed in landfills is inert material (ash or building rubble).
- The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonise existing European and national regulations to provide better protection of human health and the environment is not directly applicable to the pulp and paper industry. It does, however, apply to a number of raw materials that we source. The group also registered some intermediate substances in its pulp production processes.
- A timber and timber product regulation adopted by the European Commission, the obligations of which, will also apply to the group's European operations. The requirements apply as from 03 March 2013. The group believes that it is well prepared for these new requirements as it has an effective certification and risk assessment system in place which allows the group to trace wood and timber material back to its source.
- An agreement with the national government in The Netherlands that we, together with other paper manufacturers, have signed to improve environmental management and further limit emissions.

The countries within which Sappi operates in Europe have all ratified the Kyoto Protocol and Sappi Fine Paper Europe has developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reductions cost effectively.

32. Environmental matters continued

South Africa

In Southern Africa, the environmental regulatory legal framework is still 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 the group operations are:

- The National Water Act that addresses the water shortages in South Africa and relates to the group's manufacturing and 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 authorisations 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 and has now replaced the 1965 Atmospheric Pollution Prevention Act. The new Act will impose 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 01 July 2009. The Waste Act regulates the use, re-use, recycling and disposal of waste and regulates waste management by way of a licensing system.
- The Kyoto Protocol: South Africa has ratified the Kyoto Protocol, which obligates signatory countries to take measures to reduce their greenhouse gas emissions through the initial commitment period. South Africa as a developing country does not presently have targets and timetable commitments. Obligations under the Kyoto Protocol have been extended by the member parties through a second commitment period which runs from 2013 until at least 2017.

The requirements under these statutes and commitments, predominantly with respect to air emissions from our mills, will result in additional capital and operating expenditures, some of which may be significant. Newly enacted legislation in South Africa typically provides for a phase-in period for new standards. As a result, the impact on the group's mills of new standards contained in the Air Quality Act and the Waste Act is expected to be distributed over the next three to eight years. The group is in frequent contact with regulatory authorities during the phasing in of these requirements, in an attempt to manage the transition period.

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

33. Directors' and prescribed officers' remuneration

Non-executive directors

Directors are normally remunerated in the currency of the country in which they live or work from. Their remuneration is converted into US Dollars (the group's reporting currency) at the average exchange rate prevailing during the reporting year. Directors' fees are established in local currencies to reflect market conditions in those countries.

Non-executive directors' fees reflect their services as directors and services on various sub-committees on which they serve. The quantum of committee fees depends on whether the director is an ordinary member or a chairman of the committee. Non-executive directors do not earn attendance fees, however, additional fees are paid for attendance at board meetings in excess of the five scheduled meetings per annum.

The chairman of the Sappi Limited board, receives a flat director's fee and does not earn committee fees.

Non-executive directors do not participate in any incentive schemes or plans of any kind.

In determining the fees for non-executive directors, due consideration is given to the fee practice of companies of similar size and complexity in the countries in which the directors are based.

33. Directors' and prescribed officers' remuneration continued

The extreme volatility of currencies, in particular the Rand/US Dollar exchange rate in the past few years, caused distortions of the relative fees in US Dollars paid to individual directors.

Non-executive directors' fees are proposed by the executive committee, agreed by the compensation committee, recommended by the board and approved at the annual general meeting by the shareholders.

US\$	2012			
	Board fees	Committee fees	Travel allowance	Total
M Feldberg ⁽¹⁾	87,290	55,410	12,000	154,700
J E Healey ⁽²⁾	14,535	27,333	6,000	47,868
D Konar	36,066	68,037	6,000	110,103
B Radebe	36,066	11,715	6,000	53,781
A N R Rudd	61,753	52,164	9,000	122,917
K Osar	58,140	51,470	15,000	124,610
J McKenzie	36,066	34,223	6,000	76,289
D C Cronje	263,252	–	6,000	269,252
N P Mageza	36,066	30,439	6,000	72,505
R Thummer	61,753	26,082	11,900	99,735
M V Moosa	36,066	7,810	6,000	49,876
M A Fallon	61,753	23,618	9,000	94,371
G P F Beurskens	61,753	47,746	9,000	118,499
	850,559	436,047	107,900	1,394,506

US\$	2011			
	Board fees	Committee fees	Travel allowance	Total
M Feldberg	84,750	53,800	11,600	150,150
J E Healey	56,450	99,020	11,600	167,070
D Konar	39,438	74,320	5,800	119,558
H C Mamsch ⁽³⁾	14,692	13,697	–	28,389
B Radebe	39,438	12,791	5,800	58,029
A N R Rudd	58,769	49,638	11,600	120,007
K Osar	56,450	28,500	11,600	96,550
J McKenzie	39,438	37,368	5,800	82,606
D C Cronje	287,449	–	5,800	293,249
N P Mageza	39,438	33,236	5,800	78,474
R Thummer	58,769	24,819	11,600	95,188
M V Moosa	39,438	–	5,800	45,238
M A Fallon ⁽⁴⁾	4,897	–	2,900	7,797
G P F Beurskens ⁽⁵⁾	–	–	–	–
	819,416	427,189	95,700	1,342,305

US\$	2010			
	Board fees	Committee fees	Travel allowance	Total
D C Brink ⁽⁶⁾	12,711	12,250	2,800	27,761
M Feldberg	66,600	49,183	14,000	129,783
J E Healey	55,100	75,000	14,000	144,100
D Konar	33,918	62,056	5,600	101,574
H C Mamsch	56,818	81,949	2,800	141,567
B Radebe	33,918	10,999	5,600	50,517
A N R Rudd	56,818	48,077	5,600	110,495
F A Sonn ⁽⁶⁾	8,479	2,750	2,800	14,029
K Osar	55,100	27,500	11,200	93,800
J McKenzie	33,918	27,860	5,600	67,378
D C Cronje	235,662	–	2,800	238,462
N P Mageza ⁽⁷⁾	25,438	18,572	2,800	46,810
R Thummer ⁽⁸⁾	37,879	11,206	2,800	51,885
M V Moosa ⁽⁹⁾	5,653	–	–	5,653
	718,012	427,402	78,400	1,223,814

(1) Retires at the end of December 2012.

(2) Retired in December 2011.

(3) Retired in December 2010.

(4) Appointed in September 2011.

(5) Appointed in October 2011.

(6) Retired in December 2009.

(7) Appointed in January 2010.

(8) Appointed in February 2010.

(9) Appointed in August 2010.

Notes to the group annual financial statements

for the year ended September 2012

33. Directors' and prescribed officers' remuneration continued

Executive directors

Our pay policy is to pay our executive directors a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

US\$	2012				
	Salary	Performance related remuneration ⁽¹⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
R J Boëtger ⁽²⁾	759,126	483,471	8,162	219,316	1,470,075
M R Thompson ⁽³⁾	354,001	228,274	111,106	180,086	873,467
S R Binnie ⁽⁴⁾	83,361	53,282	2,583	25,232	164,458
	1,196,488	765,027	121,851	424,634	2,508,000

US\$	2011				
	Salary	Performance related remuneration ⁽¹⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
R J Boëtger	806,887	669,438	8,011	234,772	1,719,108
M R Thompson	401,038	288,872	11,794	211,616	913,320
	1,207,925	958,310	19,805	446,388	2,632,428

US\$	2010				
	Salary	Performance related remuneration ⁽¹⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
R J Boëtger	710,148	908,619	7,605	206,244	1,832,616
M R Thompson	339,708	378,188	9,280	117,927	845,103
	1,049,856	1,286,807	16,885	324,171	2,677,719

(1) In fiscal 2011 and 2010, performance related remuneration disclosed related to the year in which payment was made. In fiscal 2012, the performance related remuneration for the comparative periods have been adjusted to reflect the performance related remuneration earned in each year. The performance related remuneration for fiscal 2012 has been estimated based on the current year's performance.

(2) R J Boëtger received a 6% increase on the South African portion, and a 4% increase on the off-shore portion of his salary.

(3) M R Thompson received a 10% salary increase on the South African portion, and 4% increase on the off-shore portion of his salary. M R Thompson retired in August 2012 after reaching the mandatory retirement age.

(4) S R Binnie was appointed in July 2012 as chief financial officer designate, and was appointed as chief financial officer and executive director at the end of August 2012.

Despite the salary increases, the weaker ZAR in the 2012 financial year meant that R J Boëtger and M R Thompson earned lower salaries in US Dollar terms.

Please see compensation report elsewhere in this report for further information.

33. Directors' and prescribed officers' remuneration continued

Details of directors' service contracts

The executive directors have service contracts with notice periods of two years or less. These notice periods are in line with international norms for executive directors.

None of the non-executive directors have service contracts with the company.

None of the directors have provisions for predetermined compensation on termination of their contracts exceeding two years' gross remuneration and benefits-in-kind.

Prescribed officers⁽¹⁾

As with our executive directors, our pay policy is to pay our prescribed officers a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

US\$	2012				
	Salary	Bonuses and performance related payments ⁽²⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	749,633	501,438	3,247	127,926	1,382,244
Officer 2	456,485	–	–	45,384	501,869
Officer 3	372,216	194,848	–	72,518	639,582
Officer 4	306,574	152,320	10,906	110,275	580,075
Officer 5	213,620	105,428	144,650	109,611	573,309
Officer 6	255,021	123,613	7,108	103,686	489,428
Officer 7	–	–	–	–	–
Officer 8	135,184	61,631	3,926	44,790	245,531
	2,488,733	1,139,278	169,837	614,190	4,412,038

US\$	2011				
	Salary	Bonuses and performance related payments ⁽²⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	772,280	–	3,487	131,898	907,665
Officer 2	423,659	964,674	–	39,145	1,427,478
Officer 3	368,734	262,560	6,417	68,789	706,500
Officer 4	335,280	196,394	10,940	125,399	668,013
Officer 5	304,108	164,569	10,792	150,704	630,173
Officer 6	264,440	166,502	9,045	94,342	534,329
Officer 7	658,738	–	595	70,030	729,363
	3,127,239	1,754,699	41,276	680,307	5,603,521

US\$	2010				
	Salary	Bonuses and performance related payments ⁽²⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	728,937	364,740	3,415	100,418	1,197,510
Officer 2	411,320	391,576	–	22,482	825,378
Officer 3	266,197	317,555	3,746	27,123	614,621
Officer 4	287,719	267,110	8,812	85,824	649,465
Officer 5	260,322	222,697	9,263	92,340	584,622
Officer 6	231,353	225,295	2,246	80,261	539,155
Officer 7	360,735	359,782	2,835	88,832	812,184
	2,546,583	2,148,755	30,317	497,280	5,222,935

(1) The prescribed officers of the group consist of M Gardner; R Hope (retired 30 June 2012); A Rossi; L Swartz; J Labuschagne (terminated 30 November 2011); M van Hoven; A Thiel and B Wiersum. They form the group executive committee together with the executive directors.

(2) In fiscal 2011 and 2010, performance related remuneration disclosed related to the year in which payment was made. In fiscal 2012, the performance related remuneration for the comparative periods have been adjusted to reflect the performance related remuneration earned in each year. The performance related remuneration for fiscal 2012 has been estimated based on the current year's performance.

Due to the weaker ZAR in the 2012 financial year, the prescribed officers earned lower salaries in US Dollar terms.

Notes to the group annual financial statements

for the year ended September 2012

34. Directors' and prescribed officers' interests

The following table sets out each director's and prescribed officer's interests in shares and other securities in Sappi Limited. For the purposes of this table, each director's and prescribed officer's interests include shares that are owned either directly or indirectly as well as those shares in which directors and prescribed officers have vested obligations to purchase or to repay loans in terms of the Sappi Limited Share Incentive Trust.

Director	2012			2011		
	Direct interests		Indirect interests	Direct interests		Indirect interests
	Beneficial	Vested obligations to purchase or repay loans	Beneficial	Beneficial	Vested obligations to purchase or repay loans	Beneficial
Non-executive directors						
R Thummer	7,542	–	–	7,542	–	–
M V Moosa ⁽¹⁾	–	–	626,998	–	–	626,998
Executive directors						
M R Thompson ⁽²⁾	34,612	–	–	20,517	39,600	–
R J Boöttger	140,307	–	–	122,038	–	–
Prescribed officers						
Officer 1	35,695	–	–	11,000	–	–
Officer 2	24,695	–	–	–	–	–
Officer 3	24,532	–	–	13,419	–	–
Officer 4	18,173	–	–	12,243	–	–
Officer 5	122,645	–	–	109,737	39,600	–
Officer 6	52,345	–	–	47,184	2,200	–
Officer 7	–	–	–	24,105	22,000	–
Officer 8	–	–	–	–	–	–
Total	460,546	–	626,998	367,785	103,400	626,998

(1) M V Moosa holds a 31.8% share of Lereko Investment (Pty) Ltd which holds a total of 1,971,693 Sappi Limited shares as part of the BEE transaction described in notes 17 and 28. M V Moosa was appointed a director of the company after the conclusion of the BEE transaction.

(2) In fiscal 2011, M R Thompson purchased 142,000 of the Sappi senior secured notes due 2014 at a total cost of €144,837.16. In August 2012, these notes were redeemed in terms of a compulsory redemption and termination of outstanding 2014 notes as part of the 2012 refinancing.

On 28 November 2012, M A Fallon purchased 5,000 Sappi shares at ZAR28.00 per share. Other than the aforementioned purchase of shares by M A Fallon, there has not been any changes in the direct or indirect beneficial interests of the directors and their associates between financial year-end and the date of this report.

Directors' interests in contracts

Meyer Feldberg, a non-executive director of the company, disclosed his role as senior advisor of Morgan Stanley & Co. Limited, a financial advisor to Sappi, and Morgan Stanley South Africa (Pty) Limited, a transaction sponsor to Sappi Limited.

Other than M Feldberg's role as senior advisor of Morgan Stanley & Co. Limited, M V Moosa's interest in the BEE transaction described above and in note 28, and M R Thompson's interest in the Senior Secured Notes due 2014, the directors have certified that they did not have any material interest in any significant transaction with either the company or any of its subsidiaries, other than those on a normal employment basis.

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

Changes in executive directors' and prescribed officers' share options, allocation shares and performance shares before fiscal year-end

Executive directors

	R J Boëtger		M R Thompson		Total 2012	Total 2011
	Allocated price	Number of shares	Allocated price	Number of shares	Number of shares	Number of shares
Outstanding at beginning of year						
Number of shares held		654,000		463,200	1,117,200	1,087,200
Issue 28a			ZAR47.08	39,600		
Issue 29			ZAR46.51	39,600		
Performance shares 32	ZAR11.06	110,000	ZAR11.06	88,000		
Performance shares 34		154,000		88,000		
Performance shares 35		195,000		120,000		
Performance shares 36		195,000		88,000		
Offered and accepted during the year						
Performance shares 36						283,000
Performance shares 37		200,000		70,000	270,000	
Paid for during the year						
Number of shares		(55,000)		(44,000)	(99,000)	(110,000)
Returned, lapsed and forfeited during the year						
Number of shares		(55,000)		(83,600)	(138,600)	(143,000)
Outstanding at end of year						
Number of shares held		744,000		405,600	1,149,600	1,117,200
Issue 29			ZAR46.51	39,600		
Performance shares 34		154,000		88,000		
Performance shares 35		195,000		120,000		
Performance shares 36		195,000		88,000		
Performance shares 37		200,000		70,000		

Performance shares are issued when all conditions per note 28 are met. The position of participants in regard to the rights offer is also explained in note 28.

Expiry dates

Issue 29	13 December 2012
Performance shares 34	22 December 2012
Performance shares 35	09 December 2013
Performance shares 36	03 December 2014
Performance shares 37	02 December 2015

Notes to the group annual financial statements

for the year ended September 2012

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

Prescribed officers

	Officer 1		Officer 2		Officer 3		Officer 4	
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares
Outstanding at beginning of year								
Number of shares held		384,000		412,600		246,200		266,800
Issue 28			ZAR47.08	11,000	ZAR47.08	1,980	ZAR47.08	33,000
Issue 28a								
Issue 29			ZAR46.51	17,600	ZAR46.51	4,620	ZAR46.51	33,000
Performance shares 32	ZAR11.06	88,000			ZAR11.06	39,600	ZAR11.06	41,800
Performance shares 33			ZAR11.06	88,000				
Performance shares 34		88,000		88,000		55,000		44,000
Performance shares 35		120,000		120,000		80,000		65,000
Performance shares 36		88,000		88,000		65,000		50,000
Offered and accepted during the year								
Performance shares 36								
Performance shares 37		105,000		105,000		100,000		87,500
Paid for during the year								
Number of shares		(44,000)		(44,000)		(19,800)		(20,900)
Returned, lapsed and forfeited during the year								
Number of shares		(44,000)		(55,000)		(21,780)		(53,900)
Outstanding at end of year								
Number of shares held		401,000		418,600		304,620		279,500
Issue 29			ZAR46.51	17,600	ZAR46.51	4,620	ZAR46.51	33,000
Performance shares 34		88,000		88,000		55,000		44,000
Performance shares 35		120,000		120,000		80,000		65,000
Performance shares 36		88,000		88,000		65,000		50,000
Performance shares 37		105,000		105,000		100,000		87,500

Performance shares are issued when all conditions per note 28 are met. The position of participants in regard to the rights offer is also explained in note 28.

Expiry dates

Issue 29	13 December 2012
Performance shares 34	22 December 2012
Performance shares 35	09 December 2013
Performance shares 36	03 December 2014
Performance shares 37	02 December 2015

Officer 5		Officer 6		Officer 7		Officer 8		Total 2012	Total 2011
Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Number of shares	Number of shares
	393,200		271,400		346,600		–	2,320,800	2,464,300
ZAR47.08	39,600	ZAR47.08	17,600	ZAR47.08	22,000				
ZAR46.51	39,600	ZAR46.51	30,800	ZAR46.51	28,600				
ZAR11.06	77,000	ZAR11.06	33,000	ZAR11.06	88,000				
	77,000		55,000		88,000				
	105,000		80,000		120,000				
	55,000		55,000						
	60,000		87,500		–		45,000	590,000	401,000
	(38,500)		(16,500)		(44,000)		–	(227,700)	(216,700)
	(78,100)		(34,100)		(66,000)		–	(352,880)	(327,800)
	336,600		308,300		236,600		45,000	2,330,220	2,320,800
ZAR46.51	39,600	ZAR46.51	30,800	ZAR46.51	28,600				
	77,000		55,000		88,000				
	105,000		80,000		120,000				
	55,000		55,000						
	60,000		87,500				45,000		

Notes to the group annual financial statements

for the year ended September 2012

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

Executive directors

Director		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
September 2012					
R J Boëttger	Performance Plan 32	12 December 2011	25,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	30,000	ZAR20.27	ZAR25.20
			55,000		
M R Thompson	Performance Plan 32	12 December 2011	20,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR20.27	ZAR25.20
			44,000		
September 2011					
R J Boëttger	Performance Plan 31a	10 August 2011	50,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 31a	10 August 2011	60,000	ZAR20.27	ZAR25.20
			110,000		

Prescribed officers

Prescribed officers		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
September 2012					
Officer 1	Performance Plan 32	12 December 2011	20,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR20.27	ZAR25.20
			44,000		
Officer 2	Performance Plan 32	12 December 2011	20,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR20.27	ZAR25.20
			44,000		
Officer 3	Performance Plan 32	12 December 2011	9,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	10,800	ZAR20.27	ZAR25.20
			19,800		
Officer 4	Performance Plan 32	12 December 2011	9,500	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	11,400	ZAR20.27	ZAR25.20
			20,900		
Officer 5	Performance Plan 32	12 December 2011	17,500	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	21,000	ZAR20.27	ZAR25.20
			38,500		
Officer 6	Performance Plan 32	12 December 2011	7,500	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	9,000	ZAR20.27	ZAR25.20
			16,500		
Officer 7	Performance Plan 32	12 December 2011	20,000	ZAR0.00	ZAR25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR20.27	ZAR25.20
			44,000		

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

Prescribed officers continued

Prescribed officers		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
September 2011					
Officer 1	Performance Plan	29 January 2011	25,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	29 January 2011	30,000	ZAR20.27	ZAR36.43
			55,000		
Officer 2	Performance Plan	20 December 2010	19,000	ZAR0.00	ZAR33.80
	Performance Plan Rights	20 December 2010	22,800	ZAR20.27	ZAR33.80
			41,800		
Officer 3	Performance Plan	31 May 2011	6,500	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	7,800	ZAR20.27	ZAR36.43
			14,300		
Officer 4	Performance Plan	31 May 2011	7,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	8,400	ZAR20.27	ZAR36.43
			15,400		
Officer 5	Performance Plan	31 May 2011	15,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	18,000	ZAR20.27	ZAR36.43
			33,000		
Officer 6	Performance Plan	31 May 2011	6,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	7,200	ZAR20.27	ZAR36.43
			13,200		
Officer 7	Performance Plan	31 May 2011	20,000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	24,000	ZAR20.27	ZAR36.43
			44,000		

Annexure A – Investments

at September 2012

Set out below are the more significant subsidiaries and joint ventures or those that have a loan with the holding company, Sappi Limited:

		Share capital	Effective holding		Book value of investment		Loan to subsidiary		Loan from subsidiary	
Investments in subsidiaries and joint ventures			2012 %	2011 %	2012 ZAR million	2011 ZAR million	2012 ZAR million	2011 ZAR million	2012 ZAR million	2011 ZAR million
Southern Africa										
Sappi Southern Africa (Pty) Ltd	O	ZAR12,026,250	100	100	1,944	1,915	1,714	1,674	–	–
Sappi Share Facilitation Company (Pty) Ltd	O	ZAR1,000	100	100	–	–	775	775	–	–
Usutu Forest Products Company Ltd	O	SZL10,000,000	100	100	–	–	–	–	–	–
Sappi Property Company (Pty) Ltd	P	ZAR7,000	100	100	–	–	–	–	–	–
Umkomaas Lignin (Pty) Ltd	JV	ZAR1,000	50	50	–	–	–	–	–	–
America										
SD Warren Company	O	US\$1,000	100	100	–	–	–	–	(3)	(20)
Sappi Cloquet LLC	O	– ⁽¹⁾	100	100	–	–	–	–	–	–
Europe										
Sappi Alfeld GmbH	O	€31,200,000	100	100	–	–	–	–	–	–
Sappi Austria Produktions GmbH and CoKG	O	€35,000	100	100	–	–	–	–	–	–
Sappi Deutschland GmbH	O	€25,565	100	100	–	–	–	–	–	–
Sappi Ehingen GmbH	O	€20,800,000	100	100	–	–	–	–	–	–
Sappi Esus Beteiligungsverwaltungs GmbH	H	€1,000,000	100	100	–	–	–	–	–	–
Sappi Europe SA	O	€15,130,751	100	100	–	–	–	–	(2)	(25)
Sappi Finland Oy	O	€2,500	100	100	–	–	–	–	–	–
Sappi Fine Paper plc	D	GBP50,000	100	100	1	1	–	–	–	–
Sappi Holding GmbH	H	€72,700	100	100	16,288	16,288	–	–	–	–
Sappi International SA	F	€1,200,603,930	100	100	–	–	40	38	–	–
Sappi Lanaken NV	O	€51,377,000	100	100	–	–	–	–	–	–
Sappi Lanaken Press Paper NV	O	€57,179,613	100	100	–	–	–	–	–	–
Sappi Maastricht BV	O	€31,992	100	100	–	–	–	–	–	–
Sappi Nijmegen BV	O	€59,037	100	100	–	–	–	–	–	–
Sappi Schweiz AG ⁽²⁾	O	CHF10,000	–	100	–	–	–	–	–	–
Sappi Stockstadt GmbH	O	€40,000	100	100	–	–	–	–	–	–
Sappi Papier Holding GmbH	O	€72,700	100	100	–	–	11	29	–	–
Sappi Trading Pulp AG	O	CHF100,000	100	100	–	–	–	–	–	–
PE Paper Escrow GmbH	F	€35,000	100	100	–	–	–	–	–	–
Sappi UK Ltd	O	GBP74,020,000	100	100	–	–	–	–	–	–
Asia										
Jiangxi Chenming Paper Co Ltd ⁽²⁾	JV	RMB1,424,160,000	–	34	–	–	–	–	–	–
Other										
Lignin Insurance Co Ltd	F	US\$656,000	100	100	3	3	–	–	–	–
Employee Share Participation Trusts					–	–	20	20	(20)	(59)
Various other companies					–	–	–	–	–	(6)
					18,236	18,207	2,560	2,536	(25)	(110)
Holding Companies	H									
Operating Companies	O									
Finance Companies	F									
Joint Venture	JV									
Dormant	D									
Property Holding	P									

(1) No issued share capital, only additional paid in capital of US\$14 million.

(2) Was sold in the 2012 financial year.

General definitions

ABET – adult basic education and training

AF&PA – American Forest and Paper Association

air dry tons ('ADT') – meaning dry solids content of 90% and moisture content of 10%

biofuels – organic material such as wood, waste and alcohol fuels, as well as gaseous and liquid fuels produced from these feedstocks when they are burned to produce energy

black liquor – is the spent cooking liquor from the pulping process which arises when pulpwood is cooked in a digester thereby removing lignin, hemicellulose and other extractives from the wood to free the cellulose fibres. The resulting black liquor is an aqueous solution of lignin residues, hemicellulose, and the inorganic chemicals used in the pulping process. Black liquor contains slightly more than half of the energy content of the wood fed into the digester.

bleached pulp – pulp that has been bleached by means of chemical additives to make it suitable for fine paper production

CEPI – Confederation of European Paper Industries

chemical oxygen demand ('COD') – the amount of oxygen required to break down the organic compounds in effluent

chemical cellulose – highly purified chemical pulp derived from wood, intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament. Also called dissolving wood pulp

chemical pulp – a generic term for pulp made from wood fibre that has been produced in a chemical process

CHP – combined heat and power

coated papers – papers that contain a layer of coating material on one or both sides. The coating materials, consisting of pigments and binders, act as a filler to improve the printing surface of the paper

coated mechanical – coated paper made from groundwood pulp which has been produced in a mechanical process, primarily used for magazines, catalogues and advertising material

coated woodfree – coated paper made from chemical pulp which is made from wood fibre that has been produced in a chemical process, primarily used for high end publications and advertising material

contractor – refers to an independent employer or self-employed person performing work for Sappi, excludes temporary or fixed-term employees

corrugating medium – paperboard made from chemical and semi-chemical pulp, or waste paper, that is to be converted to a corrugated board by passing it through corrugating cylinders. Corrugating medium between layers of linerboard form the board from which corrugated boxes are produced

COSO – the Committee of Sponsoring Organisations of the Treadway Commission

CSI and CSR – corporate social investment and corporate social responsibility

dissolving pulp – highly purified chemical pulp derived primarily from wood, but also from cotton linters intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament

dissolving wood pulp – highly purified chemical pulp derived from wood intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament. Also called chemical cellulose

elemental chlorine free ('ECF') – refers to bleaching sequences in which no chlorine is used

energy – is present in many forms such as solar, mechanical, thermal, electrical and chemical. Any source of energy can be tapped to perform work. In power plants, coal is burned and its chemical energy is converted into electrical energy. To generate steam, coal and other fossil fuels are burned, thus converting stored chemical energy into thermal energy

fibre – fibre is generally referred to as pulp in the paper industry. Wood is treated chemically or mechanically to separate the fibres during the pulping process

fine paper – paper usually produced from chemical pulp for printing and writing purposes and consisting of coated and uncoated paper

Forestry SA – largest forestry organisation representing growers of timber in South Africa

FSC – in terms of the Forest Stewardship Council ('FSC') scheme, there are two types of certification. In order for land to achieve FSC endorsement, its forest management practices must meet the FSC's ten principles and other assorted criteria. For manufacturers of forest products, including paper manufacturers like Sappi, Chain-of-Custody certification involves independent verification of the supply chain, which identifies and tracks the timber through all stages of the production process from the tree farm to the end product

full-time equivalent employee – the number of total hours worked divided by the maximum number of compensable hours in a full-time schedule as defined by law

Green-e® – an independent consumer protection programme created by the Centre for Resource Solutions for the sale of renewable energy and greenhouse gas reduction (www.green-e.org)

greenhouse gases ('GHG') – the GHGs included in the Kyoto Protocol are carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride

HFO – heavy fuel oil

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

JSE Limited – the main securities exchange in South Africa, previously known as the Johannesburg Stock Exchange

kraft paper – packaging paper (bleached or unbleached) made from kraft pulp

kraft pulp – chemical wood pulp produced by digesting wood by means of the sulphate pulping process

Kyoto Protocol – a document signed by over 160 countries at Kyoto, Japan in December 1997 which commits signatories to reducing their emission of greenhouse gases relative to levels emitted in 1990

liquor – white liquor is the aqueous solution of sodium hydroxide and sodium sulphide used to extract lignin during kraft pulping. Black liquor is the resultant combination of lignin, water and chemicals

Lost-Time Injury Frequency Rate ('LTIFR') = number of lost time injuries x 200,000 divided by man hours

linerboard – the grade of paperboard used for the exterior facings of corrugated board. Linerboard is combined with corrugating medium by converters to produce corrugated board used in boxes

managed forest – naturally occurring forests that are harvested commercially

market pulp – pulp produced for sale on the open market, as opposed to that produced for own consumption in an integrated mill

mechanical pulp – pulp produced by means of the mechanical grinding or refining of wood or wood chips

NBSK – Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, produced from coniferous trees (ie spruce, pine) in Scandinavia, Canada and northern USA. The price of NBSK is a benchmark widely used in the pulp and paper industry for comparative purposes

NGO – non-governmental organisation

natural/indigenous forest – pristine areas not used commercially

newsprint – paper produced for the printing of newspapers mainly from mechanical pulp and/or recycled waste paper

OHSAS – is an international health and safety standard aimed at minimising occupational health and safety risks firstly, by conducting a variety of analyses and secondly, by setting standards

packaging paper – paper used for packaging purposes

PAMSA – Paper Manufacturers Association of South Africa

PEFC – the world's largest forest certification system, the PEFC is focused on promoting sustainable forest management. Using multi-stakeholder processes, the organisation develops forest management certification standards and schemes which have been signed by 37 nations in Europe and other inter-governmental processes for sustainable forestry management around the world

plantation – tree farms

power – the rate at which energy is used or produced

pulpwood – wood suitable for producing pulp – usually not of sufficient standard for saw-milling

red data list – a global index of endangered species published by the World Conservation Union

release paper – embossed paper used to impart design in polyurethane or polyvinyl chloride plastic films for the production of synthetic leather and other textured surfaces. The term also applies to backing paper for self adhesive labels

sackkraft – kraft paper used to produce multiwall paper sacks

scope 1 and 2 GHG emissions – The Green House Gas Protocol defines scope 1 (direct) and scope 2 (indirect) emissions as follows:

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

silviculture costs – growing and tending costs of trees in forestry operations

SMMes – small, medium and micro enterprises

solid waste – dry organic and inorganic waste materials

Specialised Cellulose – the new name for the expanded operating division within Sappi which oversees the production and marketing of Sappi's dissolving wood pulp from Saiccor Mill as well as the dissolving wood pulp to be produced from the 2013 financial year at Ngodwana Mill and Cloquet Mill.

speciality paper – a generic term for a group of papers intended for commercial and industrial use such as flexible packaging, metallised base paper, coated bag paper, etc

specific – when data is expressed in specific form, this means that the actual quantity consumed during the year indicated, whether energy, water, emissions or solid waste, is expressed in terms of a production parameter. For Sappi, as with other pulp and paper companies, this parameter is air dry tons of saleable product

specific purchase energy – the term 'specific' indicates that the actual quantity during the year indicated, is expressed in terms of a production parameter. For Sappi, as with other pulp and paper companies, the parameter is air dry tons of product

Sustainable Forestry Initiative (SFI®) – the SFI® programme is a comprehensive system of objectives and performance measures which integrate the sustained growing and harvesting of trees and the protection of plants and animals

TAPPI – Technical Association of the Pulp and Paper Industry – for the worldwide pulp, paper, packaging, and converting industries

thermo-mechanical pulp – pulp produced by processing wood fibres using heat and mechanical grinding or refining wood or wood chips

tons – term used in this report to denote a metric ton of 1,000 kg

Total Chlorine-Free ('TCF') – refers to bleaching sequences in which no chlorine containing compounds such as chlorine dioxide are used

Total Suspended Solids ('TSS') – refers to matter suspended or dissolved in effluent

uncoated woodfree paper – printing and writing paper made from bleached chemical pulp used for general printing, photocopying and stationery, etc. Referred to as uncoated as it does not contain a layer of pigment to give it a coated surface

woodfree paper – paper made from chemical pulp

World Wide Fund for Nature ('WWF') – the world's largest conservation organisation, focused on supporting biological diversity

2011 refinancing – relates to the refinancing that we implemented in April 2011 which was comprised of the following transactions:

- the issuance of the 2018 and 2021 Notes;
- the redemption of the remaining US\$350 million 2012 Notes;
- to repay €200 million of the outstanding borrowings under our OeKB Term Loan Facility; and
- the increase of our existing, then undrawn revolving credit facility from €209 million to €350 million and maturity extension from 2012 to 2016

General financial definitions

acquisition – the acquisition of M-real's coated graphic paper business on 31 December 2008

acquisition date – the date on which control in respect of subsidiaries, joint control in joint ventures and significant influence in associates commences

associate – an entity, other than a subsidiary or joint venture, over which the group has significant influence over financial and operating policies

basic earnings per share – net profit for the year divided by the weighted average number of shares in issue during the year

commissioning date – the date that an item of property, plant and equipment, whether acquired or constructed, is brought into use

control – the ability, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefit from its activities. When assessing the ability to control an entity, the existence and effect of potential voting rights that are presently exercisable or convertible are taken into account

diluted earnings per share – is calculated by assuming conversion or exercise of all potentially dilutive shares, share options and share awards unless these are anti-dilutive

discount rate – this is the pre-tax interest rate that reflects the current market assessment of the time value of money for the purposes of determining discounted cash flows. In determining the cash flows the risks specific to the asset or liability are taken into account in determining those cash flows and are not included in determining the discount rate

disposal date – the date on which control in respect of subsidiaries, joint control in joint ventures and significant influence in associates ceases

fair value – the value for which an asset could be exchanged or a liability settled in a market related transaction

financial results – comprise the financial position (assets, liabilities and equity), results of operations (revenue and expenses) and cash flows of an entity and of the group

functional currency – the currency of the primary economic environment in which the entity operates

foreign operation – an entity whose activities are based or conducted in a country or currency other than that of the reporting entity

group – the group comprises Sappi Limited, its subsidiaries and its interest in joint ventures and associates

joint venture – an economic activity over which the group exercises joint control established under a contractual arrangement

operation – a component of the group:

- that represents a separate major line of business or geographical area of operation; and
- is distinguished separately for financial and operating purposes

presentation currency – the currency in which financial results of an entity are presented

qualifying asset – an asset that necessarily takes a substantial period (normally in excess of six months) to get ready for its intended use

recoverable amount – the amount that reflects the greater of the net selling price and the value in use that can be attributed to an asset as a result of its on-going use by the entity. In determining the value in use, expected future cash flows are discounted to their present values using the discount rate

related party – parties are considered to be related if one party directly or indirectly has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or is a member of the key management of Sappi Limited

segment assets – total assets (excluding deferred taxation and cash) less current liabilities (excluding interest-bearing borrowings and overdraft)

share-based payment – a transaction in which Sappi Limited issues shares or share options to group employees as compensation for services rendered

significant influence – the ability, directly or indirectly, to participate in, but not exercise control over, the financial and operating policy decisions of an entity so as to obtain economic benefit from its activities

Non-GAAP financial definitions

The group believes that it is useful to report certain non-GAAP measures for the following reasons:

- these measures are used by the group for internal performance analysis;
- the presentation by the group's reported business segments of these measures facilitates comparability with other companies in our industry, although the group's measures may not be comparable with similarly titled profit measurements reported by other companies; and
- it is useful in connection with discussion with the investment analyst community and debt rating agencies. These non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS

asset turnover (times) – sales divided by total assets

average – averages are calculated as the sum of the opening and closing balances for the relevant period divided by two

Black Economic Empowerment – as envisaged in the Black Economic Empowerment (BEE) legislation in South Africa

Black Economic Empowerment charge – represents the IFRS 2 non-cash charge associated with the BEE transaction implemented in fiscal 2010

capital employed – shareholders' equity plus net debt

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

current asset ratio – current assets divided by current liabilities

dividend yield – dividends per share, which were declared after year-end, in US cents divided by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate

earnings yield – earnings per share divided by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate

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

fellings – the amount charged against the income statement representing the standing value of the plantations harvested

headline earnings – as defined in circular 3/2012 issued by the South African Institute of Chartered Accountants, separates from earnings all separately identifiable re-measurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share

inventory turnover (times) – cost of sales divided by inventory on hand at balance sheet date

net assets – total assets less total liabilities

net asset value per share – net assets divided by the number of shares in issue at balance sheet date

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

net debt to total capitalisation – net debt divided by capital employed

net operating assets – total assets (excluding deferred taxation and cash and cash equivalents) less current liabilities (excluding interest-bearing borrowings and overdraft)

ordinary dividend cover – profit for the period divided by the ordinary dividend declared, multiplied by the actual number of shares in issue at period-end

ordinary shareholders' interest per share – shareholders' equity divided by the actual number of shares in issue at year-end

price/earnings ratio – the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate divided by earnings per share

ROCE – return on average capital employed. Operating profit excluding special items divided by average capital employed

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

RONOA – return on average net operating assets. Operating profit excluding special items divided by average net operating assets

SG&A – selling, general and administrative expenses

special items – special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash

total market capitalisation – ordinary number of shares in issue (excluding treasury shares held by the group) multiplied by the financial year-end closing prices on the JSE Limited converted to US cents using the closing financial year-end exchange rate

trade receivables days outstanding (including securitised balances) – gross trade receivables, including receivables securitised, divided by sales multiplied by the number of days in the year

Notice of annual general meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to what action you should take, please consult your stockbroker, banker, attorney, accountant or other professional advisor immediately.

Sappi Limited
(Registration No 1936/008963/06)
(‘Sappi’ or ‘the Company’)

The seventy-sixth annual general meeting of Sappi will be held in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg on Wednesday, 06 February 2013, at 14:00.

The following business will be transacted and, if deemed fit, the following resolutions will be passed with or without modification.

The record date on which shareholders must be recorded as such in the register maintained by the transfer secretaries of the company for the purposes of determining which shareholders are entitled to attend and vote at the annual general meeting is Friday, 01 February 2013.

1. Ordinary resolution number 1: Presentation of annual financial statements

Ordinary resolution number 1 is proposed to present the annual financial statements of the company for the year ended September 2012, including the directors’ report, the report of the auditors and the report of the audit committee.

“Resolved that the annual financial statements for the year ended September 2012 of the company, including the directors’ report, the report of the auditors and the report of the audit committee, be and are hereby received and accepted.”

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

2. Ordinary resolution number 2:

Confirmation of appointment of directors appointed subsequent to the last annual general meeting and subsequent to the financial year-end, and re-election of those directors.

Ordinary resolution number 2.1:

“Resolved that the appointment of Mr Stephen Robert Binnie with effect from 01 September 2012 is confirmed and as, in terms of the existing Memorandum of Incorporation of Sappi, he retires from office at the conclusion of the Annual General Meeting at which this resolution is considered, he is re-elected as a director of Sappi.”

For Mr Binnie’s personal details, refer to Note 1 under Notes on page 191.

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

3. Ordinary resolutions numbers 3.1 to 3.4:

Re-election of the directors retiring by rotation in terms of Sappi’s existing Memorandum of Incorporation.

The board has evaluated the performances of each of the directors who are retiring by rotation, and recommends and supports the re-election of each of them. For biographical details on those directors, refer to Note 2 under Notes on page 191.

It is intended that all the directors who retire by rotation will, if possible, attend the annual general meeting, either in person or by means of video conferencing.

In order for these resolutions to be adopted, in each case the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required:

Ordinary resolution number 3.1:

“Resolved that Dr Daniël Christiaan Cronjé is re-elected as a director of Sappi.”

Ordinary resolution number 3.2:

“Resolved that Mr Mohammed Valli Moosa is re-elected as a director of Sappi.”

Ordinary resolution number 3.3:

“Resolved that Mrs Karen Rohn Osar is re-elected as a director of Sappi.”

Ordinary resolution number 3.4:

“Resolved that Dr Rudolf Thummer is re-elected as a director of Sappi.”

4. Ordinary resolution number 4: Election of audit committee members

Ordinary resolution number 4 is proposed to elect the members of the audit committee in terms of section 94(2) of the South African Companies Act, 71 of 2008 (as amended) (‘the Companies Act’) and the King Report on Corporate Governance for South Africa (‘King III’).

Section 94 of the Companies Act requires that, at each annual general meeting, shareholders of the company must elect an audit committee comprising at least three members.

The nomination and governance committee conducted an assessment of the performance and independence of each of the directors proposed to be members of the audit committee and the board considered and accepted the findings of the nomination and governance committee. The board is satisfied that the proposed members meet the requirements of section 94(4) of the Companies Act, that they are independent according to King III and that they possess the required qualifications and experience as prescribed in Regulation 42 of the Companies Act Regulations, 2011, which requires that at least one-third of the members of a company’s audit committee at any particular time must have academic qualifications or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

No changes are proposed to the membership of the committee as elected in 2012.

Brief biographical notes of each member of the audit committee are included in the biographies of all directors on pages 30 to 32 of the integrated report.

"Resolved that an audit committee be and is hereby elected, by separate election to the committee of the following independent directors:

4.1 Dr Deenadayalen Konar	Chairman
4.2 Mr Godefridus Peter Franciscus Beurskens	Member
4.3 Mr Michael Anthony Fallon	Member
4.4 Mr Nkateko Peter Mageza	Member
4.5 Mrs Karen Rohn Osar	Member*

in terms of the Companies Act of South Africa, to hold office until the conclusion of the next annual general meeting and to perform the duties and responsibilities stipulated in section 94(7) of the Companies Act and in King III and to perform such other duties and responsibilities as may from time to time be delegated to it by the board."

In order for these resolutions to be adopted, the in each case support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolutions is required.

* Subject to her re-election as a director pursuant to ordinary resolution number 3.3.

5. Ordinary resolution number 5: Re-appointment of auditors

The board has evaluated the performance of Deloitte & Touche and recommends and supports their re-appointment as auditors of Sappi.

"Resolved to re-appoint Deloitte & Touche (with the designated registered auditor currently being Mr R C Campbell) as the auditors of Sappi Limited for the financial year ending September 2013 and to remain in office until the conclusion of the next annual general meeting."

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

6. Ordinary resolutions number 6.1 and 6.2: Provision of Sappi shares required by the Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust

The passing of resolutions 6.1 and 6.2 will enable the directors to continue to meet the share requirements of The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust (collectively 'the Schemes'), both of which Schemes were approved by shareholders, are already in place and are subject to the Listings Requirements of the JSE Limited. The passing of resolution 6.2 will provide directors with the flexibility to utilise shares repurchased from time to time by a wholly-owned subsidiary of Sappi and held in treasury by the subsidiary company, for the purposes of satisfying the share requirements of the Schemes, at times when the directors consider that to be more efficient than issuing new shares in the capital of Sappi.

In terms of the Schemes the combined maximum number of shares that can be issued pursuant to both the Schemes is 42,700,870 shares (being 7.89% of the issued ordinary share capital of Sappi at 30 September 2012) of which 14,664,815 shares have already been issued to, or transferred to the Schemes, leaving a balance of up to

28,036,055 shares which could still need to be issued or transferred to the Schemes.

Some shareholders and their advisors commented earlier in the year about the company's practice of continuing to allocate share options to participants of the Sappi Limited Share Incentive Scheme, the vesting of which options begins one year after allocation and is not subject to any performance criteria. Following these comments, it has been decided to discontinue the allocation of options. Instead, for 2012 and thereafter, only allocations of performance share plan awards (whose vesting is after four years of allocation subject to meeting certain performance criteria), will be made to all eligible participants in the Schemes. Because of the higher value of performance share plan awards to participants, compared to the value of options, although the number of participants who are allocated performance share awards in 2012 and thereafter, will increase, the total number of shares forming the annual allocations will be less. The total number of participants will continue to be similar to previous levels.

Ordinary resolution number 6.1:

"Resolved as an ordinary resolution that all the ordinary shares required for the purpose of carrying out the terms of The Sappi Limited Performance Share Incentive Trust (the 'Plan'), other than those which have specifically been appropriated for the Plan in terms of ordinary resolutions duly passed at previous general meetings of Sappi, be and are hereby specifically placed under the control of the directors who be and are hereby authorised to allot and issue those shares in terms of the Plan."

Ordinary resolution number 6.2:

"Resolved as an ordinary resolution that any subsidiary of Sappi ('Subsidiary') be and is hereby authorised in terms of the Listings Requirements of the JSE Limited to sell at the price at which the participant is allowed to acquire the company's shares and to transfer to The Sappi Limited Share Incentive Trust and/or The Sappi Limited Performance Share Incentive Trust (collectively 'the Schemes') those numbers of Sappi's shares acquired by that Subsidiary from time to time but not exceeding the maximum number of Sappi's shares available to the Schemes as may be required by the Schemes when a participant to whom Sappi's shares will be allocated has been identified."

In order for these resolutions to be adopted, the in each case support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

7. Ordinary resolution number 7: Remuneration policy

"Resolved as an ordinary resolution, that the company's remuneration policy as contained in the compensation report on pages 83 to 91 of the annual report, be and is hereby endorsed by way of a non-binding advisory vote."

This non-binding advisory vote is being proposed in accordance with the recommendations of King III.

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

8. Special resolution number 1: Non-executive directors' fees*

"Resolved that, with effect from 01 October 2012 and until otherwise determined by Sappi in general meeting, the remuneration of the non-executive directors for their services shall be increased as follows:

	From	To
1. Sappi board fees		
Chairperson	ZAR2,120,000**	ZAR2,247,200**
<i>** Inclusive of all committee fees.</i>		
Lead independent director		
If South African resident	ZAR434,600	ZAR460,675
If European resident	GBP58,760	GBP60,670
If USA resident	US\$87,290	US\$89,910
Other directors		
If South African resident	ZAR290,440	ZAR307,865
If European resident	GBP39,160	GBP40,430
If USA resident	US\$58,140	US\$59,885

	From	To
2. Audit committees		
Group committee		
Chairperson		
If South African resident	ZAR301,570	ZAR319,665
If European resident	GBP39,730	GBP41,020
If USA resident	US\$60,260	US\$62,065
Other members		
If South African resident	ZAR150,790	ZAR159,835
If European resident	GBP19,970	GBP20,620
If USA resident	US\$29,360	US\$30,240
Regional audit committees		
Chairperson		
If South African resident	ZAR38,000	ZAR40,280
	per meeting	per meeting
If European resident	GBP5,100	GBP5,265
	per meeting	per meeting
If USA resident	US\$7,370	US\$7,590
	per meeting	per meeting

	From	To
3. Human resources and compensation committee, nomination and governance committee, social, ethics, sustainability and transformation committee and any other committees		
Chairperson		
If South African resident	ZAR181,260	ZAR192,135
If European resident	GBP23,610	GBP24,375
If USA resident	US\$34,400	US\$35,430
Other members		
If South African resident	ZAR94,340	ZAR100,000
If European resident	GBP16,540	GBP17,080
If USA resident	US\$21,010	US\$21,640

	From	To
4. Additional meeting fees for board meetings in excess of five meetings per annum (whether attended in person or by teleconference/videoconference)		
If South African resident	ZAR29,100	ZAR30,845
	per meeting	per meeting
If European resident	GBP3,870	GBP3,995
	per meeting	per meeting
If USA resident	US\$5,810	US\$5,985
	per meeting	per meeting
Travel compensation (increase of 3.33%)		
For more than 10 flight hours return	US\$3,000	US\$3,100
	per meeting	per meeting

* Fees per annum unless otherwise indicated.

Sappi's practice, as recorded previously, is to review directors' fees annually. Special resolution number 1 increases the remuneration currently paid to non-executive directors and board committee members by between approximately 3% and 6% per annum depending generally on the domicile of the directors and the currency in which they are paid, with effect from 01 October 2012. The fees were last increased with effect from 01 October 2011 and have been reviewed to ensure that Sappi's fees remain generally comparable with those of its peer companies in the various countries in which its directors are domiciled.

The review also takes into account that the responsibility of non-executive directors continues to increase substantially flowing from legislative, regulatory and corporate governance developments and requirements in South Africa and elsewhere.

It was decided during the year to align payment of the fees with common practice in South Africa and pay the fees quarterly and not half-yearly, as had previously been Sappi's practice. Fees are now paid quarterly (in March, June, September and December each year) and the proposed increase, if approved, will be applicable to payments to be made in December 2012 onwards. Initially the December 2012 payment will be made on the basis of the existing fee structure, and following shareholder approval of the proposed increases, the shortfall in the December 2012 payment will be made up in the March 2013 payment.

The practice has been and will continue to be that directors' fees and board fees are paid to non-executive directors only.

In order for this resolution to be adopted, the support of at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

9. Special resolution number 2: Loans or other financial assistance to related or inter-related companies

The Companies Act provides, among other things, that, except to the extent that the Memorandum of Incorporation of a company provides otherwise, the board may authorise the company to provide direct or indirect financial assistance (which includes lending money, guaranteeing a loan or other obligation and securing any debt or obligation) to a related or inter-related company or corporation, provided that such authorisation shall be made pursuant to a special resolution of the shareholders adopted within the previous two years, which approved such assistance either for the specific recipient or generally for a category of potential recipients and the specific recipient falls within that category.

"Resolved that the directors of the company be and are hereby authorised, in accordance with the Companies Act, to authorise the company to provide direct or indirect financial assistance to any company which is related or inter-related to the company."

In order for this resolution to be adopted, the support of at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

10. Special resolution number 3: Adoption of new Memorandum of Incorporation

The purpose of this resolution is to adopt a new Memorandum of Incorporation that is in line with the provisions of the Companies Act and the Listings Requirements of JSE Limited (the 'JSE') as more fully explained in the annexure to notice of annual general meeting on page 192.

"Resolved that the company's existing Memorandum and Articles of Association be and are hereby cancelled in their entirety and that in place thereof the company adopts the new Memorandum of Incorporation, a copy of which has been labelled for identification purposes and tabled at this annual general meeting."

A copy of the proposed new Memorandum of Incorporation will be available on the company's website (www.sappi.com) and copies will also be available for inspection at the company's registered office from the date of sending this notice of annual general meeting up to and including the date of the annual general meeting.

The annexure on page 192 sets out the salient features of the new Memorandum of Incorporation of the company to be adopted in terms of this special resolution.

In order for this resolution to be adopted, the support of at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

11. Ordinary resolution number 8: Signature of documents

"Resolved that any director of Sappi is authorised to sign all such documents and do all such things as may be necessary for or incidental to the implementation of the resolutions passed at the annual general meeting held on 06 February 2013 or any adjournment thereof."

In order for this resolution to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution is required.

12. To receive a report from the social and ethics committee

Shareholders are referred to the social, ethics, transformation and sustainability committee report on page 94.

Proxies

A shareholder is entitled to appoint one or more proxies to attend, speak and on a poll to vote in his stead. A proxy need not be a shareholder. For the convenience of shareholders, a form of proxy is enclosed.

The attached form of proxy is only to be completed by a shareholder who holds Sappi shares in certificated form or has dematerialised his shares (ie has replaced the paper share certificates with electronic records of ownership under JSE's electronic settlement system (Strate Limited) and is recorded in the sub-register in 'own name' dematerialised form (ie a shareholder who has specifically instructed his Central Securities Depository Participant ('CSDP') or broker to hold his shares in his own name on Sappi's sub-register).

A shareholder who has dematerialised his shares and who is not registered as an 'own name' dematerialised shareholder and who wishes to:

- attend the annual general meeting must instruct his CSDP or broker to provide him with a letter of representation to enable him to attend such meeting; or
- vote but not to attend the annual general meeting, must provide his CSDP or broker with his voting instructions in terms of the relevant custody agreement between him and his CSDP or broker.

Such a shareholder must not complete the attached form of proxy.

When authorised to do so, CSDPs or brokers recorded in Sappi's sub-register or their nominees should vote either by appointing a duly authorised representative to attend and vote at the annual general meeting to be held on 06 February 2013 or any adjournment thereof or by completing the attached form of proxy and returning it to one of the addresses indicated on the form of proxy in accordance with the instructions thereon.

Electronic participation by shareholders

Should any shareholder (or any proxy for a shareholder) wish to participate in the annual general meeting by way of electronic participation, that shareholder should make application in writing (including details as to how the shareholder or its representative (including its proxy) can be contacted) to so participate to the transfer secretaries, at their address as reflected on page 197, to be received by the transfer secretaries at least five business days prior to the annual general meeting in order for the transfer secretaries to arrange for the shareholder (or its representative or proxy) to provide reasonably satisfactory identification to the transfer secretaries for the purposes of section 63(1) of the Companies Act and for the transfer secretaries to provide the shareholder (or its representative) with details as to how to access any electronic participation to be provided. The company reserves the right to elect not to provide for electronic participation at the annual general meeting in the event that it determines that it is not practical to do so. The costs of accessing any means of electronic participation provided by the company will be borne by the company.

It should be noted, however, that voting will not be possible via the electronic facilities and for shareholders wishing to vote, their shares will need to be represented at the meeting either in person, by proxy or by letter of representation, as provided for in the notice of meeting.

Questions

The board encourages shareholders to attend and to ask questions at the annual general meeting. In order to facilitate the answering of questions at the meeting, shareholders who wish to ask questions in advance are encouraged to submit their questions in writing to the group secretary by 17:00 on Monday, 04 February 2013 at:

7th Floor
48 Ameshoff Street
Braamfontein
Johannesburg 2001

or

PO Box 31560
Braamfontein
2017

or

By e-mail to Denis.OConnor@sappi.com

Sappi Southern Africa (Pty) Limited

Secretaries: per D J O'Connor
48 Ameshoff Street
Braamfontein
Johannesburg 2001
10 December 2012

Notes

1. Confirmation of appointment of directors appointed since the last annual general meeting and subsequent to the year-end, and the re-election of these directors

Stephen Robert Binnie

(Executive)

Age: 45

Qualifications: BCom, BAcc, CA(SA), MBA

Nationality: British

Appointment: September 2012

Sappi board committee memberships

(Attends audit committee meetings by invitation)

Skills, expertise and experience

Mr Binnie joined Sappi in July 2012 as chief financial officer designate and was appointed chief financial officer and executive director from 01 September 2012. Prior to joining Sappi, he held various senior finance roles and was most recently chief financial officer of Edcon (Pty) Limited for ten years after having been financial manager at Investec Bank Limited for four years.

2. Directors retiring by rotation who are seeking re-election

Daniël (Danie) Christiaan Cronjé

(Independent)

Age: 66

Qualifications: BCom (Hons), MCom, DCom

Nationality: South African

Appointed: January 2008

Sappi board committee memberships

Nomination and governance committee (chairman)
(Attends audit committee meetings, human resources and compensation committee meetings and social, ethics, transformation and sustainability committee meetings ex officio)

Other board and organisation memberships

Die Dagbreek Trust (chairman)

Skills, expertise and experience

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

Mohammed Valli (Valli) Moosa

(Non-executive)

Age: 55

Qualifications: BSc (Mathematics)

Nationality: South African

Appointed: August 2010

Sappi board committee memberships

Social, ethics, transformation and sustainability committee

Other board and organisation memberships

Auditor General's Advisory Committee (South Africa)
Anglo Platinum Limited (deputy chairperson and lead independent director)
Imperial Holdings Limited
Lereko Investments (Pty) Ltd and various other associate companies of Lereko Investments (Pty) Ltd

Real Africa Holdings Limited (chairman)

Sanlam Limited

Sun International Limited (chairman)

Skills, expertise and experience

Mr Moosa is currently the deputy chairman of Lereko Investments (Pty) Ltd, Sappi's Strategic Black Economic Empowerment partner. He has held numerous leadership positions across business, government, politics and civil society in South Africa. His previous positions include South African Minister of Environmental Affairs and Tourism; president of the International Union for the Conservation of Nature; and chairman of the UN Commission for Sustainable Development, and he was a long serving National Executive Committee member of the African National Congress.

Karen Rohn Osar

(Independent)

Age: 63

Qualifications: MBA, Finance

Nationality: American

Appointed: May 2007

Sappi board committee memberships

Audit committee

Other board and organisation memberships

Innophos Holdings, Inc (also chairperson of audit committee)
Webster Financial Corporation (also chairperson of audit committee).

Skills, expertise and experience

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

Dr Rudolf Thummer

(Independent)

Age: 65

Qualifications: Dr Techn, Dipl-Ing

Nationality: Austrian

Appointed: February 2010

Sappi board committee memberships

Social, ethics, transformation and sustainability committee

Skills, expertise and experience

Dr Thummer joined the Sappi board after having served many years in the pulp and paper industry. He joined Hannover Papier in 1979 (later purchased by Sappi) as manager of research and development. In 1982, he became the Paper Mill manager at Alfeld Mill. In 1990, he was appointed technical director of Alfeld Mill. In 1992, Dr Thummer became an executive board member of the Hannover Papier Group, responsible for Manufacturing at the Alfeld and Ehingen Mills. In 1998, he moved to Sappi Fine Paper Europe based in Brussels as technical director and executive board member. He served as group head technology of Sappi Limited from 01 January 2006 up to his retirement at the end of December 2007.

Annexure to notice of annual general meeting: Explanatory note to special resolution number 3 and salient features of the Memorandum of Incorporation of the company

As explained below, the company wishes to adopt a new Memorandum of Incorporation ('MOI').

The Companies Act came into effect on 01 May 2011. In terms of the Transitional Arrangements set out in Schedule 5 to the Companies Act, companies were given a two-year period until 30 April 2013 to bring their Memorandum and Articles of Association in harmony with the Companies Act. During this two-year period, if there is a conflict between a provision of the Companies Act and a provision of a pre-existing company's Memorandum and Articles of Association, the provision of the company's Memorandum and Articles of Association prevails. After this two-year period, any provision of the Memorandum and Articles of Association that is inconsistent with the provisions of the Companies Act, shall be void and unenforceable to the extent of the inconsistency. Accordingly, the company wishes to adopt a new MOI which is consistent with the Companies Act.

The approach that was followed in drafting the MOI was to keep the MOI simple and let the provisions of the Companies Act govern the company's affairs, save for those specific instances where there was a need to alter an alterable provision of the Companies Act, or where an alteration was required by the JSE Listings Requirements. The company believes that it is unnecessary and undesirable to repeat, in the MOI, the provisions of the Companies Act that would apply to a company unless the provision is intended to alter an alterable provision or impose a higher standard than an alterable provision.

The MOI provides that the company is a public company. Accordingly, the company is not prohibited from offering its securities to the public and the transfer of the company's securities is unrestricted save as set out in the MOI.

The first part of the MOI (paragraph 3) deals with general matters. In regard to amendments to the MOI, the MOI states that the requirements set out in the Companies Act regarding proposals for amendments to the MOI apply without amendment and any amendment of the MOI, including an amendment for the change of name of the company, must be approved by special resolution of the shareholders of the company who are entitled to exercise voting rights on the resolution unless such amendment is ordered by a court in terms of section 16(1)(a) and 16(4) of the Companies Act. The MOI provides that the powers of the company are not restricted and that the board shall not have the power to make, amend or repeal any necessary or incidental rules relating to the governance of the company, as required by the JSE Listings Requirements. The MOI also provides for the authority of the board to authorise the company to provide direct or indirect financial assistance to any person contemplated in section 45 of the Companies Act and that the solvency and liquidity test set out in section 4 of the Companies Act apply without amendment.

Paragraph 4 of the MOI deals with the securities of the company and provides that all securities of each class rank *pari passu* in all respects. The MOI deals with the authorisation of shares as follows:

The MOI provides that the company is authorised to issue the shares specified in Schedule 1 to the MOI, provided that, if required by the Companies Act or the JSE Listings Requirements, the company may only issue:

- unissued shares to shareholders of a particular class of shares, pro rata to the shareholders existing shareholding, unless any such shares were issued for an acquisition of assets;
- unissued shares or grant options, to subscribe for cash, as the directors in their discretion think fit, if approved by the shareholders at a shareholders meeting, subject to the JSE Listings Requirements; and
- shares that are fully paid up.

For so long as is required by the JSE Listings Requirements, any amendment to the MOI to:

- increase or decrease the number of authorised shares of any class of shares;
- reclassify any shares that have been authorised but not issued;
- classify any unclassified shares that have been authorised but not issued;
- determine the preferences, rights, limitations or other terms of any class of authorised shares or amend any preferences, rights, limitations or other terms so determined;
- create any class of shares;
- convert one class of shares into one or more other classes;
- consolidate or sub-divide securities, and

must be approved by special resolution of ordinary shareholders, save where such an amendment is ordered by a court in terms of sections 16(1)(a) and 16(4) of the Companies Act.

In regard to capitalisation shares, the MOI does not limit, restrict or qualify the authority of the board, in terms of section 47 of the Companies Act, to:

- approve the issue of any authorised shares of the company as capitalisation shares, on a pro rata basis to the shareholders of one or more classes of shares;
- approve the issue of shares of one class as capitalisation shares in respect of shares of another class; or
- permit shareholders to elect to receive a cash payment in lieu of a capitalisation share or a scrip dividend (as defined in the JSE Listings Requirements), at a value determined by the board.

In regard to financial assistance for the subscription or purchase of shares, share buy-backs and debt instruments, the MOI does not limit, restrict or qualify the authority of the board to take those actions, subject to compliance with the requirements of the Companies Act and the JSE Listings Requirements. For so long as required by the JSE Listings Requirements, no repayment of capital to shareholders shall be made on the basis that it may be called up again and dividends must be payable to shareholders registered as at the date subsequent to the date of declaration of the dividend.

The MOI provides for the registration of the company's issued securities in the name of one person for the beneficial interest of another without limitation or restriction.

The MOI provides that the company may pay commission to any person in consideration of such person subscribing, or agreeing to subscribe, for any shares of the company or of such person procuring, or agreeing to procure, subscriptions for shares, provided that such commission shall be subject to any limitations in the Companies Act or the JSE Listings Requirements.

The MOI provides that all authorities to sign transfer deeds granted by holders of shares for the purpose of transferring shares that may be lodged, produced or exhibited with or to the company at any of its transfer offices shall, as between the company and the grantor

of such authorities, be taken and deemed to continue and remain in full force and effect, and the company may allow the same to be acted upon until such time as express notice in writing of the revocation of the same shall have been given and lodged at the company's transfer offices at which the authority was lodged, produced or exhibited. Even after the giving and lodging of such notices, the company shall be entitled to give effect to any instruments signed under the authority to sign, and certified by any officer of the company, as being in order before the giving and lodging of such notice.

The MOI provides that shares shall not be subject to any lien in favour of the company and that no securities registered in the name of a deceased or insolvent holder shall be forfeited if the executor fails to register them in his own name or in the name of the heir(s) or legatees when called upon by the directors to do so.

The MOI provides that the holders of any securities other than ordinary shares and any special shares created for the purposes of Black Economic Empowerment ('special shares') shall not be entitled to vote on any resolution taken by the company save as expressly provided for in the MOI. The MOI also provides that, for so long as this is required by the JSE Listings Requirements, in instances where shareholders other than ordinary shareholders and holders of special shares are allowed to vote at shareholders meetings or annual general meetings, their votes may not carry any special rights or privileges and they shall be entitled to one vote for each share that they hold, provided their total voting rights at a shareholders meeting or annual general meeting may not exceed 24.99% of the total voting rights of all shareholders at such meeting. The MOI records that the existing rights of the holders of 'A' ordinary shares in the company are preserved.

Paragraph 5 of the MOI deals, *inter alia*, with shareholder rights and proxy forms. Paragraph 5 provides that the MOI does not establish information rights of any person in addition to the information rights set out in the Companies Act. Paragraph 5 also deals with proxy forms and their delivery not less than 48 hours before the time appointed for the holding of the meeting and confirms shareholders' entitlement to appoint proxies. As required by the JSE Listings Requirements, this part also deals with the record date for meetings and confirms that the record date must be determined in accordance with the Companies Act and the JSE Listings Requirements.

Paragraph 6 of the MOI deals with shareholders meetings. This paragraph also deals with the convening of shareholders meetings, shareholders' rights to requisition meetings, the location of shareholders' meetings, notice of shareholders' meetings, all in accordance with the Companies Act and the JSE Listings Requirements. The MOI provides that the period of notice of shareholders meetings prescribed by the Companies Act, being 15 business days, applies. Notice of shareholders meetings must be delivered to each shareholder entitled to vote at such meeting and who has elected to receive such notice and for so long as required by the JSE Listings Requirements. A copy of the annual integrated financial statements must be distributed to shareholders together with the notice. This paragraph also provides for shareholders' meetings to be conducted by electronic communication.

In regard to the quorum for shareholders' meetings the MOI provides as follows:

- the percentage of voting rights specified in terms of section 64(1) of the Companies Act:

- being at least 25% of all of the voting rights that are entitled to be exercised in respect of at least one matter to be decided at the meeting apply for a shareholders' meeting to begin; and
- being at least 25% of all the voting rights that are entitled to be exercised on that matter at the time the matter is called on the agenda, apply for the consideration of any matter to be decided at any shareholders meeting.
- For so long as is required by the Companies Act and/or the JSE Listings Requirements, a meeting may not begin or a matter begin to be debated unless at least 3 (three) shareholders are present at the meeting.

The MOI also deals with the adjournment of shareholders' meetings and the approval of shareholders' resolutions in respect of which the normal percentages set out in the Companies Act and the JSE Listings Requirements apply. There shall be no higher percentage of voting rights required to approve an ordinary resolution than the percentage voting rights specified in the Companies Act, provided that resolutions required to be approved by an increased majority in terms of the JSE Listings Requirements must be approved by such increased majority. There shall be no different percentage of voting rights required to approve a special resolution than the percentage voting rights of 75% specified in the Companies Act. A special resolution is only required for matters contemplated in section 65(11) of the Companies Act.

Shareholders' meetings that are called for the purpose of passing any resolution required in terms of the JSE Listings Requirements may not be voted on in writing as provided for in section 60 of the Companies Act.

A copy of all notices of shareholders' meetings must be sent to the JSE at the same time as notices are sent to shareholders if required in terms of the JSE Listings Requirements. All notices of shareholders' meetings must also be announced through the official news service of the JSE at the same time as notices are sent to shareholders, or as soon thereafter as is practicable.

Any resolution for the ratification of any action by the company or the directors contemplated by section 20(2) of the Companies Act shall be prohibited if such ratification is of an action which is contrary to the JSE Listings Requirements, unless otherwise agreed with the JSE.

Paragraph 7 of the MOI deals with the composition of the board and specifies four as the minimum number of directors as prescribed by the JSE Listings Requirements in substitution for the minimum number of directors required in terms of section 66(2) of the Companies Act. The MOI sets 20 as the maximum number of directors. The shareholders shall elect the directors, and shall be entitled to elect one or more alternate directors, in accordance with the provisions of section 68(1) of the Companies Act. This paragraph also specifically provides for a direct appointment right by the chairman of the board, subject to the written approval of the majority of the directors, provided that such appointment must be approved by the shareholders at the next shareholders' meeting or annual general meeting.

The MOI does not stipulate any additional qualifications or eligibility requirements than those set out in the Companies Act or the JSE Listings Requirements for a person to become or remain a director or a prescribed officer of the company; provided that, for as long as the JSE Listings Requirements require it, the board, through its committee delegated responsibility to consider nominations, should recommend eligibility of directors.

The MOI provides that at every annual general meeting of the company, one-third of the directors for the time being or, if their number is not a multiple of three, then the number nearest to, but not less than one-third or if there are less than three, then all the directors shall retire from office. The directors so to retire at every annual general meeting shall be those who have been longest in office since their last election. As between directors of equal seniority, the directors so to retire shall, unless they otherwise agree among themselves, be selected by lot; provided that:

- if at the date of any annual general meeting any director shall have held office for a period of three years since his last election or appointment (computed from his last election, appointment or date upon which he was deemed re-elected), he shall retire at such meeting;
- a director who intends to retire voluntarily at the annual general meeting may be taken into account in determining the one third of the directors to retire at such meeting;
- the identity of the directors to retire at such annual general meeting shall be determined as at the date of the notice convening such meeting; and
- a director retiring at an annual general meeting shall retain office until the close or adjournment of such meeting.

Retiring directors shall be eligible for re-election to the office of director at any shareholders' meeting only upon the recommendation of the board.

Without derogating from the provisions of the Companies Act, a director ceases to be a director:

- if the director gives notice to the company of the director's resignation as a director with effect from the date of, or such later date as is provided for in, such notice;
- if the director becomes insolvent, or assigns the director's estate for the benefit of the director's creditors or suspends payment of the director's liabilities or files a petition for the sequestration of the director's affairs, or compounds with the director's creditors; and
- if the director is requested in writing by all the director's co-directors to resign.

In regard to vacancies on the board, the MOI provides that the board may appoint any person who satisfies the requirements for election as a director to fill any vacancy and serve as a director on a temporary basis until the vacancy is filled by election in accordance with section 68(1) of the Companies Act. If the number of directors falls below the minimum provided for in the MOI, the remaining directors must as soon as possible and in any event not later than three months from the date that the number of directors falls below the minimum, fill the vacancies or call a shareholders' meeting for the purpose of filling the vacancies. If required by the JSE Listings Requirements:

- the appointment of a director to fill a vacancy or as an addition to the board must be confirmed by shareholders at the next annual general meeting; and
- after the expiry of the three-month period the remaining directors shall be permitted to act for the purpose of filling vacancies or calling shareholders meetings for the purpose of filling the vacancies.

As provided for in the Companies Act, any failure by the company at any time to have the minimum number of directors required by the Companies Act or the MOI, does not limit or negate the authority of the board, or invalidate anything done by the board or the company.

The authority of the board to manage and direct the business and affairs of the company, as contemplated in section 66(1) of the Companies Act, is not limited, restricted or qualified by the MOI.

The MOI does not restrict the directors from acting otherwise than at a meeting by adopting the decision by written consent of the majority of the directors, given in person, or by electronic communication, as contemplated in section 74(1) of the Companies Act, and, for so long as it is required by the JSE Listings Requirements, any resolution passed in this way must be inserted in the minute book of the company.

The directors may elect from their number a chairman and a deputy chairman, or two or more deputy chairmen, and decide the period for which each is to hold office. The directors may also remove any of them from such office at any time. If neither a chairman nor a deputy chairman has been appointed or if at any meeting of the directors, neither the chairman nor a deputy chairman is present within five minutes after the time appointed for holding the meeting, the directors present may choose one of their number to be chairman of the meeting.

If at any time there is more than one deputy chairman, the right in the absence of the chairman to preside at a meeting of the directors or of the company shall be determined as between the deputy chairmen present, if more than one, by seniority in length of appointment or otherwise as resolved by the directors.

In the case of an equality of votes at any meeting of the directors, the chairman shall have a second or casting vote, provided that, for so long as required by the JSE Listings Requirements, where the quorum of directors is two, the chairman shall not be permitted to have a casting vote if only two directors are present at the meeting of the directors.

In addition, the MOI deals with directors' meetings, directors' compensation and financial assistance to directors and the indemnification by the company of directors, officers and employees of the company as well as the authority of the board to appoint committees.

The MOI provides that a director may be employed in any other capacity in the company or as a director or employee of a subsidiary of the company and, in such event, his appointment and remuneration in respect of such other office must be determined by a disinterested quorum of directors.

Directors may be paid all their travelling and other expenses, properly and necessarily incurred by them in and about the business of the company, and in attending meetings of the directors or of committees of the directors; and, if any director is required to perform extra services, to reside abroad or be specifically occupied about the company's business, he may be entitled to such remuneration as is determined by a disinterested quorum of directors, which may be either in addition to or in substitution for any other remuneration payable, subject to the provisions of the Companies Act.

For so long as required by the JSE Listings Requirements, life directorships and directorships for an indefinite period are not permissible.

The general provisions of the MOI contained in paragraph 8 of the MOI deal with the amendment of class, preferences, rights, limitations or other terms in respect of shares. If any amendment relates to the variation of any preferences, rights, limitations and

other terms attaching to any other class of shares already in issue, that amendment must not be implemented without a special resolution taken by the holders of the shares of that class of shares at a separate meeting. In such instances, the holders of the shares of that class of shares may be allowed to vote at the meeting of ordinary shareholders subject to the MOI and JSE Listings Requirements. No resolution of shareholders may be proposed or passed, unless a special resolution of the holders of the shares of that class of shares have approved the amendment.

Paragraph 8 also sets out the rights and conditions attaching to the 'A' ordinary shares. The rights and conditions attaching to the 'A' ordinary shares simply repeats the rights and conditions attaching to the 'A' ordinary shares as set out in the company's current Articles of Association.

Finally, the MOI deals with unclaimed dividends by providing that the company will hold all monies due to shareholders for the benefit of such shareholders, provided that the board may cause any monies unclaimed for a period of three years from the due date for payment to be forfeited for the benefit of the company.

Schedule 1 to the MOI sets out the authorised shares of the company and also sets out the preferences, rights, limitations and other terms applicable to the shares.

This summary of the MOI is not exhaustive and a copy of the proposed new MOI will be available on the company's website www.sappi.com and copies will also be available for inspection at the company's registered office from the date of issue of the 2012 annual integrated report, of which the notice of annual general meeting forms part, up to and including the date of the annual general meeting.

Annual general meeting	06 February 2013
First quarter results released	February 2013
Second quarter and half-year results released	May 2013
Third quarter results released	August 2013
Financial year-end	September 2013
Preliminary fourth quarter and year results	November 2013
Integrated report posted to shareholders and posted on website	December 2013

Sappi Limited

Registration number 1936/008963/06
JSE code: SAP
ISIN code: ZAE 000006284
NYSE code: SPP

Group secretary

Denis O'Connor

Secretaries

Sappi Southern Africa (Pty) Limited
48 Ameshoff Street
2001 Braamfontein
South Africa
PO Box 31560
2017 Braamfontein
South Africa

Telephone +27 (0)11 407 8111
Fax +27 (0)11 339 1881
e-mail Denis.oconnor@sappi.com
www.sappi.com

Transfer secretaries

South Africa
Computershare Investor Services (Pty) Limited
70 Marshall Street
2001 Johannesburg
PO Box 61051
2107 Marshalltown

Telephone +27 (0)11 370 5000
Fax +27 (0)11 370 5217
e-mail registrar@computershare.co.za
www.computershare.com

Corporate affairs

André Oberholzer – Group Head Corporate Affairs
Telephone +27 (0)11 407 8111
Fax +27 (0)11 403 8236
e-mail Andre.Oberholzer@sappi.com

Investor relations

Graeme Wild – Group Head Investor Relations and Sustainability
Telephone +27 (0)11 407 8391
e-mail Graeme.Wild@sappi.com

United States ADR Depositary

The Bank of New York Mellon
Investor Relations
PO Box 11258
Church Street Station
New York, NY 10286-1258
Telephone (US only) 1 888 BNYADRS
Telephone (outside the US) +1 201 680 6825
e-mail shrrelations@bnymellon.com
www.bnymellon.com/shareowner

SAPPI LIMITED

(Registration number 1936/008963/06)
 (Incorporated in the Republic of South Africa)
 ('Sappi' or 'the company')
 Issuer code: SAP JSE code: SAP ISIN code: ZAE000006284

For use by shareholders who:

- hold shares in certificated form; or
- hold dematerialised shares (ie where the paper share certificates representing the shares have been replaced with electronic records of ownership under the electronic settlement and depository system ('Strate Limited') of the JSE Limited) and are recorded in Sappi's sub-register with 'own name' registration (ie shareholders who have specifically instructed their Central Securities Depository Participant ('CSDP') to record the holding of their shares in their own name in Sappi's sub-register).

If you are unable to attend the seventy-sixth annual general meeting of the members to be held at 14:00 on Wednesday, 06 February 2013 in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, Republic of South Africa, you should complete and return the form of proxy as soon as possible, but in any event to be received by not later than 14:00 South African time on Monday, 04 February 2013, to Sappi's transfer secretaries, Computershare Investor Services (Proprietary) Limited, by way of hand delivery to 70 Marshall Street, Johannesburg, 2001, Republic of South Africa or by way of postal delivery to PO Box 61051, Marshalltown, 2107, Republic of South Africa.

Shareholders who have dematerialised their shares and who do not have 'own name' registration and wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with the relevant letter of representation to enable them to attend such meeting, or, alternatively, should they wish to vote but not to attend the annual general meeting, they must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. **Such shareholders must not complete this form of proxy.**

I/We

of

being a shareholder(s) of Sappi holding

Sappi shares and entitled to vote at the above mentioned

annual general meeting, appoint

or failing him/her

or failing him/her

or failing him/her, the chairman of the meeting as my/our proxy to attend and speak and, on a poll, to vote for me/us on the resolutions to be proposed (with or without modification) at the annual general meeting of Sappi to be held at 14:00 on Wednesday, 06 February 2013 or any adjournment thereof, as follows.

	Number of shares		
	For	Against	Abstain
Ordinary resolution number 1 – Receipt and acceptance of 2012 annual financial statements, including directors' report, auditor's report and audit committee report			
Ordinary resolution number 2 – Confirmation of appointment and re-election of directors appointed since the last annual general meeting*			
Ordinary resolution 2.1 – Confirmation of appointment and re-election of Mr Stephen Robert Binnie as a director of Sappi			
Ordinary resolution number 3 – Re-election of directors retiring by rotation in terms of Sappi's Memorandum of Incorporation*			
Ordinary resolution number 3.1 – Re-election of Dr Daniël Christiaan Cronjé as a director of Sappi			
Ordinary resolution number 3.2 – Re-election of Mr Mohammed Valli Moosa as a director of Sappi			
Ordinary resolution number 3.3 – Re-election of Mrs Karen Rohn Osar as a director of Sappi			
Ordinary resolution number 3.4 – Re-election of Dr Rudolf Thummer as a director of Sappi			
Ordinary resolution number 4 – Election of audit committee members			
Ordinary resolution number 4.1 – Election of Dr Deenadayalen Konar as chairman of the audit committee			
Ordinary resolution number 4.2 – Election of Mr Godefridus Peter Francisus Beurskens as a member of the audit committee			
Ordinary resolution number 4.3 – Election of Mr Michael Anthony Fallon as a member of the audit committee			
Ordinary resolution number 4.4 – Election of Mr Nkateko Peter Mageza as a member of the audit committee			
Ordinary resolution number 4.5 – Election of Mrs Karen Rohn Osar as a member of the audit committee			
Ordinary resolution number 5 – Re-appointment of Deloitte & Touche as auditors of Sappi for the year ending September 2013 and until the next annual general meeting of Sappi			
Ordinary resolution number 6.1 – The placing of all ordinary shares required for the purpose of carrying out the terms of the Sappi Limited Performance Share Incentive Plan (the 'Plan') under the control of the directors to allot and issue in terms of the Plan			
Ordinary resolution number 6.2 – The authority for any subsidiary of Sappi to sell and to transfer to the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust (collectively 'the Schemes') such number of shares as may be required for the purposes of the Schemes			
Ordinary resolution number 7 – Non-binding endorsement of Remuneration Policy			
Special resolution number 1 – Increase in non-executive directors' fees			
Special resolution number 2 – Authority for loans or other financial assistance to related or inter-related companies			
Special resolution number 3 – Adoption of new Memorandum of Incorporation			
Ordinary resolution number 8 – Authority for directors to sign all documents and do all such things necessary to implement the above resolutions			

Insert X in the appropriate block if you wish to vote all your shares in the same manner. If not, insert the number of votes in the appropriate block. If no indication is given, the proxy will vote as he/she thinks fit.

Signed at

on

Assisted by me (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be shareholders of Sappi) to attend, speak, and on a poll, vote in place of that shareholder at the annual general meeting or any adjournment thereof.

* Refer to note to Notice of annual general meeting on Page 187.

The form of proxy must only be used by certificated shareholders or shareholders who hold dematerialised shares with 'own name' registration. Other shareholders are reminded that the onus is on them to communicate with their CSDP or broker.

Instructions on signing and lodging the annual general meeting proxy form

1. A deletion of any printed matter (only where a shareholder is allowed to choose between more than one alternative option) and the completion of any blank spaces need not be signed or initialled. Any alteration must be signed, not initialled.
2. The chairman shall be entitled to decline to accept the authority of the signatory –
 - 2.1 under a power of attorney; or
 - 2.2 on behalf of a company,

if the power of attorney or authority has not been lodged at the offices of the company's transfer secretaries, Computershare Investor Services (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001, Republic of South Africa or posted to PO Box 61051, Marshalltown, 2107, Republic of South Africa.
3. The signatory may insert the name(s) of any person(s) whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose.
4. When there are joint holders of shares and if more than one of such joint holders is present or represented, the person whose name stands first in the register in respect of such shares or his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof.
5. The completion and lodging of the form of proxy will not preclude the signatory from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.
6. Forms of proxy must be lodged with, or posted to, the offices of Sappi's transfer secretaries, Computershare Investor Services (Proprietary) Limited, at 70 Marshall Street, Johannesburg, 2001, Republic of South Africa (for hand delivery) or PO Box 61051, Marshalltown, 2107, Republic of South Africa (for postal delivery), to be received by not later than 14:00 on Monday, 04 February 2013.
7. If the signatory does not indicate in the appropriate place on the face hereof how he/she wishes to vote in respect of a particular resolution, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution.
8. The chairman of the annual general meeting may reject any proxy form which is completed other than in accordance with these instructions and may accept any proxy form when he is satisfied as to the manner in which a member wishes to vote.

Summary in terms of section 58(8)(b)(i) of the Companies Act, 2008, as amended

Section 58(8)(b)(i) provides that if a company supplies a form of instrument for appointing a proxy, the form of proxy supplied by the company for the purpose of appointing a proxy must bear a reasonably prominent summary of the rights established by section 58 of the Companies Act, 2008, as amended, which summary is set out below:

- A shareholder of a company may, at any time, appoint any individual, including an individual who is not a shareholder of that company, as a proxy, among other things, to participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder.
- A shareholder may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder.
- A proxy may delegate the proxy's authority to act on behalf of the shareholder to another person.
- A proxy appointment must be in writing, dated and signed by the shareholder; and remains valid only until the end of the meeting at which it was intended to be used, unless the proxy appointment is revoked, in which case the proxy appointment will be cancelled with effect from such revocation.
- A shareholder may revoke a proxy appointment in writing.
- A proxy appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder.
- A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction.

Forward-looking statements

Certain statements in this release that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives.

The words “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “assume”, “positioned”, “will”, “may”, “should”, “risk” and other similar expressions, which are predictions of or indicate future events and future trends, which do not relate to historical matters, identify forward-looking statements. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

- > the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing)
- > the impact on our business of the global economic downturn
- > unanticipated production disruptions (including as a result of planned or unexpected power outages)
- > changes in environmental, tax and other laws and regulations
- > adverse changes in the markets for our products
- > the emergence of new technologies and changes in consumer trends including increased preferences for digital media
- > consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed
- > adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems
- > the impact of restructurings, investments, acquisitions, dispositions and other strategic initiatives (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or with integrating acquisitions or implementing restructuring or strategic initiatives, and achieving expected savings and synergies and
- > currency fluctuations.

We undertake no obligation to publicly update or revise any of these forward looking statements, whether to reflect new information or future events or circumstances or otherwise.



Co-creation

Inspired to co-create

We operate with one unbending rule: the customer comes first.

We build strong, lasting relationships through close collaboration.

We bring our experience, technical excellence and an eagerness to listen to the table. Our customers bring their expertise, unique needs and fresh perspectives.

The process of co-creation brings unexpected insights, breakthrough solutions and more streamlined services.

www.sappi.com

sappi

Inspired by life