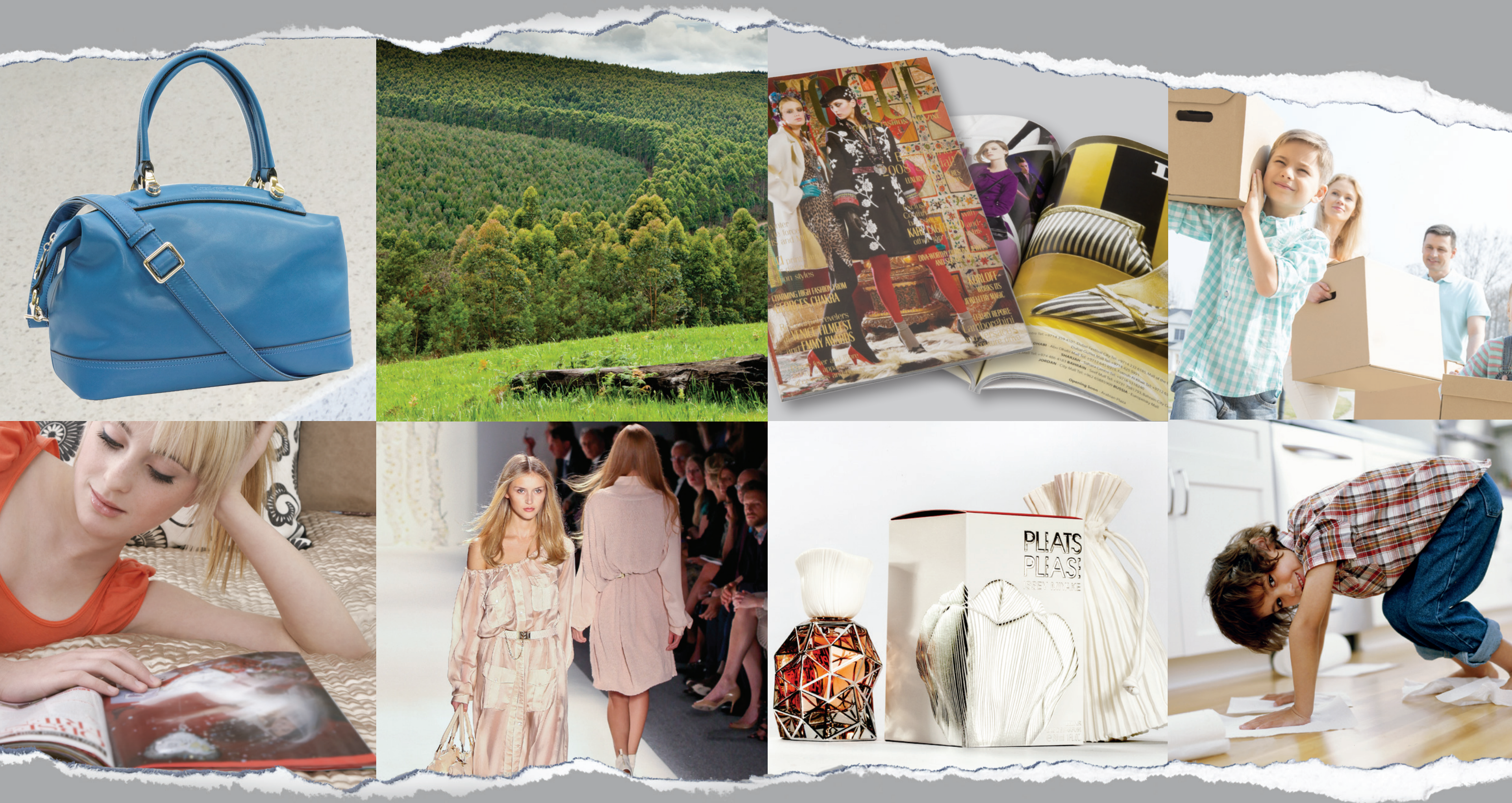
sappi

Inspired by life



living with sappi

Sappi Southern Africa Limited ANNUAL REPORT
for the year ended September 2014

our businesses

Southern Africa

Sappi has a tradition of 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 (bag grades for sugar and the fast food industry).

Sappi also produces dissolving wood pulp, a product made from wood from our plantations, and which is sold to customers who use the product to manufacture a wide range of consumer products, such as clothing, cellophane wrap for sweets and flowers, pharmaceutical and household products, and make-up such as lipstick. We are the world's largest manufacturer of dissolving wood pulp and we export almost all of the production of our mills in South Africa.

Sappi Forests supplies over 78% of the wood requirements of Sappi Southern Africa from both our own and managed commercial timber plantations on 495,000 hectares. This equates to more than 29 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 140,000 hectares of our land is set aside and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there, including indigenous forests and wetlands.

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

The past winter was the most difficult fire season in recent years, with dry and abnormally warm weather prevalent in our main forestry regions. A total of 2,575 hectares of plantation were lost to fire in 2014, compared to an average of 626 hectares during the past five years. We continue to invest 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. Our staff continue to play key roles in the provincial and local fire protection associations.

** FSC – C012316 certified originate from own plantations as well as on the Sappi Grant Scheme (FSC – C017054) with other logs from controlled sources.*

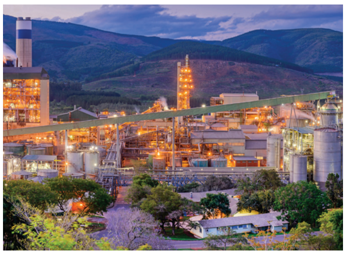
Forests

Plantations	Products produced	Capacity ('000 tons per annum) Hectares	Tons	m^3	Employees
KwaZulu-Natal	Plantations (pulpwood and sawlogs) (tons)**	227	11,303		
Mpumalanga	Plantations (pulpwood and sawlogs) (tons)**	268	18,047		
Sawmill – Lomati	Sawn timber (m^3)			102	
	Total Sappi Forests	**495**	**29,350**	**102**	

Dissolving wood pulp

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

Paper and paper packaging



Mills	Products produced	Capacity ('000 tons per annum) Paper	Pulp	Employees
Cape Kraft Mill	Waste-based linerboard and corrugating medium	60		
Enstra Mill	Uncoated woodfree and business paper	200		
Ngodwana Mill	Unbleached chemical pulp for own consumption		200	
	Mechanical pulp for own consumption		110	
	Kraft linerboard	230		
	Newsprint	140		
Stanger Mill	Bleached bagasse pulp for own consumption		60	
	Coated woodfree paper and tissue paper	110		
Tugela Mill	Neutral sulfite semi-chemical pulp for own consumption		130	
	Corrugating medium	210		
Sappi ReFibre*	Waste paper collection and recycling for own consumption		250	
	Total paper and paper packaging	**950**	**750**	
	Total Southern Africa	**950**	**1,760**	**5,486**

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

Sappi Southern Africa Limited

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

Audited Annual Financial Statements

September 2014

Sappi Southern Africa Limited

Contents
Year ended September 2014

Sappi Southern Africa Limited

Financial Highlights

Year ended September 2014

	September 2014 R million	September 2013 R million Restated
Sales	**14 824**	12 490
EBITDA excluding special items	**2 837**	1 458
Operating profit excluding special items	**2 171**	742
Profit for the year	**1 544**	488
Net debt	**1 096**	2 954
Total capitalization	**11 145**	11 543
Net debt over EBITDA	**0.39**	2.03
Operating profit excluding special items to sales (%)	**14.6%**	5.9%
Return on net assets (RONA) (%)	**23.3%**	9.0%
Return on equity (ROE) (%)	**16.6%**	5.9%
Net debt to total capitalisation ratio	**9.8%**	25.6%
Cash interest cover (times)	**12.4**	4.0

Definitions

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

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

Total capitalisation – net debt plus equity

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

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

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

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

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

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

Special items – special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit or loss on disposal of property, investments and businesses, asset impairments, restructuring charges, nonrecurring integration costs related to acquisitions, financial impacts of natural disasters and, non-cash gains or losses on the price fair value adjustment of plantations.

Sappi Southern Africa Limited

Management
Year ended September 2014

Chief Executive Officer
Alex Thiel (53)** BSc Mech Eng, MBA

Finance Director
Colin Mowatt**(57) BCom Acc, CA(SA), EDP, MBL

Technical Director
Bertus van der Merwe** (61) BSc, MBA,
Hdip (Engineering) (resigned 30 April 2013)

Information Technology Director
Deon van Aarde** (54) B Compt

Strategic and New Business Development Director
Tyrone Hawkes ** (46) BCom Hons, CA(SA)

Regional Procurement Director
Nat Maelane** (55) MDP, SEP

Human Resources Director
Esther Letlape** (47) BA, BA (Hons) Industrial Psychology (resigned 30 September 2013)

Executive Vice President Specialised Cellulose
Gary Bowles ** (54) B.Sc Eng (Elect) and GCC & PMD & EDP

Manufacturing and Technical Director SA
Patrick McGrady ** (57) BSc Eng (Elec); GCC (Factories)

Sappi Forests Managing Director
Hendrik de Jongh** (58), GCC (electrical), EDP and post-graduate diploma (Management) (resigned 31 December 2013)
Dr Terence Stanger** (52), BSc, MSc Agriculture and PHD Forestry

Other Directors
Steven Binnie*** (47) BComm, BAcc, CA(SA), MBA
Ralph Boëttger*** (53) B Acc Hons, CA(SA) (resigned 30 June 2014)
Glen Pearce*** (51) BComm, BComm Hons, CA(SA) (appointed 1 July 2014)
Andrea Rossi** (60) BSc (Engineering) (Hons) C Eng
Lucia Swartz ** (57) BA, Dip HR (resigned 31 January 2015)
Maarten Van Hoven**(41) BProc, LLM

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

Group Secretary
Denis O'Connor

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

Sappi Southern Africa Limited

Corporate Governance
At September 2014

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

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

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

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

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

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

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

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

The external and internal auditors attended Audit Committee meetings and had unrestricted access to the committee and its chairman. The external and internal auditors met privately with the Audit Committee on a regular basis during 2014.

The committee met four times during 2014.

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

Nomination and Governance Committee
The Nomination and Governance Committee consists of three independent Sappi Limited directors and considers the leadership requirements of the company including a succession plan for the board. The committee identifies and nominates suitable candidates for appointment to the board, for board and shareholders’ approval. The committee considers the independence of candidates as well as directors. The committee makes recommendations on corporate governance practices and disclosures, and reviews compliance with corporate governance requirements. The committee has oversight of appraising the performance of the board and all the board committees. The results of this process and recommended improvements are communicated to the chairman of each committee and the board.

Human Resources and Compensation Committee
The Human Resources and Compensation Committee consists of four independent Sappi Limited directors. The responsibilities of this committee are, among others, to determine the Group’s human resource policy and strategy, assist with the hiring and setting of terms and conditions of employment of executives, the approval of retirement policies, and succession planning for the CEO and management. The committee ensures that the compensation philosophy and practices of the Group are aligned to its strategy and performance goals. It reviews and agree

s the various compensation programmes and in particular the compensation of executive directors and senior executives as well as employee benefits. It also reviews and agrees executive proposals on the compensation of non-executive directors for approval by the board and ultimately by shareholders.

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

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

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

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

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

Sappi Risk Management Team
The Sappi Limited board mandates the Group Risk Management Team to establish, coordinate and drive the risk management process throughout Sappi. It has established a risk management system to identify and manage significant risks. The Group Risk Management Team reports regularly on risks to the Audit Committee and the board. Risk management software is used to support the risk management process throughout the Group.

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

IT Steering Committee
The IT Steering Committee promotes IT governance throughout the Group and is the highest authority for this aspect if Sappi's business, apart from the Sappi Limited board. The committee has a charter approved by the Audit Committee and the Sappi Limited board. An IT governance framework has been developed and IT feedback reports have been presented to the Audit Committee and the board. Sappi IT has implemented a standardised approach to IT risk management through a Group wide risk framework supported by the use of risk management software. IT management is improving the quantification of IT project spend and related value to the business, as well as information about disaster recovery plans, and IT risks, in its reporting to the Audit Committee.

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

Internal controls and 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.

The combined assurance framework is integrated with the Group's risk management approach. Risks facing the Group are identified, evaluated and managed by implementing risk mitigations, such as insurance, strategic actions or specific internal controls.

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

Sappi Limited delisted from the New York Stock Exchange during the 2014 financial year. Sappi's risk and control framework has remained in place as part of Sappi's application of the King III guidelines. Sappi remains committed to maintaining the same high standard of internal control as in the past.

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

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

Internal controls and combined assurance framework (continued)
Sappi's combined assurance framework comprises three lines of defence, in line with Enterprise Risk Management best practice, as set out below:

- First line of defence: Oversight by the board and accountability and responsibility of business management supported by appropriate governance, risk management, and internal control structures and processes.
- Second line of defence: Independent risk monitoring by risk, internal control, and compliance functions.
- Third line if defence: Independent assurance provided by external audit, internal audit, and other external assurance providers.

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

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

Internal Audit
Sappi Limited has an effective risk-based Internal Audit department which is suitably resourced. It has a specific charter from the Audit Committee and independently appraises the adequacy and effectiveness of the Group's systems, internal controls and accounting records. It plays a coordination role in obtaining combined assurance and reports its findings to local and divisional management, the external auditors as well as the regional and Group Audit Committees. Internal Audit also consults on risks, controls and governance developments.

The head of Internal Audit reports to the Audit Committee, meets with board members, has direct access to executive management and is invited to attend various management meetings.

During 2014, 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.

Board assessment of the company's risk management, compliance function and effectiveness of internal controls
The board is responsible for the group's systems of internal financial and operational control. As part of an on-going comprehensive evaluation process, control self-assessments, year-end external audits and independent reviews by internal audit and other assurance providers were undertaken across the group to test the effectiveness of various elements of the group's financial, disclosure and other internal controls as well as procedures and systems. Identified areas of improvement are being addressed to strengthen the group's controls further. The board has assessed the combined assurance provided in 2014. 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 and provide a sound basis for the preparation of the Financial Statements.

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

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

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

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

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

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

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

Sappi Southern Africa Limited

Directors' Approval
Year ended September 2014

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

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

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

The above statements were approved by the Board of directors on 10 February 2015 and were signed on 10 February 2015 on its behalf by:

Director

Director

Secretary's certificate

In terms of section 88(2)(e) of the Companies Act 71 of 2008 (as amended) of South Africa, I hereby certify that, to the best of my knowledge and belief, the company has lodged with the Companies and Intellectual Property Commission of South Africa, for the financial year ended September 2014, all such returns as are required of a private company in terms of this Act and that such returns appear to be true, correct and up to date.

Sappi Limited
Secretaries
per D J O'Connor
Group secretary
10 February 2015

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF SAPPI SOUTHERN AFRICA LIMITED

We have audited the consolidated and separate financial statements of Sappi Southern Africa Limited set out on pages 15 to 94, which comprise the balance sheets as at 28 September 2014, and the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Sappi Southern Africa Limited as at 28 September 2014, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 28 September 2014, we have read the Directors' Report, Audit Committee Report and the Company Secretary's Certificate, for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate 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 consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per: A J Wise
Partner
10 February 2015

Sappi Southern Africa Limited

Audit Committee Report

Year ended September 2014

In terms of S94(2) of the Companies Act, 71 of 2008, as amended ("the Act"), the Sappi Limited Group Audit Committee performs the functions of the Audit Committee for its subsidiary, Sappi Southern Africa Limited as contemplated in S94 of the Act.

This is the report of the Sappi Limited Group Audit Committee acting for Sappi Southern Africa Limited for the financial year ended 28 September 2014 in so far as it pertains to the compliance with section 94(7)(f) of the Act.

Terms of reference

Details of the Audit Committee's objectives, scope, membership and performance are set out in Sappi Limited's Group Annual Financial Statements for the year ended 28 September 2014. This is set out specifically on pages 92 and 93 of the Sappi Limited Group Integrated Annual Report issued 12 December 2014 and is on public record.

Duties carried out

The committee has performed its duties and responsibilities during the financial year according to the requirements of the Companies Act.

Report on specific matters required by S94(7) (f) of the Companies Act

The audit committee carried out its functions as audit committee for the Sappi Limited Group. Details of the audit committee performance is set out in the audit committee report of Sappi Limited on pages 92 and 93 of the Sappi Limited Group Integrated Annual Report issued 12 December 2014 and is on public record.

The audit committee is satisfied that the auditor was independent of the company.

The audit committee is satisfied with the information presented in the annual financial statements for Sappi Southern Africa Limited as well as the accounting practices and internal financial control of the company.

Dr D Konar
Chairman of the Audit Committee
10 February 2015

The directors submit their report for the year ended September 2014.

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

Supervisor of the preparation of the annual financial statements

Financial director, C Mowatt CA(SA).

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

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

Sappi Southern Africa overview

Sappi Southern Africa has a tradition of 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 paper used in cardboard boxes used for exporting fruit) and packaging paper (bag grades for sugar and the fast food industry).

Sappi Southern Africa also produces dissolving wood pulp, a product made from wood from our plantations, and which is sold to customers who use the product to manufacture a wide range of consumer products, such as clothing, cellophane wrap, pharmaceutical and household products. We are the world's largest manufacturer of dissolving wood pulp and we export almost all of the production of our mills in South Africa.

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

The business produces 500 000 tons of paper pulp and on a net basis we are approximately self-sufficient for our pulp requirements in Southern Africa. The paper and paper packaging products produced (950 000 tons) are largely sold regionally, where we have strong market positions in most of these products.

Sappi Forests supplies over 78% of the wood requirements of Sappi Southern Africa from both our own and managed commercial timber plantations of 495,000 hectares. This equates to more than 29 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 140,000 hectares of our land is set aside and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there, including indigenous forests and wetlands.

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

The past winter was a difficult fire season, with dry and abnormally warm weather prevalent in our main forestry regions. A total of 2,575 hectares of plantation were lost to fire in 2014. We continue to invest 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. Our staff continue to play key roles in the Provincial and local Fire Protection Associations.

The plantation industry in South Africa faces an increasing threat from pests and diseases, with Sappi Forests as a leader in R&D, continuing to mitigate these risks through improved site species matching, the deployment of improved genetic planting stock and the introduction of specific hybrids from our conventional breeding programmes. The construction of the state of the art Clan nursery, with a capacity of 17 million cuttings (vegetatively propagated plants), was completed in September 2014, and provides Sappi Forests with the required facilities to rapidly deploy the improved genetic planting stock to mitigate against these threats.

Markets and operations

Sappi Southern Africa is a global leader in dissolving wood pulp production, a fast growing and high margin business serving the textiles, consumer goods, foodstuffs and pharmaceutical industries.

The Sappi Southern African Specialised Cellulose business comprises our Saiccor Mill and the newly built fibre line 3 at Ngodwana Mill, which commenced dissolving wood pulp production in July 2013. The dissolving wood pulp produced at the Saiccor and Ngodwana mills is used principally as an input in the production of various textiles, microcrystalline cellulose for the food and pharmaceutical industries.

It was an excellent year for the Specilised Cellulose expanded business, with sales volumes up by 20% year-on-year and average net sales prices up 12% in Rand terms due to a generally weakening Rand/Dollar exchange rate over the course of the year. Dollar dissolving wood pulp prices declined throughout the year as a result of pressure from lower cotton and viscose prices, and the oversupply of dissolving wood pulp and viscose staple fibre production capacity. Historically, our dissolving wood pulp prices are linked to the Dollar European NBSK pulp list price plus a suitable premium. During the course of this year the formula-linked pricing contracts were for the most part renegotiated towards short-term fixed prices based on spot pricing, and this is likely to continue for the foreseeable future. This reflects not only the oversupplied dissolving wood pulp market, but also the pressure our customers are under due to declining prices for their viscose staple fibre products.

Cost pressures continue to weigh on the graphic paper segment of our business and during the year we made the decision to decrease our exposure to the graphic paper market, particularly for coated papers, and to utilise the capacity to make lower grammage packaging papers using recycled fibre.

Although sales volumes declined by 5% compared to 2013, the paper packaging business extended the improvement seen towards the end of the previous financial year, with higher pricing (realised a 10% increase in Rand terms compared to 2013), and further simplification leading to a much improved result for the reorganised business. This business reversed the loss-making performances of previous years to record a respectable return in 2014. From 2014 the paper packaging business includes the sales of Sappi Trading Africa.

Timber sales volumes decreased by 12% in 2014 compared to 2013 due mainly to the finalisation of the sale of Usutu Forest Products Company Limited during the second half of the fiscal year. Average selling prices of timber, in Rand terms, increased by 7% in 2014 compared to 2013.

Sales for 2014 increased by 18% in Rand terms (R14 824 million) compared to 2013 (R12 490 million) driven largely by the increase in Sappi Southern Africa's Specialised Cellulose business. Sappi Southern Africa's sales volumes, excluding timber sales, increased by 7% in 2014.

Variable input costs per ton increased by 6% compared to 2013. The paper and paper packaging business experienced sharp input cost pressures mainly in bought in pulp, chemicals and energy, as reflected in a 14% increase in variable costs.

Despite the weakening in the ZAR/USD exchange rate during the year, delivery costs per ton for 2104 were 2% lower than 2013.

Fixed costs were well controlled, and increased in absolute terms by 2% compared to 2013.

We regard ownership of our plantations as a key strategic resource which gives us access to low cost fibre for our pulp production and ensures continuity of an important raw material input source. As we manage our plantations on a sustainable basis, the growth in plantations over the year was largely offset by fellings in the year. A positive fair value price adjustment of R190 million was recorded in fiscal 2014 due mainly to market related timber price increases in the first half of the fiscal year, partially offset by cost increases.

The marked improvement in Sappi Southern Africa's business in 2014 bears testament to decisions made in the past. Although the performance was assisted by a weakening currency, good cost control and margin management were worthy contributors. The region's EBITDA excluding special items increased by 95% to R2 837 million in 2014 from R1 458 million in 2013. EBITDA margin improved to 19% from a prior year 12% margin. In 2014 Sappi Southern Africa achieved a 23% "Return on Net Assets", compared to the 9% it achieved in 2013.

Operating profit excluding special items increased from R742 million in 2013 to R2 171 million in 2014. The operating profit for 2014 included unfavorable net special items of R41 million which consisted mainly of asset impairments (R18 million), restructuring charges (R16 million), goodwill impaired (R 10 million), costs related to major events (R6 million), scrapping of obsolete stores (R10 million) partially offset by a profit on assets held for sale (R67 million).

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

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

Outlook

We expect that the current pressure on dissolving wood pulp prices will continue into the new financial year. Maintaining the excellent margins in the Specialised Cellulose business will therefore be dependent on containing costs and the Rand/Dollar exchange rate, as virtually 100% of our dissolving wood pulp production is exported. We believe that despite the pressures in the viscose staple fibre market demand will continue to grow in the coming year, albeit possibly at a lower growth rate than see for much of the past few years.

We expect our paper business to continue to improve its performance in the coming year, and believe that the reduced exposure to the graphic paper business and growth in recycled waste-based packaging will contribute to improved earnings in the coming financial year.

Reporting period

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

Basis of preparation

Sappi Southern Africa's financial reporting is based on International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and the requirements of the Companies Act of South Africa.

Share Capital

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

Authorised

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

Issued

6 015 769	Ordinary shares of R2 each
19 520	Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate
219 760	Class "B" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate
831	Class "C" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate
120 046	Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate

Financing

The finalisation of the sale of Usutu Forest Products Company Limited in Swaziland for R1 billion in the second half of fiscal 2014, added a meaningful cash inflow for Sappi Southern Africa.

The following loans and bonds matured during the fiscal year:

- Sanlam 4 bond matured in December 2013
- The Nedbank 500 unsecured loan matured in March 2014
- The PSG unsecured bank loan matured in June 2014

The capitalized leased asset with Rand Merchant Bank which was due to mature in September 2015 was early settled in September 2014.

At year end, the average tenure of term debt is 2.9 years, requiring refinancing in the next financial year of R747 million.

In October 2014, Sappi Southern Africa repurchased R300 million of its Public Bond No.SSA02 which was due to mature in April 2015.

In February 2014 Fitch downgraded their Sappi Southern Africa's local credit rating to A-/F1 from A+/ F1, with a "Stable Outlook". The downgrade reflects a review of the linkage between Sappi Southern Africa and the weaker credit profile of its parent Sappi Limited. This review is in line with Fitch's revised parent-subsidiary methodology and is therefore a technical adjustment and not a reflection of Sappi Southern Africa's credit strength.

Net borrowings

Net Group borrowings at September 2014 amount to R1.1 billion. Details of the non-current term borrowings are set out in note 18 of the annual financial statements.

Insurance

Sappi Southern Africa has an active programme of risk management 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 Sappi Group level in order to achieve a standardisation of methods. Work on improved enterprise risk management is on-going and aims to lower the risk of incurring losses from uncontrolled incidents.

Asset insurance is renewed on a calendar year basis. The self-insured retention portion for any one property damage occurrence is US$26 million with the annual aggregate set at US$42 million. For property damage and business interruption insurance, cost-effective cover to full value is not readily available. A loss limit cover of US$951 million has been deemed to be adequate for the reasonable foreseeable loss for any single claim.

During 2014, production at our Tugela Mill was hampered by a press roll failure as well as a roof beam incident. The press roll failure resulted in a total cost of R60 million and the roof beam R33 million. Both incidents were within the Sappi Group's captive retention and as a result were not submitted to the reinsurance market.

Fixed assets

Capital expenditure of R516 million was incurred during the year, of which R98 million relates to the final payments for the major specialized cellulose conversion at Ngodwana Mill.

During the year, Sappi Southern Africa incurred capital maintenance expenditure on assets that were impaired in fiscal 2013 at its Enstra, Tugela and Stanger Mills. This resulted in an amount of R38 million being written off.

In 2014, the tissue conversion machine that was previously impaired at Stanger Mill was disposed of resulting in an impairment reversal of R20 million.

See note 7 to the annual financial statements for full details regarding our fixed assets.

Litigation

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

Directors and secretaries

The names of the directors are indicated on page 3.

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

Subsidiary companies

Details of the company's significant subsidiaries are given in Annexure A on page 95.

Special resolutions

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

- Adoption of a new Memorandum of Incorporation for Ngodwana Energy (Proprietary) Limited, Umkomaas Energy (Proprietary) Limited, Lomati Energy (Proprietary) Limited and Tugela Energy (Proprietary) Limited
- Authority for the provision of direct or indirect financial assistance to related or inter-related companies

Holding company and ultimate holding company

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

Going concern

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

Sappi Southern Africa Limited

Group and Company Income Statements
For the year ended September 2014

	Notes	Group 2014 R'000	Group 2013 R'000 (Restated)	Company 2014 R'000	Company 2013 R'000 (Restated)
Sales		**14 823 593**	12 489 964	**14 522 803**	12 499 205
Cost of sales	4.1	**12 234 878**	10 554 897	**12 063 123**	10 614 000
Gross profit		**2 588 715**	1 935 067	**2 459 680**	1 885 205
Selling, general and administrative expenses	4.1	**312 765**	442 383	**315 089**	446 614
Share of profit on joint venture	10	**(85 354)**	(50 167)	**-**	-
Investment income	4.4	**-**	-	**(96 954)**	(17 500)
Other expenses (incomes)	4.3	**41 087**	885 850	**(59 958)**	828 824
Operating profit	4	**2 320 217**	657 001	**2 301 503**	627 267
Net finance costs	5	**219 211**	227 423	**219 264**	227 638
Finance costs		**296 858**	371 300	**296 841**	371 324
Finance revenue		**(76 427)**	(90 543)	**(76 350)**	(90 352)
Finance costs capitalised		**-**	(65 475)	**-**	(65 475)
Net fair value gain on financial instruments		**(104)**	-	**(104)**	-
Net foreign exchange (gains) losses		**(1 116)**	12 141	**(1 123)**	12 141
Profit before taxation		**2 101 006**	429 578	**2 082 239**	399 629
Taxation charge (benefit)	6	**556 838**	(58 620)	**537 959**	(49 385)
Profit for the year		**1 544 168**	488 198	**1 544 280**	449 014

Group and Company Statements of Comprehensive Income
For the year ended September 2014

	Notes	Group 2014 R'000	Group 2013 R'000 (Restated)	Company 2014 R'000	Company 2013 R'000 (Restated)
Profit for the year		**1 544 168**	488 198	**1 544 280**	449 014
Other comprehensive (loss) income, net of tax	16	**(102 134)**	223 820	**(101 744)**	223 461
Items that may subsequently be reclassified to the combined and consolidated income statement:					
Movement on available-for-sale financial asset		**(14 154)**	698	**(14 154)**	698
Movement on hedging reserves		**(28 630)**	67 764	**(28 630)**	67 764
Deferred tax on above items		**8 016**	(18 974)	**8 016**	(18 974)
Items that will not subsequently be reclassified to the consolidated and separate income statement:					
Actuarial (losses) gains on post-employment benefit funds		**(93 412)**	241 986	**(93 024)**	241 626
Deferred tax on above items		**26 046**	(67 654)	**26 048**	(67 653)
Total comprehensive income for the year		**1 442 034**	712 018	**1 442 536**	672 475

Sappi Southern Africa Limited

Group and Company Balance Sheets
At September 2014

	Notes	Group **2014** **R'000**	2013 R'000 (Restated)	2012 R'000 (Restated)
Assets				
Non-current assets		**14 925 125**	15 419 889	14 090 706
Property, plant and equipment	7	**9 506 360**	9 716 870	8 787 384
Plantations	8	**4 831 586**	4 684 542	4 618 183
Deferred tax asset	9	**-**	11 123	-
Equity investments	10	**155 855**	167 455	134 788
Derivative financial instruments	28	**46 503**	47 590	-
Other non-current assets	11	**384 821**	792 309	550 351
Current assets		**5 435 431**	4 497 730	3 625 560
Inventories	12	**1 601 331**	1 456 753	1 487 193
Trade and other receivables	13	**377 542**	220 610	315 608
Derivative financial instruments	28	**1 669**	-	-
Amounts owing by Group companies		**1 403 598**	1 417 784	963 602
Cash and cash equivalents		**2 051 291**	468 619	859 157
		5 435 431	3 563 766	3 625 560
Assets classified as held for sale	14	**-**	933 964	-
Total assets		**20 360 556**	19 917 619	17 716 266
Equity and liabilities				
Shareholders' equity		**10 049 202**	8 588 438	7 848 777
Ordinary share capital and share premium	15	**221 100**	221 100	221 100
Other reserves	17	**142 398**	123 668	96 025
Retained earnings		**9 685 704**	8 243 670	7 531 652
Non-current liabilities		**5 412 357**	6 060 780	4 554 258
Interest-bearing borrowings	18	**2 400 000**	3 199 427	1 517 657
Deferred tax liabilities	9	**2 731 970**	2 254 340	2 197 123
Derivative financial instruments	28	**-**	3 534	21 330
Other non-current liabilities	19	**280 387**	603 479	818 148
Current liabilities		**4 898 997**	5 268 401	5 313 231
Interest-bearing borrowings	18	**746 858**	223 643	1 480 258
Overdraft		**-**	-	4
Provisions	21	**7 975**	31 254	2 385
Derivative financial instruments	28	**30 697**	1 830	690
Trade and other payables		**2 554 171**	2 607 274	2 442 571
Taxation payable		**115 307**	99 075	127 020
Amounts owing to Group companies		**1 443 989**	2 247 396	1 260 303
		4 898 997	5 210 472	5 313 231
Liabilities directly associated with assets held for sale	14	**-**	57 929	-
Total equity and liabilities		**20 360 556**	19 917 619	17 716 266

Sappi Southern Africa Limited

Group and Company Balance Sheets
At September 2014

	Notes	Company 2014 R'000	2013 R'000 (Restated)	2012 R'000 (Restated)
Assets				
Non-current assets		**14 723 666**	15 301 354	13 266 156
Property, plant and equipment	7	**9 394 730**	9 704 565	8 739 207
Plantations	8	**4 831 586**	4 684 542	3 904 531
Equity investments	10	**72 707**	72 440	72 440
Derivative financial instruments	28	**46 503**	47 590	-
Other non-current assets	11	**378 140**	792 217	549 978
Current assets		**5 497 653**	4 487 188	4 353 944
Inventories	12	**1 567 066**	1 446 207	1 473 619
Trade and other receivables	13	**375 494**	211 646	290 664
Derivative financial instruments	28	**1 669**	-	-
Amounts owing by Group companies	30	**1 502 342**	2 316 525	1 743 151
Cash and cash equivalents		**2 051 082**	465 001	846 510
		5 497 653	4 439 379	4 353 944
Assets classified as held for sale	14	**-**	47 809	-
Total assets		**20 221 319**	19 788 542	17 620 100
Equity and liabilities				
Shareholders' equity		**9 965 771**	8 504 523	7 804 310
Ordinary share capital and share premium	15	**221 100**	221 100	221 100
Other reserves	17	**140 650**	121 938	94 200
Retained earnings		**9 604 021**	8 161 485	7 489 010
Non-current liabilities		**5 400 587**	6 069 151	4 549 484
Interest-bearing borrowings	18	**2 400 000**	3 199 427	1 517 657
Deferred tax liabilities	9	**2 723 934**	2 266 444	2 211 156
Derivative financial instruments	28	**-**	3 534	21 330
Other non-current liabilities	19	**276 653**	599 746	799 341
Current liabilities		**4 854 961**	5 214 868	5 266 306
Interest-bearing borrowings	18	**746 858**	223 643	1 480 258
Overdraft		**-**	-	4
Provisions	21	**7 975**	31 254	2 385
Derivative financial instruments	28	**30 697**	1 830	690
Trade and other payables		**2 509 739**	2 605 029	2 398 868
Taxation payable		**115 249**	99 088	126 912
Amounts owing to Group companies	30	**1 444 443**	2 244 248	1 257 189
		4 854 961	5 205 092	5 266 306
Liabilities directly associated with assets held for sale	14	**-**	9 776	-
Total equity and liabilities		**20 221 319**	19 788 542	17 620 100

Sappi Southern Africa Limited

Group and Company Cash Flow Statements
For the year ended September 2014

	Notes	Group 2014 R'000	Group 2013 R'000 (Restated)	Company 2014 R'000	Company 2013 R'000 (Restated)
Cash retained from operating activities		**2 453 665**	1 262 092	**2 584 800**	1 369 210
Cash generated from operations	20.1	**2 720 900**	1 175 519	**2 740 798**	1 252 686
(Increase) decrease in working capital	20.2	**(32 012)**	162 722	**(17 672)**	175 453
Cash generated from operating activities		**2 688 888**	1 338 241	**2 723 126**	1 428 139
Finance costs paid	20.3	**(279 215)**	(166 609)	**(283 174)**	(166 779)
Finance revenue received		**71 337**	90 543	**75 243**	90 352
Dividends received		**-**	-	**96 954**	17 500
Taxation paid	20.4	**(27 345)**	(83)	**(27 349)**	(2)
Cash generated (utilized) in investing activities		**253 926**	(2 566 285)	**172 545**	(2 576 639)
Investment to maintain operations		**879 445**	(576 137)	**798 064**	(586 491)
- Replacement of non-current assets	20.5	**(161 692)**	(527 311)	**(145 482)**	(520 159)
- Proceeds on disposal of non-current assets	20.6	**29 213**	14 044	**28 428**	14 044
Proceeds on disposal of held for sale assets	20.7	**1 004 147**	-	**1 004 147**	-
- Decrease (increase) in investments and loans		**7 777**	(62 870)	**(89 029)**	(80 376)
Investment to expand properties		**(625 519)**	(1 990 148)	**(625 519)**	(1 990 148)
- Addition of non-current assets		**(625 519)**	(1 951 698)	**(625 519)**	(1 951 698)
- Addition of plantations		**-**	(38 450)	**-**	(38 450)
Cash effects of financing activities		**(1 133 110)**	913 659	**(1 171 249)**	825 924
Proceeds from interest-bearing borrowings		**-**	3 569 193	**-**	3 569 193
Repayment of interest-bearing borrowings		**(292 210)**	(3 144 038)	**(292 210)**	(3 144 038)
Share-based payment reserve redeemed		**(20 086)**	(19 486)	**(20 086)**	(19 253)
Increase in other non-current liabilities		**(29 937)**	(24 922)	**(29 397)**	(25 018)
(Decrease) increase in amounts owing to Group companies		**(790 877)**	532 912	**(829 556)**	445 040
Net movement in cash and cash equivalents		**1 574 481**	(390 534)	**1 586 096**	(381 505)
Cash and cash equivalents at beginning of year		**468 619**	859 153	**465 001**	846 506
Cash on divisions / companies sold		**8 191**	-	**(15)**	-
Cash and cash equivalents at end of year	20.8	**2 051 291**	468 619	**2 051 082**	465 001

Sappi Southern Africa Limited

Group and Company Statements of Changes in Equity

For the year ended September 2014

Group

	Ordinary share capital R'000	Share premium R'000	Other reserve R'000	Hedging reserve	Retained earnings R'000	Total R'000
Balance - September 2012	12 030	209 070	96 025	(18 245)	7 549 897	7 848 777
Share based payment	-	-	16 282	-	-	16 282
Sappi Limited share incentive trust	-	-	(19 486)	-	-	(19 486)
Share based payment – BBBEE	-	-	30 847	-	-	30 847
Total comprehensive income	-	-	-	48 790	663 228	712 018
Balance - September 2013	12 030	209 070	123 668	30 545	8 213 125	8 588 438
Share based payment	**-**	**-**	**13 399**	**-**	**-**	**13 399**
Sappi Limited share incentive trust	**-**	**-**	**(20 051)**	**-**	**-**	**(20 051)**
Share based payment – BBBEE	**-**	**-**	**25 382**	**-**	**-**	**25 382**
Total comprehensive (expense) income	**-**	**-**	**-**	**(20 614)**	**1 462 648**	**1 442 034**
Balance - September 2014	**12 030**	**209 070**	**142 398**	**9 931**	**9 675 773**	**10 049 202**

Company

	Ordinary share capital R'000	Share premium R'000	Other reserve R'000	Hedging reserve R'000	Retained earnings R'000	Total R'000
Balance - September 2012 as previously reported	12 030	209 070	94 200	(18 245)	7 457 722	7 754 777
Adjustments (note 3)	-	-	-	-	49 533	49 533
Balance - September 2012 (restated)	12 030	209 070	94 200	(18 245)	7 507 255	7 804 310
Share based payment	-	-	16 144	-	-	16 144
Sappi Limited share incentive trust	-	-	(19 253)	-	-	(19 253)
Share based payment – BBBEE	-	-	30 847	-	-	30 847
Total comprehensive income	-	-	-	48 790	623 685	672 475
Balance - September 2013 (restated)	12 030	209 070	121 938	30 545	8 130 940	8 504 523
Share based payment	**-**	**-**	**13 381**	**-**	**-**	**13 381**
Sappi Limited share incentive trust	**-**	**-**	**(20 051)**	**-**	**-**	**(20 051)**
Share based payment – BBBEE	**-**	**-**	**25 382**	**-**	**-**	**25 382**
Total comprehensive (expense) income	**-**	**-**	**-**	**(20 614)**	**1 463 150**	**1 442 536**
Balance - September 2014	**12 030**	**209 070**	**140 650**	**9 931**	**9 594 090**	**9 965 771**

1. Business

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

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

1.1 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)
- SAICA Financial Reporting Guides as issued by the Accounting Practices Committee
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and

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.

2 Accounting policies

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

2.1 Significant accounting policy elections

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

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

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

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

(i) Financial year
The group's financial year-end is on the Sunday closest to the last day of September. Accordingly, the last two financial years were as follows:
- 30 September 2013 to 28 September 2014 (52 weeks)
- 01 October 2012 to 29 September 2013 (52 weeks)

(ii) Underlying concepts
The group annual financial statements are prepared on the going concern basis.

Assets and liabilities and, income and expenses are not offset in the income statement or balance sheet unless specifically permitted by IFRS.

Changes in accounting estimates are recognised prospectively in profit or loss, except to the extent that they give rise to changes in the carrying amount of recognised assets and liabilities where the change in estimate is recognised immediately.

2.2 Summary of accounting policies

2.2.1 Foreign currencies

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

2. Accounting policies (continued)

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

(iii) Foreign operations
The results and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- Assets and liabilities are translated at the period-end rate and
- Income statement items are translated at the average exchange rate for the year

Exchange differences on translation are accounted for in OCI. These differences will be recognised in earnings on realisation of the underlying operation.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations (ie the reporting entity's interest in the net assets of that operation), and of borrowings designated as hedging instruments of such investments, are taken to OCI.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the period-end rate on each reporting date.

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

Period-end rate	**2014**	**2013**	**2012**
US$1 = ZAR	11.2285	10.0930	8.3096
€1 = US$	1.2685	1.3522	1.2859
Annual average rate			
US$1 = ZAR	10.5655	9.2779	8.0531
€1 = US$	1.3577	1.3121	1.2988

2.2.2 Group accounting

(i) Subsidiaries
An entity is consolidated when the group is exposed or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. The assets, liabilities and results of these entities are included in these group annual financial statements. The results of subsidiaries acquired or disposed of in the year are included in the group annual income statement from the date of acquisition or up to the date of disposal or cessation of control.

Intra-group balances and transactions and, profits or losses arising from intra-group transactions are eliminated in the preparation of the group annual financial statements. Intra-group losses are not eliminated to the extent that they provide objective evidence of impairment.

(ii) Associates and joint ventures
The results, assets and liabilities of associates and joint ventures are incorporated in the group's annual financial statements using the equity method of accounting. Under the equity method, associates and joint ventures are carried at cost and adjusted for the post-acquisition changes in the group's share of the associates' and joint ventures' net assets. The share of the associates' or joint ventures' profit after tax is determined from their latest financial statements or, if their year-ends are different to those of the group, from their unaudited management accounts that corresponds to the group's financial year-end.

Where there are indicators of impairment, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised, which the group records in other operating expenses in profit or loss, is deducted from the carrying amount of the investment. Any reversal of an impairment loss increases the carrying amount 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.

2. Accounting policies (continued)

(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. All derivative instruments are classified as held for trading other than those which are designated and effective hedging instruments.

- **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.

- **Available-for-sale financial assets**
  Available-for-sale financial assets are measured at fair value with any gains or 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 or losses reported in profit or loss.

(v) Derecognition

The group derecognises a financial asset when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when and only when the liability is extinguished, ie when the obligation specified in the contract is discharged, cancelled or has expired. The difference in the respective carrying amounts is recognised in profit or loss for the period.

(vi) Impairment of financial assets

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

- **Available-for-sale financial assets**
  When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains or losses recognised in equity (to the extent of any remeasurements) 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 OCI.

(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) Licence fees

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

2. Accounting policies (continued)

2.2.6 Inventories

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

Cost is determined on the following basis:

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

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

2.2.7 Leases

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

Capitalised leased assets are depreciated on a basis consistent with those of 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 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 Borrowing costs

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

Borrowing costs capitalised are calculated at the group's average funding cost, except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

2.2.10 Revenue

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, delivery has been made and title has passed, the amount of the revenue and the related costs can be reliably measured and, when it is probable that the debtor will pay for the goods. For the majority of local and regional sales, transfer occurs at the point of offloading the shipment into the customer warehouse whereas for the majority of export sales, transfer occurs when the goods have been loaded into the relevant carrier unless the contract of sale specifies different terms.

Revenue is measured at the fair value of the amount received or is receivable and is after the deduction of trade and settlement discounts, rebates and customer returns.

Shipping and handling costs, such as freight to the group's customers' destinations 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. Accounting policies (continued)

2.2.11 Emission trading

The group recognises grants 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 amount, a gain is recognised in selling, general and administrative expenses in profit or loss for the period.

2.2.12 Cash and cash equivalents

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

2.2.13 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 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.

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.

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

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

In accounting for the group’s share-based payment transactions, management uses estimates and assumptions to determine share-based payment expenses. Key inputs to this process include; the volatility of the group’s share price, employee turnover rate and dividend payout rates which are necessary in determining the grant date fair value.

Note 27 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of the year.

2. Accounting policies (continued)

2.3 Critical accounting policies and key sources of estimation uncertainty

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

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

2.3.1 Impairment of assets other than goodwill and financial instruments

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

Intangible assets not yet available for use are tested at least annually for impairment.

In assessing assets for impairment, the group estimates the asset's useful life, discounted future cash flows, including appropriate bases for future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, the planned use of machinery or equipment or closing of facilities. The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the CGU to which the asset belongs. Additionally, assets are also assessed against their fair value less costs to sell.

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

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 7 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 30 years
Vehicles	straight-line	5 to 10 years
Furniture and Equipment	straight-line	3 to 6 years

During the year, the estimated useful life of the group's pulp mill equipment was reassessed and extended from 20 to 30 years and as such, the depreciation charge for the year was approximately R101 million less than it would have been had the useful life not been reassessed.

The group reassesses the estimated useful lives and residual values of components of property, plant and equipment on an ongoing basis. As a result, depending on economic and other circumstances, a component of property, plant and equipment could exceed the estimated useful life as indicated in the categories above.

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 OCI, in which case, it is also recognised in OCI.

2. Accounting policies (continued)

(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.

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

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

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

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

Refer to note 9 to the group annual financial statements for the movement in unrecognised deferred tax assets.

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

2.3.4 Derivatives and hedge accounting

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

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

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

The gains or losses, which are recognised in OCI, 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 OCI to the underlying asset or liability on the transaction date.

2. Accounting policies (continued)

(iii)Discontinuance of hedge accounting
Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised when, for cash flow hedges, the designation is revoked and the forecast transaction is no longer expected to occur. Where a forecasted transaction is no longer expected to occur, the cumulative gain or loss deferred in OCI is transferred to profit or loss.

The financial instruments that are used in hedging transactions are assessed both, at inception and quarterly thereafter to ensure they are effective in offsetting changes in either the fair value or cash flows of the related underlying exposures. Hedge ineffectiveness is recognized immediately in profit or loss.

Refer to notes 28 and 29 to the group annual financial statements for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

2.3.5 Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage and is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 Fair Value Measurement. The group uses the income approach in determining fair value as it believes that this method yields the most appropriate valuation.

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 estimated 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 8.

- **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 and 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 a depletion cost (fellings).

  Depletion costs include the fair value of timber felled, which is determined on the average method, plus amounts written off against standing timber to cover loss or damage caused by fire, disease and stunted growth. These costs are accounted for on a cost per metric ton allocation method multiplied by unadjusted current market prices. Tons are calculated using the projected growth to rotation age and are extrapolated to current age on a straight-line basis.

  The group has projected growth estimation over a period of 8 to 18 years per rotation. In deriving this estimate, the group established a long-term sample plot network which is representative of the species and sites on which trees are grown and the measured data from these permanent sample plots were used as input into the group's growth estimation. Periodic adjustments are made to existing models for new genetic material.

  The group directly manages plantations established on land that is either owned or leased from third parties. Indirectly managed plantations represent plantations established on land held by independent commercial farmers where Sappi provides technical advice on the growing and tendering of trees.

  The associated costs for managing plantations are recognised as silviculture costs in cost of sales (see note 4).

2. Accounting policies (continued)

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.

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 or losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in OCI. 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.

Net interest for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, adjusted for any changes as a result of contributions and benefit payments, to the net defined benefit liability and recorded in finance costs in profit or loss.

The net liability recognised in the balance sheet represents the present value of the defined benefit obligation 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 present value of any future refunds from the plan or reductions in future contributions to the plan.

Refer to note 25 and 26 for the key estimates, assumptions and other information on post-employment benefits.

2.3.7 Provisions

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

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

Environmental accruals are recorded based on current interpretation of environmental laws and regulations (refer to note 2.3.8).

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

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

Refer to note 21 to the group annual financial statements for the nature of provisions recorded.

2.3.8 Environmental restoration and decommissioning obligations

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

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

Refer to note 32 to the group annual financial statements for a description of the major environmental laws and regulations that affect the group, expected new laws and regulations and, the estimated impact thereof.

2. Accounting policies (continued)

2.4 Adoption of accounting standards in the current year

Standards and amendments to standards
The below mentioned standards, which have a material impact on the group annual financial statements, were adopted by the group for the year ended September 2014. These standards are required to be applied retrospectively.

- IAS 19 (Revised) Employee Benefits – The amendments to IAS 19 (Revised) require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerates the recognition of past service costs. The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net interest amount under the revised standard, which is calculated by applying the discount rate to the net defined benefit liability or asset. In addition, there are certain changes to the presentation of defined benefit cost including more extensive disclosures.

- IFRS 10 Consolidated Financial Statements – IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. An investor controls an investee when the investor is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

  Additionally, specified assets or a portion of an investee that are considered to be a deemed separate entity should be consolidated provided that those assets are in substance ring-fenced from other creditors.

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

- IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities;
- IFRS 11 Joint Arrangements – classifies joint arrangements as either joint operations or joint ventures and requires different treatment for these;
- IFRS 12 Disclosure of Interest in Other Entities;
- IFRS 13 Fair Value Measurements – establishes a single source of guidance for fair value measurements under IFRS;
- IAS 27 Separate Financial Statements – amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and
- IAS 28 Investments in Associates and Joint Ventures – amendment to conform changes based on the issuance of IFRS 10 and IFRS 11.

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

Certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective and have not yet been early adopted by the group. The impact of these standards is still being evaluated by the group.

These new standards and their effective dates for the group's annual accounting periods are listed below:

- IFRS 9 Financial Instruments – IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities - September 2019.

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

- IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations – September 2017
- IFRS 14 Regulatory Deferral Accounts – September 2017
- IFRS 15 Revenue from Contracts with Customers – provides a single, principles based five-step model to be applied to all contracts with customers – September 2018
- IAS 19 Defined Benefit Plans – Employee Contributions – September 2015;
- IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements – September 2017
- IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities – September 2015;
- IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets - September 2015;
- IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting - September 2015;
- IAS 41 Agriculture – Bearer Plants – September 2017
- IFRIC 21 Levies – September 2015; and
- Various improvements to IFRS's.

3. Restatement

Adoption of IFRS 10 Consolidated Financial Statements

IFRS 10 provided a single consolidation model that identifies control as the basis for consolidation for all types of entities. An investor controls an investee when the investor is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Additional, specified assets or a portion of an investee that are considered to be a deemed separate entity should be consolidated provided that those assets are in substance ring—fenced from other creditors. Following a recent interpretation of a discussion paper issued by the Financial Services Board in South Africa (which states that although the insurance industry is governed by contractual arrangements, cell captives are not legally ring-fenced in the event of liquidation), the group consequently deconsolidated its assets with its South African insurer.

Adoption of IAS 19 (Revised) Employee Benefits

This standard, which is required to be applied retrospectively, was adopted by the group for the year ended September 2014. As a result of the change, the group now determines the net interest expense (income) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, adjusted for any changes as a result of contributions and benefit payments, to the net defined liability (asset).Previously, the group determined interest income on plan assets based on the assets long-term rate of expected return. The group also reclassified the net interest expense (income) from operating to finance costs as an accounting policy choice.

The impact on profit and other comprehensive income for the year ended September 2013 is as follows:

	As previously reported	IFRS 10 adjustment	IAS 19 adjustment	Restated
	R'000		R'000	R'000
2013				
GROUP				
Condensed group income statement				
Selling, general and administrative expenses	462 642	-	(20 259)	442 383
Net finance costs	174 153	-	53 270	227 423
Taxation	(49 377)	-	(9 243)	(58 620)
Profit for the period	511 966	-	(23 768)	488 198
Condensed group statement of comprehensive income				
Items that will not be reclassified subsequently to profit and loss				
Actuarial gains on post employment benefit funds	208 975	-	33 011	241 986
Tax effect on above item	(58 411)	-	(9 243)	(67 654)
Condensed group balance sheet				
Other non-current assets	453 014	339 295	-	792 309
Trade and other receivables	222 490	(1 880)	-	220 610
Cash and cash equivalents	806 034	(337 415)	-	468 619
Condensed cash flow statement				
Cash retained from operating activities	1 262 092	-	-	1 262 092
Cash utilised in investing activities	(2 568 362)	2 077	-	(2 566 285)
Cash effects of financing activities	913 659	-	-	913 659
Net movement in cash and cash equivalents	(392 611)	2 077	-	(390 534)
COMPANY				
Condensed group income statement				
Selling, general and administrative expenses	437 749	29 124	(20 259)	446 614
Net finance costs	196 605	(22 237)	53 270	227 638
Taxation	(38 214)	(1 928)	(9 243)	(49 385)
Profit for the period	477 741	(4 959)	(23 768)	449 014
Condensed group statement of comprehensive income				
Items that will not be reclassified subsequently to profit and loss				
Movement on available for sale financial asset	-	698	-	698
Actuarial gains on post employment benefit funds	208 615	-	33 011	241 626
Tax effect on above item	(58 410)	-	(9 243)	(67 653)

3. Restatement (continued)

	As previously reported	IFRS 10 adjustment	IAS 19 adjustment	Restated
Condensed group balance sheet				
Equity investments	72 540	(100)	-	72 440
Other non-current assets	380 024	412 193	-	792 217
Amounts owing by group companies	2 671 238	(354 713)	-	2 316 525
Retained earnings	8 116 214	45 271	-	8 161 485
Deferred tax liabilities	2 254 335	12 109		2 266 444
Condensed cash flow statement				
Cash retained from operating activities	1 375 953	(6 743)	-	1 369 210
Cash utilised in investing activities	(2 583 382)	6 743	-	(2 576 639)
Cash effects of financing activities	825 924	-	-	825 924
Net movement in cash and cash equivalents	(381 505)	-	-	(381 505)
2012				
GROUP				
Condensed group income statement				
Selling, general and administrative expenses	499 276	-	(36 523)	462 753
Net finance costs	140 695	-	62 718	203 413
Taxation	171 695	-	(7 335)	164 360
Profit for the period	497 871	-	18 860	516 731
Condensed group statement of comprehensive income				
Items that will not be reclassified subsequently to profit and loss				
Actuarial gains on post employment benefit funds	(69 585)	-	26 195	(43 390)
Tax effect on above item	17 973	-	(7 335)	(10 638)
Condensed group balance sheet				
Other non-current assets	208 834	341 517	-	550 351
Trade and other receivables	317 634	(2 026)	-	315 608
Cash and cash equivalents	1 198 648	(339 491)	-	859 157
Condensed cash flow statement				
Cash retained from operating activities	1 344 886	-	-	1 344 886
Cash utilised in investing activities	(1 600 116)	(1 110)	-	(1 601 226)
Cash effects of financing activities	(801 958)	-	-	(801 958)
Net movement in cash and cash equivalents	(1 057 188)	1 110	-	(1 056 078)
COMPANY				
Condensed group income statement				
Selling, general and administrative expenses	483 909	26 731	(36 523)	474 117
Net finance costs	164 713	(23 865)	62 718	203 566
Taxation	171 573	(802)	(7 335)	163 436
Profit for the period	766 250	2 064	18 860	787 174
Condensed group statement of comprehensive income				
Items that will not be reclassified subsequently to profit and loss				
Movement on available for sale financial asset	-	4 653	-	4 653
Actuarial gains on post employment benefit funds	(64 188)	-	26 195	(37 993)
Tax effect on above item	17 973	-	(7 335)	10 638
Condensed group balance sheet				
Equity investments	72 540	(100)	-	72 440
Other non-current assets	131 595	418 383	-	549 978
Amounts owing by group companies	2 097 864	(354 713)	-	1 743 151
Retained earnings	7 439 477	49 533	-	7 489 010
Deferred tax liabilities				
Condensed cash flow statement				
Cash retained from operating activities	1 824 061	(2 957)	-	1 821 104
Cash utilised in investing activities	(1 469 256)	2 957	-	(1 466 299)
Cash effects of financing activities	(1 403 605)	-	-	(1 403 605)
Net movement in cash and cash equivalents	(1 048 800)	-	-	(1 048 800)

Sappi Southern Africa Limited

Notes to the Group and Company Annual Financial Statements (Continued)
Year ended September 2014

4. Operating profit

4.1 Cost of sales and selling, admin and general

	Group				Company			
	2014 R'000		2013 R'000 (Restated)		**2014 R'000**		2013 R'000 (Restated)	
	Cost of sales	**Selling, admin and general**	Cost of sales	Selling, admin and general	**Cost of sales**	**Selling, admin and general**	Cost of sales	Selling, admin and general
Raw materials, energy and other direct input costs	**7 469 864**	**-**	6 535 763	-	**7 353 900**	**-**	6 611 796	-
Fair value adjustment on plantations	**(270 980)**	**-**	(892 168)	-	**(149 278)**	**-**	(776 475)	-
Employee costs	**1 622 254**	**464 675**	1 551 577	483 512	**1 571 207**	**464 675**	1 510 099	483 512
Depreciation	**630 037**	**35 286**	668 448	47 317	**615 597**	**36 585**	660 949	47 317
Delivery charges	**1 078 944**	**-**	1 030 408	-	**1 066 729**	**-**	1 030 561	-
Maintenance	**768 677**	**-**	701 371	-	**728 944**	**-**	693 057	-
Other overheads	**936 082**	**-**	959 498	-	**876 024**	**-**	884 013	-
Marketing and selling expenses	**-**	**23 738**	-	25 681	**-**	**23 738**	-	25 681
Administrative and general income	**-**	**(210 934)**	-	(114 127)	**-**	**(209 909)**	-	(109 896)
	12 234 878	**312 765**	10 554 897	442 383	**12 063 123**	**315 089**	10 614 000	446 614

		Group		Company	
		2014	2013	**2014**	2013
		R'000	R'000	**R'000**	R'000
			(Restated)		(Restated)
4.1	**Operating profit (continued)**				
	Fair value gains on plantations (note 8)				
	Changes in volumes				
	Fellings	**623 439**	614 149	**599 807**	576 388
	Growth	**(704 846)**	(706 135)	**(679 343)**	(614 982)
		(81 407)	(91 986)	**(79 536)**	(38 594)
	Plantation price fair value adjustment	**(189 573)**	(800 182)	**(69 742)**	(737 881)
		(270 980)	(892 168)	**(149 278)**	(776 475)
	Silviculture costs (included within cost of sales)	**630 165**	640 352	**594 861**	566 156
	Leasing charges for premises	**16 914**	26 206	**16 914**	26 206
	Leasing charges for plant and equipment	**23 610**	28 450	**23 610**	28 450
	Leasing charges for vehicles	**17 305**	14 833	**16 493**	13 779
	Leasing charges for office equipment	**15 349**	14 851	**15 197**	14 591
	Cost of derecognition of loans and receivables	**71 016**	62 405	**71 016**	62 405
	Remuneration paid other than to bona fide employees of the company in respect of:	**11 628**	12 433	**10 248**	11 954
	• technical services	**8 232**	7 406	**6 852**	6 931
	• administration services	**3 396**	5 027	**3 396**	5 023
	Auditors' remuneration	**7 140**	8 230	**7 140**	8 230
	• audit and related services	**6 637**	7 683	**6 637**	7 683
	• tax planning and tax advice	**503**	547	**503**	547
	Research and development costs	**16 395**	22 772	**16 031**	22 772
4.2	**Employee costs**				
	Wages and salaries	**1 549 918**	1 500 370	**1 512 166**	1 472 303
	Pension costs (refer note 25)	**64 423**	84 838	**63 761**	83 341
	Post employment benefits other than pension expense (refer note 26)	**8 535**	5 683	**8 535**	5 683
	Defined contribution expense	**112 500**	107 201	**109 213**	103 641
	Other company contributions	**87 802**	73 325	**84 885**	72 395
	Overtime	**123 054**	123 919	**122 214**	123 391
	Share-based payment expense	**13 412**	16 224	**13 394**	16 086
	Other	**127 285**	123 529	**121 714**	116 771
		2 086 929	2 035 089	**2 035 882**	1 993 611

	Group 2014 R'000	Group 2013 R'000 (Restated)	Company 2014 R'000	Company 2013 R'000 (Restated)
4.3 Other expenses (income)				
Loss on sale and write-off of property, plant and equipment	**11 696**	24 403	**27 174**	24 403
Costs and Losses due to major events (including Fires and floods)	**5 869**	43 811	**5 232**	42 484
Scrapping of obsolete stores	**9 887**	70 439	**9 887**	70 439
Gain on settlement – medical aid buy out	**-**	(222 828)	**-**	(222 828)
Profit on assets held for sale	**(66 607)**	-	**(128 861)**	-
Insurance recoveries	**(81 182)**	-	**(81 182)**	-
Costs related to insurance claims	**92 529**	-	**92 529**	-
Impairments of property, plant and equipment (refer note 7)	**17 931**	853 997	**17 931**	853 997
Write down investments	**-**	-	**(90)**	-
Impairment reversal of intercompany balances	**-**	-	**(11 300)**	(31 355)
Black economic empowerment transaction charge	**25 383**	30 847	**25 383**	30 847
Restructuring costs	**16 243**	86 030	**(8 143)**	61 686
Goodwill impaired	**10 250**	-	**-**	-
Other	**(912)**	(849)	**(8 518)**	(849)
	41 087	885 850	**(59 958)**	828 824
4.4 Investment income				
Dividend received	**-**	-	**(96 954)**	(17 500)
5. Net finance costs				
Gross interest and other finance costs on liabilities carried at amortised cost	**278 716**	318 030	**278 699**	318 054
• Interest on bank overdrafts	**11 986**	24 334	**11 969**	24 358
• Interest on redeemable bonds and other loans	**259 775**	282 985	**259 775**	282 985
• Interest on obligations under finance lease	**6 955**	10 711	**6 955**	10 711
Net interest on employee benefits	**18 142**	53 270	**18 142**	53 270
Finance costs	**296 858**	371 300	**296 841**	371 324
Finance revenue received on assets carried at amortised cost	**(76 427)**	(90 543)	**(76 350)**	(90 352)
• Interest on bank accounts	**(67 586)**	(52 267)	**(67 509)**	(52 076)
• Interest revenue on loans and investments	**(3 401)**	(1 707)	**(3 401)**	(1 707)
• Inter-group finance revenue	**(5 440)**	(36 569)	**(5 440)**	(36 569)
Interest capitalised	**-**	(65 475)	**-**	(65 475)
Net foreign exchange (gain) loss	**(1 116)**	12 141	**(1 123)**	12 141
Net fair value gain on financial instruments	**(104)**	-	**(104)**	-
	219 211	227 423	**219 264**	227 638

		Group		Company	
		2014	2013	**2014**	2013
		R'000	R'000	**R'000**	R'000
			(Restated)		(Restated)
6.	**Taxation charge (benefit)**				
	Current taxation:				
	• Current year	**58 980**	(891)	**58 913**	(891)
	• Prior year over provision	**(15 403)**	(26 971)	**(15 403)**	(26 931)
	Deferred taxation (refer note 9):				
	• Current year	**495 038**	(46 112)	**476 230**	(36 842)
	• Prior year under provision	**18 223**	15 354	**18 219**	15 279
		556 838	(58 620)	**537 959**	(49 385)

In addition to income taxation (benefits) expense charges to profit and loss, deferred taxation charge of R34 064 thousand (2013: R86 628 thousand benefit) has been recognised directly in other comprehensive income (refer note 9).

Reconciliation of the tax rate:	**%**	%	**%**	%
Statutory tax rate	**28.0**	28.0	**28.0**	28.0
Foreign tax differential	**-**	0.1	**-**	-
(Non-taxable income) / Non-deductible expenses	**(0.7)**	(34.5)	**(2.3)**	(37.5)
Deferred tax asset not recognised	**(1.0)**	(1.9)	**-**	-
Recognition of previous unrecognized taxation assets	**-**	(2.7)	**-**	-
Prior year adjustments	**0.1**	(2.7)	**0.1**	(2.9)
Effective taxation rate for the year	**26.4**	(13.7)	**25.8**	(12.4)

		R'000	R'000	**R'000**	R'000
7.	**Property, plant and equipment**				
	Land and buildings				
	At cost	**2 957 343**	2 687 284	**2 767 987**	2 710 308
	Accumulated depreciation	**1 034 516**	801 088	**876 920**	821 056
		1 922 827	1 886 196	**1 891 067**	1 889 252
	Plant and equipment				
	At cost	**17 256 188**	17 210 784	**17 018 457**	17 164 225
	Accumulated depreciation	**9 672 655**	9 410 427	**9 514 794**	9 379 229
		7 583 533	7 800 357	**7 503 663**	7 784 996
	Capitalised leased assets				
	At cost	**-**	200 477	**-**	200 477
	Accumulated depreciation	**-**	170 160	**-**	170 160
		-	30 317	**-**	30 317
	Aggregate cost	**20 213 531**	20 098 545	**19 786 444**	20 075 010
	Aggregate accumulated depreciation	**10 707 171**	10 381 675	**10 391 714**	10 370 445
	Aggregate book value	**9 506 360**	9 716 870	**9 394 730**	9 704 565

7. Property, plant and equipment (continued)

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

	Land and buildings R'000	Plant and equipment R'000	Capitalised leased assets R'000	Total R'000
Group				
Net book value at September 2012	1 546 003	7 194 032	47 349	8 787 384
Additions	445 720	2 074 920	-	2 520 640
Finance costs capitalized	-	65 475	-	65 475
Disposals	(5 110)	(33 337)	-	(38 447)
Depreciation	(77 851)	(620 882)	(17 032)	(715 765)
Impairments of property, plant and equipment (refer note 4.3)	-	(853 997)	-	(853 997)
Assets transferred to held for sale	(22 566)	(25 854)	-	(48 420)
Net book value at September 2013	1 886 196	7 800 357	30 317	9 716 870
Additions	**102 386**	**413 945**	**-**	**516 331**
Transferred from capitalized	**15 158**	**149**	**(15 307)**	**-**
Disposals	**(2 092)**	**(38 817)**	**-**	**(40 909)**
Depreciation	**(76 128)**	**(574 184)**	**(15 010)**	**(665 322)**
Impairments of property, plant and equipment (refer note 4.3)	**-**	**(17 931)**	**-**	**(17 931)**
Assets transferred to held for sale	**(2 693)**	**14**	**-**	**(2 679)**
Net book value at September 2014	**1 922 827**	**7 583 533**	**-**	**9 506 360**
Company				
Net book value at September 2012	1 553 562	7 138 296	47 349	8 739 207
Additions	438 568	2 074 920	-	2 513 488
Finance costs capitalized	-	65 475	-	65 475
Disposals	(16 327)	(22 120)	-	(38 447)
Depreciation	(73 656)	(617 578)	(17 032)	(708 266)
Impairments of property, plant and equipment (refer note 4.3)	-	(853 997)	-	(853 997)
Assets transferred to held for sale	(12 895)	-	-	(12 895)
Net book value at September 2013	1 889 252	7 784 996	30 317	9 704 565
Additions	**100 437**	**399 684**	**-**	**500 121**
Transferred from capitalised	**-**	**148**	**(148)**	**-**
Disposals	**(2 085)**	**(38 358)**	**(15 159)**	**(55 602)**
Disposals intercompany	**(17 934)**	**(63 688)**	**-**	**(81 622)**
Depreciation	**(75 983)**	**(561 188)**	**(15 010)**	**(652 181)**
Impairments of property, plant and equipment (refer note 4.3)	**-**	**(17 931)**	**-**	**(17 931)**
Assets transferred to held for sale	**(2 620)**	**-**	**-**	**(2 620)**
Net book value at September 2014	**1 891 067**	**7 503 663**	**-**	**9 394 730**

The useful lives of Sappi's pulp mill equipment was extended from 20 to 30 years. This decision was made based upon available evidence of existing pulp mill equipment within the group is lasting 30 years. Annually this amounts to a reduced depreciation charge of R101 million.

7. Property, plant and equipment (continued)

Details of land and buildings are available at the registered offices of the respective companies (refer note 22 for details of encumbrances).

Impairments

September 2014

Enstra Mill

During the year, the group incurred capital maintenance expenditure on assets that were previously impaired. This resulted in an amount of R13 million being written off to other operating expenses in profit or loss for the period.

Tugela

During the year, the group incurred capital maintenance expenditure on assets that were previously impaired. This resulted in an amount of R21 million being written off to other operating expenses in profit or loss for the period.

Stanger Mill

During the year, the group incurred capital maintenance expenditure on assets that were previously impaired. This resulted in an amount of R4 million being written off to other operating expenses in profit or loss for the period.

Plant that was previously impaired at Stanger Mill was disposed of resulting in an impairment reversal of R20 million being recognized in other operating expenses in profit or loss for the period.

September 2013

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

Tugela Mill
Due to ongoing losses at Tugela Mill at the end of the second financial quarter, the mill was tested for impairment resulting in an impairment charge of R432 million being recorded in other operating expenses in profit or loss for the period. The recoverable amount was calculated on a value in use basis, using a real pre-tax discount rate of 9.12%.

Stanger Mill
As a result of difficult local market conditions as well as input costs pressure on the paper production facility at Stanger Mill, the paper production facility was tested for impairment resulting in an impairment charge of R112 million being recorded in other operating expenses in profit or loss for the period. The recoverable amount was calculated on a value in use basis, using a real pre-tax discount rate of 9.12%.

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

8. Plantations

	Group		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
Fair value of plantations at the beginning of the year	**4 684 542**	4 618 183	**4 684 542**	3 904 531
Fire, hazardous weather and other damages	**-**	(38 676)	**-**	(38 676)
Acquisitions	**-**	38 450	**-**	38 450
Gains arising from growth	**679 343**	744 811	**679 343**	653 658
Gain arising from fair value price charges	**69 742**	800 182	**69 742**	737 881
Harvesting - agriculture produce (fellings)	**(599 807)**	(614 149)	**(599 807)**	(576 388)
Reclassified to held for sale	**(2 234)**	(864 259)	**(2 234)**	(34 914)
Fair value of plantations at the end of the year	**4 831 586**	4 684 542	**4 831 586**	4 684 542

At September 2013, plantations with the value of R864 million were disclosed as assets held for sale. In accordance with IAS 41 Agriculture, these plantations were carried at fair value. Before the disposal of the plantations in the current period, gains arising from growth amounted to R26m, the price fair value adjustment amounted to R119m and timber worth R23m was felled in these plantations.

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 to ensure that the optimum fibre balance is supplied to its paper and pulping operations in Southern Africa. The group manages its plantations on a rotational basis. As such, increases by means of growth are negated by fellings, for the group's own use for external sales, over the rotation period.

We own plantations on land that we own, as well as on land that we lease. We disclose both of these as directly managed plantations. With regard to indirectly managed plantations, Sappi has several different types of agreements with many independent farmers. The terms of the agreements depend on the type and specific needs of the farmer and the areas planted and range in duration from one to more than 20 years. In certain circumstances, we provide loans to farmers that are disclosed as accounts receivable on the group balance sheet (these loans are considered, individually and in aggregate, immaterial to the group). If Sappi provides seedlings, silviculture and/or technical assistance, the costs are expensed when incurred by the group.

The group is exposed to financial risks arising from climatic changes, disease and other natural risks such as fire, flooding and storms and human-induced losses arising from strikes, civil commotion and malicious damage. These risks are covered by an appropriate level of insurance as determined by management. The plantations have an integrated management system that complies with FSC standards.

Plantations are stated at fair value less estimated cost to sell at harvesting stage and is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFR13 Fair Value Measurement which is consistent with the prior year. The fair value of plantations has been calculated using a real pre-tax discount rate of 8.86%. The group currently values approximately 29 million tons of timber using selling prices and delivery costs that are benchmarked against industry norms. The average annual growth is measured at approximately 18 tons of timber per hectare while immature timber comprise approximately 105,000 hectares of plantation. As changes to 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, the group has calculated the sensitivity of a change in each of these assumptions as tabled below:

	2014	2013
	R'000	R'000
Fair value changes		
1% increase in market prices	**23 120**	23 211
1% decrease in market prices	**(23 120)**	(23 211)
Discount rate (for immature timber)		
1% increase in rate	**(24 462)**	(26 860)
1% decrease in rate	**24 462**	26 860
Volume assumption		
1% increase in estimate of volume	**46 141**	54 936
1% decrease in estimate of volume	**(46 141)**	(54 936)
Costs to sell		
1% increase in costs to sell	**(18 908)**	(18 130)
1% decrease in costs to sell	**18 908**	18 130
Growth assumptions		
1% increase in rate of growth	**12 241**	15 260
1% decrease in rate of growth	**(12 241)**	(15 260)

9. Deferred tax

	2014 Assets R'000	2014 Liabilities R'000	2013 Assets R'000	2013 Liabilities R'000 (Restated)
Group				
Taxation loss carry forward	**-**	**(2 671)**	14 176	(282 626)
Other non current liabilities	**-**	**18 217**	-	(8 899)
Accrued and other liabilities	**-**	**(165 827)**	777	(147 084)
Property, plant and equipment	**-**	**1 538 151**	(3 830)	1 409 039
Plantations	**-**	**1 344 100**	-	1 283 910
Total deferred taxation	**-**	**2 731 970**	11 123	2 254 340
Company				
Taxation loss carry forward	**-**	**-**	-	(282 626)
Other non current liabilities	**-**	**18 217**	-	3 210
Accrued and other liabilities	**-**	**(162 117)**	-	(147 084)
Property, plant and equipment	**-**	**1 523 734**	-	1 409 039
Plantations	**-**	**1 344 100**	-	1 283 905
Total deferred taxation	**-**	**2 723 934**	-	2 266 444

	Group 2014 R'000	Group 2013 R'000 (Restated)	Company 2014 R'000	Company 2013 R'000 (Restated)
Unrecognised deferred taxation assets				
The unrecognised deferred taxation assets relate to the following items in subsidiary companies, where the recoverability of these are uncertain at the balance sheet date:				
• Deductible temporary differences	-	(216 182)	**-**	-
• Taxation losses	-	383 328	**-**	-
	-	167 146	**-**	-
Reconciliation of deferred taxation				
Deferred taxation balances at beginning of year				
• Deferred taxation assets	**(11 123)**	-	**-**	-
• Deferred taxation liabilities	**2 254 340**	2 197 123	**2 266 444**	2 211 156
	2 243 217	2 197 123	**2 266 444**	2 211 156
Deferred taxation (released) charge for the year (refer to note 6)	**513 262**	(30 758)	**494 450**	(21 564)
• Other non current assets	**61 179**	65 018	**49 076**	63 090
• Taxation loss carry forward	**294 132**	(296 802)	**282 626**	(282 626)
• Accrued and other liabilities	**(17 745)**	71 550	**(14 812)**	72 327
• Property, plant and equipment	**125 282**	(85 313)	**127 146**	(89 143)
• Plantations	**50 414**	214 789	**50 414**	214 788
Amounts recorded directly against equity	**(34 064)**	86 628	**(34 064)**	86 628
Transfer on acquisitions and sales	**(221)**	-	**(12 672)**	-
Transfer to Non current assets held for sale	**9 776**	(9 776)	**9 776**	(9 776)
Deferred taxation balances at end of year	**2 731 970**	2 243 217	**2 723 934**	2 266 444
• Deferred taxation assets	**-**	(11 123)	**-**	-
• Deferred taxation liabilities	**2 731 970**	2 254 340	**2 723 934**	2 266 444

	Group		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
		(Restated)		(Restated)
10. Equity investments				
Investment in joint venture	**155 855**	167 455	**72 375**	72 375
Unlisted investments (Refer Annexure A)	**-**	-	**332**	65
	155 855	167 455	**72 707**	72 440

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

The Group has the following joint venture:

Umkomaas Lignin (Pty) Ltd

A 50% joint venture agreement with Borregaard AS for the construction and operation of a lignin plant at Umkomaas and the development, production and sale of products based on lignosulphates in order to build a sustainable lignin business. The financial statements of Umkomaas Lignin (Pty) Ltd are to 31 December of each year which is the year-end of Borregaard AS. The last audited financials were to 31 December 2013. The unaudited management accounts which are prepared in accordance with International Financial Reporting Standards are used to account for joint venture's income to Sappi's year-end.

The joint venture is accounted for using the equity method.

	Group		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
Issued share capital	**1**	1	**1**	1
Cost of investment in joint venture	**1 985**	1 985	**1 985**	1 985
Share of post acquisition profits	**83 480**	95 080	**-**	-
• Opening balance	**95 080**	62 413	**-**	-
• Current year profit	**85 354**	50 167	**-**	-
• Dividend received	**(96 954)**	(17 500)	**-**	-
Loan – converted to share capital	**70 390**	70 390	**70 390**	70 390
	155 855	167 455	**72 375**	72 375
Balance sheet summary				
Current assets	**250 374**	254 717	**-**	-
Non current assets	**163 660**	179 641	**-**	-
Current liabilities	**77 266**	68 902	**-**	-
Non current liabilities	**25 058**	30 546	**-**	-
The above amounts of assets and liabilities include the following:				
Cash and cash equivalents	**52 250**	41 838	**-**	-
Current financial liabilities (excluding trade and other payables and provisions)	**38 589**	29 351	**-**	-
Non current financial liabilities (excluding trade and other payables and provisions)	**25 058**	30 546	**-**	-
Income statement summary				
Sales	**709 074**	570 058	**-**	-
Profit from continuing operations	**170 707**	100 333	**-**	-
Other comprehensive income for the year	**-**	-	**-**	-
Total comprehensive income for the year	**170 707**	100 333	**-**	-
The above profit for the year includes the following:				
Depreciation	**24 559**	28 344	**-**	-
Finance costs	**3 127**	2 055	**-**	-
Finance revenue	**84**	428	**-**	-
Taxation charge	**67 069**	39 845	**-**	-

	Group		Company	
	2014	2013	**2014**	2013
	R'000	R'000 (Restated)	**R'000**	R'000 (Restated)
10. Equity investments (continued)				
Reconciliation of the above summarized financial information to the carrying amount of interest in the joint venture recognized in the consolidated financial statements:				
Net assets of joint venture	**311 710**	334 910	**-**	-
Proportion of the group ownership interest in the joint venture	**50%**	50%	**-**	-
Carrying amount of the groups interest in the joint venture	**155 855**	167 455	**-**	-
Profit for the period	**170 707**	100 334	**-**	-
Group's share of joint ventures profit for the period	**85 354**	50 167	**-**	-

11. Other non-current assets

	Group 2014 R'000	Group 2013 R'000 (Restated)	Company 2014 R'000	Company 2013 R'000 (Restated)
Advances to tree growers	**54 957**	59 581	**54 957**	59 581
Licence fee	**241**	447	**241**	447
Pension asset (refer note 25)	**307 943**	298 828	**307 943**	298 828
Unlisted investment*	**15 000**	427 193	**14 999**	427 192
Other	**6 680**	6 260	**-**	6 169
	384 821	792 309	**378 140**	792 217

* The investment is carried at market value.

12. Inventories

	Group 2014 R'000	Group 2013 R'000 (Restated)	Company 2014 R'000	Company 2013 R'000 (Restated)
Raw materials	**507 138**	452 138	**497 842**	450 175
Work-in-progress	**80 674**	70 362	**74 556**	64 397
Finished goods	**651 088**	618 991	**638 561**	616 631
Consumable stores and spares	**362 431**	315 262	**356 107**	315 004
	1 601 331	1 456 753	**1 567 066**	1 446 207

The credit to the group income statement relating to the adjustment of inventories to net realisable value amounted to R46 295 thousand (2013: R44 764 thousand credit).

The cost of inventories recognised as an expense and included in cost of sales amounted to R12 234 878 thousand (2013: R10 554 897 thousand).

13. Trade and other receivables

	Group 2014 R'000	Group 2013 R'000 (Restated)	Company 2014 R'000	Company 2013 R'000 (Restated)
Trade accounts receivable	**119 039**	98 054	**119 039**	90 250
Receiver of Revenue	**63 672**	37 112	**63 263**	36 549
Prepaid insurance	**21 744**	20 392	**21 240**	20 392
Vendor Note	**90 000**	-	**90 000**	-
Prepayments and other receivables	**83 087**	65 052	**81 952**	64 455
	377 542	220 610	**375 494**	211 646

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

The carrying amount of R377 542 thousand (2013: R220 610 thousand) represents the group's maximum credit risk exposure from trade and other receivables.

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

13.1 Analysis of amounts past due

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

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
Past contract terms but not impaired				
Less than 7 days overdue	**1 294**	-	**1 294**	
Between 7 and 30 days overdue	**1 049**	(10)	**1 049**	(10)
Between 30 and 60 days overdue	**(105)**	(7)	**(105)**	(7)
More than 60 days overdue	**129**	(15)	**129**	(15)
	2 367	(32)	**2 367**	(32)

All amounts due which are beyond their contractual repayment terms are reported to regional management on a regular basis. Any provision for impairment is required to be approved in line with the group limits of authority framework.

The group has no provision against trade receivables that are past due.

The group holds collateral of R15 750 thousand (2013: R24 125 thousand) against these trade receivables that are past due..

13.2 Fair value

Due to the short maturities of trade and other receivables, the carrying amount of these trade and other receivables approximates their fair value.

13.3 Off balance sheet structures

Sappi sells the majority of its receivables to Rand Merchant Bank Limited a division of Firstrand Bank Limited. Sappi does not guarantee the recoverability of any amounts, but carries 15% of the credit risk (and Rand Merchant Bank Limited the remainder) of each underlying receivable, after all recoveries, including insurance recoveries. Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is adjusted dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is JIBAR (Johannesburg Inter Bank Agreed Rate) plus a spread. This structure is currently treated as an off balance sheet arrangement.

If this securitisation facility were to be terminated, we would discontinue further sales of trade receivables and would not incur any losses in respect of receivables previously sold in excess of the 15% mentioned above. There are a number of events which may trigger termination of the facility, amongst others, an amount of defaults above a specified level; terms and conditions of the agreement not being met; or breaches of various credit insurance ratios. The impact on liquidity varies according to the terms of the agreement; generally however, future trade receivables would be recorded on balance sheet until a replacement agreement was entered into.

The total amount of trade receivables securitised at the end of September 2014 amounted to R1 348 437 thousand (September 2013: R1 234 958 thousand). Details of the securitisation programme at the end of fiscal 2014 and 2013 are disclosed in the tables below.

Bank	Currency	Value	Facility	Discount charges
2014				
Rand Merchant Bank	ZAR	1 348 Million	Unlimited*	Linked to 3 month JIBAR
2013				
Rand Merchant Bank	ZAR	1 235 Million	Unlimited*	Linked to 3 month JIBAR

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

Refer to note 29 for further details on credit risk.

13. Trade and other receivables (continued)

13.4 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 2014 and September 2013. 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 R377 542 thousand (2013: R222 610 thousand) represents the group's maximum credit risk exposure from trade and other receivables.

The group has the following trade receivable amounts due from single customers:

Group and Company		**2014**			2013	
	Number of customers	**R'000**	**Percentage**	Number of customers	R'000	Percentage
Less than US$5million	**95**	**119 039**	**100%**	77	98 054	100%
	95	**119 039**	**100%**	77	98 054	100%

	Group		**Company**	
	2014 **R'000**	2013 R'000	**2014** **R'000**	2013 R'000
14. Assets classified as held for sale				
The major classes of assets held for sale and liabilities associated with assets held for sale are as follows:				
Assets classified as held for sale	**-**	933 964	**-**	47 809
Property, plant and equipment	**-**	48 420	**-**	12 895
Plantations	**-**	864 259	**-**	34 914
Other non-current assets	**-**	274	**-**	-
Inventories	**-**	2 847	**-**	-
Trade and other receivables	**-**	18 164	**-**	-
Liabilities associated with assets classified as held for sale	**-**	57 929	**-**	9 776
Deferred tax liabilities	**-**	9 776	**-**	9 776
Other non-current liabilities	**-**	16 440	**-**	-
Provisions	**-**	30 876	**-**	-
Trade and other payables	**-**	837	**-**	-
	-	876 035	**-**	38 033

During the year, Sappi Southern Africa disposed of its subsidiary, Usutu Forests Company Limited (Usutu), and other plantations for an amount of R1 025 million and R69 million respectively resulting in a profit on disposal of R66 million (Company R 128 million). The amount for the sale of Usutu includes a Vendor note of R90 million which is repayable over 6 years at prime plus 2%.

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
15. Ordinary share capital and share premium				
Authorised share capital				
6 052 500 Ordinary shares of R2 each	**12 105**	12 105	**12 105**	12 105
19 520 Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2)	**-**	-	**-**	-
221 107 Class "B" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2)	**-**	-	**2**	2
831 Class "C" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2)	**-**	-	**-**	-
123 321 Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2)	**-**	-	**1**	1
	12 105	12 105	**12 108**	12 108
Issued share capital				
6 015 769 Ordinary shares of R2 each	**12 030**	12 030	**12 030**	12 030
19 520 Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2)	**-**	-	**-**	-
219 760 (2013: 219 985) Class "B" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2)	**-**	-	**2**	2
831 Class "C" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2)	**-**	-	**-**	-
120 046 (2013: 121 014) Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2))	**-**	-	**1**	1
Investment in 363 237 Sappi Property Company (Pty) Ltd cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (Share Capital) (1) (2)	**-**	-	**(3)**	(3)
	12 030	12 030	**12 030**	12 030
Share premium	**209 070**	209 070	**209 070**	209 070
Share premium on new preference shares issued	**-**	-	**223 178**	223 431
Investment in 362 826(2013: 363 237) Sappi Property Company (Pty) Ltd cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (Share Premium) (2)	**-**	-	**(223 178)**	(223 431)
	221 100	221 100	**221 100**	221 100

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

(2) The Class "A", "B", "C" and "D" cumulative non-convertible redeemable preference shares of R0.01 each were issued to Sappi Property Company (Pty) Ltd for no cash consideration on 30 June 2008. Sappi Southern Africa acquired all the ordinary shares of Sappi Property Company (Pty) Ltd on 11 June 2010, and is therefore a wholly owned subsidiary. Sappi Southern Africa Limited holds 362 826 (2013: 363 237)cumulative non-convertible redeemable preference shares of R0.01 each in Sappi Property Company (Pty) Ltd. A legal right to offset these preference shares exists.

15. Ordinary share capital and share premium (continued)

Capital Risk Management

The capital structure of the group consists of:

- issued share capital and premium and accumulated profits disclosed above and in the statement of changes in equity respectively;
- debt, which includes interest bearing borrowings and obligations due under finance leases disclosed under note 18; and
- cash and cash equivalents.

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

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

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

During fiscal 2014 and 2013 we were in compliance with the financial covenants relating to the loans payable.

The group's strategy with regard to capital risk management remains unchanged from 2013.

	Group		**Company**	
	2014 R'000	2013 R'000 (Restated)	**2014 R'000**	2013 R'000 (Restated)
16. Other comprehensive income				
Items that will not subsequently be reclassified to the consolidated and separate income statement:				
Actuarial (losses) gains on post-employment benefit funds	**(67 366)**	174 332	**(66 976)**	173 973
Gross amount	**(93 412)**	241 986	**(93 024)**	241 626
Tax	**26 046**	(67 654)	**26 048**	(67 653)
Items that may subsequently be reclassified to the consolidated and separate income statement:				
Movement on available-for-sale financial asset	**(14 154)**	698	**(14 154)**	698
Gross amount	**(14 154)**	698	**(14 154)**	698
Hedging reserve	**(20 614)**	48 790	**(20 614)**	48 790
Gross amount	**(28 630)**	67 764	**(28 630)**	67 764
Tax	**8 016**	(18 974)	**8 016**	(18 974)
Other comprehensive (loss) income recoded directly in equity	**(102 134)**	223 820	**(101 744)**	223 461
Profit for the year	**1 544 168**	488 198	**1 544 280**	449 014
Total comprehensive income for the year	**1 442 034**	712 018	**1 442 536**	672 475
17. Other reserves				
Share-based payment reserve (refer note 27)	**(6 601)**	51	**(8 349)**	(1 680)
Share based payment reserve – BBBEE (refer note 27)	**148 999**	123 617	**148 999**	123 618
	142 398	123 668	**140 650**	121 938

	Group		Company	
	2014 R'000	2013 R'000	**2014 R'000**	2013 R'000
18. Interest-bearing borrowings				
Capitalised lease liabilities (refer note 22 for details of encumbered assets)	**-**	83 093	**-**	83 093
Unsecured borrowings	**3 146 858**	3 339 977	**3 146 858**	3 339 977
Total borrowings	**3 146 858**	3 423 070	**3 146 858**	3 423 070
Less: Current portion included under current liabilities	**746 858**	223 643	**746 858**	223 643
	2 400 000	3 199 427	**2 400 000**	3 199 427
The repayment profile of the interest-bearing borrowings is as follows. Payable in the year ended September:				
2014	**-**	223 643	**-**	223 643
2015	**746 858**	799 427	**746 858**	799 427
2016	**755 000**	755 000	**755 000**	755 000
2018	**500 000**	500 000	**500 000**	500 000
Thereafter	**1 145 000**	1 145 000	**1 145 000**	1 145 000
	3 146 858	3 423 070	**3 146 858**	3 423 070

Capitalised lease liabilities

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

	Minimum lease payments R'000	Finance costs R'000	**2014 Present value of minimum lease payments R'000**	2013 Present value of minimum lease payments R'000
Payable in the year ended September:				
2014	-	-	-	33 666
2015	-	-	-	49 427
Total future minimum lease payments	-	-	-	83 093

As of September 2014 there were no capitalised lease liabilities.

18. Interest-bearing borrowings (continued)

Set out below are details of the more significant interest-bearing borrowings in the Group at September 2014:

	Currency	Interest rate	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry	Financial covenants
Redeemable bonds (listed)							
Public bond	ZAR	Fixed**	R 255 million	R 255 million	Unsecured	April 2016	No financial covenants
Public bond	ZAR	Fixed	R 500 million	R 499 million *	Unsecured	June 2016	No financial covenants
Public bond	ZAR	Fixed**	R 750 million	R 749 million *^	Unsecured	April 2015	No financial covenants
Public bond	ZAR	Fixed**	R 500 million	R 499 million *	Unsecured	April 2018	No financial covenants
Public bond	ZAR	Fixed	R 745 million	R 744 million *	Unsecured	April 2020	No financial covenants
Unsecured bank term loans							
GroCapital Financial Services	ZAR	Fixed**	R 400 million	R 400 million*	Unsecured	May 2020	No financial covenants

* The principal value of the loans / bonds corresponds to the amount of the facility, however, the balance sheet value has been adjusted by the discounts paid upfront and the fair value adjustments relating to hedge accounting.

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

^ Subsequent to the financial year end, R300m of this bond was repaid.

18. Interest-bearing borrowings (continued)

Other restrictions

During fiscal 2014 and 2013 we were in compliance with the financial covenants relating to all loans payable. Compliance with applicable covenants are regularly monitored on an ongoing basis. If a possible breach of a financial covenant were to be expected, negotiations would commence with the applicable institution before such breach occurs.

Borrowing facilities secured by trade receivables

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

Further detail of the value of trade receivables sold are in note 13 of the financial statements.

Unutilised facilities

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

	Currency	**Interest rate**	**2014 R'000**	2013 R'000
Unutilised committed facilities				
Revolving credit facility *	ZAR	Variable (JIBAR)	**1 000 000**	1 000 000
Various other facilities	ZAR	Variable (JIBAR)	**50 000**	50 000
Unutilised uncommitted facilities				
Cash management overdraft facility / short term banking facilities	ZAR	Variable (JIBAR)	**250 000**	250 000

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

	Group		**Company**	
	2014 R'000	2013 R'000	**2014 R'000**	2013 R'000
19. Other non-current liabilities				
Post-employment benefits other than pension liability (refer note 26)	**276 653**	599 746	**276 653**	599 746
Other	**3 734**	3 733	**-**	-
	280 387	603 479	**276 653**	599 746

Notes to the Group and Company Annual Financial Statements (Continued)
Year ended September 2014

		Group		Company	
		2014 R'000	2013 R'000 (Restated)	**2014 R'000**	2013 R'000 (Restated)
20.	**Notes to the cash flow statements**				
20.1	**Cash generated from operations**				
	Profit after taxation per income statement	**1 544 168**	488 198	**1 544 280**	449 014
	Adjustment for:				
	Depreciation	**665 322**	715 765	**652 181**	708 266
	Fellings	**623 439**	614 149	**599 807**	576 388
	Impairment of fixed assets, loans and investments	**17 931**	853 997	**6 541**	822 642
	Taxation charge (benefit)	**556 838**	(58 620)	**537 959**	(49 385)
	Net finance costs	**219 211**	227 423	**219 264**	227 638
	Dividends received	**-**	-	**(96 954)**	(17 500)
	Loss on disposal of assets	**11 696**	24 403	**27 174**	24 403
	Profit on assets held for sale	**(66 607)**	-	**(128 861)**	-
	Fair value adjustment gains and growth on plantations	**(894 419)**	(1 544 993)	**(749 085)**	(1 391 539)
	Movement in provisions	**(23 115)**	29 706	**(23 279)**	28 869
	Other non-cash items	**66 436**	(174 509)	**151 771**	(126 110)
		2 720 900	1 175 519	**2 740 798**	1 252 686
20.2	**(Increase) decrease in working capital**				
	(Increase) decrease in inventories	**(145 084)**	27 593	**(144 397)**	27 412
	(Increase) decrease in receivables	**(60 333)**	74 594	**(59 249)**	76 924
	Increase in payables	**173 405**	60 535	**185 974**	71 117
		(32 012)	162 722	**(17 672)**	175 453
20.3	**Finance costs paid**				
	Gross interest and other finance costs	**(296 858)**	(305 825)	**(296 841)**	(305 849)
	Net foreign exchange gains (losses)	**1 116**	(12 141)	**1 123**	(12 141)
	Net fair value gain on financial instruments	**104**	-	**104**	-
	Non cash movements included in items above	**16 423**	151 357	**12 440**	151 211
		(279 215)	(166 609)	**(283 174)**	(166 779)
20.4	**Taxation paid**				
	Amounts unpaid at beginning of year	**(99 075)**	(127 020)	**(99 088)**	(126 912)
	Amounts per the income statement	**(43 577)**	27 862	**(43 510)**	27 822
	Amounts unpaid at end of year	**115 307**	99 075	**115 249**	99 088
		(27 345)	(83)	**(27 349)**	(2)
20.5	**Replacement of non-current assets**				
	Property, plant and equipment	**(161 692)**	(527 311)	**(145 482)**	(520 159)
20.6	**Proceeds on disposal of non-current assets**				
	Book value of property, plant and equipment disposed of	**40 909**	38 447	**55 602**	38 447
	Loss on disposal	**(11 696)**	(24 403)	**(27 174)**	(24 403)
		29 213	14 044	**28 428**	14 044

		Group		Company	
		2014 R'000	2013 R'000 (Restated)	**2014 R'000**	2013 R'000 (Restated)
20.7	**Proceeds on disposal of assets held for sale**				
	Current assets				
	Inventories	3 353	-	-	-
	Trade and other receivables	29 179	-	688	-
	Amounts owing by group companies	-	-	905 672	-
	Non-current assets				
	Property, plant and equipment	51 099	-	15 515	-
	Plantations	988 195	-	37 148	-
	Other non-current assets	274	-	6 263	-
	Current liabilities				
	Trade and other payables	(23 921)	-	-	-
	Provisions	(1 001)	-	-	-
	Amounts owing to group companies	(9 375)	-	-	-
	Overdraft	(8 186)	-	-	-
	Non-current liabilities				
	Other non-current liabilities	(2 077)	-	-	-
	Net assets disposed of	1 027 540	-	965 286	-
	Proceeds received	1 004 147	-	1 004 147	-
	Proceeds outstanding	90 000	-	90 000	-
		1 094 147	-	1 094 147	-
	Net assets disposed of	1 027 540	-	965 286	-
	Profit on disposal of assets held for sale	66 607	-	128 861	-
20.8	**Cash and cash equivalents**				
	Cash and deposits on call	**2 051 291**	468 619	**2 051 082**	465 001
		2 051 291	468 619	**2 051 082**	465 001
21.	**Provisions**				
	Restructuring provisions	**7 975**	31 254	**7 975**	31 254

Group	Severance, retrenchment and related costs	Other closure costs	**Total**
Balance as at September 2012	2 385	-	**2 385**
Increase / (decrease) in provision	85 073	(1 028)	**84 045**
Utilised	(46 192)	1 028	**(45 164)**
Released during the year	(10 012)	-	**(10 012)**
Balance as at September 2013	31 254	-	**31 254**
Increase in provision	30 900	-	**30 900**
Utilised	(35 072)		**(35 072)**
Released during the year	(19 107)	-	**(19 107)**
Balance as at September 2014	7 975	-	**7 975**

Company	Severance, retrenchment and related costs	Other closure costs	**Total**
Balance as at September 2012	2 385	-	**2 385**
Increase / (decrease) in provision	69 073	(1 028)	**68 045**
Utilsed	(33 845)	1 028	**(32 817)**
Released during the year	(6 359)	-	**(6 359)**
Balance as at September 2013	31 254	-	**31 254**
Increase in provision	9 937		**9 937**
Utilsed	(15 250)		**(15 250)**
Released during the year	(17 966)	-	**(17 966)**
Balance as at September 2014	7 975	-	**7 975**

21. Provisions (continued)

2014

Stanger
During September 2014, it was announced that Stanger Mill will close the finishing house and coater at the mill. This resulted in severance and retrenchment costs of R8 million being raised as a restructuring provision through other operating expenses in profit or loss for the year. At financial year-end the provision remains unutilised and is expected to be fully utilized by December 2014.

Usutu Mill
An amount of R23 million was raised for mostly severance, retrenchment and environmental costs at Usutu Mill. This provision was fully utilized prior to the sale of the mill during the year. This provision was raised through other operating expenses in profit and loss for the period.

2013

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

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

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

	Group		Company	
	2014 R'000	2013 R'000	**2014 R'000**	2013 R'000
22. Encumbered assets				
Land and buildings	**-**	30 317	**-**	30 317
The book values of assets which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third party ownership in terms of capitalised lease agreements.				
23. Commitments				
Capital commitments				
Contracted but not provided	**138 514**	181 875	**135 006**	181 875
Approved but not contracted	**94 694**	299 335	**94 694**	299 335
	233 208	481 210	**229 700**	481 210
Future forecasted cashflows of capital commitments:				
Payable in the year ended September:				
2014	**-**	247 750	**-**	247 750
2015	**233 208**	-	**229 700**	-
Thereafter	**-**	233 460	**-**	233 460
	233 208	481 210	**229 700**	481 210

	Group		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000

23. Commitments (continued)

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

Lease commitments

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
Future minimum obligations under operating leases:				
Payable in the year ended September:				
2014	**-**	80 500	**-**	77 120
2015	**94 032**	41 540	**92 010**	38 160
2016	**48 154**	30 266	**48 154**	27 006
2017	**30 835**	18 337	**30 835**	15 077
2018	**9 588**	9 423	**9 588**	6 163
2019 (September 2013: Thereafter)	**5 682**	250 344	**5 682**	11 730
2020 and thereafter	**20 641**	-	**20 641**	-
	208 932	430 410	**206 910**	175 256

24. Contingent liabilities

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
Guarantees and suretyships	**12 515**	12 721	**12 515**	12 721
Other	**10 000**	10 000	**10 000**	10 000
	22 515	22 721	**22 515**	22 721

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 lawsuits 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 behavior between Sappi and a competitor in the South African pulp and paper market. At that time, we reported that the investigation was still in the early stages. As at the end of the 2014 financial year, the investigation remains in its early stages as the dispute is one of a procedural nature.

25. Post-employment benefits – pensions

Defined contribution plans

The group operates defined contribution plans of various sizes for all qualifying employees throughout the group. The assets of the plans are held, separately from those of the group, in funds under the control of trustees or administered by insurance companies. The group also participates in various local industry (multi-employer) plans, open to eligible employees often as a voluntary alternative to company sponsored plans. There are no obligations on the group other than to pay contributions according to the rules of each plan.

The total cost charged to the income statement of R112 500 thousand (2013: R107 201) represents contributions payable to these plans by the group based on rates specified in the rules of these plans.

Expected contributions (total cost charged) to be paid in the next financial year is R114 987 thousand.

Defined benefit plans

The group operates two defined benefit pension plans. These plans are closed to new entrants. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each South Africa.

The assets of our funded plans are held in separate trustee-administered funds, which are subject to varying statutory requirements. Generally, the trusts are required by local law and their respective articles of associations to act in the interests of the fund and its stakeholders, i.e. members and the various local sponsoring companies across the group. The pension funds comprise of management and member-appointed trustees, including an independent trustee, who collectively are responsible for the administration and governance of the trusts.

Benefits are formula-driven, based on final average salary.

Investment management and strategic asset allocation
Plan fiduciaries are responsible for 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. Plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Plan fiduciaries also make use of fiduciary managers, multi-asset manager mandates and 'flight path' assessment tools to assist with strategic asset allocation. Such reviews include asset-liability modelling studies to analyse risk-and-return profiles. Investment and contribution policies are integrated within this study.

The main strategic choices that are formulated in the actuarial and technical policies of our Plans across the group are shown below. Local regulations impose minimum funding targets which significantly influence the strategic asset allocation of individual plans.

- South Africa: Asset mix based on 70% equity instruments; 30% debt instruments.

Since the pension liabilities in each plans are adjusted to respective local consumer price indices, the plans are exposed to local inflation, interest rate risks and changes in life expectancies of members. As the plan assets include significant investments in quoted equity shares, property and high yield bonds in various markets around the globe, the group is exposed to equity, property, high yield bond market risk and for non-domestic holdings, currency risk. Debt instruments typically comprise investment grade corporate and government debt (nominal coupon and index-linked coupon) in markets around the globe, primarily held to match counter-movements in plan liabilities of the same value. The group is also exposed to losses from the effects of credit grade re-ratings on debt instruments in bond markets across the globe.

The group's subsidiaries fund the entire cost of the entitlements expected to be earned on a yearly basis, with the exception of one plan in South Africa, where employees contribute a fixed percentage of pensionable salary. The funding requirements are based on local actuarial measurement frameworks. For prefunded plans contributions are determined on a current salary base. Additional liabilities stemming from past service due to salary increases are paid immediately to the plans as part of the overall agreed contribution rate to restore individual plan deficits as and where these occur.

Expected company contributions across group subsidiaries over the next financial year are R89 972 thousand.

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

	Group		Company	
	2014	2013	**2014**	2013
	R'000	R'000 (Restated)	**R'000**	R'000 (Restated)
25. Post-employment benefits - pensions (continued)				
Pension cost recognised in income statement				
Current service cost	**58 782**	67 492	**58 782**	66 910
Past service cost	**577**	2 042	**577**	2 042
Fund administration cost	**4 402**	5 538	**4 402**	5 538
Interest cost	**157 567**	245 093	**157 567**	244 178
Interest income	**(183 128)**	(245 539)	**(183 128)**	(245 539)
Loss on settlement	**-**	8 851	**-**	8 851
	38 200	83 477	**38 200**	81 980
Pension cost recognised in income statement – classified as held for sale				
Current service cost	**677**	-	**-**	-
Interest cost	**1 149**	-	**-**	-
Gain on settlement	**(1 164)**	-	**-**	-
	662	-	**-**	-
Net amounts attributed to operating costs	**64 423**	83 923	**63 761**	83 341
Net amount attributed to finance costs	**(25 561)**	(446)	**(25 561)**	(1 361)
	38 862	83 477	**38 200**	81 980
Amounts recognised in the statement of comprehensive income				
Actuarial gains arising from membership experience	**13 485**	81 122	**13 485**	80 640
Actuarial (losses) gains arising from changes in financial assumptions	**(201 062)**	151 141	**(201 062)**	151 262
Actuarial gains arising on assets	**151 009**	7 915	**151 009**	7 915
Actuarial (losses) gains	**(36 568)**	240 178	**(36 568)**	239 817
Amounts recognised in the statement of comprehensive income – classified as held for sale				
Actuarial (losses) arising from changes in financial assumptions	**(388)**	-	**-**	-
Cumulative actuarial gains recognised in the statement of comprehensive income				
Actuarial gains	**10 097**	47 053	**20 470**	57 038

	Group 2014 R'000	Group 2013 R'000 (Restated)	Company 2014 R'000	Company 2013 R'000 (Restated)
25. Post-employment benefits - pensions (continued)				
Change in present value of defined benefit obligation				
Defined benefit obligations at beginning of year	**1 732 324**	2 932 985	**1 732 324**	2 920 380
Current service cost	**58 782**	67 492	**58 782**	66 910
Past service cost	**577**	2 042	**577**	2 042
Interest cost	**157 567**	245 093	**157 567**	244 178
Plan participants' contributions	**23 314**	24 259	**23 314**	24 259
Actuarial gains arising from membership experience	**(13 485)**	(81 122)	**(13 485)**	(80 640)
Actuarial losses (gains) arising from changes in financial assumptions	**201 062**	(151 141)	**201 062**	(151 262)
Benefits paid	**(289 378)**	(348 630)	**(289 378)**	(348 630)
Gain on settlement and curtailments	**-**	(944 913)	**-**	(944 913)
Reclassified as held for sale	**-**	(13 741)	**-**	-
Defined benefit obligations at end of year	**1 870 763**	1 732 324	**1 870 763**	1 732 324
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**2 031 152**	2 970 965	**2 031 152**	2 970 965
Interest income	**183 128**	245 539	**183 128**	245 539
Fund administration cost	**(4 402)**	(5 538)	**(4 402)**	(5 538)
Actuarial gains arising on assets	**151 009**	7 915	**151 009**	7 915
Employer contribution	**83 881**	90 406	**83 881**	90 406
Plan participants contribution	**23 314**	24 259	**23 314**	24 259
Benefits paid	**(289 376)**	(348 630)	**(289 376)**	(348 630)
Loss on settlement and curtailments	**-**	(953 764)	**-**	(953 764)
Fair value of plan assets at end of year	**2 178 706**	2 031 152	**2 178 706**	2 031 152
Surplus	**307 943**	298 828	**307 943**	298 828
Recognised pension plan asset	**307 943**	298 828	**307 943**	298 828
Pension plan liability is presented on the balance sheet as follows:				
Pension liability	**-**	(13 741)	**-**	-
Pension asset (refer note 11)	**307 943**	298 828	**307 943**	298 828
Reclassified as held for sale	**-**	13 741	**-**	-
	307 943	298 828	**307 943**	298 828
The major categories of plan assets at fair value are presented as follows:				
Cash				
Investments quoted in active markets	**152 122**	230 754	**152 122**	230 754
• Equity and high yield instruments				
- Domestic	**1 142 446**	824 736	**1 142 446**	824 736
- Foreign	**312 247**	293 337	**312 247**	293 337
• Investment grade debt instruments				
- Nominal	**552 342**	505 296	**552 342**	505 296
- Index linked	**17 371**	-	**17 371**	-
• Property investment funds	**-**	177 029	**-**	177 029
Unquoted investments				
• Other	**2 178**	-	**2 178**	-
	2 178 706	2 031 152	**2 178 706**	2 031 152

25. Post-employment benefits - pensions (continued)

Plan assets include investments in the group's own quoted shares of R 9 508 thousand (2013: R10 142 thousand). These are held by an appointed investment manager as part of its routine mandate to invest in domestic equities.

The fair values of the various equity and debt instruments are determined based on quoted market prices in active markets, whereas the fair values of certain property and derivatives are not based on quoted market prices in active markets. Plans generally buy and hold bonds as a hedge against interest rate and inflation rate risk.

	Group		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
The principal assumptions used in determining pension subsidies for the group's plans (weighted average per region) are shown below:				
	%	%	**%**	%
Discount rate	**8.6**	9.5	**8.6**	9.5
Future salary increases	**7.3**	7.6	**7.3**	7.6
Cost of living adjustment for pensions in payment	**5.0**	5.3	**5.0**	5.3
Average life expectancy in years				
• For current beneficiaries (male of 60 years)	**19.2**	18.6	**19.2**	18.6
• Future retiree (male of 60 years in 20 years time)	**20.1**	19.5	**20.1**	19.5

A quantitative sensitivity analysis for significant assumptions as at fiscal year-end is as shown below:

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, expected salary increase, cost of living adjustments to pensions in payment, and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, whilst holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by R306 209 thousand (increase by R391 110 thousand)
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by R340 801 thousand (decrease by R277 649 thousand)
- If the expected cost of living adjustment rate is 100 basis points higher (lower), the defined benefit obligation would increase by R226 509 thousand (decrease by R 192 555 thousand)
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by R 41 446 thousand (decrease by R40 952 thousand)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the sensitivity analysis above, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The average duration of the defined benefit plan obligations at the end of the reporting period is as follows:

	Pension plans
Southern Africa	21 years

Timing and uncertainty of benefits
Illustration of future cash flows of the pension plan:

	Additional Voluntary Contribution	Minimum Benefit Vesting	0-5 yrs	6-10 yrs	11-15 yrs	16-20 yrs	21+yrs
Proportion of Total liabilities	0.03%	0.04%	19.78%	24.52%	21.65%	18.64%	15.34%

26. Post-employment benefits - other than pensions

The company sponsors a defined post-retirement plan that provides certain health care and life insurance benefits to eligible retired employees. Full provision is made for this liability. Employees are generally eligible for benefits upon retirement and completion of a specified number of years service. An actuarial valuation was performed in 2014 and the next will be performed in 2017.

Expected company contributions across group subsidiaries over the next financial year are R1 290 thousand.

	Group		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
		(Restated)		(Restated)
Cost recognised in income statement				
Current service cost	**8 535**	10 187	**8 535**	10 187
Interest cost	**52 610**	54 631	**52 610**	54 631
Gain on settlement	**-**	(227 332)	**-**	(227 332)
Interest income	**(8 907)**	-	**(8 907)**	-
(Income) cost charged to cost of sales and selling, general and administrative expenses	**52 238**	(162 514)	**52 238**	(162 514)
Net amounts attributed to operating costs	**8 535**	(217 145)	**8 535**	(217 145)
Net amount attributed to finance costs	**43 703**	54 631	**43 703**	54 631
	52 238	(162 514)	**52 238**	(162 514)
Amounts recognised in the statement of comprehensive income				
Actuarial gains arising from changes in demographic assumptions	**1 753**	-	**1 753**	-
Actuarial (losses) gains arising from membership experience	**(35 360)**	3 887	**(35 360)**	3 887
Actuarial losses arising from changes in financial assumptions	**(22 376)**	(2 078)	**(22 376)**	(2 078)
Actuarial losses arising on assets	**(473)**	-	**(473)**	-
Actuarial (losses) gains	**(56 456)**	1 809	**(56 456)**	1 809
Cumulative actuarial losses recognised in the statement of comprehensive income				
Actuarial losses	**(295 721)**	(239 265)	**(295 721)**	(239 265)
Change in present value of defined benefit obligation				
Defined benefit obligations at beginning of year	**599 746**	799 341	**599 746**	799 341
Current service cost	**8 535**	10 187	**8 535**	10 187
Interest cost	**52 610**	54 631	**52 610**	54 631
Actuarial gains arising from changes in demographic assumptions	**(1 753)**	-	**(1 753)**	-
Actuarial losses (gains) arising from membership experience	**35 360**	(3 887)	**35 360**	(3 887)
Actuarial losses arising from changes in financial assumptions	**22 376**	2 078	**22 376**	2 078
Benefits paid	**(30 373)**	(35 272)	**(30 373)**	(35 272)
Gain on settlement	**-**	(227 332)	**-**	(227 332)
Defined benefit obligations at end of year	**686 501**	599 746	**686 501**	599 746
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**-**	-	**-**	-
Interest income	**8 907**	-	**8 907**	-
Actuarial losses arising on assets	**(473)**	-	**(473)**	-
Employer contribution	**431 788**	-	**431 788**	-
Benefits paid	**(30 374)**	-	**(30 374)**	-
Fair value of plan assets at end of year	**409 848**	-	**409 848**	-

	Group		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
		(Restated)		(Restated)
26. Post-employment benefits - other than pensions (continued)				
Plan liability is presented on the balance sheet as follows:				
Post employment benefits other than pension liability (refer note 19)	276 653	599 746	**276 653**	599 746
The major categories of plan assets at fair value are presented as follows:				
Cash	**19 139**	-	**19 139**	-
• Investment grade debt instruments				
- Nominal	**68 700**	-	**68 700**	-
Unquoted investments				
• Other	**322 009**	-	**322 009**	-
	409 848	-	**409 848**	-

Plan assets include investments in the group's own quoted shares of RNil thousand. These are held by an appointed investment manager as part of its routine mandate to invest in domestic equities.

The fair values of the various equity and debt instruments are determined based on quoted market prices in active markets, whereas the fair values of certain property and derivatives are not based on quoted market prices in active markets. Plans generally buy and hold bonds as a hedge against interest rate and inflation rate risk.

The principal assumptions used in determining pension subsidies for the group's plans (weighted average per region) are shown below:

	%	%	%	%
Discount rate	**9%**	9.5	**9%**	9.5
Healthcare cost trend	**8%**		**7.75%**	
Average life expectancy in years				
• For current beneficiaries (male of 60 years)	**19.4**	19.0	**19.4**	19.0

A quantitative sensitivity analysis for significant assumptions as at fiscal year-end is as shown below:

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, healthcare cost trends and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, whilst holding all other assumptions constant.

If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by R77 362 thousand (increase by R94 988 thousand)
If the expected health care cost trend rate is 100 basis points higher (lower), the defined benefit obligation would increase by R 96 536 thousand (decrease by R 79 875 thousand)
If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by R25 864 thousand (decrease by R25 488 thousand)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the sensitivity analysis above, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The average duration of the defined benefit plan obligations at the end of the reporting period is as follows:

	Health-care subsidy
Southern Africa	13.7 years

27. Share-based payment

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

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

The Sappi Limited Share Incentive Trust ('Scheme')

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

Under the rules of the Scheme:

- Share options entitle the participant to purchase one ordinary share per share option.
- Scheme shares entitle the participant to enter into a loan with the Scheme to acquire Sappi Limited shares at a specific issue price.

The Scheme shares are registered in the participant's name and pledged to the Scheme as security for the loan. Upon payment of the loan, the Scheme shares become unsecured Sappi Limited shares owned by the participant.

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

The Share options and Scheme shares vest in blocks of 25% per annum on the anniversary date of the offer and expire eight years after the offer date. Only once the options vest, may Share options be exercised by the participants and may Scheme shares be released from the Scheme to participants. For allocations prior to November 2004, the Share options and Scheme shares vested in blocks of 20% per annum on the anniversary date of the offer and expired 10 years after the offer date.

The Scheme rules provide that appropriate adjustments are to be made to the rights of participants in the event that the company, inter alia, undertakes a rights offer, a capitalisation issue, or consolidation of ordinary shares or any reduction in its ordinary share capital.

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

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

The Plan rules provide that appropriate adjustments are made to the rights of participants in the event that the company, inter alia, undertakes:

- a rights offer; or
- is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital.

The Plan rules also provide that if:

(a) the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself; or
(b) the persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action, the effect of which is, to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action;

then the company is obliged to notify every participant thereof that such participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the performance criteria been achieved.

Rights offer

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

27. Share-based payment (continued)

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

Allocations (Number of shares)

	2014	**2013**
Share options	**-**	-
Performance shares	**1 039 300**	917 440
Performance shares	**1 039 300**	917 440

Scheme shares, share options, restricted shares, performance shares and allocation shares activity was as follows during the financial years ended September 2014 and 2013:

	Performance shares	Share options	Weighted average exercise price (R)	Total
Outstanding at September 2012	1 460 300	4 121 270	35.07	5 581 570
Offered and accepted	917 440	-	-	917 440
Paid for released	(106 902)	(21 114)	22.90	(128 016)
Returned, lapsed transferred and forfeited	(276 798)	(956 418)	40.46	(1 233 216)
Outstanding at September 2013	1 994 040	3 143 738	33.56	5 137 778
Offered and accepted	**1 039 300**	**-**	**-**	**1 039 300**
Paid for released	**(171 893)**	**(451 440)**	**31.71**	**(623 333)**
Returned, lapsed, transferred and forfeited	**(445 760)**	**(139 262)**	**34.03**	**(585 022)**
Outstanding at September 2014	**2 415 687**	**2 553 036**	**33.86**	**4 968 723**
Exercisable at September 2013	-	1 998 099	36.71	1 998 099
Exercisable at September 2014	**-**	**2 002 271**	**35.91**	**2 002 271**

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

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

	Issue 39	Issue 39
Date of grant	13 December 2013	13 December 2013
Type of award	Performance	Performance
Share Price at grant date	R28.16	R28.16
Vesting period	4 years	4 years
Vesting conditions	Market related - relative to peers	Cash Flow Return on Net Assets relative to peers
Life of options	N/A	N/A
Market related vesting conditions	Yes	No
Percentage expected to vest	41.0%	100%
Number of shares offered	519 650	519 650
Volatility	30.0%	N/A
Risk free discount rate	1.2% (US yield)	N/A
Expected dividend yield	3.6%	3.6%
Expected percentage of issuance	95%	95%
Model used to value	Monte-carlo	Market price
Fair value of option	R16.16	R21.12

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

27. Share-based payment (continued)

Black Economic Empowerment

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

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

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

- Sappi's South African Employees (62.5%);
- South African Black Managers (15%);
- Strategic Partners (12.5%) (refer to the section 'The BEE transaction' in this note); and
- Communities surrounding the South African mill operations and plantations (10%).

The BEE transaction

The BEE transaction comprised two distinct parts:

- The value created through the Plantation BEE transaction was settled by the issue of 4.3 million fully paid up ordinary shares at a price based on the 30 day volume weighted average share price ('VWAP') of Sappi as at Friday, 05 February 2010 of R33.50.
- The creation and issuance of a new class of unlisted equity shares referred to as 'A' ordinary shares. The 'A' ordinary shares were issued at their par value of R1 to a trust formed for the benefit of certain Sappi employees including HDSAs (the 'ESOP Trust'), a trust formed for the benefit of certain Sappi managers that are HDSAs (the 'MSOP Trust') and a trust formed for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the 'Sappi Foundation Trust', and together with the ESOP Trust and the MSOP Trust, the 'BEE trusts'). The issuance of the 'A' ordinary shares was financed through notional non-interest-bearing loans extended by Sappi to the BEE trusts. The BEE transaction resulted in the BEE trusts and the Strategic Partners holding, collectively, ordinary and 'A' ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's South African business under the Forestry Charter and BEE legislation in general.

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

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

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

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

The group recognised a share-based payment expense of R25 383 thousand (2013: R30 847 thousand) that related to the "A" Ordinary shares that were awarded.

27. Share-based payment (continued)

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

Base price for hurdle rate price	R32.50
Share price hurdle rate	9.1%
Hurdle rate price	R75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	7.4%
Management turnover (annual)	4.3%
Model used to value	Black Scholes Model

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

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

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

28. Derivative financial instruments

	Group		Company	
	2014 R'000	2013 R'000	**2014 R'000**	2013 R'000
Non current assets				
Interest rate swap – Unsecured R255 million bond due April 2016	**5 574**	5 375	**5 574**	5 375
Interest rate swap – Unsecured R500 million bond due April 2018	**20 885**	21 221	**20 885**	21 221
Interest rate swap – Unsecured R400 million bond due April 2020	**20 044**	20 994	**20 044**	20 994
	46 503	47 590	**46 503**	47 590
Current assets				
Interest rate swap – Unsecured R750 million bond due April 2015	**1 669**	-	**1 669**	-
	1 669	-	**1 669**	-
Non current liabilities				
Interest rate swap – Unsecured R750 million bond due April 2015	**-**	3 534	**-**	3 534
	-	3 534	**-**	3 534
Current liabilities				
Forward exchange contracts - various	**30 697**	1 830	**30 697**	1 830
	30 697	1 830	**30 697**	1 830

29. Financial instruments

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

Introduction

The group's main financial risk management objectives are to identify, measure and manage, through financial instruments, the following principal risks to which the group is exposed to:

a) market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:
   - interest rate risk
   - currency risk
   - commodity price risk
b) liquidity risk
c) credit risk

Sappi's Group Treasury is comprised of two components: Sappi International SA, located in Brussels, which manages the group's non-South African treasury activities and, for local regulatory reasons, the operations based in Johannesburg which manage the group's Southern African treasury activities.

These two operations collaborate closely and are primarily responsible for managing the group's interest rate, foreign currency, liquidity and credit risk (in so far as it relates to deposits of cash, cash equivalents and financial investments).

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

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

Market risk

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

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 2014 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 28 September 2014. The information is presented in ZAR, which is the group's reporting currency.

29. FINANCIAL INSTRUMENTS (continued)

Rand Thousand			**Expected maturity date**				**Total**		2013	
	2015	2016	2017	2018	2019	2020+	**Carrying Value**	**2014 Fair Value**	Carrying Value	2013 Fair Value
Rand										
Fixed rate	746 858	755 000	-	500 000	-	1 145 000	**3 146 858**	**3 279 624**	3 423 070	4 057 092
Average interest rate (%)	7.78	8.65	-	7.46	-	7.99	**8.01**	-	8.27	-
Fixed and variable	**746 858**	**755 000**	**-**	**500 000**	**-**	**1 145 000**	**3 146 858**	**3 279 624**	3 423 070	4 057 092
Current portion							**746 858**	**764 771**	223 643	240 595
Long-term portion							**2 400 000**	**2 514 853**	3 199 427	3 816 497
Total Interest-bearing borrowings (refer note 18)							**3 146 858**	**3 279 624**	3 423 070	4 057 092

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

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

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

At September 2014, 100% of Sappi Southern Africa borrowings were at fixed rates of interest.

A detailed analysis of the group's borrowings is presented in note 18.

Hedging of interest rate risk

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

29. Financial instruments (continued)

Cash flow hedges

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

At inception and at the beginning of each quarterly reporting period, the future effectiveness of the hedge relationship is assessed by using the linear regression analysis.

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 valuation of the hedging instruments includes an adjustment for credit risk, i.e. an asset includes a counterparty credit risk spread, whereas the fair value measurement of a liability includes Sappi's own credit risk spread.

Interest rate swaps floating to fixed

In April 2012, Sappi issued a 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. In April and May 2013, Sappi issued additional floating rate debt to the total amount of ZAR1,155 million maturing in 2016, 2018 and 2020 and swapped the floating rates into fixed rates. All abovementioned debt and the corresponding interest rate swaps are designated in cash flow hedging relationships, allowing all mark-to-market valuations of the swaps to be booked to equity. As all critical terms of the hedged items and the hedging instruments match perfectly, the hedges are expected to continue being highly effective.

At September 2014, the hedges were highly effective and the swaps had in total a net positive fair value of R35 million which was deferred to equity.

Interest rate risk sensitivity analysis of floating rate debt.

Sappi Southern Africa has no floating rate debt as at 30 September 2014.

IRS converting floating ZAR rates into fixed rates:

Scenario Name	Base Value	Scenario Value	Change	Change %
- 50 bps USD-LIBOR: 3-month	48 602	31 270	(17 332)	(35.66)
+ 50 bps USD-LIBOR: 3-month	48 602	65 672	17 071	35.12

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

The table above shows the impact that a shift of 50 bps on the JIBAR curve would have on the fair value of the instrument.

29. Financial instruments (continued)

Summary of outstanding hedges

Rand Thousand	**Interest Rate**	**Maturity date**	Nominal Value	Total fair value	Net impact - OCI	Net impact – Profit or loss
September 2014						
Cash flow hedges						
IRS	ZAR variable (JIBAR) to ZAR 7.78%	April 2015	R750 million	**1 669**	**1 664**	**5**
IRS	ZAR variable (JIBAR) to ZAR 6.74%	April 2016	R255 million	**5 574**	**5 569**	**5**
IRS	ZAR variable (JIBAR) to ZAR 7.46%	April 2018	R500 million	**20 885**	**20 862**	**23**
IRS	ZAR variable (JIBAR) to ZAR 7.85%	May 2018	R400 million	**20 044**	**19 974**	**70**
				48 172	**48 069**	**103**
September 2013						
Cash flow hedges						
IRS	ZAR variable (JIBAR) to ZAR 7.78%	April 2015	R750 million	(3 534)	(3 534)	-
IRS	ZAR variable (JIBAR) to ZAR 6.74%	April 2016	R255 million	5 375	5 375	-
IRS	ZAR variable (JIBAR) to ZAR 7.46%	April 2018	R500 million	21 221	21 221	-
IRS	ZAR variable (JIBAR) to ZAR 7.85%	May 2018	R400 million	20 994	20 994	-
				44 056	44 056	-

Currency risk

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

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

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

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

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

Currency risk analysis

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

The following tables for the 2014 and 2013 financial years discloses financial instruments as determined by IAS 39 Financial Instruments: Recognition and Measurement, classified by underlying currency, and does not indicate the group's foreign currency exchange exposure.

29. Financial instruments (continued)

Currency risk analysis

2014	**Total**	**Total in Scope**	USD	EUR	ZAR	GBP	Other (converted into ZAR)
	R'000	**R'000**	R'000	R'000	R'000	R'000	R'000
NON CURRENT ASSETS							
Other non-current assets	**384 821**	**69 957**	-	-	69 957	-	-
Long term derivative financial instruments	**46 503**	**46 503**	-	-	46 503	-	-
CURRENT ASSETS							
Trade and other receivables	**377 542**	**290 194**	-	-	290 194	-	-
Current derivative financial instruments	**1 669**	**1 669**	-	-	1 669	-	-
Amounts owing by Group companies	**1 403 598**	**1 403 598**	-	-	1 403 598	-	-
Cash and cash equivalents	**2 051 291**	**2 051 291**	34 542	822	2 015 518	404	5
		3 863 212	34 542	822	3 827 439	404	5
NON CURRENT LIABILITIES							
Interest-bearing borrowings	**2 400 000**	**2 400 000**	-	-	2 400 000	-	-
CURRENT LIABILITIES							
Interest-bearing borrowings	**746 858**	**746 858**	-	-	746 858	-	-
Trade and other payables	**2 554 171**	**2 168 849**	89 008	37 835	1 909 579	(607)	133 034
Current derivative financial instruments	**30 697**	**30 697**	915 003	-	(884 306)	-	-
Amounts owing to Group companies	**1 443 989**	**1 443 989**	-	-	1 443 989	-	-
		6 790 393	1 004 011	37 835	5 616 120	(607)	133 034
Foreign exchange gap		**(2 927 181)**	(969 469)	(37 013)	(1 788 681)	1 011	(133 029)

29. Financial instruments (continued)

2013	**Total**	**Total in Scope**	USD	EUR	ZAR	GBP	Other (converted into ZAR)
	R'000	**R'000**	R'000	R'000	R'000	R'000	R'000
NON CURRENT ASSETS							
Other non-current assets	**792 309**	**486 773**	-	-	486 773	-	-
Long term derivative financial instruments	**47 590**	**47 590**	-	-	47 590	-	-
CURRENT ASSETS							
Trade and other receivables	**220 610**	**162 341**	-	-	162 341	-	-
Amounts owing by Group companies	**1 417 784**	**1 417 784**	-	-	1 417 784	-	-
Assets classified as held for sale	**933 964**	**10 339**	-	-	10 339	-	-
Cash and cash equivalents	**468 619**	**468 619**	1 901	2 327	464 028	363	-
		2 593 446	1 901	2 327	2 588 855	363	-
NON CURRENT LIABILITIES							
Interest-bearing borrowings	**3 199 427**	**3 199 427**	-	-	3 199 427	-	-
Long term derivative financial instrument	**3 534**	**3 534**	-	-	3 534	-	-
CURRENT LIABILITIES							
Interest-bearing borrowings	**223 643**	**223 643**	-	-	223 643	-	-
Trade and other payables	**2 607 274**	**2 295 389**	78 837	21 168	2 185 201	(280)	10 463
Current derivative financial instruments	**1 830**	**1 830**	(23 359)	(140 655)	169 655	-	(3 811)
Amounts owing to Group companies	**2 247 396**	**2 247 396**	-	-	2 247 396	-	-
Liabilities directly associated with assets held for sale	**57 929**	**15 399**	-	-	15 399	-	-
		7 986 618	55 478	(119 487)	8 044 255	(280)	6 652
Foreign exchange gap		**(5 393 172)**	(53 577)	121 814	(5 455 400)	643	(6 652)

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.

29. Financial instruments (continued)

The group's foreign currency forward exchange contracts at September 2014 are detailed below.

		2014		2013	
		Contract amount (Notional amount)	**Fair value * (unfavourable) favourable**	Contract amount	Fair value * (unfavourable) favourable
		R'000	**R'000**	R'000	R'000
Foreign currency					
Bought:	US Dollar	**38 984**	**1 411**	25 038	226
	Euro	**-**	**-**	140 655	(1 937)
	Other	**-**	**-**	3 812	(109)
Sold:	US Dollar	**(953 987)**	**(32 105)**	(1 678)	(10)
		(915 003)	**(30 694)**	167 827	(1 830)

The fair value of foreign currency contracts has been computed by the group using the market data at the end of the 2014 financial year.

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

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being December 2014.

As at September 2014, there was an open exposure of R1 814 thousand that has since been hedged.

Sensitivity analysis

Base currency	**Exposure**	**+10% (loss)gain**	**- 10% gain (loss)**
	R'000	**R'000**	**R'000**
EUR	(679)	(61)	75
USD	(1 006)	(91)	112
Other	(129)	(12)	14
Total	(1 814)	(164)	201

Based on the exposure as at the end of fiscal 2014, 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 R164 thousand (increase of 10 %) or a gain of R201 thousand (decrease of 10 %).

During 2014, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$246 million which were used as an overlay hedge of export sales from South Africa. Since these contracts have all matured before the end of September 2014, these constitute non-representative positions. The total impact on profit or loss amounts to a loss of R39 357 thousand.

29. Financial instruments (continued)

Cash flow hedges

Ngodwana Mill expansion - acquisition of property, plant and equipment in foreign currency
Sappi started the conversion of its Ngodwana Mill in the 2011 financial year to produce dissolving wood pulp. The group had a highly probable forecast transaction for the importation of property, plant and equipment from May 2011 to which the group became firmly committed to in August 2011. The acquisition of the property, plant and equipment was hedged for foreign currency risk from May 2011 by forward exchange contracts which were designated as hedging instruments in a cash flow hedge.

The cash flows relating to the Ngodwana project began in September 2011 and ceased in October 2013.

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

The total foreign currency exchange gains recognised through OCI in the 2014 (until October 2013) financial year amounted to R2 239 thousand. As this gain was also realised during the financial year, a basis adjustment was processed transferring the amount from OCI to property, plant and equipment. There was no reclassifications to profit or loss during the year.

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

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

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

During the 2014 financial year, the hedge was highly effective and a net realised loss of R39 357 thousand relating to the realised non-deliverable forward exchange contracts was transferred from OCI to sales in profit or loss. At the financial year-end, a positive amount of R24 678 thousand was deferred in equity.

29. Financial instruments (continued)

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 18.

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

Liquidity risk management

The following tables for the 2014 and 2013 financial years discloses financial instruments, as determined by IAS 39 Financial Instruments: Recognition and Measurement, are classified by liquidity and does not necessarily indicate the group's actual cash flows.

29. Financial instruments (continued)

Rand thousand Liquidity risk management - September 2014	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows 0-6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total
NON CURRENT ASSETS								
Other non-current assets	**69 957**	**69 957**	15 985	3 500	5 275	26 306	18 891	69 957
Long term derivative financial instruments	**46 503**	**46 503**	2 253	8 570	13 563	31 001	-	55 387
Pay leg	**(261 717)**	**(261 717)**	(43 124)	(42 677)	(82 050)	(127 896)	-	(295 747)
Receive leg	**308 220**	**308 220**	45 377	51 247	95 613	158 897	-	351 134
CURRENT ASSETS								
Trade and other receivables	**290 194**	**290 194**	290 194	-	-	-	-	290 194
Current derivative financial instruments	**1 669**	**1 669**	(750)	1 933	-	-	-	1 183
Pay leg	**(42 231)**	**(42 231)**	(29 415)	(14 388)	-	-	-	(43 803)
Receive leg	**43 990**	**43 990**	28 665	16 321	-	-	-	44 986
Amounts owing by Group Companies	**1 403 598**	**1 403 598**	1 403 598	-	-	-	-	1 403 598
Cash and cash equivalents	**2 051 291**	**2 051 291**	2 051 291	-	-	-	-	2 051 291
			3 762 571	14 003	18 838	57 307	18 891	3 871 610
NON CURRENT LIABILITIES								
Interest-bearing borrowings	**2 400 000**	**2 514 853**	37 358	105 346	958 810	881 209	1 248 648	3 231 371
CURRENT LIABILITIES								
Interest-bearing borrowings	**746 858**	**764 171**	17 483	766 321	-	-	-	783 804
Trade and other payables	**2 168 849**	**2 168 849**	2 168 849	-	-	-	-	2 168 849
Current derivative financial instruments	**30 697**	**30 697**	30 697	-	-	-	-	30 697
Pay leg	**(884 306)**	**(884 306)**	(884 306)	-	-	-	-	(884 306)
Receive leg	**915 003**	**915 003**	915 003	-	-	-	-	915 003
Amounts owing to Group Companies	**1 443 989**	**1 443 989**	1 443 989	-	-	-	-	1 443 989
			3 698 376	871 667	958 810	881 209	1 248 648	7 658 710
Liquidity gap			64 195	(857 664)	(939 972)	(823 902)	(1 229 757)	(3 787 100)

29. Financial instruments (continued)

Rand thousand	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows					
Liquidity risk management - September 2013			0-6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total
NON CURRENT ASSETS								
Other non-current assets	**486 773**	**486 773**	1 025	1 875	416 015	25 101	42 757	486 773
Long term derivative financial instruments	**47 590**	**47 590**	(3 433)	417	7 364	34 253	18 740	57 341
Pay leg	**(330 140)**	**(330 140)**	(43 382)	(42 676)	(85 800)	(150 646)	(59 298)	(381 802)
Receive leg	**377 730**	**377 730**	39 949	43 093	93 164	184 899	78 038	439 143
CURRENT ASSETS								
Trade and other receivables	**162 341**	**162 341**	162 341	-	-	-	-	162 341
Amounts owing by Group Companies	**1 417 784**	**1 417 784**	1 417 784	-	-	-	-	1 417 784
Cash and cash equivalents	**468 619**	**468 619**	468 619	-	-	-	-	468 619
Assets classified as held for sale	**10 339**	**10 339**	10 339	-	-	-	-	10 339
			2 056 675	2 292	423 379	59 354	61 497	2 603 197
NON CURRENT LIABILITIES								
Interest-bearing borrowings	**3 199 427**	**3 816 497**	45 110	124 746	1 048 792	2 158 580	865 094	4 242 322
Long term derivative financial instruments	**3 534**	**3 534**	4 306	1 382	(330)	-	-	5 358
Pay leg	**95 789**	**95 789**	29 414	28 935	43 802	-	-	102 151
Receive leg	**(92 255)**	**(92 255)**	(25 108)	(27 553)	(44 132)	-	-	(96 793)
CURRENT LIABILITIES								
Interest-bearing borrowings	**223 643**	**240 595**	168 894	73 238	-	-	-	242 132
Trade and other payables	**2 295 389**	**2 295 389**	2 295 389	-	-	-	-	2 295 389
Current derivative financial instruments	**1 830**	**1 830**	1 830	-	-	-	-	1 830
Pay leg	**169 657**	**169 657**	169 657	-	-	-	-	169 657
Receive leg	**(167 827)**	**(167 827)**	(167 827)	-	-	-	-	(167 827)
Amounts owing to Group Companies	**2 247 396**	**2 247 396**	2 247 396	-	-	-	-	2 247 396
Liabilities directly associated with assets held for sale	**15 399**	**15 399**	15 399	-	-	-	-	15 399
			4 778 324	199 366	1 048 462	2 158 580	865 094	9 049 826
Liquidity gap			(2 721 649)	(197 074)	(625 083)	(2 099 226)	(803 597)	(6 446 629)

29. Financial instruments (continued)

Derivative financial instruments

The following tables indicates the different types of derivative financial instruments for 2014 and 2013 financial years that are included within the various categories on the face of the balance sheet. The reported maturity analysis is calculated based on an undiscounted basis.

Rand Thousand				**Maturity analysis**				
Classes of financial instruments	**Total**	**Cash Flow Hedge**	**No hedge accounting**	**< 6 M**	**> 6 M < 1 Y**	**> 1 Y < 2 Y**	**> 2 Y < 5 Y**	**> 5 Y**
Fair value of derivatives by risk factor:								
September 2014								
ASSETS								
FX risk – Long term Interest rate swap	46 503	46 503	-	2 253	8 570	13 563	13 821	17 180
paying leg	(261 717)	(261 717)	-	(43 124)	(42 677)	(82 050)	(68 598)	(59 298)
receiving leg	308 220	308 220	-	45 377	51 247	95 613	82 419	76 478
FX risk – Short term Interest rate swap	1 669	1 669	-	(750)	1 933	-	-	-
paying leg	(42 321)	(42 321)	-	(29 415)	(14 388)	-	-	-
receiving leg	43 990	43 990	-	28 665	16 321	-	-	-
LIABILITIES								
FX risk – Short term FEC	30 697	-	30 697	30 697	-	-	-	-
paying leg	(884 306)	-	(884 306)	(884 306)	-	-	-	-
receiving leg	915 003	-	915 003	915 003	-	-	-	-
September 2013								
ASSETS								
FX risk – Long term Interest rate swap	47 590	47 590	-	(3 433)	417	7 364	34 253	18 740
paying leg	(330 140)	(330 140)	-	(43 382)	(42 676)	(85 800)	(150 646)	(59 298)
receiving leg	377 730	377 730	-	39 949	43 093	93 164	184 899	78 038
LIABILITIES								
FX risk – Long term Interest rate swap	3 534	3 534	-	4 306	1 382	(330)	-	-
paying leg	95 789	95 789	-	29 414	28 935	43 802	-	-
receiving leg	(92 255)	(92 255)	-	(25 108)	(27 553)	(44 132)	-	-
FX risk – Short term FEC	1 830	2 046	(216)	1 830	-	-	-	-
paying leg	169 657	146 513	23 144	169 657	-	-	-	-
receiving leg	(167 827)	(144 467)	(23 360)	(167 827)	-	-	-	-

29. Financial instruments (continued)

Fair values

All financial instruments are carried at fair value. The carrying amounts for cash and cash equivalents, accounts receivable, certain investments, accounts payable and the current portion of interest-bearing borrowings approximate fair value due to their short-term nature.

As a result of the implementation of IFRS 13 , the fair value of all financial instruments measured at fair value, are measured based on a market exit price incorporating credit risk, by using standard valuation techniques based on observable market data inputs.

The group's financial instruments that are measured at fair value on a recurring basis consist of derivative financial instruments and available for sale financial assets.

The fair value of all external over-the-counter derivatives and material non-current borrowings (for disclosure purposes only) is calculated based on the discount rate adjustment technique. The discount rate used is derived from observable rates of return for comparable assets or liabilities traded in the market. The credit risk of the external counterparty is incorporated into the calculation of fair values of financial assets and own credit risk is incorporated in the measurement of financial liabilities. The change in fair value is therefore impacted by the move of the interest rate curves, by the volatility of the applied credit spreads, and by any changes of the credit profile of the involved parties.

There are no financial assets and liabilities that have been remeasured to fair value on a non-recurring basis. The carrying value of assets and liabilities (excluding plantations) which are held for sale, are considered to be below their net recoverable amount.

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.

29. Financial instruments (continued)

Rand thousand September 2014	Total balance	Out of scope IAS 39	Categories according to IAS 39				Total in scope	Fair value
Classes of financial instruments			Fair value through profit and loss	Loans and receivables	Held to maturity	Available for sale		
NON CURRENT ASSETS								
Other non-current assets	**384 821**	314 864	15 000	54 957	-	-	69 957	69 957
Other assets		318 864	15 000	54 957	-	-	69 957	69 957
Fair value of derivatives	**46 503**	-	46 503	-	-	-	46 503	46 503
CURRENT ASSETS								
Trade and other receivables	**377 542**	87 348	-	290 194	-	-	290 194	290 209
Trade receivables		-	-	119 039	-	-	119 039	119 039
Other accounts receivable - current		87 348	-	171 155	-	-	171 155	171 170
Fair value of derivatives	**1 669**	-	1 669	-	-	-	1 669	1 669
Amounts owing by Group companies	**1 403 598**	-	-	1 403 598	-	-	1 403 598	1 403 598
Cash (and cash equivalents)	**2 051 291**	-	-	2 051 291	-	-	2 051 291	2 051 291
Overnight deposits and current accounts (incl. petty cash)		-	-	2 051 291	-	-	2 051 291	2 051 291

29. Financial instruments (continued)

Rand thousand **September 2014** **Classes of financial instruments**	**Total balance**	**Out of scope IAS 39**	**Categories according to IAS 39** Fair value through profit or loss	 Other financial liabilities	**Total in scope**	**Fair value**
NON CURRENT LIABILITIES						
Interest bearing borrowings	**2 400 000**	-	-	2 400 000	2 400 000	2 514 853
CURRENT LIABILITIES						
Interest bearing borrowings	**746 858**	-	-	746 858	746 858	764 771
Fair value of derivatives	**30 697**	-	30 697	-	30 697	30 697
Trade and other payables	**2 554 171**	385 322	-	2 168 849	2 168 849	2 168 849
Accruals		385 322		401 665	401 665	401 665
Accounts payable - current		-	-	1 767 184	1 767 184	1 767 184
Amounts owing to Group companies	**1 443 989**	-	-	1 443 989	1 443 989	1 443 989

29. Financial instruments (continued)

Rand thousand September 2013	Total balance	Out of scope IAS 39	Categories according to IAS 39				Total in scope	Fair value
Classes of financial instruments			Fair value through profit and loss	Loans and receivables	Held to maturity	Available for sale		
NON CURRENT ASSETS								
Other non-current assets	**792 309**	305 536	15 000	59 581	-	412 192	486 773	486 773
AFS – Investment funds		-	-	-	-	412 192	412 192	412 192
Other assets		305 536	15 000	59 581	-	-	74 581	74 581
Fair value of derivatives	**47 590**	-	47 590	-	-	-	47 590	47 590
CURRENT ASSETS								
Trade and other receivables	**220 610**	58 269	-	162 341	-	-	162 341	162 341
Trade receivables		-	-	98 054	-	-	98 054	98 054
Other accounts receivable - current		58 269	-	64 287	-	-	64 287	64 287
Amounts owing by Group companies	**1 417 784**	-	-	1 417 784	-	-	1 417 784	1 417 784
Cash (and cash equivalents)	**468 619**	-	-	468 619	-	-	468 619	468 619
Overnight deposits and current accounts (incl. petty cash)		-	-	468 619	-	-	468 619	468 619
Assets classified as held for sale	**933 964**	923 625	-	-	-	10 339	10 339	10 339

29. Financial instruments (continued)

Rand thousand September 2013 Classes of financial instruments	Total balance	Out of scope IAS 39	Categories according to IAS 39		Total in scope	Fair value
			Fair value through profit or loss	Other financial liabilities		
NON CURRENT LIABILITIES						
Interest bearing borrowings	**3 199 427**	-	-	3 199 427	3 199 427	3 816 497
Fair value of derivatives	**3 534**	-	3 534	-	3 534	3 534
CURRENT LIABILITIES						
Interest bearing borrowings	**223 643**	-	-	223 643	223 643	240 595
Fair value of derivatives	**1 830**	-	1 830	-	1 830	1 830
Trade and other payables	**2 607 274**	311 885	-	2 295 389	2 295 389	2 295 389
Accruals		311 885	-	717 980	717 980	717 980
Accounts payable - current		-	-	1 577 409	1 577 409	1 577 409
Amounts owing to Group companies	**2 247 396**	-	-	2 247 396	2 247 396	2 247 396
Liabilities directly associated with assets held for sale	**57 929**	42 530	-	15 399	15 399	15 399

29. Financial instruments (continued)

	2014				2013			
	Total fair value R'000	**Fair value hierarchy Level 1 R'000**	**Level 2 R'000**	**Level 3 R'000**	Total fair value R'000	Fair value hierarchy Level 1 R'000	Level 2 R'000	Level 3 R'000
NON CURRENT ASSETS								
Plantations	**4 831 586**	**-**	**-**	**4 831 586**	4 684 542	-	-	4 684 542
Other non current assets	**69 957**	**-**	**-**	**69 957**	486 773	-	412 192	74 581
Fair value of derivatives	**46 503**	**-**	**46 503**	**-**	47 590	-	47 590	-
CURRENT ASSETS								
Fair value of derivatives	**1 669**	**-**	**1 669**	**-**	-	-	-	-
	4 949 715	**-**	**48 172**	**4 901 543**	5 218 905	-	459 782	4 759 123
NON CURRENT LIABILITIES								
Fair value of derivatives	**-**	**-**	**-**	**-**	3 534	-	3 534	-
CURRENT LIABILITIES								
Fair value of derivatives	**30 697**	**-**	**30 697**	**-**	1 830	-	1 830	-
	30 697	**-**	**30 697**	**-**	5 364	-	5 364	-

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 receivable management is the responsibility of regional management and is coordinated on a group basis.

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

The group assesses the creditworthiness of potential and existing customers in line with its credit policies and procedures. Collateral is obtained to minimise risk. Exposures are monitored on an ongoing basis utilising various reporting tools which highlight potential risks when considered appropriate.

In the event of deterioration of credit risk, the appropriate measures are taken by the regional credit management team. All known risks are required to be fully disclosed, accounted for, and provided for as bad debts in accordance with the applicable accounting standards.

On average 93% of our trade receivables, including those off-balance sheet, are credit insured.

Quantitative disclosures on credit risk are included in note 13 of the group annual financial statements.

Sappi Southern Africa Limited

Notes to the Group and Company Annual Financial Statements (Continued)
Year ended September 2014

30. Related party transactions

Rand thousand	Income and sales to related party		Purchases and charges from related party		Amounts owing by group companies		Amounts owing to group companies	
	2014 R'000	2013 R'000	**2014 R'000**	2013 R'000	**2014 R'000**	2013 R'000 (Restated)	**2014 R'000**	2013 R'000
Canonbrae Development Company (Pty) Ltd*	**-**	-	**-**	-	**2 310**	2 310	**-**	-
Lereko Property Company (Pty) Ltd*	**-**	-	**-**	-	**130**	488	**-**	-
Lotzaba Forests Limited*	**-**	-	**-**	-	**-**	-	**-**	107
Micawber 279(RF) (Pty) Ltd*	**-**	-	**-**	-	**19 404**		**-**	-
Pulplink Properties (Pty) Ltd*	**-**	-	**-**	-	**-**	-	**-**	418
Safor Limited*	**-**	-	**-**	-	**-**	-	**-**	2
Sappi Alfeld GMBH**	**-**	-	**-**	-	**25**	-	**-**	-
Sappi Ehinghen GMBH**	**-**	-	**-**	-	**-**	-	**3**	-
Sappi Saiccor (Pty) Ltd*	**-**	-	**-**	-	**-**	-	**10**	10
Sappi Europe Limited**	**-**	-	**43 352**	1 304	**-**	-	**39 069**	750
Sappi Export Services (Pty) Ltd**	**-**	-	**640 196**	572 969	**-**	-	**69 622**	86 174
Sappi International SA**	**-**	-	**-**	-	**1 059**	956	**-**	-
Sappi Limited***	**-**	-	**-**	-	**-**	-	**1 333 873**	2 141 023
Sappi Management Services (Pty) Ltd*	**-**	-	**-**	-	**-**	39 531	**-**	-
Sappi Paper Holding GmbH	**6 566 089**	6 057 976	**29 643**	22 563	**1 012 397**	1 307 271	**-**	-
Sappi Specval Coatings (Pty) Ltd*	**-**	-	**-**	-	**76 903**	67 886	**-**	-
Sappi Trading Africa (Pty) Ltd**	**-**	29 547	**-**	-	**-**	-	**-**	14 882
Sappi Trading Hong Kong Limited**	**-**	-	**-**	-	**12**	37	**-**	-
Sappi Share Facilitation Company (Pty) Ltd	**-**	-	**-**	-	**-**	-	**-**	882
Sappi Share Incentive Scheme**	**-**	-	**-**	-	**-**	54	**797**	-
Sappi Performance Share Incentive Plan**	**-**	-	**-**	-	**-**	-	**757**	-
Sappi Deutchland GmbH**	**2 155 169**	646 022	**-**	-	**384 529**	104 652	**-**	-
Sappisure Försakrings AB**	**81 182**	-	**71 465**	64 197	**-**	328	**-**	-
Sappi Holdings GMBH**	**-**	-	**-**	-	**4 948**	3 717	**-**	-
S.D. Warren Company**	**-**	-	**-**	-	**625**	769	**-**	-
Usutu Pulp Company Limited*	**-**	-	**-**	-	**-**	1 196 503	**-**	-
Waterton Timber Company (Pty) Ltd	**-**	-	**-**	-	**-**	-	**312**	-
Impairments to intercompany loans	**-**	-	**-**	-	**-**	(407 977)	**-**	-
	8 802 440	6 733 545	**784 656**	661 033	**1 502 342**	2 316 525	**1 444 443**	2 244 248

30. Related party transactions (continued)

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

* Subsidiary
** Fellow subsidiary
*** Holding company

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

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

	Group		Company	
	2014 R'000	2013 R'000	**2014 R'000**	2013 R'000
Dividends received from related parties				
Umkomaas Lignin (Pty) Ltd	**-**	-	**96 954**	17 500
	-	-	**96 954**	17 500

Shareholders

The company's shares are held by Sappi Limited which has a primary listing on the JSE Limited.

Directors

Details relating to directors share incentive trust are disclosed in note 27.

Interest of directors in contracts

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

Subsidiaries

Details of investments in subsidiaries are disclosed in Annexure A.

31. Compensation of key management personnel

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

2014

	Salary	**Prior Year bonuses and performance related payments**	**Sums paid by way of expense allowance**	**Contributions paid under pension and medical aid schemes**	**Total**
	R'000	R'000	R'000	R'000	R'000
Director 1	1 947	734	-	406	3 087
Director 2	3 521	2 417	-	678	6 616
Director 3	1 956	691	-	699	3 346
Director 4	-	-	-	-	-
Director 5	1 663	656	4	614	2 937
Director 6	1 574	809	4	586	2 973
Director 7	1 971	787	431	-	3 189
Director 8	55 626	-	-	1 597	57 223
Director 9	1 352	245	-	504	2 101
Director 10	4 796	-	-	487	5 283
Director 11	3 519	-	622	682	4 823
Director 12	3 231	-	4	918	4 153
Director 13	3 963	-	-	1 154	5 117
Director 14	1 727	-	-	545	2 272
Director 15	-	-	-	-	-
Director 16	487	804	1	173	1 465
Director 17	2 392	799	4	1 067	4 262
	89 725	7 942	1 070	10 110	108 847

31. Compensation of key management personnel (continued)

2013

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

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

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

31. Compensation of key management personnel (continued)

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

	Allocated price	Director 1 No. of shares	Director 2 No. of shares	Director 3 No. of shares
Outstanding at beginning of year				
Number of shares held		131 900	345 000	134 700
Issue 32	R52.57			
Issue 34	R35.50	4 400		
Issue 35	R35.20	10 500		
Performance shares 35	R0.00		80 000	47 700
Performance shares 36	R0.00	25 000	65 000	30 000
Performance shares 37	R0.00	53 000	100 000	28 000
Performance shares 38	R0.00	39 000	100 000	29 000
Appointment of director				
Number of shares		-	-	-
Offered and accepted during the year				
Performance shares 39		40 000	310 000	40 000
Exercised during the year				
Number of shares		(14 900)	(30 000)	(17 888)
Returned, lapsed and forfeited during the year				
Number of shares		-	(50 000)	(29 812)
Retirement and resignations of directors				
Number of shares		-	-	-
Outstanding at end of year		157 000	575 000	127 000
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Issue 36	R35.20			
Issue 37	R35.20			
Performance shares 36	R0.00	25 000	65 000	30 000
Performance shares 37	R0.00	53 000	100 000	28 000
Performance shares 38	R0.00	39 000	100 000	29 000
Performance shares 39	R0.00	40 000	310 000	40 000

31. Compensation of key management personnel (continued)

	Allocated price	Director 4 No. of shares	Director 5 No. of shares	Director 6 No. of shares
Outstanding at beginning of year				
Number of shares held		122 000	125 000	125 760
Issue 32	R52.57			7 260
Issue 34	R35.50			8 800
Issue 35	R35.20			
Performance shares 35	R0.00	43 000	43 000	38 200
Performance shares 36	R0.00	28 000	28 000	27 500
Performance shares 37	R0.00	25 000	28 000	24 000
Performance shares 38	R0.00	26 000	26 000	20 000
Appointment of director				
Number of shares				
Offered and accepted during the year				
Performance shares 39		-	30 000	20 000
Exercised during the year				
Number of shares		-	(16 125)	(14 325)
Returned, lapsed and forfeited during the year				
Number of shares		-	(26 875)	(23 875)
Retirement and resignations of directors				
Number of shares		(122 000)		
Outstanding at end of year		-	112 000	107 560
Issue 32	R52.57			7 260
Issue 34	R35.50			8 800
Issue 35	R35.20			
Issue 36	R35.20			
Issue 37	R35.20			
Performance shares 36	R0.00		28 000	27 500
Performance shares 37	R0.00		28 000	24 000
Performance shares 38	R0.00		26 000	20 000
Performance shares 39	R0.00		30 000	20 000

31. Compensation of key management personnel (continued)

	Allocated price	Director 7 No. of shares	Director 8 No. of shares	Director 9 No. of shares
Outstanding at beginning of year				
Number of shares held		152 000	790 000	-
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 35	R0.00	43 000	195 000	
Performance shares 36	R0.00	30 000	195 000	
Performance shares 37	R0.00	53 000	200 000	
Performance shares 38	R0.00	26 000	200 000	
Appointment of director				
Number of shares		-	-	44 110
Offered and accepted during the year				
Performance shares 39		30 000	-	20 000
Exercised during the year				
Number of shares		(16 125)	(73 125)	-
Returned, lapsed and forfeited during the year				
Number of shares		(26 875)	(716 875)	-
Retirement and resignations of directors				
Number of shares		-	-	-
Outstanding at end of year		139 000	-	64 110
Issue 32	R52.57			2 860
Issue 34	R35.50			4 400
Issue 35	R35.20			7 150
Issue 36	R35.20			10 000
Issue 37	R35.20			12 000
Performance shares 36	R0.00	30 000		
Performance shares 37	R0.00	53 000		
Performance shares 38	R0.00	26 000		7 700
Performance shares 39	R0.00	30 000		20 000

31. Compensation of key management personnel (continued)

	Allocated price	Director 10 No. of shares	Director 11 No. of shares	Director 12 No. of shares
Outstanding at beginning of year				
Number of shares held		308 000	-	288 000
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 35	R0.00	80 000		65 000
Performance shares 36	R0.00	55 000		50 000
Performance shares 37	R0.00	87 500		87 500
Performance shares 38	R0.00	85 500		85 500
Appointment of director				
Number of shares		-	154 250	-
Offered and accepted during the year				
Performance shares 39		-	-	90 000
Exercised during the year				
Number of shares		(30 000)	-	(24 375)
Returned, lapsed and forfeited during the year				
Number of shares		(50 000)	-	(40 625)
Retirement and resignations of directors				
Number of shares		-	-	-
Outstanding at end of year		228 000	154 250	313 000
Issue 32	R52.57		6 600	
Issue 34	R35.50			
Issue 35	R35.20			
Issue 36	R35.20			
Issue 37	R35.20			
Performance shares 36	R0.00	55 000	24 150	50 000
Performance shares 37	R0.00	87 500	55 500	87 500
Performance shares 38	R0.00	85 500	35 000	85 500
Performance shares 39	R0.00	-	33 000	90 000

31. Compensation of key management personnel (continued)

	Allocated price	Director 13 No. of shares	Director 14 No. of shares	Director 15 No. of shares
Outstanding at beginning of year				
Number of shares held		100 000	105 000	71 500
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Performance shares 35	R0.00			
Performance shares 36	R0.00			12 500
Performance shares 37	R0.00		45 000	33 000
Performance shares 38	R0.00	100 000	60 000	26 000
Appointment of director				
Number of shares		-	-	-
Offered and accepted during the year				
Performance shares 39		310 000	90 000	-
Exercised during the year				
Number of shares		-	-	-
Returned, lapsed and forfeited during the year				
Number of shares		-	-	-
Retirement and resignations of directors				
Number of shares		-	-	(71 500)
Outstanding at end of year		410 000	195 000	-
Issue 32	R52.57			
Issue 34	R35.50			
Issue 35	R35.20			
Issue 36	R35.20			
Issue 37	R35.20			
Performance shares 36	R0.00			
Performance shares 37	R0.00		45 000	
Performance shares 38	R0.00	100 000	60 000	
Performance shares 39	R0.00	310 000	90 000	

31. Compensation of key management personnel (continued)

	Allocated price	Director 16 No. of shares	Director 17 No. of shares
Outstanding at beginning of year			
Number of shares held		175 500	135 100
Issue 32	R52.57		7 700
Issue 34	R35.50		8 250
Issue 35	R35.20		7 150
Performance shares 35	R0.00	53 500	
Performance shares 36	R0.00	30 000	20 000
Performance shares 37	R0.00	53 000	53 000
Performance shares 38	R0.00	39 000	39 000
Appointment of director			
Number of shares		-	-
Offered and accepted during the year			
Performance shares 39		-	100 000
Exercised during the year			
Number of shares		(20 063)	(15 400)
Returned, lapsed and forfeited during the year			
Number of shares		(94 470)	-
Retirement and resignations of directors			
Number of shares		-	-
Outstanding at end of year		60 967	219 700
Issue 32	R52.57		7 700
Issue 34	R35.50		
Issue 35	R35.20		
Issue 36	R35.20		
Issue 37	R35.20		
Performance shares 36	R0.00	6 920	20 000
Performance shares 37	R0.00	25 430	53 000
Performance shares 38	R0.00	28 617	39 000
Performance shares 39	R0.00		100 000

31. Compensation of key management personnel (continued)

	Allocated price	Total 2014 No. of shares	Total 2013 No. of shares
Outstanding at beginning of year			
Number of shares held		3 109 460	2 784 860
Issue 32	R52.57		
Issue 34	R35.50		
Issue 35	R35.20		
Performance shares 35	R0.00		
Performance shares 36	R0.00		
Performance shares 37	R0.00		
Performance shares 38	R0.00		
Appointment of director			
Number of shares		198 360	
Offered and accepted during the year			
Performance shares 38		-	901 000
Performance shares 39		1 080 000	-
Exercised during the year			
Number of shares		(272 326)	(170 775)
Returned, lapsed and forfeited during the year			
Number of shares		(1 059 407)	(405 625)
Retirement and resignations of directors			
Number of shares		(193 500)	-
Outstanding at end of year		2 862 587	3 109 460
Issue 32	R52.57		
Issue 34	R35.50		
Issue 35	R35.20		
Issue 36	R35.20		
Issue 37	R35.20		
Performance shares 36	R0.00		
Performance shares 37	R0.00		
Performance shares 38	R0.00		
Performance shares 39	R0.00		

31. Compensation of key management personnel (continued)

September 2014					
Director		Date Paid for	Number of shares Paid for	Allocation price	Market value at date of payment
Director 1	Issue 34	18 September 2014	4 400	R33.50	R47.50
	Issue 35	18 September 2014	10 500	R33.85	R47.51
			14 900		
Director 2	Performance Plan 35	10 December 2013	30 000	R0.00	R29.54
Director 3	Performance Plan 35	10 December 2013	17 888	R0.00	R29.54
Director 5	Performance Plan 35	10 December 2013	16 125	R0.00	R29.54
Director 6	Performance Plan 35	10 December 2013	14 325	R0.00	R29.54
Director 7	Performance Plan 35	10 December 2013	16 125	R0.00	R29.54
Director 8	Performance Plan 35	10 December 2013	73 125	R0.00	R29.54
Director 10	Performance Plan 35	10 December 2013	30 000	R0.00	R29.54
Director 12	Performance Plan 35	10 December 2013	24 375	R0.00	R29.54
Director 16	Performance Plan 35	10 December 2013	20 063	R0.00	R29.54
Director 17	Issue 34	26 August 2014	8 250	R35.50	R43.80
	Issue 35	26 August 2014	7 150	R33.85	R43.79
			15 400		

31. Compensation of key management personnel (continued)

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

Performance shares are issued when all conditions are met.

Expiry dates

Issue 32	12 December 2015
Issue 34	22 December 2016
Issue 35	9 December 2017
Issue 36	3 December 2018
Issue 37	2 December 2019
Performance shares 36	3 December 2014
Performance shares 37	2 December 2015
Performance shares 38	7 December 2016
Performance shares 39	13 December 2017

32. Environmental matters

In South Africa, our operations are regulated by various environmental laws, regulations as well as norms and standards. The primary statutes affecting our operations are:

- The National Water Act recognises that water is a scare resource and ensures allocation is first for human consumption and then to agriculture, industry and forestry. It affects both the group's manufacturing and forestry operations. Abstraction of water, discharge of effluent, the growing and management of forests are all regulated through a licensing system issued in terms of this Act.
- The National Environmental Management Act establishes the procedures and institutions to facilitate and promote co-operative government and inter-governmental relations with regard to the environment, as well as establishes the procedures and institutions to facilitate and promote public participation in environmental governance. It provides for the issuance of environmental authorizations and imposes a duty of care regarding environmental harm.
- The National Environmental Management: Air Quality Act (promulgated in 2005), impose more stringent compliance limits on the South African operations in 2015 and then again in 2020. The stricter standards as per the Air Quality Act coming into effect in 2015 will not have a material impact on our mills.
- The National Environmental Management: Waste Act (enacted in July 2009) regulates the use, re-use, recycling and disposal of waste and regulates waste management by way of a licensing system.

As a responsible global citizen with obligations under the United Nations Framework Convention on Climate Change and its Kyoto Protocol, South Africa is committed to contributing its fair share to global GHG mitigation efforts. The South African Government acceded to the Kyoto Protocol in July 2002. Accordingly, South Africa has committed itself to an emissions trajectory that peaks at 34% below a “Business as Usual” trajectory in 2020 and 42% in 2025, remains stable for around a decade, and declines thereafter in absolute terms. The Government is currently in the process of setting desired emission reduction outcomes (DERO's) with industry sectors to achieve the committed targets. This requirement was initially referred to in the National Climate Change Response White (NCCRWP), which discusses mitigation plans which will show how companies intend to achieve their DERO's. Obligations under the Kyoto Protocol have been extended by the member parties through a second commitment period which runs from 2014 until at least 2017.

We expect Carbon tax legislation to be introduced in 2016 and its introduction poses a potential risk going forward for Sappi Southern Africa. We have engaged the Department of National Treasury via our industry representative, the Paper Manufacturers Association of South Africa (PAMSA), to motivate the carbon tax design to incorporate rebates for carbon sequestration. Sappi's process starts with the planting of trees and its total supply chain is carbon neutral. In addition PAMSA is driving the development of a local factor to input into the carbon accounting method that applies to the unique circumstances of plantation forestry in South Africa. The initiative is being developed in conjunction with the Department of Environment and local research institutions, and is supported by a portion of the grant allocated to sector research and development, supplied by the Department of Science and Technologies.

33. Events after balance sheet date

In October 2014, the group utilised its existing cash resources to redeem R300 million of its R750 million public bonds due in April 2015.

Sappi Southern Africa Limited

Investments
at September 2014

Annexure A

Investments in subsidiaries		Rands Share capital	**2014 %** **Effective holding**	2013 %	**2014 R'000** **Book value of investment**	2013 R'000 (Restated)
Set out below are the more significant subsidiaries of Sappi Southern Africa Limited						
Bonuskor Houtverwerkers (Edms) Bpk*	ME	-	**-**	100,0%	**-**	-
Canonbrae Development Company (Pty) Ltd*	D	1 000	**63,2%**	63,2%	**-**	-
Lotzaba Forrest Ltd*	ME	-	**-**	100,0%	**-**	-
Sappi Property Company (Pty) Ltd*	O	7 000	**100,0%**	100,0%	**7**	7
Safor Limited*	ME	-	**-**	100,0%	**-**	2
Umkomaas Energy (Pty) Ltd previously called Saligna Forestry (Pty) Ltd*	D	20	**100,0%**	100,0%	**-**	-
Sappi Fine Papers (Pty) Ltd*	M	1	**100,0%**	100,0%	**-**	-
Sappi Forests (Pty) Ltd*	M	1	**100,0%**	100,0%	**-**	-
Sappi Forest Products (Pty) Ltd*	M	1	**100,0%**	100,0%	**-**	-
Sappi Kraft (Pty) Ltd*	ME	-	**-**	100,0%	**-**	-
Sappi Management Services (Pty) Ltd*	M	100	**100,0%**	100,0%	**-**	-
Sappi Mozambique SA****	DE	-	**-**	100,0%	**-**	7
Sappi Saiccor (Pty) Ltd*	M	10 000	**100,0%**	100,0%	**13**	13
Sappi Timber Industries (Pty) Ltd*	ME	-	**-**	100,0%	**-**	-
Sappi Specval Coatings (Pty) Ltd*	O	100	**100,0%**	100,0%	**-**	-
Sappi Refibre Paper (Pty) Ltd*	ME	-	**-**	100,0%	**-**	36
Pulplink Properties (Pty) Ltd*	ME	-	**-**	100,0%	**-**	-
Usutu Forest Products Company Limited***	S	-	**-**	44,8%	**-**	234 462
Waterton Timber Company (Pty) Ltd*	D	312 000	**100,0%**	100,0%	**312**	-
					332	234 527
Write down of investment in subsidiaries					**-**	234 462
					332	65

Holding company	H	*	Incorporated in South Africa
Operating company	O	**	Incorporated in Mauritius
Management company	M	***	Incorporated in Swaziland
Dormant company	D	****	Incorporated in Mozambique
Merged with Sappi Southern Africa	ME		
Deregistered	DE		
Sold	S		

FSC: In terms of the Forest Stewardship Council ("FSC") scheme, there are two types of certificates. In order for land to achieve FSC endorsement, its forest management practices must meet the FSC's ten principles and other assorted criteria. For manufacturers of forest products, including paper manufacturers like Sappi, Chain-of-Custody certification involves independent verification of the supply chain, which identifies and tracks the timber through all stages of the production process from the tree farm to the end product

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

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

OHSAS: Is an international health and safety standard aimed at minimising occupational health and safety risks firstly, by conducting a variety of analyses and secondly, by setting standards

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