Annual Report 2011

Sappi Southern Africa (Proprietary) Limited

sappi

Inspired by life

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

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

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

Sappi Forests supplies over 70% of the wood requirements of Sappi Southern Africa from both our own and managed commercial timber plantations of 567,000 hectares.
This equates to more than 35 million tons of standing timber.

All wood grown on Sappi-owned land and a large proportion grown on plantations managed by us is Forest Stewardship Council (FSC©) and ISO 9000 certified. Approximately 150,000 hectares of our land is protected and maintained by Sappi Forests to conserve the natural habitat and biodiversity found there, including indigenous forests and wetlands.

Sappi Southern Africa is a net seller of pulp.

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

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

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

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

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

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

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

Sappi Southern Africa (Proprietary) Limited

(Previously: Sappi Manufacturing (Proprietary) Limited)
(Incorporated in the Republic of South Africa)
Registration number 1951/003180/07

Annual Financial Statements

September 2011

Sappi Southern Africa (Proprietary) Limited

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Year ended September 2011

Sappi Southern Africa (Proprietary) Limited

Financial Highlights

Year ended September 2011

	September 2011 R million	September 2010 R million
Sales	**12 071**	11 276
EBITDA excluding special items	**1 710**	1 449
Operating profit excluding special items	**941**	699
(Loss) profit for the year	**(256)**	97
Net debt	**1 572**	2 865
Total capitalisation	**9 030**	10 695
Net debt over EBITDA	**0.92**	1.98
Operating profit excluding special items to sales (%)	**7.8%**	6.2%
Return on net assets (RONA) (%)	**7.0%**	3.7%
Return on equity (ROE) (%)	**(3.3%)**	1.2%
Net debt to total capitalisation ratio	**17.4%**	26.8%
Cash interest cover (times)	**6.1%**	3.9%

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 by operations divided by finance costs less finance revenue

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

Sappi Southern Africa (Proprietary) Limited

Management

Year ended September 2011

Chief Executive Officer
Alex Thiel (50)** BSc Mech Eng, MBA
Jan Labuschagne** (51) BCom Hons, CA(SA) (resigned 30 November 2010)

Finance Director
Colin Mowatt**(54) BCom Acc, CA(SA), EDP, MBL

Technical Director
Bertus van der Merwe** (58) BSc, MBA, Hdip (Engineering)

Information Technology Director
Deon van Aarde** (51) B Compt

Strategic and New Business Development Director
Tyrone Hawkes ** (43) BCom Hons, CA(SA)

Regional Procurement Director
Nat Maelane** (52) MDP, SEP

Other Directors
Ralph Boëttger***(50) B Acc Hons, CA(SA)
Mark Thompson***(59) BCom, BAcc, LLB, CA(SA)
Andrea Rossi** (57) BSc (Engineering) (Hons) C Eng
Robert Hope ** (58) BA (Hons) Economics, MRICS
Lucia Swartz ** (54) BA, Dip HR

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

Human Resources Director
Esther Letlape** (44) BA, BA (Hons) Industrial Psychology Brian Dick** (61) BCom (resigned 31 January 2010)
Jeanette Modise ** (48) BCom, MDP, MBL (resigned 31 March 2010)

Sappi Saiccor Managing Director
Gary Bowles ** (52) B.Sc Eng (Elect) and GCC & PMD (UCT)
Alan Tubb** (61) BSc Eng (Elec); GCC Mines and Works (Elec); BComm (resigned 31 December 2010)

Executive Director Marketing: Sappi Paper and Paper Packaging SA
Dinga Mncube** (51) Dip (Forestry), BSc (Forest Management), MSc (Forest Products), Dip (Business Management) (resigned 30 November 2011)

Manufacturing Director: Sappi Paper and Paper Packaging SA
Patrick McGrady ** (54) BSc Eng (Elec); GCC (Factories)

Sappi Forests Managing Director
Hendrik de Jongh** (56), GCC (electrical), EDP and post-graduate diploma (Management)

Sappi Kraft Managing Director
Albert Lubbe** (63) Ndip Tech, GCC (Mechanical Engineers), FIN Dip, AEP (resigned 31 July 2010)

Group Secretary
Denis O’Connor

Secretaries
Sappi Limited
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Sappi Southern Africa (Proprietary) Limited

Corporate Governance

At September 2011

The Sappi Southern Africa Group of companies (“Group”) is a major subsidiary of Sappi Limited (“Sappi”), a company that maintains its primary listing on the JSE Limited as well as a listing on the New York Stock Exchange. The Group complies in all material aspects with the regulations and codes of these exchanges as they apply to Sappi.

Sappi is committed to high standards of corporate governance which form the foundation for the long-term sustainability of our company and creation of value for our stakeholders. The group endorses the recommendations contained in the King Code of Governance Principles for South Africa 2009 (King III). Certain recommended practices are being developed further to improve our application of the King III principles.

The board of directors

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

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

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

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

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

The audit committee can confirm 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 2011.

The committee met four times during 2011.

Compensation committee
The compensation committee ensures that the compensation philosophy and practices of the group are aligned to its strategy and performance goals. It reviews and agrees the various compensation programmes and in particular the compensation of executive directors and senior executives.

Sappi Southern Africa (Proprietary) Limited

Corporate Governance (Continued)

At September 2011

Human resources and transformation committee
The responsibilities of the human resources and transformation committee are, among others, to determine Sappi's human resource policy and strategy, assist with the hiring and setting of terms and conditions of employment of executives, the approval of retirement policies and succession planning for management and the chief executive offer, as well as employment equity and transformation in South Africa.

Sustainability committee and councils
The sustainability committee's mandate is essentially to oversee Sappi's sustainability strategies.

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

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

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

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

Sappi risk management team
The Sappi risk management team is mandated by the Sappi Limited Board 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 Sappi risk management team reports regularly on risks to the audit committee and the board.

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

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

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

As part of an ongoing comprehensive evaluation process, control self-assessments year-end external audits and independent reviews by Internal Audit, and other assurance providers were undertaken across the Group to test the effectiveness of various elements of the group's financial, disclosure and other internal controls, procedures and systems. Identified improvements are being addressed to strengthen the Group's controls further. The results of the reviews did not indicate any material breakdown in the functioning of these controls, procedures and systems during the year. The internal controls in place, including the financial controls and financial control environment are considered to be effective.

Sappi Southern Africa (Proprietary) Limited

Corporate Governance (Continued)

At September 2011

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

The assurance obtained informs executive management and the audit committee about the effectiveness of the Group's internal controls in respect of significant risks. The audit committee, which is responsible for the oversight of risk management at Sappi, considers the risks and the assurance provided through the combined assurance framework and periodically advises the board on the state of risks and controls in Sappi's operating environment.
In addition to combined assurance in respect of internal controls, Sappi has also obtained assurance on the data in the annual report from the following sources:

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

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

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

During 2011, internal audit undertook reviews of non-financial risk areas including sustainability, health and safety. This coincided with its co-ordination of the combined assurance model and advising on other practices recommended in King III.

Company secretary
All directors have access to the advice and services of Sappi's secretary, who is the company secretary responsible for the duties set out in section 88 of the South African Companies Act 71 of 2008. 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 Sappi, as well as arranging for the induction of new directors.

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

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
Sappi has a policy that obliges all employees to disclose any interest in contracts with Sappi to assess any possible conflict of interest. The policy also dictates that directors and senior officers of Sappi must disclose any interest in contracts as well as other appointments to assess any conflict of interest that may affect their fiduciary duties.

Sappi Southern Africa (Proprietary) Limited

Corporate Governance (Continued)

At September 2011

Whistle-blower hotlines and follow up of tip-offs
Whistle-blower ‘hotlines’ have been implemented in all the regions in which Sappi operates. This service, operated by independent service providers, enables all stakeholders to anonymously report environmental, safety, ethics, accounting, auditing, control issues or other concerns. The follow up on all reported matters is co-ordinated by Internal Audit and reported to the Audit Committee. We found that the categories of calls and outcomes of cases broadly aligned with international whistle-blower benchmark data.

Stakeholder engagement
The board is responsible for presenting a balanced and understandable assessment of Sappi’s position in reporting to stakeholders. Sappi’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 stakeholders such as the stakeholder engagement policy and group corporate social responsibility policy.
There have been no requests for information for the period under review in terms of the Promotion of Access to Information Act (South African legislation).

Deloitte.

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

We have audited the company and group annual financial statements of Sappi Southern Africa (Proprietary) Limited, which comprise the balance sheets as at 30 September 2011, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 10 to 106.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the company and group financial statements present fairly, in all material respects, the financial position of Sappi Southern Africa (Proprietary) Limited as at 30 September 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Andrew Kilpatrick
10 February 2012

Sappi Southern Africa (Proprietary) Limited

Directors' Approval

Year ended September 2011

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

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

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

The above statements were approved by the Board of directors on 6 February 2012.

and were signed on 10 February 2012 on its behalf by:

Director

Director

Sappi Southern Africa (Proprietary) Limited

Directors' Report

Year ended September 2011

The directors submit their report for the year ended September 2011.

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

Supervisor of the preparation of the annual financial statements

Chief financial officer, C Mowatt CA(SA).

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

The Group manufactures and sells a wide range of pulp, paper chemical cellulose and wood products for use in almost every sphere of economic activity.

The group is based in South Africa and Swaziland, and produces pulp, paper, paper packaging, chemical cellulose and forest & timber products for southern Africa and export markets.

Sappi Southern Africa overview

Sappi Southern Africa is an integrated pulp, packaging paper, coated paper, uncoated paper, speciality paper, crepe tissue paper and timber products producer. Sappi Southern Africa operates five paper and paper packaging mills, one chemical cellulose mill and one sawmill.

Sappi Southern Africa is a major pulp and paper producer in Africa, with a production capacity of 630,000 tons of paper packaging products, 450,000 tons of paper products, 800,000 tons of chemical cellulose and 1,025,000 tons of paper pulp per annum. It is also a major timber grower and manages directly and indirectly approximately 567,000 hectares of forestland. Currently, we have access to approximately 415,000 hectares of plantable forestland; however, due to forest fires and timing differences between felling and planting activities, approximately 392,000 hectares is planted with primarily pine and eucalyptus. Approximately 70% of our southern African timber requirements are from our managed, owned and leased plantations. The term "directly manages" relates to plantations in southern Africa established on land that we either own or lease from a third party. The term "indirectly manages" relates to plantations in southern Africa established on land held by independent commercial farmers, where we provide technical assistance in the form of advice on the growing and tending of trees.

The business produces 1,025 million tons of paper pulp and on a net basis, we are approximately self sufficient for our paper pulp requirements in Southern Africa.

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

The 800 000 tons of chemical cellulose is almost exclusively exported to customers in Asia, Europe and North America.

Markets and operations

Chemical cellulose accounts for the majority of our third-party pulp sales. The chemical cellulose produced at our Saiccor mill is used principally as an input in the production of various textiles, microcrystalline cellulose for the food and pharmaceutical industries, and acetate flake used in the manufacturing of acetate tow for cigarette filter tips. Most of our chemical cellulose sales contracts are multi-year contracts with pricing generally based on a formula linked to the NBSK price, which resets on a quarterly basis. However, higher technical grade specifications allow chemical cellulose to typically trade at a premium to NBSK. After a decline in the US$ denominated sales price of NBSK, which dropped to a low of US$577 per ton in March 2009, the market has seen a steady recovery, reaching a high of US$1,023 per ton in June 2011 before retreating to US$958 per ton by the end of September 2011. Spot prices for chemical cellulose reached record highs at the beginning of 2011 before falling back sharply in the latter half of the year.

Year ended September 2011

Operating profit decreased from a profit of R530 million in fiscal 2010 to an operating loss of R3 million in fiscal 2011. The operating loss for fiscal 2011 included unfavorable net special items of R830 million which consisted mainly of asset impairments (R475 million) and restructuring charges (R311 million). The asset impairments included R71 million related to the closure of our Adamas Mill and R404 million related to impairments of assets in our paper and paper packaging business where we have decided to cease production of certain products. The restructuring charges relate to our revised strategy for our South African paper and paper packaging business.

Sales increased by 7% in Rand terms in fiscal 2011 (R12 071 million) compared to fiscal 2010 (R11 276 million). Sales volumes decreased by 3% in fiscal 2011 compared to fiscal 2010. Demand for chemical cellulose products was extremely strong in fiscal 2011 and sales volume for the Sappi Chemical Cellulose business increased by 9% compared to fiscal 2010. The sales volumes for the Sappi Paper and Paper Packaging business declined by 10% compared to fiscal 2010, due to weak market conditions and strong competition from imported products due to the strengthening of the Rand against the US dollar during fiscal 2011. The sales volumes of the Sappi Forests business decreased by 8% in fiscal 2011 compared to fiscal 2010.

A major determinant of sales pricing in the chemical cellulose business is the NBSK pulp market price. The average NBSK pulp price increased by 11% from an average of US$ 885 / ton in fiscal 2010 to an average of US$ 978 / ton in fiscal 2011. During fiscal 2011, our average chemical cellulose selling prices in US dollar terms increased by 21% compared to fiscal 2010, but increased by only 12% in Rand terms due to the strengthening of the Rand against the US dollar during fiscal 2011.

Average selling prices realised in the Sappi Paper and Paper Packaging business increased by 6% in Rand terms compared to fiscal 2010. Average selling prices of timber, in Rand terms, increased by 9% in fiscal 2011 compared to fiscal 2010.

Variable input costs per ton increased by 14% compared to fiscal 2010 due to increases in the prices for all raw materials and energy, driven by increases in international commodity prices. In addition to increased input material prices, production costs were also negatively impacted by a three week industry-wide strike during the year.

Personnel cost is the largest component of fixed costs and remains under pressure in South Africa due to a high inflation environment and the impact of a skills shortage on labour rates, particularly in skilled technical functions. Fixed costs increased, in Rand terms, by 7% from R4 323 million to R4 646 million, in fiscal 2011 compared to fiscal 2010. This increase was mainly due to a 9% increase in maintenance costs and an 8% increase in personnel costs. The additional maintenance related to the restarting of manufacturing equipment in fiscal 2011 that had been mothballed in fiscal 2010 by Sappi Paper and Paper Packaging.

EBITDA excluding special items increased by 18% from R1 449 million to R1 710 million, in fiscal 2011 compared to fiscal 2010.

The impact of fires on our plantations reduced substantially in fiscal 2011 after devastating forest fires in 2007 and 2008, which affected us and the whole industry in Southern Africa. We increased our focus on training our people, building community awareness of the destruction caused by fires, and upgrading fire detection systems and firefighting equipment.

We have pursued sustainable forestry practices for decades, including focusing on protecting wetlands by widening the unforested areas around them.

We are restructuring our business processes and paper operations in South Africa to ensure that we adapt to our customers' changing needs and that we align our assets with profitable markets for future growth. The first step in this regard was the closure of the Adamas Mill, which was completed during fiscal 2011. We are well advanced with the implementation of further cost reduction and streamlining actions for both our administrative and production areas.

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

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

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

Outlook

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

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

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

Reporting period

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

Basis of preparation

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

Share Capital

There were no changes in the authorised and issued 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
220 793	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
122 168	Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate

Financing

In June 2011, Sappi Southern Africa (Pty) Ltd issued a R500 million fixed rate bond 'SSA01' at a 150 basis points spread over the government reference rate and an all in coupon rate of 9.63%. The bond is repayable on 28 June 2016, with coupons payable semi-annually on 28 June and 28 December of each year. The proceeds of the bond will be used to partially refinance the R1 billion maturing SMF2 bond on 14 October 2011 – the balance will be paid from own cash generated.

At year end, the average tenure of term debt is 2,5 years, requiring refinancing in the next financial year of R1 billion in October 2011 and R500 million in June 2012.

In October 2011 Fitch confirmed their Sappi Southern Africa's local credit rating of A/ F1, with a stable outlook for Sappi Southern Africa, commenting on the expected improvement of margins over the coming 12 to 18 months in line with increases in the NBSK pulp price, slightly higher volumes, further cost-cutting and a weakening in the ZAR to USD exchange rate.

Net borrowings

Net Group borrowings at September 2011 amount to R1.57 billion. Details of the non-current term borrowings are set out in note 16 of the annual financial statements.

Insurance

The group has an active programme of risk management in each of its geographical operating regions to address and reduce exposure to property damage and business interruption. All production and distribution units are subjected to regular risk assessments by external risk engineering consultants, the results of which receive the attention of senior management. The risk mitigation programmes are co-ordinated at group level in order to achieve a standardisation of methods. Work on improved enterprise risk management is on-going and aims to lower the risk of incurring losses from uncontrolled incidents.

Fixed assets

During the year Adamas Mill was closed following the announced potential closure in May 2011. In line with our strategy announcement on 7 October 2011, the group approved the conversion of its Ngodwana Mill near Nelspruit, South Africa, to produce chemical cellulose. The conversion of Ngodwana Mill is slated to come online during calendar 2013. In addition to the above certain impairments related to paper and paper packaging operations were taken as part of our plan to restructure our business processes and paper operations in South Africa. See note 6 to the annual financial statements for further details regarding the fixed assets of Sappi Limited.

Sappi Southern Africa (Proprietary) Limited

Directors' Report (Continued)

Year ended September 2011

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 106.

Special resolutions

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

- Change of name of Sappi Manufacturing (Pty) Ltd to Sappi Southern Africa (Pty) Ltd, and
- Change of name of Lereko Property Company (Pty) Ltd to Sappi Property Company (Pty) Ltd.
- Financial assistance is provided to Sappi Management Services (Pty) Ltd.

Holding company and ultimate holding company

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

Sappi Southern Africa (Proprietary) Limited

Group and Company Income Statements

For the year ended September 2011

	Notes	Group		Company	
		2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
Sales		**12 070 707**	11 276 426	**12 074 939**	11 126 592
Cost of sales	3.1	**10 815 199**	9 892 867	**10 737 981**	9 809 526
Gross profit		**1 255 508**	1 383 559	**1 336 958**	1 317 066
Selling, general and administrative expenses	3.1	**438 539**	449 386	**409 354**	420 015
Share of (profit) loss on joint venture	9	**(10 437)**	(30 605)	**54 779**	(30 605)
Investment income	3.4	**-**	-	**(52 863)**	-
Other expenses	3.3	**830 356**	435 154	**961 722**	155 617
Operating (loss) profit	3	**(2 950)**	529 624	**(36 034)**	772 039
Net finance costs	4	**262 769**	301 028	**288 743**	328 312
Finance costs		**400 231**	408 082	**400 231**	407 931
Finance revenue		**(141 311)**	(124 716)	**(115 358)**	(97 197)
Finance costs capitalised		**(1 364)**	-	**(1 364)**	-
Net fair value (profit) loss on financial instruments		**(4 733)**	4 733	**(4 733)**	4 733
Net foreign exchange losses		**9 946**	12 929	**9 967**	12 845
(Loss) profit before taxation		**(265 719)**	228 596	**(324 777)**	443 727
Taxation (benefit) charge	5	**(9 642)**	131 785	**(4 679)**	129 378
(Loss) profit for the year		**(256 077)**	96 811	**(320 098)**	314 349

Sappi Southern Africa (Proprietary) Limited

Group and Company Statement of Comprehensive Income

For the year ended September 2011

	Note	Group		Company	
		2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
(Loss) profit for the year		**(256 077)**	96 811	**(320 098)**	314 349
Other comprehensive loss, net of tax	14	**(156 806)**	(84 493)	**(151 340)**	(88 529)
Exchange differences on translation of foreign operations		**28**	(13)	**-**	-
Actuarial losses on post-employment benefit funds		**(279 470)**	(120 842)	**(270 463)**	(122 956)
Movement on available-for-sale financial asset		**3 513**	1 935	**-**	-
Movement on hedging reserves		**60 269**	-	**60 269**	-
Deferred tax on above items		**58 854**	34 427	**58 854**	34 427
Total comprehensive (loss) income for the year		**(412 883)**	12 318	**(471 438)**	225 820

Sappi Southern Africa (Proprietary) Limited

Group and Company Balance Sheets

At September 2011

	Notes	Group **2011** **R'000**	Group 2010 R'000	Company **2011** **R'000**	Company 2010 R'000
Assets					
Non-current assets		**12 934 504**	13 823 117	**12 392 391**	13 240 059
Property, plant and equipment	6	**7 911 825**	8 484 221	**7 857 110**	8 368 703
Plantations	7	**4 696 372**	4 825 045	**4 137 541**	4 245 879
Equity investments	9	**112 591**	127 154	**260 721**	315 500
Derivative financial instruments	26	**9 305**	-	**9 305**	-
Other non-current assets	10	**204 411**	386 697	**127 714**	309 977
Current assets		**4 863 226**	4 323 370	**5 377 083**	4 928 953
Inventories	11	**1 353 744**	1 225 184	**1 343 061**	1 195 059
Derivative financial instruments	26	**25 067**	-	**25 067**	-
Trade and other receivables	12	**186 017**	242 938	**156 301**	219 493
Amounts owing by Group companies	27	**1 042 026**	1 952 749	**1 957 348**	2 953 401
Cash and cash equivalents		**2 256 372**	902 499	**1 895 306**	561 000
Total assets		**17 797 730**	18 146 487	**17 769 474**	18 169 012
Equity and liabilities					
Shareholders' equity		**7 458 843**	7 829 532	**7 064 161**	7 495 280
Ordinary share capital and share premium	13	**221 100**	221 100	**221 100**	221 100
Other reserves	15	**63 642**	22 735	**61 980**	21 661
Foreign currency translation reserve		**-**	(1 315)	**-**	-
Retained earnings		**7 174 101**	7 587 012	**6 781 081**	7 252 519
Non-current liabilities		**5 171 933**	6 261 267	**5 159 624**	6 241 068
Interest-bearing borrowings	16	**2 205 514**	3 313 107	**2 205 514**	3 313 107
Deferred tax liabilities	8	**2 236 310**	2 286 340	**2 236 306**	2 286 410
Other non-current liabilities	17	**730 109**	661 820	**717 804**	641 551
Current liabilities		**5 166 954**	4 055 688	**5 545 689**	4 432 664
Interest-bearing borrowings	16	**1 621 910**	452 787	**1 621 910**	452 787
Overdraft		**540**	2 083	**-**	2 083
Provisions	19	**246 055**	100 916	**190 431**	-
Derivative financial instruments	26	**-**	6 611	**-**	6 611
Trade and other payables		**2 016 590**	2 258 710	**1 959 382**	2 223 333
Taxation payable		**12 798**	33 237	**13 138**	32 817
Amounts owing to Group companies	27	**1 269 061**	1 201 344	**1 760 828**	1 715 033
Total equity and liabilities		**17 797 730**	18 146 487	**17 769 474**	18 169 012

Sappi Southern Africa (Proprietary) Limited

Group and Company Cash Flow Statements

For the year ended September 2011

	Notes	Group **2011** **R'000**	Group 2010 R'000	Company **2011** **R'000**	Company 2010 R'000
Cash retained from operating activities		**1 063 891**	1 392 020	**1 118 889**	1 572 133
Cash generated from operations	18.1	**1 611 288**	1 175 484	**1 678 676**	1 280 332
(Increase) decrease in working capital	18.2	**(308 531)**	520 729	**(345 468)**	607 480
Cash generated from operating activities		**1 302 757**	1 696 213	**1 333 208**	1 887 812
Finance costs paid	18.3	**(378 205)**	(430 467)	**(376 291)**	(430 232)
Finance revenue received		**141 311**	124 716	**115 358**	97 197
Dividends received		**-**	-	**52 863**	-
Taxation (paid) refunded	18.4	**(1 972)**	1 558	**(6 249)**	17 356
Cash utilised in investing activities		**(679 584)**	(507 156)	**(642 958)**	(548 228)
Investment to maintain operations		**(466 410)**	(237 734)	**(429 784)**	(279 306)
- Replacement of non-current assets	18.5	**(436 194)**	(277 437)	**(431 518)**	(313 682)
- Proceeds on disposal of non-current assets	18.6	**436**	1 651	**436**	4 364
- Disposal of plantations		**-**	3 837	**-**	3 837
- (Increase) decrease in investments and loans		**(30 652)**	34 215	**1 298**	26 175
Investment to expand properties		**(213 174)**	(269 422)	**(213 174)**	(268 922)
- Addition of non-current assets		**(213 174)**	(194 162)	**(213 174)**	(193 662)
- Addition of plantations		**-**	(75 260)	**-**	(75 260)
Cash effects of financing activities		**971 081**	(609 062)	**860 458**	(755 209)
Proceeds from interest-bearing borrowings		**838 577**	159 124	**838 577**	159 124
Repayment of interest-bearing borrowings		**(777 047)**	(374 595)	**(777 047)**	(374 595)
Share-based payment reserve redeemed		**(19 505)**	(26 051)	**(19 505)**	(30 256)
Increase in other non-current liabilities		**(49 385)**	(50 538)	**(4 032)**	(2 082)
Increase (decrease) in amounts owing to Group companies		**978 441**	(317 002)	**822 465**	(507 400)
Net movement in cash and cash equivalents		**1 355 388**	275 802	**1 336 389**	268 696
Cash and cash equivalents at beginning of year		**900 416**	624 628	**558 917**	290 221
Translation effects		**28**	(14)		-
Cash and cash equivalents at end of year	18.7	**2 255 832**	900 416	**1 895 306**	558 917

Sappi Southern Africa (Proprietary) Limited

Group and Company Statements of Changes in Equity

For the year ended September 2011

Group

	Ordinary share capital R'000	Share premium R'000	Other reserve R'000	Foreign currency translation reserve R'000	Hedging reserve	Retained earnings R'000	Total R'000
Balance - September 2009	12 030	209 070	(9 653)	(1 302)	-	7 574 681	7 784 826
Share based payment	-	-	23 851	-	-	-	23 851
Sappi Limited share incentive trust	-	-	(26 051)	-	-	-	(26 051)
Share based payment - BBBEE	-	-	34 588	-	-	-	34 588
Acquisition of business	-	-	-	-	-	-	-
Total comprehensive (expense) income	-	-	-	(13)	-	12 331	12 318
Balance - September 2010	12 030	209 070	22 735	(1 315)	-	7 587 012	7 829 532
Share based payment	**-**	**-**	**29 509**	**-**	**-**	**-**	**29 509**
Sappi Limited share incentive trust	**-**	**-**	**(19 505)**	**-**	**-**	**-**	**(19 505)**
Share based payment – BBBEE	**-**	**-**	**30 903**	**-**	**-**	**-**	**30 903**
Foreign currency translation reserve realised	**-**	**-**	**-**	**1 287**	**-**	**-**	**1 287**
Total comprehensive income (expense)	**-**	**-**	**-**	**28**	**43 394**	**(456 305)**	**(412 883)**
Balance - September 2011	**12 030**	**209 070**	**63 642**	**-**	**43 394**	**7 130 707**	**7 458 843**

Sappi Southern Africa (Proprietary) Limited

Group and Company Statements of Changes in Equity

For the year ended September 2011

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 2009	12 030	209 070	4 884	-	7 026 699	7 252 683
Share based payment	-	-	12 445	-	-	12 445
Sappi Limited share incentive trust	-	-	(14 931)	-	-	(14 931)
Share based payment - BBBEE	-	-	34 588	-	-	34 588
Acquisition of business	-	-	(15 325)	-	-	(15 325)
Total comprehensive income	-	-	-	-	225 820	225 820
Balance - September 2010	12 030	209 070	21 661	-	7 252 519	7 495 280
Share based payment	**-**	**-**	**28 921**	**-**	**-**	**28 921**
Sappi Limited share incentive trust	**-**	**-**	**(19 505)**	**-**	**-**	**(19 505)**
Share based payment – BBBEE	**-**	**-**	**30 903**	**-**	**-**	**30 903**
Total comprehensive income (expense)	**-**	**-**	**-**	**43 394**	**(514 832)**	**(471 438)**
Balance - September 2011	**12 030**	**209 070**	**61 980**	**43 394**	**6 737 687**	**7 064 161**

1. Business

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

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

2. Accounting policies

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

2.1 Basis of preparation

The group's consolidated financial statements have been prepared in accordance with:
- International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- Interpretations issued by the IFRS Interpretations Committee (IFRIC) of the IASB;
- And the AC 500 standards issued by the Accounting Practices Board in South Africa; and
- the requirements of the Companies Act of South Africa.

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

The 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 and non-current assets held for sale are stated at fair value less cost to sell.

The preparation of the annual financial statements was supervised by the Finance Director, C.Mowatt.

The group has made the following significant accounting policy elections in terms of IFRS.
- regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting;
- cumulative gains and losses recognised in other comprehensive income (OCI) in terms of a cash flow hedge relationship are transferred from OCI and included in the initial measurement of the non-financial asset or liability;
- jointly controlled entities are accounted for using the equity method;
- property, plant and equipment are accounted for using the cost model; and
- unrecognised actuarial gains or losses on post-employment benefits are recognised in OCI.

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

(i) Fiscal year

The group's financial year end is on the Sunday closest to the last day of September.

Accordingly the last two financial years were as follows:

- 27 September 2010 to 02 October 2011 (53 weeks)
- 28 September 2009 to 26 September 2010 (52 weeks)

(ii) Underlying concepts

The financial statements are prepared on the going concern basis.

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

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

2.2 Summary of accounting policies

2.2.1 Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are converted into the functional currency of the group's individual operations at the rate of exchange ruling at the date of such transactions. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

(ii) Consolidation of foreign operations

The assets and liabilities, including goodwill of entities that have non-Rand functional currencies are translated at the closing rate, while the income and expenses are translated using the average exchange rate. The differences that arise on translation are reported directly in other comprehensive income. These translation differences are recycled through profit or loss for the period on disposal of the foreign operation.

The functional currency of the Southern African business is ZAR. Other minor companies in the group may have different functional currencies depending on the business environment in which they operate.

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

Rate at	Sep 2011	Sep 2010
ZAR to one USD	8.0963	7.0190

Average annual rate	Sep 2011	Sep 2010
ZAR to one USD	6.9577	7.4917

2. Accounting policies (continued)

2.2.2 Group accounting

(i) Subsidiary undertakings and special-purpose entities

The group financial statements include the assets, liabilities and results of the company and subsidiaries (including special-purpose entities) controlled by the group. The results of subsidiaries acquired or disposed of in the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal or cessation of control.

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

(ii) Associates and joint ventures

The results, assets and liabilities of associates and joint ventures are incorporated in the group's financial statements using the equity method of accounting. The share of the associates' or joint venture's profit after tax, is determined from their latest financial statements or, if their year ends are different to those of the group, from their unaudited management accounts that correspond to the group's financial year end. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss, which is recorded in other operating expenses, recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

2.2.3 Financial instruments

(i) Initial recognition

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

(ii) Initial measurement

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

2. Accounting policies (continued)

2.2.3 Financial instruments (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. The group has not designated any financial instruments as at fair value through profit or loss.

• Non-trading financial liabilities

All financial liabilities, other than those at fair value through profit or loss, are classified as non-trading financial liabilities and are measured at amortised cost.

• Loans and receivables

Loans and receivables are carried at amortised cost, with interest revenue recognised in profit and loss for the period using the effective interest method.

• Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, with any gains and losses recognised directly in equity along with the associated deferred taxation. Any foreign currency translation gains or losses or interest revenue, measured on an effective-yield basis, are recognised in profit or loss.

(iv) Embedded derivatives

Certain derivatives embedded in financial and host contracts, are treated as separate derivatives and recognised on a standalone basis, when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value, with gains and losses reported in profit or loss.

(v) Derecognition

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

A financial liability is derecognised when and only when the liability is extinguished i.e. when the obligation specified in the contract is discharged, cancelled or has expired.

(vi) Impairment of financial assets

• Loans and receivables

An impairment loss is recognised in profit or loss when there is evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

2. Accounting policies (continued)

2.2.3 Financial instruments (continued)

(vi) Impairment of financial assets

• Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains and losses previously recognised in equity are removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised. Impairment loss reversals other than available-for-sale debt securities are not reversed through profit and loss but through other comprehensive income.

(vii) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or outflows through the expected life of the financial asset or financial liability to that assets or liabilities 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) Patents

Patents acquired are capitalised and amortised on a straight-line basis over their estimated useful lives, which is on average ten years.

(iv) Licence fees

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

2. 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:
- First in first out (FIFO): finished goods
- Weighted average: raw materials, work in progress and consumable stores
- The specific identification inventory valuation basis is used to measure the cost of items that are not interchangeable.

2.2.7 Leases

(i) The group as lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Lease payments are allocated between capital repayments and finance charges using the effective interest rate method.

Capitalised leased assets are depreciated on a consistent basis as those with owned assets except where the transfer of ownership is uncertain at the end of the lease period in which case they are depreciated on a straight line basis over the shorter of the lease period and the expected useful life of the asset.

Lease payments made under operating leases are charged to profit or loss on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the group's benefit.

(ii) Recognition of lease of land

The land and buildings elements of a lease are considered separately for the purpose of lease classification.

Where the building is a finance lease, and the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease.

2.2.8 Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying value will be recovered principally through sale rather than use. Non-current assets held for sale are measured at the lower of carrying amount and fair value less cost to sell and are not depreciated.

2.2.9 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. Accounting policies (continued)

2.2.10 Revenue

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

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

Shipping and handling costs, such as freight to our customers' destination are included in cost of sales. These costs, when included in the sales price charged for our products are recognised in net sales.

2.2.11 Emission trading

The group recognises grants when allocated by governments for emission rights as an intangible asset at cost with an equal liability at the time of the grant.

The group does not recognise a liability for emissions to the extent that it has sufficient allowances to satisfy emission liabilities incurred. Where there is a shortfall of allowances that the group would have to deliver for emissions, a liability is recognised at the current market value of the shortfall.

Where the group sells allowances to parties outside the group at amounts greater than carrying value, a gain is recognised in selling, general and administrative expenses within profit or loss for the period .

2.3 Critical accounting policies and estimates

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

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

2.3.1 Impairment of assets other than goodwill and financial instruments

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

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

Where an 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.

2. Accounting policies (continued)

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 were used during the year to depreciate property, plant and equipment to estimated residual values:

Buildings	straight line 40 years
Plant	straight line 5 to 20 years
Vehicles	straight line 5 to 10 years
Furniture and equipment	straight line 3 to 6 years

2.3.3 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 to other comprehensive income , in which case it is recognised in other comprehensive income.

(i) Current taxation

Current taxation is the expected taxation payable on the taxable income, which is based on the results for the period after taking into account the 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.

Dividend withholding tax is a South African Income Tax, that arises from the distribution of dividends and is recognised in profit or loss at the same time as the liability to pay the related dividend.

2. Accounting policies (continued)

2.3.3 Taxation (continued)

(ii) Deferred taxation

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

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

2.3.4 Derivatives and hedge accounting

- **Fair value hedges**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument is recognised in the same line of profit or loss as the change in the hedged item.

- **Cash flow hedges**

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

The gains or losses, which are recognised in other comprehensive income, are transferred to profit or loss in the same period in which the hedged transaction affects profit or loss.

If the forecasted transaction results in the recognition on a non-financial asset or non-financial liability, the associated cumulative gain or loss is transferred from other comprehensive income to the underlying asset or liability on the transaction date.

- **Discontinuance of hedge accounting**

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

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

Refer to note 26 to the Group annual financial statements for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

2. Accounting policies (continued)

2.3.5 Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage. In arriving at plantation fair values, the key assumptions are estimated prices less cost of delivery, discount rates, and volume and growth estimations. All changes in fair value are recognised in the period in which they arise.

The impact of changes in estimate prices, discount rates and, volume and growth assumptions may have on the calculated fair value and other key financial information on plantations is disclosed in note 7.

Estimated prices less cost of delivery
The group uses a 12 quarter rolling historical average price to estimate the fair value of all immature timber and mature timber that is to be felled in more than 12 months from the reporting date. 12 quarters is considered a reasonable period of time after taking the length of the growth cycle of the plantations into account. Expected future price trends and recent market transactions involving comparable plantations are also considered in estimating fair value.

Mature timber that is expected be felled within 12 months from the end of the reporting period are valued using unadjusted current market prices. Such timber is expected to be used in the short term and consequently, current market prices are considered an appropriate reflection of fair value.

The fair value is derived by using the prices as explained above reduced by the estimated cost of delivery. Cost of delivery includes all costs associated with getting the harvested agricultural produce to the market, including harvesting, loading, transport and allocated fixed overheads.

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

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

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

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

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

The group directly manages plantations established on land that is either owned or leased from third parties. Indirectly managed plantations represent plantations established on land held by independent commercial farmers where Sappi provides technical advice on the growing and tendering of trees. The associated costs for managing the plantations are recognised as silviculture costs in cost of sales (see note 3.1).

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 obligation and related current service cost are calculated annually by independent actuaries using the projected unit credit method.

These actuarial models use an attribution approach that generally spreads individual events over the service lives of the employees in the plan. Examples of "events" are changes in actuarial assumptions such as discount rate, expected long-term rate of return on plan assets, and rate of compensation increases.

Estimates and assumptions used in the actuarial models include the discount rate, return on assets, salary increases, health care cost trends, longevity and service lives of employees.

The group's policy is to recognise actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in other comprehensive income. Any increase in the present value of plan liabilities expected to arise due to current service costs is charged to profit or loss.

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

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

Refer to note 23 for the key estimates, assumptions and other information on post employment benefits applicable as at the end of September 2011.

2.3.7 Provisions

Provisions are recognised when the group has a legal or constructive obligation arising from past events that will probably be settled and can be measured reliably. Where the effect of discounting (time value) is material, provisions are discounted and the discount rate used is a pre-taxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

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

2.3.8 Restructuring provisions

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

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

2. Accounting policies (continued)

2.3.9 Environmental restoration and decommissioning obligations

The group initially recognises a liability for management's best present value estimate for costs expected to be incurred in dismantling and removing non-current assets when the group ceases operating at its production facilities. This liability is accreted over time and actual costs incurred in future periods could differ materially from the 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 production facilities, some of these obligations have an indeterminate settlement date, and the group believes that adequate information does not exist to apply an expected-present-value technique to estimate any such potential obligations. Accordingly, the group does not record a liability for such remediation until a decision is made that allows reasonable estimation of the timing of such remediation.

2.3.10 Share-based payments

(i) Equity-settled share-based payment transactions
The services or goods received in an equity-settled share-based payment transaction with counterparties are measured at the fair value of the equity instruments at grant date.

If the equity instruments granted vest immediately and the beneficiary is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the benefit received is recognised in profit or loss for the period in full on grant date with a corresponding increase in equity.

Where the equity instruments do not vest until the beneficiary has completed a specified period of service, it is assumed that the benefit received by the group as consideration for those equity instruments, will be received in the future during the vesting period. These benefits are accounted for in profit or loss as they are received during the vesting period, with a corresponding increase in equity. Share-based payment expenses are adjusted for non-market-related performance conditions.

(ii) Measurement of fair value of equity instruments granted
The equity instruments granted by the group are measured at fair value at the measurement date using modified binomial option pricing valuation models. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

(iii) Broad-Based Black Economic Empowerment transaction
The group accounts for the transaction in accordance with IFRS 2 and AC 503 and the fair value of the services rendered by employees in profit or loss as they are rendered during the service period.

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

Note 25 provides further detail on key estimates, assumptions and other information on share based payments applicable as at the end of September 2011.

2.4 Adoption of accounting standards in the current year

The following standards, interpretations and significant amendments or revisions to standards have been adopted by the group in the current year:

2. Accounting policies (continued)

2.4 Adoption of accounting standards in the current year (continued)

Interpretations and amendments to IFRS
The Group adopted IFRIC 19, amendments to IFRS 1, IFRS 2, IAS 32 and various improvements to IFRSs in fiscal 2011. The adoption of these interpretations, amendments and improvements to standards did not have a material impact on the group's reported results or financial position.

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

The Group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for our accounting periods beginning on or after October 2011 or later periods. The group is currently evaluating the impact that the adoption of these IFRSs will have on its consolidated financial statements when they are adopted in the respective periods indicated. These new standards and their effective dates for the group's annual accounting periods are listed below:

- IFRS 9 Financial Instruments - IFRS 9 introduces new requirements for classifying and measuring financial assets - September 2014;
- IFRS 10 Consolidated Financial Statements - IFRS 10 specifies control as a single basis for consolidation for all entities, regardless of the nature of the investee - September 2014;
- IFRS 11 Joint arrangements classifies joint arrangements as either joint operations or joint ventures and requires different treatment for these - September 2014;
- IFRS 13 Fair value measurements establishes a single source of guidance for fair value measurements under IFRS - September 2014; and
- IAS 19 (Revised) Employee Benefits - IAS 19 (revised) requires the recognition of changes in the defined benefit obligation and in plan assets when those changes occur eliminating the corridor approach and accelerating the recognition of past service costs. Net interest is calculated by using high quality corporate bond yields - September 2014.
- IAS 27 Separate financial statements - amendment to conform changes based on the issuance of IFRS 10 – September 2014.
- IAS 28 Investments in Associates and Joint Ventures – amendment to conform changes based on the issuance of IFRS 10 and IFRS 11 – September 2014.

Amendment, revisions or issues of the following standards or interpretations which will only become mandatory for the group's consolidated financial statements on the dates indicated are not expected to have a material impact on the group's results or financial position:

- IFRS 7 Financial Instruments: Disclosures. Transfers of financial assets - September 2012;
- IFRS 12 Disclosure of interest in subsidiaries, joint arrangements and associates - September 2014;
- IAS 1 Presentation of Financial Statements - Other Comprehensive Income - September 2013;
- IAS 12 Deferred tax on investment property measured at fair value – (September 2013);
- IAS 24 Related Party Disclosures - Revised definition of related parties - September 2012;
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – (September 2012); and
- Various improvements to IFRSs.

2.6 Comparative figures

Comparative figures are reclassified as necessary to afford a proper and more meaningful comparison of results as set out in the affected notes to the financial statements.

The group and company adjusted note 21 to the financial statements. This adjustment only impacted the notes to the financial statements. No changes were made to the fiscal 2010 balance sheet.

3.1 Operating (loss) profit

Operating (loss) profit has been arrived at after charging (crediting):

	Group				Company			
	2011 R'000		2010 R'000		**2011 R'000**		2010 R'000	
	Cost of sales	**Selling, admin and general**	Cost of sales	Selling, admin and general	**Cost of sales**	**Selling, admin and general**	Cost of sales	Selling, admin and general
Raw materials, energy and other direct input costs	**5 581 370**	**-**	5 353 455	-	**5 644 025**	**-**	5 337 433	-
Fair value adjustment on plantations	**128 673**	**-**	(224 507)	-	**108 338**	**-**	(106 166)	-
Employee costs	**1 800 595**	**345 579**	1 675 412	307 061	**1 766 771**	**322 238**	1 622 524	117 841
Depreciation	**729 546**	**39 201**	714 859	35 117	**725 271**	**39 201**	711 151	21 346
Delivery charges	**1 030 412**	**-**	1 007 793	-	**1 028 410**	**-**	965 974	-
Maintenance	**764 747**	**-**	698 674	-	**760 447**	**-**	672 566	-
Other overheads	**779 856**	**-**	667 181	-	**704 719**	**-**	606 044	-
Marketing and selling expenses	**-**	**39 766**	-	39 323	**-**	**39 418**	-	39 115
Administrative and general expenses	**-**	**13 993**	-	67 885	**-**	**8 497**	-	241 713
	10 815 199	**438 539**	9 892 867	449 386	**10 737 981**	**409 354**	9 809 526	420 015

3.1 Operating (loss) profit (continued)

	Group		Company	
	2011 **R'000**	2010 R'000	**2011** **R'000**	2010 R'000
Fair value loss (gains) on plantations (note 7)				
Changes in volumes				
Fellings	**567 753**	530 027	**554 896**	514 711
Growth	**(553 703)**	(520 155)	**(475 644)**	(456 560)
	14 050	9 872	**79 252**	58 151
Plantation price fair value adjustment	**114 623**	(234 379)	**29 086**	(164 317)
	128 673	(224 507)	**108 338**	(106 166)
Silviculture costs (included within cost of sales)	**564 379**	503 707	**501 670**	446 412
Leasing charges for premises	**19 640**	16 361	**19 640**	16 325
Leasing charges for plant and equipment	**32 579**	47 960	**32 579**	47 794
Leasing charges for vehicles	**17 767**	17 445	**17 274**	17 270
Leasing charges for office equipment	**16 209**	18 151	**15 842**	14 824
Cost of derecognition of loans and receivables	**76 393**	100 080	**76 393**	100 080
Remuneration paid other than to bona fide employees of the company in respect of:	**16 020**	10 926	**13 442**	10 208
• technical services	**8 302**	6 827	**8 302**	6 662
• administration services	**7 718**	4 099	**5 140**	3 546
Auditors' remuneration	**8 547**	7 889	**8 133**	7 489
• audit and related services	**7 968**	7 215	**7 554**	6 815
• tax planning and tax advice	**579**	420	**579**	420
• other	**-**	254	**-**	254
Research and development costs	**19 428**	18 665	**18 804**	18 655

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

Year ended September 2011

	Group		Company	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000

3.2 Employee costs

	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
Wages and salaries	**1 571 538**	1 483 528	**1 547 711**	1 316 021
Pension costs (refer note 23)	**19 226**	5 499	**17 329**	2 657
Post employment benefits other than pension expense (refer note 24)	**62 503**	70 376	**62 503**	70 376
Defined contribution expense	**107 435**	87 297	**105 631**	88 112
Other company contributions	**86 833**	70 922	**61 328**	40 856
Overtime	**132 599**	109 903	**132 215**	103 049
Share-based payment expense	**29 395**	23 744	**28 808**	12 338
Other	**136 645**	131 204	**133 484**	106 956
	2 146 174	1 982 473	**2 089 009**	1 740 365

3.3 Other expenses

	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
Loss on sale and write-off of property, plant and equipment	**7 095**	1 137	**6 334**	1 137
Costs and Losses due to major events (Fires and floods)	**3 826**	36 061	**1 970**	23 052
Impairments of property, plant and equipment (refer note 6)	**474 652**	13 622	**414 209**	-
Write down investments	**-**	-	**-**	5 134
Impairment (impairment reversal) of intercompany balances	**-**	-	**219 383**	(84 795)
Black economic empowerment transaction charge	**31 153**	175 027	**31 153**	174 964
Restructuring costs	**311 440**	172 479	**287 765**	-
Other	**2 190**	36 828	**908**	36 125
	830 356	435 154	**961 722**	155 617
Attributable tax	**1 739**	7 776	**1 739**	7 776
	828 617	427 378	**959 983**	147 841

3.4 Investment income

	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
Dividend received	**-**	-	**(52 863)**	-

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

4. Net finance costs

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
Gross interest and other finance costs on liabilities carried at amortised cost	**400 231**	408 082	**400 231**	407 931
• Interest on bank overdrafts	**13 255**	6 036	**13 255**	6 036
• Interest on redeemable bonds and other loans	**371 535**	385 038	**371 535**	384 887
• Interest on obligations under finance lease	**15 351**	16 892	**15 351**	16 892
• Inter-group finance costs	**90**	116	**90**	116
Finance revenue received on assets carried at amortised cost	**(141 311)**	(124 716)	**(115 358)**	(97 197)
• Interest on bank accounts	**(53 821)**	(36 127)	**(27 868)**	(8 608)
• Interest revenue on loans and investments	**(900)**	(1 482)	**(900)**	(1 482)
• Inter-group finance revenue	**(86 590)**	(87 107)	**(86 590)**	(87 107)
Interest capitalised	**(1 364)**	-	**(1 364)**	-
Net foreign exchange loss	**9 946**	12 929	**9 967**	12 845
Net fair value (gain) loss on financial instruments	**(4 733)**	4 733	**(4 733)**	4 733
	262 769	301 028	**288 743**	328 312

5. Taxation charge (benefit)

	Group 2011	Group 2010	Company 2011	Company 2010
Current taxation:				
• Current year	**(18 078)**	(44 049)	**(18 078)**	(44 437)
• Prior year under (over) provision	**(389)**	405	**-**	499
Deferred taxation: (refer note 8)				
• Current year	**23 356**	164 910	**23 356**	164 791
• Prior year under provision	**(14 531)**	10 519	**(9 957)**	8 525
	(9 642)	131 785	**(4 679)**	129 378

In addition to income taxation expense charges to profit and loss, deferred taxation expense charge of R58 854 thousand (deferred taxation income charge 2010: R34 427 thousand) has been recognised directly in other comprehensive income (refer note 8).

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

Year ended September 2011

		Group		Company	
		2011	2010	**2011**	2010
		%	%	**%**	%
5.	**Taxation charge (benefit) (continued)**				
	Reconciliation of the tax rate:				
	Statutory tax rate	**28.0**	28.0	**28.0**	28.0
	Foreign tax differential	**0.1**	(1.1)	**-**	-
	Non-deductible expenses/non-taxable income	**(30.3)**	21.1	**(29.7)**	(0.9)
	Deferred tax asset not recognised	**0.2**	4.9	**-**	-
	Prior year adjustments	**5.6**	4.7	**3.1**	2.1
	Effective taxation rate for the year	**3.6**	57.6	**1.4**	29.2

		Group		Company	
		2011	2010	**2011**	2010
		R'000	R'000	**R'000**	R'000
6.	**Property, plant and equipment**				
	Land and buildings				
	At cost	**2 300 570**	2 244 458	**2 243 938**	2 188 157
	Accumulated depreciation	**764 967**	696 105	**702 199**	634 370
		1 535 603	1 548 353	**1 541 739**	1 553 787
	Plant and equipment				
	At cost	**15 768 432**	15 202 871	**14 867 644**	14 305 646
	Accumulated depreciation	**9 456 592**	8 348 419	**8 616 655**	7 572 146
		6 311 840	6 854 452	**6 250 989**	6 733 500
	Capitalised leased assets				
	At cost	**224 145**	224 145	**200 477**	200 477
	Accumulated depreciation	**159 763**	142 729	**136 095**	119 061
		64 382	81 416	**64 382**	81 416
	Aggregate cost	**18 293 147**	17 671 474	**17 312 059**	16 694 280
	Aggregate accumulated depreciation	**10 381 322**	9 187 253	**9 454 949**	8 325 577
	Aggregate book value	**7 911 825**	8 484 221	**7 857 110**	8 368 703

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

6. Property, plant and equipment (continued)

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

	Land and buildings R'000	**Plant and equipment R'000**	**Capitalised leased assets R'000**	**Total R'000**
Group				
Net book value at September 2009	1 520 384	7 160 174	98 450	8 779 008
Additions	95 301	376 298	-	471 599
Disposals	(395)	(2 393)	-	(2 788)
Depreciation	(66 937)	(666 005)	(17 034)	(749 976)
Impairments of property, plant and equipment (refer note 3.3)	-	(13 622)	-	(13 622)
Net book value at September 2010	1 548 353	6 854 452	81 416	8 484 221
Additions	**60 806**	**616 364**	**-**	**677 170**
Finance costs capitalised	**-**	**1 364**	**-**	**1 364**
Disposals	**(2 174)**	**(5 357)**	**-**	**(7 531)**
Depreciation	**(71 382)**	**(680 331)**	**(17 034)**	**(768 747)**
Impairments of property, plant and equipment (refer note 3.3)	**-**	**(474 652)**	**-**	**(474 652)**
Net book value at September 2011	**1 535 603**	**6 311 840**	**64 382**	**7 911 825**
Company				
Net book value at September 2009	1 526 049	6 974 858	98 450	8 599 357
Additions	95 107	412 237	-	507 344
Disposals	(836)	(4 665)	-	(5 501)
Depreciation	(66 533)	(648 930)	(17 034)	(732 497)
Net book value at September 2010	1 553 787	6 733 500	81 416	8 368 703
Additions	**59 693**	**612 801**	**-**	**672 494**
Finance costs capitalised	**-**	**1 364**	**-**	**1 364**
Disposals	**(1 413)**	**(5 357)**	**-**	**(6 770)**
Depreciation	**(70 328)**	**(677 110)**	**(17 034)**	**(764 472)**
Impairments of property, plant and equipment (refer note 3.3)	**-**	**(414 209)**	**-**	**(414 209)**
Net book value at September 2011	**1 541 739**	**6 250 989**	**64 382**	**7 857 110**

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

6. Property, plant and equipment (continued)

Impairments

September 2011

Usutu Mill

At the end of January 2010, Usutu Mill ceased operations and the pulp mill was permanently closed. The property, plant and equipment related to the mill had been substantially impaired in previous years and the final balance of the assets were impaired by a further R60 million in the current fiscal year.

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

Adamas Mill

At the end of July 2011, Adamas Mill ceased operations. The more profitable grades produced at Adamas were transferred to Enstra and Stanger. The property, plant and equipment other than land and buildings have been impaired by R72 million. The carrying amount of land and buildings is R22 million.

Sappi Paper and Paper Packaging Operations

Our latest review of the paper and paper packaging operations, completed in the fourth fiscal quarter of 2011, indicated that the production of certain paper and paper packaging products would need to be curtailed. The curtailment of the production of these products resulted in an impairment charge of R343 million being incurred for the year.

September 2010

Usutu mill

At the end of January 2010, Usutu mill ceased operations and the pulp mill was closed permanently. The property, plant and equipment related to the mill had already been substantially impaired in previous years and the final balance of the assets were impaired by a further R13 622 thousand in the current fiscal year.

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

Adamas Mill

There were indicators of potential impairment to the Adamas mill cash generating unit. The group assessed this CGU for impairment and concluded that no impairment existed at September 2011. The recoverable amount was determined on the basis of value in use. The headroom in this calculation was calculated to be R16 924 thousand using a pre-tax real discount rate of 9.48%. The calculation of the recoverable amount is sensitive to general market conditions, particularly the foreign currency exchange rate. The carrying amount of the CGU at the end of fiscal 2010 was R164 667 thousand.

7. Plantations

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
Fair value of plantations at the beginning of the year	**4 825 045**	4 529 115	**4 245 879**	4 068 290
Acquisitions	**-**	75 260	**-**	75 260
Disposals	**-**	(3 837)	**-**	(3 837)
Gains arising from growth	**553 703**	520 155	**475 644**	456 560
(Loss) gain arising from fair value price charges	**(114 623)**	234 379	**(29 086)**	164 317
Harvesting - agriculture produce (fellings)	**(567 753)**	(530 027)	**(554 896)**	(514 711)
Fair value of plantations at the end of the year	**4 696 372**	4 825 045	**4 137 541**	4 245 879

Sappi manages the establishment, maintenance and harvesting of its plantations on a compartmentalised basis. These plantations are comprised of pulpwood and sawlogs and are managed in such a way so as to ensure that the optimum fibre balance is supplied to its paper and pulping operations in southern Africa.

As Sappi manages its plantations on a rotational basis, the respective increases by means of growth are negated by depletions over the rotation period for the group's own production or sales. Estimated volume changes on a rotational basis amount to approximately five million tons per annum.

We own plantations on land that we own, as well as on land that we lease. We disclose both of these as directly managed plantations. With regard to indirectly managed plantations, Sappi has several different types of agreements with many independent farmers. The terms of the agreements depend on the type and specific needs of the farmer and the areas planted. These agreements range in time from one to more than 20 years. In certain circumstances we provide loans to farmers, which are disclosed as accounts receivable in 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 is certified to ISO 9001, ISO 14001, OHSAS 18001 and FSC standards.

7. Plantations (continued)

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

	2011 R'000	2010 R'000
Fair value changes		
1% increase in market prices	**29 356**	11 022
1% decrease in market prices	**(29 356)**	(11 022)
Discount rate (for immature timber)		
1% increase in rate	**(28 418)**	(31 715)
1% decrease in rate	**28 418**	31 715
Volume assumption		
1% increase in estimate of volume	**45 702**	61 231
1% decrease in estimate of volume	**(45 702)**	(61 231)
Costs to sell		
1% increase in costs to sell	**(21 048)**	(8 125)
1% decrease in costs to sell	**21 048**	8 125
Growth assumptions		
1% increase in rate of growth	**11 407**	11 227
1% decrease in rate of growth	**(11 407)**	(11 227)

8. Deferred tax liabilities

	2011		2010	
	Assets R'000	**Liabilities R'000**	Assets R'000	Liabilities R'000
Group				
Taxation loss carry forward	**126 157**	**-**	165 664	-
Other non current liabilities	**226 027**	**47 564**	84 118	9 952
Accrued and other liabilities	**117 849**	**-**	59 225	-
Property, plant and equipment	**-**	**1 514 449**	-	1 413 058
Plantations	**-**	**1 144 330**	-	1 172 337
Total deferred taxation	**470 033**	**2 706 343**	309 007	2 595 347
Company				
Taxation loss carry forward	**126 157**	**-**	165 589	-
Other non current liabilities	**226 027**	**47 560**	84 119	9 948
Accrued and other liabilities	**117 849**	**-**	59 225	-
Property, plant and equipment	**-**	**1 514 449**	-	1 413 058
Plantations	**-**	**1 144 330**	-	1 172 337
Total deferred taxation	**470 033**	**2 706 339**	308 933	2 595 343

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
8. Deferred tax liabilities (continued)				
Deferred taxation assets recognised on the balance sheet	**470 033**	309 007	**470 033**	308 933
The recognised deferred taxation assets relate mainly to other liabilities, accruals and prepayments.				
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	**(132 697)**	(137 521)	**-**	-
• Taxation losses	**357 991**	363 440	**-**	-
	225 294	225 919	**-**	-

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

Year ended September 2011

8. Deferred tax liabilities (continued)

Reconciliation of deferred taxation

	Group 2011 R'000	Group 2010 R'000	Company 2011 R'000	Company 2010 R'000
Deferred taxation balances at beginning of year				
• Deferred taxation assets	**(309 007)**	(338 381)	**(308 933)**	(331 939)
• Deferred taxation liabilities	**2 595 347**	2 483 720	**2 595 343**	2 463 537
	2 286 340	2 145 339	**2 286 410**	2 131 598
Deferred taxation charge for the year (refer to note 5)	**8 824**	175 428	**13 398**	173 310
Current:				
• Other liabilities, accruals and prepayments	**(137 262)**	(10 705)	**(137 261)**	(10 896)
Non-current:				
• Taxation loss carry forward	**39 507**	44 650	**39 432**	42 436
• Accrued and other liabilities	**37 839**	27 002	**37 839**	27 002
• Property, plant and equipment	**96 747**	83 734	**101 395**	86 145
• Plantations	**(28 007)**	26 187	**(28 007)**	26 187
• Other non-current assets	**-**	4 560	**-**	2 436
Amounts recorded directly against equity	**(58 854)**	(34 427)	**(58 854)**	(34 427)
Transfer to Sappi Southern Africa	**-**	-	**(4 648)**	15 929
Deferred taxation balances at end of year	**2 236 310**	2 286 340	**2 236 306**	2 286 410
• Deferred taxation assets	**(470 033)**	(309 007)	**(470 033)**	(308 933)
• Deferred taxation liabilities	**2 706 343**	2 595 347	**2 706 339**	2 595 343

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000

9. Equity investments

Investment in joint venture	**112 591**	127 154	**72 375**	127 154
Unlisted investments (Refer Annexure A on page 106)	**-**	-	**188 346**	188 346
	112 591	127 154	**260 721**	315 500

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 Borregard Industries Limited for the construction and operation of a lignin plant at Umkomaas and the development, production and sale of products based on lignosulphates in order to build a sustainable lignin business. The financial statements of Umkomaas Lignin (Pty) Ltd are to 31 December of each year which is the year end of Borregaard. The last audited financials were to 31 December 2010.

The joint venture is accounted for using the equity method.

	Group		Company	
	2011	2010	**2011**	2010
	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	**40 216**	54 779	**-**	54 779
• Opening balance	**54 779**	44 174	**-**	44 174
• Current year profit	**10 437**	30 605	**-**	30 605
• Dividend received	**(25 000)**	(20 000)	**-**	(20 000)
Loan*	**70 390**	70 390	**70 390**	70 390
	112 591	127 154	**72 375**	127 154
Summarised financial information in respect of the group's joint ventures is set out below:				
Total assets	**363 981**	395 894	**-**	395 894
Total liabilities	**(138 799)**	(141 587)	**-**	(141 587)
Net assets	**225 182**	254 307	**-**	254 307

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

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
9. Equity investments (continued)				
Group's share of joint ventures net assets	**112 591**	127 154	**-**	127 154
Sales	**319 353**	290 577	**-**	290 577
Profit for the period	**20 874**	61 210	**-**	61 210
Group's share of joint ventures profit for the period	**10 437**	30 605	**-**	30 605

In prior years the company equity accounted for the investment in the joint venture in the company financial statements. The company financial statements should not have included the equity accounted results of the joint venture. This has been reversed in the current years company financial statements.

10. Other non-current assets

	Group 2011	Group 2010	Company 2011	Company 2010
Prepaid lease expense	**1**	1	**1**	1
Advances to tree growers	**59 000**	61 043	**58 673**	60 752
Licence fee	**873**	797	**873**	797
Pension asset (refer note 23)	**46 998**	227 010	**46 998**	227 010
Unlisted investment*	**91 279**	91 339	**-**	-
Other	**6 260**	6 507	**21 169**	21 417
	204 411	386 697	**127 714**	309 977

* The investment is carried at market value.

11. Inventories

	Group 2011	Group 2010	Company 2011	Company 2010
Raw materials	**347 543**	335 058	**343 151**	331 493
Work-in-progress	**106 818**	67 713	**101 883**	62 153
Finished goods	**572 905**	443 926	**571 902**	443 405
Consumable stores and spares	**326 478**	378 487	**326 125**	358 008
	1 353 744	1 225 184	**1 343 061**	1 195 059

The credit to the group income statement relating to the adjustment of inventories to net realisable value amounted to R3 646 thousand (2010: R29 650 thousand charge).

The cost of inventories recognised as an expense and included in cost of sales amounted to R10 815 199 thousand (2010: R9 892 867 thousand).

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000

12. Trade and other receivables

Trade accounts receivable	**64 257**	102 605	**41 533**	81 822
Provisions for impairment (refer note 12.1)	**-**	(2 662)	**-**	(2 662)
Receiver of Revenue	**38 935**	58 002	**38 243**	58 002
Prepaid insurance	**22 355**	23 615	**20 537**	21 551
Prepayments and other receivables	**60 470**	61 378	**55 988**	60 780
	186 017	242 938	**156 301**	219 493

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 R186 017 thousand (2010: R242 938 thousand) represents the group's maximum credit risk exposure from trade and other receivables.

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

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000

12.1. Reconciliation of the provision for impairment

Opening balance	**2 662**	3 487	**2 662**	3 487
Increase in impairment provision	**-**	571	**-**	571
Decrease in impairment provision to income statement	**(2 662)**	(1 396)	**(2 662)**	(1 396)
Closing balance	**-**	2 662	**-**	2 662

An allowance has been made for estimated irrecoverable amounts from the sale of goods of R Nil thousand (2010: R2 662 thousand). This allowance has been determined by reference to specific customer delinquencies.

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
12. Trade and other receivables (continued)				
12.2 Analysis of amounts past due				
The following provides an analysis of the amounts that are past the due contractual maturity dates.				
Past contract terms but not impaired				
Less than 30 days	**-**	1 949	**-**	1 949
Between 30 and 60 days	**-**	46	**-**	46
Greater than 60 days	**-**	1 757	**-**	1 757
Past contract terms but impaired				
Greater than 60 days	**-**	2 662	**-**	2 662
The group has granted facilities to customers to buy on credit for the following amounts:				
Value of limits (approved in line with limits of authority)				
Less than R4.1 million	**164 085**	168 398	**164 085**	168 398
Less than R8.2 million but equal to or greater than R4.1 million	**168 280**	141 897	**168 280**	141 897
Less than R24.8 million but equal to or greater than R8.2 million	**334 562**	297 135	**334 562**	297 135
Less than R41.2 million but equal to or greater than R24.8 million	**123 209**	110 000	**123 209**	110 000
Equal to or greater than R41.2 million	**1 910 870**	1 987 821	**1 910 870**	1 987 821
	2 701 006	2 705 251	**2 701 006**	2 705 251

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

The group has a provision of R Nil thousand (2010: R2 662 thousand) against trade receivables that are past due.

The group holds collateral of R28 925 thousand (2010: R28 630 thousand) against these trade receivables that are past due.

12. Trade and other receivables (continued)

12.3 Fair value

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

12.4 Off balance sheet structures

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

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

The total amount of trade receivables sold at the end of September 2011 amounted to R978 803 thousand (September 2010: R1 510 129 thousand). Details of the securitisation programme at the end of fiscal 2011 and 2010 are disclosed in the tables below.

Bank	**Currency**	**Value**	**Facility**	**Discount charges**
2011				
Rand Merchant Bank	ZAR	979 million	Unlimited*	Linked to 3 month JIBAR
2010				
Rand Merchant Bank	ZAR	1 510 million	Unlimited*	Linked to 3 month JIBAR

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

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

Details of the Refer note 26 for further details on credit risk.

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
13. Ordinary share capital and share premium				
Authorised share capital				
6 052 500 Ordinary shares of R2 each	**12 105**	12 105	**12 105**	12 105
19 520 Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2)	**-**	-	**-**	-
221 107 Class "B" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2)	**-**	-	**2**	2
831 Class "C" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2)	**-**	-	**-**	-
123 321 Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2)	**-**	-	**1**	1
	12 105	12 105	**12 108**	12 108

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
13. Ordinary share capital and share premium (continued)				
Issued share capital				
6 015 769 Ordinary shares of R2 each	**12 030**	12 030	**12 030**	12 030
19 520 Class "A" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2)	**-**	-	**-**	-
220 793 Class "B" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2)	**-**	-	**2**	2
831 Class "C" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2)	**-**	-	**-**	-
122 168 Class "D" cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (1) (2))	**-**	-	**1**	1
Investment in 364 245 Sappi Property Company (Pty) Ltd cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (Share Capital) (1) (2)	**-**	-	**(3)**	(3)
	12 030	12 030	**12 030**	12 030
Share premium	**209 070**	209 070	**209 070**	209 070
Share premium on new preference shares issued	**-**	-	**224 050**	224 050
Investment in 364 245 Sappi Property Company (Pty) Ltd cumulative non-convertible redeemable preference shares of R0.01 each with a variable coupon rate (Share Premium) (2)	**-**	-	**(224 050)**	(224 050)
	221 100	221 100	**221 100**	221 100

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

(2) The Class "A", "B", "C" and "D" cumulative non-convertible redeemable preference shares of R0.01 each were issued to Sappi Property Company (Pty) Ltd for no cash consideration on 30 June 2008. Sappi Southern Africa acquired all the ordinary shares of Sappi Property Company (Pty) Ltd on 11 June 2010, and is therefore a wholly owned subsidiary. Sappi Southern Africa (Pty) Ltd holds 364 245 cumulative non-convertible redeemable preference shares of R0.01 each in Sappi Property Company (Pty) Ltd. A legal right to offset these preference shares exists.

13. Ordinary share capital and premium (continued)

Capital Risk Management

The capital structure of the group consists of:

- issued share capital and premium and accumulated profits disclosed above and in the statement of changes in equity respectively;
- debt, which includes interest bearing borrowings and obligations due under finance leases disclosed under note 16; and
- cash and cash equivalents.

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

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

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

During fiscal 2011 and 2010 we were in compliance with the financial covenants relating to the loans payable.

The group's strategy with regard to capital risk management remains unchanged from 2010.

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

		Group		Company	
		2011	2010	**2011**	2010
		R'000	R'000	**R'000**	R'000
14.	**Other comprehensive (loss) income**				
	Exchange difference on translation of foreign operations	**28**	(13)	**-**	-
	Gross amount	**28**	(13)	**-**	-
	Tax	**-**	-	**-**	-
	Actuarial losses on post-employment benefit funds	**(203 741)**	(86 415)	**(194 734)**	(88 529)
	Gross amount	**(279 470)**	(120 842)	**(270 463)**	(122 956)
	Tax	**75 729**	34 427	**75 729**	34 427
	Movement on available-for-sale financial asset	**3 513**	1 935	**-**	-
	Gross amount	**3 513**	1 935	**-**	-
	Tax	**-**	-	**-**	-
	Hedging reserve	**43 394**	-	**43 394**	-
	Gross amount	**60 269**	-	**60 269**	-
	Tax	**(16 875)**	-	**(16 875)**	-
	Other comprehensive loss recoded directly in equity	**(156 806)**	(84 493)	**(151 340)**	(88 529)
	(Loss) profit for the year	**(256 077)**	96 811	**(320 098)**	314 349
	Total comprehensive (loss) income for the year	**(412 883)**	12 318	**(471 438)**	225 820
15.	**Other reserves**				
	Share-based payment reserve (refer note 25)	**(1 849)**	(11 853)	**(3 512)**	(12 927)
	Share based payment reserve – BBBEE (refer note 25)	**65 491**	34 588	**65 492**	34 588
		63 642	22 735	**61 980**	21 661

	Group		Company	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
16. Interest-bearing borrowings				
Capitalised lease liabilities (refer note 20 for details of encumbered assets)	**131 360**	147 745	**131 360**	147 745
Unsecured borrowings	**3 696 064**	3 618 149	**3 696 064**	3 618 149
Total borrowings	**3 827 424**	3 765 894	**3 827 424**	3 765 894
Less: Current portion included under current liabilities	**1 621 910**	452 787	**1 621 910**	452 787
	2 205 514	3 313 107	**2 205 514**	3 313 107
The repayment profile of the interest-bearing borrowings is as follows:				
Payable in the year ended September:				
2011	**-**	452 787	**-**	452 787
2012	**1 621 910**	1 622 973	**1 621 910**	1 622 973
2013	**1 447 307**	1 440 494	**1 447 307**	1 440 494
2014	**208 779**	200 212	**208 779**	200 212
2015	**49 428**	41 428	**49 428**	41 428
2016	**500 000**	8 000	**500 000**	8 000
	3 827 424	3 765 894	**3 827 424**	3 765 894

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

16. Interest-bearing borrowings (continued)

Capitalised lease liabilities

Finance leases are primarily for buildings. At the time of entering into capital lease agreements, the commitments are recorded at their present value using applicable interest rates. As of September 2011 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:

Group	Minimum lease payments R'000	Finance costs R'000	**2011 Present value of minimum lease payments R'000**	2010 Present value of minimum lease payments R'000
Payable in the year ended September:				
2011	**-**	**-**	**-**	16 385
2012	**34 592**	**(13 319)**	**21 273**	21 273
2013	**37 705**	**(10 712)**	**26 993**	26 993
2014	**41 098**	**(7 432)**	**33 666**	33 666
2015	**52 797**	**(3 369)**	**49 428**	49 428
Total future minimum lease payments	**166 192**	**(34 832)**	**131 360**	147 745

Company	Minimum lease payments R'000	Finance costs R'000	**2011 Present value of minimum lease payments R'000**	2010 Present value of minimum lease payments R'000
Payable in the year ended September:				
2011	**-**	**-**	**-**	16 385
2012	**34 592**	**(13 319)**	**21 273**	21 273
2013	**37 705**	**(10 712)**	**26 993**	26 993
2014	**41 098**	**(7 432)**	**33 666**	33 666
2015	**52 797**	**(3 369)**	**49 428**	49 428
Total future minimum lease payments	**166 192**	**(34 832)**	**131 360**	147 745

16. Interest-bearing borrowings (continued)

Set out below are details of the more significant non-current interest-bearing borrowings in the Group at September 2011:

	Currency	Interest rate	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry	Financial covenants
Redeemable bonds (listed)							
Public bond	ZAR	Fixed	R 1 000 million	R 1 000 million	Unsecured	June 2013	No financial covenants
Public bond	ZAR	Fixed	R 1 000 million	R 1 000 million	Unsecured	October 2011	No financial covenants
Public bond	ZAR	Fixed	R 499 million	R 499 million *	Unsecured	June 2012	No financial covenants
Public bond	ZAR	Fixed	R 499 million	R 499 million **	Unsecured	June 2016	No financial covenants
Redeemable bonds (unlisted private placement)							
Bravura Sanlam	ZAR	Fixed	R 149 million	R 149 million	Unsecured	November 2012	No financial covenants
Bravura Sanlam	ZAR	Fixed	R 148 million	R 148 million	Unsecured	January 2013	No financial covenants
Bravura Sanlam	ZAR	Fixed	R 37 million	R 37 million	Unsecured	March 2013	No financial covenants
Bravura Sanlam	ZAR	Fixed	R 68 million	R 68 million *	Unsecured	December 2013	No financial covenants
Capitalised leases							
Rand Merchant Bank	ZAR	Fixed	R 131 million	R 131 million**	Buildings	September 2015	No financial covenants
Unsecured bank term loans							
Nedbank	ZAR	Fixed	R 281 million	R 281 million	Unsecured	March 2014	Gearing ratio interest and dividend cover
Petitum Trading	ZAR	Fixed	R 15 million	R 15 million**	Unsecured	June 2014	No financial covenants

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

** The value outstanding equals the total facility available.

16. Interest-bearing borrowings (continued)

Other restrictions

During fiscal 2011 and 2010 we were in compliance with the financial covenants relating to all loans payable. Regular monitoring of compliance with applicable covenants occurs. If a possible breach of a financial covenant is anticipated, negotiations would commence with the applicable institution before such breach occurs.

Borrowing facilities secured by trade receivables

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

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

Un-utilised committed facilities

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

Un-utilised uncommitted facilities

	Currency	**Interest rate**	**2011 R'000**	2010 R'000
DMTN (Domestic Medium Term Note)	ZAR	Variable (JIBAR)	**2 000 000**	2 500 000

The DMTN programme is a R5 billion uncommitted programme that is listed on the JSE and is sponsored by Nedbank, RMB and Investec Bank. An amount of R3 billion was utilised at 2 October 2011 with available headroom of R2 billion.

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

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
17. Other non-current liabilities				
Post-employment benefits - pension liability (refer note 23)	**-**	14 217	**-**	-
Severance benefits (refer note 23)	**6 792**	2 570	**-**	-
Post-employment benefits other than pension liability (refer note 24)	**713 773**	633 488	**713 773**	633 488
Income received in advance	**4 031**	8 063	**4 031**	8 063
Retirement liability	**1 875**	-	**-**	-
Other	**3 638**	3 482	**-**	-
	730 109	661 820	**717 804**	641 551
18. Notes to the cash flow statements				
18.1 Cash generated from operations				
(Loss) profit after taxation per income statement	**(256 077)**	96 811	**(320 098)**	314 349
Adjustment for:				
Depreciation	**768 747**	749 976	**764 472**	732 497
Fellings	**567 753**	530 027	**554 896**	514 711
Impairment of assets	**474 652**	13 622	**633 592**	(113 694)
Taxation (benefit) charge	**(9 642)**	131 785	**(4 679)**	129 378
Net finance costs	**262 769**	301 028	**288 743**	328 312
Dividends received	**-**	-	**(52 863)**	-
Loss on disposal of assets	**7 095**	1 137	**6 334**	1 137
Fair value adjustment gains and growth on plantations	**(439 080)**	(754 534)	**(446 558)**	(620 877)
Movement in provisions	**145 139**	85 169	**190 431**	(15 747)
Other non-cash items	**89 932**	20 463	**64 406**	10 266
	1 611 288	1 175 484	**1 678 676**	1 280 332
18.2 (Increase) decrease in working capital				
(Increase) decrease in inventories	**(128 560)**	107 898	**(148 002)**	79 871
Decrease (increase) in receivables	**65 673**	(43 411)	**70 009**	(45 233)
(Decrease) increase in payables	**(245 644)**	456 242	**(267 475)**	572 842
	(308 531)	520 729	**(345 468)**	607 480

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
18. Notes to the cash flow statements (continued)				
18.3 Finance costs paid				
Gross interest and other finance costs	**(398 867)**	(408 082)	**(398 867)**	(407 931)
Net foreign exchange losses	**(9 946)**	(12 929)	**(9 967)**	(12 845)
Net profit (loss) on market to market financial instruments	**4 733**	(4 733)	**4 733**	(4 733)
Non cash movements included in items above	**25 875**	(4 723)	**27 810**	(4 723)
	(378 205)	(430 467)	**(376 291)**	(430 232)
18.4 Taxation (paid) refunded				
Amounts unpaid at beginning of year	**(33 237)**	(75 322)	**(32 817)**	(75 328)
Amounts recovered from the income statement	**18 467**	43 643	**18 078**	43 938
Acquisition of business	**-**	-	**(4 648)**	15 929
Amounts unpaid at end of year	**12 798**	33 237	**13 138**	32 817
	(1 972)	1 558	**(6 249)**	17 356
18.5 Replacement of non-current assets				
Property, plant and equipment	**(436 194)**	(277 437)	**(431 518)**	(313 682)
18.6 Proceeds on disposal of non-current assets				
Book value of property, plant and equipment disposed of	**7 531**	2 788	**6 770**	5 501
Loss on disposal	**(7 095)**	(1 137)	**(6 334)**	(1 137)
	436	1 651	**436**	4 364
18.7 Cash and cash equivalents				
Cash and deposits on call	**2 256 372**	902 499	**1 895 306**	561 000
Overdraft	**(540)**	(2 083)	**-**	(2 083)
	2 255 832	900 416	**1 895 306**	558 917

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
19. Provisions				
Restructuring provisions	**246 055**	100 916	**190 431**	-

2011

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

Adamas Mill
During the financial year ended September 2011, Sappi Southern Africa announced the decision to permanently close the Adamas Mill and integrate the mill's products into the production lines at the Stanger Mill and Enstra Mill. A total of 215 employees were affected by the closure of the Adamas Mill. The mill was a producer of uncoated woodfree specialities paper. A provision of approximately R46 million relating to restructuring charges and scrapping of spares was raised and utillised during the year.

Sappi Paper and Paper Packaging Operations
Our latest review of the paper and paper packaging operations, completed in the fourth fiscal quarter of 2011, indicated that the production of certain paper and paper packaging products would need to be curtailed. As a result of the curtailment, a restructuring charge of R201 million was raised. Approximately 560 employees are expected to be affected.

Sappi Southern Africa Support function
During the financial year ended September 2011, Sappi Southern Africa announced the decision to restructure the support function which include Human Resources, Finance, Procurement and Corporate Affairs. A total of 200 employees will be affected by this restructure. A provision of approximately R34 million relating to restructuring charges was raised.

2010

Usutu Mill
Usutu mill was closed at the end of January 2011. A total of 491 employees were affected by the closure of the Usutu mill. A provision of R172 million has been raised during the year to provide for the cost to close the mill. Included in the provision is an amount of R18 million for environmental costs to rehabilitate the mill dump site.

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
20. Encumbered assets				
Land and buildings	**64 382**	81 416	**64 382**	81 416

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.

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
21. Commitments				
Capital commitments				
Contracted but not provided	**45 667**	110 029	**45 667**	110 029
Approved but not contracted	**2 913 028**	480 192	**2 913 028**	480 192
	2 958 695	590 221	**2 958 695**	590 221
Future forecasted cashflows of capital commitments:				
Payable in the year ended September:				
2011	**-**	298 814	**-**	298 814
2012	**2 269 808**	149 455	**2 269 808**	149 455
2013 (September 2010: thereafter)	**571 944**	141 952	**571 944**	141 952
Thereafter	**116 943**	-	**116 943**	-
	2 958 695	590 221	**2 958 695**	590 221

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

	Group		Company	
Lease commitments				
Future minimum obligations under operating leases:				
Payable in the year ended September:				
2011	**-**	36 388	**-**	35 724
2012	**44 434**	29 316	**44 040**	28 429
2013	**35 683**	22 176	**35 289**	21 658
2014	**16 416**	11 761	**16 119**	11 294
2015	**9 237**	4 901	**9 237**	4 901
2016	**3 449**	1 838	**3 449**	1 838
	109 219	106 380	**108 134**	103 844

The lease commitments for 2010 were previously disclosed as Group R478 898 thousand and Company R476 855 thousand. This has been revised to Group R106 380 thousand and Group R103 844 thousand as certain purchase obligations were previously recorded as operating leases in terms of IFRIC4.

22. Contingent liabilities

Guarantees and suretyships	**4 121**	3 583	**4 121**	3 583
Other	**7 500**	7 500	**7 500**	7 500
	11 621	11 083	**11 621**	11 083

The Group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in the suits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that they are not expected to have a material effect on the group's consolidated financial position, results of operations or cash flows.

23. Post-employment benefits – pensions

Defined contribution plans

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

The total cost charged to income for the Group of R107 435 thousand (2010: R87 297 thousand) and total charged to income for the company of R105 631 thousand (2010: R88 112 thousand) represents contributions payable to these schemes by the Group based on the rates specified in the rules of the scheme. At September 2011 R13 893 thousand (September 2010: R12 800 thousand) was the contributions in respect of the current reporting period that had not yet been paid over to the schemes. Part of the increase in total charges relates to a rearrangement whereby effective from May 2010, members no longer pay contributions and the company meets all contributions. 5 179 employees (2010: 5 244 employees) are members of various defined contribution funds.

Defined benefit plans

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

957 (2010: 1 035 employees) and 956 (2010: 1 033 employees) are active members of the various defined benefit funds which are controlled by different administrators for the Group and company respectively. There is no commitment by the company, formal or otherwise, to meet unfounded benefits for these funds.

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

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

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

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
23. Post-employment benefits - pensions (continued)				
Change in present value of defined benefit obligation				
Defined benefit obligations at beginning of year	**2 588 037**	2 419 139	**2 571 113**	2 374 785
Current service cost	**57 906**	55 879	**57 748**	55 385
Past service cost	**580**	(906)	**580**	(906)
Interest cost	**216 162**	219 241	**214 839**	216 887
Plan participants' contributions	**29 557**	29 387	**29 557**	29 387
Actuarial (gain) loss - experience	**(2 947)**	155 578	**(7 257)**	157 510
Actuarial loss - assumptions	**268 784**	41 137	**263 838**	41 137
Benefits paid	**(248 611)**	(331 418)	**(246 820)**	(303 072)
Loss on settlement and curtailments	**(19 078)**	-	**-**	-
Defined benefit obligations at end of year	**2 890 390**	2 588 037	**2 883 598**	2 571 113
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	**2 798 260**	2 726 106	**2 798 123**	2 726 019
Expected return on plan assets	**255 848**	268 715	**255 838**	268 709
Actuarial gain on plan assets	**35 349**	18 619	**35 099**	18 438
Employer contribution	**79 697**	86 851	**58 799**	58 642
Plan participants contribution	**29 557**	29 387	**29 557**	29 387
Benefits paid	**(248 611)**	(331 418)	**(246 820)**	(303 072)
Loss on settlement and curtailments	**(19 504)**	-	**-**	-
Fair value of plan assets at end of year	**2 930 596**	2 798 260	**2 930 596**	2 798 123
Surplus	**40 206**	210 223	**46 998**	227 010
Recognised pension plan asset	**40 206**	210 223	**46 998**	227 010

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
23. Post-employment benefits - pensions (continued)				
Pension cost recognised in income statement				
Current service cost	**57 906**	**55 879**	**57 748**	**55 385**
Past service cost	**580**	**(906)**	**580**	**(906)**
Fund administration cost	**4 751**	**4 805**	**4 751**	**4 805**
Interest cost	**216 162**	**219 241**	**214 839**	**216 887**
Expected return on plan assets	**(260 599)**	**(273 520)**	**(260 589)**	**(273 514)**
Loss on sale of Usutu fund	**426**	**-**	**-**	**-**
Pension cost charged to cost of sales and selling, general and administrative expenses	**19 226**	**5 499**	**17 329**	**2 657**
Amounts recognised in the statement of comprehensive income				
Actuarial losses	**(230 488)**	(178 096)	**(221 482)**	(180 209)
Cumulative actuarial losses recognised in the statement of comprehensive income				
Actuarial losses	**(293 948)**	(63 460)	**(288 738)**	(67 256)
	%	%	**%**	%
Actuarial assumptions at balance sheet date:				
Discount rate	**8.8**	8.3	**8.8**	8.3
Compensation increase	**6.8**	6.2	**6.8**	6.2
Expected long-term return on assets	**9.7**	9.1	**9.7**	9.1
Actuarial assumptions used to determine periodic pension cost:				
Discount rate	**8.3**	9.0	**8.3**	9.0
Compensation increase	**6.2**	6.7	**6.2**	6.7
Expected long-term return on assets	**9.1**	9.9	**9.1**	9.9
	R'000	R'000	**R'000**	R'000
Pension plan liability is presented on the balance sheet as follows:				
Pension liability (refer note 17)	**(6 792)**	(16 787)	**-**	-
Pension asset (refer note 10)	**46 998**	227 010	**46 998**	227 010
	40 206	210 223	**46 998**	227 010

23. Post-employment benefits - pensions (continued)

Illustrating sensitivity

The discount and salary increase rates can have a significant effect on the amounts reported. The table below illustrates the effect of changing key assumptions:

	2011				2010			
	1% increase in discount rate	1% decrease in discount rate	1% increase in salary increase rate	1% decrease in salary increase rate	1% increase in discount rate	1% decrease in discount rate	1% increase in discount rate	1% increase in salary increase rate
(Decrease) increase in defined benefit obligation	**(364 400)**	**457 908**	**144 555**	**(125 697)**	**(169 025)**	**216 248**	**243 045**	**(109 913)**
(Decrease) increase in net periodic pension cost	**(49 053)**	**55 354**	**-**	**-**	**(13 871)**	**40 777**	**-**	**-**

In determining the expected long-term return assumption on plan assets, Sappi considers the relative weighting of plan assets to various asset classes, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. Peer data and historical returns are reviewed to check for reasonableness and appropriateness. In addition, Sappi may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.

Plan fiduciaries set investment and strategies for the local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment. The plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Target versus actual weighted average allocations below:

	Group		Company	
	2011 %	2010 %	**2011 %**	2010 %
Target asset allocation				
Equity Securities	**37**	26	**37**	**26**
Debt securities	**44**	47	**44**	**47**
Real Estate	**5**	5	**5**	**5**
Other	**14**	22	**14**	**22**
Actual asset allocation				
Equity Securities	**34**	27	**34**	**27**
Government Debt Securities	**29**	27	**29**	**27**
Debt securities	**18**	23	**18**	**23**
Real Estate	**5**	5	**5**	**5**
Other	**14**	18	**14**	**18**

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000

23. Post-employment benefits - pensions (continued)

The expected company contributions for 2012	**63 133**	62 307	**62 768**	62 307
Expected benefit payments for pension benefits are as follows:				
Payable in the year ending September:				
2011	**-**	107 653		104 046
2012	**107 439**	111 845	**107 092**	108 215
2013	**112 800**	116 997	**112 648**	112 556
2014	**119 157**	121 655	**118 485**	117 081
2015	**125 204**	126 782	**124 617**	121 796
2016 (2010: 2016 – 2020)	**131 266**	718 815	**131 058**	687 043
2017 -2021	**769 498**	-	**763 957**	-

24. Post-employment benefits - other than pensions

The company sponsors a defined post-retirement plan that provides certain health care and life insurance benefits to eligible retired employees. Full provision is made for this liability. Employees are generally eligible for benefits upon retirement and completion of a specified number of years service. An actuarial valuation was performed in 2011 and the next will be performed in 2012. The expense has been included in employee costs as detailed in note 3.2.

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
Change in present value of defined benefit obligation				
Defined benefit obligations at beginning of year	**633 488**	649 176	**633 488**	649 176
Current service cost	**11 502**	11 660	**11 502**	11 660
Interest cost	**51 001**	58 716	**51 001**	58 716
Actuarial loss (gain) – experience	**46 782**	(54 589)	**46 782**	(54 589)
Actuarial loss (gain) – assumptions	**2 200**	(2 665)	**2 200**	(2 665)
Benefits paid	**(31 200)**	(28 810)	**(31 200)**	(28 810)
Defined benefit obligations at end of year	**713 773**	633 488	**713 773**	633 488

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
24. Post-employment benefits - other than pensions (continued)				
Cost recognised in income statement				
Current service cost	**11 502**	11 660	**11 502**	11 660
Interest cost	**51 001**	58 716	**51 001**	58 716
Cost charged to cost of sales and selling, general and administrative expenses	**62 503**	70 376	**62 503**	70 376
Amounts recognised in the statement of comprehensive income				
Actuarial (losses) gains	**(48 982)**	57 254	**(48 982)**	57 254
Cumulative actuarial losses recognised in the statement of comprehensive income				
Actuarial losses	**(193 838)**	(144 856)	**(193 838)**	(144 856)
Actuarial assumptions at balance sheet date:	**%**	%	**%**	%
Discount rate	**9.00**	8.25	**9.00**	8.25
Health care cost trends	**7.25**	6.50	**7.25**	6.50

Sensitivity analysis

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

	2011				**2010**			
	1% increase in discount rate	1% decrease in discount rate	1% increase in health care cost trend rate	1% decrease in health care cost trend rate	1% increase in discount rate	1% decrease in discount rate	1% increase in health care cost trend rate	1% decrease in health care cost trend rate
(Decrease) increase in defined benefit obligation	**(83 677)**	**102 126**	**104 542**	**(86 865)**	(77 069)	94 596	95 543	(78 148)
(Decrease) increase in net periodic post employment benefit cost	**(3 388)**	**3 783**	**12 143**	**(9 934)**	(1 679)	4 752	10 622	(8 575)

	Group		Company	
	2011	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000
24. Post-employment benefits - other than pensions (continued)				
Plan liability is presented on the balance sheet as follows:				
Post employment benefits other than pension liability (refer note 17)	**713 773**	633 488	**713 773**	633 488
The expected company contributions for 2012	**35 960**		**35 960**	

25. Share-based payment

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

Shareholders, at prior annual general meetings, fixed the aggregate number of shares which may be acquired by all participants under the Sappi Limited Share Incentive Trust ("Scheme") and The Sappi Limited Performance Share Incentive Trust ("Plan") at 19,000,000 shares (equivalent to 7.95% of the shares then in issue). Subsequent to the December 2008 rights offering, this number of shares increased to 42,700,870 shares (still equivalent to 7.95% of the shares in issue).

The Sappi Limited Share Incentive Trust ("Scheme")

Certain managerial employees are eligible to participate in the Scheme. Under the rules of the Scheme, participants (a) may be offered options to acquire ordinary shares ("Share Options"), (b) may be offered the opportunity to acquire ordinary shares ("Scheme Shares"), or (c) may be granted options to enter into agreements with the company to acquire ordinary shares ("Allocation Shares"). In recent years only Share Options have been offered to participants.

Under the rules of the Scheme:
- Share Options entitle the participant to purchase one ordinary share per share option.
- Scheme Shares entitle the participant to enter into a loan with the Scheme to acquire Sappi Limited Shares at a specific issue price. The Scheme Shares are registered in the participant's name and pledged to the Scheme as security for the loan. Upon payment of the loan the Scheme Shares become unsecured Sappi Limited shares owned by the participant.
- Allocation Shares entitle the participant to accept an option to acquire one Allocation Share per option. These options must be exercised by the participant within 12 months, failing which the option will automatically lapse. The Allocation Shares entitle the participant to pay for one ordinary share per allocation share.

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

25. Share-based payment (continued)

The Share Options, Scheme Shares and Allocation Shares vest in blocks of 25% per annum on the anniversary date of the offer and expire 8 years after the offer date. Only once the shares vest may Share Options be exercised by the participants, Scheme Shares released from the Scheme to participants and Allocation Shares delivered to participants. For allocations prior to November 2004, the Share Options, Scheme Shares and Allocation Shares vested in blocks of 20% per annum on the anniversary date of the offer and expired 10 years after the offer date.

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

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

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

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

The Plan rules also provide that if:
(a) the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself; or
(b) the persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action the effect of which is to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action;
Then the company is obligated to notify every Participant thereof on the basis that such Participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the Performance Criteria been achieved.

Rights offer

Following the December 2008 rights offer and in accordance with the provisions of the Scheme and the Plan, adjustments were made in fiscal 2009 to the rights of the Participants so that they were neither better nor worse off than prior to the rights offer. This resulted in additional offers being made to Participants in respect of all outstanding offers at the time of the rights offer. As in the case of shareholders that exercised their rights, the Participants of the Plan will be required to pay the rights offer price of R20.27 per share should the shares vest. Similarly, the Participants of the Scheme may only exercise their additional options, awarded as a result of the rights offer, in conjunction with exercising their pre-rights offer options and upon payment of the rights offer price of R20.27 per share.

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

Year ended September 2011

25. Share-based payment (continued)

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

Allocations (Number of shares)

	2011	**2010**
Share options	908 900	1 061 450
Performance shares	261 000	516 300
Performance shares	1 169 900	1 577 750

Scheme shares, share options, restricted shares, performance shares and allocation shares activity was as follows during the financial years ended September 2011 and 2010:

	Trust shares	Performance shares	Share options	Weighted average exercise price (ZAR)	Allocation shares	Weighted average exercise price (ZAR)	Total
Outstanding at September 2009	2 200	2 524 720	2 306 370	27.03	1 193 710	65.32	6 027 000
Offered and accepted	-	516 300	1 061 450	22.77	-	-	1 577 750
Returned, lapsed and forfeited	-	(907 800)	(252 180)	20.19	(521 960)	76.07	(1 681 940)
Outstanding at September 2010	2 200	2 133 220	3 115 640	27.35	671 750	56.36	5 922 810
Offered and accepted	**-**	**261 000**	**908 900**	**27.35**	**-**	**-**	**1 169 900**
Paid for released	**-**	**(1 333 605)**	**(20 162)**	**3.93**	**-**	**-**	**(1 353 767)**
Returned, lapsed and forfeited	**-**	**(504 715)**	**(463 078)**	**28.27**	**(386 650)**	**(62.92)**	**(1 354 443)**
Outstanding at September 2011	**2 200**	**555 900**	**3 541 300**	**28.56**	**285 100**	**47.47**	**4 384 500**
Exercisable at September 2010	2 200	-	1 360 332	47.20	671 750	56.36	2 034 282
Exercisable at September 2011	**2 200**	**-**	**1 550 608**	**43.64**	**285 100**	**47.47**	**1 837 908**

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

25. Share-based payment (continued)

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

	Issue 36	Issue 36	Issue 36
Date of grant	3 December 2010	3 December 2010	3 December 2010
Type of award	Normal Option	Performance	Performance
Share Price at grant date	R35.57	R35.57	R35.57
Strike Price of share	R35.20	-	-
Vesting period	4 years	4 years	4 years
Vesting conditions	Proportionately over time	Market related - relative to peers	Cash Flow Return on Net Assets relative to peers
Expected life of options (years)	8 years	N/A	N/A
Market related vesting conditions	N/A	Yes	No
Percentage expected to vest	N/A	41.0%	100%
Number of shares offered	2 818 000	783 700	783 700
Volatility	42.3%	55.0%	N/A
Risk free discount rate	5.7%	1.4% (US yield)	N/A
Expected dividend yield	2.50%	1.7%	1.7%
Expected percentage of issuance	95%	95%	95%
Model used to value	Modified binomial	Monte-carlo	Market price
Fair value of option	R14.05	R25.06	R26.68

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

Black Economic Empowerment transaction (BEE Transaction)

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

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

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

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

25. Share-based payment (continued)

The BEE Transaction

The BEE Transaction comprised two distinct parts:

- The value created through the Plantation BEE Transaction was settled by the issue of 4.3 million fully paid up ordinary shares at a price based on the 30 day volume weighted average share price (VWAP) of Sappi as at Friday, 5 February 2010 of ZAR33.50.
- The creation and issuance of a new class of unlisted equity shares referred to as "A" ordinary shares. The "A" ordinary shares were issued at their par value of ZAR1 to a trust formed for the benefit of certain Sappi employees including HDSAs (the "ESOP Trust"), a trust formed for the benefit of certain Sappi managers that are HDSAs (the "MSOP Trust") and a trust formed for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the "Sappi Foundation Trust", and together with the ESOP Trust and the MSOP Trust, the "BEE Trusts"). The issuance of the "A" ordinary shares was financed through notional non-interest bearing loans extended by Sappi to the BEE Trusts. The BEE Transaction resulted in the BEE Trusts and the Strategic Partners holding, collectively, ordinary and "A" ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's South African business under the Forestry Charter and BEE legislation in general.

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

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

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

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

The group recognised a share-based payment expense of R30 903 thousand (2010: R34 588 thousand) that related to the "A" Ordinary shares that were awarded.

25. Share-based payment (continued)

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

Base price for hurdle rate price	R32.50
Share price hurdle rate	9.1%
Hurdle rate price	R75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	6.60%
Management turnover (annual)	9.4%
Model used to value	Black Scholes Model

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

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

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

26. Financial instruments

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

Introduction

The principal risks to which Sappi Southern Africa is exposed through financial instruments are:

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

26. Financial instruments (continued)

The group's main financial risk management objectives are to identify, measure and manage the above risks as more fully discussed under the individual risk headings below.

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

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

Credit risk (insofar as it relates to trade receivables) are primarily managed regionally but are co-ordinated on a group basis, whilst commodity price risk is managed regionally.

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

Market risk

Interest rate risk

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

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

Interest-bearing borrowings

The table on the next page provides information about the group's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows by expected maturity dates and estimated fair value of the borrowings. The average fixed effective interest rates presented below are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward looking average variable effective interest rates for the financial years ended September 2011 and thereafter are based on the yield curves for each respective currency as published by Reuters on 2 October 2011. The information is presented in ZAR, which is the group's reporting currency.

26. FINANCIAL INSTRUMENTS (continued)

Rand Thousand	Expected maturity date 2012	2013	2014	2015	2016	**Total Carrying Value**	**2011 Fair Value**	2010 Carrying Value	2010 Fair Value
Rand									
Fixed rate	1 621 910	1 447 307	208 779	49 428	500 000	**3 827 424**	**4 103 607**	3 765 894	3 893 922
Average interest rate (%)	11.11	9.77	11.01	11.67	9.63	**10.41**		10.36	
Fixed and variable	**1 621 910**	**1 447 307**	**208 779**	**49 428**	**500 000**	**3 827 424**	**4 103 607**	3 765 894	3 893 922
Current portion						**1 621 910**	**1 730 386**	452 787	452 787
Long-term portion						**2 205 514**	**2 373 221**	3 313 107	3 441 135
Total Interest-bearing borrowings (refer note 16)						**3 827 424**	**4 103 607**	3 765 894	3 893 922

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

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

At September 2011, 100% of Sappi Southern Africa borrowings were at fixed rates of interest.

Interest rate derivatives

Sappi Southern Africa uses interest rate options, caps, swaps (IRS) and interest rate and currency swaps (IRCS) as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. Sappi Southern Africa does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period or in equity, depending on certain hedge designations carried out by the group in a documented hedging strategy.

26. Financial instruments (continued)

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

Sensitivity analysis interest rate risk of floating rate debt.

Sappi Southern Africa has no floating rate debt as at 2 October 2011.

Currency risk

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

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

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

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

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

26. Financial instruments (continued)

Currency risk analysis

In the preparation of the currency risk analysis, the derivative instrument has been allocated to the currency which the underlying instrument has been hedging.

2011	Total	Total in Scope	USD	EUR	ZAR	GBP	Other (converted into ZAR)
	R'000	**R'000**	R'000	R'000	R'000	R'000	R'000
Financial Assets							
Other non-current assets	**204 411**	**76 279**	-	-	76 279	-	-
Long term derivative financial instrument	**9 305**	**9 305**	-	(294 793)	304 098	-	-
Trade and other receivables	**186 017**	**162 789**	-	-	162 789	-	-
Current derivative financial instruments	**25 067**	**25 067**	(19 478)	(420 746)	554 344	-	(89 053)
Amounts owing by Group companies	**1 042 026**	**1 042 026**	-	-	1 042 026	-	-
Cash and cash equivalents	**2 256 372**	**2 256 372**	6 607	1 681	2 247 798	286	-
		3 571 838	(12 871)	(713 858)	4 387 334	286	(89 053)
Financial liabilities							
Interest-bearing borrowings	**2 205 514**	**2 205 514**	-	-	2 205 514	-	-
Interest-bearing borrowings	**1 621 910**	**1 621 910**	-	-	1 621 910	-	-
Overdraft	**540**	**540**	-	-	540	-	-
Trade and other payables	**2 016 590**	**1 634 723**	6 280	5 770	1 622 001	15	657
Amounts owing to Group companies	**1 269 061**	**1 269 061**	-	-	1 269 061	-	-
		6 731 748	6 280	5 770	6 719 026	15	657
Foreign exchange gap		**(3 159 910)**	(19 151)	(719 628)	(2 331 692)	271	(89 710)

26. Financial instruments (continued)

2010	**Total**	**Total in Scope**	USD	EUR	ZAR	GBP	Other (converted into ZAR)
	R'000	**R'000**	R'000	R'000	R'000	R'000	R'000
Financial Assets							
Other non-current assets	**386 697**	**91 340**	-	-	91 340	-	-
Trade and other receivables	**242 938**	**160 664**	-	-	160 664	-	-
Amounts owing by Group companies	**1 952 749**	**1 952 749**	-	-	1 952 749	-	-
Cash and cash equivalents	**902 499**	**902 499**	6	1 478	900 733	282	-
		3 107 252	6	1 478	3 105 486	282	-
Financial liabilities							
Interest-bearing borrowings	**3 313 107**	**3 313 107**	-	-	3 313 107	-	-
Interest-bearing borrowings	**452 787**	**452 787**	-	-	452 787	-	-
Overdraft	**2 083**	**2 083**	-	-	2 083	-	-
Current derivative financial instruments	**6 611**	**6 611**	(28 420)	(4 847)	41 888	(283)	(1 727)
Trade and other payables	**2 258 710**	**1 874 109**	13 811	7 893	1 852 175	5	225
Amounts owing to Group companies	**1 201 344**	**1 201 344**	-	-	1 201 344	-	-
		6 850 041	(14 609)	3 046	6 863 384	(278)	(1 502)
Foreign exchange gap		**(3 742 789)**	14 615	(1 568)	(3 757 898)	560	1 502

The above table does not indicate the group's foreign exchange exposure, it only shows the financial instruments assets and liabilities classified per underlying currency.

26. Financial instruments (continued)

The group's foreign currency forward exchange contracts at September 2011 are detailed below.

		2011		2010	
		Contract amount (Notional amount)	**Fair value * (unfavourable) favourable**	Contract amount	Fair value * (unfavourable) favourable
		R'000	**R'000**	R'000	R'000
Foreign currency					
Bought:	US Dollar	**38 295**	**2 261**	4 641	(55)
	Euro	**784 847**	**31 314**	-	-
	Other	**89 052**	**4 768**	-	-
Sold:	US Dollar	**(18 816)**	**(1 997)**	(28 420)	(1 670)
	Euro	**(69 308)**	**(1 973)**	(9 487)	(140)
	Other	**-**	**-**	(2 011)	(13)
		824 070	**34 373**	(35 277)	(1 878)

* This refers to the carrying value.

The fair value of foreign currency contracts has been computed by the group based upon the market data valid at September 2011.

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

Forward exchange contracts are used to hedge the group from potential unfavourable exchange rate movements that may occur on recognised financial assets and liabilities or planned future commitments.

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

As at the year end there was an open exposure of R93 thousand which has since been hedged.

Sensitivity analysis

Base currency	**Exposure**	**+10% gain (loss)**	**- 10% gain (loss)**
	R'000	**R'000**	**R'000**
EUR	83	8	(9)
USD	(1)	-	-
Other	11	1	(1)
Total	93	9	(10)

Based on the exposure as at the end of fiscal 2011, if the foreign currency rates had moved 10 % upwards or downwards compared to the closing rates, the result would have been impacted by a gain of R9 thousand (increase of 10 %) or a loss of R10 thousand (decrease of 10 %).

26. Financial instruments (continued)

Commodity risk

Commodity price risk arises mainly from price volatility and threats to security of supply and other inputs to the production process.

A combination of contract and spot deals are used to manage price volatility and contain costs. Contracts are limited to the group's own use requirements. The group aims to improve its understanding of the direction, magnitude and duration of future commodity price changes and to develop commodity specific expertise.

During 2011 we have not contracted any derivatives with respect to commodities.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group faces credit risk in relation to trade receivables, cash deposits and financial investments.

Credit risk relating to trade debtor management is the responsibility of regional management and is co-ordinated on a group basis.

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

The group assesses the credit worthiness of potential and existing customers in line with the credit policies and procedures. Appropriate collateral is obtained to minimise risk. Exposures are monitored on an ongoing basis utilising various reporting tools which highlight potential risks.

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

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

A large percentage of our trade receivables are credit insured.

Liquidity risk

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

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

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

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

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

26. Financial instruments (continued)

Cash flow hedges

Ngodwana mill expansion - acquisition of property plant and equipment in foreign currency

Sappi started the expansion of its Ngodwana mill in fiscal 2011 to increase its capacity to produce chemical cellulose. The group had a highly probable forecast transaction for the importation of property, plant and equipment from May 2011 which the group became firmly committed to in August 2011. The acquisition of the property, plant and equipment was hedged for foreign currency risk from May 2011 by forward exchange contracts which were designated as hedging instruments in a cash flow hedge.

The cash flows related to the expansion of Ngodwana started in September 2011 and are estimated to keep occuring until September 2013.

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

The total net gain recognised in equity through other comprehensive income since the inception of the hedge amounted to R60 million for fiscal 2011. This is made up of a realised gain of R29 million relating to forward exchange contracts that have matured and an unrealised gain of R31 million resulting from non-matured forward exchange contracts.

26. Financial instruments (continued)

Rand thousand Liquidity risk management - September 2011	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows 0-6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total
Financial Assets								
Other non-current assets	**76 279**	**76 279**	76 279	-	-	-	-	76 279
Long term derivative financial instruments	**9 305**	**9 305**	-	-	9 305	-	-	9 305
Pay leg	**(285 857)**	**(285 857)**	-	-	(285 857)	-	-	(285 857)
Receive leg	**295 162**	**295 162**	-	-	295 162	-	-	295 162
Trade and other receivables	**162 789**	**162 789**	162 789	-	-	-	-	162 789
Current derivative financial instruments	**25 067**	**25 067**	16 313	8 754	-	-	-	25 067
Pay leg	**(503 841)**	**(503 841)**	(321 846)	(181 995)	-	-	-	(503 841)
Receive leg	**528 908**	**528 908**	338 159	190 749	-	-	-	528 908
Amounts owing by Group Companies	**1 042 026**	**1 042 026**	1 042 026	-	-	-	-	1 042 026
Cash and cash equivalents	**2 256 372**	**2 256 372**	2 256 372	-	-	-	-	2 256 372
			3 553 779	8 754	9 305	-	-	3 571 838
Financial liabilities								
LT Interest-bearing borrowings	**2 205 514**	**2 373 221**	70 775	70 775	1 658 281	783 449	-	2 583 280
Interest-bearing borrowings	**1 621 910**	**1 730 386**	1 166 125	610 042	-	-	-	1 776 167
Overdraft	**540**	**540**	540	-	-	-	-	540
Trade and other payables	**2 016 590**	**1 634 723**	1 629 234	3 660	1 829	-	-	1 634 723
Amounts owing to Group Companies	**1 269 061**	**1 269 061**	1 269 061	-	-	-	-	1 269 061
			4 135 735	684 477	1 660 110	783 449	-	7 263 771
Liquidity gap			(581 956)	(675 723)	(1 650 805)	(783 449)	-	(3 691 933)

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

26. Financial instruments (continued)

Rand thousand	**Total**	**Fair value of**			**Undiscounted cash flows**			
Liquidity risk management - September 2010	**financial assets and liabilities**	**financial instruments**	0-6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total
Financial Assets								
Other non-current assets	**91 340**	**91 340**	91 340	-	-	-	-	91 340
Trade and other receivables	**160 664**	**160 664**	160 664	-	-	-	-	160 664
Amounts owing by Group Companies	**1 952 749**	**1 952 749**	1 952 749	-	-	-	-	1 952 749
Cash and cash equivalents	**902 499**	**902 499**	902 499	-	-	-	-	902 499
			3 107 252	-	-	-	-	3 107 252
Financial liabilities								
LT Interest-bearing borrowings	**3 313 107**	**3 452 548**	-	-	1 869 567	1 908 092	12 350	3 790 009
Interest-bearing borrowings	**452 787**	**452 787**	611 751	211 634	-	-	-	823 385
Overdraft	**2 083**	**2 083**	2 083	-	-	-	-	2 083
Current derivative financial instruments	**6 611**	**6 611**	2 646	3 965	-	-	-	6 611
Pay leg	**86 732**	**86 732**	33 306	53 426	-	-	-	86 732
Receive leg	**(80 121)**	**(80 121)**	(30 660)	(49 461)	-	-	-	(80 121)
Trade and other payables	**1 874 109**	**1 874 109**	1 868 620	3 660	1 829	-	-	1 874 109
Amounts owing to Group Companies	**1 201 344**	**1 201 344**	1 201 344	-	-	-	-	1 201 344
			3 686 444	219 259	1 871 396	1 908 092	12 350	7 697 541
Liquidity gap			(579 192)	(219 259)	(1 871 396)	(1 908 092)	(12 350)	(4 590 289)

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

26. Financial instruments (continued)

Derivative financial instruments

The following tables indicates the different types of derivative financial instruments for 2011 and 2010, included within the various categories on the face of the balance sheet. The reported maturity analysis is calculated based on an undiscounted basis.

Rand Thousand				**Maturity analysis**				
				< 6 M	**> 6 M < 1 Y**	**> 1 Y < 2 Y**	**> 2 Y < 5 Y**	**> 5 Y**
Classes of financial instruments	**Total**	**Cash Flow Hedge**	**No hedge accounting**					
September 2011								
ASSETS								
Fair value of derivatives by risk factor:								
FX risk – Long term								
FEC	9 305	9 305	-	-	-	9 305	-	-
paying leg	(285 857)	(285 857)	-	-	-	(285 857)	-	-
receiving leg	295 162	295 162	-	-	-	295 162	-	-
FX risk – Short term								
FEC	25 067	26 103	(1 036)	16 313	8 754	-	-	-
paying leg	(503 841)	(488 606)	(15 235)	(321 846)	(181 995)	-	-	-
receiving leg	528 908	514 709	14 199	338 159	190 749	-	-	-
September 2010								
LIABILITIES								
Fair value of derivatives by risk factor:								
Interest rate risk								
Interest rate swap	4 733		4 733	2 366	2 367	-	-	-
paying leg	49 576		49 576	24 788	24 788	-	-	-
receiving leg	(44 843)		(44 843)	(22 422)	(22 421)	-	-	-
FX risk								
FEC	1 878		1 878	280	1 598	-	-	-
paying leg	37 156		37 156	8 518	28 638	-	-	-
receiving leg	(35 278)		(35 278)	(8 238)	(27 040)	-	-	-

26. Financial instruments (continued)

Fair values

All financial instruments are carried at fair value or amounts that approximate fair value, except for the non-current interest-bearing borrowings at fixed rates of interest. The carrying amounts for cash, cash equivalents, accounts receivable, certain investments, accounts payable and current portion of interest-bearing borrowings approximate fair value due to the short-term nature of these instruments. Where these fixed rates of interest have been hedged into variable rates of interest and fair value hedge accounting has been applied, then the non-current interest-bearing borrowings are carried at fair value calculated by discounting all future cash flows at market data valid at closing date. The same data is used to value the related hedging instrument.

The best evidence of the fair value of a financial asset or financial liability at initial recognition is the transaction price, unless the fair value of the instrument is evidenced by comparison with other current observable market transactions. Where market prices or rates are available, such market data is used to determine the fair value of financial assets and financial liabilities.

If quoted market prices are unavailable, the fair value of financial assets and financial liabilities is calculated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, market-related inputs are used to measure fair value at the balance sheet date.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are, measured at cost.

Fair values of foreign exchange and interest rate derivatives are calculated by using recognised treasury tools which use discounted cash flow techniques based on effective market data valid at closing date.

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

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

26. Financial instruments (continued)

Rand thousand September 2011 Classes of financial instruments	Total balance	Out of scope IAS 39	Categories according to IAS 39				Total in scope	Fair value
			Held for trading	Loans and receivables	Held to maturity	Available for sale		
NON CURRENT ASSETS								
Other non-current assets	**204 411**	128 132	-	-	-	76 279	76 279	76 279
AFS – Investment funds		-	-	-	-	76 279	76 279	76 279
Other assets		128 132	-	-	-	-	-	-
Fair value of derivatives	**9 305**	9 305	9 305	-	-	-	9 305	9 305
CURRENT ASSETS								
Trade and other receivables	**186 017**	23 228	-	162 789	-	-	162 789	162 789
Trade receivables		-	-	64 257	-	-	64 257	64 257
Other accounts receivable - current		23 228	-	98 532	-	-	98 532	98 532
Fair value of derivatives	**25 067**	-	25 067	-	-	-	25 067	25 067
Amounts owing by Group companies	**1 042 026**	-	-	1 042 026	-	-	1 042 026	1 042 026
Cash (and cash equivalents)	**2 256 372**	-	-	2 256 372	-	-	2 256 372	2 256 372
Overnight deposits and current accounts (incl. petty cash)		-	-	1 919 615	-	-	1 919 615	1 919 615
Time deposits (< 3 months)		-	-	5 000	-	-	5 000	5 000
Money market funds		-	-	331 757	-	-	331 757	331 757

26. Financial instruments (continued)

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

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

26. Financial instruments (continued)

Rand thousand **September 2010**	**Total balance**	**Out of scope IAS 39**	**Categories according to IAS 39**				**Total in scope**	**Fair value**
Classes of financial instruments			Held for trading	Loans and receivables	Held to maturity	Available for sale		
NON CURRENT ASSETS								
Other non-current assets	**386 697**	295 357	-	-	-	91 340	91 340	91 340
AFS – Investment funds		-	-	-	-	91 340	91 340	91 340
Other assets		295 357	-	-	-	-	-	-
CURRENT ASSETS								
Trade and other receivables	**242 938**	82 274	-	160 664	-	-	160 664	160 664
Trade receivables		-	-	99 943	-	-	99 943	99 943
Other accounts receivable - current		82 274	-	60 721	-	-	60 721	60 721
Amounts owing by Group companies	**1 952 749**	-	-	1 952 749	-	-	1 952 749	1 952 749
Cash (and cash equivalents)	**902 499**	-	-	902 499	-	-	902 499	902 499
Overnight deposits and current accounts (incl. petty cash)		-	-	566 412	-	-	566 412	566 412
Time deposits (< 3 months)		-	-	336 080	-	-	336 080	336 080
Money market funds		-	-	7	-	-	7	7

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

26. Financial instruments (continued)

Rand thousand September 2010 Classes of financial instruments	Total balance	Out of scope IAS 39	Categories according to IAS 39		Total in scope	Fair value
			Held for trading	Other financial liabilities		
NON CURRENT LIABILITIES						
Interest bearing borrowings	**3 313 107**	-	-	3 313 107	3 313 107	3 452 548
Bank loans payable (> 1 year) - incl. syndicated loans		-	-	681 746	681 746	713 777
Bonds		-	-	2 500 000	2 500 000	2 595 997
Financial leasing liabilities		-	-	131 361	131 361	142 774
CURRENT LIABILITIES						
Interest bearing borrowings	**452 787**	-	-	452 787	452 787	452 787
Financial leasing liabilities		-	-	16 385	16 385	16 385
Other current loans – external		-	-	436 402	436 402	436 402
Overdraft	**2 083**	-	-	2 083	2 083	2 083
Fair value of derivatives	**6 611**	-	6 611	-	6 611	6 611
Trade and other payables	**2 258 710**	384 601	-	1 874 109	1 874 109	1 874 109
Accruals		384 601	-	512 513	512 513	512 513
Other accounts payable - current		-	-	1 361 596	1 361 596	1 361 596
Amounts owing to Group companies	**1 201 344**	-	-	1 201 344	1 201 344	1 201 344

26. Financial instruments (continued)

	2011 Total fair value R'000	**2011 Fair value hierarchy Level 1 R'000**	**2011 Fair value hierarchy Level 2 R'000**	**2011 Fair value hierarchy Level 3 R'000**	2010 Total fair value R'000	2010 Fair value hierarchy Level 1 R'000	2010 Fair value hierarchy Level 2 R'000	2010 Fair value hierarchy Level 3 R'000
NON CURRENT ASSETS								
Other non current assets	**76 279**	**-**	**76 279**	**-**	91 340	-	91 340-	-
Fair value of derivatives	**9 305**	**-**	**9 305**	**-**	-	-	-	-
CURRENT ASSETS								
Fair value of derivatives	**25 067**	**-**	**25 067**	**-**	-	-	-	-
	110 651	**-**	**110 651**	**-**	91 340	-	91 340	-
CURRENT LIABILITIES								
Fair value of derivatives	**-**	**-**	**-**	**-**	6 611	-	6 611	-

27. Related party transactions

Rand thousand	Income and sales to related party **2011 R'000**	Income and sales to related party 2010 R'000	Purchases and charges from related party **2011 R'000**	Purchases and charges from related party 2010 R'000	Amounts owing by group companies **2011 R'000**	Amounts owing by group companies 2010 R'000	Amounts owing to group companies **2011 R'000**	Amounts owing to group companies 2010 R'000
Bonuskor Houtverwerkers (Edms) Bpk*	**-**	-	**-**	-	**-**	-	**136 610**	136 610
Canonbrae Development Company (Pty) Ltd*	**-**	-	**-**	-	**1 721**	1 721	**-**	-
Guardrisk Cell no. 061*	**-**	-	**-**	-	**354 713**	354 713	**-**	-
Lidham Investments (Pty) Ltd*	**-**	-	**-**	-	**-**	-	**-**	105
Lereko Property Company (Pty) Ltd*	**-**	-	**-**	-	**892**	730	**-**	-
Lotzaba Forests Limited*	**-**	-	**-**	-	**-**	-	**190 715**	190 713
Pulplink Properties (Pty) Ltd*	**-**	-	**-**	-	**-**	-	**32 137**	32 137
Safor Limited*	**-**	-	**-**	-	**-**	-	**109 764**	109 764

27. Related party transactions (continued)

Rand thousand	Income and sales to related party		Purchases and charges from related party		Amounts owing by group companies		Amounts owing to group companies	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
Sappi Saiccor (Pty) Ltd*	**-**	-	**-**	-	**-**	-	**10**	10
Sappi Europe Limited**	**6 836**	93 754	**4 707**	14 671	**377**	43 447	**-**	-
Sappi UK Limited**	**-**	-	**-**	-	**-**	3 539	**5 382**	298
Sappi Export Services (Pty) Ltd**	**-**	-	**516 260**	504 533	**-**	-	**65 501**	54 339
Sappi International SA**	**-**	-	**-**	-	**197**	-	**-**	2 045
Sappi Limited***	**-**	-	**-**	-	**-**	-	**1 163 614**	1 133 388
Sappi Management Services (Pty) Ltd*	**-**	-	**-**	225 806	**156 405**	163 295	**-**	-
Sappi Paper Holding GmbH	**1 396**	4 440	**-**	-	**-**	-	**38 072**	11 770
Sappi Specval Coatings (Pty) Ltd*	**1 079**	1 050	**-**	-	**80 990**	91 404	**-**	-
Sappi Trading Africa (Pty) Ltd**	**-**	-	**-**	-	**-**	-	**17 917**	14 090
Sappi Trading Hong Kong Limited**	**6 163 291**	5 230 835	**-**	-	**1 012 632**	1 851 632	**-**	-
Sappi Share Incentive Scheme**	**-**	-	**-**	-	**-**	-	**509**	1 466
Sappi Performance Share Incentive Plan**	**-**	-	**-**	-	**-**	-	**554**	339
Sappi Logistics Wessel GmbH**	**-**	-	**-**	-	**-**	120	**-**	-
Sappi Europe Ltd**	**-**	-	**-**	-	**-**	-	**-**	285
Sappi Trading Germany GmbH**	**-**	-	**-**	-	**-**	2	**-**	-
Sappi Austria Productions GmbH & CoKG**	**-**	-	**-**	-	**-**	-	**13**	-
Sappisure Försakrings AB**	**-**	-	**-**	-	**-**	19 427	**-**	-
PTI Leasing Limited*	**27 863**	-	**-**	-	**-**	-	**-**	27 674
S.D. Warren Company**	**-**	-	**-**	-	**-**	-	**30**	-
Usutu Pulp Company Limited*	**-**	-	**-**	-	**901 181**	755 748	**-**	-
Impairments to intercompany loans	**-**	-	**-**	-	**(551 760)**	(332 377)	**-**	-
	6 200 465	5 330 079	**520 967**	745 010	**1 957 348**	2 953 401	**1 760 828**	1 715 033

27. Related party transactions (continued)

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

* Subsidiary
** Fellow subsidiary
*** Holding company

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

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

	Group		Company	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
Dividends received from related parties				
PTI Leasing Limited*	**-**	-	**27 863**	-
Umkomaas Lignin (Pty) Ltd	**-**	-	**25 000**	20 000
	-	-	**52 863**	20 000

Shareholders

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

Directors

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

Interest of directors in contracts

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

Subsidiaries

Details of investments in subsidiaries are disclosed in Annexure A.

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

28. Compensation of key management personnel

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

2011

	Salary	**Prior Year bonuses and performance related payments**	**Sums paid by way of expense allowance**	**Contributions paid under pension and medical aid schemes**	**Total**
	R'000	R'000	R'000	R'000	R'000
Director 1	4 585	2 498	7	487	7 577
Director 2	2 567	2 205	41	480	5 293
Director 3	1 626	978	12	415	3 031
Director 4	1 569	975	22	433	2 999
Director 5	1 403	879	14	366	2 662
Director 6	1 367	840	3	362	2 572
Director 7	1 644	1 022	16	361	3 043
Director 8	5 615	6 318	56	1 635	13 624
Director 9	2 790	2 630	83	1 475	6 978
Director 10	12 802	10 910	438	4 564	28 714
Director 11	14 722	10 777	522	7 299	33 320
Director 12	16 232	12 927	529	6 074	35 762
Director 13	-	-	-	-	-
Director 14	-	-	-	-	-
Director 15	1 480	-	-	303	1 783
Director 16	484	1 284	3	125	1 896
Director 17	1 464	544	14	406	2 428
Director 18	2 133	1 292	25	534	3 984
Director 19	1 453	526	25	317	2 321
Director 20	1 672	1 048	3	424	3 147
Director 21	-	-	-	-	-
	75 608	57 653	1 813	26 060	161 134

28. Compensation of key management personnel (continued)

2010

	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	2 704	-	15	667	3 386
Director 2	1 993	764	29	202	2 988
Director 3	1 426	-	12	380	1 818
Director 4	1 455	-	21	404	1 880
Director 5	1 293	-	12	320	1 625
Director 6	1 251	-	4	331	1 586
Director 7	1 513	-	10	332	1 855
Director 8	5 319	-	60	1 544	6 923
Director 9	2 547	-	67	884	3 498
Director 10	12 983	-	127	4 503	17 613
Director 11	14 609	-	517	5 184	20 310
Director 12	16 145	-	494	4 817	21 456
Director 13	537	-	8	134	679
Director 14	600	-	5	119	724
Director 15	-	-	-	-	-
Director 16	1 898	-	14	489	2 401
Director 17	1 106	-	-	334	1 440
Director 18	1 897	-	22	478	2 397
Director 19	1 141	-	-	236	1 377
Director 20	1 516	-	3	385	1 904
Director 21	2 735	-	-	24	2 759
	74 668	764	1 420	21 767	98 619

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.

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

28. 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		456 600	209 800	174 420
Issue 27	ZAR 62.34	22 000		7 700
Issue 28	ZAR 47.08		1 980	7 700
Issue 28a	ZAR 47.08	22 000		
Issue 29	ZAR 46.51	28 600	4 620	7 920
Issue 32	ZAR 52.57			
Issue 34	ZAR 35.50			
Issue 35	ZAR 35.20			
Performance shares 31	ZAR 11.06	88 000	28 600	
Performance shares 31a	ZAR 11.06			33 000
Performance shares 32	ZAR 11.06	88 000	39 600	33 000
Performance shares 34	ZAR 0.00	88 000	55 000	37 400
Performance shares 35	ZAR 0.00	120 000	80 000	47 700
Offered and accepted during the year				
Performance shares 36		-	65 000	30 000
Paid for during the year				
Number of shares		(44 000)	(14 300)	(16 500)
Returned, lapsed and forfeited during the year				
Number of shares		(66 000)	(14 300)	(24 200)
Outstanding at end of year		346 600	246 200	163 720
Issue 28	ZAR 47.08		1 980	7 700
Issue 28a	ZAR 47.08	22 000		
Issue 29	ZAR 46.51	28 600	4 620	7 920
Issue 32	ZAR 52.57			
Issue 34	ZAR 35.50			
Issue 35	ZAR 35.20			
Performance shares 32	ZAR 11.06	88 000	39 600	33 000
Performance shares 34	ZAR 0.00	88 000	55 000	37 400
Performance shares 35	ZAR 0.00	120 000	80 000	47 700
Performance shares 36	ZAR 0.00		65 000	30 000

28. Compensation of key management personnel (continued)

	Allocated price	Director 4 No.of shares	Director 5 No.of shares	Director 6 No.of shares
Outstanding at beginning of year				
Number of shares held		168 400	118 240	71 200
Issue 27	ZAR 62.34	22 000	6 600	3 080
Issue 28	ZAR 47.08		2 640	2 200
Issue 28a	ZAR 47.08	17 600		
Issue 29	ZAR 46.51	22 000	4 400	2 860
Issue 32	ZAR 52.57			7 260
Issue 34	ZAR 35.50			8 800
Issue 35	ZAR 35.20			
Performance shares 31	ZAR 11.06			
Performance shares 31a	ZAR 11.06	17 600	8 800	8 800
Performance shares 32	ZAR 11.06	17 600	22 000	
Performance shares 34	ZAR 0.00	28 600	30 800	
Performance shares 35	ZAR 0.00	43 000	43 000	38 200
Offered and accepted during the year				
Performance shares 36		28 000	28 000	27 500
Paid for during the year				
Number of shares		(8 800)	(4 400)	(4 400)
Returned, lapsed and forfeited during the year				
Number of shares		(30 800)	(11 000)	(7 480)
Outstanding at end of year		156 800	130 840	86 820
Issue 28	ZAR 47.08		2 640	2 200
Issue 28a	ZAR 47.08	17 600		
Issue 29	ZAR 46.51	22 000	4 400	2 860
Issue 32	ZAR 52.57			7 260
Issue 34	ZAR 35.50			8 800
Issue 35	ZAR 35.20			
Performance shares 32	ZAR 11.06	17 600	22 000	
Performance shares 34	ZAR 0.00	28 600	30 800	
Performance shares 35	ZAR 0.00	43 000	43 000	38 200
Performance shares 36	ZAR 0.00	28 000	28 000	27 500

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

28. Compensation of key management personnel (continued)

		Director 7	Director 8	Director 9
	Allocated price	No.of shares	No.of shares	No.of shares
Outstanding at beginning of year				
Number of shares held		56 200	679 000	408 200
Issue 27	ZAR 62.34			33 000
Issue 28	ZAR 47.08			
Issue 28a	ZAR 47.08			39 600
Issue 29	ZAR 46.51			39 600
Issue 32	ZAR 52.57			
Issue 34	ZAR 35.50			
Issue 35	ZAR 35.20			
Performance shares 31	ZAR 11.06			
Performance shares 31a	ZAR 11.06		220 000	
Performance shares 32	ZAR 11.06		110 000	88 000
Performance shares 34	ZAR 0.00	13 200	154 000	88 000
Performance shares 35	ZAR 0.00	43 000	195 000	120 000
Offered and accepted during the year				
Performance shares 36		30 000	195 000	88 000
Paid for during the year				
Number of shares		-	(110 000)	-
Returned, lapsed and forfeited during the year				
Number of shares		-	(110 000)	(33 000)
Outstanding at end of year		86 200	654 000	463 200
Issue 28	ZAR 47.08			
Issue 28a	ZAR 47.08			39 600
Issue 29	ZAR 46.51			39 600
Issue 32	ZAR 52.57			
Issue 34	ZAR 35.50			
Issue 35	ZAR 35.20			
Performance shares 32	ZAR 11.06		110 000	88 000
Performance shares 34	ZAR 0.00	13 200	154 000	88 000
Performance shares 35	ZAR 0.00	43 000	195 000	120 000
Performance shares 36	ZAR 0.00	30 000	195 000	88 000

28. Compensation of key management personnel (continued)

		Director 10	Director 11	Director 12
	Allocated price	No.of shares	No.of shares	No.of shares
Outstanding at beginning of year				
Number of shares held		260 400	437 200	280 600
Issue 27	ZAR 62.34	17 600	33 000	33 000
Issue 28	ZAR 47.08			33 000
Issue 28a	ZAR 47.08	17 600	39 600	-
Issue 29	ZAR 46.51	30 800	39 600	33 000
Issue 32	ZAR 52.57			
Issue 34	ZAR 35.50			
Issue 35	ZAR 35.20			
Performance shares 31	ZAR 11.06	26 400	66 000	30 800
Performance shares 31a	ZAR 11.06			
Performance shares 32	ZAR 11.06	33 000	77 000	41 800
Performance shares 34	ZAR 0.00	55 000	77 000	44 000
Performance shares 35	ZAR 0.00	80 000	10 5000	65 000
Offered and accepted during the year				
Performance shares 36		55 000	55 000	50 000
Paid for during the year				
Number of shares		(13 200)	(33 000)	(15 400)
Returned, lapsed and forfeited during the year				
Number of shares		(30 800)	(66 000)	(48 400)
Outstanding at end of year		271 400	393 200	266 800
Issue 28	ZAR 47.08			33 000
Issue 28a	ZAR 47.08	17 600	39 600	
Issue 29	ZAR 46.51	30 800	39 600	33 000
Issue 32	ZAR 52.57			
Issue 34	ZAR 35.50			
Issue 35	ZAR 35.20			
Performance shares 32	ZAR 11.06	33 000	77 000	41 800
Performance shares 34	ZAR 0.00	55 000	77 000	44 000
Performance shares 35	ZAR 0.00	80 000	105 000	65 000
Performance shares 36	ZAR 0.00	55 000	55 000	50 000

28. 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		151 360	-	-
Issue 27	ZAR 62.34	22 000		
Issue 28	ZAR 47.08			
Issue 28a	ZAR 47.08	13 200		
Issue 29	ZAR 46.51	21 560		
Issue 32	ZAR 52.57			
Issue 34	ZAR 35.50			
Issue 35	ZAR 35.20			
Performance shares 31	ZAR 11.06			
Performance shares 31a	ZAR 11.06	26 400		
Performance shares 32	ZAR 11.06	33 000		
Performance shares 34	ZAR 0.00	35 200		
Performance shares 35	ZAR 0.00			
Offered and accepted during the year				
Performance shares 36		-	-	12 500
Paid for during the year				
Number of shares		(13 200)	-	-
Returned, lapsed and forfeited during the year				
Number of shares		(69 960)	-	-
Outstanding at end of year		68 200	-	12 500
Issue 28	ZAR 47.08			
Issue 28a	ZAR 47.08			
Issue 29	ZAR 46.51			
Issue 32	ZAR 52.57			
Issue 34	ZAR 35.50			
Issue 35	ZAR 35.20			
Performance shares 32	ZAR 11.06	33 000		
Performance shares 34	ZAR 0.00	35 200		
Performance shares 35	ZAR 0.00			
Performance shares 36	ZAR 0.00			12 500

28. Compensation of key management personnel (continued)

	Allocated price	Director 16 No.of shares	Director 17 No.of shares	Director 18 No.of shares
Outstanding at beginning of year				
Number of shares held		218 200	55 880	202 660
Issue 27	ZAR 62.34		7 700	9 900
Issue 28	ZAR 47.08		5 280	
Issue 28a	ZAR 47.08	22 000		4 400
Issue 29	ZAR 46.51	28 600	9 900	7 260
Issue 32	ZAR 52.57		7700	
Issue 34	ZAR 35.50		8 250	
Issue 35	ZAR 35.20		7 150	
Performance shares 31	ZAR 11.06			
Performance shares 31a	ZAR 11.06	30 800	9 900	44 000
Performance shares 32	ZAR 11.06	44 000		39 600
Performance shares 34	ZAR 0.00	37 400		44 000
Performance shares 35	ZAR 0.00	55 400		53 500
Offered and accepted during the year				
Performance shares 36		-	20 000	30 000
Paid for during the year				
Number of shares		(15 400)	(4 950)	(22 000)
Returned, lapsed and forfeited during the year				
Number of shares		(15 400)	(12 650)	(31 900)
Outstanding at end of year		187 400	58 280	178 760
Issue 28	ZAR 47.08		5 280	
Issue 28a	ZAR 47.08	22 000		4 400
Issue 29	ZAR 46.51	28 600	9 900	7 260
Issue 32	ZAR 52.57		7 700	
Issue 34	ZAR 35.50		8 250	
Issue 35	ZAR 35.20		7 150	
Performance shares 32	ZAR 11.06	44 000		39 600
Performance shares 34	ZAR 0.00	37 400		44 000
Performance shares 35	ZAR 0.00	55 400		53 500
Performance shares 36	ZAR 0.00		20 000	30 000

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

28. Compensation of key management personnel (continued)

	Allocated price	Director 19 No.of shares	Director 20 No.of shares	Director 21 No.of shares
Outstanding at beginning of year				
Number of shares held		14 900	178 680	152 240
Issue 27	ZAR 62.34		9 900	29 700
Issue 28	ZAR 47.08		4 180	
Issue 28a	ZAR 47.08			15 840
Issue 29	ZAR 46.51		5 500	23 100
Issue 32	ZAR 52.57			
Issue 34	ZAR 35.50	4 400		
Issue 35	ZAR 35.20	10 500		
Performance shares 31	ZAR 11.06			
Performance shares 31a	ZAR 11.06		33 000	44 000
Performance shares 32	ZAR 11.06		35 200	39 600
Performance shares 34	ZAR 0.00		37 400	
Performance shares 35	ZAR 0.00		53 500	
Offered and accepted during the year				
Performance shares 36		25 000	30 000	-
Paid for during the year				
Number of shares		-	(16 500)	(22 000)
Returned, lapsed and forfeited during the year				
Number of shares		-	(26 400)	(90 640)
Outstanding at end of year		39 900	165 780	39 600
Issue 28	ZAR 47.08		4 180	
Issue 28a	ZAR 47.08			
Issue 29	ZAR 46.51		5 500	
Issue 32	ZAR 52.57			
Issue 34	ZAR 35.50	4 400		
Issue 35	ZAR 35.20	10 500		
Performance shares 32	ZAR 11.06		35 200	39 600
Performance shares 34	ZAR 0.00		37 400	
Performance shares 35	ZAR 0.00		53 500	
Performance shares 36	ZAR 0.00	25 000	30 000	

Sappi Southern Africa (Proprietary) Limited

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

Year ended September 2011

28. Compensation of key management personnel (continued)

	Allocated price	Total 2011 No.of shares	Total 2010 No.of shares
Outstanding at beginning of year			
Number of shares held		4 294 180	3 964 290
Issue 27	ZAR62.34		
Issue 28	ZAR47.08		
Issue 28a	ZAR47.08		
Issue 29	ZAR46.51		
Issue 32	ZAR52.57		
Issue 34	ZAR35.50		
Issue 35	ZAR35.20		
Performance shares 31	ZAR11.06		
Performance shares 31a	ZAR11.06		
Performance shares 32	ZAR11.06		
Performance shares 34	ZAR 0.00		
Performance shares 35	ZAR 0.00		
Offered and accepted during the year			
Performance shares 36		769 000	1 178 950
Paid for during the year			
Number of shares		(358 050)	-
Returned, lapsed and forfeited during the year			
Number of shares		(688 930)	(849 060)
Outstanding at end of year		4 016 200	4 294 180
Issue 28	ZAR47.08		
Issue 28a	ZAR47.08		
Issue 29	ZAR46.51		
Issue 32	ZAR52.57		
Issue 34	ZAR35.50		
Issue 35	ZAR35.20		
Performance shares 32	ZAR11.06		
Performance shares 34	ZAR 0.00		
Performance shares 35	ZAR 0.00		
Performance shares 36	ZAR 0.00		

28. Compensation of key management personnel (continued)

September 2011					
Director		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
Director 1	Performance Plan	31 May 2011	20 000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	24 000	ZAR20.27	ZAR36.43
			44 000		
Director 2	Performance Plan	31 May 2011	6 500	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	7 800	ZAR20.27	ZAR36.43
			14 300		
Director 3	Performance Plan	31 May 2011	7 500	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	9 000	ZAR20.27	ZAR36.43
			16 500		
Director 4	Performance Plan	31 May 2011	4 000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	4 800	ZAR20.27	ZAR36.43
			8 800		
Director 5	Performance Plan	31 May 2011	2 000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	2 400	ZAR20.27	ZAR36.43
			4 400		
Director 6	Performance Plan	31 May 2011	2 000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	2 400	ZAR20.27	ZAR36.43
			4 400		
Director 8	Performance Plan 31a	10 August 2011	50 000	ZAR0.00	ZAR25.20
	Performance Plan Rights 31a	10 August 2011	60 000	ZAR20.27	ZAR25.20
			110 000		
Director 10	Performance Plan	31 May 2011	6 000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	7 200	ZAR20.27	ZAR36.43
			13 200		
Director 11	Performance Plan	31 May 2011	15 000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	18 000	ZAR20.27	ZAR36.43
			33 000		
Director 12	Performance Plan	31 May 2011	7 000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	8 400	ZAR20.27	ZAR36.43
			15 400		
Director 13	Performance Plan	31 May 2011	6 000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	7 200	ZAR20.27	ZAR36.43
			13 200		
Director 16	Performance Plan	31 May 2011	7 000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	8 400	ZAR20.27	ZAR36.43
			15 400		

28. Compensation of key management personnel (continued)

September 2011

Director		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
Director 17	Performance Plan	31 May 2011	2 250	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	2 700	ZAR20.27	ZAR36.43
			4 950		
Director 18	Performance Plan	31 May 2011	10 000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	12 000	ZAR20.27	ZAR36.43
			22 000		
Director 20	Performance Plan	31 May 2011	7 500	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	9 000	ZAR20.27	ZAR36.43
			16 500		
Director 21	Performance Plan	31 May 2011	10 000	ZAR0.00	ZAR36.43
	Performance Plan Rights	31 May 2011	12 000	ZAR20.27	ZAR36.43
			22 000		

Performance shares are issued when all conditions are met.

Expiry dates

Issue 27	13 February 2011
Issue 28	14 January 2012
Issue 28a	30 December 2011
Issue 29	13 December 2012
Issue 32	12 December 2015
Issue 34	22 December 2016
Issue 35	9 December 2017
Performance shares 31	31 May 2011
Performance shares 31a	10September 2011
Performance shares 32	12 December 2011
Performance shares 34	22 December 2012
Performance shares 35	09 December 2013
Performance shares 36	03 December 2014

29. Environmental matters

In southern Africa, the environmental regulatory legal framework is still evolving, as is the enforcement process. We work with government authorities in striving to find a balance between economic development and social and environmental considerations.

The Minister of Water and Environmental Affairs considered it necessary to strengthen enforcement of legislation by the Environmental Management Inspectors (EMIs) in her department. The EMIs prioritized various sectors of industry and inspected those sectors in the course of the past four years. From 2008 to 2011, the EMIs focused attention on the pulp and paper sector, signalling more stringent enforcement for Sappi mills.

Both our Ngodwana and Enstra mills have undergone comprehensive initial inspections with subsequent follow up audits done by the EMIs during the course of 2008 to 2010 with no major findings raised to date. The EMIs inspected our Tugela mill in October 2010. A written report from the Environmental Management Directorate was received in December 2010 and monthly progress reports are being submitted to the lead team member's office. The purpose of submitting monthly updates is to maintain a sound working relationship with the EMI based on effective communication in a transparent manner. The primary South African environmental laws affecting our operations are:

- The National Water Act. This law addresses the water shortages in South Africa and relates to both our manufacturing and our forestry operations. Abstraction of water, discharge of effluent and management of forests are all regulated under a license system in which first allocations go to, among other things, human consumption, before allocations are made to agriculture, industry and forestry. All water use is subject to a charge.

- The National Environmental Management Act. This law provides for the integration of environmental considerations into all stages of any development process. The Act includes a number of significant principles, such as private prosecution of companies in the interest of the protection of the environment and the establishment of aggressive waste reduction goals.

- The National Environmental Management Act: Air Quality Act was promulgated in the beginning of 2005 and has now replaced the 1965 Atmospheric Pollution Prevention Act. The new Act will impose more stringent compliance standards on our operations over a period of five to ten years.

- The National Environmental Management Act: Waste Act was enacted on July 1, 2009. The Waste Act regulates the use, re-use, recycling and disposal of waste and regulates waste management by way of a licensing system.

The requirements under these statutes, predominantly with respect to air emissions from our mills, will result in additional capital and operating expenditures, some of which may be significant. The legislation is, however, expected to provide for a phase-in of the new standards; the impact on our mills is therefore expected to be distributed over the next five to ten years. We are in frequent contact with regulatory authorities during the phasing in of these requirements, in an attempt to manage the transition period.

30. Events after balance sheet date

In October 2011, Sappi Southern Africa utilized some of its cash resources to repay its 10.64% fixed rate public bond of R1 000 million.

Sappi Southern Africa (Proprietary) Limited

Investments

at September 2011

Annexure A

Investments in subsidiaries		Rands Share capital	**2011 %** Effective holding	2010 % Effective holding	**2011 R'000** Book value of investment	2010 R'000 Book value of investment
Set out below are the more significant subsidiaries of Sappi Southern Africa (Proprietary) Limited						
Bonuskor Houtverwerkers (Edms) Bpk*	D	2	**100,0%**	100,0%	**83 147**	83 147
Canonbrae Development Company (Pty) Ltd*	D	1 000	**63,2%**	63,2%	**-**	-
Guardrisk Cell no. 061*	F	100	**100,0%**	100,0%	**100**	100
Lidham Investments (Pty) Ltd*	F	-	**-**	100,0%	**-**	2 171
Lotzaba Forrest Ltd*	O	60 526	**100,0%**	100,0%	**-**	-
Lereko Property Company (Pty) Ltd*	O	7 000	**100,0%**	100,0%	**7**	7
Safor Limited*	H	1 500	**100,0%**	100,0%	**174 094**	174 094
Saiccarb (Pty) Ltd*	D	-	**-**	100,0%	**-**	1
Saligna Forestry (Pty) Ltd*	D	20	**100,0%**	100,0%	**-**	-
Sappi Fine Papers (Pty) Ltd*	M	1	**100,0%**	100,0%	**-**	-
Sappi Forests (Pty) Ltd*	M	1	**100,0%**	100,0%	**-**	-
Sappi Forest Products (Pty) Ltd*	M	1	**100,0%**	100,0%	**-**	-
Sappi Kraft (Pty) Ltd*	M	1	**100,0%**	100,0%	**-**	-
Sappi Management Services (Pty) Ltd*	M	100	**100,0%**	100,0%	**-**	-
Sappi Mozambique SA****	D	7 018	**100,0%**	100,0%	**7**	7
Sappi Saiccor (Pty) Ltd*	M	10 000	**100,0%**	100,0%	**13**	13
Sappi Novobord Upgrading (Pty) Ltd*	D	-	**-**	100,0%	**-**	-
Sappi Timber Industries (Pty) Ltd*	M	1	**100,0%**	100,0%	**-**	-
Sappi Specval Coatings (Pty) Ltd*	F	100	**100,0%**	100,0%	**-**	-
Sappi Waste Paper (Pty) Ltd*	M	900	**100,0%**	100,0%	**36**	36
PTI Leasing Limited**	D	-	**-**	100,0%	**-**	-
Pulplink Properties (Pty) Ltd*	O	1 000	**100,0%**	100,0%	**-**	-
Usutu Pulp Company Limited***	O	12 500	**44,8%**	44,8%	**234 462**	234 462
Waterton Timber Company (Pty) Ltd	D	312 000	**100,0%**	100,0%	**-**	-
					491 866	494 038
Write down of investment in subsidiaries					**303 520**	305 692
					188 346	188 346

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

Sappi Southern Africa (Proprietary) Limited

Definitions

at September 2011

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 www.sappi.com