sappi

Inspired by life

GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended September 2014

contents

directors' approval

The directors are responsible for the maintenance of adequate accounting records and the content, integrity and fair presentation of the group annual financial statements and the related financial information included in this report. These have been prepared in accordance with International Financial Reporting Standards and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and, the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. In preparing the group annual financial statements, the group applied appropriate accounting policies supported by reasonable judgements and estimates. The auditors are responsible for auditing the group annual financial statements in the course of executing their statutory duties.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and are committed to maintaining a strong control environment. Details relating to the group's internal control environment are set out in the corporate governance section of the Integrated Report.

The directors are of the opinion, based on the information and explanations given by the company's officers and the internal auditors, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the group annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or loss.

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

The directors' report and the group annual financial statements appear on pages 5 to 92 and were approved by the board of directors on 12 December 2014 and signed on its behalf by:

SR Binnie
Chief Executive Officer

GT Pearce
Chief Financial Officer

Sappi Limited

company secretary's certificate

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

Sappi Southern Africa Limited
Secretaries
per DJ O'Connor
Group Secretary

12 December 2014

independent auditor's report

To the shareholders of Sappi Limited

We have audited the consolidated financial statements of Sappi Limited set out on pages 7 to 92, which comprise the balance sheet as at September 2014, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Other reports required by the Companies Act

As part of our audit of the consolidated financial statements for the year ended September 2014, we have read the directors' report, the Audit Committee's report and the company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche
Registered Auditor

Per RC Campbell
Partner

12 December 2014

Johannesburg
South Africa

National Executive: LL Bam Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit DL Kennedy Risk Advisory NB Kader Tax TP Pillay Consulting K Black Clients & Industries JK Mazzocco Talent & Transformation MJ Jarvis Finance M Jordan Strategy S Gwala Managed Services TJ Brown Chairman of the Board MJ Comber Deputy Chairman of the Board

A full list of partners and directors is available on request

BBBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

audit committee report

for the year ended September 2014

Introduction

The Audit Committee presents its report for the financial year ended September 2014. The Audit Committee is an independent statutory committee, whose duties are delegated to it by the board of directors. The committee has conducted its affairs in compliance with a board approved terms of reference, and has discharged its responsibilities contained therein.

Objectives and scope

The overall objectives of the committee are:

- To assist the board in discharging its duties relating to the safeguarding of assets and the operation of adequate systems and control processes
- To control reporting processes and the preparation of financial statements in compliance with the applicable legal and regulatory requirements and accounting standards
- To provide a forum for the governance of risk, including control issues and developing recommendations for consideration by the board
- To oversee the internal and external audit appointments and functions
- To perform duties that are attributed to it by the South African Companies Act of 2008 (the Companies Act), the JSE Limited Listings Requirements and King III.

Committee performance:

- Received and reviewed reports from both internal and external auditors concerning the effectiveness of the internal control environment, systems and processes
- Reviewed the reports of both internal and external audit findings and their concerns arising out of their audits and requested appropriate responses from management
- Made recommendations to the board of directors regarding the corrective actions to be taken as a consequence of audit findings
- Considered the independence and objectivity of the external auditors and ensured that the scope of their additional services provided did not impair their independence
- Received and dealt with concerns and complaints through 'whistle-blowing' mechanisms that were reported to the committee by the group internal audit function
- Reviewed a documented assessment, including key assumptions, prepared by management on the going concern status of the group and, accordingly, made recommendations to the board
- Reviewed and recommended for adoption by the board the financial information that is publicly disclosed, which included:
  - The Integrated Report
  - The group annual financial statements
  - The quarterly financial results
- Considered the effectiveness of internal audit, approved the annual operational strategic internal audit plan and monitored adherence of internal audit to its plan
- Reviewed the performance and expertise of the Chief Financial Officer and confirmed his suitability for the position
- Satisfied itself that the internal audit function is efficient and effective and carried out its duties in an independent manner in accordance with a board approved internal audit charter.

The committee is satisfied that it has fulfilled its obligations in respect of its scope of responsibilities.

Membership

The membership of the committee comprised exclusively of independent Non-executive Directors, all of whom are financially literate, with three members forming a quorum:

Dr D Konar (Chairman)	(appointed in January 2004, Chairman from January 2007)
Mr GPF Beurskens	(appointed in January 2012)
Mr MA Fallon	(appointed in January 2012)
Mr NP Mageza	(appointed in February 2010)
Mrs KR Osar	(appointed in November 2007)

Biographical details of the current members of the committee are set out in the Our leadership section of the Integrated Report.

In addition, the Chief Executive Officer, the Chief Financial Officer, Head of Group Internal Audit, the Risk Executive and the external auditors are also permanent invitees to the meeting. The Chairman of the board is entitled to attend meetings ex officio. The effectiveness of the committee is assessed every year. In terms of the Companies Act, the committee is required to be elected annually at the Annual General Meeting.

External audit

The committee has satisfied itself through enquiry that the auditor of Sappi Limited is independent as defined by the Companies Act. Meetings were held with the auditor where management was not present.

No material non-audit services were provided by the external auditors during the year under review.

The committee has reviewed the performance of the external auditors and nominated, for approval at the Annual General Meeting, Deloitte & Touche as the external auditor for the 2015 financial year. Mr Roy Campbell is the designated auditor and, in terms of the rotation requirements of the Companies Act, he will be in his fifth year as designated auditor of the company in 2015. The committee confirms that the auditor and designated auditor are accredited by the JSE Limited.

audit committee report continued

for the year ended September 2014

Integrated Report and the group annual financial statements

The Audit Committee has evaluated the Integrated Report and the group annual financial statements for the year ended September 2014. The Audit Committee has also considered the sustainability information as disclosed in the Integrated Report and has assessed its consistency with operational and other information known to Audit Committee members. The committee has also considered the report and is satisfied that the information is reliable and consistent with the financial results. The group annual financial statements have been prepared using appropriate accounting policies, which conform to International Financial Reporting Standards.

The committee has therefore recommended the Integrated Report and the group annual financial statements for approval to the board. The board has subsequently approved the Integrated Report and the group annual financial statements, which will be open for discussion at the Annual General Meeting.

Based on the results of the formal documented review of the group's system of internal financial controls for the year which was performed by the internal audit function and external auditors, nothing has come to the attention of the Audit Committee to indicate that the internal financial controls were not operating effectively.

D Konar
Chairman of the Audit Committee

12 December 2014

directors' report

for the year ended September 2014

The directors have pleasure in presenting their report for the year ended September 2014.

Nature of business

Sappi Limited, the holding company of the group, was formed in 1936 and is incorporated and domiciled in the Republic of South Africa.

Sappi is a global company with operations in North America, Europe and Southern Africa and is focused on providing dissolving wood pulp, paper pulp and paper-based solutions to its direct and indirect customer base across more than 100 countries. The group's dissolving wood pulp products are used worldwide by converters to create viscose fibre for clothing and textiles, acetate tow, pharmaceutical products, as well as a wide range of consumer products. The group's market-leading range of paper products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and in the Southern African region newsprint, uncoated graphic and business papers and premium quality packaging papers and tissue products.

Financial results

The group generated a profit of US$135 million for the year ended September 2014 (basic earnings of 26 US cents) compared to a US$182 million loss (loss of 35 US cents) for the prior year.

The increase in profit can be attributed to the delivery of substantially increased specialised cellulose sales volumes of 51% following the successful completion of our dissolving wood pulp conversion projects at our Ngodwana and Cloquet mills in the prior year, the steady improvement of our European graphic paper business following an intense and continued focus on cost reduction measures and our restructured South African paper packaging businesses which delivered an improved performance on the back of healthy demand and improved pricing.

Detailed commentary on the 2014 financial results is contained in various reviews throughout the Integrated Report.

Dividends

The directors decided not to declare a dividend until the group's financial leverage further improves towards our target of two times net debt to EBITDA.

Going concern

The directors believe that the group has sufficient resources and expected cash flows to continue as a going concern for the next financial year.

Corporate governance

Sappi is committed to high standards of corporate governance and endorses the recommendations contained in the King Code of Corporate Governance principles. Please refer to our Corporate Governance section contained in the Integrated Report for full details and to our website for Sappi's application of the principles of King III.

Health, safety, environment and community

Information on our health, safety and environmental performance is provided in our sustainability report in the Integrated Report.

Significant announcements during the year under review and subsequent to year-end

The announcements were:

- In January 2014, it was announced that Ralph Boëttger would be relinquishing his position as Chief Executive Officer (CEO) and Executive Director on 30 June 2014. Ralph, who had been with Sappi as CEO for almost seven years, had been diagnosed with a serious illness and had taken the decision to step down.
- In February 2014, it was announced that Steve Binnie, then the Chief Financial Officer (CFO) of the company, would succeed Ralph Boëttger as CEO on 01 July 2014.
- In March 2014, it was announced that Glen Pearce, then the CFO of Sappi Europe, would be appointed as CFO and join the Sappi Limited board as an Executive Director on 01 July 2014.
- In June 2014, it was announced that Sappi had reached an agreement to dispose of its Nijmegen Mill to an affiliate of American Industrial Acquisition Corporation (AIAC). In terms of the sale agreement, the mill will manufacture speciality paper and will no longer be engaged in the coated graphic paper business. A transfer plan has been arranged with current graphic paper customers.
- In July 2014, it was announced that the conditions precedent to the announced sale by Sappi of Usutu Forest Products Company Limited to Montigny Investments Limited for ZAR1 billion in July 2013 had been met. The proceeds would be used for general corporate purposes and will reduce Sappi's net debt.
- In October 2014, the group utilised its existing cash resources to redeem US$27 million (ZAR300 million) of its US$67 million (ZAR750 million) public bonds due April 2015.

Liquidity and financing

At September 2014, we had liquidity comprising US$528 million of cash on hand, which exceeds the amount of short-term interest-bearing debt (including bank overdrafts) of US$163 million, and US$537 million available from undrawn committed facilities in Europe and South Africa.

Net debt decreased to US$1,946 million (2013: US$2,247 million) as a result of the group's improved net cash generation of US$243 million (2013: utilisation of US$247 million), excellent working capital management, reduced capital expenditure and the receipt of proceeds of US$97 million (ZAR1 billion) from the sale of our Usutu forests to end the year within our 2014 target of below US$2 billion. Details of our non-current borrowings are set out in note 21 to the group 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 coordinated at group level in order to achieve a

directors' report continued

for the year ended September 2014

standardisation of methods. Work on improved enterprise risk management is ongoing and aims to lower the risk of incurring losses from uncontrolled incidents.

Asset insurance is renewed on a calendar-year basis. The self-insured retention portion for any one property damage occurrence is US$26 million (€20.5 million) with the annual aggregate set at US$42 million (€33 million). For property damage and business interruption insurance, cost-effective cover to full value is not readily available. A loss limit cover of US$951 million (€750 million) has been deemed to be adequate for the reasonable foreseeable loss for any single claim.

Property, plant and equipment

Following the successful completion of the group's dissolving wood pulp conversion projects at Ngodwana and Cloquet mills in the prior year, the group's capital expenditure reduced to US$257 million from US$575 million. In addition, there were no material impairment charges compared to US$155 million in the prior year.

See note 10 to the group annual financial statements for full details regarding our fixed assets.

Litigation

We become involved from time to time in various claims and lawsuits incidental to the ordinary course of our business. We are not currently involved in legal proceedings which, either individually or in the aggregate, are expected to have a material adverse effect on our business, assets or properties (see note 27 to the group annual financial statements).

Directors and secretaries

The composition of the board of directors is set out in Our Leadership section in the Integrated Report. During the year, the following changes occurred:

- Mr RJ Boëttger, Chief Executive Officer, resigned from the board for reasons of ill health with effect from 30 June 2014.
- Mr SR Binnie, previously Chief Financial Officer, was appointed as Chief Executive Officer with effect from 01 July 2014.
- Mr GT Pearce was appointed as Executive Director and Chief Financial Officer with effect from 01 July 2014.

In terms of the company's Memorandum of Incorporation, it will be necessary to confirm Mr Pearce's appointment at the forthcoming Annual General Meeting where he will retire from the board at that meeting, and being eligible, has offered himself for re-election.

At the end of September 2014, there were 14 directors, two of whom were executive directors. Eleven of the 12 non-executive directors were considered to be independent. The independence of those directors who are designated as independent was reviewed and confirmed during the year by the Nomination and Governance Committee. This included a more rigorous review of the independence of the two directors who have served more than nine years on the Board, viz Dr D Konar and Mrs B Radebe. The conclusion was that the independence of character and judgement of both Dr Konar and Mrs Radebe was not in any way affected or impaired by their respective lengths of service.

In terms of the company's Memorandum of Incorporation, Dr DC Cronjé, Messrs NP Mageza, JD McKenzie, MV Moosa and Sir Nigel Rudd will retire by rotation from the board at the forthcoming Annual General Meeting and all being eligible, have offered themselves for re-election. Having assessed the individual performances of the directors concerned, including Mr Pearce, the board recommends each of them for re-appointment.

Details of the secretaries and their business and postal addresses are set out in the administration section of the Integrated Report.

Directors' remuneration

The remuneration and fees of the directors of Sappi Limited are set out in note 35 to the group annual financial statements.

The beneficial interests of directors in the shares of the company including conditional share awards in terms of the Plan are set in notes 36 and 37 to the group annual financial statements.

Directors' and officers' disclosure of interests in contracts

During the period under review, no contracts were entered into in which directors and officers had an interest and which affected the business of the group.

Directors' liabilities

Directors and officers of the group are covered by directors' and officers' liability insurance.

Special resolutions

The following is a list of the special resolutions passed by Sappi Limited and its South African incorporated subsidiaries during the year:

Sappi Limited

- Increase in non-executive directors' fees
- Authority for the provision of direct or indirect financial assistance to related or inter-related companies

Sappi Southern Africa Limited

- Authority for the provision of direct or indirect financial assistance to related or inter-related companies

Ngodwana Energy Proprietary Limited

- Adoption of new Memorandum of Incorporation

Lomati Energy Proprietary Limited

- Adoption of new Memorandum of Incorporation

Umkomaas Energy Proprietary Limited

- Adoption of new Memorandum of Incorporation

Tugela Energy Proprietary Limited

- Adoption of new Memorandum of Incorporation.

Subsidiary companies

Details of the company's significant subsidiaries are set out in note 38 to the group annual financial statements.

group income statement

for the year ended September 2014

US$ million	Note	2014	Restated 2013	Restated 2012
Sales		**6,061**	5,925	6,347
Cost of sales	4	**5,370**	5,285	5,549
Gross profit		**691**	640	798
Selling, general and administrative expenses	4	**352**	384	414
Other operating expenses (income)		**33**	244	(41)
Share of profit from joint ventures		**(8)**	(7)	(2)
Operating profit	4	**314**	19	427
Net finance costs	5	**177**	186	306
Finance costs		**194**	195	328
Finance revenue		**(9)**	(7)	(12)
Net foreign exchange gains		**(7)**	(1)	(5)
Net fair value gain on financial instruments		**(1)**	(1)	(5)
Profit (loss) before taxation		**137**	(167)	121
Taxation charge	6	**2**	15	28
Profit (loss) for the year		**135**	(182)	93
Basic earnings (loss) per share (US cents)	7	**26**	(35)	18
Weighted average number of ordinary shares in issue (millions)		**522.5**	521.3	520.8
Diluted earnings (loss) per share (US cents)	7	**26**	(35)	18
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)		**526.6**	521.3	522.2

group statement of comprehensive income

for the year ended September 2014

US$ million	Note	2014	Restated 2013	Restated 2012
Profit (loss) for the year		**135**	(182)	93
Other comprehensive loss, net of tax	19	**(247)**	(210)	(58)
Item that will not be reclassified subsequently to profit or loss		**(152)**	14	45
Actuarial (losses) gains on post-employment benefit funds		**(152)**	51	(71)
Deferred tax on above item		**–**	(37)	116
Items that may be reclassified subsequently to profit or loss		**(95)**	(224)	(103)
Exchange differences on translation to presentation currency		**(71)**	(225)	(60)
Movement on available-for-sale financial assets		**(2)**	–	1
Movement in hedging reserves		**(23)**	3	(47)
Deferred tax on above items		**1**	(2)	3
Total comprehensive (loss) income for the year		**(112)**	(392)	35

group balance sheet

at September 2014

US$ million	Note	2014	Restated 2013	Restated 2012
Assets				
Non-current assets		**3,505**	3,787	4,031
Property, plant and equipment	10	**2,841**	3,078	3,157
Plantations	11	**430**	464	555
Deferred tax assets	12	**138**	92	154
Goodwill and intangible assets	13	**17**	20	22
Joint ventures	14	**16**	18	18
Other non-current assets	15	**50**	95	103
Derivative financial instruments	30	**13**	20	22
Current assets		**1,960**	1,846	2,137
Inventories	16	**687**	728	726
Trade and other receivables	17	**731**	747	800
Derivative financial instruments	30	**–**	1	–
Taxation receivable		**14**	18	7
Cash and cash equivalents	24.7	**528**	352	604
Assets held for sale	9	**–**	94	–
Total assets		**5,465**	5,727	6,168
Equity and liabilities				
Shareholders' equity		**1,044**	1,144	1,525
Ordinary share capital and share premium	18	**1,044**	1,148	1,391
Non-distributable reserves	20	**133**	158	171
Foreign currency translation reserve		**(239)**	(288)	(323)
Hedging reserves		**(58)**	(40)	(39)
Retained earnings		**164**	166	325
Non-current liabilities		**3,198**	3,371	3,328
Interest-bearing borrowings	21	**2,311**	2,499	2,358
Deferred tax liabilities	12	**272**	267	319
Derivative financial instruments	30	**52**	99	46
Other non-current liabilities	22	**563**	506	605
Current liabilities		**1,223**	1,206	1,315
Interest-bearing borrowings	21	**163**	99	261
Overdrafts		**–**	1	5
Derivative financial instruments	30	**7**	2	1
Trade and other payables		**996**	1,015	1,005
Taxation payable		**25**	12	26
Provisions	23	**32**	77	17
Liabilities associated with assets held for sale	9	**–**	6	–
Total equity and liabilities		**5,465**	5,727	6,168

group statement of cash flows

for the year ended September 2014

US$ million	Note	2014	Restated 2013	Restated 2012
Cash retained from operating activities		**437**	246	411
Cash generated from operations	24.1	**566**	447	728
– Decrease (increase) in working capital	24.2	**34**	(20)	(102)
Cash generated from operating activities		**600**	427	626
– Finance costs paid	24.3	**(170)**	(171)	(206)
– Finance revenue received		**8**	7	11
– Taxation paid	24.4	**(1)**	(17)	(20)
Cash utilised in investing activities		**(194)**	(493)	(284)
Investment to maintain operations		**(148)**	(116)	(177)
Investment to expand operations[1]		**(147)**	(436)	(181)
Cash outflows on disposal of business	24.5	**(23)**	–	–
Proceeds on disposal of assets held for sale		**104**	–	–
Proceeds on disposal of other non-current assets	24.6	**6**	53	71
Other decrease in non-current assets		**14**	6	3
Cash effects of financing activities		**(36)**	(8)	(103)
Proceeds from interest-bearing borrowings		**–**	388	1,025
Repayment of interest-bearing borrowings		**(35)**	(389)	(1,066)
Cash costs attributable to refinancing transactions		**–**	(3)	(66)
Movement in bank overdrafts		**(1)**	(4)	4
Net movement in cash and cash equivalents		**207**	(255)	24
Cash and cash equivalents at beginning of year		**352**	604	597
Translation effects		**(31)**	3	(17)
Cash and cash equivalents at end of year	24.7	**528**	352	604

[1] *Includes capitalised interest of US$9 million and US$6 million for the 2013 and 2012 financial years respectively.*

group statement of changes in equity

for the year ended September 2014

US$ million	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Foreign currency translation reserve	Hedging reserves	Retained earnings	**Total equity**
Balance – September 2011	520.5	64	1,361	1,425	163	(304)	5	189	**1,478**
Transfer from retained earnings	–	–	–	–	2	–	–	(2)	**–**
Share-based payments	–	–	–	–	12	–	–	–	**12**
Transfers of vested share options	0.3	–	2	2	(2)	–	–	–	**–**
Translation of parent company's ordinary share capital and share premium	–	(1)	(35)	(36)	–	36	–	–	**–**
Total comprehensive income	–	–	–	–	(4)	(55)	(44)	138	**35**
Balance – September 2012	520.8	63	1,328	1,391	171	(323)	(39)	325	**1,525**
Transfer to retained earnings	–	–	–	–	(9)	–	–	9	**–**
Share-based payments	–	–	–	–	11	–	–	–	**11**
Transfers of vested share options	0.7	–	3	3	(3)	–	–	–	**–**
Translation of parent company's ordinary share capital and share premium	–	(11)	(235)	(246)	–	246	–	–	**–**
Total comprehensive loss	–	–	–	–	(12)	(211)	(1)	(168)	**(392)**
Balance – September 2013	521.5	52	1,096	1,148	158	(288)	(40)	166	**1,144**
Transfer to retained earnings	–	–	–	–	(15)	–	–	15	**–**
Share-based payments	–	–	–	–	7	–	–	–	**7**
Transfers of vested share options	2.6	–	12	12	(7)	–	–	–	**5**
Translation of parent company's ordinary share capital and share premium	–	(5)	(111)	(116)	–	116	–	–	**–**
Total comprehensive loss	–	–	–	–	(10)	(67)	(18)	(17)	**(112)**
Balance – September 2014	524.1	47	997	1,044	133	(239)	(58)	164	**1,044**
Note				*18*	*20*				

notes to the group annual financial statements

for the year ended September 2014

1. Basis of preparation

The group's annual financial statements have been prepared in accordance with:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
- SAICA Financial Reporting Guides as issued by the Accounting Practices Committee
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and
- Listings Requirements of the JSE Limited.

The group annual financial statements are prepared on the historical-cost basis, except as set out in the accounting policies which follow. Certain items, including derivatives, are stated at their fair value while plantations are stated at fair value less costs to sell and non-current assets held for sale are stated at the lower of cost or fair value less costs to sell.

2. Accounting policies

The following principal accounting policies have been consistently applied in dealing with items that are considered material in relation to the group annual financial statements. Adoption of new accounting statements and changes to accounting standards are dealt with in sections 2.4 and 2.6.

2.1 Significant accounting policy elections

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

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

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

The group annual financial statements are presented in United States Dollar (US$), as it is the major trading currency of the pulp and paper industry, and rounded to the nearest million except as otherwise indicated.

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

(i) Financial year

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

- 30 September 2013 to 28 September 2014 (52 weeks)
- 01 October 2012 to 29 September 2013 (52 weeks)
- 03 October 2011 to 30 September 2012 (52 weeks)

(ii) Underlying concepts

The group annual financial statements are prepared on the going concern basis.

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

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

2.2 Summary of accounting policies

2.2.1 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The group annual financial statements are presented in US Dollars, which is the group's presentation currency.

notes to the group annual financial statements
continued

for the year ended September 2014

2. Accounting policies continued

(i) Functional and presentation currency continued

The functional currency of the parent company is ZAR. The share capital and share premium of the parent company are translated into US Dollar at the period-end rate. The exchange differences arising on this translation are included in the foreign currency translation reserve and cannot be recycled through profit or loss.

(ii) Transactions and balances

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

(iii) Foreign operations

The results and financial position of each group entity that has a functional currency that is different to the presentation currency of the group is translated into the presentation currency of the group as follows:

- Assets and liabilities are translated at the period-end rate and
- Income statement items are translated at the average exchange rate for the year.

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

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

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

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

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

2.2.2 Group accounting

(i) Subsidiaries

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

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

(ii) Associates and joint ventures

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

2. Accounting policies continued

(ii) Associates and joint ventures continued

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

2.2.3 Financial instruments

(i) Initial recognition

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

(ii) Initial measurement

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

(iii) Subsequent measurement

→ *Financial assets and financial liabilities at fair value through profit or loss*

Financial instruments at fair value through profit or loss consist of items classified as held for trading or where they have been designated as fair value through profit or loss. All derivative instruments are classified as held for trading other than those which are designated and effective hedging instruments.

→ *Financial liabilities at amortised cost*

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

→ *Loans and receivables*

Loans and receivables are carried at amortised cost.

→ *Available-for-sale financial assets*

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

(iv) Embedded derivatives

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

(v) Derecognition

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

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

(vi) Impairment of financial assets

→ *Loans and receivables*

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

→ *Available-for-sale financial assets*

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains or losses recognised in equity (to the extent of any remeasurements) are reclassified to profit or loss even though the financial asset has not been derecognised.

notes to the group annual financial statements
continued

for the year ended September 2014

2. Accounting policies continued

(vi) Impairment of financial assets continued

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

(vii) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to that asset's or liability's net carrying amount on initial recognition.

2.2.4 Government grants

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

2.2.5 Intangible assets

(i) Research activities

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

(ii) Development activities

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

(iii) Brands and patents

Brands and patents acquired are capitalised and amortised on a straight-line basis over their estimated useful lives which, on average, is ten years. Patents are derecognised when legal protection relating to the patented item ceases to exist.

(iv) Licence fees

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

2.2.6 Inventories

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

Cost is determined on the following basis:

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

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

2.2.7 Leases

(i) The group as lessee

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

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

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

2. Accounting policies continued

(ii) Recognition of lease of land

The land and buildings elements of a lease are considered separately for the purpose of lease classification. Where the building is a finance lease, and the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease.

2.2.8 Assets held for sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying values 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 costs to sell and are not depreciated.

2.2.9 Segment reporting

The group's reportable segments, which are determined based on how the group allocates resources and evaluates performance, is predominantly on a geographical basis and comprise North America, Europe and Southern Africa.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for intra-segment revenues and transfers as if the transactions were with third parties at current market prices.

2.2.10 Borrowing costs

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

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

2.2.11 Revenue

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, delivery has been made and title has passed, the amount of the revenue and the related costs can be reliably measured and 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 and after the deduction of trade and settlement discounts, rebates and customer returns.

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

2.2.12 Emission trading

The group recognises government grants for emission rights as intangible assets at the cost of the rights as well as a liability which equals the cost of the rights at the time of the grant.

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

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

2.2.13 Cash and cash equivalents

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

notes to the group annual financial statements
continued

for the year ended September 2014

2. Accounting policies continued

2.2.14 Goodwill

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date.

Goodwill arising at acquisition is subsequently held at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently where there is an indication of impairment within one or more cash-generating units (CGUs) to which goodwill has been allocated.

Goodwill is tested for impairment using a cash flow valuation model based on an allocation of the goodwill to one or more CGUs. The group takes into account its ability to carousel products across different operating units in determining CGUs and in allocating goodwill to those CGUs.

2.2.15 Share-based payments

(i) Equity-settled share-based payment transactions

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

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

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

(ii) Measurement of fair value of equity instruments granted

The equity instruments granted by the group are measured at fair value at the measurement date using either the modified binomial option pricing or the Monte-Carlo Simulation model. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

(iii) Broad-based Black Economic Empowerment transaction

The group accounts for the transaction in accordance with IFRS 2 *Share-based payment* and the South African Institute of Chartered Accountants Financial Reporting Guide 2 as issued by the Accounting Practices Committee and the fair value of the services rendered by employees are recorded in profit or loss as they are rendered during the service period.

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

Note 29 provides further detail on key estimates, assumptions and other information on share-based payments applicable as at the end of the year.

2.3 Critical accounting policies and key sources of estimation uncertainty

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

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

2. Accounting policies continued

2.3.1 Impairment of assets other than goodwill and financial instruments

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

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

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

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

A previously recognised impairment loss will be reversed through profit or loss if the recoverable amount increases as a result of a change in the estimates that were previously used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods.

Refer to note 10 for the assumptions and inputs used in assessing assets for impairment or impairment reversals.

2.3.2 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes, where specifically required in terms of legislative requirements or where a constructive obligation exists, the estimated cost of dismantling and removing the assets, professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy. In addition, spare parts whose expected useful lives are anticipated to be more than 12 months, are treated as property, plant and equipment.

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. Land is not depreciated.

Management judgement and assumptions are necessary in estimating the methods of depreciation, useful lives and residual values. The residual value for the majority of items of plant and equipment has been deemed to be zero by management due to the underlying nature of the equipment.

The following methods and rates are used to depreciate property, plant and equipment to estimated residual values:

Buildings	straight-line	10 to 40 years
Plant	straight-line	5 to 30 years
Vehicles	straight-line	5 to 10 years
Furniture and Equipment	straight-line	3 to 6 years

During the year, the estimated useful life of the group's pulp mill equipment was reassessed and extended from 20 to 30 years and, as such, the depreciation charge for the year was approximately US$18 million less than it would have been had the useful life not been reassessed.

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

2.3.3 Taxation

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

(i) Current taxation

Current taxation is the expected taxation payable on the taxable income, which is based on the results for the period after taking into account necessary adjustments, using taxation rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxation payable in respect of previous years.

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

notes to the group annual financial statements
continued

for the year ended September 2014

2. Accounting policies continued

(i) Current taxation continued

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

(ii) Deferred taxation

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

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

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

Refer to note 12 to the group annual financial statements for the movement in unrecognised deferred tax assets.

(iii) Dividend withholding tax

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

2.3.4 Derivatives and hedge accounting

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

(i) Fair value hedges

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

(ii) Cash flow hedges

Cash flow hedges are designated when hedging the exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction or, the foreign currency risk in an unrecognised firm commitment. In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in OCI and the ineffective portion is recognised in profit or loss.

The gains or losses recognised in OCI are transferred to profit or loss in the same period in which the hedged transaction affects profit or loss.

If the forecast transaction results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is transferred from OCI to the underlying asset or liability on the transaction date.

(iii) Hedge of a net investment in a foreign operation

The effective portion of the gain or loss on the hedging instrument is recognised in OCI and is only reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

2. Accounting policies continued

(iv) Discontinuance of hedge accounting

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

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

Refer to notes 30 and 31 for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

2.3.5 Plantations

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

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

The impact of changes in estimated prices, discount rates and, volume and growth assumptions may have on the calculated fair value and other key financial information on plantations is disclosed in note 11.

→ *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. Twelve quarters is considered a reasonable period of time after taking the length of the growth cycle of the plantations into account. Expected future price trends and recent market transactions involving comparable plantations are also considered in estimating fair value.

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

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

→ *Discount rate*

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

→ *Volume and growth estimations and cost assumptions*

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

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

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

notes to the group annual financial statements
continued

for the year ended September 2014

2. Accounting policies continued

2.3.5 Plantations continued

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

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

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

2.3.6 Post-employment benefits

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

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

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

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

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

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in profit or loss when the group is demonstrably committed to the curtailment or settlement. Past service costs or credits are recognised immediately.

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

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

Refer to note 28 for the key estimates, assumptions and other information on post-employment benefits.

2.3.7 Provisions

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

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

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

2. Accounting policies continued

2.3.7 Provisions continued

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

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

Refer to note 23 to the group annual financial statements for the nature of provisions recorded.

2.3.8 Environmental restoration and decommissioning obligations

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

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

Refer to note 34 to the group annual financial statements for a description of the major environmental laws and regulations that affect the group, expected new laws and regulations and, the estimated impact thereof.

2.4 Adoption of accounting standards in the current year

Standards, interpretations and amendments to standards

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

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

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

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

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

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

notes to the group annual financial statements
continued

for the year ended September 2014

2. Accounting policies continued

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

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

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

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

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

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

2.6 Impact of new and revised accounting standards

Adoption of IAS 19 (Revised) *Employee Benefits*

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

The impact on profit or loss and other comprehensive loss is as follows:

	2013			2012		
US$ million	As previously reported	Adjustment	Restated	As previously reported	Adjustment	Restated
Group income statement						
Cost of sales	5,274	11	5,285	5,552	(3)	5,549
Selling, general and administrative expenses	384	–	384	417	(3)	414
Net finance costs	166	20	186	283	23	306
Taxation	25	(10)	15	34	(6)	28
(Loss) profit for the period	(161)	(21)	(182)	104	(11)	93
(Loss) earnings per share (US cents)	(31)	(4)	(35)	20	(2)	18
Diluted (loss) earnings per share (US cents)	(31)	(4)	(35)	20	(2)	18
Group statement of comprehensive income						
Item that will not be reclassified subsequently to profit or loss						
Actuarial gains (losses) on post-employment benefit funds	20	31	51	(88)	17	(71)
Tax effect of above item	(27)	(10)	(37)	122	(6)	116

2. Accounting policies continued

Adoption of IFRS 10 *Consolidated Financial Statements*

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

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

	2013			2012		
US$ million	As previously reported	Adjustment	Restated	As previously reported	Adjustment	Restated
Group balance sheet						
Other non-current assets	62	33	95	62	41	103
Cash and cash equivalents	385	(33)	352	645	(41)	604
Net debt	2,214	33	2,247	1,979	41	2,020

notes to the group annual financial statements
continued

for the year ended September 2014

3. Segment information

Reportable segments are components of an entity for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding on how to allocate resources and assess performance. The group's reportable segments comprise the geographic regions of North America, Europe and Southern Africa as this is the basis on which financial information is reported to the chief operating decision maker for the purposes of deciding on how to allocate resources and assess performance.

The group's revenue is comprised mostly of the sale of dissolving wood pulp, coated paper and speciality paper in North America; coated, uncoated and speciality paper in Europe as well as dissolving wood pulp, paper pulp and coated, uncoated and commodity paper in Southern Africa.

The group operates a trading network called Sappi Trading for the international marketing and distribution of dissolving wood pulp and market pulp throughout the world and of the group's other products in areas outside its core operating regions of North America, Europe and Southern Africa. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

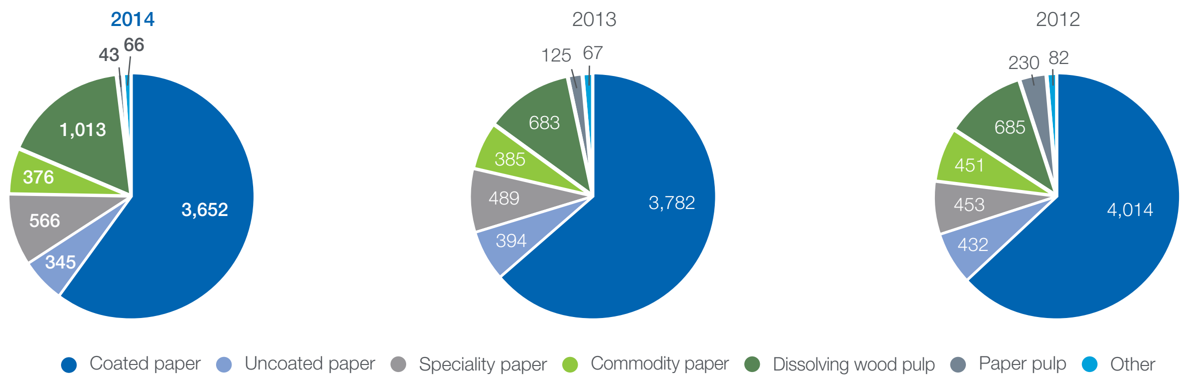
The group accounts for intra-group sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

The group regards its primary measures of segment performance as EBITDA excluding special items and operating profit (loss) excluding special items.

	North America			Europe		
		Restated			Restated	
US$ million	**2014**	2013	2012	**2014**	2013	2012
Income statement						
External sales[1]	**1,517**	1,377	1,438	**3,107**	3,155	3,350
Operating profit (loss) excluding special items	**18**	57	88	**75**	(8)	141
Special items – (losses) gains[2]	**(2)**	6	(7)	**(33)**	(142)	45
Segment operating profit (loss)	**16**	63	81	**42**	(150)	186
EBITDA excluding special items[2]	**92**	135	167	**249**	183	337
Share of profit (loss) of equity investments	**–**	–	–	**–**	1	1
Depreciation and amortisation	**(74)**	(78)	(79)	**(174)**	(191)	(196)
Impairment reversals (impairments) of assets and investments	**–**	–	–	**2**	(63)	(1)
Profit on disposal of equity investments	**–**	–	–	**–**	–	–
(Loss) profit on disposal of assets and businesses	**–**	–	–	**(32)**	–	51
Fellings	**–**	–	–	**–**	–	–
Plantation fair value adjustment	**–**	–	–	**–**	–	–
Restructuring provisions (raised) released and closure costs	**(3)**	–	–	**11**	(79)	(5)
Post-retirement plan amendment	**–**	–	–	**21**	–	–
Other non-cash items	**(16)**	15	16	**2**	6	2
Balance sheet						
Capital expenditures	**53**	168	92	**153**	129	96
Segment assets[2]	**1,013**	1,046	919	**1,472**	1,594	1,776
Property, plant and equipment	**843**	864	774	**1,145**	1,245	1,314

[1] Sales of products are allocated to where the product is manufactured.
[2] Refer to the Glossary in the Integrated Report for the definition of the term.
[3] Primarily includes the group's treasury operations and its self-insurance captive.

Sales by product



Southern Africa			Unallocated and eliminations[3]			Group		
	Restated			Restated			Restated	
2014	2013	2012	**2014**	2013	2012	**2014**	2013	2012
1,437	1,393	1,559	**–**	–	–	**6 061**	5,925	6,347
248	125	182	**5**	6	(2)	**346**	180	409
12	(8)	(25)	**(9)**	(17)	5	**(32)**	(161)	18
260	117	157	**(4)**	(11)	3	**314**	19	427
312	204	275	**5**	6	(1)	**658**	528	778
8	6	4	**–**	–	(3)	**8**	7	2
(64)	(79)	(93)	**–**	–	(1)	**(312)**	(348)	(369)
(3)	(92)	(9)	**–**	–	–	**(1)**	(155)	(10)
–	–	–	**–**	–	11	**–**	–	11
3	(2)	1	**–**	–	–	**(29)**	(2)	52
(59)	(66)	(73)	**–**	–	–	**(59)**	(66)	(73)
86	166	68	**–**	–	–	**86**	166	68
(2)	(17)	7	**–**	(1)	–	**6**	(97)	2
–	24	–	**–**	–	–	**21**	24	–
4	(7)	17	**3**	(12)	5	**(7)**	2	40
49	278	216	**1**	–	–	**256**	575	404
1,289	1,556	1,646	**(35)**	(25)	20	**3,739**	4,171	4,361
852	968	1,067	**1**	1	2	**2,841**	3,078	3,157

notes to the group annual financial statements
continued

for the year ended September 2014

3. Segment information continued

Reconciliation of operating profit (loss) excluding special items to segment operating profit (loss):

	North America			Europe		
		Restated			Restated	
US$ million	**2014**	2013	2012	**2014**	2013	2012
Operating profit (loss) excluding special items	**18**	57	88	**75**	(8)	141
Special items – (losses) gains[1]	**(2)**	6	(7)	**(33)**	(142)	45
Segment operating profit (loss)	**16**	63	81	**42**	(150)	186

Reconciliation of EBITDA excluding special items and operating profit (loss) excluding special items to profit (loss) before taxation:

	North America			Europe		
		Restated			Restated	
US$ million	**2014**	2013	2012	**2014**	2013	2012
EBITDA excluding special items[1]	**92**	135	167	**249**	183	337
Depreciation and amortisation	**(74)**	(78)	(79)	**(174)**	(191)	(196)
Operating profit (loss) excluding special items	**18**	57	88	**75**	(8)	141
Special items – (losses) gains[1]	**(2)**	6	(7)	**(33)**	(142)	45
Segment operating profit (loss)	**16**	63	81	**42**	(150)	186
Net finance costs						
Profit (loss) before taxation						

Reconciliation of segment assets to total assets:

US$ million
Segment assets[1]
Deferred tax assets
Cash and cash equivalents
Derivative financial instruments (included in current liabilities)
Trade and other payables
Provisions
Taxation payable
Liabilities associated with assets held for sale
Total assets

(1) *Refer to the Glossary in the Integrated Report for the definition of the term.*
(2) *Primarily includes the group's treasury operations and its self-insurance captive.*

Southern Africa			Unallocated and eliminations[2]			Group		
	Restated			Restated			Restated	
2014	2013	2012	2014	2013	2012	2014	2013	2012
248	125	182	5	6	(2)	346	180	409
12	(8)	(25)	(9)	(17)	5	(32)	(161)	18
260	117	157	(4)	(11)	3	314	19	427

Southern Africa			Unallocated and eliminations[2]			Group		
	Restated			Restated			Restated	
2014	2013	2012	2014	2013	2012	2014	2013	2012
312	204	275	5	6	(1)	658	528	778
(64)	(79)	(93)	–	–	(1)	(312)	(348)	(369)
248	125	182	5	6	(2)	346	180	409
12	(8)	(25)	(9)	(17)	5	(32)	(161)	18
260	117	157	(4)	(11)	3	314	19	427
						(177)	(186)	(306)
						137	(167)	121

Group		
	Restated	
2014	2013	2012
3,739	4,171	4,361
138	92	154
528	352	604
7	2	1
996	1,015	1,005
32	77	17
25	12	26
–	6	–
5,465	5,727	6,168

notes to the group annual financial statements
continued

for the year ended September 2014

4. Operating profit

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

US$ million	2014 Cost of sales	2014 Selling, general and administrative expenses	Restated 2013 Cost of sales	Restated 2013 Selling, general and administrative expenses	Restated 2012 Cost of sales	Restated 2012 Selling, general and administrative expenses
Raw materials, energy and other direct input costs	**3,355**	**–**	3,258	–	3,393	–
Wood (includes growth and felling adjustments[1])	**664**	**–**	641	–	723	–
Energy	**529**	**–**	547	–	565	–
Chemicals	**914**	**–**	946	–	1,028	–
Pulp	**1,039**	**–**	914	–	753	–
Other variable costs	**209**	**–**	210	–	324	–
Plantation price fair value adjustment	**(18)**	**–**	(87)	–	15	–
Employment costs	**860**	**190**	865	191	895	197
Depreciation	**296**	**14**	327	18	345	22
Delivery charges	**532**	**–**	510	–	526	–
Maintenance	**238**	**–**	254	–	253	–
Other overheads	**107**	**–**	158	–	122	–
Marketing and selling expenses	**–**	**97**	–	98	–	102
Administrative and general expenses	**–**	**51**	–	77	–	93
	5,370	**352**	5,285	384	5,549	414

US$ million	2014	Restated 2013	Restated 2012
Silviculture costs (included within cost of sales)	**58**	67	70
Leasing charges for premises	**13**	13	14
Leasing charges for plant and equipment	**15**	16	18
Remuneration paid other than to employees of the company in respect of	**26**	30	28
Technical services	**9**	14	14
Administration services	**17**	16	14
Auditor's remuneration	**7**	7	8
Audit and related services	**6**	6	6
Tax planning and tax advice	**1**	1	2
Research and development costs	**22**	23	24
Amortisation	**2**	3	2
Cost on derecognition of loans and receivables[2]	**9**	7	10
Impairments of assets and investments	**1**	155	10
Restructuring provisions and closure costs (reversed) raised	**(6)**	97	(2)
Profit on disposal of equity investments	**–**	–	(11)
Loss (profit) on disposal of assets and businesses	**29**	2	(52)
Post-retirement plan amendment	**(21)**	(24)	–
Black Economic Empowerment (BEE) charge	**2**	3	3
Employment costs consist of	**1,050**	1,056	1,092
Wages and salaries	**978**	953	984
Defined contribution plan expense	**34**	34	35
Defined benefit pension plan expense	**–**	26	29
Other defined benefit plan expense	**3**	3	2
Share-based payment expense	**5**	8	9
Other	**30**	32	33
[1] *Changes in plantation volumes*			
Fellings	**59**	66	73
Growth	**(68)**	(79)	(83)

[2] *The cost on derecognition of trade receivables relates to the derecognition of trade receivables related to the securitisation programme in South Africa and to the sale of letters of credit in Hong Kong.*

US$ million	2014	Restated 2013	Restated 2012
5. Net finance costs			
Interest and other finance costs on liabilities carried at amortised cost	**177**	184	311
Interest on overdrafts	**1**	3	1
Interest on redeemable bonds and other loans	**175**	180	220
Premium and costs on early redemption of redeemable bonds and other loans	**–**	–	46
Accelerated amortisation on early settlement of redeemable bonds and other loans	**–**	–	42
Interest cost on finance lease obligations	**1**	1	2
Net interest on employee benefit liabilities	**17**	20	23
Interest capitalised to property, plant and equipment[1]	**–**	(9)	(6)
Finance revenue received on assets carried at amortised cost	**(9)**	(7)	(12)
Interest on bank accounts	**(7)**	(6)	(10)
Interest revenue on other loans and investments	**(2)**	(1)	(2)
Net foreign exchange gains	**(7)**	(1)	(5)
Net fair value gain on financial instruments	**(1)**	(1)	(5)
Realised gain on termination of swaps	**–**	–	(2)
Gain on amortisation of de-designated hedges	**–**	–	(3)
Hedge ineffectiveness			
loss (gain) on hedging instrument (derivative)	**5**	8	(3)
(gain) loss on hedged item	**(6)**	(9)	3
	177	186	306

[1] *Borrowing costs incurred on the conversion project at Ngodwana Mill in Sappi Southern Africa have been capitalised at a rate of 7.7% and 9.3% for the 2013 and 2012 financial years respectively and, at Cloquet Mill in North America, at a capitalisation rate of 4.1% for both financial years.*

US$ million	2014	Restated 2013	Restated 2012
6. Taxation charge			
Current taxation			
Current year	**19**	1	28
Prior year overprovision	**(2)**	(9)	(4)
Other company taxes	**–**	4	4
Deferred taxation			
Current year	**36**	26	4
Recognition of deferred tax asset[1]	**(53)**	(8)	–
Prior year underprovision (overprovision)	**2**	1	(2)
Attributable to tax rate changes	**–**	–	(2)
	2	15	28
Reconciliation of the tax rate			
Profit (loss) profit before taxation	**137**	(167)	121
Profit-making regions	**278**	149	249
Loss-making regions	**(141)**	(316)	(128)
Taxation at the average statutory tax rate	**35**	(42)	41
Profit-making regions at 27% (2013: 27%; 2012: 29%)	**74**	40	72
Loss-making regions at 28% (2013: 26%; 2012: 24%)	**(39)**	(82)	(31)
Net exempt income and non-tax deductible expenditure	**(53)**	(12)	(41)
Effect of tax rate changes	**–**	–	(2)
No tax relief on losses	**75**	52	58
No tax charge on profits	**(2)**	(3)	(26)
Derecognition of deferred tax assets	**–**	32	–
Recognition of deferred tax assets	**(53)**	(8)	–
Prior year adjustments	**–**	(8)	(6)
Other taxes	**–**	4	4
Taxation charge	**2**	15	28
Effective tax rate for the year	**1%**	(9%)	23%

In addition to income taxation charges to profit or loss, a deferred taxation relief of US$1 million (2013: US$39 million charge; 2012: US$119 million relief) has been recognised directly in other comprehensive income (refer to note 12).

[1] *The group received a final examination report from the US Internal Revenue Service relating to the tax audit of Sappi North America. The report confirmed that the Alternative Fuel Mixture Credit received in prior years, which was previously treated as taxable by the group, was non-taxable and resulted in an additional deferred tax asset of US$53 million being raised by the group.*

notes to the group annual financial statements

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for the year ended September 2014

7. Basic earnings (loss) per share and headline earnings (loss) per share

Basic earnings (loss) per share (EPS)

EPS is based on the group's profit (loss) for the year divided by the weighted average number of shares in issue during the year under review.

	2014			Restated 2013			Restated 2012		
	Profit US$ million	**Shares million**	**Earnings per share US cents**	Loss US$ million	Shares million	Loss per share US cents	Profit US$ million	Shares million	Earnings per share US cents
Basic EPS calculation	**135**	**522.5**	**26**	(182)	521.3	(35)	93	520.8	18
Share options and performance shares under Sappi Limited Share Trust	**–**	**4.1**	**–**	–	–	–	–	1.4	–
Diluted EPS calculation	**135**	**526.6**	**26**	(182)	521.3	(35)	93	522.2	18

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR35.98 (2013: ZAR26.70; 2012: ZAR24.88) and exclude the effect of certain share options granted under The Sappi Share Incentive Scheme as well as share options granted under the BEE transaction as they would be antidilutive. During the 2013 financial year, all share options not exercised at year-end are considered to be antidilutive due to the loss per share incurred in that year.

There are 1.3 million (2013: 20.4 million; 2012: 12.8 million) share options on ordinary shares that could potentially dilute EPS in the future that are not included in the diluted weighted average number of shares calculation as they are antidilutive. In addition, refer to notes 18 and 29 for a discussion on the 'A' ordinary shares, all of which were antidilutive at the financial year-end.

Headline earnings (loss) per share[(1)]

Headline earnings (loss) per share is based on the group's headline earnings (loss) divided by the weighted average number of shares in issue during the year.

Reconciliation between attributable earnings (loss) to ordinary shareholders and headline earnings (loss):

US$ million	2014 Gross	2014 Tax	2014 Net	Restated 2013 Gross	Restated 2013 Tax	Restated 2013 Net	Restated 2012 Gross	Restated 2012 Tax	Restated 2012 Net
Attributable earnings (loss) to ordinary shareholders	**137**	**2**	**135**	(167)	15	(182)	121	28	93
Impairments of assets and investments	**1**	**–**	**1**	155	27	128	10	2	8
Profit on disposal of equity investments	**–**	**–**	**–**	–	–	–	(11)	–	(11)
Loss (profit) on disposal of assets and businesses	**29**	**1**	**28**	2	–	2	(52)	–	(52)
Headline earnings (loss)	**167**	**3**	**164**	(10)	42	(52)	68	30	38
Weighted average number of ordinary shares in issue (millions)			**522.5**			521.3			520.8
Headline earnings (loss) per share (US cents)			**31**			(10)			7
Weighted average number of ordinary shares in issue on a fully diluted basis (millions)			**526.6**			521.3			522.2
Diluted headline earnings (loss) per share (US cents)			**31**			(10)			7

(1) *Headline earnings – as defined in Circular 2/2013, reissued by the South African Institute of Chartered Accountants in December 2013, which separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share.*

8. Dividends

No dividends were declared in respect of the current and previous financial years.

9. Assets held for sale

During the year, Sappi Southern Africa disposed of its subsidiary, Usutu Forests Products Company Limited (Usutu), and other plantations for an amount of US$97 million and US$7 million respectively resulting in a profit on disposal of US$4 million. The amount for the sale of Usutu includes a vendor loan note of US$8 million which is repayable over six years at a rate of prime plus 2%.

The major classes of assets held for sale and liabilities associated with assets held for sale are as follows:

US$ million	2014	2013
Property, plant and equipment	–	6
Plantations	–	86
Trade and other receivables	–	2
Assets held for sale	–	94
Deferred tax liabilities	–	1
Other non-current liabilities	–	2
Trade and other payables	–	3
Liabilities associated with assets held for sale	–	6

Refer to note 11 for more detail on adjustments to plantations held for sale prior to disposal.

US$ million	2014	2013
10. Property, plant and equipment		
Land and buildings[1]		
At cost	1,443	1,535
Accumulated depreciation and impairments	(846)	(883)
	597	652
Plant and equipment[2]		
At cost	6,814	7,141
Accumulated depreciation and impairments	(4,572)	(4,721)
	2,242	2,420
Capitalised leased assets[3]		
At cost	464	514
Accumulated depreciation and impairments	(462)	(508)
	2	6
Aggregate cost	8,721	9,190
Aggregate accumulated depreciation and impairments	(5,880)	(6,112)
Aggregate book value[4]	2,841	3,078

[1] *Details of land and buildings are available at the registered offices of the respective companies who own the assets.*
[2] *Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as a separate class of assets.*
[3] *Capitalised leased assets consist primarily of plant and equipment.*
[4] *An amount of US$194 million (2013: US$160 million) relates to assets under construction.*

notes to the group annual financial statements
continued

for the year ended September 2014

10. Property, plant and equipment continued

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

US$ million	Land and buildings	Plant and equipment	Capitalised leased assets	Total
Net book value at September 2012	653	2,459	45	**3,157**
Additions	56	510	–	**566**
Finance costs capitalised	–	9	–	**9**
Disposals	(1)	(13)	–	**(14)**
Transfers	8	53	(61)	**–**
Depreciation	(38)	(329)	22	**(345)**
Impairments	–	(164)	–	**(164)**
Impairment reversals	–	9	–	**9**
Transfers to assets held for sale (refer to note 9)	(4)	(2)	–	**(6)**
Translation differences	(22)	(112)	–	**(134)**
Net book value at September 2013	652	2,420	6	**3,078**
Additions	19	238	–	**257**
Disposals	(3)	(9)	–	**(12)**
Transfers	1	–	(1)	**–**
Depreciation	(34)	(273)	(3)	**(310)**
Impairments	–	(4)	–	**(4)**
Impairment reversals	–	4	–	**4**
Translation differences	(38)	(134)	–	**(172)**
Net book value at September 2014	597	2,242	2	**2,841**

Refer to note 25 for details of encumbrances.

September 2014 material asset impairments and impairment reversals

Europe

Sappi Lanaken

On the disposal of Nijmegen Mill, products previously produced by the mill have been relocated to other Sappi Europe mills. As a result, certain equipment at Lanaken Mill that was previously not required have been brought back into use resulting in an impairment reversal of US$2 million being recognised in other operating expenses in profit or loss.

Sappi Southern Africa

Enstra Mill and Tugela Mill

During the year, the group incurred capital maintenance expenditure on assets that were previously impaired. This resulted in an amount of approximately US$2 million being written off to other operating expenses in profit or loss for the period at each mill.

Stanger Mill

During the year, plant that was previously impaired at Stanger Mill was disposed of resulting in an impairment reversal of US$2 million being recognised in other operating expenses in profit or loss.

September 2013 material asset impairments and impairment reversals

Europe

As a result of the market decline and consequent overcapacity in the European coated paper markets, combined with high raw material costs which were not compensated for by higher selling prices, the group impaired certain assets and undertook certain strategic initiatives which resulted in asset impairments:

Coated mechanical cash-generating unit (CGU)

The coated mechanical CGU was valued on a value in use basis using a real pre-tax rate of 8.7%. This resulted in an impairment charge of US$25 million being recorded in other operating expenses in profit or loss.

Nijmegen Mill

In order to reduce costs and improve efficiencies, the group identified the need to concentrate production at fewer sites. The group announced its intention to relocate all production from Nijmegen Mill to other Sappi mills in Europe. This resulted in the mill's plant and equipment being impaired and an impairment charge of US$38 million being recorded in other operating expenses in profit or loss.

Due to the relocation of production of certain products from Nijmegen Mill, the group incurred an impairment charge of US$2 million as a result of equipment being taken out of production at other Sappi mill sites. This impairment was recorded in other operating expenses in profit or loss.

Nijmegen Mill was sold during the 2014 financial year.

10. Property, plant and equipment continued

Europe continued

Alfeld Mill

The conversion of paper machine 2 at Alfeld Mill to produce speciality paper resulted in certain of the mill assets becoming redundant. As a result, an impairment charge of US$4 million was recorded in other operating expenses in profit or loss.

Central service departments

In line with decreasing volumes and to reduce fixed costs, certain central service departments were restructured resulting in certain information technology assets being made redundant. This resulted in an impairment charge of US$3 million in other operating expenses in profit or loss.

Kangas Mill

The group disposed of the previously impaired paper machine 4 at Kangas Mill. As the proceeds on disposal exceeded the carrying value of the asset, an impairment reversal of US$9 million was recorded in other operating expenses in profit or loss.

Southern Africa

Enstra Mill

As a result of difficult market conditions and input costs pressure, Enstra Mill was tested for impairment on a value in use basis which resulted in an impairment charge of US$32 million being recorded in other operating expenses in profit or loss. The recoverable amount was calculated using a real pre-tax discount rate of 9.12%.

Tugela Mill

Due to ongoing losses at Tugela Mill, the mill was tested for impairment resulting in an impairment charge of US$47 million being recorded in other operating expenses in profit or loss. The recoverable amount was calculated on a value in use basis, using a real pre-tax discount rate of 9.12%.

Stanger Mill

As a result of difficult local market conditions as well as input costs pressure on the paper production facility at Stanger Mill, the paper production facility was tested for impairment resulting in an impairment charge of US$12 million being recorded in other operating expenses in profit or loss. The recoverable amount was calculated on a value in use basis, using a real pre-tax discount rate of 9.12%.

11. Plantations

US$ million	**2014**	2013
Fair value of plantations at beginning of year	**464**	555
Additions	**–**	4
Gains arising from growth[(1)]	**65**	79
Fire, flood, storms and related events	**–**	(4)
In-field inventory	**(1)**	1
Gain arising from fair value price changes[(1)]	**7**	87
Harvesting – agriculture produce (fellings)[(1)]	**(57)**	(66)
Transferred to assets held for sale	**–**	(93)
Translation differences	**(48)**	(99)
Fair value of plantations at end of year	**430**	464

[(1)] At September 2013, plantations amounting to US$86 million were disclosed as assets held for sale. In accordance with IAS 41 Agriculture, these plantations were carried at fair value. Before the disposal of the plantations in the current period, gains arising from growth amounted to US$3 million, the price fair value adjustment amounted to US$11 million and timber worth US$2 million was felled in these plantations.

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

The group manages its plantations on a rotational basis. As such, increases by means of growth are negated by fellings, for the group's own use or for external sales, over the rotation period.

The group manages plantations on land that the group owns, as well as on land that the group leases. The group discloses both of these as directly managed plantations. With regard to indirectly managed plantations, the group has several different types of agreements with many independent farmers. The terms of the agreements depend on the type and specific needs of the farmer as well as the areas planted and range in duration from one to more than twenty years. In certain circumstances, the group provides loans to farmers that are disclosed as other non-current assets on the group balance sheet (these loans are considered, individually and in aggregate, immaterial to the group). If the group provides seedlings, silviculture and/or technical assistance, the costs are expensed when incurred by the group.

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11. Plantations continued

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

Plantations are stated at fair value loss estimated cost to sell at the harvesting stage and is a Level 3 measure in terms of the fair value measurement hierarchy as established by IFRS 13 *Fair Value Measurement* which is consistent with the prior year.

The fair value of plantations has been calculated using a real pre-tax discount rate of 8.86%. The group currently values approximately 29 million tons of timber using selling prices and delivery costs that are benchmarked against industry norms. The average annual growth is measured at approximately 18 tons of timber per hectare while immature timber comprise approximately 105,000 hectares of plantations. As changes to estimated prices, the discount rate, costs to sell and, volume and growth assumptions applied in the valuation of immature timber may impact the calculated fair value, the group has calculated the sensitivity of a change in each of these assumptions as tabled below:

US$ million	2014	2013	2012
Market price changes			
1% increase in market prices	2	2	4
1% decrease in market prices	(2)	(2)	(4)
Discount rate (for immature timber)			
1% increase in rate	(2)	(3)	(4)
1% decrease in rate	2	3	4
Volume assumption			
1% increase in estimate of volume	4	5	5
1% decrease in estimate of volume	(4)	(5)	(5)
Costs to sell			
1% increase in costs to sell	(2)	(2)	(3)
1% decrease in costs to sell	2	2	3
Growth assumptions			
1% increase in rate of growth	1	2	2
1% decrease in rate of growth	(1)	(2)	(2)

			Restated	
	2014		2013	
US$ million	Assets	Liabilities	Assets	Liabilities
12. Deferred tax				
Other liabilities, accruals and prepayments	(48)	13	(56)	43
Inventory	6	2	5	1
United States of America (USA) tax credits carry forward	56	–	55	–
Tax loss carry forward	117	41	118	60
Property, plant and equipment	(30)	(239)	(53)	(257)
Plantations	–	(98)	(26)	(124)
Other non-current assets	13	–	53	–
Other non-current liabilities	24	9	(4)	10
	138	(272)	92	(267)

Negative asset and liability positions

These balances reflect the impact of tax assets and liabilities arising in different tax jurisdictions, which cannot be netted against tax assets and liabilities arising in other tax jurisdictions.

Deferred tax assets recognised on the balance sheet

The recognised deferred tax assets relate mostly to available unused tax losses. It is expected that there will be sufficient future taxable profits against which these losses can be recovered. In the estimation of future taxable profits, future product pricing and production capacity utilisation are taken into account.

Unrecognised deferred tax assets

Deferred tax assets arising from unused tax losses and unused tax credits are not recognised for carry forward when it cannot be demonstrated that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

US$ million	2014	Restated 2013
12. Deferred tax continued		
Unrecognised deferred tax assets relate to the following:		
Net deductible temporary differences	**139**	5
Tax losses	**740**	756
USA tax credits carry forward(1)	**58**	59
	937	820
Attributable to the following tax jurisdictions:		
Austria	**632**	510
Belgium	**134**	99
Finland	**44**	50
Swaziland	**–**	23
The Netherlands	**69**	79
USA	**58**	59
	937	820
Expiry between one and five years	**155**	143
Expiry after five years	**34**	65
Indefinite life	**748**	612
	937	820
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Balance at beginning of year	**820**	645
No tax relief on losses	**209**	63
No tax charge on profits	**(1)**	(3)
Derecognition of deferred tax assets	**–**	32
Recognition of deferred tax assets	**–**	(8)
Disposal of unrecognised deferred tax asset	**(22)**	–
Prior year adjustments	**–**	62
Rate adjustments	**(9)**	–
Movement in foreign exchange rates	**(60)**	29
Balance at end of year	**937**	820
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**92**	154
Deferred tax liabilities	**(267)**	(319)
	(175)	(165)
Deferred tax benefit (charge) for the year	**15**	(19)
Other liabilities, accruals and prepayments	**(29)**	28
Inventory	**2**	(1)
USA tax credits	**–**	37
Tax loss carry forward	**47**	(35)
Property, plant and equipment	**25**	(4)
Plantations	**13**	(27)
Other non-current assets	**(30)**	(13)
Other non-current liabilities	**(13)**	(4)
Amounts recorded directly in other comprehensive income	**1**	(39)
Transfer to assets held for sale	**–**	1
Translation differences	**25**	47
Deferred tax balances at end of year	**(134)**	(175)
Deferred tax assets(2)	**138**	92
Deferred tax liabilities	**(272)**	(267)

(1) *Our North American region applied for a cellulosic biofuel tax credit (CBTC) for black liquor consumed during the 2009 calendar year. The group did not recognise the majority of this tax benefit as existing tax losses must be utilised prior to the utilisation of the CBTC. The CBTC expires during the 2016 financial year.*

(2) *The group raised an additional deferred tax asset of US$53 million in North America. To the extent future taxable profits arising from the reversal of existing taxable temporary differences will be available, assets have been set up in Belgium and North America. Profit forecasts, based on external sources and management judgement, provide sufficient evidence for the recognition of these assets.*

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US$ million	2014 Goodwill	2014 Licence fees	2014 Brands	2014 Total	2013 Goodwill	2013 Licence fees	2013 Brands	2013 Total
13. Goodwill and intangible assets								
Net carrying amount at beginning of year	4	3	13	20	4	3	15	22
Acquisition	1	–	–	1	–	–	–	–
Amortisation	–	–	(2)	(2)	–	–	(3)	(3)
Impairment	(1)	–	–	(1)	–	–	–	–
Translation difference	–	–	(1)	(1)	–	–	1	1
Net carrying amount	4	3	10	17	4	3	13	20
Cost (gross carrying amount)	5	3	23	31	4	3	25	32
Accumulated amortisation and impairments	(1)	–	(13)	(14)	–	–	(12)	(12)
Net carrying amount	4	3	10	17	4	3	13	20

The net carrying amount of goodwill relates to the coated woodfree cash-generating unit in Sappi Europe. The goodwill is not significant but has been assessed for impairment and no impairment was required.

Goodwill arising on acquisition relates to the business which owns the group's head office building. As the building had previously been capitalised as a finance lease, the premium paid on acquisition of this business was not considered to enhance the carrying value and, as a result, has been fully impaired.

US$ million	2014	2013
14. Joint ventures		
Group's share of carrying amount of joint ventures		
Material joint venture	14	17
Joint ventures that are not individually material	2	1
	16	18

Dividends received from joint ventures for the 2014 financial year was US$9 million (2013: US$3 million; 2012: US$3 million).

Details of material joint venture

Umkomaas Lignin Proprietary Limited

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

Summarised financial information of Umkomaas Lignin Proprietary Limited:

US$ million	2014	2013
Current assets	22	26
Non-current assets	15	18
Current liabilities	7	7
Non-current liabilities	2	3
The above assets and liabilities include the following:		
Cash and cash equivalents	5	4
Current financial liabilities (excluding trade and other payables, and provisions)	3	3
Non-current financial liabilities (excluding trade and other payables, and provisions)	2	3

US$ million	2014	2013	2012
Sales	67	61	59
Depreciation and amortisation	2	3	4
Finance costs	–	–	–
Finance revenue	–	–	–
Taxation charge	6	4	4
Profit from continuing operations	16	11	9
Other comprehensive income	–	–	–
Total comprehensive income	16	11	9

14. Joint ventures continued

Reconciliation of the financial information to the carrying amount of the joint venture:

US$ million	2014	2013
Net assets of the joint venture	**28**	34
Proportion of the group's ownership interest	**50%**	50%
Carrying amount of the joint venture	**14**	17

Details of joint ventures that are not individually material

The group has entered into various joint venture agreements primarily for the purchase of wood and wood chips for the common benefit of the venturers. The financial year-end of each of these joint ventures is 31 December, which is a common date for entities operating in the joint ventures' countries of incorporation and which is the financial year-end of the other venturers.

Aggregate financial information for joint ventures that are not individually material:

US$ million	2014	2013	2012
Profit (loss) from continuing operations	**–**	2	(7)
Profit (loss) from discontinuing operations	**–**	–	–
Other comprehensive income (loss)	**1**	(1)	–
Total comprehensive income (loss)	**1**	1	(7)

US$ million	2014	2013
Carrying amount of these joint ventures	**2**	1

US$ million	2014	Restated 2013
15. Other non-current assets		
Investment funds	**9**	49
Defined benefit pension plan assets (refer to note 28)	**27**	29
Advances to tree growers	**5**	6
Other financial assets	**6**	6
Other	**3**	5
	50	95

US$ million	2014	2013
16. Inventories		
Raw materials	**145**	146
Work in progress	**64**	77
Finished goods	**334**	356
Consumable stores and spares	**144**	149
	687	728

The charge to the group income statement relating to the write-down of inventories to net realisable value amounted to US$9 million (2013: US$11 million; 2012: US$9 million). There were no reversals of any inventory write-downs for the periods presented.

The cost of inventories recognised as an expense and included in cost of sales amounted to US$4,854 million (2013: US$4,849 million; 2012: US$5,009 million).

Refer to note 25 for inventory pledged as security.

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US$ million	2014	2013
17. Trade and other receivables		
Trade accounts receivable, gross	626	642
Allowance for credit losses	(9)	(7)
Trade accounts receivable, net	617	635
Prepayments and other receivables	114	112
	731	747

Management rates the quality of trade and other receivables periodically against its internal credit rating parameters. The quality of these trade receivables is such that management believes no additional allowance for credit losses, other than as provided, is necessary.

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

Prepayments and other receivables primarily represent prepaid insurance, prepaid taxes and other sundry receivables (including the vendor loan note of US$8 million arising on the disposal of Usutu Forests Products Company Limited).

Trade receivables (including securitised trade receivables) represent 12.31% (2013: 12.89%) of turnover.

US$ million	2014	2013
17.1 Reconciliation of the allowance for credit losses		
Balance at beginning of year	7	10
Raised during the year	5	5
Released during the year	(2)	(7)
Utilised during the year	–	(1)
Translation differences	(1)	–
Balance at end of year	9	7

The allowance for credit losses has been determined by reference to specific customer delinquencies.

17.2 Analysis of amounts past due

September 2014

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

US$ million	Not impaired	Impaired	Total
Less than 7 days overdue	12	–	12
Between 7 and 30 days overdue	12	–	12
Between 30 and 60 days overdue	2	–	2
More than 60 days overdue	2	9	11
	28	9	37

September 2013

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

US$ million	Not impaired	Impaired	Total
Less than 7 days overdue	12	–	12
Between 7 and 30 days overdue	10	–	10
Between 30 and 60 days overdue	4	–	4
More than 60 days overdue	1	7	8
	27	7	34

All amounts which are due but beyond their contractual repayment terms are reported to divisional management on a regular basis.

Any provision for impairment is required to be approved in line with the group's limits of authority framework.

The group holds collateral of US$1 million (2013: US$1 million) against trade receivables past contractual repayment terms.

17. Trade and other receivables *continued*

17.3 Trade receivables securitisation

The group operates on- and off-balance sheet trade receivables securitisation programmes in order to improve working capital and to utilise the cost effectiveness of such structures.

On-balance sheet structure

In the 2013 financial year, the group extended its on-balance sheet securitisation programme with UniCredit Bank AG to August 2016. This programme has a limit of US$419 million (€330 million) and the trade receivables sold in terms of this programme are disclosed on the balance sheet together with a corresponding liability.

At financial year-end, trade receivables with a value of US$478 million (2013: US$521 million) have been pledged as collateral for amounts received as funding under the programme of US$374 million (2013: US$405 million). The group is restricted from selling or repledging the trade receivables that have been pledged as collateral for this liability. For more detail on this programme, refer to note 21.

Off-balance sheet structures

Southern African securitisation facility

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

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

The total amount of trade receivables sold at the end of September 2014 amounted to US$120 million (2013: US$122 million).

Details of the securitisation programme at the end of the 2014 and 2013 financial years are disclosed in the table below:

Bank	Currency	Value	Facility	Discount charges
2014				
Rand Merchant Bank Limited	**ZAR**	**ZAR1,348 million**	**Unlimited[1]**	**Linked to 3-month JIBAR**
2013				
Rand Merchant Bank Limited	ZAR	ZAR1,235 million	Unlimited[1]	Linked to 3-month JIBAR

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

Letters of credit discounting

At the end of each financial month and on a non-recourse basis, the group sells certain Letters of Credit to the Royal Bank of Scotland (Hong Kong) and Union Bancaire Privee (Switzerland) and similarly, discounts certain trade receivables with Deutsche Bank (Frankfurt), HSBC (Mexico) and Citibank (Sao Paulo) by utilising the customers credit facilities with the discounting bank.

Scheckwechsel

The Scheckwechsel is a financial guarantee supplied by Sappi to the bank of certain customers (trade receivables) who wish to obtain a loan to finance early payment of specified trade receivables (thereby benefiting from an early settlement discount). By signing the Scheckwechsel, Sappi provides a financial guarantee to the bank of the customer.

This financial guarantee contract is initially recognised at fair value. The fair value at inception is zero as the risk of Sappi having to reimburse the bank is nil (there is no evidence that the customer will not reimburse its loan to the bank), there is no guarantee fee payable by the bank and the Scheckwechsel is a short-term instrument (maximum 90 days). Subsequently, the financial guarantee contract is measured at the higher of:
(i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and
(ii) the amount initially recognised less any cumulative amortisation.

As no event of default has occurred, no provision has been set up and the fair value at year-end remains at zero. However, according to IAS 37, a contingent liability of US$21 million (2013: US$31 million) has been disclosed in this respect.

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17. Trade and other receivables continued

17.4 Concentration of credit risk

A significant portion of the group's sales and accounts receivable are from a small number of customers. None of the group's significant customers represented more than 10% of our sales during the years ended September 2014 and September 2013.

Where appropriate, credit insurance has been taken out over the group's trade receivables.

None of the group's other receivables represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers worldwide.

At balance sheet date, the carrying amount of US$731 million (2013: US$747 million) represents the group's maximum credit risk exposure from trade and other receivables.

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

	2014			2013		
Threshold	Number of customers	US$ million	Percentage	Number of customers	US$ million	Percentage
Greater than US$10 million	6	119	19%	9	145	23%
Between US$5 million and US$10 million	13	83	14%	11	73	11%
Less than US$5 million	2,223	415	67%	2,015	417	66%
	2,242	617	100%	2,035	635	100%

At balance sheet date, none of the group's customers with balances equal to or greater than US$5 million had breached their contractual maturity terms and thus, no impairment charges have been recognised in respect of such customers.

Refer to note 31 for further details on credit risk.

18. Ordinary share capital and share premium

	2014		2013	
	Number of shares	US$ million	Number of shares	US$ million
Authorised share capital:				
Ordinary shares of ZAR1 each	725,000,000		725,000,000	
'A' ordinary shares of ZAR1 each[(1)]	19,961,476		19,961,476	
Issued share capital:				
Fully paid ordinary shares of ZAR1 each	541,446,223	48	541,446,223	54
Fully paid 'A' ordinary shares of ZAR1 each[(1)]	19,961,476	2	19,961,476	2
Treasury shares[(2)]	(37,248,091)	(3)	(39,894,124)	(4)
Share premium		997		1,096
	524,159,608	1,044	521,513,575	1,148
The movement in ordinary share capital and share premium is reconciled as follows:				
Opening balance		1,148		1,391
Transfers from Sappi Limited Share Incentive Trust		12		3
Translation movements		(116)		(246)
Closing balance		1,044		1,148

(1) *The 'A' ordinary shares are unlisted but rank pari passu with the ordinary shares in all respects except for dividend entitlements where the 'A' ordinary shares are entitled to 50% of the dividends payable on the ordinary shares. The 'A' ordinary shares have the same voting rights as ordinary shares but are not listed on the JSE Limited. Sappi will have the option to repurchase a number of 'A' ordinary shares in August 2019. The number of any 'A' ordinary shares that Sappi elects to buy back on the repurchase date will depend on the price performance of the ordinary shares over the period of the transaction with the remaining 'A' ordinary shares being distributed to the beneficiaries and converted into ordinary shares. The 'A' ordinary shares' rights, terms, conditions of conversion and privileges are contained in Article 38 of Sappi's existing Memorandum of Incorporation details of which are available for inspection at the company's registered offices.*

(2) *Includes 17,286,615 (2013: 19,932,648) ordinary shares as well as 19,961,476 (2013: 19,961,476) 'A' ordinary shares that are held by group entities, including The Sappi Limited Share Incentive Trust and the trusts set up to house the Broad-based Black Economic Empowerment transaction. These shares may be utilised to meet the requirements of the trusts.*

18. Ordinary share capital and share premium continued

The movement in the number of treasury shares is set out in the table below:

Number of shares	2014	2013
Ordinary treasury shares:		
Ordinary treasury shares at beginning of year (including Scheme shares)	**19,932,648**	20,601,761
Treasury shares issued to participants of the Scheme	**(2,646,033)**	(669,113)
– Share options (refer to note 29)	**(1,805,607)**	(54,284)
– Share plan options (refer to note 29)	**(840,426)**	(614,829)
Ordinary treasury shares at end of year	**17,286,615**	19,932,648
'A' ordinary treasury shares:		
'A' ordinary shares issued to the Broad-based Black Economic Empowerment trusts	**19,961,476**	19,961,476
	37,248,091	39,894,124

Included in the issued and unissued share capital of 725,000,000 shares, is a total of 42,700,870 shares which may be used to meet the requirements of The Sappi Limited Share Incentive Trust (the 'Scheme') and/or The Sappi Limited Performance Share Incentive Trust (the 'Plan'). In terms of the rules of the Scheme and the Plan, the maximum number of shares which may be acquired in aggregate by the Scheme and/or the Plan, and allocated to participants of the Scheme and/or the Plan, is 42,700,870 shares subject to adjustment of Sappi's issued share capital arising from any conversion, redemption, consolidation, sub-division and/or any rights or capitalisation issue of shares. Sappi is, at all times, obliged to reserve and keep available such number of shares (together with any treasury shares held by Sappi subsidiaries which may be used for the purposes of the Scheme and/or the Plan) as shall then be required in terms of the Scheme and/or the Plan out of its authorised but unissued share capital. Authority to use treasury shares for the purposes of the Scheme and/or the Plan was granted by shareholders at the annual general meeting held on 07 March 2005.

Capital risk management

The capital structure of the group consists of:
- issued share capital and share premium and accumulated profits disclosed above and in the statement of changes in equity respectively
- debt, which includes interest-bearing borrowings and obligations due under finance leases disclosed in note 21 and
- cash and cash equivalents.

The objectives of the group in managing capital are:
- to safeguard the group's ability to continue as a going concern, to be flexible and to take advantage of opportunities that are expected to provide an adequate return to shareholders
- to ensure sufficient resilience against economic turmoil
- to maximise returns to stakeholders by optimising the weighted average cost of capital, given inherent constraints and
- to ensure appropriate access to equity and debt.

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

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

During the 2014 and 2013 financial years, the group was in compliance with the financial covenants relating to the loans payable.

The group manages its capital and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the current period.

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US$ million	2014	Restated 2013	Restated 2012
19. Other comprehensive loss			
Item that will not be reclassified subsequently to profit or loss			
Actuarial (losses) gains on post-employment benefit funds	**(152)**	14	45
Gross amount	**(152)**	51	(71)
Tax[(1)]	**–**	(37)	116
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation to presentation currency	**(71)**	(225)	(60)
Translation of foreign operations	**(67)**	(211)	(24)
Exchange differences arising on non-distributable reserves	**(8)**	(11)	(5)
Exchange differences arising on available-for-sale financial instruments	**–**	(1)	–
Exchange differences arising on hedging reserves	**4**	(2)	–
Reclassification adjustments to profit or loss on disposal of foreign operations	**–**	–	(31)
Tax	**–**	–	–
Fair value adjustment on available-for-sale financial instruments	**(2)**	–	1
Gross amount	**(2)**	–	1
Tax	**–**	–	–
Hedging reserves	**(22)**	1	(44)
Movements during the year	**(26)**	4	(37)
Reclassified to profit or loss	**3**	4	(7)
Reclassified to property, plant and equipment	**–**	(5)	(3)
Tax	**1**	(2)	3
Other comprehensive loss recorded directly in equity	**(247)**	(210)	(58)
Profit (loss) for the year	**135**	(182)	93
Total comprehensive (loss) income for the year	**(112)**	(392)	35

[(1)] *Due to the effect of different effective tax rates being applied in different tax jurisdictions, the net tax effect for the 2014 financial year is nil. The 2012 financial year included the recognition of a US$101 million deferred tax asset that relates to transactions that occurred prior to the 2012 financial year.*

US$ million	2014	2013
20. Non-distributable reserves		
Legal reserves in subsidiaries	**65**	70
Share-based payment reserve	**64**	72
Other	**4**	16
Capital reduction	**1**	1
Capitalisation of distributable reserves	**1**	11
Revaluation of available-for-sale financial assets	**2**	4
	133	158

US$ million	2014 Legal reserves[1]	2014 Share-based payment reserve	2014 Other	2014 Total	2013 Legal reserves[1]	2013 Share-based payment reserve	2013 Other	2013 Total
20. Non-distributable reserves continued								
Opening balance	**70**	**72**	**16**	**158**	76	78	17	171
Transfer to retained earnings	**–**	**–**	**(15)**	**(15)**	(9)	–	–	(9)
Transfers of vested share options	**–**	**(7)**	**–**	**(7)**	–	(3)	–	(3)
Share-based payment expense	**–**	**7**	**–**	**7**	–	11	–	11
Movement on available-for-sale financial assets	**–**	**–**	**(2)**	**(2)**	–	–	–	–
Translation differences	**(5)**	**(8)**	**5**	**(8)**	3	(14)	(1)	(12)
	65	**64**	**4**	**133**	70	72	16	158

[1] *Represents equity of the group that is not available for distribution to shareholders other than on liquidation. This is a legal requirement in certain countries which require a percentage of profit (loss) for the year to be transferred to a legal reserve until a certain threshold is reached. This threshold varies from country to country.*

US$ million	2014	2013
21. Interest-bearing borrowings		
Secured borrowings		
– Mortgage and pledge over trade receivables and certain assets (refer to note 25 for details of encumbered assets)	**1,729**	1,779
– Capitalised lease liabilities (refer to note 25 for details of encumbered assets)	**–**	8
Total secured borrowings	**1,729**	1,787
Unsecured borrowings	**745**	811
Total borrowings (refer to note 31)	**2,474**	2,598
Less: Current portion included in current liabilities	**(163)**	(99)
Total non-current interest-bearing borrowings	**2,311**	2,499
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2014		99
2015	**163**	103
2016	**464**	504
2017	**521**	526
2018	**358**	383
2019 (September 2013: Thereafter)	**295**	983
Thereafter	**673**	
	2,474	2,598

Capitalised lease liabilities

As at financial year-end, the group held no outstanding material capitalised finance lease liabilities.

US$ million	2014 Minimum lease payments	2014 Interest	2014 Present value of minimum lease payments	2013 Minimum lease payments	2013 Interest	2013 Present value of minimum lease payments
Payable in the year ended September:						
2014				4	(1)	3
2015	**–**	**–**	**–**	5	–	5
Total future minimum lease payments	**–**	**–**	**–**	9	(1)	8

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21. Interest-bearing borrowings continued

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

	Currency	Interest rate[1]	Principal amount outstanding	Balance sheet value	Security/ cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	US$	Fixed[2]	US$400 million	US$394 million[3][4][5]	Property, plant and equipment, intercompany receivables and shares in subsidiaries	July 2017	No financial covenants
Public bond	EUR	Fixed	€250 million	€247 million[3][4][5]	Property, plant and equipment, intercompany receivables and shares in subsidiaries	April 2018	No financial covenants
Public bond	US$	Fixed[2]	US$300 million	US$295 million[3][4][5]	Property, plant and equipment, intercompany receivables and shares in subsidiaries	June 2019	No financial covenants
Public bond	US$	Variable[6]	US$350 million	US$353 million[3][4][5]	Property, plant and equipment, intercompany receivables and shares in subsidiaries	April 2021	No financial covenants
Public bond	US$	Fixed	US$221 million	US$217 million[4][5][7]	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed[8]	ZAR750 million	ZAR749 million[4][9]	Unsecured	April 2015	No financial covenants
Public bond	ZAR	Fixed[8]	ZAR255 million	ZAR255 million	Unsecured	April 2016	No financial covenants
Public bond	ZAR	Fixed	ZAR500 million	ZAR499 million[4]	Unsecured	June 2016	No financial covenants
Public bond	ZAR	Fixed[8]	ZAR500 million	ZAR499 million[4]	Unsecured	April 2018	No financial covenants
Public bond	ZAR	Fixed	ZAR745 million	ZAR744 million[4]	Unsecured	April 2020	No financial covenants
Secured loans							
UniCredit Bank	EUR	Variable	€192 million	€192 million[4]	Trade receivables (securitisation programme)	August 2016	EBITDA to net interest and net debt to EBITDA[10]
UniCredit Bank	US$	Variable	US$131 million	US$131 million[4]	Trade receivables (securitisation programme)	August 2016	EBITDA to net interest and net debt to EBITDA[10]
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	€58 million	€58 million		December 2014	No financial covenants
Österreichische Kontrollbank	EUR	Variable	€136 million	€135 million[4][11]		June 2017	EBITDA to net interest and net debt to EBITDA[10]
GroCapital Financial Services	ZAR	Fixed[8]	ZAR400 million	ZAR400 million		May 2020	No financial covenants

21. Interest-bearing borrowings continued

	Local currency million	US$ million
The analysis of the currency per debt is:	1,390	**1,390**
US Dollar[12]	634	**804**
Euro	3,147	**280**
ZAR		**2,474**

(1) *The nature of the rates for the group bonds are explained in note 31 to the group annual financial statements. The nature of the interest rates is determined with reference to the underlying economic hedging instrument.*
(2) *US Dollar fixed interest rates have been swapped into Euro fixed interest rates. These swaps are subject to hedge accounting.*
(3) *Under the relevant indenture, certain limitations exist including, dividend distributions and other payments, indebtedness, asset sales, liens, guarantees, and mergers and consolidations. In case of a change of control, holders have a right to require the relevant issuer to repurchase all or any part of their bonds at a purchase price of 101% of the principal amount of bonds.*
(4) *The principal value of the loans/bonds corresponds to the amount of the facility, however, the balance sheet value has been adjusted by the discounts paid upfront and the fair value adjustments relating to hedge accounting.*
(5) *Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time make an offer to redeem any public bonds (the 'Securities'), in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the Securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus a premium, as defined in the bond indentures, together with interest calculated on the principal amount of the securities to be redeemed up to the date of redemption.*
(6) *US Dollar fixed interest rates have been swapped into variable US Dollar interest rates. These swaps are subject to hedge accounting.*
(7) *Under the relevant indenture, limitations exist on liens, sale and leaseback transactions, and mergers and consolidations. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH group.*
(8) *ZAR variable interest rates have been swapped into fixed ZAR interest rates. These swaps are subject to hedge accounting.*
(9) *Subsequent to financial year-end, ZAR300 million of this bond was redeemed.*
(10) *Financial covenants relate to the Sappi Limited group.*
(11) *The OeKB provides the funding for this facility but the majority of the credit risk is guaranteed by some of Sappi's relationship banks.*
(12) *This amount includes debt of US$700 million that is swapped into Euro.*

A detailed analysis of total interest-bearing borrowings has been performed in note 31.

Other restrictions
As is the norm for bank loan debt, a portion of the group's financial indebtedness is subject to cross default provisions. Breaches in bank covenants in certain subsidiaries, if not corrected in time, might result in a default in group debt, and in this case, a portion of the group's consolidated liabilities might eventually become payable on demand.

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

Borrowing facilities secured by trade receivables
The on-balance sheet securitisation programme with UniCredit Bank AG has a limit of US$419 million (€330 million) and, to the extent utilised, is disclosed on the balance sheet together with a corresponding trade receivable. The interest arising on this programme is recorded within finance costs.

In terms of the programme, the securitisation sellers being Sappi Lanaken NV on behalf of Europe, Sappi NA Finance LLC (a special purpose entity) on behalf of North America and, Sappi Deutschland GmbH and Sappi Papier Holding GmbH on behalf of Trading sell certain eligible trade receivables to Elektra Purchase N° 29 Limited (Elektra), a securitisation special purpose entity, that is consolidated by the Sappi group. Elektra has a commissioning agreement with Arabella Finance Limited (Arabella), an entity belonging to UniCredit Bank AG that issues commercial paper to fund the purchase of the trade receivables (alternative funding resources are available should the market for commercial paper be disrupted). The funding is settled in US Dollar and Euro.

As at September 2014, a funding reserve, that is reset on a monthly basis, amounted to 21.98% (2013: 22.03%).

The cost of the programme includes a variable component based on the cost of funding of Arabella, a fixed margin and a commitment fee computed on the difference between US$381 million (€300 million) and the used portion of the programme limit.

The trade receivables are legally transferred; however, these receivables do not qualify for derecognition under IAS 39 as most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi.

Further detail of the value of trade receivables pledged as security for this programme is included in notes 17 and 25.

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21. Interest-bearing borrowings continued

Unutilised facilities

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

US$ million	Currency	Interest rate	2014	2013
Unutilised committed facilities				
Syndicated loan/revolving credit facility[1]	EUR/ZAR	Variable (EURIBOR/ JIBAR)	533	572
Various other facilities	ZAR	Variable (JIBAR)	4	5
Securitisation facility (if underlying eligible trade receivables would be available)	EUR	Variable (cost of funding bank)	45	42
			582	619
Unutilised uncommitted facilities				
Cash management overdraft facility/short-term banking facilities	ZAR	Variable (JIBAR)	24	26
Cash management overdraft facility	EUR	Variable (EURIBOR)	20	25
			44	51
Total unutilised facilities (committed and uncommitted) excluding cash			626	670

(1) Two syndicated loans with a consortium of banks with revolving facilities available of €350 million (2013: €350 million) and ZAR1,000 million (2013: ZAR1,000 million). The €350 million facility matures in April 2016, is subject to financial covenants relating to the Sappi Limited group and is secured by the same assets as the public bonds maturing in 2017, 2018, 2019 and 2021. The ZAR1,000 million facility is an evergreen facility with a 15 month notice period and is subject to financial covenants relating to the financial position of Southern Africa. The group has paid a total combined commitment fee of US$5.6 million (2013: US$5.3 million) in respect of the two facilities.

Fair value

The fair values of all interest-bearing borrowings are disclosed in note 31.

22. Other non-current liabilities

US$ million	2014	2013
Defined benefit pension plan liabilities (refer to note 28)	368	291
Other defined benefit plan liabilities (refer to note 28)	113	140
Long-term employee benefits	1	2
Workmen's compensation	21	15
Long service awards	22	23
Land restoration obligation	15	17
Restructuring provisions	13	12
Deferred income	2	3
Other	8	3
	563	506

23. Provisions

US$ million	2014	2013
Restructuring provisions	45	89
Long-term (refer to note 22)	13	12
Short-term	32	77
Other provisions	–	–
Balance at September	45	89

23. Provisions continued

Details of restructuring provisions are provided below:

US$ million	Severance, retrenchment and related costs	Lease cancellation and penalty costs	Other closure costs	Total
Balance at September 2012	27	–	–	27
Increase in provisions	78	6	17	101
Utilised	(21)	–	(9)	(30)
Released during the year	(4)	–	–	(4)
Other movements	(1)	–	(7)	(8)
Translation effect	2	–	1	3
Balance at September 2013	81	6	2	89
Increase in provisions	34	–	4	38
Utilised	(28)	–	(4)	(32)
Released during the year	(35)	(6)	(3)	(44)
Other movements	(5)	–	2	(3)
Translation effect	(3)	–	–	(3)
Balance at September 2014	44	–	1	45

September 2014 restructuring provisions

Europe

During the financial year, the group put into place a plan to reduce the workforce primarily in its coated mechanical cash-generating unit and to restructure its research and development activities in order to better utilise resources. This resulted in a restructuring provision of US$18 million, which was unutilised at financial year-end, being raised. The provision is expected to be fully utilised by September 2016.

Another restructuring provision was raised during the year to reduce maintenance costs and, to an extent, payroll costs. This resulted in a restructuring provision of US$6 million being raised through other operating expenses in profit or loss. By financial year-end, an amount of US$3 million was utilised and US$1 million was released to profit or loss for the year. An amount of US$1 million remains unutilised at financial year-end which is expected to be fully utilised by September 2015.

North America

In May 2014, Sappi North America announced that it would reduce its central overhead costs resulting in a restructuring provision of US$3 million for severance and retrenchment costs being raised through other operating expenses in profit or loss for the year. At financial year-end, an amount of US$1 million was utilised with the remaining balance of US$2 million expected to be fully utilised by December 2015.

Southern Africa

During September 2014, it was announced that Stanger Mill will close the finishing house and coater machine at the mill. This resulted in severance and retrenchment costs of US$1 million being raised as a restructuring provision through other operating expenses in profit or loss for the year. At financial year-end the provision remains unutilised. This provision is expected to be fully utilised by December 2014.

An amount of US$2 million was raised for mostly severance, retrenchment and environmental costs at Usutu Mill. This provision was fully utilised prior to the sale of the mill during the year. The provision was raised through other operating expenses in profit or loss for the year.

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23. Provisions continued

September 2013 restructuring provisions

Due to market decline and consequent overcapacity in our European and Southern African coated paper markets, the group initiated measures to improve efficiencies and contain costs in our coated paper businesses while investing in higher margin businesses which together, resulted in various restructuring provisions being raised during the 2013 financial year.

Europe

The intention to invest in higher margin businesses resulted in paper machine 2 at Alfeld Mill being converted to produce speciality paper, resulting in a restructuring provision of US$9 million being raised primarily for severance and retrenchment costs. During the 2014 financial year, US$6 million of the remaining US$8 million was utilised and at financial year-end, an amount of US$2 million remained unutilised. The provision is expected to be fully utilised by September 2015.

On 28 September 2013, the group announced its intention to relocate all production from Nijmegen Mill to other Sappi mills in Europe. This resulted in a restructuring provision of US$43 million being raised at Nijmegen Mill and, due to the relocation of certain products to Lanaken Mill, an additional provision of US$3 million being raised at that mill. During the 2014 financial year, Nijmegen Mill was sold resulting in an additional provision of US$3 million being raised for transitional costs, US$2 million being utilised and US$39 million being released to other operating expenses in profit or loss. At financial year-end, an amount of US$2 million remained unutilised.

To improve the cost effectiveness of Gratkorn Mill, the group is upgrading certain sections of the mill which will result in a workforce reduction. During the 2014 financial year, US$3 million of the provision was utilised and the group had raised an additional US$2 million through other operating expenses in profit or loss for the year. At financial year-end, the remaining provision which is expected to be fully utilised by December 2016, was US$4 million.

In an attempt to tailor the central fixed costs to be in line with declining volumes, a central overhead cost reduction programme was implemented across Europe. A restructuring provision of US$17 million for severance and retrenchment costs was raised. During the 2014 financial year, an amount of US$12 million was utilised and US$2 million released to other operating expenses in profit or loss. At financial year-end an amount of US$2 million remains unutilised. The provision is expected to be fully utilised by the end of September 2015.

Southern Africa

During the 2013 financial year, a review of the activities and costs of Southern Africa's shared services (communications, information technology, human resources, procurement and finance) was undertaken to ensure that resources were utilised more efficiently. This resulted in a restructuring charge of US$3 million being raised. During the 2014 financial year, an amount of US$1 million was utilised and US$2 million was released to other operating expenses in profit or loss resulting in the provision being fully utilised by financial year-end.

US$ million	2014	Restated 2013	Restated 2012
24. Notes to the group statement of cash flows			
24.1 Cash generated from operations			
Profit (loss) for the year	**135**	(182)	93
Adjustment for:			
– Depreciation	**310**	345	367
– Fellings	**59**	66	73
– Amortisation	**2**	3	2
– Taxation charge	**2**	15	28
– Net finance costs	**177**	186	306
– Impairments of assets and investments	**1**	155	10
– Restructuring provisions and closure costs (reversed) raised	**(6)**	97	(2)
– Fair value adjustment gains and growth on plantations	**(86)**	(166)	(68)
– Post-employment benefits funding	**(70)**	(74)	(62)
– Profit on disposal of investment	**–**	–	(11)
– Loss (profit) on disposal of assets and businesses	**29**	2	(52)
– Other non-cash items	**13**	–	44
	566	447	728
24.2 Decrease (increase) in working capital			
(Increase) decrease in inventories	**(9)**	(20)	1
(Increase) decrease in receivables	**(24)**	22	35
Increase (decrease) in payables	**67**	(22)	(138)
	34	(20)	(102)

US$ million	2014	Restated 2013	Restated 2012
24. Notes to the group statement of cash flows continued			
24.3 Finance costs paid			
Interest and other finance costs on liabilities carried at amortised cost	**(194)**	(195)	(334)
Net foreign exchange gains	**7**	1	5
Net fair value gain on financial instruments	**1**	1	5
Premium and costs on early redemption of redeemable bonds and other loans	**–**	–	46
Non-cash movements included in items above	**16**	22	72
	(170)	(171)	(206)
24.4 Taxation paid			
Amounts payable (receivable) at beginning of year	**6**	(19)	(13)
Translation effects	**(1)**	4	2
Taxation (charge) benefit to profit or loss	**(17)**	4	(28)
Amounts payable (receivable) at end of year	**11**	(6)	19
	(1)	(17)	(20)

24.5 Cash outflow on disposal of business

During the year, the group disposed of Nijmegen Mill which, together with inventory of US$14 million, trade and other receivables of US$2 million, other long-term loans of US$1 million and trade and other payables of US$12 million, included cash balances of US$23 million. This cash outflow was offset by the release of a net closure provision, after providing for certain disposal related costs, of US$36 million. This provision would have been mostly settled using cash resources.

US$ million	2014	Restated 2013	Restated 2012
24.6 Proceeds on disposal of other non-current assets			
Book value of non-current assets disposed of	**11**	14	93
(Loss) profit on disposal	**(5)**	(2)	52
Realisation of foreign currency translation reserves related to assets sold	**–**	–	(32)
Other sundry receivables	**–**	41	(42)
	6	53	71
24.7 Cash and cash equivalents			
Cash and deposits on call	**517**	342	593
Money market instruments	**11**	10	11
	528	352	604

US$ million	2014	2013
25. Encumbered assets		
The book values of assets which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third party ownership in terms of capitalised leases or suspensive sale agreements, are as follows:		
Land and buildings	**230**	272
Plant and equipment	**1,077**	1,411
Inventory	**203**	214
Trade receivables	**478**	521
	1,988	2,418

Suspensive sale agreements are installment sale agreements which the group has entered into in respect of certain property, plant and equipment where the assets purchased are encumbered as security for the outstanding liability until such time that the liability is discharged.

The encumbered land and buildings, plant and equipment and inventory relate mainly to the security provided under the following facilities:

- Public high yield bonds of (refer to note 21):
  - US$400 million due in 2017
  - €250 million due in 2018
  - US$300 million due in 2019 and
  - US$350 million due in 2021.
- The committed revolving credit facility of €350 million which was undrawn during the 2014 financial year (refer to note 21).

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25. Encumbered assets continued

The security consists substantially of (i) the land, plant and equipment located at Sappi's production facilities in Gratkorn, Austria; Kirkniemi, Finland; Maastricht, The Netherlands; Skowhegan/Somerset, Maine, USA, and Cloquet, Minnesota, USA and (ii) certain inventory owned by SD Warren Company and Sappi Cloquet LLC. The security also includes certain shares in subsidiaries and certain inter-company receivables which are not reflected in the total above.

The encumbered trade receivables relate to the securitisation facility with UniCredit Bank of US$419 million (€330 million), of which, US$374 million (€295 million) was utilised at financial year-end (refer to notes 17 and 21).

US$ million	2014	2013
26. Commitments		
Capital commitments		
Contracted but not provided	104	62
Approved but not contracted	126	195
	230	257
Future forecast cash flows of capital commitments at September:		
2014		188
2015	195	25
2016	11	33
2017 (2013: Thereafter)	13	11
Thereafter	11	
	230	257
These projects are expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group.		
Lease commitments		
Future undiscounted minimum operating lease obligations payable in the year ended September:		
2014		25
2015	24	16
2016	14	9
2017	10	6
2018	5	4
2019 (2013: Thereafter)	3	29
Thereafter	8	
	64	89
Further information on capital commitments relating to environmental matters can be found in note 34.		

US$ million	2014	2013
27. Contingent liabilities		
Guarantees and suretyships	23	33
Other contingent liabilities	26	11
	49	44

Included under guarantees and suretyships are bills of exchange where Sappi has guaranteed third party funding of payments to Sappi for certain German accounts receivable.

Other contingent liabilities mainly relate to environmental and other taxation queries in respect of certain group companies.

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these lawsuits and proceedings cannot be predicted with certainty, it is the present opinion of management, after consulting with legal counsel, that the possibility of a material outflow of resources in connection with these lawsuits and administrative proceedings is considered to be remote.

In September 2012, the Competition Commission of South Africa notified the group that it has initiated an investigation into alleged anti-competitive behaviour between Sappi and a competitor in the South African pulp and paper market. At that time, we reported that the investigation was still in the early stages. As at the end of the 2014 financial year, the investigation remains in its early stages as the dispute is one of a procedural nature.

28. Post-employment benefits

Summary of results

US$ million	Defined contribution plans 2014	Defined contribution plans 2013	Defined benefit pension plans 2014	Defined benefit pension plans 2013	Post-employment healthcare subsidy 2014	Post-employment healthcare subsidy 2013
Post-employment plan costs (credits) recognised in profit or loss	**34**	34	**8**	37	**10**	(12)
Employer contributions paid during the financial year[1]			**59**	62	**45**	9
Amounts presented in the group balance sheet are as follows:						
Net pension/other benefit liabilities (refer to note 22)			**368**	291	**113**	140
Pension liabilities classified as liabilities associated with assets held for sale			**–**	1	**–**	–
Net pension assets (refer to note 15)[2]			**(27)**	(29)	**–**	–
Defined benefit obligations included in 'Trade and other payables'			**–**	–	**–**	6
Net balance sheet liabilities			**341**	263	**113**	146
Development in the balance sheet for the pension/other benefit plans						
Net pension/healthcare subsidy liabilities at beginning of year			**(263)**	(318)	**(146)**	(191)
Net pension/other benefit costs for the year			**(11)**	(42)	**(10)**	(12)
Curtailments, settlement and plan amendment gains for the year[3][4]			**3**	5	**–**	24
Employer contributions			**59**	62	**45**	9
Net actuarial (losses) gains for the year			**(146)**	43	**(6)**	8
Translation differences			**17**	(13)	**4**	16
Net pension/other benefit liabilities at end of year			**(341)**	(263)	**(113)**	(146)

[1] *The increase in the employer post-employment healthcare subsidy contribution is due to the purchase of a qualifying plan asset using certain non-current assets previously invested in a cell captive in South Africa.*
[2] *Defined benefit plans in South Africa.*
[3] *The current year gain of US\$3 million arose from a once-off adjustment of benefits in one plan in Europe. The prior year gain of US\$5 million related to a curtailment gain of US\$6 million in The Netherlands offset by a settlement loss of US\$1 million in South Africa.*
[4] *A gain of US\$24 million resulting from a plan amendment to the post-retirement medical aid scheme in South Africa was recognised in profit or loss for the 2013 financial year.*

Actuarial valuations of all plans are performed annually with the exception of our South African and United Kingdom defined benefit pension plans where actuarial reviews are performed annually and formal actuarial funding valuations are performed tri-annually.

Defined contribution plans

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

The total cost charged to the income statement of US\$34 million (2013: US\$34 million; 2012: US\$35 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans. Expected contributions (total cost charged) to be paid in the next financial year is US\$30 million.

In addition to company sponsored plans across the group, employees commonly participate in local State plans wherever they exist. State pension plans exist in most regions to provide such benefits as disability and unemployment income protection. Employee eligibility and participation is generally mandatory to local tax payers usually on residence-based criteria in accordance with domestic laws. State benefits vary widely in value and accrual formulae from country to country. Contributions are paid through domestic taxation or as supplemental national insurance contributions (or the like), at rates set by domestic governments. Participation in State plans involves no obligations on group companies other than to pay contributions according to the rates specified by domestic governments. Costs, where incurred, are included with other employee costs elsewhere in the group accounts.

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28. Post-employment benefits continued

Defined benefit pension plans

The group operates several principal defined benefit pension and/or lump sum plans in all regions plus a number of smaller plans. The extent of employee access to these plans vary. Plans open to new entrants or future accrual cover all qualifying employees. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country.

With the exception of our German and Austrian plans, which are unfunded, the assets of our funded plans are held in separate trustee-administered funds which are subject to varying statutory requirements in the particular countries concerned. Generally, the trusts are required by local legislation as well as their respective articles of associations to act in the interests of the fund and its stakeholders (ie members and the various local sponsoring companies across the group). The pension funds comprise of management and member-appointed trustees, including (in some instances) an independent trustee, who collectively are responsible for the administration and governance of the trusts.

Benefits are formula-driven, comprising a variety of earnings definitions (such as final average salary or career average revalued earnings) and years of service. Exceptions are certain plans in Germany and Austria that provide fixed value benefits (in Euro) and certain plans in North America that provide benefits based on years of service and a '$ multiplier' (a nominal US Dollar value which, historically, has increased from time to time). The table below briefly illustrates the nature of defined benefits and their link with earnings.

Type of benefit revaluation rate/pensionable salary definition	Location of scheme
Final average salary	South Africa, Austria, Germany
Career average revalued earnings	Belgium, Netherlands
Frozen benefit	United Kingdom, North America (salaried plan)
Fixed €-value	Germany
Nominal $-value (periodically revalued)	North America (works plans)

Plans remain open to new hires except for plans in Southern Africa, Austria and some in Germany. Plans in the United Kingdom and one in North America are closed to future accrual.

Investment management and strategic asset allocation

Plan fiduciaries are responsible for investment policies and strategies for the local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment in each region. Plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Plan fiduciaries also make use of fiduciary managers, multi-asset manager mandates and 'flight path' assessment tools to assist with strategic asset allocation. Such reviews include asset-liability modelling studies to analyse risk-and-return profiles. Investment and contribution policies are integrated within this study.

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

- South Africa: Asset mix based on 65% equity instruments; 35% debt instruments
- Europe incl UK[1]: Asset mix based on 30% equity instruments; 70% debt instruments
- North America: Asset mix based on 45% equity instruments; 55% debt instruments

[1] *Weighted average of separate plans in this region.*

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

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

Apart from paying the costs of the entitlements, the group's subsidiaries are to various extents, liable to pay additional contributions in cases where the plans do not hold sufficient assets. These range from enforcement by local regulators, reducing accrued entitlements, or a charge over assets.

Expected company contributions across group subsidiaries over the next financial year are US$56 million.

28. Post-employment benefits continued

Post-employment healthcare subsidy

The group sponsors two defined benefit post-employment plans that provide certain healthcare and life insurance benefits to eligible retired employees of the North American and South African operations. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of service.

Expected company contributions to fund these subsidies over the next financial year are US$7 million.

Other employee benefits

Group companies have no significant post-employment defined benefit obligations other than the following:

US$ million	2014	2013
Jubilee (long service award) in other long-term liabilities	22	23
Early retirement (temporary pension) benefit in Belgium	7	5
ATZ (early retirement – temporary salary supplement) obligations in Germany and Austria	11	8
Workmen's compensation benefit obligations in North America	21	19

	Defined benefit pension plans			Post-employment healthcare subsidy		
		(Restated)			(Restated)	
US$ million	2014	2013	2012	2014	2013	2012
Components of defined benefit cost recognised in profit or loss						
Current service cost	23	25	23	3	3	2
Past service (credit) cost	(23)	2	1	–	–	–
Interest on net defined benefit	8	11	12	7	9	11
Fund administration costs	3	4	5	–	–	–
Non-routine plan amendment, curtailment loss and settlement gain	(3)	(5)	–	–	(24)	–
Net amount recognised in profit or loss	8	37	41	10	(12)	13
Components of defined benefit cost recognised in other comprehensive income						
Actuarial gains (losses) arising from membership experience	3	3	2	(1)	6	5
Actuarial (losses) gains arising from changes in financial assumptions	(286)	70	(221)	(5)	2	(14)
Return on plan assets (excluding amounts included in interest income)	137	(30)	157	–	–	–
Net amount recognised in other comprehensive income	(146)	43	(62)	(6)	8	(9)

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US$ million	Defined benefit pension plans 2014	Defined benefit pension plans (Restated) 2013	Post-employment healthcare subsidy 2014	Post-employment healthcare subsidy (Restated) 2013
28. Post-employment benefits continued				
Movement in the present value of the defined benefit obligation in the current year				
Defined benefit obligation at beginning of year	**1,823**	2,007	**146**	191
Current service cost	**23**	25	**3**	3
Past service (credit) cost	**(23)**	2	**–**	–
Interest expense	**81**	87	**8**	9
Plan participants' contributions	**3**	3	**–**	–
Remeasurements	**283**	(73)	**6**	(8)
Membership experience changes	**(3)**	(3)	**1**	(6)
Financial assumption changes	**286**	(70)	**5**	(2)
Non-routine plan amendment, curtailment loss and settlement gain	**(4)**	(108)	**–**	(24)
Benefits paid	**(103)**	(107)	**(7)**	(9)
Translation difference	**(78)**	(13)	**(6)**	(16)
Defined benefit obligation at end of year	**2,005**	1,823	**150**	146
– Present value of wholly unfunded obligation	**155**	151	**89**	146
– Present value of wholly or partially funded obligation	**1,850**	1,672	**61**	–
Movement in the fair value of the plan assets in the current year				
Fair value of plan assets at beginning of year	**1,560**	1,689	**–**	–
Interest income	**73**	76	**1**	–
Employer contributions[(1)]	**59**	62	**45**	9
Plan participants' contributions	**3**	3	**–**	–
Remeasurements				
Return on plan assets	**137**	(30)	**–**	–
Non-routine plan amendment, curtailment loss and settlement gain	**(1)**	(103)	**–**	–
Benefits paid	**(103)**	(107)	**(7)**	(9)
Fund administration costs	**(3)**	(4)	**–**	–
Translation difference	**(61)**	(26)	**(2)**	–
Fair value of plan assets at end of year	**1,664**	1,560	**37**	–
Net balance sheet defined benefit liability	**341**	263	**113**	146

[(1)] *The increase in the employer post-employment healthcare subsidy contribution is due to the purchase of a qualifying plan asset using certain non-current assets previously invested in a cell captive in South Africa.*

28. Post-employment benefits continued

The major categories of plan assets at fair value are presented as follows:

US$ million	Funded pension plans 2014	Funded pension plans 2013	Funded subsidy plans 2014	Funded subsidy plans 2013
Investments quoted in active markets				
– Equity and high yield investments	**643**	539	**–**	–
– Investment grade debt instruments	**686**	665	**6**	–
– Property investment funds	**14**	18	**–**	–
Unquoted investments				
– Equity and high yield investments[1]	**297**	268	**29**	–
Cash	**24**	68	**2**	–
	1,664	1,558	**37**	–

[1] *Consist of commingled funds that are not quoted in active markets, but where the underlying securities held by these funds are quoted in active markets or whose prices are determined by other observable market data.*

Plan assets include investments in the group's own quoted shares of US$1 million. These are held by an appointed investment manager as part of its routine mandate to invest in domestic equities.

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

Assumptions

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

US$ million	2014 North America	2014 Europe (incl UK)	2014 Southern Africa	2013 North America	2013 Europe (incl UK)	2013 Southern Africa
Discount rate – pension (%)	**4.00**	**2.70**	**8.60**	4.40	3.80	9.45
Discount rate – post-employment medical aid subsidies (%)	**3.70**	**n/a**	**9.00**	4.10	n/a	9.00
Future salary increases (%)	**–**	**1.50**	**7.30**	–	1.75	7.60
Cost of living adjustment for pensions in payment (%)[1]	**–**	**1.90**	**5.00**	–	1.25	5.25
Healthcare cost trend rate (%)[2]	**8.40->5.00**	**n/a**	**8.00**	8.75->5.00	n/a	7.75
Average life expectancy from retirement (years)[3]						
– For current beneficiaries	**23.50**	**24.60**	**19.20**	23.30	24.50	18.60
– For future retiring beneficiaries	**23.50**	**26.60**	**20.10**	23.30	26.30	19.50

[1] *For plans that review adjustments by reference to inflation indices.*
[2] *Initial rate –> long-term rate trend over 8 years (2013: 10 years).*
[3] *Based on local mortality tables in use (with modifications to reflect expected changes in mortality and other rates).*

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28. Post-employment benefits continued

Sensitivity analysis

A quantitative sensitivity analysis for significant assumptions as at financial year-end is disclosed below:

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

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by US$277 million (increase by US$338 million).
- If the expected salary increase rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$51 million (decrease by US$42 million).
- If the expected cost of living adjustment rate is 100 basis points higher (lower), the defined benefit obligation would increase by US$164 million (decrease by US$138 million).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by US$68 million (decrease by US$70 million).

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

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

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

Liability profile

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

	Pension plans	Healthcare subsidy
North America	11 years	9 years
Europe (incl UK)	15 years	–
Southern Africa	21 years	14 years

Regional split of results

				(Restated)		
	2014			2013		
US$ million	**North America**	**Europe (incl UK)**	**Southern Africa**	North America	Europe (incl UK)	Southern Africa
Defined benefit obligation	**(753)**	**(1,174)**	**(228)**	(720)	(1,017)	(232)
Fair value of plan assets	**633**	**837**	**231**	570	789	201
Net defined benefit liability	**(120)**	**(337)**	**3**	(150)	(228)	(31)
Net defined benefit cost (credit) recognised in profit or loss	**15**	**(5)**	**8**	19	14	(8)
Net amount gain (loss) recognised in other comprehensive income	**21**	**(164)**	**(9)**	76	(51)	26

29. Share-based payments

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

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

The Sappi Limited Share Incentive Trust (Scheme)

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

Under the rules of the Scheme:

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

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

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

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

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

The Sappi Limited Performance Share Incentive Trust (Plan)

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

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

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

The Plan rules also provide that if:

- the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself or
- the persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action, the effect of which is, to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action; then the company is obliged to notify every participant thereof that such participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the performance criteria been achieved.

Rights offer

Following the December 2008 rights offer and in accordance with the provisions of the Scheme and the Plan, adjustments were made to the rights of participants so that they were neither better nor worse off than prior to the rights offer. This resulted in additional offers being made to participants in respect of all outstanding offers at the time of the rights offer. As in the case of shareholders who exercised their rights, the participants of the Plan will be required to pay the rights offer price of ZAR20.27 per share should the shares vest. Similarly, the participants of the Scheme may only exercise their additional options, awarded as a result of the rights offer, in conjunction with exercising their pre-rights offer options and upon payment of the rights offer price of ZAR20.27 per share.

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29. Share-based payments continued

Performance shares and share option activities were as follows during the financial years ended September 2014 and September 2013:

	Performance shares(1)	Share options	Weighted average share option exercise price (ZAR)	Total Shares
Outstanding at September 2012	7,938,200	12,891,815	35.50	**20,830,015**
– Offered	4,000,300	–	–	**4,000,300**
– Paid for/vested	(614,829)	(54,284)	22.90	**(669,113)**
– Returned, lapsed and forfeited	(1,207,471)	(2,578,058)	42.32	**(3,785,529)**
Outstanding at September 2013	10,116,200	10,259,473	33.86	**20,375,673**
– Offered(2)	4,078,350	–	–	**4,078,350**
– Paid for/vested	(840,426)	(1,805,607)	31.58	**(2,646,033)**
– Returned, lapsed and forfeited	(2,221,399)	(186,908)	35.95	**(2,408,307)**
Outstanding at September 2014	11,132,725	8,266,958	34.29	**19,399,683**
Exercisable at September 2012	–	6,326,377	42.06	**6,326,377**
Exercisable at September 2013	–	6,442,799	37.26	**6,442,799**
Exercisable at September 2014	–	5,956,994	37.28	**5,956,994**

(1) *Performance shares are issued in terms of the Plan and are for no cash consideration. The value is determined on the day the shares are taken up.*
(2) *An additional 200,000 performance shares were issued to our CEO and one of our prescribed officers, respectively, during the year. The valuation assumptions relating to both issues were largely unchanged from those used in Issue 39. The grant date was 27 June 2014 and 10 February 2014 and the share price at these grant dates were ZAR38.81 and ZAR33.60 respectively.*

The following table sets out the number of share options and performance shares outstanding at the end of September, excluding the Scheme shares:

	2014	2013	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
12 December 2007(i)	**819,200**	846,700	Time	(ii)	12 December 2015	52.57
19 March 2008(i)	**458,700**	460,900	Time	(ii)	19 March 2016	55.97
22 December 2008	**1,140,000**	1,559,760	Time	(ii)	22 December 2016	35.50
09 December 2009	**1,557,285**	2,146,040	Time	(ii)	09 December 2017	33.85
03 December 2010	**1,893,550**	2,339,400	Time	(ii)	03 December 2018	35.20
02 December 2011	**2,398,223**	2,906,673	Time	(ii)	02 December 2019	22.90
Performance shares:						
09 December 2009		2,496,300	Performance	09 December 2013	n/a	n/a
03 December 2010	**1,392,818**	1,514,900	Performance	03 December 2014	n/a	n/a
02 December 2011	**1,968,538**	2,145,000	Performance	02 December 2015	n/a	n/a
07 December 2012	**3,779,655**	3,960,000	Performance	07 December 2016	n/a	n/a
13 December 2013	**3,991,714**		Performance	13 December 2017	n/a	n/a
	19,399,683	20,375,673				

(i) *During the 2009 financial year, there was a rights issue of six shares for every five shares held at ZAR20.27 per share. In accordance with the rules of the Scheme, additional offers were made to participants in respect of all outstanding offers at the time of the rights offer. Not all the participants took up their rights.*
(ii) *These vest over four years in four equal portions.*

29. Share-based payments continued

The following assumptions have been utilised to determine the fair value of the shares granted in the financial period in terms of the Scheme and the Plan:

	Issue 39	Issue 39
Date of grant	13 December 2013	13 December 2013
Type of award	Performance	Performance
Share price at grant date	ZAR28.16	ZAR28.16
Vesting period	4 years	4 years
Vesting conditions	Market related – relative to peers	Cash flow return on net assets relative to peers
Life of options	n/a	n/a
Market related vesting conditions	Yes	No
Percentage expected to vest	41%	100%
Number of shares offered	1,839,175	1,839,175
Volatility	30%	n/a
Risk-free discount rate	1.2% (US yield)	n/a
Expected dividend yield	3.6%	3.6%
Expected percentage of issuance	95%	95%
Model used to value	Monte-Carlo	Market price
Fair value of option	ZAR16.16	ZAR21.12

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

Refer to note 37 for more information on directors' and prescribed officers' participation in the Sappi Limited share schemes.

No new loans have been granted to the executive directors since 28 March 2002.

Black Economic Empowerment

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

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

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

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

The BEE transaction

The BEE transaction comprised two distinct parts:

- The value created through the Plantation BEE transaction was settled by the issue of 4.3 million fully paid up ordinary shares at a price based on the 30 day volume weighted average share price (VWAP) of Sappi as at Friday, 05 February 2010 of ZAR33.50.
- The creation and issuance of a new class of unlisted equity shares referred to as 'A' ordinary shares. The 'A' ordinary shares were issued at their par value of ZAR1 to a trust formed for the benefit of certain Sappi employees including HDSAs (the 'ESOP Trust'), a trust formed for the benefit of certain Sappi managers that are HDSAs (the 'MSOP Trust') and a trust formed for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the 'Sappi Foundation Trust', and together with the ESOP Trust and the MSOP Trust, the 'BEE trusts'). The issuance of the 'A' ordinary shares was financed through notional non-interest-bearing loans extended by Sappi to the BEE trusts. The BEE transaction resulted in the BEE trusts and the Strategic Partners holding, collectively, ordinary and 'A' ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's South African business under the Forestry Charter and BEE legislation in general.

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29. Share-based payments continued

The BEE transaction continued

The number of ordinary shares allocated to the Strategic Partners and Sappi employees who were participants of the Plantation BEE transaction are as follows:

Entity	Ordinary share allocation
Strategic Partners	
Lereko Investments Proprietary Limited	1,971,693
Malibongwe Women Development Trust	432,842
AMB Capital Limited	643,221
	3,047,756
Employees (through the ESOP Trust)	1,280,597
Total	4,328,353

The number of 'A' ordinary shares allocated to the BEE trusts are as follows:

Entity	'A' Ordinary share allocation
ESOP Trust	13,889,195
MSOP Trust	3,642,969
Sappi Foundation Trust	2,429,312
Total	19,961,476

The group incurred a share-based payment expense of US$2 million (2013: US$3 million, 2012: US$3 million) during the 2014 financial year that related to the 'A' ordinary shares that were awarded.

The following assumptions were utilised to determine the fair value of the 'A' ordinary shares granted:

Base price for hurdle rate price	32.50
Share price hurdle rate	9.1%
Hurdle rate price	75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	7.4%
Management turnover (annual)	4.3%
Model used to value	Black Scholes Model

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

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

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

Refer to note 18 for further details regarding the 'A' ordinary shares.

US$ million		2014	2013
30. Derivative financial instruments			
Hedging instrument	**Hedged item**		
Non-current assets			
Fair value hedge	Secured notes due April 2021	9	15
Interest rate swap	Unsecured ZAR255 million bond due April 2016	–	1
Interest rate swap	Unsecured ZAR500 million bond due April 2018	2	2
Interest rate swap	Unsecured ZAR400 million loan due May 2020	2	2
		13	20
Current assets			
Forward exchange contracts	Various	–	1
Non-current liabilities			
Interest rate currency swap	Secured notes due July 2017	20	49
Interest rate currency swap	Secured notes due June 2019	32	50
Interest rate swap	Unsecured ZAR750 million bond due April 2015	–	–
		52	99
Current liabilities			
Forward exchange contracts	Various	7	2

Refer to note 31 for more detail on financial instruments.

31. Financial instruments

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

Introduction

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

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

(b) liquidity risk and

(c) credit risk

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

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

Credit risk, insofar as it relates to trade receivables, is primarily managed regionally but is coordinated on a group basis, while commodity price risk is managed regionally.

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

notes to the group annual financial statements
continued

for the year ended September 2014

31. Financial instruments continued

(a) Market risk

Interest rate risk

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

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

Interest-bearing borrowings

The following table provides information about Sappi's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2014 and thereafter are based on the yield curves for each respective currency as published by Bloomberg on 28 September 2014. The information is presented in US Dollar, which is the group's reporting currency.

	Expected maturity date									
US$ equivalent in millions	2015	2016	2017	2018	2019	2020+	Total carrying value	**2014 fair value**	2013 carrying value	2013 fair value
US Dollar										
Fixed rate debt[1]	–	–	394	–	295	217	906	**1,061**	902	1,020
Average interest rate (%)	–	–	7.86	–	8.53	7.64	8.03		8.06	
Variable rate debt[2]	–	131	–	–	–	353	484	**533**	501	539
Average interest rate (%)	–	3.62	–	–	–	7.41	6.39		6.93	
Euro										
Fixed rate debt	–	1	1	313	–	1	316	**378**	336	392
Average interest rate (%)	–	2.22	2.10	6.71	–	2.07	6.67		6.68	
Variable rate debt[3]	96	266	126	–	–	–	488	**488**	520	520
Average interest rate (%)	1.70	2.19	4.17	–	–	–	2.60		3.71	
Rand										
Fixed rate debt[4]	67	67	–	45	–	101	280	**292**	339	354
Average interest rate (%)	7.78	8.65	–	7.46	–	7.99	8.01		8.27	
Total										
Fixed rate debt	67	68	395	358	295	319	1,502	**1,731**	1,577	1,766
Average interest rate (%)	7.78	8.62	7.86	6.80	8.52	7.73	7.74		7.81	
Variable rate debt	96	397	126	–	–	353	972	**1,021**	1,021	1,059
Average interest rate (%)	1.70	2.66	4.17	–	–	7.41	4.49		5.29	
Fixed and variable	**163**	**465**	**521**	**358**	**295**	**672**	**2,474**	**2,752**	**2,598**	**2,825**
Current portion							163	**144**	99	101
Long-term portion							2,311	**2,608**	2,499	2,724
Total interest-bearing borrowings (refer to note 21)							2,474	**2,752**	2,598	2,825

[1] US Dollar fixed rates of US$700 million debt have been swapped into Euro fixed rates. These swaps are subject to hedge accounting.
[2] The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).
[3] The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).
[4] ZAR floating rates of ZAR1,905 million debt have been swapped into ZAR fixed rates. These swaps are subject to hedge accounting.

31. Financial instruments continued

(a) Market risk continued

Interest-bearing borrowings continued

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

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

The range of interest rates in respect of all non-current borrowings, comprising both fixed and floating rate obligations, is between 1.70% and 8.65% (depending on currency). At September 2014, after giving effect to interest rate swaps, 60.71% of Sappi's borrowings were at fixed rates of interest and 39.29% were at floating rates. Fixed rates of interest are based on contract rates.

A detailed analysis of the group's borrowings is presented in note 21.

Hedging of interest rate risk

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

Cash flow hedges

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

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

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

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

Interest rate and currency swaps

In July 2012, Sappi entered into fixed for fixed IRCS which have been designated as cash flow hedges of future cash flows linked to fixed rate debt denominated in foreign currency. The swaps correspond to the underlying US$400 million Senior Secured Notes due 2017 and to the US$300 million Senior Secured Notes due 2019. The swaps convert all future US Dollar cash flows to Euro cash flows.

As at September 2014, the above mentioned hedges were effective. The swaps showed a total negative fair value of US$52 million. The negative fair value of the currency leg of the swaps, related to the principal amount, of US$11 million was booked to profit or loss to offset the unrealised corresponding foreign currency gain on the revaluation of the underlying hedged item, whereas the remaining negative fair value of the interest leg of the swaps of US$42 million was deferred in OCI. Due to the inclusion of the credit risk, a positive ineffective portion of US$0.5 million was booked to the income statement.

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for the year ended September 2014

31. Financial instruments continued

(a) Market risk continued

Interest rate swaps floating to fixed

In April 2012, Sappi issued a floating rate 2015 bond for an amount of ZAR750 million and at the same time the company entered into a floating to fixed interest rate swap. In April and May 2013, Sappi issued additional floating rate debt to the total amount of ZAR1,155 million maturing in 2016, 2018 and 2020 and swapped the floating rates into fixed rates. These liabilities and the corresponding interest rate swaps are designated in cash flow hedging relationships, allowing all mark-to-market valuations of the swaps to be booked to equity. As all critical terms of the hedged items and the hedging instruments match perfectly, the hedges are expected to continue being highly effective.

At September 2014, the hedges were highly effective and the swaps had in total a net positive fair value of US$4.3 million which was deferred to equity.

Fair value hedge

In April 2011, Sappi Papier Holding issued US$350 million Senior Secured Notes due 2021. The fixed rate of 6.625% on the bonds was swapped into six-month US Dollar LIBOR rates set in advance. The hedge qualifies for fair value hedge accounting as all the material terms of the swaps match the terms of the underlying bond. Changes in the fair value of the underlying debt attributable to changes in the credit spread are excluded from the hedging relationship. The carrying value of the hedged debt is adjusted to reflect the changes in fair value related to changes in interest rates only. This is offset by the change in fair value of the derivative which reflects changes in fair value related to both interest rate risk and credit risk. Sappi has determined at inception and in subsequent periods that the derivative is highly effective in offsetting the fair value exposure of the designated debt.

The bonds and the swaps are revalued on a monthly basis and show movements in line with changing market conditions. All market movements are reversed over time and the fair value of the bonds will revert to the nominal amount of the bonds at maturity. As the swaps were contracted at the same time as the issuance of the bonds, the designated benchmark value of the bonds corresponds to the nominal amount. The only income statement impact will be any residual ineffectiveness, which is not expected to be material. The initial mark-to-market value of the swaps of US$2 million is reflecting the pricing of the swap and the difference between the mid-market curve, used for marking-to-market, and the effective market curve at which the swaps were contracted.

The statistical method chosen to measure prospective and retrospective effectiveness is the linear regression analysis. Past data is used to demonstrate that the hedge relationship is expected to be highly effective in a prospective hedge effectiveness test.

In order to create a complete set of data for the regression analysis, both the hedging instrument and the hedged item are back-dated at inception date by creating a proxy trade. Actual historical three-month US Dollar LIBOR curves are used to generate net present values of the proxy trades. As time passes, the regression will be updated by adding new actual observations and excluding the same number of the oldest simulated observations from the data set.

Changes in fair value will represent period-to-period changes in ‘clean’ fair value (accruals of interest excluded).

At September 2014, the above mentioned fair value hedge was highly effective and the swaps had a positive fair value of US$9.3 million which has been offset by the negative fair value adjustment to the bonds of US$10.2 million, resulting in a life-to-date net negative impact on the group income statement of US$0.9 million.

31. Financial instruments continued

(a) Market risk continued

Summary of outstanding cash flow and fair value hedges

US$ million	Interest rate	Maturity date	Nominal value	Total fair value[1]	Recorded in OCI	Recorded in Profit or loss
September 2014						
Cash flow hedges						
IRCS	**US Dollar 7.75% into EUR 7.56%**	**July 2017**	**US$400 million**	**(20)**	**(14)**	**(6)**
IRCS	**US Dollar 8.38% into EUR 8.33%**	**June 2019**	**US$300 million**	**(32)**	**(28)**	**(4)**
IRS	**ZAR variable (JIBAR) to ZAR 7.78% fixed**	**April 2015**	**ZAR750 million**	**–**	**–**	**–**
IRS	**ZAR variable (JIBAR) to ZAR 6.74% fixed**	**April 2016**	**ZAR255 million**	**–**	**–**	**–**
IRS	**ZAR variable (JIBAR) to ZAR 7.46% fixed**	**April 2018**	**ZAR500 million**	**2**	**2**	**–**
IRS	**ZAR variable (JIBAR) to ZAR 7.85% fixed**	**May 2018**	**ZAR400 million**	**2**	**2**	**–**
Fair value hedges						
IRS	**US Dollar 6.63% fixed to variable (LIBOR)**	**April 2016**	**US$350 million**	**9**	**–**	**(1)**
				(39)	**(38)**	**(11)**

US$ million	Interest rate	Maturity date	Nominal value	Total fair value[1]	Recorded in OCI	Recorded in Profit or loss
September 2013						
Cash flow hedges						
IRCS	US Dollar 7.75% into EUR 7.56%	July 2017	US$400 million	(49)	(16)	(33)
IRCS	US Dollar 8.38% into EUR 8.33%	June 2019	US$300 million	(50)	(25)	(25)
IRS	ZAR variable (JIBAR) to ZAR 7.78% fixed	April 2015	ZAR750 million	–	–	–
IRS	ZAR variable (JIBAR) to ZAR 6.74% fixed	April 2016	ZAR255 million	1	1	–
IRS	ZAR variable (JIBAR) to ZAR 7.46% fixed	April 2018	ZAR500 million	2	2	–
IRS	ZAR variable (JIBAR) to ZAR 7.85% fixed	May 2018	ZAR400 million	2	2	–
Fair value hedges						
IRS	US Dollar 6.63% fixed to variable (LIBOR)	April 2016	US$350 million	15	–	(1)
				(79)	(36)	(59)

[1] *This refers to the carrying value.*

The total fair values of the IRCSs and IRSs are the estimated amounts that Sappi would pay or receive to terminate the agreements at balance sheet date after taking into account current interest rates and the current creditworthiness of the counterparties as well as the specific relationships of the group with those counterparties. However, this amount excludes the possible breakage and other fees that would be incurred in case of a sale before the maturity date.

Sensitivity analyses

The following are sensitivity analyses, in US Dollar, of the impact on profit or loss or OCI arising from:

IRCS converting fixed US Dollar rates into fixed Euro rates in US$ million

For the period outstanding, a decrease in the US Dollar LIBOR adds to the fair value, as does an increase of the EURIBOR. When the Euro and the US Dollar interest rates move the same way, the one roughly compensates the other. If the rates would drift in opposite directions, a shift of 50 basis points (bps) would result in an impact of approximately US$27 million.

IRS converting floating ZAR rates into fixed rates

For the period outstanding, a shift of 50 bps on the JIBAR curve would have an impact on the fair value of the instrument of US$1.5 million.

notes to the group annual financial statements
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for the year ended September 2014

31. Financial instruments continued

(a) Market risk continued

Sensitivity analyses continued

IRS converting fixed US Dollar rates into variable rates

The combination of the interest rate swaps and the underlying bonds is sensitive to the change in short- and long-term interest rates. However, as the critical terms of the bond and the swap match, the residual ineffectiveness is not expected to be material. This has been assessed in a sensitivity analysis that tested movements on the US Dollar interest rate curve in the same direction (parallel shift), as well as tested the impact of a pivoting curve where short-term and long-term rates move in opposite directions.

Sensitivity analysis: interest rate risk – in case of a credit rating downgrade of Sappi

The table below shows the sensitivity of certain debt to changes in the group's own credit rating. The agreements of these specific external loans (including the on-balance sheet securitisation programme) stipulate that if the company were downgraded below our current rating, an additional margin would be added to the contractual funding rate.

US$ million	Notional	Impact on profit or loss of downgrade below BB 'secured' credit rating
Securitisation – Elektra N°29 Ltd	374	1
Commitment fee on unused revolving credit facility	444	2
Interest on utilised bank syndicated loans	173	1
	991	4
Impact calculated on total portfolio amounts to	0.40%	

Sensitivity analysis: interest rate risk of floating rate debt

US$ million	Total	Fixed rate	Floating rate	Impact on profit or loss of 50 bps interest
Total debt	2,474	1,502	972	5
Ratio fixed/floating to total debt		60.71%	39.29%	

The floating rate debt represents 39.29% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by US$5 million.

Currency risk

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

- Economic exposure consists of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders
- Transaction exposure arises due to transactions entered into, which result in a flow of cash in foreign currency such as payments under foreign currency long- and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts and
- Translation exposure arises when translating the group's assets, liabilities, income and expenditure into the group's presentation currency. Borrowings are taken out in a range of currencies which are based on the group's preferred ratios of gearing and interest cover based on a judgement of the best financial structure for the group. This gives rise to translation exposure on consolidation.

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

31. Financial instruments continued

(a) Market risk continued

Currency risk analysis

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

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

US$ million	Total	Total in scope	USD	EUR	ZAR	GBP	Other
September 2014							
Classes of financial instruments							
Non-current assets							
Other non-current assets	50	14	–	13	–	–	1
Derivative financial instruments	13	13	9	–	4	–	–
Current assets							
Trade receivables	617	617	254	286	11	38	28
Prepayments and other receivables	114	35	3	16	16	–	–
Cash and cash equivalents	528	528	200	137	182	4	5
		1,207	466	452	213	42	34
Non-current liabilities							
Interest-bearing borrowings	2,311	2,311	1,389	708	214	–	–
Derivative financial instruments	52	52	(817)	869	–	–	–
Other non-current liabilities	563	–	–	–	–	–	–
Current liabilities							
Interest-bearing borrowings	163	163	–	97	66	–	–
Derivative financial instruments	7	7	85	–	(79)	1	–
Trade payables	557	557	163	200	140	8	46
Other payables and accruals	439	235	64	130	39	–	2
		3,325	884	2,004	380	9	48
Foreign exchange gap		(2,118)	(418)	(1,552)	(167)	33	(14)

notes to the group annual financial statements
continued

for the year ended September 2014

31. Financial instruments continued

(a) Market risk continued

Currency risk analysis continued

US$ million	Total	Total in scope	USD	EUR	ZAR	GBP	Other
September 2013							
Classes of financial instruments							
Non-current assets							
Other non-current assets	95	55	–	13	40	–	2
Derivative financial instruments	20	20	15	–	5	–	–
Current assets							
Trade receivables	635	635	258	294	11	42	30
Prepayments and other receivables	112	30	2	21	7	–	–
Derivative financial instruments	1	1	1	–	–	–	–
Cash and cash equivalents	352	352	142	161	47	–	2
Assets held for sale	94	1	–	–	1	–	–
		1 094	418	489	111	42	34
Non-current liabilities							
Interest-bearing borrowings	2,499	2,499	1,403	779	317	–	–
Derivative financial instruments	99	99	(915)	1,014	–	–	–
Other non-current liabilities	506	10	1	9	–	–	–
Current liabilities							
Interest-bearing borrowings	99	99	–	77	22	–	–
Overdrafts	1	1	–	–	–	–	1
Derivative financial instruments	2	2	(1)	(14)	17	–	–
Trade payables	542	542	128	259	153	–	2
Other payables and accruals	473	272	52	146	71	–	3
Liabilities associated with assets held for sale	6	2	–	–	2	–	–
		3,526	668	2,270	582	–	6
Foreign exchange gap		(2,432)	(250)	(1,781)	(471)	42	28

Hedging of foreign currency risk

Foreign currency forward exchange contracts

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

US$ million		2014 Contract amount (notional amount)	2014 Unfavourable fair value	2013 Contract amount (notional amount)	2013 Unfavourable fair value
Foreign currency					
Bought:	US Dollar	3	–	2	–
	Euro	43	–	35	–
	ZAR	85	(3)	–	–
Sold:	US Dollar	(101)	(4)	(100)	(1)
	Euro	(18)	–	(19)	–
	ZAR	(4)	–	(17)	–
		8	(7)	(99)	(1)

31. Financial instruments continued

(a) Market risk continued

Foreign currency forward exchange contracts continued

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

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

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being May 2015.

As at September 2014, there was an open exposure of US$11 million that has since been hedged.

Sensitivity analysis – (loss) gain

Base currency	Exposure (US$ million)	+10 %	-10 %
AUD	6.8	0.6	(0.7)
CHF	(1.6)	(0.1)	0.2
EUR	(6.4)	(0.6)	0.7
GBP	2.5	0.2	(0.3)
USD	27.9	2.5	(3.1)
ZAR	(17.3)	(1.6)	1.9
Other currencies	(0.7)	–	–
Total	11.2	1.0	(1.3)

Based on the exposure at the end of September 2014, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a gain of US$1 million or a loss of US$1.3 million respectively.

During 2014, we contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$246 million which were used as an overlay hedge of export sales from Southern Africa. Since these contracts have all matured before the end of September 2014, these constitute non-representative positions. The total impact on profit or loss amounted to a loss of US$4 million.

Cash flow hedges

Ngodwana Mill expansion – acquisition of property, plant and equipment in foreign currency

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

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

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

The total foreign currency exchange gains recognised through OCI in the 2014 (until October 2013) financial year amounted to US$0.2 million. As this gain was also realised during the financial year, a basis adjustment was processed transferring the amount from OCI to property, plant and equipment. There were no reclassifications to profit or loss during the year.

notes to the group annual financial statements
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for the year ended September 2014

31. Financial instruments continued

(a) Market risk continued

Cash flow hedges continued

Saiccor Mill export sales

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

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

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

During the 2014 financial year, the hedge was highly effective and a net realised loss of US$4 million relating to the realised non-deliverable forward exchange contracts was transferred from OCI to sales in profit or loss. At the financial year-end, a positive amount of US$3 million was deferred in equity.

Net investment hedges

In February 2010, Sappi designated a hedge of a net investment for an indeterminate period of Sappi Papier Holding GmbH (SPH) in SD Warren Holdings Corporation (North America) including all its subsidiaries and incorporating all net assets. The hedged risk is the currency risk associated with the spot retranslation of the net assets of the foreign operation into the functional currency of the consolidating parent entities at the level of which the hedge is designated, ie SPH for US Dollar/Euro spot exchange rate risk and Sappi Limited for US Dollar/ZAR spot exchange rate risk. The hedging instrument is a non-derivative foreign currency external debt instrument. At the inception of the hedge (or on hedge designation date), both the designated portion of the net investment in the foreign operation (as hedged item) and the foreign currency denominated debt (as hedging instrument) were recorded at the spot rate.

To the extent that the hedge is effective, foreign exchange rate differences linked to the subsequent revaluation of the foreign currency debt in the books of the entity holding the debt are deferred in OCI until the foreign operation is disposed of or liquidated. These foreign exchange currency differences are recognised in profit or loss on disposal or liquidation of the foreign operation as part of the gain or loss on disposal.

Ineffectiveness can only occur if the net investment carrying value of the foreign operation would fall below the designated amount of the hedging instruments. The net investment value of the foreign operation is validated each quarter. Ineffective gains or losses are booked directly to the group income statement. As at the end of the 2014 financial year, the hedge was 100% effective.

31. Financial instruments continued

(a) Market risk continued

US$ million	2014 Hedged notional	2014 Foreign exchange result deferred in other comprehensive income	2013 Hedged notional	2013 Foreign exchange result deferred in other comprehensive income
Bond 2021	**29**	**(1)**	28	(1)
Bond 2032	**217**	**(16)**	217	(1)
	246	**(17)**	245	(2)
Net investment value of North America	**635**		587	

Commodity price risk

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

A combination of contract and spot deals are used to manage price volatility and contain costs. Contracts are limited to the group's own use requirements.

No pulp swaps have been contracted during the 2014 financial year.

(b) Liquidity risk

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

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

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 21.

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

notes to the group annual financial statements
continued

for the year ended September 2014

31. Financial instruments continued

(b) Liquidity risk continued

Liquidity risk management

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

US$ million	Total financial assets and liabilities	Fair value of financial instru-ments	Undiscounted cash flows					
			0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years	Total
September 2014								
Non-current assets								
Other non-current assets	**14**	**14**	–	–	8	1	6	15
Derivative financial instruments	**13**	**13**	4	4	7	3	2	20
Current assets								
Trade receivables	**617**	**617**	617	–	–	–	–	617
Prepayments and other receivables	**35**	**35**	26	9	–	–	–	35
Cash and cash equivalents	**528**	**528**	528	–	–	–	–	528
			1,175	13	15	4	8	1,215
Non-current liabilities								
Interest-bearing borrowings	**2,311**	**2,605**	28	71	604	1,496	460	2,659
Derivative financial instruments	**52**	**52**	–	–	1	13	7	21
Current liabilities								
Interest-bearing borrowings	**163**	**165**	98	68	–	–	–	166
Derivative financial instruments	**7**	**7**	7	–	–	–	–	7
Trade payables	**557**	**557**	557	–	–	–	–	557
Other payables and accruals	**235**	**235**	235	–	–	–	–	235
			925	139	605	1,509	467	3,645
Liquidity surplus (gap)			250	(126)	(590)	(1,505)	(459)	(2,430)

31. Financial instruments continued

(b) Liquidity risk continued

Liquidity risk management continued

US$ million	Total financial assets and liabilities	Fair value of financial instru-ments	Undiscounted cash flows 0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years	Total
September 2013								
Non-current assets								
Other non-current assets	55	55	40	–	6	4	7	57
Derivative financial instruments	20	20	3	4	7	10	2	26
Current assets								
Trade receivables	635	635	635	–	–	–	–	635
Prepayments and other receivables	30	30	29	1	–	–	–	30
Derivative financial instruments	1	1	1	–	–	–	–	1
Cash and cash equivalents	352	352	352	–	–	–	–	352
Assets held for sale	1	1	1	–	–	–	–	1
			1,061	5	13	14	9	1,102
Non-current liabilities								
Interest-bearing borrowings	2,499	2,772	29	75	253	1,851	674	2,882
Derivative financial instruments	99	99	3	2	4	45	38	92
Other non-current liabilities	10	10	–	–	1	8	2	11
Current liabilities								
Interest-bearing borrowings	99	102	95	7	–	–	–	102
Overdrafts	1	1	1	–	–	–	–	1
Derivative financial instruments	2	2	2	–	–	–	–	2
Trade payables	542	542	542	–	–	–	–	542
Other payables and accruals	272	272	272	–	–	–	–	272
Liabilities associated with assets held for sale	2	2	2	–	–	–	–	2
			946	84	258	1,904	714	3,906
Liquidity surplus (gap)			115	(79)	(245)	(1,890)	(705)	(2,804)

notes to the group annual financial statements
continued

for the year ended September 2014

31. Financial instruments continued

(b) Liquidity risk continued

Derivative financial instruments with maturity profile

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

					Maturity analysis				
					Undiscounted cash flows				
US$ million	**Total**	**Fair value hedge**	**Cash flow hedge**	**No hedge accounting**	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years
September 2014									
Classes of derivative financial instruments									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	**13**	**9**	**4**	**–**	4	5	6	1	2
receiving leg	**(61)**	**(34)**	**(27)**	**–**	(14)	(13)	(26)	(6)	(5)
paying leg	**74**	**43**	**31**	**–**	18	18	32	7	7
Foreign exchange risk									
IRCS and FX forward contracts	**–**	**–**	**–**	**–**	–	–	–	–	–
receiving leg	**30**	**–**	**–**	**30**	27	(1)	–	–	–
paying leg	**(30)**	**–**	**–**	**(30)**	(27)	1	–	–	–
Liabilities									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	**–**	**–**	**–**	**–**	–	–	–	–	–
paying leg	**–**	**–**	**–**	**–**	–	–	–	–	–
receiving leg	**–**	**–**	**–**	**–**	–	–	–	–	–
Foreign exchange risk									
IRCS and FX forward contracts	**59**	**–**	**52**	**7**	7	–	1	1	7
paying leg	**659**	**–**	**869**	**(210)**	(182)	28	57	57	432
receiving leg	**(600)**	**–**	**(817)**	**217**	189	(28)	(56)	(56)	(425)

31. Financial instruments continued

(b) Liquidity risk continued

Derivative financial instruments with maturity profile continued

					Maturity analysis				
					Undiscounted cash flows				
US$ million	Total	Fair value hedge	Cash flow hedge	No hedge accounting	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years
September 2013									
Classes of derivative financial instruments									
Assets									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	20	15	5	–	3	4	7	10	–
receiving leg	33	66	(33)	–	7	8	15	2	–
paying leg	(13)	(51)	38	–	(4)	(4)	(8)	8	–
Foreign exchange risk									
IRCS and FX forward contracts	1	–	–	1	1	–	–	–	–
receiving leg	63	–	–	63	63	–	–	–	–
paying leg	(62)	–	–	(62)	(62)	–	–	–	–
Liabilities									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	–	–	–	–	–	–	–	–	–
paying leg	9	–	9	–	3	3	4	–	–
receiving leg	(9)	–	(9)	–	(3)	(3)	(4)	–	–
Foreign exchange risk									
IRCS and FX forward contracts	101	–	99	2	4	2	4	45	38
paying leg	938	–	1,029	(91)	(46)	30	60	582	494
receiving leg	(837)	–	(930)	93	50	(28)	(56)	(537)	(456)

notes to the group annual financial statements
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for the year ended September 2014

31. Financial instruments continued

(b) Liquidity risk continued

Fair values

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

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

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

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

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

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

		As determined by IAS 39		Categories in accordance with IAS 39				
US$ million	**Total balance**	Total out of scope	Total in scope	Fair value through profit or loss	Loans and receivables	Held to maturity	Available-for-sale	Fair value
September 2014								
Classes of financial instruments								
Non-current assets								
Other non-current assets	**50**	36	14	–	4	–	10	14
Derivative financial instruments	**13**	–	13	13	–	–	–	13
	63	36	27	13	4	–	10	27
Current assets								
Trade receivables	**617**	–	617	–	617	–	–	617
Prepayments and other receivables	**114**	79	35	–	35	–	–	35
Cash and cash equivalents	**528**	–	528	–	528	–	–	528
	1,259	79	1,180	–	1,180	–	–	1,180

31. Financial instruments continued

(b) Liquidity risk continued

Fair values continued

US$ million	**Total balance**	As determined by IAS 39 Total out of scope	Total in scope	Categories in accordance with IAS 39 Fair value through profit or loss	Other financial liabilities	Fair value
September 2014						
Classes of financial instruments						
Non-current liabilities						
Interest-bearing borrowings	**2,311**	–	2,311	–	2,311	2,605
Derivative financial instruments	**52**	–	52	52	–	52
Other non-current liabilities	**563**	563	–	–	–	–
	2,926	563	2,363	52	2,311	2,657
Current liabilities						
Interest-bearing borrowings	**163**	–	163	–	163	165
Derivative financial instruments	**7**	–	7	7	–	7
Trade payables	**557**	–	557	–	557	557
Other payables and accruals	**439**	204	235	–	235	235
	1,166	204	962	7	955	964

US$ million	Total balance	As determined by IAS 39 Total out of scope	Total in scope	Categories in accordance with IAS 39 Fair value through profit or loss	Loans and receivables	Held to maturity	Available-for-sale	Fair value
September 2013								
Classes of financial instruments								
Non-current assets								
Other non-current assets	95	40	55	–	4	–	51	55
Derivative financial instruments	20	–	20	20	–	–	–	20
	115	40	75	20	4	–	51	75
Current assets								
Trade receivables	635	–	635	–	635	–	–	635
Prepayments and other receivables	112	82	30	–	30	–	–	30
Derivative financial instruments	1	–	1	1	–	–	–	1
Cash and cash equivalents	352	–	352	–	352	–	–	352
	1,100	82	1,018	1	1,017	–	–	1,018
Assets held for sale	94	93	1	–	–	–	1	1
	1,194	175	1,019	1	1,017	–	1	1,019

notes to the group annual financial statements
continued

for the year ended September 2014

31. Financial instruments continued

(b) Liquidity risk continued

Fair values continued

US$ million	Total balance	As determined by IAS 39: Total out of scope	As determined by IAS 39: Total in scope	Categories in accordance with IAS 39: Fair value through profit or loss	Categories in accordance with IAS 39: Other financial liabilities	Fair value
September 2013						
Classes of financial instruments						
Non-current liabilities						
Interest-bearing borrowings	2,499	–	2,499	–	2,499	2,772
Derivative financial instruments	99	–	99	99	–	99
Other non-current liabilities	506	496	10	–	10	10
	3,104	496	2,608	99	2,509	2,881
Current liabilities						
Interest-bearing borrowings	99	–	99	–	99	102
Overdrafts	1	–	1	–	1	1
Derivative financial instruments	2	–	2	2	–	2
Trade payables	542	–	542	–	542	542
Other payables and accruals	473	201	272	–	272	272
	1,117	201	916	2	914	919
Liabilities associated with assets held for sale	6	4	2	–	2	2
	1,123	205	918	2	916	921

The fair value hierarchy of assets and liabilities that are measured at fair value are categorised below. There have been no transfers between the categories of the fair value hierarchy.

US$ million	**2014**	**2014: Fair value hierarchy**			2013	2013: Fair value hierarchy		
	Total fair value	**Level 1**	**Level 2**	**Level 3**	Total fair value	Level 1	Level 2	Level 3
Non-current assets								
Other non-current assets	**10**	**10**	**–**	**–**	51	11	40	–
Derivative financial instruments	**13**	**–**	**13**	**–**	20	–	20	–
Current assets								
Derivative financial instruments	**–**	**–**	**–**	**–**	1	–	1	–
	23	**10**	**13**	**–**	72	11	61	–
Non-current liabilities								
Derivative financial instruments	**52**	**–**	**52**	**–**	99	–	99	–
Current liabilities								
Derivative financial instruments	**7**	**–**	**7**	**–**	2	–	2	–
	59	**–**	**59**	**–**	101	–	101	–

31. Financial instruments continued

(c) Credit risk

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

Credit risk relating to trade receivable management is the responsibility of regional management and is coordinated on a group basis.

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

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

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

On average 57% of our trade receivables, including those off-balance sheet, are credit insured.

Quantitative disclosures on credit risk are included in note 17 of the group annual financial statements.

32. Related party transactions

Transactions between group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the group and other related parties are disclosed below:

	Sales of goods			Purchases of goods			Amounts owed by related parties		Amounts owed to related parties	
US$ million	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	**2014**	2013
Joint ventures and associates:										
– Jiangxi Chenming[1]	**–**	–	0.4	**–**	–	0.2	**–**	–	**–**	–
– Sapin SA	**0.6**	0.6	0.6	**31.2**	28.1	28.3	**–**	–	**1.7**	0.9
– proNARO GmbH[2]	**–**	–	–	**162.7**	96.4	–	**–**	–	**7.1**	4.0
– Umkomaas Lignin Proprietary Limited	**7.2**	7.2	8.2	**–**	0.2	0.3	**1.0**	1.5	**–**	–
– Papierholz Austria GmbH	**–**	–	–	**115.7**	99.3	96.0	**–**	–	**5.1**	7.7
– EBAG[3]	**–**	–	–	**–**	–	5.6	**–**	–	**–**	–
	7.8	7.8	9.2	**309.6**	224.0	130.4	**1.0**	1.5	**13.9**	12.6

(1) The group disposed of its 34% shareholding in this entity during the 2012 financial year.
(2) During the prior year, the group entered into a joint venture agreement to hold 50% of the equity interest in this entity.
(3) The group disposed of Sappi Schweiz AG during the 2012 financial year. Sappi Schweiz AG held the 10% shareholding in Energie Biberist AG (EBAG).

Sales of goods and purchases to and from related parties were on an arm's length basis. The amounts outstanding at balance sheet date are unsecured and will be settled in cash. Guarantees given by the group are disclosed in note 27. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Broad-based Black Economic Empowerment (BEE) transaction

Refer to notes 18 and 29 for details of the BEE transaction.

Key management personnel

Key management personnel includes our executive directors and prescribed officers. The details of key management personnel, including emoluments, interests in contracts and participation in The Sappi Limited Share Schemes are disclosed in notes 35 to 37.

notes to the group annual financial statements
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for the year ended September 2014

32. Related party transactions continued

Shareholders

Ordinary shares in issue	Number of shareholders	%	Number of shares[(1)]	% of shares in issue
1 – 5,000	4,870	80.9	3,232,216	0.6
5,001 – 10,000	211	3.5	1,600,651	0.3
10,001 – 50,000	349	5.8	8,453,665	1.6
50,001 – 100,000	149	2.5	10,650,801	2.0
100,001 – 1,000,000	353	5.9	108,136,627	20.7
Over 1,000,000	88	1.4	392,085,648	74.8
	6,020	100.0	524,159,608	100.0

(1) *The number of shares excludes 17,286,615 treasury shares held by the group.*

Shareholder spread

Type of shareholder	% of shares in issue
Non-public	0.2
Group directors	0.2
Associates of group directors	–
Trustees of the company's share and retirement funding schemes	–
Shareowners who, by virtue of any agreement, have the right to nominate board members	–
Shareowners interested in 10% or more of the issued shares	–
Public (the number of public shareholders as at September 2014 was 6,012)	99.8
	100.0

Sappi has a primary listing on the JSE Limited and a Level 1 ADR programme that trades in the over-the-counter market in the United States.

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to Section 56(7) of the Companies Act 71 of 2008 of South Africa, the directors have investigated the beneficial ownership of shares in Sappi Limited, including those which are registered in the nominee holdings. These investigations revealed as of September 2014, the following are beneficial holders of more than 5% of the issued share capital of Sappi Limited:

Beneficial holder	Shares	%
Public Investment Corporation	75,909,326	14.5

Further, as a result of these investigations, the directors have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of September 2014, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

Fund manager	Shares	%
Allan Gray Limited	72,757,711	13.9
Coronation Fund Managers	70,314,713	13.4
Investec Asset Management	70,224,642	13.4
Public Investment Corporation	61,989,863	11.8
Prudential Portfolio Advisors	39,311,636	7.5

33. Events after balance sheet date

In October 2014, the group utilised its existing cash resources to redeem US$27 million (ZAR300 million) of its US$67 million (ZAR750 million) public bonds due April 2015.

34. Environmental matters

The group is subject to a wide range of environmental laws and regulations in the various jurisdictions in which it operates and these have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration for the group's businesses, and the group expects to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions such as carbon dioxide (CO_2) and other greenhouse gases (GHG), wastewater discharges and solid and hazardous wastes. The group closely monitors the potential for changes in pollution control laws and take actions with respect to its operations accordingly.

North America

Sappi North America is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and their respective state counterparts and implementing regulations.

On 29 June 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the 'Commissioner'), issued a decision requiring Sappi North America to install a fish passage at the Cumberland Mills dam associated with the Westbrook Mill, the most downriver dam on the Presumpscot River. Pursuant to a final order issued by the Commissioner, construction of the fish passage was substantially completed in 2013 and overall costs were approximately US$5 million. In 2014, Sappi North America entered into an agreement with the City of Westbrook, two non-governmental organisations, and state and federal regulators, to extend the deadline for installation of the fish passage at the next dam upstream, the Saccarappa hydrofacility, to evaluate alternative designs. Pursuant to the agreement, the fish passage at the Saccarappa hydrofacility must be operational during the third quarter of 2017. Installation of the Cumberland Mills dam fish passage may also trigger, over a period of approximately ten years, the obligation to install fish passages for at least some of Sappi North America's other upstream hydrofacilities in order to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of all fish passages associated with Sappi North America's dams along the Presumpscot River is estimated to be in the range of approximately US$18 million to US$28 million. This estimate includes costs incurred on the Cumberland Mill's dam, costs expected to be incurred in the next several years for the fish passage on the Saccarappa hydrofacility, and estimated costs for the upstream fish passages which may be incurred in the future. As the construction of additional fish passages depends on several future contingencies, including the results of data gathering on fish populations in the river, Sappi North America does not know the precise timing for the incurrence of the related future costs, assuming such obligations are triggered.

The group closely monitors state, regional and federal GHG initiatives and other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol and has not yet adopted a federal programme for regulating GHG emissions, Congress has considered comprehensive federal legislation regarding climate change and various regional initiatives regarding emissions associated with climate change that are either in effect or proposed. In addition, the US Environmental Protection Agency (USEPA) has finalised or proposed several rules relating to emissions reporting and emissions reductions, including rules issued in March 2011 known as 'Boiler MACT' which would establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers. In May 2011, the USEPA stayed the Boiler MACT rules until such time as the USEPA completes its reconsideration process or the various court proceedings are completed, whichever comes first. At the end of December 2012, the USEPA issued the final rules for Boiler MACT. Initial indications are that installation of emissions control equipment will be required at each mill and that overall compliance under the final rules will require capital expenditures of up to US$10 million. The nature, scope and timing of any proposed legislation, including climate change legislation and other proposed rules regulating GHGs is highly uncertain and, currently, we do not know precisely the effect, if any, of such legislation will have on our financial results and our operations.

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34. Environmental matters continued

Europe

The group's European facilities are subject to extensive environmental regulation in the various countries in which it operates. The air emissions, water discharges and pollution control requirements of the permits of our mill operations in the European Union are based on Best Available Techniques (BAT). These are defined in the BAT reference documents (BREFs) of the Integrated Pollution Prevention and Control directive (IPPC). The BAT conclusions for the production of pulp, paper and board were published on 30 September 2014. Within four years, our European mills will need to have considered the new requirements through their permits.

Other laws and regulations that apply to all of the group's facilities in the European Union include:

- The national European laws that regulate the waste disposal framework and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, re-use and recycling (material or thermal) are the preferred waste management methods. Consequently most of the waste material generated at our facilities is recycled. The small share of waste material that is still placed in landfills is inert material (ash or building rubble).
- The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonise existing European and national regulations to provide better protection of human health and the environment is not directly applicable to the pulp and paper industry. It does, however, apply to a number of raw materials that we source. The group also registered some intermediate substances in its pulp production processes.
- A timber and timber product regulation has been adopted by the European Commission, the obligations of which, will also apply to the group's European operations. The group believes that it meets these requirements as it has an effective certification and risk assessment system in place.
- The European Emission Trading System, in which all our European mills participate, is exposed to decisions that further increase the risk of carbon leakage. For 2014 to 2016, the European Commission decided to postpone the auctioning of 900 million allowances until 2019 to 2020 (back-loading). The Commission also intends to increase the annual reduction of the allowance caps of our mills from 1.7% annually today to 2.2% annually as of 2021.

The countries within which Sappi operates in Europe have all ratified the Kyoto Protocol and Sappi Europe has developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reductions cost effectively.

34. Environmental matters continued

Southern Africa

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

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

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

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

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35. Directors' and prescribed officers' remuneration

Non-executive directors

Directors are normally remunerated in the currency of the country in which they live or work from. Their remuneration is converted into US Dollars (the group's reporting currency) at the average exchange rate prevailing during the financial year. Directors' fees are established in local currencies to reflect market conditions in those countries.

Non-executive directors' fees reflect their services as directors and services on various sub-committees on which they serve. The quantum of committee fees depends on whether the director is an ordinary member or a chairman of the committee. Non-executive directors do not earn attendance fees, however, additional fees are paid for attendance at board meetings in excess of the five scheduled meetings per annum.

The chairman of the Sappi Limited board, receives a flat director's fee and does not earn committee fees.

Non-executive directors do not participate in any incentive schemes or plans of any kind.

In determining the fees for non-executive directors, due consideration is given to the fee practice of companies of similar size and complexity in the countries in which the directors are based.

The extreme volatility of currencies, in particular the ZAR/US Dollar exchange rate in the past few years, caused distortions of the relative fees in US Dollars paid to individual directors.

Non-executive directors' fees are proposed by the Executive Committee, agreed by the Compensation Committee, recommended by the board and approved at the annual general meeting by the shareholders.

	2014			
US$	Board fees	Committee fees	Travel allowance	Total
D Konar	31,033	58,544	6,400	95,977
B Radebe	31,033	10,080	3,200	44,313
ANR Rudd	104,011	71,066	9,600	184,677
KR Osar	61,080	61,805	12,800	135,685
JD McKenzie	31,033	29,447	6,400	66,880
DC Cronje	212,693	–	3,200	215,893
NP Mageza	31,033	26,191	6,400	63,624
R Thummer	69,692	29,437	9,600	108,729
MV Moosa	31,033	10,080	6,400	47,513
MA Fallon	69,310	64,623	9,600	143,533
GPF Beurskens	69,692	71,849	9,600	151,141
RJ DeKoch	61,080	22,070	12,800	95,950
	802,723	455,192	96,000	1,353,915

35. Directors' and prescribed officers' remuneration continued

Non-executive directors continued

US$	2013 Board fees	Committee fees	Travel allowance	Total
M Feldberg[1]	22,478	14,267	3,100	39,845
D Konar	33,183	62,599	6,200	101,982
B Radebe	33,183	10,778	3,100	47,061
ANR Rudd	86,779	61,844	6,200	154,823
KR Osar	59,885	60,600	15,500	135,985
JD McKenzie	33,183	31,487	6,200	70,870
DC Cronje	242,210	–	6,200	248,410
NP Mageza	33,183	28,006	6,200	67,389
R Thummer	63,091	26,653	9,300	99,044
MV Moosa	33,183	10,778	6,200	50,161
MA Fallon	63,091	49,947	9,300	122,338
GPF Beurskens	63,091	65,042	6,200	134,333
RJ DeKoch[2]	34,933	12,623	9,300	56,856
	801,473	434,624	93,000	1,329,097

US$	2012 Board fees	Committee fees	Travel allowance	Total
M Feldberg	87,290	55,410	12,000	154,700
JE Healey[3]	14,535	27,333	6,000	47,868
D Konar	36,066	68,037	6,000	110,103
B Radebe	36,066	11,715	6,000	53,781
ANR Rudd	61,753	52,164	9,000	122,917
KR Osar	58,140	51,470	15,000	124,610
JD McKenzie	36,066	34,223	6,000	76,289
DC Cronje	263,252	–	6,000	269,252
NP Mageza	36,066	30,439	6,000	72,505
R Thummer	61,753	26,082	11,900	99,735
MV Moosa	36,066	7,810	6,000	49,876
MA Fallon	61,753	23,618	9,000	94,371
GPF Beurskens[4]	61,753	47,746	9,000	118,499
	850,559	436,047	107,900	1,394,506

[1] *Retired in December 2012.*
[2] *Appointed in March 2013.*
[3] *Retired in December 2011.*
[4] *Appointed in October 2011.*

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35. Directors' and prescribed officers' remuneration continued

Executive directors

Our pay policy is to pay our executive directors a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

US$	Salary	Performance related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
2014					
RJ Boëttger[(1)]	**5,264,892**	**501,857**	**–**	**151,225**	**5,917,974**
SR Binnie[(2)]	**375,121**	**355,990**	**–**	**109,229**	**840,340**
GT Pearce[(3)]	**333,053**	**201,486**	**58,843**	**64,551**	**657,933**
	5,973,066	**1,059,333**	**58,843**	**325,005**	**7,416,247**

US$	Salary	Performance related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
2013					
RJ Boëttger	716,034	–	8,339	207,447	931,820
SR Binnie	337,768	–	10,625	102,500	450,893
	1,053,802	–	18,964	309,947	1,382,713

US$	Salary	Performance related remuneration	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
2012					
RJ Boëttger	759,126	483,471	8,162	219,316	1,470,075
SR Binnie[(4)]	83,361	53,282	2,583	25,232	164,458
MR Thompson[(5)]	354,001	228,274	111,106	180,086	873,467
	1,196,488	765,027	121,851	424,634	2,508,000

(1) *RJ Boëttger received a 6% increase on the South African portion (70% of total salary), and a 3% increase on the off-shore portion of his salary (30% of total salary). Both percentage increases were below that of the budgeted mandate for general staff in the respective countries. RJ Boëttger retired due to ill health on 30 June 2014 and, in terms of the guidance per the company's permanently disabled policy, received a lump sum payment of US$4,738,717.*

(2) *SR Binnie received a 7% increase on the South African portion (70% of total salary), and a 2% increase on the off-shore portion of his salary (30% of total salary). The increases to Mr Binnie's 2014 salary included a market adjustment to bring his base salary in line with market rates for his role. SR Binnie was promoted to group chief executive officer on 01 July 2014 resulting in a further adjustment to his salary package as from this date.*

(3) *GT Pearce was promoted to group chief financial officer on 01 July 2014. Earnings disclosed cover the whole financial year, including the period prior to his promotion. His expense allowance comprise a relocation allowance and a schooling allowance for his children.*

(4) *Appointed in July 2012 as chief financial officer designate and was appointed as chief financial officer and executive director at the end of August 2012.*

(5) *Retired in August 2012 after reaching the mandatory retirement age.*

Despite the salary increases, the weaker ZAR in the 2014 financial year meant that the executive directors earned lower salaries in US Dollar terms.

Please see the Compensation report in Sappi's Integrated Report for further information.

Details of directors' service contracts

The executive directors have service contracts with notice periods of two years or less. These notice periods are in line with international norms for executive directors.

None of the non-executive directors have service contracts with the company.

None of the directors have provisions for predetermined compensation on termination of their contracts exceeding two years' gross remuneration and benefits-in-kind.

35. Directors' and prescribed officers' remuneration continued

Prescribed officers[1]

As with our executive directors, our pay policy is to pay our prescribed officers a compensation package which is fair and equitable in comparison to their peers in the markets in which they live and work. They are generally paid in the currency of that country.

	2014				
US$	Salary	Bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	**837,782**	**525,051**	**3,394**	**138,668**	**1,504,895**
Officer 2	**494,541**	**–**	**–**	**49,631**	**544,172**
Officer 3	**333,243**	**281,892**	**–**	**64,124**	**679,259**
Officer 4	**305,845**	**217,871**	**409**	**86,863**	**610,988**
Officer 5	**453,945**	**179,854**	**–**	**46,104**	**679,903**
Officer 6	**163,453**	**118,682**	**–**	**51,638**	**333,773**
Officer 7	**226,368**	**199,020**	**341**	**100,942**	**526,671**
	2,815,177	**1,522,370**	**4,144**	**537,970**	**4,879,661**

	2013				
US$	Salary	Bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	791,630	–	3,280	135,019	929,929
Officer 2	480,082	185,918	–	48,844	714,844
Officer 3	354,370	228,726	–	68,546	651,642
Officer 4	301,126	–	11,024	88,996	401,146
Officer 5	248,216	–	7,176	115,629	371,021
Officer 6	160,597	–	4,843	52,865	218,305
	2,336,021	414,644	26,323	509,899	3,286,887

	2012				
US$	Salary	Bonuses and performance related payments	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
Officer 1	749,633	501,438	3,247	127,926	1,382,244
Officer 2	456,485	–	–	45,384	501,869
Officer 3	372,216	194,848	–	72,518	639,582
Officer 4	306,574	152,320	10,906	110,275	580,075
Officer 5	255,021	123,613	7,108	103,686	489,428
Officer 6	135,184	61,631	3,926	44,790	245,531
Officer 8	213,620	105,428	144,650	109,611	573,309
	2,488,733	1,139,278	169,837	614,190	4,412,038

(1) The prescribed officers of the group consist of M Gardner; R Hope (retired 30 June 2012); A Rossi (retired 28 February 2014, but retained on contract until 28 February 2016); L Swartz; M van Hoven; A Thiel, B Wiersum and G Bowels (appointed 01 October 2013). They form the group executive committee together with the executive directors. The salaries of prescribed officers are affected by the translation into US Dollar.

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36. Directors' and prescribed officers' interests

The following table sets out each director's and prescribed officer's interests in shares and other securities in Sappi Limited. For the purposes of this table, each director's and prescribed officer's interests include shares that are owned either directly or indirectly as well as those shares in which directors and prescribed officers have vested obligations to purchase or to repay loans in terms of the Sappi Limited Share Incentive Trust.

	2014			2013		
	Direct interests		Indirect interests	Direct interests		Indirect interests
Director	Beneficial	Vested obligations to purchase or repay loans	Beneficial	Beneficial	Vested obligations to purchase or repay loans	Beneficial
Non-executive directors						
R Thummer	7,542	–	–	7,542	–	–
MV Moosa[(1)]	–	–	626,998	–	–	626,998
MA Fallon	5,000	–	–	5,000	–	–
Executive directors						
RJ Boëttger	–	–	–	204,957	–	–
Prescribed officers						
Officer 1	80,695	–	–	68,695	–	–
Officer 2	70,964	–	–	57,695	–	–
Officer 3	88,212	–	–	45,157	–	–
Officer 4	42,298	–	–	26,423	–	–
Officer 5	43,545	–	–	52,345	–	–
	338,256	–	626,998	467,814	–	626,998

(1) MV Moosa holds a 31.8% share of Lereko Investment Proprietary Limited which holds a total of 1,971,693 Sappi Limited shares as part of the BEE transaction described in notes 18 and 29. MV Moosa was appointed a director of the company after the conclusion of the BEE transaction.

There have been no changes in the direct or indirect beneficial interests of the directors and their associates since financial year-end.

Directors' interests in contracts

Other than MV Moosa's interest in the BEE transaction described above and in note 29, the directors have certified that they did not have any material interest in any significant transaction with either the company or any of its subsidiaries, other than those on a normal employment basis.

37. Directors' and prescribed officers' participation in the Sappi Limited share schemes

Changes in executive directors' and prescribed officers' share options and performance shares before financial year-end

Executive directors

	RJ Boëttger		SR Binnie		GT Pearce		**Total 2014**	Total 2013
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	**Number of shares**	Number of shares
Outstanding at beginning of year								
Number of shares held		790,000		100,000		–	**890,000**	744,000
Performance shares 35		195,000						
Performance shares 36		195,000						
Performance shares 37		200,000						
Performance shares 38		200,000		100,000				
Appointment of executive director during the year								
Number of shares						154,250	**154,250**	–
Offered and accepted during the year								
Performance shares 38								300,000
Performance shares 39		–		310,000		–	**310,000**	
Exercised during the year								
Number of shares		(73,125)		–		–	**(73,125)**	(57,750)
Returned, lapsed and forfeited during the year								
Number of shares[(1)]		(716,875)		–		–	**(716,875)**	(96,250)
Outstanding at end of year								
Number of shares held		–		410,000		154,250	**564,250**	890,000
Issue 32					ZAR52.57	6,600		
Performance shares 36						24,150		
Performance shares 37						55,500		
Performance shares 38				100,000		35,000		
Performance shares 39				310,000		33,000		

[(1)] *In determining the separation package of RJ Boëttger, he agreed to forfeit all unvested shares, being 595,000 shares, as at 30 June 2014.*

Performance shares are issued when all conditions per note 29 are met. The position of participants with regards to the rights offer is also explained in note 29.

Expiry dates	
Issue 32	12 December 2015
Performance shares 36	03 December 2014
Performance shares 37	02 December 2015
Performance shares 38	07 December 2016
Performance shares 39	13 December 2017

notes to the group annual financial statements
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37. Directors' and prescribed officers' participation in the Sappi Limited share schemes continued

Changes in executive directors' and prescribed officers' share options and performance shares before financial year-end continued

Prescribed officers

	Officer 1		Officer 2		Officer 3	
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares
Outstanding at beginning of year						
Number of shares held		413,000		427,000		345,000
Performance shares 35		120,000		120,000		80,000
Performance shares 36		88,000		88,000		65,000
Performance shares 37		105,000		105,000		100,000
Performance shares 38		100,000		114,000		100,000
Appointment of prescribed officers during the year						
Number of shares						
Offered and accepted during the year						
Performance shares 38						
Performance shares 39		110,000		110,000		310,000
Exercised during the year						
Number of shares		(45,000)		(45,000)		(30,000)
Returned, lapsed and forfeited during the year						
Number of shares		(75,000)		(75,000)		(50,000)
Outstanding at end of year						
Number of shares held		403,000		417,000		575,000
Issue 32						
Performance shares 36		88,000		88,000		65,000
Performance shares 37		105,000		105,000		100,000
Performance shares 38		100,000		114,000		100,000
Performance shares 39		110,000		110,000		310,000

Performance shares are issued when all conditions per note 29 are met. The position of participants with regards to the rights offer is also explained in note 29.

Expiry dates	
Issue 32	12 December 2015
Performance shares 36	03 December 2014
Performance shares 37	02 December 2015
Performance shares 38	07 December 2016
Performance shares 39	13 December 2017

	Officer 4		Officer 5		Officer 6		Officer 7		**Total 2014**	Total 2013
	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	Allocated price	Number of shares	**Number of shares**	Number of shares
		288,000		308,000		105,000		–	**1,886,000**	1,757,020
		65,000		80,000						
		50,000		55,000						
		87,500		87,500		45,000				
		85,500		85,500		60,000				
								135,100	**135,100**	–
		90,000		–		90,000		100,000	**810,000**	545,000
		(24,375)		(30,000)		–		(15,400)	**(189,775)**	(123,750)
		(40,625)		(50,000)		–		–	**(290,625)**	(292,270)
		313,000		228,000		195,000		219,700	**2,350,700**	1,886,000
							ZAR52.57	7,700		
		50,000		55,000				20,000		
		87,500		87,500		45,000		53,000		
		85,500		85,500		60,000		39,000		
		90,000		–		90,000		100,000		

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37. Directors' and prescribed officers' participation in the Sappi Limited share schemes continued

		Exercised	Number of shares	Allocation price	Market value at date of payment
Executive directors					
September 2014					
RJ Boëttger	Performance Plan 35	10 December 2013	73,125	ZAR0.00	ZAR29.54
September 2013					
RJ Boëttger	Performance Plan 34	22 December 2012	57,750	ZAR0.00	ZAR30.49
Prescribed officers					
September 2014					
Officer 1	Performance Plan 35	10 December 2013	45,000	ZAR0.00	ZAR29.54
Officer 2	Performance Plan 35	10 December 2013	45,000	ZAR0.00	ZAR29.54
Officer 3	Performance Plan 35	10 December 2013	30,000	ZAR0.00	ZAR29.54
Officer 4	Performance Plan 35	10 December 2013	24,375	ZAR0.00	ZAR29.54
Officer 5	Performance Plan 35	10 December 2013	30,000	ZAR0.00	ZAR29.54
Officer 7	Issue 34	27 August 2014	8,250	ZAR35.50	ZAR43.80
	Issue 35	27 August 2014	7,150	ZAR33.85	ZAR43.79
September 2013					
Officer 1	Performance Plan 34	22 December 2012	33,000	ZAR0.00	ZAR30.49
Officer 2	Performance Plan 34	22 December 2012	33,000	ZAR0.00	ZAR30.49
Officer 3	Performance Plan 34	22 December 2012	20,625	ZAR0.00	ZAR30.49
Officer 4	Performance Plan 34	22 December 2012	16,500	ZAR0.00	ZAR30.49
Officer 5	Performance Plan 34	22 December 2012	20,625	ZAR0.00	ZAR30.49

38. Investments

Set out below are the more significant subsidiaries of the group as at financial year-end:

Name of subsidiary	Country of incorporation	Principal activity	Effective holding (%) 2014	Effective holding (%) 2013
Elektra Purchase No. 29 Limited	Ireland	Securitisation of receivables	–	–
Sappi Alfeld GmbH	Germany	Manufacture of paper and paper pulp	100	100
Sappi Austria Produktions GmbH and CoKG	Austria	Manufacture of paper and paper pulp	100	100
Sappi Cloquet LLC	United States of America	Manufacture of paper and paper pulp and dissolving wood pulp/paper pulp	100	100
Sappi Deutschland GmbH	Germany	Sales	100	100
Sappi Ehingen GmbH	Germany	Manufacture of paper and paper pulp	100	100
Sappi Europe SA	Belgium	Sales	100	100
Sappi Finland Operations Oy and Sappi Finland I Oy	Finland	Manufacture of paper and paper pulp	100	100
Sappi International SA	Belgium	Treasury	100	100
Sappi Lanaken NV	Belgium	Manufacture of paper	100	100
Sappi Lanaken Press Paper NV	Belgium	Manufacture of paper and paper pulp	100	100
Sappi Maastricht BV	The Netherlands	Manufacture of paper	100	100
Sappi Papier Holding GmbH	Austria	Holding company; Sales	100	100
Sappi Southern Africa Limited	South Africa	Production of paper and paper pulp, dissolving wood pulp and forestry	100	100
Sappi Specval Coatings Proprietary Limited	South Africa	Production of paper	100	100
Sappi Stockstadt GmbH	Germany	Manufacture of paper and paper pulp	100	100
Sappisure Försäkrings AB	Sweden	Insurance	100	100
SD Warren Company	United States of America	Manufacture of paper and paper pulp	100	100

BASTION GRAPHICS

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