FULL HOUSE RESORTS INC
Form 10QSB/A
May 22, 2006
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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB/A

(Amendment No. 1)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005.**

OR

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _______________ TO _____________.**

Commission File No. 1-32583

FULL HOUSE RESORTS, INC.

(Exact name of small business issuer as specified in its charter)

Delaware	**13-3391527**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

4670 S. Fort Apache Road Suite 190 Las Vegas, Nevada	**89147**
(Address of principal executive offices)	**(zip code)**

(702) 221-7800

(Registrant s telephone number)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of April 22, 2005, Registrant had 10,340,380 shares of its $.0001 par value common stock outstanding.

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EXPLANATORY NOTE

This Amendment No. 1 to the Quarterly Report on Form 10-QSB/A for Full House Resorts, Inc. for the quarterly period ended March 31, 2005, is being filed to amend and restate the items described below contained in the Company s Quarterly Report on Form 10-QSB originally filed with the Securities and Exchange Commission on May 16, 2005.

This Amendment No. 1 makes the following changes for the purposes described:

- To amend Item 1. Financial Statements, to retroactively account for advances to Indian tribes as in-substance notes, as more fully described in Note 2, Restatement, to the Company s Unaudited Condensed Consolidated Financial Statements;

- To amend Item 2. Management s Discussion and Analysis of Financial Conditions and Results of Operations, to take into account the effects of the restatement; and

- To amend Item 6. Exhibits, Financial Statement Schedules and Reports on Form 8-K, to furnish the certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act.

To preserve the nature and character of the disclosures set forth in such Items as originally filed, this Amendment No. 1 continues to speak as of the date of the original filing of the Quarterly Report on Form 10-QSB on May 16, 2005 and we have not updated the disclosures in this report to speak as of a later date. All information contained in this Amendment No. 1 is subject to updating and supplementing as provided in our reports and any amendments filed with the Securities and Exchange Commission for periods subsequent to the date of the original filing of the Quarterly Report on Form 10-QSB.

We did not amend our Annual Reports on Form 10-KSB or Quarterly Reports of Form 10-QSB for periods affected by the restatement that ended prior to December 31, 2003, and the financial statements and related financial information contained in such reports should no longer be relied upon and should be viewed in the context of this report.

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RESORTS, INC

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FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2005 (unaudited) (Restated)	DECEMBER 31, 2004 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,653,930	$ 2,466,365
Receivables	153,144	
Due from co-venturer	162,283	
Other	96,788	54,684
Income tax receivable		120,754
	2,066,145	2,641,803
Investment in unconsolidated joint venture	116,758	152,043
Notes receivable, tribal governments	3,275,264	3,123,950
Arbitration award receivable, net of allowance	976,680	
Land held for development	3,858,832	3,858,832
Contract rights, net of accumulated amortization	5,001,259	4,927,814
Deferred income tax asset	126,633	64,257
Deposits and other assets	75,081	231,706
	$ 15,496,652	$ 15,000,405
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 225,651	$ 371,144
Accrued expenses	183,772	64,858
	409,423	436,002
Note payable to co-venturer	2,381,260	2,472,363
Non-controlling interest in consolidated joint venture	1,929,416	1,929,416
Stockholders equity:		
Cumulative preferred stock, par value $.0001, 5,000,000 shares authorized; 700,000 shares issued and outstanding; aggregate liquidation preference of $4,777,500 and $4,725,000 including dividends in arrears of $2,677,500 and $2,625,000	70	70
Common stock, par value $.0001, 25,000,000 shares authorized; 10,340,380 shares issued and outstanding	1,034	1,034
Additional paid-in capital	17,429,889	17,429,889
Deficit	(6,654,440)	(7,268,369)
	10,776,553	10,162,624
	$ 15,496,652	$ 15,000,405

See notes to condensed consolidated financial statements.

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FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED MARCH 31,	
	2005 (Restated)	2004 (Restated)
Equity in net income of unconsolidated joint venture	$ 857,337	$ 907,988
Operating costs and expenses		
Project development costs	277,789	66,616
General and administrative	427,716	494,433
Depreciation and amortization	25,770	42,648
	731,275	603,697
Unrealized gains on notes receivable	5,168	465,111
Income from operations	131,230	769,402
Other income (expense)		
Arbitration award, net	848,393	
Interest, net	(21,556)	(28,180)
Other	103	231
Income before income taxes	958,170	741,453
Income taxes	(344,241)	(295,377)
Net income	613,929	446,076
Less undeclared dividends on cumulative preferred stock	(52,500)	(52,500)
Net income applicable to common shares	$ 561,429	$ 393,576
Net income per common share		
Basic and diluted	$ 0.05	$ 0.04
Weighted average number of common shares outstanding		
Basic	10,340,380	10,340,380
Diluted	10,915,380	10,340,380

See notes to condensed consolidated financial statements.

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FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED MARCH 31,	
	2005 (Restated)	2004 (Restated)
Net cash (used in) provided by operating activities	(203,738)	276,734
Cash flows from investing activities:		
Advances to tribal governments	(408,697)	(256,449)
Acquisition of contract rights	(200,000)	
Cash used in investing activities	(608,697)	(256,449)
Net decrease in cash and cash equivalents	(812,435)	(20,285)
Cash and cash equivalents, beginning of period	2,466,365	1,942,430
Cash and cash equivalents, end of period	$ 1,653,930	$ 1,922,145

See notes to condensed consolidated financial statements.

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FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The restated (Note 2) interim condensed consolidated financial statements of Full House Resorts, Inc. (the Company) included herein reflect all adjustments which are, in the opinion of management, necessary to present fairly the financial position and results of operations for the interim periods presented. Certain information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the restated 2004 annual consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-KSB for the year ended December 31, 2005, from which the balance sheet information as of December 31, 2004, was derived. In addition to the restatements discussed in Note 2, certain minor reclassifications to previously reported balances have been made to conform to the current period presentation. The results of operations for the period ended March 31, 2005, are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

2. RESTATEMENT

Subsequent to the original issuance of the accompanying condensed consolidated financial statements, the Company re-evaluated its accounting methodology surrounding its advances to and contractual relationships with Indian tribes. As is becoming the predominant practice in the industry, management has determined to retroactively account for the advances to Indian tribes as in-substance structured notes pursuant to Emerging Issues Task Force (EITF) Issue No. 96-12, *Recognition of Interest Income and Balance Sheet Classification of Structured Notes*, and give separate accounting recognition to the contractual notes receivable and the related contract rights when advances are made pursuant to the agreements. Historically, the Company recorded its advances to Indian tribes as development expenses or notes receivable, carried at cost, subject to allowances for doubtful collectibility, and deferred recognition of interest income due to the contingent repayment terms of the notes. As a result, the accompanying unaudited condensed consolidated financial statements for the three months ended March 31, 2005 and 2004 have been restated to give retroactive effect to these accounting changes.

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A summary of the significant effects of the restatement is as follows:

	For the Three Months Ended March 31, 2005:	
	As Previously Reported	As Restated
	(In thousands, except per share data)	
Consolidated statement of income:		
Project development costs	$ 420	$ 278
Unrealized gain on notes receivable		5
Income taxes	(319)	(344)
Net income	492	614
Net income applicable to common shares	440	561
Net income per share, basic and diluted	0.04	0.05

	For the Three Months Ended March 31, 2004:	
	As Previously Reported	As Restated
	(In thousands, except per share data)	
Consolidated statement of income:		
Project development costs	$ 143	$ 67
Unrealized gain on notes receivable		465
Income taxes	(111)	(295)
Net income	89	446
Net income applicable to common shares	36	394
Net income per share, basic and diluted	0.00	0.04

The restatement also resulted in an increase in previously reported retained earnings as of January 1, 2004 of $612,549.

3. INVESTMENT IN UNCONSOLIDATED JOINT VENTURE

The investment in unconsolidated joint venture on the balance sheet is comprised of the Company s 50% ownership interest in Gaming Entertainment (Delaware), LLC (GED), a joint venture between the Company and Harrington Raceway Inc. (HRI), carried on the equity method of accounting.

Summary information for GED s operations for the three months ended March 31 is as follows:

	Three Months	
	2005	2004
Management fee revenues	$ 1,903,917	$ 1,943,873
Income from operations	1,781,938	1,815,975
Net income	1,781,938	1,815,975

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4. NOTES RECEIVABLE, TRIBAL GOVERNMENTS

As of March 31, 2005 and December 31, 2004, Full House has made advances to tribal governments totaling $6,895,034 and $6,541,337 as follows:

	March 31, 2005	December 31, 2004
Contractual (stated) amount		
Michigan tribe	$ 6,892,534	$ 6,516,337
Other	2,500	25,000
	$ 6,895,034	$ 6,541,337
Estimated fair value of notes receivable related to Indian casino projects		
Michigan tribe	$ 3,273,598	$ 3,098,950
Other	1,666	25,000
	$ 3,275,264	$ 3,123,950

Certain portions of the advances to or on behalf of the tribal governments are in dispute, which has been considered in management s fair value estimates. (See also Note 6).

5. ARBITRATION AWARD, NET OF ALLOWANCE

On February 16, 2005, the Company received a favorable award in binding arbitration against the Torres Martinez Desert Cahuilla Indians (the California Tribe) in connection with a dispute over a series of development and management agreements. The arbitrator s decision determined that the development agreement entered into in 1997 was valid and enforceable, and accordingly, awarded the Company damages approximating $1.1 million. Accordingly, the Company has recorded a receivable for the award, net of an allowance for estimated collection costs of $100,000. The Company also has written off its advance to the California Tribe and the unamortized carrying value of the related gaming and contract rights.

6. LITIGATION CONTINGENCY

Litigation involving environmental issues in Michigan has been filed to prevent the Secretary of the Interior from taking the site for the Michigan project into trust that, in the event of an unfavorable outcome, might prevent or delay the completion of the Michigan project and realization of a portion of the Company s investment therein. Details are in Part II, Item 1 of this report.

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7. SUBSEQUENT EVENT

In May 2005, the Company and RAM Entertainment, LLC, (RAM) a privately held investment company, agreed in principle to, among other items, extend the maturity date of the Company s note payable to RAM to July 1, 2007, with interest payments continuing to accrue without payment or penalty. RAM will subordinate its security interest in the collateral to other borrowings by the Company up to $3,000,000 subject to certain terms, and RAM will share Michigan development expenditures, previously absorbed and expensed by Full House, of up to $800,000, retroactive to January 1, 2005. Therefore, the Company has recorded a $162,283 due from the co-venturer representing RAM s share of Michigan development expenditures paid by the Company on RAM s behalf since January 1, 2005.

Item 2. Management s Discussion and Analysis or Plan of Operation.

Overview

Currently, we are a 50% investor in Gaming Entertainment (Delaware), LLC, (GED), a joint venture with Harrington Raceway, Inc., that manages Midway Slots and Simulcast (Midway Slots) at the Delaware State Fairgrounds in Harrington, Delaware. Midway Slots has approximately 1,430 gaming devices, a 450-seat buffet, a 50-seat diner and an entertainment lounge area. In addition, we are developing a casino project for the Nottawaseppi Huron Band of Potawatomi (the Michigan tribe) in Michigan. We are also actively investigating, on our own and with partners, new business opportunities including traditional and tribal gaming operations. We seek to expand through buying, managing, or developing casinos in profitable markets.

Critical Accounting Estimates and Policies

As discussed below and in note 2 to our condensed consolidated financial statements, we retroactively changed our accounting for advances made to the tribes and the resultant notes receivable. The estimated fair value of such notes are now accounted for as in-substance structured notes in accordance with the guidance contained in Emerging Issues Task Force (EITF) Issue No. 96-12, *Recognition of Interest Income and Balance Sheet Classification of Structured Notes*).

Although our financial statements necessarily make use of certain accounting estimates by management, we believe that, except as discussed below, no matters that are the subject of such estimates are so highly uncertain or susceptible to change as to present a significant risk of a material impact on our financial condition or operating performance.

The significant accounting estimates inherent in the preparation of our financial statements include estimates associated with management s fair value estimates related to notes receivable from tribal governments, and the related evaluation of the recoverability of our investments in contract rights. Various assumptions, principally affecting the probability of completing our various projects under development and getting them open for business, and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact and project specific and takes into account factors such as historical experience and current and expected legal, regulatory and economic conditions. We regularly evaluate these estimates and assumptions, particularly in areas, if any, where changes in such estimates and assumptions could have a material impact on our results of operations, financial position and, generally to a lesser extent, cash flows. Where recoverability of these assets is contingent upon the successful development and management of a project, we evaluate the likelihood that

the project will be completed and then evaluate the prospective market dynamics and how the proposed facilities should compete in that setting in order to forecast future cash flows necessary to recover the recorded value of the assets. In most cases, we engage independent experts to prepare market and/or feasibility studies to assist in the preparation of forecasted cash flows. Our conclusions are reviewed as warranted by changing conditions.

Long-term assets related to Indian casino projects

We evaluate the financial opportunity of each potential service arrangement before entering into an agreement to provide financial support for the development of an Indian casino project. This process includes (1) determining the financial feasibility of the project assuming the project is built, (2) assessing the likelihood that the project will receive the necessary regulatory approvals and funding for construction and operations to commence, and (3) estimating the expected timing of the various elements of the project including commencement of operations. When we enter into a service or lending arrangement, management has concluded that the probable future economic benefit is sufficient to compensate us for our efforts in relation to the perceived financial risks. No asset, including notes receivable or contract rights, related to an Indian casino project is recorded on our books unless it is considered probable that the project will be built and result in an economic benefit sufficient for us to recover the asset.

In initially determining the financial feasibility of the project, we analyze the proposed facilities and their location in relation to market conditions, including customer demographics and existing and proposed competition for the project. Typically, independent consultants are also hired to prepare market and financial feasibility reports. These reports are reviewed by management and updated periodically as conditions change.

We also consider the status of the regulatory approval process including whether:

(1) the Bureau of Indian Affairs (BIA) recognizes the tribe,

(2) the tribe has the right to acquire land to be used as a casino site,

(3) the Department of the Interior has put the land into trust as a casino site,

(4) the tribe has a gaming compact with the state government,

(5) the National Indian Gaming Commission has approved a proposed management agreement, and

(6) other legal or political obstacles exist or are likely to occur.

The development phase of each relationship commences with the signing of the respective agreements and continues until the casinos open for business. Thereafter, the management phase of the relationship, governed by the management contract, continues for a period of up to seven years. We make advances to the tribes, recorded as notes receivable, primarily to fund certain portions of the projects, which bear no interest or below market interest until operations commence. Repayment of the notes and accrued interest is only required if the casino is successfully opened and distributable profits are available from the casino operations. Under the management contract, we typically earn a management fee calculated as a percentage of the net operating income of the gaming facility. In addition, repayment of the loans and the manager s fees are subordinated to certain other financial obligations of the respective operations. Generally, the order of priority of payments from the casinos cash flows is as follows:

a certain minimum monthly priority payment to the tribe

repayment of various senior debt associated with construction and equipping of the casino with interest accrued thereon

repayment of various debt with interest accrued thereon due to us

management fee to us

other obligations, and

the remaining funds distributed to the tribe.

Notes receivable. We have historically accounted for our notes and advances receivable from and management contracts with the tribes as separate assets. Under the contractual terms, the notes do not become due and payable unless and until the projects are completed and operational. However, if our development activity is terminated prior to completion, we generally retain the right to collect in the event of completion by another developer. Because the stated rate of the notes receivable alone is not commensurate with the risk inherent in these projects (at least prior to commencement of operations), the estimated fair value of the notes receivable is generally less than the amount advanced. At the date of each advance, the difference between the estimated fair value of the note receivable and the actual amount advanced is recorded as either an intangible asset, contract rights, or expensed as period costs of retaining such rights if the rights were acquired in a separate unbundled transaction.

Subsequent to its effective initial recording at estimated fair value, the note receivable portion of the advance is adjusted to its current estimated fair value at each balance sheet date using typical market discount rates for prospective Indian casino operations, as affected by project-specific circumstances such as estimated probabilities affecting the expected opening date and changes in the status of regulatory approvals which include whether (1) the Bureau of Indian Affairs recognizes the tribe, (2) the tribe has the right to acquire land to be used as a casino site, (3) the Department of the Interior has put the land into trust as a casino site, (3) the tribe has a gaming compact with the state government, (4) the National Indian Gaming Commission has approved a proposed management agreement, and (5) other legal or political obstacles exist or are likely to occur. The notes receivable are not adjusted to an estimated fair value that exceeds the face value of the note plus accrued interest, if any. No interest income is recognized during the development period, but changes in estimated fair value of the notes receivable are recorded as unrealized gains or losses in our statement of operations.

Upon opening of the casino, the difference, if any, between the then recorded estimated fair value of the notes receivable, subject to any appropriate impairment adjustments impairment pursuant to Statement of Financial Accounting Standards (SFAS) No. 114, *Accounting by Creditors for Impairment of a Loan*, and the amount contractually due under the notes would be amortized into income using the effective interest method over the remaining term of the note.

Contract rights. Intangible assets related to the acquisition of the management contracts are periodically evaluated for impairment based on the estimated cash flows from the management contract on an undiscounted basis and amortized using the straight-line method over the lesser of seven years or contractual lives of the agreements, typically beginning upon commencement of casino operations. In the event the carrying value of the intangible assets were to exceed the undiscounted cash flow, the difference between the estimated fair value and carrying value of the assets would be charged to operations.

Summary of long-term assets related to Indian casino projects. Long-term assets associated with Indian casino projects at March 31, 2005 and December 31, 2004 totaled $12,135,355 and $11,910,596, respectively, consisting of notes receivable, contract rights and land held for future development. Of such amounts $11,932,813 and $11,885,596 relate to the Michigan project, for which we have a management agreement with the Michigan tribe for the development and operation of a casino resort near Battle Creek, Michigan.

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To recap the current status of the Michigan project:

(1) the Michigan tribe is federally recognized,

(2) adequate land for the proposed casino resort has not been placed in trust pending the outcome of item 5 below,

(3) the Michigan tribe has a valid gaming compact with the State of Michigan,

(4) the National Indian Gaming Commission has not yet approved the management contract, and

(5) the Bureau of Indian affairs is expected to issue a final environmental impact statement during the first half of 2006.

At March 31, 2005, the sensitivity of changes in the assumptions related to the Michigan project are illustrated by the following increases (decreases) in the estimated fair value of the note receivable:

Discount rate increases to 25%	$ (194,278)
Discount rate decreases to 20%	210,806
Forecasted opening date delayed one year	(606,784)
Forecasted opening date accelerated one year	743,303

Selected key assumptions and information used to estimate the fair value of the notes receivable for all projects at March 31, 2006 and December 31, 2005 is as follows:

	March 31, 2005	December 31, 2004
Aggregate face amount of the notes receivable	$ 6,895,034	$ 6,541,337
Estimated years until opening of casino:		
Michigan	3.00	3.00
New Mexico	2.00	
Montana	2.00	
Discount rate	22.5%	22.5%

It is estimated that the stated interest rates during the loan repayment term will be commensurate with the inherent risk at that time.

Factors that the Company considers in arriving at a discount rate include (1) discount rates typically used by gaming industry investors and appraisers to value individual casino properties outside of Nevada and (2) discount rates produced by the widely accepted Capital Asset Pricing Model (CAPM) using the following key assumptions:

S&P 500, 10 and 15-year average benchmark investment returns (medium-term horizon risk premiums);

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Risk-free investment return equal to the 10-year average for 90-day Treasury Bills;

Investment beta factor equal to the unleveraged five-year average for the hotel / gaming industry; and

Plus project specific adjustments based on typical size premiums for micro-cap and low-cap companies using 10 and 15-year averages. Management believes that under the circumstances there are essentially three critical dates / events that impact the project specific discount rate adjustment when using CAPM: (1) the date that management completes its feasibility assessment and decides to invest in the opportunity; (2) the date when construction financing has been obtained after all legal obstacles have been removed; and (3) the date that operations commence.

Recent Accounting Pronouncements:

In December 2003, the FASB issued Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46(R)) which was effective for the Company s December 31, 2004, financial statements. Prior to FIN 46(R), companies were required to include in their consolidated financial statements only those entities in which they had a controlling equity interest. FIN 46(R) provides additional guidance requiring a variable interest entity (VIE), as defined, to be consolidated by the reporting entity that is exposed to the majority of the risk of economic loss from the VIE s activities, or is entitled to receive the majority of the VIE s residual returns, or both.

Due to the Company s current financing arrangement for the Michigan and California developments through its 50% ownership interest in Gaming Entertainment (California), LLC, (GEC) and Gaming Entertainment (Michigan), LLC, (GEM), respectively, the Company is exposed to the majority of risk related to GEM and GEC s activities. Therefore, in accordance with FIN 46(R), the Company considers GEM and GEC as VIEs that require consolidation of GEM and GEC into the Company s financial statements as of December 31, 2004. We adopted FIN 46(R) in 2004, without retroactive restatement to our 2003 financial statements, as permitted under FIN 46(R), by consolidating two 50%- in-substance joint ventures. Since they were previously carried on the equity method of accounting, there was no cumulative effect of an accounting change.

In December, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (Revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R requires that compensation cost related to share-based employee compensation transactions be recognized in the financial statements. Share-based employee compensation transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights and employee share purchase plans. The provisions of SFAS 123R are effective as of the period ending March 31, 2006. Accordingly, we anticipate implementing the revised standard in the first quarter of fiscal year 2006. Currently, we account for our share-based employee compensation transactions under the provisions of APB 25, which does not necessarily require the recognition of compensation cost in the financial statements.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions*. The amendments made by SFAS 153 are based on the principle that exchanges of nonmonetary assets should be measured based

on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not expect to enter into any transactions that would be affected by adopting SFAS 153.

Results of Operations

Three Months Ended March 31, 2005, Compared to Three Months Ended March 31, 2004

Equity in Net Income of Unconsolidated Joint Venture. Our share of income from the Delaware joint venture decreased $50,651, or 6% in the first quarter year of 2005 compared to the same period ending March 2004. A change to the estimated management fee rebate reduced current year s recorded earnings by $33,632. The remaining decrease of $17,019 is due to increased payroll costs, several days of harsh weather and fewer operating days in 2005 due to Easter and leap year.

Project Development Costs. Project development costs result from researching and identifying new business opportunities and the start-up and pre-opening expenses associated with projects in development. These costs consist primarily of legal and other professional fees and are expensed in the period in which they are incurred.

Project development costs for various projects increased by $211,173 during the first three months of 2005, compared to the same period of the prior year. The increase is attributable primarily to costs associated with the Navajo project in New Mexico and an environmental impact study for the Michigan project.

General and Administrative Expenses. General and administrative expenses for the three months ended March 31, 2005, decreased by $66,717 primarily due to a change in management, auditors and insurance carriers during the second quarter of 2004.

Unrealized Gain on Notes Receivable. Unrealized gains on notes receivable are determined based upon the estimated fair value of our notes receivable related to Indian casino projects. The decrease of $459,943 for the three months ended March 31, 2005 compared to the same period in 2004 resulted from the reduction of the estimated years until opening of the Michigan project from four to three years, due to favorable rulings in litigation that had been delaying the project.

Other Income. We were awarded reimbursement and damages, including legal fees, from the arbitration against the California Tribe for approximately $1,076,680 regarding terminated development and management agreements entered into in 1995 and 1997. This income was reduced by the write off of net gaming rights and advances relating to the California tribe in the amount of $128,287 and an allowance for estimated collection costs of $100,000. The remaining increase of $6,496 is primarily due to our higher bank interest income, partially offset by the increase in the interest rate of our long term debt.

Liquidity and Capital Resources

GED is our sole source of recurring income. Distributions from GED to us are governed by the terms of the applicable joint venture agreement. The fifteen year contract, which expires in the year 2011 unless it is renewed, provides that net cash flow (after certain deductions) is to be distributed monthly to

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the members of GED (Full House Resorts and Harrington Raceway Inc.). While we do not believe that this arrangement will adversely impact our liquidity, our continuing cash flow is dependent on the operating performance of GED, and its ability to receive monthly distributions.

Cash flow from operations for the three months ended March 31, 2005, decreased $480,472 from 2004 primarily as a result of income tax payments as well as increased project development costs. Cash used in investing included $200,000 expended for gaming development rights related to the Manuelito Chapter of the Navajo tribe in New Mexico. We advanced $408,697 to tribal governments, primarily the Michigan tribe, during the quarter.

Our future cash requirements will be primarily to fund the balance of development expenses for the Michigan and other projects, and general and administrative expenses. We believe that adequate financial resources will be available to execute our current growth plan.

Indian casino projects

Our funding of the Michigan project and our liquidity are affected by an agreement with RAM Entertainment, LLC, (RAM) a privately held investment company, whereby RAM has acquired a 50% interest in the GEC and GEM in exchange for providing a portion of the necessary funding for the development of related projects. Accordingly, RAM advanced us $2,381,260, which is partially convertible into a capital contribution to GEM upon federal approval of the land into trust application and federal approval of the management agreement with the Michigan Tribe. As of March 31, 2005, neither event has occurred. On December 10, 2004, the Company and RAM executed a forbearance agreement, whereby each of us agreed to take no action to enforce any right nor to pursue any remedy under the investor agreement. Currently, we have an understanding in principle, subject to the execution of a definitive agreement, to modify certain terms of the investor agreement, including extending the due date, and continue the relationship. The agreement states that RAM and Full House will share Michigan development expenditures up to $800,000, retroactive to January 1, 2005. Accordingly, we have recorded a $162,283 due from the co-venturer which represents RAM s share of Michigan development expenditures which were paid by us on RAM s behalf since January 1, 2005 .

In February 2005, we were named as developer and manager of a gaming project to be developed by the Manuelito Chapter of Navajo Indians in New Mexico. In furtherance of this development, we entered into a joint venture agreement with NADACS, Inc. (NADACS), a New Mexico company, to pursue the project. Pursuant to the joint venture agreement with NADACS, we paid NADACS a total of $200,000 as partial payment for gaming rights held by NADACS to develop Navajo gaming facilities. We have submitted a form of Management Agreement for the Chapter s consideration and approval by the Navajo Nation. This project is subject to the consent of the Navajo Nation and compliance with its yet to be created gaming commission rules and regulations and approval by the National Indian Gaming Commission.

In March 2005, the Northern Cheyenne Tribe of Montana (Montana tribe) signed a letter of intent to negotiate a management agreement with Full House Resorts for a proposed casino to be built approximately 100 southeast of Billings, Montana. The Montana tribe currently operates the Charging Horse casino in Lame Deer, Montana, consisting of 125 gaming devices, a 300 seat bingo hall and restaurant.

We are pursuing reimbursement from the Torres-Martinez tribe in California (California tribe) for expenses and damages and other relief of approximately $1.1 million which arose from the California

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tribe s termination its 1995 and 1997 development and management agreements. An arbitration award was issued in our favor on February 16, 2005. On March 4, 2005, the California tribe forwarded a letter to us outlining an offer to settle the claim. We are continuing to discuss with the Tribe a settlement of these claims.

Other

As part of a termination agreement of our Hard Rock licensing rights in Biloxi, Mississippi, we have agreed to provide consulting services to Hard Rock if and when the Biloxi facility opens, entitling us to annually receive the greater of $100,000 or 10% of licensing fees for the two year consulting period. We have been informed that construction of a Hard Rock Casino in Biloxi is under way and an opening is to be scheduled during the third quarter of 2005.

As of March 31, 2005, we had cumulative undeclared and unpaid dividends in the amount of $2,677,500 on the 700,000 outstanding shares of our 1992-1 Preferred Stock. Such dividends are cumulative whether or not declared, and are currently in arrears. The Company does not plan to declare dividends until there is sufficient cash flow from operations. However, we are evaluating other alternatives to settle the dividends in arrears.

Quantitative and Qualitative Disclosures about Market Risk.

Market risk is the risk of loss from changes in market rates or prices, such as interest rates and commodity prices. We are exposed to market risk in the form of changes in interest rates and the potential impact such changes may have on our variable rate debt. We have not invested in derivative based financial instruments.

Our total outstanding variable rate debt of $2.4 million at March 31, 2005, is subject to variable interest rates, which averaged 5.4% during the current quarter. The applicable interest rate debt is based on the prime lending rate and therefore, the interest rate will change as the prime lending rate changes. Based on our $2.4 million of outstanding variable rate debt at March 31, 2005, a hypothetical 100 basis point (1%) change in rates would result in an annual interest expense change of approximately $24,000. At this time, we do not anticipate that either inflation or interest rate variations will have a material impact on our future operations.

Safe Harbor Provision

This Quarterly Report on Form 10-QSB contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, relating to our financial condition, profitability, liquidity, resources, business outlook, market forces, corporate strategies, contractual commitments, legal matters, capital requirements and other matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. We note that many factors could cause our actual results and experience to change significantly from the anticipated results or expectations expressed in our forward-looking statements. When words and expressions such as: believes, expects, anticipates, estimates, plans, intends, objectives, goals, aims, projects, forecasts, possible, seeks, may, could, shoul similar words or expressions are used in this Form 10-QSB, as well as statements containing phrases such as in our view, there can be no assurance, although no assurance can be given, or there is no way to anticipate with certainty, forward-looking statements are being made.

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Various risks and uncertainties may affect the operation, performance, development and results of our business and could cause future outcomes to change significantly from those set forth in our forward-looking statements, including the following factors:

- our growth strategies;
- our development and potential acquisition of new facilities;
- risks related to development and construction activities;
- anticipated trends in the gaming industries;
- patron demographics;
- general market and economic conditions;
- access to capital, including our ability to finance future business requirements;
- the availability of adequate levels of insurance;
- changes in federal, state, and local laws and regulations, including environmental and gaming license legislation and regulations;
- regulatory approvals;
- competitive environment;
- risks, uncertainties and other factors described from time to time in this and our other SEC filings and reports.

We undertake no obligation to publicly update or revise any forward-looking statements as a result of future developments, events or conditions. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ significantly from those forecast in any forward-looking statements.

Item 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Full House s chief executive and financial officers, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Section 13a-15 of the Securities Exchange Act of 1934 (the Exchange Act)) as of March 31, 2005, have concluded that as of such date, our disclosure controls and procedures were effective and designed to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to them to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting. Management believes that there have been no changes in our internal control during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

California On July 2, 2004, the Company forwarded to the American Arbitration Association a demand for arbitration against the California Tribe for reimbursement and damages of approximately $1.1 million that arose from the California Tribe s notice that it had terminated development and management agreements entered into in 1995 and 1997.

A hearing before a single arbitrator was held in December, 2004, and the arbitrator issued a decision on February 16, 2005, which upheld the 1995 development agreement, granting the Company the exclusive right to develop, manage and operate any and all gaming activities engaged in by the California Tribe for a period of seven years after the date that gaming commences. The ruling also gave the Company the right to lease from the California Tribe a minimum of ten percent of the land which the California Tribe acquired from the federal government for a term of 50 years, at an annual rental of $10 plus 15% of the net profits generated by any commercial, recreational, industrial or residential development. In addition, the Company was awarded the alternative of monetary damages plus attorney s fees and other related costs, currently in the amount of approximately $1.1 million.

We have since been approached by the California Tribe with an offer of settlement of this award. We will continue to discuss a possible amicable resolution, however, there can be no guarantee that the California Tribe will agree with our terms for settlement. In the event that no settlement is reached, we will pursue legal action to enforce the arbitration award in the United States District Court pursuant to the Federal Arbitration Act, 9 U.S.C. (s)(s) 1 et seq. While an attempt at enforcement may be unsuccessful, we believe that we can recover the amounts carried on our balance sheet based upon the California Tribe s expressed intentions, the arbitration ruling in our favor, as well as our contractual rights.

Michigan The Company has a management agreement with the Michigan tribe for the development and operation of a casino upon federal approval of the land into trust application and federal approval of the management agreement with the Michigan tribe. The legal challenge preventing the land from being taken into trust is pending in Federal District Court in Washington, D.C.

The ruling of the United States District Court for the District of Columbia in the case of *CETAC vs. Norton* entered on April 23, 2004, required a reassessment of the environmental analysis of the Michigan project. An environment impact study has been commenced and we are awaiting the completion of this process to begin construction of the casino.

On July 30, 2004 the Michigan Supreme Court issued its ruling in *Taxpayers of Michigan Against Casinos* (TOMAC) *vs. State of Michigan* that the Michigan Legislature did not violate the state constitution when it approved four tribal casino compacts in 1998 by a resolution. The Supreme Court ruling upholds a 2002 ruling by the Michigan Court of Appeals that reversed a ruling in 1999 by Ingham County Circuit Court Judge Peter Houk. This ruling removes the objection to the Tribal-State Compact between the Nottawaseppi Huron Band of Potawatomi tribe and the State of Michigan to allow Class III casino gaming at the proposed site near Battle Creek. On October 28, 2004, TOMAC filed a Petition for Certiorari in the U.S. Supreme Court asking the U.S. Supreme Court to hear its appeal of the Michigan Supreme Court s ruling approving the compacts. In February 2005, the United States Supreme Court

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denied, without comment, the petition, upholding the validity of four Tribal-State Gaming Compacts entered into with the State of Michigan and ending the appeal.

Item 3. Defaults upon Senior Securities

As of March 31, 2005, we had cumulative undeclared and unpaid dividends in the amount of $2,677,500 on the 700,000 outstanding shares of our 1992-1 Preferred Stock. Such dividends are cumulative whether or not declared, and are currently in arrears. The preferred stock s class ranks prior to the Company s common stock with regard to dividend and liquidation rights.

Item 6. Exhibits

31.1	Certification of principal executive officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of principal financial officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of principal executive and financial officers pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FULL HOUSE RESORTS, INC.

Date: May 19, 2006

By: /s/ JAMES MEIER
James Meier
Chief Financial Officer
(on behalf of the Registrant and as
principal financial officer)

-21-

1.0pt;">

Fair value of plan assets at end of years

1,689[(1)] 1,559[(1)]

Deficits

(318) (191) (268) (180)

Unrecognised past service credits

(1) (2)

Recognised pension/other benefit plan liabilities

(318)[(2)] **(192)**[(3)] (268)[(2)] (182)[(3)]

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*

Net of administration costs.

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SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

	2012		**2011**		**2010**	
	Defined benefit pension plans	**Other defined benefit plans**	**Defined benefit pension plans**	**Other defined benefit plans**	**Defined benefit pension plans**	**Other defined benefit plans**
			US$ million			
Pension/other benefit costs recognised in income statements						
Current service costs	**23**	**3**	29	4	27	4
Past service costs (credits)	**1**		(4)		1	
Interest costs	**100**	**11**	105	11	107	11
Expected returns on plan assets*	**(100)**		(111)		(114)	
Amortisation of past service credits		**(1)**		(1)	(6)	(1)
Gains on curtailments and settlements			(5)			
Net periodic pension/other benefit costs charged to cost of sales and selling, general and administrative expenses	**24**(1)	**13**(2)	14(1)	14(2)	15(1)	14(2)

* Net of administration costs

Actual returns on plan assets	**240**		80			
Actual returns on plan assets (%)	**15.4%**(3)		4.4%(3)			
Amounts recognised in the statements of other comprehensive income						
Net actuarial losses for the period	**(79)**(4)	**(9)**(4)	(50)(4)	(9)(4)		
Cumulative actuarial losses recognised in the statements of other comprehensive income						
Net actuarial losses	**(536)**	**(70)**	(457)	(61)		

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SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

Assumptions

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

	2012			2011		
	Southern Africa	Europe	North America	Southern Africa	Europe	North America
Weighted average actuarial assumptions at balance sheet dates						
Discount rates (pensions) (%)	**8.27**	**3.90**	**3.60**	8.75	5.02	4.50
Compensation increases (%)*	**6.69**	**1.73**		6.75	2.00	3.50
Expected long-term returns on assets (%)	**9.36**	**4.40**	**7.25**	9.65	4.43	7.25
Discount rates (other benefits) (%)	**8.00**		**3.30**	9.00		4.10
Initial healthcare costs trend rates (%)	**6.75**		**7.00**	7.25		7.00
which gradually reduce to an ultimate rate of (%)	**6.75**		**5.00**	7.25		5.00
over a period of (years)			**9**			6
Weighted average actuarial assumptions used to determine pension/other benefit costs						
Discount rates (pensions) (%)	**8.75**	**5.02**	**4.50**	8.25	4.05	4.90
Compensation increases (%)*	**6.75**	**2.00**	**3.50**	6.20	2.40	3.50
Expected long-term return on assets (%)	**9.65**	**4.43**	**7.25**	9.15	4.20	8.00
Discount rates (other benefits) (%)	**9.00**		**4.10**	8.25		4.40
Initial healthcare costs trend rates (%)	**7.25**		**7.00**	6.50		7.00
which gradually reduce to an ultimate rate of (%)	**7.25**		**5.00**	6.50		5.00
over a period of (years)			**6**			7

* Weighted average compensation increases of plans that use a compensation assumption. The North American salaried plan is closed to future accrual.

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SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

Demographic assumptions (the expected change in membership) are derived by using established methods recommended by actuaries and make reference to historic and probable future changes in membership. Changing life expectancy of members (particularly in retirement) can have a significant effect on defined benefit obligations. The group makes provision in its defined benefit obligations for realistic life expectancy by reference to established mortality tables. Further, where recommended by actuaries, extended provisions are included in the obligations to account for expected improvements in life expectancy by future retirees.

Illustrating life expectancy

The table below shows sample life expectancy for a male aged 60 at fiscal year-end, and life expectancy for a male aged 60 in 20 years' time, taken from mortality tables used in determining regional plan obligations.

	2012		
	Southern Africa	Europe (incl UK)**	North America
Life expectancy of male aged 60 at fiscal 2012	**18.6**	**24.2**	**23.3**
Life expectancy of male aged 60 at fiscal 2031	**19.5**	**25.9**	**23.3**

** Weighted by defined benefit obligations of individual plans

Illustrating sensitivity

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

	2012					
	Change in discount rate		Change in salary increase rate		Change in healthcare cost trend rate	
	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
	US$ million					
Defined benefit pension plans						
(Decrease) increase in obligation	**(251)**	**305**	**38**	**(33)**		
(Decrease) increase in aggregate of current service and interest costs	**(2)**	**1**				
Other defined benefit plans						
(Decrease) increase in obligations	**(20)**	**23**			**17**	**(14)**
Increase (decrease) in aggregate of current service and interest costs					**1**	**(1)**

Investment management and strategy

Plan fiduciaries set investment policies and strategies for the local trusts. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return while keeping in mind the regulatory environment in each region. The plan fiduciaries

oversee the investment allocation process, which include selecting investment managers, setting long-term strategic

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SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

targets and rebalancing assets periodically. Target versus actual weighted average allocations (by region) are shown below:

	2012			2011		
	Southern Africa %	Europe (incl UK) %	North America %	Southern Africa %	Europe (incl UK) %	North America %
Weighted average target asset allocation by region						
Equity securities and multi-asset mandates*	**40**	**37**	**56**	37	36	56
Debt securities	**46**	**55**	**44**	44	60	44
Real estate	**5**	**2**		5	2	
Cash/liquid assets	**9**	**6**		14	2	
Weighted average actual asset allocation by region						
Equity securities and multi-asset mandates*	**37**	**37**	**55**	34	37	51
Government debt securities	**24**	**43**	**7**	29	37	6
Debt securities	**20**	**14**	**37**	18	22	42
Real estate	**7**	**2**		5	2	
Cash/liquid assets	**12**	**4**	**1**	14	2	1

* Includes investments that can transcend several asset classes such as equity overlays on bond strategies and funds heavily influenced by currency.

Expected benefit payments from pension and other benefit plans are as follows:

	Defined benefit pension plans	Other defined benefit plans
	US$ million	
Payable in the year ending September:		
2013	**90**	**12**
2014	**86**	**12**
2015	**88**	**12**
2016	**92**	**12**
2017	**96**	**13**
Years 2018 2022	**550**	**76**

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SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

27. POST-EMPLOYMENT BENEFITS PENSIONS AND OTHER BENEFITS (Continued)

Summary data for current and previous four annual periods:

Aggregate defined benefit obligations, fair value of assets and balance sheet liabilities

	2012	2011	2010	2009	2008
			(US$ million)		
Defined benefit pension plans					
Defined benefit obligations	**2,007**	1,827	2,069	1,945	1,414
Fair value of assets	**1,689**	1,559	1,808	1,695	1,387
Deficit	**(318)**	(268)	(261)	(250)	(27)
Unrecognised past service credit				(6)	
Net balance sheet liability	**(318)**	(268)	(261)	(256)	(27)
Other defined benefit plans					
Defined benefit obligations	**(191)**	(180)	(182)	(175)	(143)
Unrecognised past service credit	**(1)**	(2)	(3)	(4)	(5)
Net balance sheet liability	**(192)**	(182)	(185)	(179)	(148)

Reconciliation of (losses) gains recognised in other comprehensive income

	2012	2011	2010	2009	2008
			(US$ million)		
Defined benefit pension plans					
Plan liabilities (losses) gains	**(219)**	(19)	(143)	(254)	173
Plan assets gains (losses)	**140**	(31)	70	47	(189)
Net actuarial losses	**(79)**	(50)	(73)	(207)	(16)
Other defined benefit plans					
Plan liabilities (losses) gains	**(9)**	(9)	2	(22)	23
Actuarial (losses) gains recognised in other comprehensive income	**(88)**	(59)	(71)	(229)	7

28. SHARE-BASED PAYMENTS

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

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

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

28. SHARE-BASED PAYMENTS (Continued)

The Sappi Limited Share Incentive Trust ('Scheme')

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

Under the rules of the Scheme:

- Share options entitle the participant to purchase one ordinary share per share option.

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

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

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

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

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

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

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

- a rights offer; or

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

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SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

28. SHARE-BASED PAYMENTS (Continued)

The Plan rules also provide that if:

(a) the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself; or

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

Rights offer

Following the December 2008 rights offer and in accordance with the provisions of the Scheme and the Plan, adjustments were made in fiscal 2009 to the rights of the Participants so that they were neither better nor worse off than prior to the rights offer. This resulted in additional offers being made to Participants in respect of all outstanding offers at the time of the rights offer. As in the case of shareholders that exercised their rights, the Participants of the Plan will be required to pay the rights offer price of ZAR20.27 per share should the shares vest. Similarly, the Participants of the Scheme may only exercise their additional options, awarded as a result of the rights offer, in conjunction with exercising their pre-rights offer options and upon payment of the rights offer price of ZAR20.27 per share.

Number of shares	2012 Total	2011 Total
Allocations		
During the year, the following offers were made to employees:		
Share options	**3,326,815**	2,818,000
Performance shares	**2,145,000**	1,567,400
Share options and conditional share awards declined	**(74,300)**	(41,900)
	5,397,515	4,343,500

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

28. SHARE-BASED PAYMENTS (Continued)

Scheme shares, Share options, Performance shares and Allocation shares activities were as follows during the financial years ended September 2012 and 2011:

	Scheme shares(1)	Share options(2)	Performance shares(3)(4)	Weighted average exercise price (ZAR)(5)	Allocation shares(2)	Weighted average exercise price (ZAR)(5)	Total shares
Outstanding at September 2010	2,860,372	10,158,760	9,312,840	27.91	1,039,150	56.15	23,371,122
Offered and accepted		2,776,100	1,567,400	22.50			4,343,500
Paid for/released	(855,191)	(32,312)	(1,566,186)	22.17			(2,453,689)
Returned, lapsed and forfeited		(1,379,508)	(1,933,154)	28.36	(606,650)	62.43	(3,919,312)
Outstanding at September 2011	2,005,181	11,523,040	7,380,900	27.28	432,500	47.34	21,341,621
Offered and accepted		3,252,515	2,145,000	13.80			5,397,515
Paid for/released	(415,530)		(740,357)	23.19			(1,155,887)
Returned, lapsed and forfeited		(1,883,740)	(847,343)	32.65	(432,500)	47.34	(3,163,583)
Outstanding at September 2012	**1,589,651**	**12,891,815**	**7,938,200**	**23.59**			**22,419,666**
Exercisable at September 2010	202,040	5,184,568		49.33	1,039,150	56.15	6,425,758
Exercisable at September 2011	35,860	5,565,298		44.70	432,500	47.34	6,033,658
Exercisable at September 2012		6,326,377		42.06			6,326,377

(1) The number of Scheme shares, which are not subject to credit sales amounts to 1,589,651 (2011: 1,969,321), includes 1,026,794 rights offer Scheme shares taken up at ZAR20.27 per share, included in offered and accepted in the 2009 year.

(2) Issued in terms of the Scheme.

(3) Performance shares are issued for no cash consideration. The value is determined on the day the shares are taken up.

(4) Issued in terms of the Plan.

(5) The share options are issued in South African Rands.

The fair value of Scheme shares held at September 2012 was US$4.5 million (2011: US$5.9 million).

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SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

28. SHARE-BASED PAYMENTS (Continued)

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

	2012	2011	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
30 December 2003(i)		238,150	Time	(ii)	30 December 2011	47.08
14 January 2004(i)		1,106,640	Time	(ii)	14 January 2012	47.08
25 March 2004(i)		2,200	Time	(ii)	25 March 2012	50.42
13 December 2004(i)	**1,609,120**	1,800,080	Time	(ii)	13 December 2012	46.51
12 December 2007(i)	**952,300**	1,055,260	Time	(ii)	12 December 2015	52.57
19 March 2008(i)	**495,660**	518,760	Time	(ii)	19 March 2016	55.97
22 December 2008	**1,711,450**	1,846,640	Time	(ii)	22 December 2016	35.50
09 December 2009	**2,397,570**	2,631,810	Time	(ii)	09 December 2017	33.85
03 December 2010	**2,589,600**	2,756,000	Time	(ii)	03 December 2018	35.20
02 December 2011	**3,136,115**		Time	(ii)	02 December 2019	22.90
Performance shares:						
12 December 2007(i)		1,124,200	Performance	12 December 2011	N/A	N/A
19 March 2008(i)		451,000	Performance	19 March 2012	N/A	N/A
23 December 2008	**1,782,000**	1,782,000	Performance	22 December 2012	N/A	N/A
09 December 2009	**2,496,300**	2,496,300	Performance	09 December 2013	N/A	N/A
03 December 2010	**1,514,900**	1,527,400	Performance	03 December 2014	N/A	N/A
02 December 2011	**2,145,000**		Performance	02 December 2015	N/A	N/A

	20,830,015	19,336,440

(i) During the 2009 year, there was a rights issue of 6 shares for every 5 shares held at ZAR20.27 per share. According to the rules of the Scheme, this was also offered to participants. Not all the participants took up their rights.

(ii) These vest over four or five years depending on the date of allocation.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

28. 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 37	Issue 37	Issue 37
Date of grant	02 December 2011	02 December 2011	02 December 2011
Type of award	Normal option	Performance	Performance
Share price at grant date	ZAR23.09	ZAR23.09	ZAR23.09
Strike price of share	ZAR22.90		
Vesting period	4 years	4 years	4 years
Vesting conditions	Proportionately over time	Market related relative to peers	Cash flow return on net assets relative to peers
Life of options	8 years	N/A	N/A
Market related vesting conditions	N/A	Yes	No
Percentage expected to vest	N/A	32%	100%
Number of shares offered	3,326,815	1,072,500	1,072,500
Volatility	41.6%	55.0%	N/A
Risk free discount rate	5.6%	0.9% (US yield)	N/A
Expected dividend yield	2.7%	2.1%	2.1%
Expected percentage of issuance	95%	95%	95%
Model used to value	Modified binomial	Monte-carlo	Market price
Fair value of option	ZAR8.75	ZAR13.29	ZAR17.32

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

Share options and performance shares to executive directors that are included in the above figures, are as follows:

	2012 Number of options/shares	2011 Number of options/shares
At beginning of year	**1,117,200**	1,087,200
Granted during the year	**270,000**	283,000
Exercised or declined during the year	**(99,000)**	(110,000)
Forfeited upon resignation or retirement	**(138,600)**	(143,000)
At end of year	**1,149,600**	1,117,200

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

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28. SHARE-BASED PAYMENTS (Continued)

The following table sets forth certain information with respect to the 1,149,600 Share options and Performance shares granted by Sappi to executive directors:

Issue Date	Number of options/ shares(1)	Expiry date	Exercise price (ZAR)(1)
13 December 2004	39,600	13 December 2012	46.51
22 December 2008[2]	242,000	22 December 2012	
09 December 2009[2]	315,000	09 December 2013	
03 December 2010[2]	283,000	03 December 2014	
02 December 2011[2]	270,000	02 December 2015	
	1,149,600		

(1) Adjusted for the Share options and Performance shares granted as a result of the rights issue.

(2) Performance shares.

Refer to note 35 for more information on directors' participation in the Scheme and the Plan.

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

Black Economic Empowerment

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

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

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

Sappi's South African Employees (62.5%);

South African Black Managers (15%);

Strategic Partners (12.5%) (refer to the section 'The BEE Transaction' in this note); and

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

28. SHARE-BASED PAYMENTS (Continued)

Communities surrounding the South African mill operations and plantations (10%).

The BEE Transaction

The BEE Transaction comprised two distinct parts:

The value created through the Plantation BEE Transaction was settled by the issue of 4.3 million fully paid up ordinary shares at a price based on the 30 day volume weighted average share price ('VWAP') of Sappi as at Friday, 05 February 2010 of ZAR33.50.

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

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

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

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**

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

28. SHARE-BASED PAYMENTS (Continued)

The group recognised a share-based payment expense of US$3 million (2011: US$5 million) in fiscal 2012 that related to the 'A' ordinary shares that were awarded.

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

Base price for hurdle rate price	32.50
Share price hurdle rate	9.1%
Hurdle rate price	75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	6.8%
Management turnover (annual)	6.5%
Model used to value	Black Scholes Model

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

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

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

Refer to note 17 for further details regarding the 'A' ordinary shares.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29. FINANCIAL INSTRUMENTS

29.1 Derivative financial instruments

Hedging instrument	Hedged item	2012	2011
		(US$ million)	
Non-current assets			
Interest rate currency swap	Secured notes due August 2014 (repaid 2012)		21
Fair value hedge	Secured notes due April 2021	**22**	19
Forward exchange contracts	Property, plant and equipment		1
		22	41
Current assets			
Forward exchange contracts	Property, plant and equipment		3
Non-current liabilities			
Interest rate currency swap	Secured notes due July 2017	**21**	
Interest rate currency swap	Secured notes due June 2019	**22**	
Interest rate swap	Unsecured ZAR750 million bond due April 2015	**3**	
		46	
Current liabilities			
Forward exchange contracts	Various	**1**	10

Refer to below for a more detailed description of our financial instruments.

29.2 Financial instruments

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

Introduction

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

a) market risk (the risk of loss arising from adverse changes in market rates and prices), arising from:

- interest rate risk
- currency risk

commodity price risk

b)
liquidity risk

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 Financial instruments (Continued)

c) credit risk

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

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

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

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

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

a) Market risk

Interest rate risk

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

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

Interest-bearing borrowings

The following table provides information about Sappi's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2012 and thereafter are based on the yield curves for each respective currency as published by Bloomberg

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 Financial instruments (Continued)

effective 30 September 2012. The information is presented in US Dollar, which is the group's reporting currency.

	Expected maturity date						Total carrying value	2012 fair value	2011 carrying value	2011 fair value
	2013	2014	2015	2016	2017	2018+				
	(US$ equivalent in millions)									
US Dollar										
Fixed rate debt[1]					391	509	900	**1,057**	503	541
Average interest rate (%)					7.94	8.19	8.08		10.45	
Variable rate debt[2]		138				366	504	**554**	472	476
Average interest rate (%)		2.24				6.93	5.65		6.71	
Euro										
Fixed rate debt	1	44				318	363	**417**	779	888
Average interest rate (%)	3.97	11.02	2.17	1.93	1.76	6.72	7.20		10.03	
Variable rate debt[3]	83	238	23	23	126		493	**493**	511	511
Average interest rate (%)	2.35	2.49	5.50	5.50	5.63		3.55		3.24	
Rand										
Fixed rate debt[4]	177	26	96	60			359	**381**	473	507
Average interest rate (%)	9.79	11.02	8.04	9.63			9.39		10.41	
Total										
Fixed rate debt	178	70	96	60	391	827	1,622	**1,855**	1,755	1,936
Average interest rate (%)	9.73	11.02	8.02	9.59	7.93	7.63	8.17		10.25	
Variable rate debt	83	376	23	23	126	366	997	**1,047**	983	987
Average interest rate (%)	2.35	2.40	5.50	5.50	5.63	6.93	4.61		4.90	
Fixed and variable	**261**	**446**	**119**	**83**	**517**	**1,193**	2,619	**2,902**	2,738	2,923
Current portion							261	**275**	449	463
Long-term portion							2,358	**2,627**	2,289	2,460
Total interest-bearing borrowings (refer to note 20)							2,619	**2,902**	2,738	2,923

(1) US Dollar fixed rates of US$700 million debt have been swapped into Euro fixed rates. These swaps are subject to hedge accounting.

(2) The US Dollar floating interest rates are based on the London Inter-bank Offered Rate (LIBOR).

(3)

The Euro floating interest rates are based on the European Inter-bank Offered Rate (EURIBOR).

(4)

ZAR floating rates of ZAR750 million debt have been swapped into ZAR fixed rates. These swaps are subject to hedge accounting.

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

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 Financial instruments (Continued)

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

The range of interest rates in respect of all non-current borrowings comprising both fixed and floating rate obligations, is between 2.24% and 11.02% (depending on currency). At September 2012 after giving effect to interest rate swaps, 62% of Sappi's borrowings were at fixed rates of interest, and 38% were at floating rates. Fixed rates of interest are based on contract rates.

A detailed analysis of the group's borrowings is presented in note 20.

Interest rate derivatives

			2012		2011	
	Interest Rate	Maturity date	Nominal value	Fair value(1)	Nominal value	Fair value(1)
			(US$ million)			
IRCS	US Dollar 7.75% into EUR 7.56%	July 2017	**400**	**(21)**		
IRCS	US Dollar 8.375% into EUR 8.33%	June 2019	**300**	**(22)**		
IRCS	US Dollar 12.00% into EUR 12.19%	Teminated			300	21
IRS	US 6.625% fixed to variable (LIBOR)	April 2016	**350**	**22**	350	19
IRS	ZAR variable (JIBAR) to ZAR 7.78% fixed	April 2015	**90**	**(3)**		
				(24)		40

(1) This refers to the carrying value.

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

The fixed for fixed IRCS designated as a hedge of future cash flows linked to the underlying US$300 million Senior Secured Notes due 2014 was sold during 2012 resulting in a realised gain of US$2 million in the income statement and a cash inflow of US$43 million. The termination of the swap was the result of the early redemption of the underlying bond.

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

The effective gains and losses from changes in fair value of these derivatives are recorded in other comprehensive income. These accumulated gains and losses will be recycled to profit or loss in the same line as the hedged item at the moment the hedged item affects the income statement (interest expense and foreign currency revaluation).

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 Financial instruments (Continued)

In order to measure hedge effectiveness, a hypothetical derivative with identical critical terms as the hedged item, has been built as a perfect hedge. The changes in fair value of the actual derivatives are compared with the changes in fair value of the hypothetical derivative.

As at September 2012, the effectiveness tests for the above mentioned hedges showed a 100% hedge effectiveness. The swaps showed a total negative fair value of US$43 million. The negative fair value of the currency leg of the swaps of US$21 million was booked to profit or loss to offset the unrealised corresponding foreign currency gain on the revaluation of the underlying hedged item. The remaining negative fair value of the interest leg of the swaps of US$22 million has been deferred in equity.

In April 2011, Sappi entered into an IRS converting the fixed rate of 6.625% on the underlying US$350 million Senior Secured Notes due 2021 into variable rates. This hedge has been designated as a fair value hedge whereby changes in the fair value of the fixed rate debt including the principal par value as well as the first ten coupon payments (October 2011 until April 2016) resulting from fluctuations in the US LIBOR swap curve, are offset against the changes in the fair value of the hedging instrument. Changes in the fair value of the underlying debt attributable to changes in the credit spread are excluded from the hedging relationship. The carrying value of the hedged debt is adjusted to reflect the changes in fair value related to changes in interest rates only. This is offset by the change in fair value of the derivative which reflects changes in fair value related to both interest rate risk and credit risk. Sappi has determined at inception and in subsequent periods that the derivative is highly effective in offsetting the fair value exposure of the designated debt.

At September 2012, the above mentioned fair value hedge was highly effective and the swaps had a positive fair value of US$21.9 million which has been offset by the negative fair value adjustment to the bonds of US$24.4 million, resulting in a net negative impact on the income statement of US$2.5 million.

In April 2012, Sappi issued a new floating rate 2015 bond for an amount of ZAR750 million and at the same time the company entered into a floating to fixed interest rate swap. The notes and the interest rate swap are designated in a cash flow hedging relationship, allowing all mark-to-market valuations of the swap to be booked to equity. As all critical terms of the hedged item and the hedging instrument perfectly match, the hedge is expected to be highly effective.

At September 2012, the hedge was highly effective and the swap had a negative fair value of US$2.8 million which has been deferred to equity.

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

Please refer to the 'Hedge accounting' section in this note for further information.

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SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 Financial instruments (Continued)

Summary sensitivity analyses: external interest rate derivatives

The following is a sensitivity analysis of the impact on profit or loss in US Dollar of a change in fair value of interest rate derivative instruments due to changes in the interest rate basis points ('bps'). The sensitivity analysis of floating rate debt, is carried out separately (see below).

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

Scenario Name	Base value	Scenario value	Change	% Change
-50 bps EURIBOR: 6-month	(1,031.8)	(1,056.8)	(25.0)	2.42
+50 bps EURIBOR: 6-month	(1,031.8)	(1,007.7)	24.1	(2.34)

Scenario Name	Base value	Scenario value	Change	% Change
-50 bps USD-LIBOR: 3-month	988.3	1,012.1	23.8	2.41
+50 bps USD-LIBOR: 3-month	988.3	965.2	(23.1)	(2.34)

The derivatives convert fixed US Dollar interest payments of 7.75% and 8.375% into fixed Euro interest coupons as well as the redemption of principal amounts at maturity. The fair value of the instrument is subject to changes of both the inherent exchange rates and interest rates. Fair value changes of the derivative caused by currencies are neutralised by currency changes in the underlying external debt.

For the period outstanding, the table above shows the impact that a shift of 50 bps on the LIBOR/EURIBOR curve would have on fair value. A decrease in the US Dollar LIBOR adds to the fair value, as does an increase of the EURIBOR. When the Euro and the US Dollar interest rates move the same way, the one roughly compensates the other. If the rates would drift in opposite directions, a shift of 50 bps would result in an impact of approximately US$48 million.

The largest shift experienced over the last 12-month period was a negative net movement of 1.33%, due to an increase in US Dollar rates of 0.18% and a decrease in the Euro rates of 1.15%. Applied to the fair value as at the end of fiscal 2012, this would have resulted in a negative change in fair value of US$67 million.

Scenario Name	Base value	Scenario value	Change	% Change
-115 bps EURIBOR: 6-month	(1,031.8)	(1,090.1)	(58.3)	5.70
'+18 bps USD-LIBOR: 3-month	988.3	979.9	(8.4)	(0.85)
Total			**(66.7)**	

The above analysis measures the impact on profit or loss that a change in fair value of the interest rate derivatives would have if the specified scenarios were to occur.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 Financial instruments (Continued)

IRS converting fixed US Dollar rates into variable rates:

Scenario Name	Base value	Scenario value	Change	% Change
-50 bps USD-LIBOR: 3-month	(353.8)	(353.9)	(0.1)	0.03
+50 bps USD-LIBOR: 3-month	(353.8)	(353.7)	0.1	(0.03)

Scenario Name	Base value	Scenario value	Change	% Change
-50 bps ST-/LT+ USD-LIBOR 3 month	(353.8)	(353.9)	(0.1)	0.03
+50 bps ST+/LT- USD-LIBOR 3 month	(353.8)	(353.7)	0.1	(0.03)

The combination of the interest rate swaps and the underlying bonds is sensitive to the change in short-term and long-term interest rates. However, as the critical terms of the bond and the swap match, the residual ineffectiveness is not expected to be material.

The above sensitivity analysis demonstrates this effect. The first scenario tests movements on the US Dollar interest rate curve in the same direction (parallel shift), whereas the second scenario tests the impact of a pivoting curve where short-term and long-term rates move in opposite directions.

IRS converting floating ZAR rates into fixed rates:

Scenario Name	Base value	Scenario value	Change	% Change
-50 bps USD-LIBOR: 3-month	(2.8)	(3.9)	(1.1)	39.29
+50 bps USD-LIBOR: 3-month	(2.8)	(1.7)	1.1	(39.29)

The derivative converts floating ZAR interest payments into fixed ZAR interest coupons of 7.78%. The fair value of the instrument is subject to changes in ZAR interest rates.

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

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

The following table shows the sensitivity of securitisation debt to changes in the group's own credit rating. The on-balance sheet securitisation agreement (refer to note 20) stipulates that upon a downgrade of the corporate family rating of Sappi Limited below BB- by Standard & Poor's or a downgrade of the long-term issuer credit rating of Sappi Limited below Ba3 by Moody's, the transaction margin would increase by 25 basis points.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 FINANCIAL INSTRUMENTS (Continued)

Please note that the change in value of the securitisation debt is included in the sensitivity analysis of floating rate debt in the table below:

Securitisation programme covering Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Trading	Notional	Impact on income statement of a one notch downgrade below current credit rating
	(US$ million)	
Elektra Purchase N° 29 Ltd.	380	1
Impact calculated on total portfolio amounts to	0.30%	

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

External loan agreements sensitive to the group's own credit rating

	Notional	Impact on income statement of downgrade below BB 'secured' credit rating
	(US$ million)	
Commitment fee on unused revolving credit facility	450	2
Interest on utilised bank syndicated loan	175	1
Sub-total	625	3
Impact calculated on total portfolio amounts to	0.39%	

Sensitivity analysis: interest rate risk of floating rate debt

	Total	Fixed rate	Floating rate	Impact on income statement of 50 bps interest
		(US$ million)		
Total debt	2,619	1,622	997	5
Ratio fixed/floating to total debt		62%	38%	

The floating rate debt represents 38% of total debt. If interest rates were to increase (decrease) by 50 bps, the finance cost on floating rate debt would increase (decrease) by US$5 million.

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.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 FINANCIAL INSTRUMENTS (Continued)

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-term and short-term loan liabilities, purchases and sales of goods and services, capital expenditure and dividends. Where possible, commercial transactions are only entered in currencies that are readily convertible by means of formal external forward exchange contracts; and

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

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

Currency risk analysis

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

	Total	Total in scope(1)	USD	EUR	ZAR	GBP	Other
			(US$ million)				
September 2012							
Financial assets							
Other non-current assets	**80**	**22**		10	9		3
Non-current derivative financial assets(2)	**22**	**22**	22				
Trade and other receivables	**807**	**723**	311	301	36	41	34
Current derivative financial assets(2)							
Cash and cash equivalents	**645**	**645**	194	300	143		8
		1,412	527	611	188	41	45
Financial liabilities							
Non-current interest-bearing borrowings	**2,358**	**2,358**	1,403	772	183		
Non-current financial liabilities	**46**	**46**	(981)	1,024	3		
Other non-current liabilities	**605**	**1**	1				
Current interest-bearing borrowings	**261**	**261**		83	178		
Overdraft	**5**	**5**	5				
Current derivative financial liabilities(2)	**1**	**1**		(42)	64	1	(22)
Trade and other payables	**1,005**	**784**	167	364	240		13

	3,456	595	2,201	668	1	(9)
Foreign exchange gap	**(2,044)**	(68)	(1,590)	(480)	40	54

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 FINANCIAL INSTRUMENTS (Continued)

	Total	Total in scope(1)	USD	EUR	ZAR	GBP	Other
			(US$ million)				
September 2011							
Financial assets							
Other non-current assets	104	25		12	9		4
Non-current derivative financial assets[2]	41	41	414	(411)	38		
Trade and other receivables	831	735	284	351	21	39	40
Current derivative financial assets[2]	3	3	(2)	(52)	68		(11)
Cash and cash equivalents	639	639	130	225	278	1	5
		1,443	826	125	414	40	38
Financial liabilities							
Non-current interest-bearing borrowings	2,289	2,289	975	1,042	272		
Other non-current liabilities	553	2	2				
Current interest-bearing borrowings	449	449		249	200		
Overdraft	1	1					1
Current derivative financial liabilities[2]	10	10	9			1	
Trade and other payables	1,065	840	145	475	208		12
		3,591	1,131	1,766	680	1	13
Foreign exchange gap		(2,148)	(305)	(1,641)	(266)	39	25

(1) This refers to items that are within the scope of IAS 39.

(2) The amount disclosed with respect to derivative instruments, reflects the currency which the derivative instrument is covering.

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

The group's foreign currency forward exchange contracts at September 2012 are detailed below:

	2012		2011	
	Contract amount (notional amount)	Fair value (unfavourable) favourable	Contract amount (notional amount)	Fair value (unfavourable) favourable
	(US$ million)			

Foreign currency				
Bought:	US Dollar	**6**	4	
	Euro	**44**	117	
Sold:	US Dollar	**(99)**	(109)	(8)
	Euro	**(27)**	(21)	(1)
	ZAR	**(64)**	(100)	4
		(140)	(109)	(5)

The fair value of foreign currency contracts was US$ nil at the end of the 2012 financial year. This amount was computed by the group using market data on that date.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 FINANCIAL INSTRUMENTS (Continued)

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

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

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

As at the year-end, there was an open exposure of US$43 million that has since been hedged.

Sensitivity analysis (loss) gain

Base currency	Exposure	+10%	-10%
	(US$ million)		
EUR	(15.3)	(1.4)	1.7
GBP	(4.5)	(0.4)	0.5
CHF	0.4		
SEK	0.2		
JPY	1.8	0.2	(0.2)
ZAR	(15.2)	(1.4)	1.7
Other currencies	(10.3)	(0.9)	1.1
TOTAL	(42.9)	(3.9)	4.8

Based on the exposure as at the end of fiscal 2012, if the foreign currency rates had moved 10% upwards or downwards compared to the closing rates, the result would have been impacted by a loss of US$3.9 million or a gain of US$4.8 million respectively.

During 2012, we have contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$215 million which were used as an overlay hedge of export sales from South Africa. Since these contracts have all matured before the end of fiscal 2012, these constitute non-representative positions. The total impact on profit or loss was a gain of US$6.2 million.

Hedge accounting

1. Fair value hedges

In June 2009, a partial-term fair value hedging instrument that hedged the unsecured notes due 2012 and unsecured notes due 2032 was sold. The gain on the hedging instrument was capitalised to the bonds and, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, was amortised over the shorter of the expected life of the bonds or the hedging instrument. The unsecured notes due 2012 were redeemed in fiscal 2011 which resulted in the related unamortised gain being released to profit or loss. In fiscal 2012, the remaining unamortised gain of US$3 million was released to profit or loss as the original term of the hedging instrument had expired.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 FINANCIAL INSTRUMENTS (Continued)

In April 2011, Sappi Papier Holding issued US$350 million Senior Secured Notes due 2021. The fixed rates of the bonds were swapped into six-month US Dollar LIBOR rates set in advance. The hedge qualifies for fair value hedge accounting as all the material terms of the swaps match the terms of the underlying bond.

The bonds and the swaps are revalued on a monthly basis and show movements in line with changing market conditions. All market movements are reversed over time and the fair value of the bonds will at maturity revert to the nominal amount of the bonds. As the swaps were contracted at the same time as the issuance of the bonds, the designated benchmark value of the bonds corresponds to the nominal amount. The only income statement impact will be any residual ineffectiveness, which is not expected to be material. The initial mark-to-market value of the swaps of US$2.1 million reflects the pricing of the swap and the difference between the mid-market curve, used for marking-to-market, and the effective market curve at which the swaps were contracted.

Sappi uses the REVALHedgeRx module (REVAL), a web-based application that provides treasury and risk management solutions. The application is supplied by Reval.Com, Inc., a financial technology company based in New York and is used to assess both the prospective and the retrospective effectiveness of a fair value hedge relationship.

The statistical method chosen to measure prospective and retrospective effectiveness is the linear regression analysis.

REVAL uses past data to demonstrate that a hedge relationship is expected to be highly effective in a prospective hedge effectiveness test.

The number of data points used to measure the effectiveness and the frequency of the data must be consistent over the life of the hedge for both prospective and retrospective testing and must be appropriate given the particularities of the hedge. It is therefore considered appropriate to use 60 monthly rolling data points. The monthly data points correspond to the historical Sappi month-end dates.

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

The prospective test is considered to be identical to the retrospective test, which implies that for the prospective test, the same past data (i.e. actual historical curves and remaining cash flows at each Sappi month-end date of the retrospective test) is used as for the retrospective test.

The above swap was highly effective in a retrospective hedge effectiveness test.

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

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 FINANCIAL INSTRUMENTS (Continued)

The following is an analysis of the impact on pre-tax profit or loss for the period based on the consolidated accounts translated at average rates:

	2012 At average rate favourable (unfavourable)	2011 At average rate favourable (unfavourable)
	(US$ million)	
Fair value hedges		
Realised result on termination of interest rate swaps		1
Amortisation of de-designated hedges	**3**	18
Residual ineffectiveness		(3)
gain on hedging instruments	**3**	19
loss on hedged item	**(3)**	(22)
Total	**3**	16

2. Cash flow hedges

Interest and currency swaps

The fixed for fixed IRCS designated as a hedge of future cash flows linked to the underlying US$300 million Senior Secured Notes due 2014 was sold during 2012 resulting in a realised gain of US$2 million in the income statement and a cash inflow of US$43 million. The termination of the swap was the result of the early redemption of the underlying 2014 bond.

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

The effective gains and losses from changes in fair value of these derivatives are recorded in other comprehensive income. These accumulated gains and losses will be recycled to profit or loss in the same line as the hedged item at the moment the hedged item affects profit or loss (interest expense and foreign currency revaluation).

Sappi uses REVAL to assess the fair value of the IRCS and to measure the effectiveness of the cash flow hedge relationship.

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

In order to measure retrospective hedge effectiveness, a hypothetical derivative with identical critical terms as the hedged item has been built as a perfect hedge. The periodic Dollar-offset retrospective hedge effectiveness test is based on the comparison of the actual past periodical changes in fair value between the hedging derivative and the hypothetical derivative. For effectiveness, the ratio of the periodic change in fair value of the hedging instrument since inception or since the last quarterly

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 FINANCIAL INSTRUMENTS (Continued)

measurement divided by the periodic change in fair value of the hypothetical derivative since inception or since the last quarterly measurement for the hedge must fall within the range of 80% to 125%. If, however, both changes in fair value are less than 1% of the notional amount of the IRCS, these changes in fair value are considered to be both immaterial and the hedge effectiveness test is met.

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

	2012			2011	
	Hedged notional	Interest result deferred in other comprehensive income	Interest result reclassified to profit or loss	Hedged notional	Interest result deferred in other comprehensive income
	(US$ million)				
Senior Secured Notes 2014 (terminated)	**300**		**2**	300	3
Senior Secured Notes 2017-2019	**700**	**(22)**			

Interest rate swaps floating to fixed

In April 2012, Sappi issued a new floating rate 2015 bond for an amount of ZAR750 million and at the same time the company entered into a floating to fixed interest rate swap. The notes and the interest rate swap are designated in a cash flow hedging relationship, allowing all mark-to-market valuations of the swap to be booked to equity. As all critical terms of the hedged item and the hedging instrument perfectly match, the hedge is expected to be highly effective. The accumulated gains and losses will be recycled to profit or loss in the same line as the hedged item at the moment the hedged item affects profit or loss (interest expense).

Sappi uses REVAL to assess the fair value of the IRS and to measure the effectiveness of the cash flow hedge relationship.

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

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

At September 2012, the hedge was highly effective and the swap had a negative fair value of US$2.5 million which was deferred to equity.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 FINANCIAL INSTRUMENTS (Continued)

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

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

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

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

The total net gain recognised in equity through other comprehensive income as per fiscal 2012 amounts to US$0.5 million. This is only made up of an unrealised gain resulting from forward exchange contracts yet to mature. During fiscal 2012, a realised gain of US$2.8 million relating to matured forward exchange contracts was transferred from equity to fixed assets.

Saiccor Mill export sales

Sappi is exposed to the economic USD foreign exchange risk related to export sales, primarily at its Saiccor Mill. Although the invoices are denominated in ZAR, the ZAR value is linked to the USD rate at the moment the sales are invoiced to the customer by Sappi Trading.

In April 2012, Sappi entered into a cash flow hedge with the objective to eliminate the economic foreign exchange exposure linked to a portion of South African export sales from the order date until the invoicing date by hedging this foreign exchange exposure by non-deliverable forward exchange contracts which were designated as hedging instruments.

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

During fiscal 2012, the hedge has been fully effective. A realised gain of US$5 million relating to matured non-deliverable forward exchange contracts was transferred from deferred equity to the operating result. There is no remaining unrealised mark-to-market result to equity as at September 2012.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 FINANCIAL INSTRUMENTS (Continued)

3. Net investment hedges

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

Exchange differences linked to the subsequent revaluation of the foreign currency debt in the books of the entity holding the debt are deferred in other comprehensive income to the extent effective until the foreign operation is disposed of or liquidated. These exchange differences are recognised in the income statement on disposal or liquidation as part of the gain or loss on disposal.

Ineffectiveness can only occur if the net investment carrying value of the foreign operation would fall below the designated amount of the hedging instruments. The net investment value of the foreign operation is validated each quarter. Ineffective gains and losses are booked directly to the income statement. As at the end of fiscal 2012, the hedge was 100% effective.

	2012		2011	
	Hedged notional	Foreign exchange result deferred in other comprehensive income	Hedged notional	Foreign exchange result deferred in other comprehensive income
	(US$ million)			
Bond 2021	**28**		28	
Bond 2032	**216**		219	(3)
	244		247	(3)
Net investment value of Sappi Fine Paper North America	**510**		372	

Commodity price risk

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

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

The pulp swaps contracted in 2010 matured in January 2011 and no other pulp swaps have been contracted during fiscal 2012.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 FINANCIAL INSTRUMENTS (Continued)

b) Liquidity risk

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

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

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

Details of the group's borrowings, including the maturity profile thereof, as well as the group's committed and uncommitted facilities are set out in note 20.

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

Liquidity risk management

September 2012

			Undiscounted cash flows					
	Total financial assets and liabilities(1)	Fair value of financial instruments	0-6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total
				(US$ million)				
Financial assets								
Other non-current assets	**22**	**22**	12			4	7	23
Non-current derivative financial assets	**22**	**22**	3	3	7	12		25
Receive leg			12	11	23	47		93
Pay leg			(9)	(8)	(16)	(35)		(68)
	723	**723**	722	1				723

Trade and other receivables								
Current derivative financial assets								
Receive leg			60					60
Pay leg			(60)					(60)
Cash and cash equivalents	**645**	**645**	645					645
			1,382	4	7	16	7	1,416
Financial liabilities								
Interest-bearing borrowings	**2,358**	**2,282**	69	69	588	1,118	1,607	3,451
Non-current derivative financial liabilities	**46**	**46**	2	1	2	18	11	34
Pay leg			33	32	62	595	361	1,083
Receive leg			(31)	(31)	(60)	(577)	(350)	(1,049)
Other non-current liabilities	**1**	**1**			1	1		2
Interest-bearing borrowings	**261**	**270**	140	137				277
Overdraft	**5**	**5**	5					5
Current derivative financial liabilities	**1**	**1**						
Pay leg			157	22				179
Receive leg			(157)	(22)				(179)
Trade and other payables	**784**	**784**	746					746
			962	207	591	1,137	1,618	4,515
Liquidity surplus (gap)			420	(203)	(584)	(1,121)	(1,611)	(3,099)

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(1) Refer to items that are inscope in terms of IAS39 *Financial Instruments: Recognition and Measurement*.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

Liquidity risk management
September 2011

	Total financial assets and liabilities(1)	Fair value of financial instruments	Undiscounted cash flows 0-6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total
				(US$ million)				
Financial assets								
Other non-current assets	**25**	**25**	12	1		4	8	25
Non-current derivative financial assets	**41**	**41**	4	4	8	28		44
Receive leg			30	30	95	405		560
Pay leg			(26)	(26)	(87)	(377)		(516)
Trade and other receivables	**735**	**735**	735					735
Current derivative financial assets	**3**	**3**	2	1				3
Receive leg			72	24				96
Pay leg			(70)	(23)				(93)
Cash and cash equivalents	**639**	**639**	639					639
			1,392	6	8	32	8	1,446
Financial liabilities								
Interest-bearing borrowings	**2,289**	**2,460**	85	85	380	1,511	1,333	3,394
Other non-current liabilities	**2**	**2**			1	1		2
Interest-bearing borrowings	**449**	**463**	372	99				471
Overdraft	**1**	**1**	1					1
Current derivative	**10**	**10**	10					10

financial liabilities								
Pay leg			222					222
Receive leg			(212)					(212)
Trade and other payables	**840**	**840**	791	9				800
			1,259	193	381	1,512	1,333	4,678
Liquidity surplus (gap)			133	(187)	(373)	(1,480)	(1,325)	(3,232)

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(1) Refer to items that are inscope in terms of IAS39 *Financial Instruments: Recognition and Measurement*.

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for 2012 and 2011, included within the various categories on the face of the balance sheet.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 FINANCIAL INSTRUMENTS (Continued)

The reported maturity analysis is calculated on an undiscounted basis.

					Maturity analysis(1) Undiscounted cash flows				
Classes of derivative financial instruments	**Total**	**Fair value hedge**	**Cash flow hedge**	**No hedge accounting**	**0-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**> 5 years**
				(US$ million)					
September 2012									
ASSETS									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	22	22			3	3	7	12	
receiving leg	89	89			12	11	23	47	
paying leg	(67)	(67)			(9)	(8)	(16)	(35)	
Foreign exchange risk									
FX forward contracts									
receiving leg	60			60	60				
paying leg	(60)			(60)	(60)				
LIABILITIES									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	3		3		1		1	1	
paying leg	19		19		4	3	4	9	
receiving leg	(16)		(16)		(3)	(3)	(3)	(8)	
Foreign exchange risk									
FX forward contracts	44		43	1	1	1	1	17	11
paying leg	1,203		1,087	116	186	51	58	586	361
receiving leg	(1,159)		(1,044)	(115)	(185)	(50)	(57)	(569)	(350)

(1) The reported maturity analysis is calculated on an undiscounted basis.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 FINANCIAL INSTRUMENTS (Continued)

					Maturity analysis(1) Undiscounted cash flows				
Classes of derivative financial instruments	**Total**	**Fair Value Hedge**	**Cash flow Hedge**	**No Hedge Accounting**	**0-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**> 5 years**
				(US$ million)					
September 2011									
Classes of derivative financial instruments									
ASSETS									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps	40	19	21		4	4	7	28	
receiving leg	506	111	395		30	30	59	405	
paying leg	(466)	(92)	(374)		(26)	(26)	(52)	(377)	
Foreign exchange risk									
FX forward contracts	4		4		2	2	1		
receiving leg	132		100	32	72	24	36		
paying leg	(128)		(96)	(32)	(70)	(22)	(35)		
LIABILITIES									
Fair value of derivatives by risk factor									
Interest rate risk									
Interest rate swaps									
paying leg									
receiving leg									
Foreign exchange risk									
FX forward contracts	10			10	10				
paying leg	222			222	222				
receiving leg	(212)			(212)	(212)				

(1) The reported maturity analysis is calculated on an undiscounted basis.

Fair values

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

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

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 Financial instruments (Continued)

Fair values (Continued)

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

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

Fair values of foreign exchange and interest rate derivatives are calculated by using recognised treasury tools which use discounted cash flow techniques based on effective market data valid at closing date. The fair values of loan commitments are based on the commitment fees effectively paid.

			Categories according to IAS 39 (US$ million)					
Classes of financial instruments	**Total balance**	**Out of scope IAS 39(1)**	**Fair value through profit or loss**	**Loans and receivables**	**Held to maturity**	**Available-for-sale**	**Total in scope**	**Fair value**
September 2012								
NON-CURRENT ASSETS								
Other non-current assets(2)	**80**	58		2		20	22	22
Loans to associates (minority interests)				2			2	2
Club debentures						3	3	3
Investment funds						17	17	17
Other assets		58						
Non-current derivative financial assets	**22**		22				22	22
CURRENT ASSETS								
Trade and other receivables	**807**	84		723			723	723
Trade receivables				628			628	628
Other accounts receivable current		84		95			95	95
Current derivative financial assets								
Cash and cash equivalents	**645**			645			645	645

Overnight deposits and current accounts (including petty cash)	149	149	149
Time deposits (< 3 months)	444	444	444
Money market funds	52	52	52

(1) This refers to items that are outside the scope of IAS 39.

(2) Includes license fees and brands (refer to note 12).

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 Financial instruments (Continued)

Fair values (Continued)

			Categories according to IAS 39			
Classes of financial instruments	**Total balance**	**Out of scope IAS 39(1)**	**Held for trading**	**Other financial liabilities**	**Total in scope**	**Fair value**
			(US$ million)			
September 2012						
NON-CURRENT LIABILITIES						
Interest-bearing borrowings	**2,358**			2,358	2,358	2,282
Bank loans payable (> 1 year) including syndicated loans				26	26	26
Bonds				1,945	1,945	1,869
Financial leasing liabilities				10	10	10
Securitisation debt				377	377	377
Secured loans						
Other non-current liabilities	**605**	604		1	1	1
Non-current derivative financial liabilities	**46**		46		46	46
CURRENT LIABILITIES						
Interest-bearing borrowings	**261**			261	261	270
Bank loans payable (< 1 year) including syndicated loans				130	130	132
Current portion of other non-current loans payable				120	120	126
Financial leasing liabilities				11	11	12
Overdraft						
Bank overdrafts (< 3 months)	**5**			5	5	5
Current derivative financial liabilities	**1**		1		1	1
Trade and other payables	**1,005**	221		784	784	784
Accruals		221		229	229	229
Accounts payable to associates						
Other accounts payable current				555	555	555

(1) This refers to items that are outside the scope of IAS 39.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 Financial instruments (Continued)

Fair values (Continued)

Classes of financial instruments	Total balance	Out of scope IAS 39(1)	Categories according to IAS 39 Fair value through profit or loss	Loans and receivables	Held to maturity	Available-for-sale	Total in scope	Fair value
	(US$ million)							
September 2011								
NON-CURRENT ASSETS								
Other non-current assets[2]	**104**	79		5		20	25	25
Loans to associates (minority interests)				3			3	3
Club debentures						3	3	3
Investment funds				2		17	19	19
Other assets		79						
Non-current derivative financial assets	**41**		41				41	41
CURRENT ASSETS								
Trade and other receivables	**831**	96		735			735	735
Trade receivables				700			700	700
Other accounts receivable current		96		35			35	35
Current derivative financial assets	**3**		3				3	3
Cash and cash equivalents	**639**			639			639	639
Overnight deposits and current accounts (including petty cash)				271			271	271
Time deposits (< 3 months)				324			324	324
Money market funds				44			44	44

(1) This refers to items that are outside the scope of IAS 39.

(2)
Includes license fees and brands (refer to note 12).

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 Financial instruments (Continued)

Fair values (Continued)

Classes of financial instruments	Total balance	Out of scope IAS 39(1)	Categories according to IAS 39 Held for trading	Other financial liabilities	Total in scope	Fair value
			(US$ million)			
September 2011						
NON-CURRENT LIABILITIES						
Interest-bearing borrowings	**2,289**			2,289	2,289	2,460
Bank loans payable (> 1 year) including syndicated loans				78	78	80
Bonds				1,809	1,809	1,975
Financial leasing liabilities				22	22	25
Securitisation debt				368	368	368
Secured loans				12	12	12
Other non-current liabilities	**553**	551		2	2	2
Non-current derivative financial liabilities						
CURRENT LIABILITIES						
Interest-bearing borrowings	**449**			449	449	463
Bank loans payable (< 1 year) including syndicated loans				93	93	93
Current portion of other non-current loans payable				197	197	211
Financial leasing liabilities				14	14	14
Secured loans (< 1 year)				145	145	145
Overdraft						
Bank overdrafts (< 3 months)	**1**			1	1	1
Current derivative financial liabilities	**10**		10		10	10
Trade and other payables	**1,065**	225		840	840	840
Accruals		225		243	243	243
Accounts payable to associates				4	4	4
Other accounts payable current				593	593	593

(1) This refers to items that are outside the scope of IAS 39.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 Financial instruments (Continued)

Fair values (Continued)

Hierarchy of fair value measurements for financial instruments measured at fair value on the balance sheet:

	2012				2011			
	Total fair value	Fair value hierarchy (in accordance with IFRS 7) Level 1	Level 2	Level 3	Total fair value	Fair value hierarchy (in accordance with IFRS 7) Level 1	Level 2	Level 3
	(US$ million)							
NON-CURRENT ASSETS								
Other non-current assets								
Club debentures	**3**	**3**			3	3		
Investment funds	**17**	**17**			17	17		
Non-current derivative financial assets	**22**		**22**		41		41	
CURRENT ASSETS								
Current derivative financial assets					3		3	
	42	**20**	**22**		64	20	44	
NON-CURRENT LIABILITIES								
Non-current derivative financial liabilities	**46**		**46**					
CURRENT LIABILITIES								
Current derivative financial liabilities	**1**		**1**		10		10	
	47		**47**		10		10	

c) Credit risk

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

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

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

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

29.2 Financial instruments (Continued)

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

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

On average 53% of our trade receivables, including those off-balance sheet, are credit insured.

Quantitative disclosures on credit risk are included in note 16 of the group annual financial statements.

30. RELATED PARTY TRANSACTIONS

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

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

	Sales of goods			Purchases of goods			Amounts owed by related parties		Amounts owed to related parties	
	2012	2011	2010	2012	2011	2010	2012	2011	2012	2011
				(US$ million)						
Joint ventures and associates:										
Jiangxi Chenming[1]	**0.4**	1.1	1.1	**0.2**	0.7	0.6				1.8
Sapin SA	**0.6**	0.8	0.5	**28.3**	35.1	22.1		0.1	**1.6**	3.9
VOF Warmtekracht[2]			10.8			7.1				
Umkomaas Lignin (Pty) Limited	**8.2**	6.5	5.6	**0.3**	0.4	0.3	**1.0**	0.8		
Papierholz Austria GmbH				**96.0**	105.1	90.5			**5.3**	0.2
Energie Biberist AG ('EBAG')[3]				**5.6**	31.1	38.6				1.1

9.2	8.4	18.0	**130.4**	172.4	159.2	**1.0**	0.9	**6.9**	7.0

(1) The group disposed of its 34% shareholding in this entity during fiscal 2012.

(2) The entity was acquired by Sappi in fiscal 2010 and is fully consolidated into the group accounts.

(3) The group disposed of Sappi Schweiz AG during fiscal 2012. Sappi Schweiz AG held the 10% shareholding in EBAG.

Sales of goods and purchases to and from related parties were made on an arm's length basis. The amounts outstanding at balance sheet date are unsecured and will be settled in cash. Guarantees given by the group are disclosed in note 26. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

SAPPI

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

30. RELATED PARTY TRANSACTIONS (Continued)

Shareholders

The company's shares are widely held by shareholders across the world. The principal shareholders of the company see "Item 7 Major Shareholders and Related Party Transactions Major Shareholders".

Broad-based Black Economic Empowerment ('BEE') Transaction

Refer to notes 17 and 28 for details of the BEE Transaction.

Key management personnel

Key management personnel include our executive directors and prescribed officers. The details of key management personnel, including emoluments, interests in contracts and participation in The Sappi Limited Share Incentive Trust ('Scheme') and The Sappi Limited Performance Share Incentive Trust ('Plan') are disclosed in notes 33 to 35.

31. EVENTS AFTER BALANCE SHEET DATE

On 09 November 2012, Sappi announced the commencement of an offer to repurchase the remaining €31 million of its senior secured notes due 2014. The offer was accepted by 76% of the bond investors and the remaining amount has been called for repayment in December 2012.

32. ENVIRONMENTAL MATTERS

The group is subject to a wide range of environmental laws and regulations in the various jurisdictions in which it operates and these have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration for the group's businesses, and the group expects to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions such as carbon dioxide ('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 Fine Paper North America is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and their respective state counterparts and implementing regulations.

On 29 June 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the 'Commissioner'), issued a decision requiring Sappi Fine Paper North America to install a fish passage at the Cumberland Mills dam associated with the Westbrook Mill, the most downriver dam on the Presumpscot River. Pursuant to a final order issued by the Commissioner, construction of the fish

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

32. ENVIRONMENTAL MATTERS (Continued)

passage must be completed by 01 May 2013. Costs associated with construction and related engineering of this fish passage are estimated to be approximately US$4 million to US$5 million. The fish passage at the next dam upstream, the Saccarappa hydrofacility, must be operational two years after the Cumberland Mills dam fish passage is completed during the spring of 2015. Installation of the Cumberland Mills dam fish passage may also trigger, over a period of approximately ten years, the obligation to install fish passages for at least some of Sappi Fine Paper North America's other upstream hydrofacilities in order to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of all fish passages associated with Sappi Fine Paper North America's dams along the Presumpscot River is estimated to be in the range of approximately US$18 million to US$28 million. This estimate includes costs expected to be incurred in the next several years for the fish passage on the Cumberland Mills dam and Saccarappa hydrofacility as well as estimated costs for the upstream fish passages which may be incurred in the future. As the construction of additional fish passages depends on several future contingencies, including the results of data gathering on fish populations in the river, Sappi Fine Paper North America does not know the precise timing for the incurrence of the related future costs, assuming such obligations are triggered.

The group closely monitors state, regional and federal GHG initiatives and other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol and has not yet adopted a federal program for regulating GHG emissions, Congress has considered comprehensive federal legislation regarding climate change and various regional initiatives regarding emissions associated with climate change that are either in effect or proposed. In addition, the US Environmental Protection Agency ('USEPA') has finalised or proposed several rules relating to emissions reporting and emissions reductions, including rules issued in March 2011 known as "Boiler MACT" which would establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers. In May 2011, the USEPA stayed the Boiler MACT rules until such time as the USEPA completes its reconsideration process or the various court proceedings are completed, whichever comes first. While a recent court decision has vacated the USEPA's stay of the rules, the USEPA has since issued a no action letter, indicating that it will not enforce technical violations of the Boiler MACT rule deadlines, at least until the earlier of 31 December 2012 or the effective date of the final reconsidered rules. It is not clear what the timing will be for completion or implementation of a revised rule. Capital expenditures, currently estimated to range between US$10 million and US$15 million, could be required for emissions control equipment at Sappi Fine Paper North America's mills in order to comply with the rules as proposed in March 2011 although the anticipated impact of the rules and the related costs may be subject to revision in the future, particularly in light of the on-going reconsideration process and litigation. The nature, scope and timing of any proposed legislation, including climate change legislation and other proposed rules regulating GHGs is highly uncertain and, currently, the group does not know what precise effect, if any, such legislation will have on its financial condition and operations.

Europe

The group's European facilities are subject to extensive environmental regulation in the various countries in which it operates. The air emissions, water discharges and pollution control requirements of the permits of our mill operations in the European Union are based on Best Available Techniques ('BAT').

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

32. ENVIRONMENTAL MATTERS (Continued)

These are defined in the BAT reference documents ('BREFs') of the Integrated Pollution Prevention and Control directive ('IPPC'). These documents are currently being revised but this exercise is taking longer than initially expected. The revised documents are expected to be adopted in early 2013.

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

The national European laws that regulate the waste disposal framework and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, re-use and recycling (material or thermal) are the preferred waste management methods. Consequently most of the waste material generated at our facilities is recycled. The small share of waste material that is still placed in landfills is inert material (ash or building rubble).

The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonise existing European and national regulations to provide better protection of human health and the environment is not directly applicable to the pulp and paper industry. It does, however, apply to a number of raw materials that we source. The group also registered some intermediate substances in its pulp production processes.

A timber and timber product regulation adopted by the European Commission, the obligations of which, will also apply to the group's European operations. The requirements apply as from 03 March 2013. The group believes that it is well prepared for these new requirements as it has an effective certification and risk assessment system in place which allows the group to trace wood and timber material back to its source.

An agreement with the national government in The Netherlands that we, together with other paper manufacturers, have signed to improve environmental management and further limit emissions.

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

South Africa

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

The primary South African environmental laws affecting the group operations are:

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

The National Environmental Management Act that provides for the integration of environmental considerations into all stages of any development process, and in particular, provides for the issuance of environmental authorisations and imposes a duty of care regarding environmental

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

32. ENVIRONMENTAL MATTERS (Continued)

harm. The Act includes a number of significant principles, such as prosecution of companies in the interest of the protection of the environment.

The National Environmental Management: Air Quality Act was promulgated at the beginning of 2005 and has now replaced the 1965 Atmospheric Pollution Prevention Act. The new Act will impose more stringent compliance standards on the group's operations in 2015 and then again in 2020.

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

The Kyoto Protocol: South Africa has ratified the Kyoto Protocol, which obligates signatory countries to take measures to reduce their greenhouse gas emissions through the initial commitment period. South Africa as a developing country does not presently have targets and timetable commitments. Obligations under the Kyoto Protocol have been extended by the member parties through a second commitment period which runs from 2013 until at least 2017.

The requirements under these statutes and commitments, predominantly with respect to air emissions from our mills, will result in additional capital and operating expenditures, some of which may be significant. Newly enacted legislation in South Africa typically provides for a phase-in period for new standards. As a result, the impact on the group's mills of new standards contained in the Air Quality Act and the Waste Act is expected to be distributed over the next three to eight years. The group is in frequent contact with regulatory authorities during the phasing in of these requirements, in an attempt to manage the transition period.

Environmental liability assessments were performed on a number of Sappi Southern African mills. It was concluded that there was no material environmental liability exposure for Sappi Southern Africa with regard to present operations. The landfill sites at the Enstra and Tugela mills could incur rehabilitation and remediation costs should Sappi Southern Africa decide to close these sites. The group believes that these sites will continue to operate into the foreseeable future. Landfill sites in South Africa are regarded as assets for continued operations and for commercial on-sale due to the scarcity of available air space as the government is reluctant to approve the development of new landfill sites. The group's Enstra Mill is located in a contaminant catchment area that is currently being investigated by the relevant authorities to possibly allocate responsibilities to different industries in respect of contributing to the remediation of this specific catchment. This is not expected to materialise within the next five years.

33. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

Non-executive directors

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

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

33. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION (Continued)

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 Rand/US Dollar exchange rate in the past few years, caused distortions of the relative fees in US Dollars paid to individual directors.

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

	2012			
	Board fees	Committee fees	Travel allowance	Total
	(US$)			
M Feldberg[1]	87,290	55,410	12,000	154,700
J E Healey[2]	14,535	27,333	6,000	47,868
D Konar	36,066	68,037	6,000	110,103
B Radebe	36,066	11,715	6,000	53,781
A N R Rudd	61,753	52,164	9,000	122,917
K Osar	58,140	51,470	15,000	124,610
J McKenzie	36,066	34,223	6,000	76,289
D C Cronje	263,252		6,000	269,252
N P Mageza	36,066	30,439	6,000	72,505
R Thummer	61,753	26,082	11,900	99,735
M V Moosa	36,066	7,810	6,000	49,876
M A Fallon	61,753	23,618	9,000	94,371
G P F Beurskens	61,753	47,746	9,000	118,499
	850,559	436,047	107,900	1,394,506

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

33. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION (Continued)

	2011			
	Board fees	Committee fees	Travel allowance	Total
		(US$)		
M Feldberg	84,750	53,800	11,600	150,150
J E Healey	56,450	99,020	11,600	167,070
D Konar	39,438	74,320	5,800	119,558
H C Mamsch[(3)]	14,692	13,697		28,389
B Radebe	39,438	12,791	5,800	58,029
A N R Rudd	58,769	49,638	11,600	120,007
K Osar	56,450	28,500	11,600	96,550
J McKenzie	39,438	37,368	5,800	82,606
D C Cronje	287,449		5,800	293,249
N P Mageza	39,438	33,236	5,800	78,474
R Thummer	58,769	24,819	11,600	95,188
M V Moosa	39,438		5,800	45,238
M A Fallon[(4)]	4,897		2,900	7,797
G P F Beurskens[(5)]				
	819,416	427,189	95,700	1,342,305

	2010			
	Board fees	Committee fees	Travel allowance	Total
		(US$)		
D C Brink[(6)]	12,711	12,250	2,800	27,761
M Feldberg	66,600	49,183	14,000	129,783
J E Healey	55,100	75,000	14,000	144,100
D Konar	33,918	62,056	5,600	101,574
H C Mamsch	56,818	81,949	2,800	141,567
B Radebe	33,918	10,999	5,600	50,517
A N R Rudd	56,818	48,077	5,600	110,495
F A Sonn[(6)]	8,479	2,750	2,800	14,029
K Osar	55,100	27,500	11,200	93,800
J McKenzie	33,918	27,860	5,600	67,378
D C Cronje	235,662		2,800	238,462
N P Mageza[(7)]	25,438	18,572	2,800	46,810
R Thummer[(8)]	37,879	11,206	2,800	51,885
M V Moosa[(9)]	5,653			5,653
	718,012	427,402	78,400	1,223,814

(1) Retires at the end of December 2012.

(2) Retired in December 2011.

(3) Retired in December 2010.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

33. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION (Continued)

(4) Appointed in September 2011.

(5) Appointed in October 2011.

(6) Retired in December 2009.

(7) Appointed in January 2010.

(8) Appointed in February 2010.

(9) Appointed in August 2010.

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.

	2012				
	Salary	Performance related remuneration(1)	Sums paid by way of expense allowance (US$)	Contributions paid under pension and medical aid schemes	Total
R J Boëttger[2]	759,126	483,471	8,162	219,316	1,470,075
M R Thompson[3]	354,001	228,274	111,106	180,086	873,467
S R Binnie[4]	83,361	53,282	2,583	25,232	164,458
	1,196,488	765,027	121,851	424,634	2,508,000

	2011	
	Salary	Total

		Performance related remuneration(1)	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	
			(US$)		
R J Boëttger	806,887	669,438	8,011	234,772	1,719,108
M R Thompson	401,038	288,872	11,794	211,616	913,320
	1,207,925	958,310	19,805	446,388	2,632,428

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

33. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION (Continued)

	2010				
	Salary	Performance related remuneration(1)	Sums paid by way of expense allowance (US$)	Contributions paid under pension and medical aid schemes	Total
R J Boëttger	710,148	908,619	7,605	206,244	1,832,616
M R Thompson	339,708	378,188	9,280	117,927	845,103
	1,049,856	1,286,807	16,885	324,171	2,677,719

(1) In fiscal 2011 and 2010, performance related remuneration disclosed related to the year in which payment was made. In fiscal 2012, the performance related remuneration for the comparative periods have been adjusted to reflect the performance related remuneration earned in each year. The performance related remuneration for fiscal 2012 has been estimated based on the current year's performance.

(2) R J Boëttger received a 6% increase on the South African portion, and a 4% increase on the off-shore portion of his salary.

(3) M R Thompson received a 10% salary increase on the South African portion, and 4% increase on the off-shore portion of his salary. M R Thompson retired in August 2012 after reaching the mandatory retirement age.

(4) S R Binnie was appointed in July 2012 as chief financial officer designate and was appointed as chief financial officer and Executive Director at the end of August 2012.

Despite salary increases, the weaker ZAR in the 2012 financial year meant that R J Boëttger and M R Thompson earned lower salaries in US Dollar terms.

Please see compensation report elsewhere in this 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.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

33. 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.

2012

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

2011

	Salary	Bonuses and performance related payments(2)	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
			(US$)		
Officer 1	772,280		3,487	131,898	907,665
Officer 2	423,659	964,674		39,145	1,427,478
Officer 3	368,734	262,560	6,417	68,789	706,500
Officer 4	335,280	196,394	10,940	125,399	668,013
Officer 5	304,108	164,569	10,792	150,704	630,173
Officer 6	264,440	166,502	9,045	94,342	534,329
Officer 7	658,738		595	70,030	729,363

3,127,239	1,754,699	41,276	680,307	5,603,521

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

33. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION (Continued)

	2010				
	Salary	Bonuses and performance related payments(2)	Sums paid by way of expense allowance (US$)	Contributions paid under pension and medical aid schemes	Total
Officer 1	728,937	364,740	3,415	100,418	1,197,510
Officer 2	411,320	391,576		22,482	825,378
Officer 3	266,197	317,555	3,746	27,123	614,621
Officer 4	287,719	267,110	8,812	85,824	649,465
Officer 5	260,322	222,697	9,263	92,340	584,622
Officer 6	231,353	225,295	2,246	80,261	539,155
Officer 7	360,735	359,782	2,835	88,832	812,184
	2,546,583	2,148,755	30,317	497,280	5,222,935

(1) The prescribed officers of the group consist of M Gardner; R Hope (retired 30 June 2012); A Rossi; L Swartz; J Labuschagne (terminated 30 November 2011); M van Hoven; A Thiel and B Wiersum. They form the group executive committee together with the executive directors.

(2) In fiscal 2011 and 2010, performance related remuneration disclosed related to the year in which payment was made. In fiscal 2012, the performance related remuneration for the comparative periods have been adjusted to reflect the performance related remuneration earned in each year. The performance related remuneration for fiscal 2012 has been estimated based on the current year's performance.

Due to the weaker ZAR in the 2012 financial year, the prescribed officers earned lower salaries in US Dollar terms.

34. DIRECTORS' AND PRESCRIBED OFFICERS' INTERESTS

The following table sets out each directors and prescribed officers interests in shares and other securities in Sappi Limited. For the purposes of this table, each directors and prescribed officers interests include shares that are owned either directly or indirectly as well as those shares in which

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for the year ended September 2012

34. DIRECTORS' AND PRESCRIBED OFFICERS' INTERESTS (Continued)

directors and prescribed officers have vested obligations to purchase or to repay loans in terms of the Sappi Limited Share Incentive Trust.

	2012			2011		
	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		
M V Moosa[(1)]			**626,998**			626,998
Executive directors						
R J Boëttger	**140,307**			122,038		
M R Thompson[(2)]	**34,612**			20,517	39,600	
Prescribed officers						
Officer 1	**35,695**			11,000		
Officer 2	**24,695**					
Officer 3	**24,532**			13,419		
Officer 4	**18,173**			12,243		
Officer 5	**122,645**			109,737	39,600	
Officer 6	**52,345**			47,184	2,200	
Officer 7				24,105	22,000	
Officer 8						
Total	**460,546**		**626,998**	367,785	103,400	626,998

(1) M V Moosa holds a 31.8% share of Lereko Investment (Pty) Ltd which holds a total of 1,971,693 Sappi Limited shares as part of the BEE Transaction described in notes 17 and 28. M V Moosa was appointed a director of the company after the conclusion of the BEE Transaction.

(2) In fiscal 2011, M R Thompson purchased 142,000 of the Sappi Senior Secured Notes due 2014 at a total cost of €144,837.16. In August 2012, these notes were redeemed in terms of a compulsory redemption and termination of outstanding 2014 Notes as part of the 2012 refinancing.

On 28 November 2012, M A Fallon purchased 5,000 Sappi shares at ZAR28.00 per share. Other than the aforementioned purchase of shares by M A Fallon, there has not been any changes in the direct or indirect beneficial interests of the directors and their associates between financial year-end and the date of this report.

Directors' interests in contracts

Meyer Feldberg, a non-executive director of the company, disclosed his role as senior advisor of Morgan Stanley & Co. Limited, a financial advisor to Sappi, and Morgan Stanley South Africa (Pty) Limited, a transaction sponsor to Sappi Limited.

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

34. DIRECTORS' AND PRESCRIBED OFFICERS' INTERESTS (Continued)

Other than M Feldberg's role as senior advisor of Morgan Stanley & Co. Limited, M V Moosa's interest in the BEE Transaction described above and in note 28, and M R Thompson's interest in the Senior Secured Notes due 2014, the directors have certified that they did not have any material interest in any significant transaction with either the company or any of its subsidiaries, other than those on a normal employment basis.

35. DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION IN THE SAPPI LIMITED SHARE SCHEMES

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

Executive directors

	R J Boëttger		M R Thompson		Total 2012	Total 2011
	Allocated price	Number of shares	Allocated price	Number of shares	Number of shares	Number of shares
Outstanding at beginning of year						
Number of shares held		654,000		463,200	**1,117,200**	1,087,200
Issue 28a			ZAR 47.08	39,600		
Issue 29			ZAR 46.51	39,600		
Performance shares 32	ZAR 11.06	110,000	ZAR 11.06	88,000		
Performance shares 34		154,000		88,000		
Performance shares 35		195,000		120,000		
Performance shares 36		195,000		88,000		
Offered and accepted during the year						
Performance shares 36						283,000
Performance shares 37		200,000		70,000	**270,000**	
Paid for during the year						
Number of shares		(55,000)		(44,000)	**(99,000)**	(110,000)
Returned, lapsed and forfeited during the year						
Number of shares		(55,000)		(83,600)	**(138,600)**	(143,000)
Outstanding at end of year						
Number of shares held		744,000		405,600	**1,149,600**	**1,117,200**

Issue 29		ZAR 46.51	39,600
Performance shares 34	154,000		88,000
Performance shares 35	195,000		120,000
Performance shares 36	195,000		88,000
Performance shares 37	200,000		70,000

Performance shares are issued when all conditions per note 28 are met. The position of participants in regard to the rights offer is also explained in note 28.

Expiry dates

Issue 29	13 December 2012
Performance shares 34	22 December 2012
Performance shares 35	09 December 2013
Performance shares 36	03 December 2014
Performance shares 37	02 December 2015

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

35. DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION IN THE SAPPI LIMITED SHARE SCHEMES (Continued)

Prescribed officers

	Officer 2		Officer 3		Officer 4		Officer 5		Officer 6		
o of hares	Allocated price	No of shares	Allocated price	No of shares	Allocated price	No of shares	Allocated price	No of shares	Allocated price	No of shares	A
84,000		**412,600**		**246,200**		**266,800**		**393,200**		**271,400**	
	ZAR 47.08	11,000	ZAR 47.08	1,980	ZAR 47.08	33,000					
							ZAR 47.08	39,600	ZAR 47.08	17,600	Z
	ZAR 46.51	17,600	ZAR 46.51	4,620	ZAR 46.51	33,000	ZAR 46.51	39,600	ZAR 46.51	30,800	Z
88,000			ZAR 11.06	39,600	ZAR 11.06	41,800	ZAR 11.06	77,000	ZAR 11.06	33,000	Z
	ZAR 11.06	88,000									
88,000		88,000		55,000		44,000		77,000		55,000	
20,000		120,000		80,000		65,000		105,000		80,000	
88,000		88,000		65,000		50,000		55,000		55,000	
05,000		105,000		100,000		87,500		60,000		87,500	
44,000)		(44,000)		(19,800)		(20,900)		(38,500)		(16,500)	
44,000)		(55,000)		(21,780)		(53,900)		(78,100)		(34,100)	
01,000		**418,600**		**304,620**		**279,500**		**336,600**		**308,300**	
	ZAR 46.51	17,600	ZAR 46.51	4,620	ZAR 46.51	33,000	ZAR 46.51	39,600	ZAR 46.51	30,800	Z
88,000		88,000		55,000		44,000		77,000		55,000	
20,000		120,000		80,000		65,000		105,000		80,000	
88,000		88,000		65,000		50,000		55,000		55,000	
05,000		105,000		100,000		87,500		60,000		87,500	

e 28 are met. The position of participants in regard to the rights offer is also explained in note 28.

13 December 2012

22 December 2012
09 December 2013
03 December 2014
02 December 2015

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended September 2012

35. DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION IN THE SAPPI LIMITED SHARE SCHEMES (Continued)

Executive directors

Director		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
September 2012					
R J Boëttger	Performance Plan 32	12 December 2011	25,000	ZAR 0.00	ZAR 25.20
	Performance Plan Rights 32	12 December 2011	30,000	ZAR 20.27	ZAR 25.20
			55,000		
M R Thompson	Performance Plan 32	12 December 2011	20,000	ZAR 0.00	ZAR 25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR 20.27	ZAR 25.20
			44,000		
September 2011					
R J Boëttger	Performance Plan 31a	10 August 2011	50,000	ZAR 0.00	ZAR 25.20
	Performance Plan Rights 31a	10 August 2011	60,000	ZAR 20.27	ZAR 25.20
			110,000		

Prescribed officers

Prescribed officers		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
September 2012					
Officer 1	Performance Plan 32	12 December 2011	20,000	ZAR 0.00	ZAR 25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR 20.27	ZAR 25.20
			44,000		
Officer 2	Performance Plan 32	12 December 2011	20,000	ZAR 0.00	ZAR 25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR 20.27	ZAR 25.20
			44,000		
Officer 3	Performance Plan 32	12 December 2011	9,000	ZAR 0.00	ZAR 25.20
	Performance Plan Rights 32	12 December 2011	10,800	ZAR 20.27	ZAR 25.20
			19,800		

Officer 4	Performance Plan 32	12 December 2011	9,500	ZAR 0.00	ZAR 25.20
	Performance Plan Rights 32	12 December 2011	11,400	ZAR 20.27	ZAR 25.20
			20,900		
Officer 5	Performance Plan 32	12 December 2011	17,500	ZAR 0.00	ZAR 25.20
	Performance Plan Rights 32	12 December 2011	21,000	ZAR 20.27	ZAR 25.20
			38,500		

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for the year ended September 2012

35. DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION IN THE SAPPI LIMITED SHARE SCHEMES (Continued)

Prescribed officers		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
Officer 6	Performance Plan 32	12 December 2011	7,500	ZAR 0.00	ZAR 25.20
	Performance Plan Rights 32	12 December 2011	9,000	ZAR 20.27	ZAR 25.20
			16,500		
Officer 7	Performance Plan 32	12 December 2011	20,000	ZAR 0.00	ZAR 25.20
	Performance Plan Rights 32	12 December 2011	24,000	ZAR 20.27	ZAR 25.20
			44,000		
September 2011					
Officer 1	Performance Plan	29 January 2011	25,000	ZAR 0.00	ZAR 36.43
	Performance Plan Rights	29 January 2011	30,000	ZAR 20.27	ZAR 36.43
			55,000		
Officer 2	Performance Plan	20 December 2010	19,000	ZAR 0.00	ZAR 33.80
	Performance Plan Rights	20 December 2010	22,800	ZAR 20.27	ZAR 33.80
			41,800		
Officer 3	Performance Plan	31 May 2011	6,500	ZAR 0.00	ZAR 36.43
	Performance Plan Rights	31 May 2011	7,800	ZAR 20.27	ZAR 36.43
			14,300		
Officer 4	Performance Plan	31 May 2011	7,000	ZAR 0.00	ZAR 36.43
	Performance Plan Rights	31 May 2011	8,400	ZAR 20.27	ZAR 36.43
			15,400		
Officer 5	Performance Plan	31 May 2011	15,000	ZAR 0.00	ZAR 36.43
	Performance Plan Rights	31 May 2011	18,000	ZAR 20.27	ZAR 36.43
			33,000		
Officer 6	Performance Plan	31 May 2011	6,000	ZAR 0.00	ZAR 36.43
	Performance Plan Rights	31 May 2011	7,200	ZAR 20.27	ZAR 36.43
			13,200		

Officer 7	Performance Plan	31 May 2011	20,000	ZAR 0.00	ZAR 36.43
	Performance Plan Rights	31 May 2011	24,000	ZAR 20.27	ZAR 36.43
			44,000		