annual report 2008

sappi

Our reporting strategy

As a leading global business, Sappi subscribes to best international practice in its reporting to stakeholders. We aim to provide a comprehensible, balanced, complete and comparable view of our business through various structured reporting mechanisms, to assist stakeholders to take informed decisions about their interactions with the group.

For a complete view of Sappi's business strategy, performance in the year ending September 2008 and longer term prospects, stakeholders are directed to the following sources of company information:

- Quarterly results announcements and analyst presentations
- Annual Report and accounts, which are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)
- Form 20-F, prepared in accordance with the US Securities and Exchange Commission (SEC) regulations
- Sustainable Development Report, which will be published on the group website (www.sappi.com) at the same time as the Annual Report is released, with a printed version to be available thereafter (on request from the Group Head Corporate Affairs – contact details on page 195)
- Group website – www.sappi.com

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

- JSE Limited, South Africa(1)
- New York Stock Exchange, USA(2)
- London Stock Exchange, UK(2)

(1) Primary listing. (2) Secondary listings.

Exchange rates

	2008		2007		2006	
	Year average	**Closing rate**	Year average	Closing rate	Year average	Closing rate
Rand (ZAR)/ US Dollar (US$)	**7.4294**	**8.0751**	7.1741	6.8713	6.6039	7.7738
US Dollar (US$)/ Euro (EUR)(€)	**1.5064**	**1.4615**	1.3336	1.4272	1.2315	1.2672
US Dollar (US$)/ Pound (GBP)(£)	**1.9804**	**1.8448**	1.9715	2.0471	1.7985	1.8723

Annual report printed on:

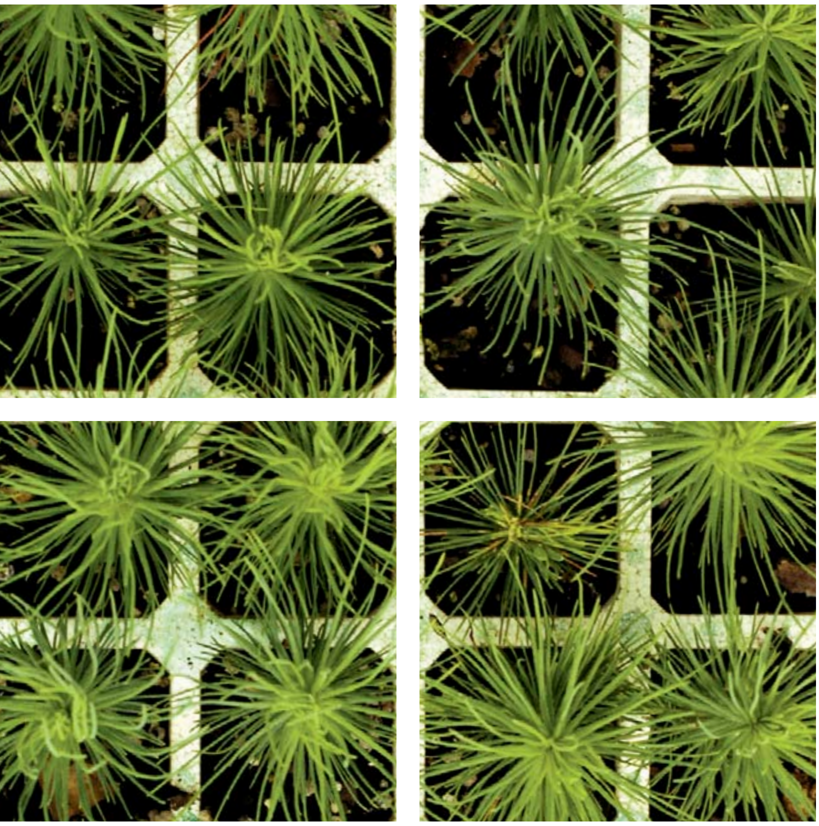
Magno Satin 250g/m^2 (cover), Magno Satin 150g/m^2 (pages 1 to 72) and Triple Green Print Silk 115g/m^2 (pages 73 to 200), produced by Sappi.

Our report in overview

In producing this report we have been mindful of the information needs of different stakeholders, from repeat readers with specific requirements such as easy comparability and navigation, to new readers requiring broader context to Sappi's business and strategy.

Our business

Sappi is a global paper and pulp group. We are a leading producer of coated fine paper widely used in books, brochures, magazines, catalogues and many other print applications. We are also the world's largest producer of chemical cellulose, used primarily in the manufacture of viscose fibre, acetate tow and consumer and pharmaceutical products. In addition, we produce newsprint, uncoated graphic and business papers, premium quality packaging papers, a range of coated speciality papers and a range of paper grade pulp. Sappi Limited was founded and incorporated in South Africa in 1936.



Key facts

- Manufacturing operations on four continents
- Sales in over 100 countries
- 15,200 employees worldwide
- Paper production of 5.2 million tons per annum
- Chemical cellulose production of 800,000 tons per annum
- Paper pulp production of 2.8 million tons per annum

Our performance

The group's operating performance improved during the year. However, operating profit excluding special items in the second half of the year was flat compared to the second half of 2007, reflecting worsening macro-economic conditions and rising input costs.

			ZAR convenience translation	
	September 2008 US$ million	September 2007 US$ million	**September 2008 ZAR million[3]**	September 2007 ZAR million[3]
Sales	**5,863**	5,304	**43,559**	38,051
Operating profit	**314**	383	**2,333**	2,748
Special items (gains) losses	**52**	(70)	**386**	(502)
Operating profit excluding special items	**366**	313	**2,719**	2,246
EBITDA excluding special items[1]	**740**	688	**5,498**	4,936
Profit for the year	**102**	202	**758**	1,449
	US cents	US cents	**SA cents[3]**	SA cents[3]
Basic earnings per share	**45**	89	**334**	638
Dividend per share[2]	**16**	32	**156**	209
Ordinary shareholders' interest per share	**700**	795	**5,655**	5,461

	Achieved September 2008	Achieved September 2007
Operating profit to sales (%)	**5.4**	7.2
Operating profit excluding special items to sales (%)	**6.2**	5.9
EBITDA excluding special items to sales	**12.6**	13.0
Operating profit excluding special items to capital employed (ROCE) (%)	**9.1**	8.3
Return on equity (ROE) (%)	**6.0**	12.6
Net debt to total capitalisation	**0.60**	0.55
Cash interest cover (times)	**4.9**	3.8

(1) Refer to the five-year review for a reconciliation of profit (loss) for the year to operating profit excluding special items, and EBITDA excluding special items.

(2) The dividends for both financial years were declared subsequent to year end.

(3) The translation to South African Rand from United States Dollars has been calculated at an average rate for the year of US$1 to ZAR7.4294 (September 2007: US$1 to ZAR7.1741), except for dividends which have been translated at the rate of exchange at the date of declaration.

Note:

Definitions for various terms and ratios used above are included in the Glossary on page 188.

Financial summary

- Sales increased 11% to US$5.9 billion
- Operating profit excluding special items of US$366 million (2007: US$313 million)
- Special items; a net pre-tax charge of US$52 million
- Basic EPS of 45 US cents (unfavourably impacted by special items of 30 US cents)
- Input costs remained high, including wood, energy and chemical costs
- Net debt of US$2.4 billion, up US$148 million mainly as a result of expenditure on the Saiccor expansion
- Major strategic achievements:
  - Announced acquisition of M-real's coated graphic paper business for €750 million
  - Saiccor Mill expansion commissioned
- Re-based dividend of 16 US cents declared (2007: 32 US cents)

Our performance against targets*

Target

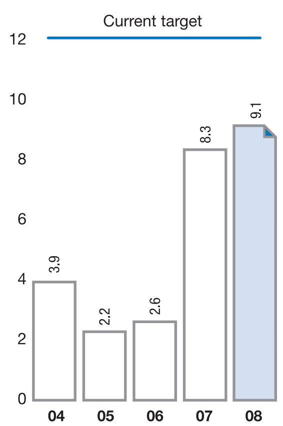
Operating profit excluding special items to capital employed (ROCE)

Our ROCE target is >12% which is set as a minimum, to beat our weighted average cost of capital.

Our performance

Our performance improved further in the year mainly as a result of the good performance in North America. Our European business fell well short of target and our strategic focus is on restoring this business to profitability. Forest Products had a good year but did not match last year's level of performance.

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



Target

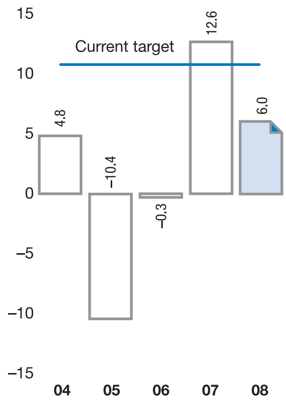
Return on equity (ROE)

To provide shareholders with an after tax return that, on average, exceeds the weighted regional risk-free rate by at least 5 percentage points. Our current target is >11%.

Our performance

Return on equity declined sharply during the year as a result of lower net profit. Net profit declined despite the improved operating profit excluding special items, largely as a result of the charges relating to the closure of Blackburn Mill and Maastricht Paper Machine No 5 and the impairment of Usutu Mill and a resulting high effective tax rate.

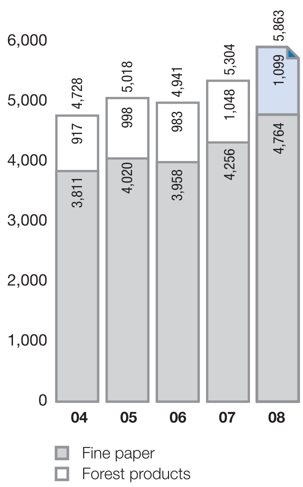
Return on equity (ROE) (%)



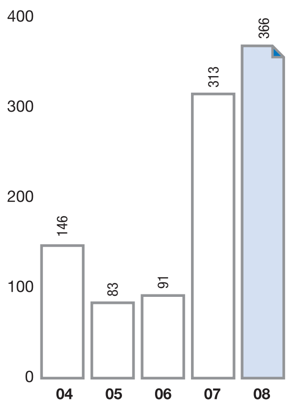
* *See definitions on page 190.*

Five-year highlights

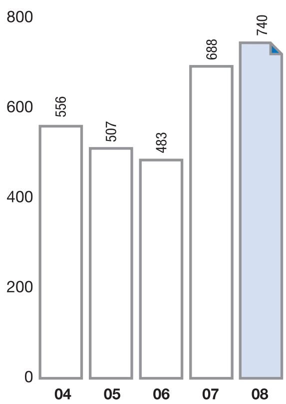
Sales (US$ million)



Operating profit excluding special items (US$ million)



EBITDA excluding special items (US$ million)



Target

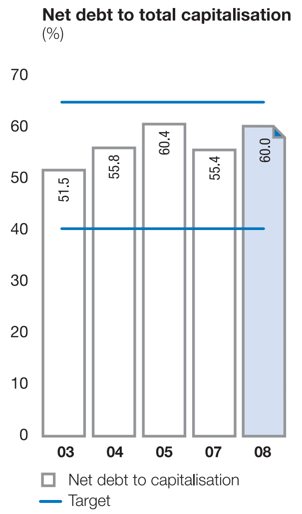
Net debt to total capitalisation

Our target is to operate within a range of 40% to 65%.

(The definition of this ratio has been changed to improve comparability. The history has been restated).

Our performance

The ratio worsened during the year as a result of higher net debt (US$148 million) which increased as a result of higher than normal capital expenditure to complete the Saiccor expansion. The ratio was also impacted by a reduction in equity partly as a result of asset closures and impairments and partly as a result of currency movement.



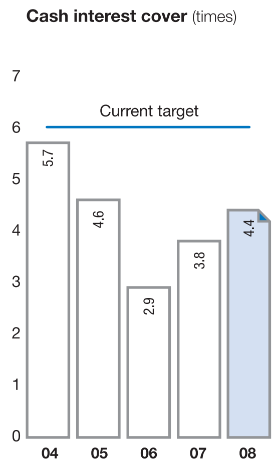
Target

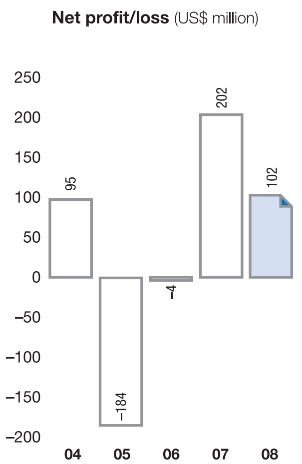
Cash interest cover

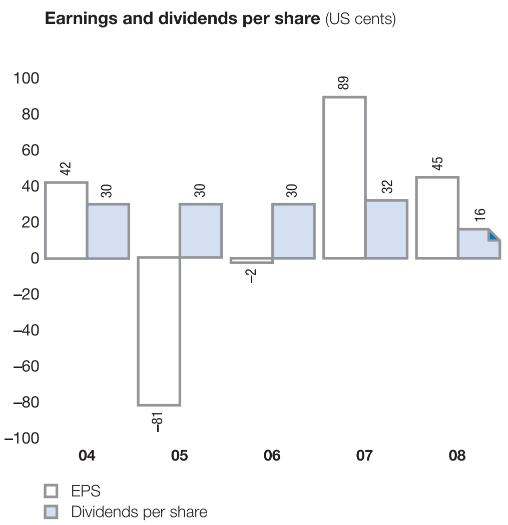
To exceed a level of 6 times cover.

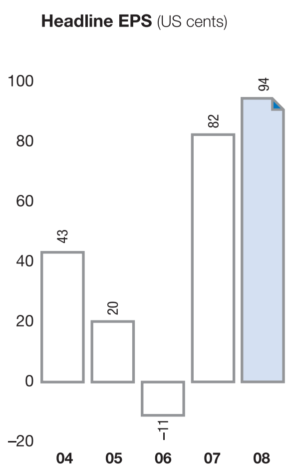
Our performance

The cash interest cover increased to 4.4 times in the year as a result of improved cash generation but still falls short of our target.









Our sustainability performance in 2008

The following four pages are a snapshot of our approach to sustainability. More comprehensive details can be found in our publication, Sappi and Sustainability, 2008 Report, or on our website:
http://www.sappi.com/SappiWeb/Corporate+responsibility/Publications/Brochures+and+reports.htm

Our definition of sustainability

At Sappi, we define sustainable development as "development which meets the needs of the present without compromising the ability of future generations to meet their own needs".* We are incorporating the principles of sustainable development into our everyday business practices by developing a culture of compliance. Our commitments are set out on page 8 and 9.

* *The Brundtland Report 'Our common Future'.*

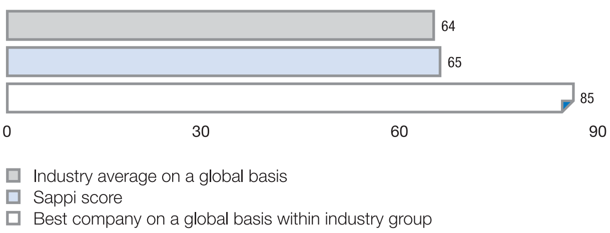
Milestones on our sustainable journey

Over the last year we have:

- Published our 2007 Report in accordance with the Global Reporting Initiative (GRI) guidelines. We revised the way we collect and collate data in order to align our environmental performance reporting more closely with the GRI guidelines and enhance transparency.
- Updated our Code of Ethics in order to realise our vision of growing and living our values. The Code gives all our employees, contractors and stakeholders the guidance they need to act in line with our core values of Excellence, Integrity and Respect. The Code was rolled out to employees and suppliers across the group.
- Joined the United Nations Global Compact, a framework for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour and anti-corruption.
- Participated in a review by the Dow Jones Sustainability World Index (DJSI World), which captures the top 10% performers based on long-term economic, environmental and social criteria of the biggest 2,500 companies worldwide. This was a valuable benchmarking exercise in establishing our triple bottom line performance within our sector.
- Established the Group Sustainable Development Council (GSDC) and regional committees in order to instil the principles of sustainable development more fully into our everyday management of Sappi. An independent, non-executive board director also sits on the GSDC. In North America, sustainability ambassadors are playing a valuable role in driving this process and we envisage adopting this type of approach in all regions.
- Revised our Charter to incorporate new and current commitments and present these in simpler language to make them more meaningful and more easily understood by all our stakeholders.
- Established Prosperity, People and Planet targets for each region in order to establish benchmarks for measuring our progress.
- Participated in the Carbon Disclosure Project, a vehicle for reporting on climate change representing more than 385 investors globally with US$57 trillion under management (aggregated).
- Been assessed by London-based company Ethically Responsible Investment Services (EIRIS) for inclusion on the JSE's Socially Responsible Investment (SRI) Index. We maintained our listing and were assessed as satisfactory in all areas, with our response to climate change assessed as good.
- Compiled a publication which 'Unpacks the 3Ps' of Prosperity, People and Planet. The publication, which explains the importance of each of our Charter commitments and sets out the way in which we are living up to these commitments, will be launched in the first quarter of 2009.

Our score on the DJSI World

Sappi group DJSI total score (%)



Dimension scores %

	Sappi	Average	Best
Economic	74	70	91
Environmental	65	61	83
Social	61	63	87

External accolades

- Sappi was recognised as one of the top 21 performers on the JSE SRI Index.
- We were among three companies in South Africa nominated for the Industrial Category of the 2008 National Business Initiative Special Award for the *Top Performing Energy Efficiency Accord Signatory*.
- Ranked fourth for our investor relations website and second for financial disclosure in Africa and Asia by IR Global Ratings, a comprehensive ranking system for IR websites in Africa and Asia, as well as corporate governance practices and financial disclosure procedures.
- Our Clean Development Mechanism (CDM) project at Tugela Mill in South Africa received an award for *The Most Innovative Co-generation Project* from Energy Africa magazine.
- Sappi Fine Paper North America named as a recipient of the 2008 CIO 100 Award. This annual award programme, run by CIO magazine, recognises 100 organisations worldwide that use information technology (IT) to create business value. Sappi won the award for the development of an integrated knowledge management system which allows greater control over raw material expenditure.
- Sappi's UK sales office was awarded UK Supplier of the Year award for 2007 by Antalis UK, a division of Europe's largest distributor of paper and support communications material.

Our key highlights

- Acquisition of the coated graphic paper business of M-real
- Final commissioning of the AmaKhulu expansion project at Saiccor Mill, taking annual chemical cellulose capacity to 800,000 tons
- Finalisation of broad based black economic empowerment (BBBEE) transaction with Lereko Property Consortium
- Launched Tempo™ an innovative, fast-drying paper technology
- Sales of Flo® more than treble
- Global training spend up by 20%
- Renewable energy as a percentage of total energy used stands at 48.6%

Our key challenges

- Focus more intensely on safety in the light of employee and contractor fatalities
- Promote HIV/Aids voluntary counselling and testing (VCT) in view of an increase in the mortality rates of HIV-infected employees in South Africa

Our sustainability performance in 2008 – at a glance

Prosperity

Our commitments	Our performance
Focus on long-term profitable growth	• Entered into an agreement to buy the coated graphic paper business of M-real. • Commissioning of the expansion project at Saiccor Mill. • Announced the closure of Blackburn Mill and the Paper Machine No 5 at Maastricht Mill. • Launched new products, including Tempo™.
Promote an ethical culture	• Launched our revised Code of Ethics based on our core values of Excellence, Integrity and Respect. The Code, which was comprehensively rolled-out to employees, contractors and suppliers, is supported by Sappi Hotlines in each region.
Drive customer satisfaction through technology and innovation	• Continued to focus on research and development, spending US$34 million in 2008 (2007: US$34 million) • Continued to drive internal innovation through the Technical Innovation Awards.
Build on our competitive position in our core markets	• In Europe, we launched Algro Topwhite and Parade Prima High Gloss. • In South Africa, we launched an insect-repellent board for cereal manufacturers. • In North America, sales of best-in-class economy brand Flo® trebled from the time of launch in June 2007.
Maintain our licence to trade	Continued to promote broad based black economic empowerment: • Finalised a ZAR224 million BEE transaction with the Lereko Property Consortium (LPC) under which LPC will acquire a 25% economic interest in Sappi's South African plantation land. • Formed a partnership with the National Business Initiative to help promote the development of selected black vendor small and medium enterprises (SMEs).
Create value for all stakeholders	• Positive annual operating profit, despite the difficult trading conditions and increased input costs. • Declared a dividend of 16 US cents a share.

People

Our commitments	Our performance
Prioritise wellbeing, safety and health	Two own employee fatalities and five contractor employee fatalities, as well as an increase in HIV/Aids mortality meant that our performance when measured against this commitment was unsatisfactory in some areas. Key performance indicators were: • The employee Lost Time Injury Frequency Rate (LTIFR) increased by 20% year on year in South Africa and in Europe by 126%. However, in North America, employee LTIFR reduced by 39%. • The contractor LTIFR for Sappi Fine Paper Europe increased because of the contractor employee fatality in that region. It also showed a small increase for Sappi Fine Paper North America due to the relatively low number of contractor hours. Despite contractor employee fatalities in Southern Africa, contractor LTIFR reduced from 0.48 to 0.31 due to the large numbers of forestry contractor employees and a general reduction in injuries. • In South Africa, the voluntary counselling and testing (VCT) uptake increased, but disappointingly, mortality rates of HIV-infected employees in the region showed an upward trend.
Cultivate an inclusive, diverse workplace	• Gender diversity increased steadily, albeit slowly, throughout the group. • While we did not succeed in meeting our employment equity targets at senior management and professional levels in South Africa, we made progress at the skilled technical and academically qualified level, meeting our 2008 targets in all race groups.
Be a great place to work	• We began the process of assessing our Sappi Employee Value Proposition in order to understand why people want to work for us and why they stay.
Provide training and development opportunities	• Global training spend increased by 20%.
Partner with communities	• In percentage terms, total Corporate to Social Responsibility spend increased, amounting to 3.04% of profit after tax compared to 1.78% in 2007. • We began the process of determining the impact of our Corporate Social Responsibility programmes.

People continued

Our commitments	Our performance
Engage with stakeholders openly and constructively	• Employees – implemented certain findings of the Employee Engagement Survey conducted in 2007. – concluded successful wage negotiations in all regions. • Investors – continued to engage actively with our investor base. • Customers – introduced sustainability ambassadors in North America who engage with employees and customers on an ongoing basis. • Industry – continued to work with industry associations in each region and also continued to collaborate with universities on industry-specific issues. • Contractors and suppliers – included in our Code of Ethics roll-out.

Planet

Our commitments	Our performance
Continue our commitment to independent environmental, wood and fibre certification systems	In South Africa: • More than 70% of the wood supplied to Sappi is Forest Stewardship Council (FSC) certified. In North America: • Almost 50% of our wood fibre is procured from landowners who participate in the Sustainable Forestry Initiative (SFI®) programme. In Europe: • 62% of our fibre is certified by the Programme for the Endorsement of Forest Certification (PEFC) and FSC. Globally: • We use international standards including OHSAS18001, ISO14001 and ISO9001 to ensure continuous improvement in employee health and safety, environmental impact, product quality and sustainability of our operation.
Safeguard biodiversity by promoting sustainable forestry	• Of the 369,000ha of land owned by Sappi in South Africa, 132,170ha or about 34% is unplated and managed for biodiversity conservation. • Biodiversity plays a vital role in ensuring the health and vitality of trees in terms of decomposition, soil rejuvenation and pest control – both on our own plantations and the areas from which we source wood fibre. • We also continued to promote biodiversity by involving communities in eco-tourism.
Conform with best environmental practice and legislation	• Ngodwana Mill was audited in August by an inspection team from the Environmental Management Inspectors (also known as the Green Scorpions). We are awaiting the audit results. • In North America, we are confident that we will be able to comply with the recently amended Lacey Act relating to the importation of plants and plant products.
Reduce greenhouse gas emissions and increase our renewable energy	• Globally, carbon emissions throughout our mills show a declining trend from 2005 (based on internal data). • Announced a US$36 million investment in a chemical recovery boiler modification at Somerset Mill which will increase the capacity for generating energy from black liquor. • We teamed up with Volvo Car South Africa in an innovative carbon-offset project which links with Sappi South Africa's Sandisa Imvelo (Growing Nature) programme for planting indigenous trees. • In North America, more than 75% of all energy used in our mills comes from renewable resources (waste products from our production process (black liquor, bark and sludge and also purchased biomass). The percentage of renewable energy for South Africa is 38.1% and for Europe is 31.8%, with our global figure being 48.6%.
Reduce solid waste and improve water quality	• Globally, the amount of solid waste going to landfill has declined by 8.09% over five years while we have increased our use of combustible waste by 10.48% over three years. • Globally, the quality of effluent has improved over five years as indicated by the 18.23% and 9.01% decreases in total suspended solids (TSS) and chemical oxygen demand (COD) respectively.
Promote the recovery and use of recycled fibre	• The recycled fibre used in our operations increased by 8.52% year on year.

Our operations

Europe accounts for 46% of sales, followed by North America at 28%, and Southern Africa at 26%. We have customers in over 100 countries and manufacturing operations on four continents.

North America
- Regional head office
- 4 Fine Paper mills
- 6 Fine Paper sales offices
- 1 Sappi Trading sales office

Europe
- Regional head office
- 6 Fine Paper mills*
- 16 Fine Paper sales offices
- 2 Sappi Trading sales offices

Asia
- 4 Sappi Trading sales offices
- 1 Paper mill – joint venture

Southern Africa
- Corporate head office
- Regional head office
- 3 Fine Paper mills
- 6 Forest Product mills
- 4 Fine Paper sales offices
- 4 Forest Product sales offices
- 2 Sappi Trading sales offices

Central America
- 1 Sappi Trading sales office

South America
- 1 Sappi Trading sales office

East Africa
- 1 Sappi Trading sales office

Australia
- 1 Sappi Trading sales office

* *Production at Blackburn Mill ceased on 17 October 2008.*
No alternative to the closure of the mill was found during the employee representative consultation process, which ended on 11 November 2008.

Our business structure

sappi

Johannesburg

- **Forest Products***
  - Saiccor
  - Kraft
  - Forests
- **Fine Paper**
  - Europe
  - North America
  - South Africa*
  - Jiangxi Chenming Paper Co Joint-venture
- **Sappi Trading**

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

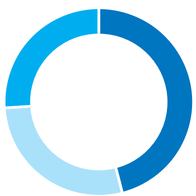
* Forest Products and Fine Paper South Africa comprise our Southern African operations.

Group statistics

	Capacity Paper	('000 tons) Pulp	Employees
Fine paper products	4,350	1,760	9,310
Forest products	830	1,850	5,580
	5,180	**3,610**	**15,160***

* *Total includes Sappi Trading and Corporate head office.*

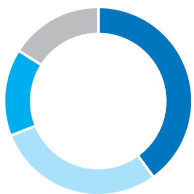
Sales by source**



- 46% Europe
- 28% North America
- 26% South Africa

** *Where the product is manufactured*

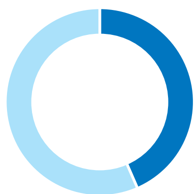
Sales by destination**



- 40% Europe
- 29% North America
- 15% Southern Africa
- 16% Asia and other

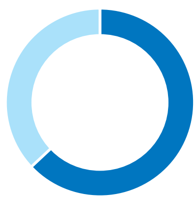
** *Where the product is sold*

Operating profit excluding special items



- 43% Fine paper
- 57% Forest products

Share of group's net operating assets



- 63% Fine paper
- 37% Forest products

Our products

We are commited to serve our customers the best we can through a continued focus on innovation and excellence in service. Sappi's history of paper technology 'firsts' achieved by our technology centres in the regions in which we operate, continues to underpin this commitment.

Coated paper

gives a higher level of smoothness than uncoated paper by applying a coating (typically clay based) on the surface of the paper. As a result, higher reprographic quality and printability is achieved. Uses include brochures, catalogues, corporate communications materials, direct mailers, educational textbooks, magazines and calendars.

Products and brands

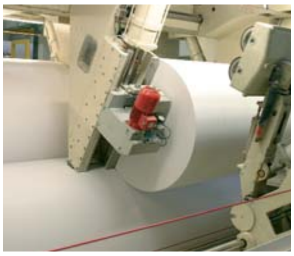
- Aero®
- Triple Green™
- Flo®
- HannoArt™
- Lustro® Offset Environmental (LOE™)
- Magno™
- McCoy®
- Opus®
- Quatro™
- Royal™
- Somerset®
- Tempo™

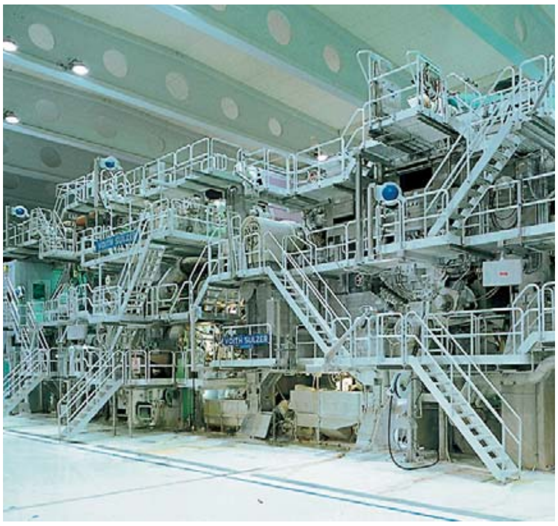
Speciality paper

can be either coated or uncoated. Uses include bags, labels, packaging and release paper for casting textured finishes (eg artificial leather for the automotive and fashion industries).

Coated speciality

- Algro™
- Barricoat
- EHR
- Icena™
- Leine
- Parade
- Prime Pak
- Stripkote®
- Superprint
- Transkote®
- Triple Green Label
- Ultracast®
- Versakote®





Uncoated paper

uses include business forms, business stationery, general printing paper and photocopy paper. We also produce tissue wadding which is converted into various hygiene products.

Products and brands

- African Dream™
- Camelot Cartridge®
- China Embossed
- Croxley®
- Custodian®
- El Toro®
- Econoline®
- Ecomail™
- Express Brown
- Laser Preprint
- Lord Ariston™
- MF Tag
- Midas Golden™
- Paradis
- Presspride
- Reviva Plus™
- Sentinel
- Silken
- Sovereign Select®
- Tissue wadding
- Tokai®
- Typek®
- Uniqa®
- Vanguard

Pulp

Paper pulp

is the main raw material used in the production of printing, writing and packaging paper. Pulp is the generic term that describes the cellulose fibre derived from wood. These cellulose fibres may be separated by mechanical, thermo-mechanical or chemical processes. Mechanical pulp is produced by mechanically grinding wood or wood chips. Thermo mechanical pulp is produced by processing wood fibres using heat and mechanical grinding or refining wood or wood chips. Chemical pulp is produced by using chemical processes which remove the glues (lignins) that bind the wood fibres leaving cellulose fibres. Paper made from chemical pulp is generally termed 'woodfree' or 'fine' paper.*

Chemical cellulose

is manufactured by similar processes to paper pulp, but purified further to leave virtually pure cellulose fibres. Chemical cellulose is used in the manufacture of a variety of cellulose textile and non-woven fibre products, including viscose staple fibre (rayon), solvent spun fibre (lyocell) and filament. It is also used in various other cellulose-based applications in the food, cigarette, chemical and pharmaceutical industries, including the manufacture of acetate tow, microcrystalline cellulose, cellophane, ethers and moulding powders. The various grades of chemical cellulose are manufactured in accordance with the specific requirements of customers in different market segments. The purity of the chemical cellulose is one of the key determinants of it's suitability for particular applications.

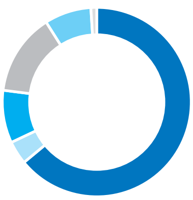
Timber products

includes sawn timber for construction and furniture manufacturing.

Pulp

- Chemical cellulose
- Kraft pulp
  - Springwood™
  - Hardcell™
  - Softcell®

Sales by product group*



- 64% Coated fine paper
- 4% Uncoated fine paper
- 9% Coated specialities
- 14% Pulp
- 8% Commodity paper
- 1% Other

*** As at September 2008*

Packaging paper

of heavy and lightweight grades of paper and board are mainly used for primary and secondary packaging of fast moving consumer goods, agricultural and industrial products. Products include container-board, sack kraft and machine glazed kraft which can be coated to enhance barrier and aesthetic properties.

Products and brands

- Algro Design™
- Barricoat™
- Beehive bag™
- Cape Fluting
- Cape Liner™
- Glass Glaze
- Hi Yield Fluting®
- Kraftguard®
- Kraftpride®
- Mg Industrial
- Presspride®
- Printpride®
- Stackraft®
- Stegi
- Stratomax™
- Superflute
- Superprint®
- Tobacco Liner
- Wicked Wrap™

* *See glossary on page 188.*

Sappi 2008 International Printers of the Year

Since 1995, Sappi has recognised and rewarded excellence in print through the Sappi International Printers of the Year competition. These prestigious awards have been called the 'Oscars' of the print industry and have established the global benchmark against which any high-quality printer can measure themselves.

Each year, the nine category winners in the Sappi International Printers of the Year awards receive a coveted cast-bronze elephant trophy created by world-renowned sculptor Donald Greig, symbolising Sappi's South African heritage.

Given the significant value that such an award brings to the printer, Sappi has announced that the competition will in future be held on a biennial basis. This will provide the winning printers at regional and international level with substantial additional benefit. Recognising the importance of the triple bottom line approach to doing business and the fact that consumers and markets are increasingly conscious of environmental issues, Sappi is also investigating how best to incorporate recognition of the importance of sustainability and corporate responsibility into the competition.

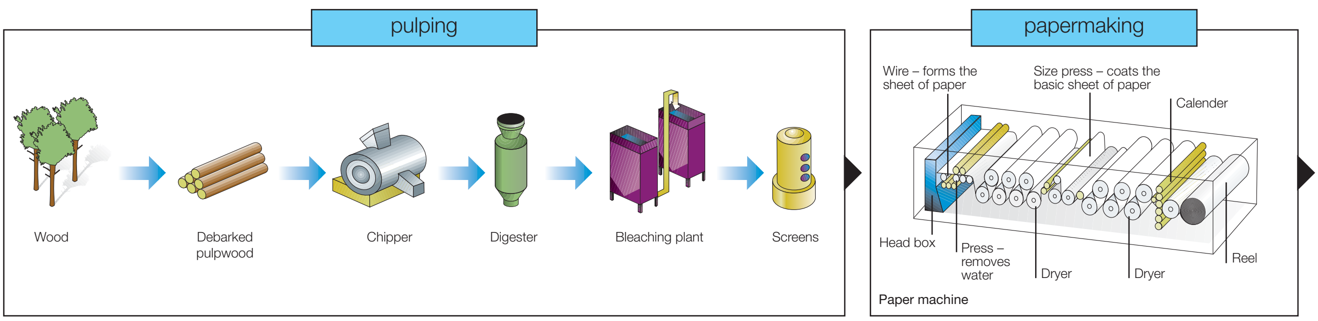
Over 6,000 entries were received from participating countries in this year's four qualifying regional Printers of the Year competitions. The categories were:

- Annual reports
- Brochures
- Catalogues
- Magazines (sheet and web)
- Printer's own Promotion
- Books
- Calendars
- General print
- Packaging and labels

Regional gold award winners competed against each other in their respective categories and were judged by an international panel of judges, ensuring impartiality and the broadest spectrum of technical expertise in print. Each entry was judged on overall appearance, quality of finishing and general difficulty of the print job, as well as various technical factors.

The Sappi Printers of the Year Awards originated in Africa 30 years ago, and were subsequently introduced in Europe, North America and Sappi's Trading region (Asia, Australasia, South and Central America) to become a truly global benchmark of printing excellence.

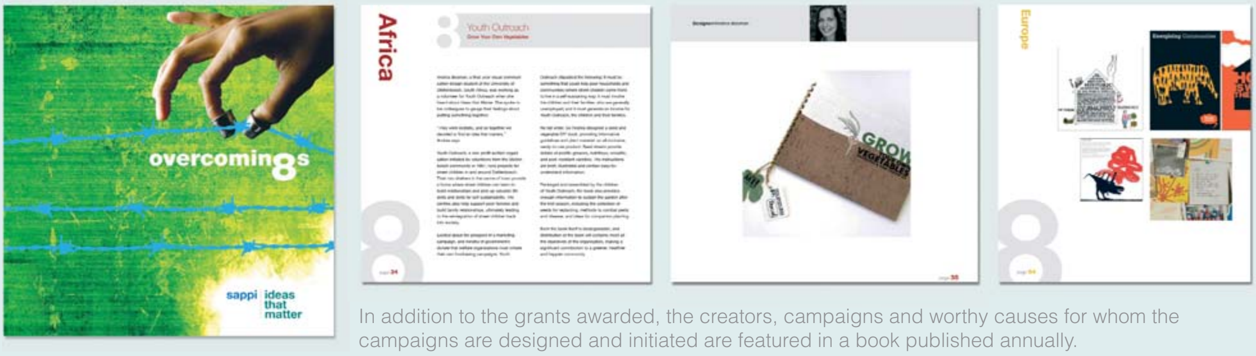
Sappi papermaking process



Ideas that matter

sappi | ideas that matter

Print remains one of the most powerful forms of communication. It is personal and emotive, and connects on many levels with its audience, making it an exceptionally effective communication channel for non-profit organisations – for fundraising purposes, education and raising awareness.



In addition to the grants awarded, the creators, campaigns and worthy causes for whom the campaigns are designed and initiated are featured in a book published annually.

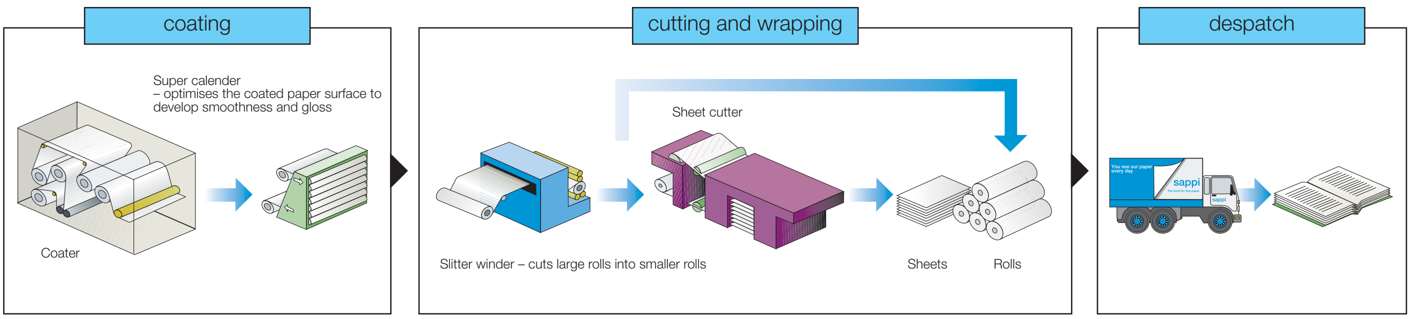
A long-standing Sappi initiative, Ideas that Matter, is aimed at assisting non-profit organisations worldwide by awarding annual funding to innovative designers for print campaigns that promote worthwhile social causes.

Launched in 1999, Ideas that Matter draws entries from all over the world, and grants totalling US$1 million are awarded annually. Sappi's funding is awarded to design students, professional designers and design agencies. They donate their time and expertise in developing original and impactful campaigns, while Sappi funds the implementation costs. Over the past nine years, US$9 million in Sappi funding has resulted in some of the most creative and effective campaigns produced for non-profit organisations.

This year, over 200 entries were received from 15 countries in the regions in which Sappi operates, and 36 entries were given grants. Causes such as climate change, cancer research, animal anti-cruelty and interventions for the disabled, youth and marginalised communities received funding.

Sappi is committed to conducting our business responsibly and helping to create stable, healthy communities. Ideas that Matter is an important expression of this commitment.

Sappi papermaking process continued



Our strategy

We reviewed our strategy during the year, leading to some changes in emphasis.

Our goal is to be the **most profitable company** in the paper, pulp and chemical cellulose sectors. Our key measure will be **Return on Capital Employed (ROCE)** and as a minimum to beat our cost of capital. We will also prioritise **cash generation** and **improving our balance sheet structure**.

We aim to build on our leading position in the coated fine paper market and to explore opportunities across the spectrum of coated paper. We plan to grow our chemical cellulose business and we are expanding our low-cost fibre base in Southern Africa. We will invest in energy reduction and self-sufficiency projects and in extracting chemicals derived from renewable wood resources. Core to our business, is our Southern African portfolio of packaging paper, newsprint, printing and writing paper, and tissue paper.

Strategic objectives	Progress in 2008
Achieve our ROCE target of greater than 12% and therefore exceed our cost of capital	• We saw further improvement to 9.1% in 2008; however, we still fell short of our target particularly in Europe. • We have taken action to improve our performance in Europe, including the pending acquisition of M-real's coated graphic paper business.
Strengthen our leadership position in our core businesses through organic growth and selective acquisitions	• The Saiccor Mill expansion project was completed in September, increasing chemical cellulose capacity by 225,000 tons to approximately 800,000 tons per annum. • On 29 September we announced the acquisition of M-real's coated paper business which will increase our leading coated fine paper market share in Europe and give us a significant share in the coated magazine paper market. (Further details of the rationale for the transaction are included on page 33).
Expand our low-cost plantation fibre base in Southern Africa as a resource to grow our pulp and chemical cellulose businesses	• We decided to expand our plantation investments in Southern Africa. After the expansion of Saiccor Mill and the completion of the pending acquisition of M-real's coated graphic paper business the group will be approximately 92% integrated in terms of pulp requirements (on an economic basis). • High pulp prices during the year favoured Sappi Forest Products and the North American business, which are net sellers of pulp, but penalised the European business which buys more than half of its pulp needs.
Drive efficient manufacturing and logistics to ensure we are a low-cost producer	• The impact of raw material and other input price increases was approximately US$208 million during 2008 compared to 2007. The effect of this was partly offset by actions including enhancing our procurement expertise, redesigning products, and improved planning of logistics. • During the completion stage of the Saiccor Mill project the current production of the mill was affected thereby reducing the mill's output and sales. Production of the expansion is ramping up and the mill is expected to reach full capacity early in 2009.
Drive growth through customer service, innovation and reliability	• Our market research has shown that our customers place customer service and reliability high or top of the list of requirements. We continued to make good progress in meeting customer needs during the year. • An increased proportion of our sales was derived from newly designed products in the year.
Entrench our core values of • Excellence • Integrity • Respect	• Our values have been derived from internal dialogue and incorporated in our internal and external communications, including our Code of Ethics, Strategy Statement and Sustainability Report. We strive to live our values in all our business interactions.
Black Economic Empowerment (BEE) in South Africa	• During the year we set up new structures to ensure we effectively manage the changes needed to achieve our BEE targets. • The conditions to the transaction to sell a 25% undivided right to our forestry land to a broad based BEE consortium led by Lereko have been fulfilled and the transaction has been completed. • A next step in our transformation strategy is to enter into a value-adding and broad based equity transaction.

Objectives for 2009

- Meaningful progress towards acceptable returns for our shareholders
- Successful integration of the coated graphic paper business we are acquiring from M-real and the achievement of the related synergies
- Ramping up the output of Saiccor mill to its new full capacity
- Cash flow, capital expenditure and working capital management and maintaining good liquidity for the group
- Improving our balance sheet structure
- Ensuring we successfuly navigate through the current global economic turmoil and position Sappi to take advantage of an inevitable upturn
- Steady improvement of operating performance

Saiccor Mill, South Africa

Our leadership

Non-executive directors

Daniël (Danie) Christiaan Cronjé // **(62) chairman (independent)**
BCom (Hons), MCom, DCom (South African citizen)

Dr Cronjé retired in July 2007 as chairman of both Absa Group Ltd and Absa Bank Ltd, a leading South African banking organisation in which Barclays plc obtained a majority share in 2005. He had been with the Absa group since 1975 and held various executive positions including group chief executive for four years and chairman for 10 years. Prior to that Dr Cronjé was Lecturer in Money and Banking at Potchefstroom University. Dr Cronjé's other directorships include Eqstra Holdings Ltd (chairman) and TSB Sugar Holdings Ltd (non-executive).

David Charles Brink // **(69) (senior independent director)**
MSc Eng (Mining), DCom (hc), Graduate Diploma (Company Direction) (South African citizen)

Mr Brink was appointed a non-executive director of Sappi Limited in March 1994 and in March 2006 he was appointed senior independent director. Mr Brink also serves on the boards of Steinhoff International Holdings Limited, the Business Trust, Absa Bank Limited, Absa Group Limited, the National Business Initiative and is vice president of the Institute of Directors in South Africa.

Mr Brink retired from the boards of BHP Billiton Limited and BHP Billiton plc in November 2007 after serving on those boards and their predecessor companies since 1994. He is also a past chief executive officer and chairman of construction group Murray & Roberts Holdings Limited.

Meyer Feldberg // **(66) (independent)**
BA, MBA, PhD (US citizen)

Professor Feldberg's career has included teaching and leadership positions in the business schools of the universities of Cape Town, Northwestern and Tulane. He served as president of Illinois Institute of Technology for three years and as dean of Columbia Business School for fifteen years. He is currently dean emeritus and professor of Leadership at Columbia Business School. He is also a senior advisor to Morgan Stanley in New York. Professor Feldberg serves on the Advisory Board of the British American Business Council and has served on the Council of Competitiveness in Washington, DC. In 2001, the International Centre in New York honoured Professor Feldberg as a distinguished foreign-born American who has made a significant contribution to American life. In 2007, Mayor Michael Bloomberg appointed him president of New York City Global Partners. He is a director of major public companies including Macy's Inc, Revlon Inc, PRIMEDIA Inc and UBS Global Asset Management.

James Edward Healey // **(67) (independent)**
BSc (Public Accounting), Honorary Doctor (Commercial Science), Certified Public Accountant (USA), (US citizen)

Mr Healey joined the Sappi Limited board with effect from July 2004. He has held various senior financial positions in a career spanning 37 years. In 1995, Mr Healey became vice president and treasurer of Bestfoods, formerly CPC International Inc. In 1997, he became executive vice president and chief financial officer of Nabisco Holdings Inc, one of the world's largest snack food manufacturers, a position from which he retired at the end of 2000.

Deenadayalen (Len) Konar // **(54) (independent)**
BCom, MAS, DCom, CA (SA) (South African citizen)

Previously professor and head of the Department of Accountancy at the University of Durban-Westville, Dr Konar is a member of the King Committee on Corporate Governance, the Securities Regulation Panel and the Institute of Directors. Companies of which he is a non-executive director include Old Mutual South Africa, Illovo Sugar and JD Group. He is acting chairman of Exxaro Resources Limited (previously Kumba Resources Limited) and chairman of Steinhoff International Holdings Limited.

Helmut Claus-Jürgen Mamsch // **(64) (independent)**
(German citizen)

Mr Mamsch studied economics at Deutsche Aussenhandels-und Verkehrs-Akademie, Bremen and also received training in business administration and shipping in Germany, the UK and Belgium. He worked for 20 years in international trade and shipping. In 1989, he joined VEBA AG (now E ON AG), Germany's largest utility-based conglomerate. From 1993 to 2000, he was a VEBA AG management board member and as from 1998 responsible for their US electronic businesses and their Corporate Strategy and Development.

In 1997, he joined Logica as a non-executive director and until 2007 was appointed their deputy chairman. Mr Mamsch also serves on the board of Electrocomponents plc and GKN plc.

John (Jock) David McKenzie // **(61) (independent)**
BSc Chemical Engineering (cum laude), MA (South African citizen)

Mr McKenzie joined the Sappi board after having held senior executive positions globally and in South Africa. He is a former president for Asia, Middle East and Africa Downstream of the Chevron Texaco Corporation and also served as the chairman and chief executive officer of the Caltex Corporation.

Karen Rohn Osar // **(59) (independent)**
MBA, Finance (US citizen)

Ms Osar was executive vice president and chief financial officer of speciality chemicals company Chemtura Corporation until her retirement in March 2007. Prior to that, she held various senior management and board positions in her career. She was vice president and treasurer for Tenneco Inc and also served as chief financial officer of Westvaco Corporation and as senior vice president and chief financial officer of the merged MeadWestvaco Corporation. Prior to those appointments she spent 19 years at JP Morgan and Company, becoming a managing director of the Investment Banking Group. She currently serves on the boards of Webster Financial Corporation, the BNY Hamilton Funds and Innophos Holdings Inc.

Non-executive directors continued

Bridgette Radebe // **(48) (independent)**
BA (Pol Sc and Socio) (South African citizen)

Ms Radebe was the first black South African deep level hard rock mining entrepreneur in the late 1980s. She has more than a decade of experience in contract mining, mining construction and mergers and acquisitions. Ms Radebe also serves on the board of Mmakau Mining, the Minerals and Mining Development Board and is a founder and board of trustee member of the New Africa Mining Fund.

Sir Anthony Nigel Russell Rudd // **(62) (independent)**
DL, Chartered Accountant (UK citizen)

Sir Nigel Rudd joined the Sappi board in April 2006. He has held various senior management and board positions in a career spanning more than 35 years. He founded Williams plc in 1982 and the company went on to become one of the largest industrial holding companies in the United Kingdom. He is chairman of BAA Limited and Pendragon plc, deputy chairman of Barclays plc and a non-executive director of BAE Systems plc. He was non-executive chairman of Pilkington plc from August 1994 to June 2006. He was knighted by the Queen for services to the manufacturing industry in 1996 and holds honorary doctorates at both Loughborough and Derby Universities. In 1995, he was awarded the Founding Societies Centenary Award by the Institute of Chartered Accountants. He is a Deputy Lieutenant of Derbyshire and a Freeman of the City of London.

Franklin Abraham Sonn // **(69) (independent)**
BA Hons, HdipEd (South African citizen)

He was formerly rector of Peninsula Technikon for 17 years and appointed democratic South Africa's first ambassador to the United States. His current board positions amongst others include, chairman of African Star Ventures (Pty) Ltd, Airports Company of South Africa Ltd, Kwezi V3 Engineers (Pty) Ltd and Ekapa Mining (Pty) Ltd. He is non-executive director of Absa Group Ltd, Steinhoff International Holdings Ltd, Pioneer Food Group Ltd, RGA Reinsurance Co of SA Ltd, Metropolitan Holdings Ltd, Macsteel Service Centres (Pty) Ltd and Xinergistix Ltd.

Executive directors

Roeloff (Ralph) Jacobus Boëttger // **(47)**
BAcc Hons, CA (SA), Chief executive officer (South African citizen)

At the age of 34, Mr Boëttger was appointed chief executive officer of Safair and the next year appointed to the executive committee of Safmarine Limited. From 1998 until July 2007, he was the chairman of the Aviation Division with Imperial Holdings Limited following Imperial's acquisition of Safair and from 2002, he was an executive director of Imperial Holdings with responsibility for their local and international logistics operations, the aviation division and the heavy commercial vehicle distribution operations. His field of responsibility encompassed businesses operating in Southern Africa, numerous European countries, the Middle East and Asia. Mr Boëttger was appointed chief executive of Sappi Limited in July 2007.

Mark Richard Thompson // **(56)**
BCom, BAcc, LLB, CA (SA), Chief financial officer (South African citizen)

Mr Thompson joined Sappi in 1999 as group corporate counsel and was appointed to his present position in August 2006 when he was also appointed to the board of Sappi. Prior to joining Sappi, he was group treasurer at Anglo American, managing director of Discount House Merchant Bank and previously head of the corporate finance division of Central Merchant Bank.

Divisional and corporate management

Sappi Limited

Chief executive officer
*Ralph Boëttger (47) BAcc Hons, CA (SA)
Chief financial officer
*Mark Thompson (56) BCom, BAcc, LLB, CA (SA)
Group financial manager
Stephen Blyth (34) BCom, PG Dip Acc, CA (SA), HDip Tax
Group financial controller
Laurence Newman (52) BCom, BAcc, CA (SA)
Group head internal audit
Roland Agar (44) BCom BAcc, CA (SA)
Group management accountant
Albert Dreyer (46) BCompt Hons, CA (SA)
Group tax manager
Bernd Ross (49) MS (Economics and Business Administration)
Group treasurer
Jörg Pässler (48) BCom Hons, MCom, HDip Tax, CAIB (SA)
Group head technology
*Andrea Rossi (54) BSc (Engineering) Hons, C Eng

Chief information officer
Bradley Coward (53) Grad Dip (Corporate Direction and Business Management), Cert (Senior Management and Leadership Development)
Group head strategic development
*Robert Hope (56) BA Hons (Economics), MRICS
Group investor relations manager
Wikus van Zyl (40) BCom Hons, CA (SA)
Group head human resources
*Lucia Swartz (51) BA, Dip HR
Group head corporate affairs
André Oberholzer (42) BCom (Law)
Group corporate counsel
Ria Sanz (43) BCom, LLB, HDip Tax, Admitted Attorney
Group risk manager
Gert Cruywagen (53) MBSc, PhD, FIRM (SA)
Integration executive
*Alex Thiel (49) BSc (Mechanical Engineering), MBA (Financial Management and IT)

Sappi Fine Paper

Sappi Fine Paper Europe

Chief executive officer
*Berry Wiersum (53) MA (Medieval and Modern History)
Chief financial officer
Glen Pearce (45) BCom Hons, CA (SA)
General counsel
Hannes Boner (45) lic iur, DHEE, admitted attorney
Human resources director
Rainer Neumann (46) MS (Administrative Sciences), MS (Industrial Relations and HRM)
Information technology director
Dennis de Baar (41) MS (Computer Sciences)
Manufacturing, research and development director
Mat Quaedvlieg (58) BS (Electronics)
Marketing sales graphic director
Marco Eikelenboom (41) MS (Economics and Business Administration)
Purchasing director raw materials
Victor Kamm (49) MS (Mechanical Engineering)
Sales director Europe
Wim Heyvaert (42) MS (Economics, International Business Management and Financial Sciences)
Logistics director
Géry Lesaffre (44) MS (Economics and Business Administration)
Director technical goods and utilities
Werner Reiter (54) BS (Mechanical Engineering), MS (Social and Economic Sciences)
Speciality papers director
Theo Reijnen (61) BS (Economics)

Sappi Fine Paper North America

President and chief executive officer
*Mark Gardner (53) BSc (Industrial Technology)
Vice president and chief financial officer
Annette Luchene (46) BS (Accounting), MBA
Executive vice president strategic marketing and communications
Jennifer Miller (53) BA (Economics), Juris Doctor
Vice president corporate development
Anne Ayer (43) BA (Psychology), MBA
Vice president fibre resources
Deece Hannigan (46) BA (Political Science)
Vice president human resources and general counsel
Sarah Manchester (43) BA (History), Juris Doctor
Vice president manufacturing
John Donahue (53) BS (Chemical Engineering)
Vice president procurement and chief information officer
Bob Wittstein (48) BS (Engineering), MBA
Vice president research, development and innovation
Beth Cormier (45) BS (Engineering Physics)
Vice president release and technical specialities businesses
Bob Weeden (56) BS (Chemistry), MS (Management)
Vice president sales
Bob Forsberg (46) BA (Economics)
Vice president supply chain
Randy Rotermund (46) BS, MBA

Sappi Fine Paper South Africa

Managing director
Dinga Mncube (48) Dip (Forestry), BSc (Forest Management), MSc (Forest Products), Dip (Business Management), MCom
General manager finance
Sonja Scheepers (38) BCom Hons, CTA, CA (SA)
General manager marketing
Bernhard Riegler (38) APD Diploma

Sappi Forest Products

Chief executive officer
*Jan Labuschagne (48) BCom Hons, CA (SA)
Finance director
Colin Mowatt (51) BCom Acc, CA (SA), EDP, MBL
Human resources director
Brian Dick (58) BAdmin
Information technology director
Deon van Aarde (48) BCompt
Technical director
Bertus van der Merwe (55) BSc, MBA, HDip (Engineering)
Sappi Forests managing director
Hendrik de Jongh (53), NDip (Elec), GCC (Elec), MDP
Sappi Kraft managing director
Albert Lubbe (60) NDip Mech, GCC (Mech), AEP
Regional procurement director
Nat Maelane (49) MDP, SEP
Sappi Saiccor managing director
Alan Tubb (58) BSc (Electrical Engineering), GCC (Mines and Works), BCom

Sappi Trading

Chief executive officer
*Wayne Rau (46) HND (Marketing), Senior Executive Programme
Financial director
Henri Kirsten (55) BCom, BCompt Hons, CA (SA)

* *Group executive committee.*

Danie Cronjé | chairman

Ralph Boëttger | chief executive officer

Letter to shareholders from the chairman and chief executive officer

Overview

The operating performance of Sappi improved during the year. Operating profit excluding special items in the second half of the year was, however, flat compared to the second half of 2007, reflecting worsening macro-economic conditions and rising input costs.

We had a good performance from our North American businesses but continued underperformance from Europe, which generated the same level of profit, excluding special items, as in 2007. As a result of the North American performance, EBITDA excluding special items for the Fine Paper business increased to 62% of the group total from 56% in 2007.

Strategy review

The group completed a strategy review during the year. Our main focus was the need to improve profitability and shareholder returns using the key measurement of return on capital employed. Particular emphasis was placed on restoring the level of profitability in Europe and strengthening the balance sheet. We identified three key issues that in our opinion had prevented a return to acceptable profitability in Europe over several years.These were overcapacity, the fragmented structure of the market, and the strong Euro/US Dollar exchange rate. We concluded that since Sappi's European business is the leader in the European coated paper market with a strong customer base, good brands and products, as well as some of the most efficient manufacturing assets, and is Sappi's largest regional investment, we should be proactive in doing what we could to improve operating conditions and profitability.

Strategic actions

After exploring various options, Sappi entered into an agreement to acquire the coated graphic paper business of M-real, for €750 million. The transaction is expected to be completed at the end of December 2008. We will acquire approximately 1.9 million tons of paper capacity, increasing our European paper capacity to about 4.4 million tons and our market share of coated fine paper in Europe from around 18% to 30%. In our opinion this acquisition will bring about meaningful changes to the structure of the European coated fine paper market and allow us to achieve much improved returns. Sappi has reduced its coated fine paper capacity by 190,000 tons by closing the Blackburn Mill in the United Kingdom and the Maastricht Mill Paper Machine No 5 in The Netherlands. Together with closures announced by other producers, including closures of 640,000 tons announced by M-real, we expect a total coated fine paper capacity reduction of over 1.2 million tons before April 2009, which represents about 11% of current

We are of the opinion that successful implementation of our strategic initiatives coupled with capacity closures in Europe and input cost reductions across all our businesses will place the group in a good position to face the uncertainties of the year ahead.

production capacity. The weakening of the Euro relative to the US Dollar should also help market dynamics by improving the margins on exports from Europe and reducing the threatof imports.

Sappi has financed the M-real transaction with €500 million of equity with the balance in long-term debt (mainly in the form of vendor loan notes), which will therefore strengthen our balance sheet ratios. The credit rating agencies consulted prior to announcing the transaction, confirmed their ratings with a stable outlook subsequent to the announcement of the acquisition and the related financing. There are further details of the acquisition on page 32.

A key element of our strategy in the Southern African business was the completion of the expansion at our Saiccor Mill, which has increased the annual capacity of chemical cellulose by 225,000 tons to 800,000 tons reinforcing our leadership in this market. As part of our strategy, Sappi will also invest in plantations to increase its low-cost fibre base to provide a platform for future growth. We plan to establish about 150,000 hectares of plantations in Southern Africa over the next five to 10 years.

In North America, we will continue to focus on customer service and reliability, improved product design and operating and cost efficiencies, which have been key to our improved performance over the last two years.

Regional operating performance

The performance of the North American business was the best since 2000. Sales increased strongly as a result of good increases in prices for paper and pulp. Unfortunately input costs also rose but improved product design and operating efficiency, served to offset some of the input cost pressure.

Our European business experienced continued low prices for coated fine paper but reversed this trend in the final months of the year as announced price increases were realised. Management did well to hold operating profit at the same level as last year in spite of a weak pricing environment and sharp input cost increases.

We had a reasonably good year in Southern Africa, but not as good as 2007. Prices for all our products improved, and in particular international pulp prices were very strong for most of the year although they started to decline in the final quarter. Production volumes were unfavourably impacted by the expansion project at Saiccor Mill and a refurbishment project at Usutu Mill, both of which are now behind us.

As with our offshore operations, raw material input costs increased sharply during the year. In addition, the South African business also had to contend with high employee costs, which continue to rise faster than inflation.

Our international sales network, Sappi Trading, achieved good margins on exports of all the group's products around the world. The joint venture in China, in which we have a 34% stake, performed profitably during the year and achieved good returns.

Group financial performance

The group's operating profit excluding special items increased from US$313 million in 2007 to US$366 million in 2008. The return on capital employed of 9.1%, however, fell well short of our target of 12%.

Special items for the year resulted in a reduction in operating profit of US$52 million. These items related primarily to the charges associated with the European capacity closures and an impairment of the Usutu Mill, and were partly offset by favourable plantation price fair value adjustments.

Basic earnings per share for the year totalled 45 US cents after an unfavourable impact of special items of approximately 30 US cents compared to 89 US cents last year, which included a favourable impact of approximately 22 US cents from special items.

Managing cash flow and liquidity remained a top priority as the turmoil in financial markets deepened through the year. Following the completion of the Saiccor Mill project in September 2008, we have been able to reduce our capital expenditure to only those items necessary for the continued health of the business, and certain high-return projects including energy conservation and energy self-sufficiency.

Our net debt at the end of the year stood at US$2.4 billion, substantially lower than at the end of the third quarter

(US$2.7 billion), as a result of good cash flow and the effect of currency movements on the translation into US Dollars. There are no major long-term borrowings scheduled for repayment in fiscal 2009. Further, we are of the opinion that our committed facilities and cash holdings provide sufficient liquidity in respect of our short-term cash requirements.

In the light of the rights offer and taking into account factors including macro-economic and global financial market conditions, the board decided to re-base the dividend. Accordingly, a dividend of 16 US cents per share was declared on all shares in issue on 28 November 2008. A dividend of 32 US cents per share was paid in respect of the prior year.

Sustainability

Our fourth sustainability report will be published at the same time as this annual report. In the report we review our progress against our sustainability charter and specific goals under the areas of sustainable development: Prosperity, People and Planet.

We manage sustainability as an integral part of our business and decision-making processes and strive to meet our commitment to create value for current and future generations of stakeholders.

Black Economic Empowerment (BEE)

During the year we set up new structures to ensure we effectively manage the changes needed to achieve our BEE targets.

The conditions to the transaction to sell a 25% undivided right to our forestry land to a broad based BEE consortium led by Lereko have been fulfilled and the transaction has been completed.

A next step in our transformation strategy is to enter into a value-adding and broad based equity transaction.

Looking forward

World financial markets and macro-economic conditions have worsened since our financial year ended in September. We are of the opinion that we will experience a slowing in demand in all our major markets and downward pressure on pricing in many markets, but we may not see the full impact until the new calendar year. International pulp prices softened during the last quarter of 2008 and have declined further since then. As we are economically hedged in respect of pulp (we sell only slightly more than we buy, and after the Saiccor Mill expansion and M-real acquisition we will sell slightly less than we buy), the effect on the group will be small. On a regional basis, however, lower pulp prices will help lower costs in our European business, which buys more than half of its pulp requirements, but will have an unfavourable impact in North America and Southern Africa, which are both net sellers of pulp.

To date, our Southern African pulp export businesses have been compensated for the lower pulp prices by the weakening of the Rand against the US Dollar. The recent weakening of the Euro against the US Dollar is also expected to have a positive effect on our margins in Europe. Our North American markets are, however, likely to be more susceptible to imports as a result of the stronger US Dollar. The net effect of a stronger US Dollar is expected to be favourable for our business in terms of impact on margins and the value of our debt when translated into US Dollars.

The prices of many of our variable cost inputs including wood, energy and chemicals, have stopped rising and are beginning to decline from the very high levels reached. Many of these input prices are responding, with a time lag, to the steep decline in the oil prices from record highs achieved during the year. As the prices of these inputs had an unfavourable impact of US$208 million in 2008 compared to 2007, reducing them is crucial for our business and provides an opportunity to maintain our margins in the difficult market conditions we expect in the current financial year.

Our strategic initiatives, including the acquisition of M-real's coated graphic paper business, are progressing well. We expect the acquisition to be completed at the end of December 2008. Our plans to integrate the business are well developed and will focus on close customer contact, motivating all our people in the larger business and delivering the synergies, which we estimate at €120 million a year. We expect to achieve these synergies within three years and without material capital investments. This transaction will enable us to deal with the slowing economies and challenging market conditions in Europe more effectively.

Production at our expanded Saiccor Mill is ramping up well, but NBSK pulp prices (used as a benchmark for chemical cellulose pricing) have softened over the last few months as a result of slowing economic activity globally. Our customers for chemical cellulose are now starting to experience reduced demand for their products. Although we will see a slow down in demand and lower pricing in the short term, prospects for this business going forward remain excellent. The markets for chemical cellulose are varied and exciting, our production cost base is one of the lowest in the world and price realisation in Rand terms is higher now despite US Dollar prices dropping, compared to the previous quarter.

Focusing on cash generation remains a priority. We plan to reduce the level of capital expenditure to conserve cash and reduce our indebtedness using internally generated cash flow. We are also aware that with the uncertainty in financial markets, refinancing existing or raising additional debt and the associated terms are likely to be more challenging.

We are of the opinion that successful implementation of our strategic initiatives coupled with capacity closures in Europe and

input cost reductions across all our businesses will place the group in a good position to face the uncertainties of the year ahead. At present we believe it will be difficult to maintain last year's operating performance in our North American business but in Europe the combination of reduced capacity, lower pulp and other input costs, the weaker Euro and the expected benefits from the M-real acquisition should position us for significant improvement. Market conditions are likely to be less favourable for our Southern African business, but we will tightly manage the factors under our control and if the Rand exchange rate remains weak, we expect to achieve a creditable performance.

Appreciation

We highly value the support of our shareholders, customers and suppliers in all our businesses. We are delighted by the positive reception of the announcement of the M-real transaction by so many of our existing and future customers and look forward to working with them to achieve a smooth integration of our new business and to develop our relationships to new levels.

Our people in all our businesses have played a vital role in meeting the challenges of the last year, with nimbleness and dedication. They have also developed robust and flexible plans to tackle next year. We thank you for your wholehearted efforts and look forward to achieving new success with you in future.

Our board has provided invaluable insights and support as we have mapped our new direction and we thank you for your confidence as we continue to steer the group to deliver acceptable returns for our shareholders.

Change in directorships

During the year, Eugene van As retired as chairman of the board and as a director. He was a director of Sappi for 31 years and chief executive for most of that period. Under his leadership the group expanded globally into the major international pulp and paper group it is today. The board thanks him for his vision and the diligence and energy he devoted to the group.

Danie Cronjé joined the board in January 2008 and succeeded Eugene van As as chairman in March 2008.

Danie Cronjé
chairman

Ralph Boëttger
chief executive officer

23 December 2008

Interview with Ralph Boëttger, chief executive officer

Q // Ralph, after more than a year at the helm, how do you see the prospects of the group?

A // As I said last year, we have excellent people and the new management team has melded into a highly effective team, ready to take the actions needed to change our fortunes. The focus on improving profitability and returns is becoming more apparent at all levels of the business. We have a clear strategy and action plans and we are in the process of implementing these. Together with the dedication of our people and the great support we get from our customers, this makes me confident about the group's future.

Q // Has the European business met the group's expectations?

A // Not during the last four years, mainly as a result of the tough market environment and declining prices at a time when input costs were soaring. There are, however, some misperceptions about our European business, largely because we have in the last few years highlighted our dissatisfaction with our profitability there. Even in its worst year, 2006, the business generated a small operating profit and a good net cash flow. What is also not well known is that in the last six years, all or part of the group's dividend has been funded by the holding company of our European business. We are taking decisive action to return our European business to acceptable profitability.

Q // How does the announced acquisition of M-real's coated graphic paper business fit with the group's strategy?

A // At the core of our strategy is the need and desire to be profitable and to generate acceptable returns for our shareholders. When we reviewed our strategy this year with the new management team it was clear that improving the returns of our European business (our largest business) was key to our future. We also clearly identified that the low returns and profitability in Europe arose from overcapacity, a fragmented market and a strong Euro over the past few years.

We are convinced that the acquisition will help us deal with these issues and will position us to restore good returns in our European business. Separately, the Euro has weakened in recent months, which will also help.

Q // Sappi has highlighted the impact of wood, energy and chemical costs on the group. What have you done to manage them?

A // We have tackled them in many ways. A year ago we appointed a group procurement executive to ensure that we applied the best available practices and that each of our businesses learned from the others. We have found alternative fuels, reduced wastage of our products, used substitute inputs and increased our utilisation of rail trucks. We have also identified energy projects that will reduce the group's dependency on fossil fuels and bought-in electricity. In addition, our recently commissioned Saiccor Mill expansion has materially increased our energy self-sufficiency in Southern Africa.

Right now we are of the view that the tide has turned and that we will see a gradual reduction in many of the costs partly as a result of the fall in the oil price as well as reduced demand for many of these inputs as the world economy slows.

Q // How sure are you that the prices for coated fine paper have finally improved in Europe?

A // Price increases in Europe have been likened to the Coelacanth – after years of extinction they have returned. On a more serious note – the price increases we implemented in September have been realised and we expect further price increases early in 2009. Recent consolidation and the closure and pending closure of high-cost or unprofitable mills and machines, which will amount to approximately 11% of European capacity, is expected to improve the supply/demand balance, hopefully creating an environment in which we can make reasonable margins.

Q // Will the integration of M-real's business distract management from their normal responsibilities?

A // While some distraction is inevitable, we have put in place an integration unit that will report to me and an integration steering committee. Alex Thiel, the integration executive, will be responsible for setting the agenda, establishing work teams representing Sappi and M-real people, setting up synergy measurement and reporting systems, while the line management under Berry Wiersum, chief executive officer of Sappi Fine Paper Europe, will be responsible for implementation. Absolutely crucial will be ensuring a smooth transition for our customers throughout the world. Winning the full support of our people – existing and new – will be a cornerstone of our integration.

Q // Will the M-real acquisition result in curtailed capital expenditure in other regions?

A // No. We have financed the transaction with equity of €500 million and long-term debt, mainly vendor loan notes of €250 million, which will slightly improve our balance sheet ratios, and we do not envisage any major capital expenditure as a result of the deal. We will of course have some significant expenditure on the integration of IT systems, which are essential to continued improvement in customer service and reliability.

Separately, however, as a result of the turmoil in financial markets and acting prudently, we have decided to cut capital spending except on maintenance capital to keep the existing business healthy, and a number of high-return energy projects and projects to which we are already committed. A further point is that the expenditure on the Saiccor expansion has been completed so we will see a significant reduction in overall capital expenditure next year.

Q // How will fire damage to Sappi's plantations in Southern Africa affect future growth there?

A // While the volume of wood lost will impact our business in terms of cost of wood and has already resulted in the impairment of the value of Usutu Mill in our accounts, it will not affect our strategy. In addition to re-planting the burnt areas, our strategy is to increase our planting to provide a low-cost fibre resource for future expansion. We plan to plant 150,000 hectares of new plantations in Southern Africa over the next five to 10 years as a resource for a potential new pulp mill, which we would only need to decide on in about three or four years time.

Q // Will your strategy in North America be affected by the M-real acquisition?

A // In a number of ways it will. Firstly, we are convinced that the enlarged European business will generate improved returns which will enable us to pursue our longer term strategies in all regions. In North America much of our improved profitability is a result of increased attention to our customers and their needs. The M-real business brings with it a range of excellent products which are highly valued, including in North America, and we will therefore be able to further enhance our offering to our customers there.

Q // How would you sum up your current priorities?

A // We have talked a lot about some of our major strategic initiatives, mainly improved returns and profitability and a stronger balance sheet. Bedding those down is clearly a high priority.

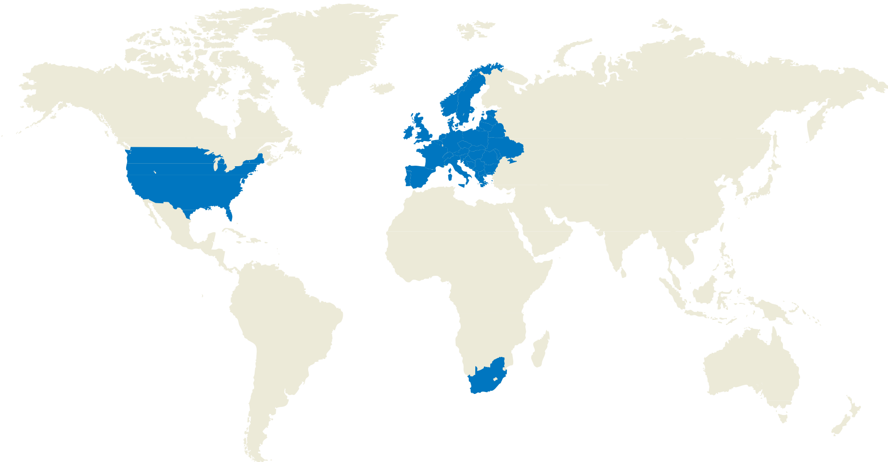
We are, however, facing uncertain times in both financial and product markets. We will therefore develop and continually update action plans to deal with these challenges and changes. These will include keeping very close to our customers to understand what is happening in their businesses and building on the successes we have had in this area in the last two years. We will continue to drive costs down and improve our operational efficiencies and consistency. We will manage our production capacity to ensure we keep our inventories at the levels needed to service our markets. Management of cash resources will be a priority given the state of credit markets, and we will take advantage of opportunities to refinance shorter term indebtedness.

All in all, if we are quick on our feet and responsive to our customers and a changing world, we will see the rewards of our strategic initiatives.

Review of operations

Sappi Fine Paper's main product line is coated fine paper, which represents 64% of group sales by value, and is used mainly in the production of calendars, catalogues, brochures, books, premium magazines, direct mailings and annual reports. Sappi Fine Paper also produces a range of uncoated graphic and business paper, coated and uncoated speciality paper – such as that used in flexible packaging – and casting release paper, used in the manufacture of artificial leather and textured polyurethane applications. The geographic spread of our operations allows us to optimise global knowledge of market developments, operational best practices and technology. Sappi Fine Paper is approximately 65% integrated in pulp.

Sappi Fine Paper



Divisions	Mills/ factories/ plantations	Products produced	Capacity ('000 tons)		Employees*
			Paper	Pulp	
North America	Cloquet Mill	Bleached chemical pulp for own consumption and market pulp		410	
		Coated woodfree graphic paper	330		
	Muskegon Mill	Bleached chemical pulp for own consumption			
		Coated woodfree graphic paper	170		
	Somerset Mill	Bleached chemical pulp for own consumption and market pulp		490	
		Coated woodfree graphic paper	760		
	Westbrook Mill	Coated speciality paper	30		2,570
Europe	Alfeld Mill	Bleached chemical pulp for own consumption		125	
		Coated woodfree graphic paper, coated and uncoated speciality paper	370		
	Blackburn Mill**	Coated woodfree graphic paper	120		
	Ehingen Mill	Bleached chemical pulp for own consumption and market pulp		135	
		Coated woodfree graphic paper	250		
	Gratkorn Mill	Bleached chemical pulp for own consumption		255	
		Coated woodfree graphic paper	900		
	Lanaken Mill	Bleached chemi-thermo mechanical pulp for own consumption		180	
		Coated mechanical graphic paper	500		
	Maastricht Mill***	Coated woodfree graphic paper, coated speciality paper	330		
	Nijmegen Mill	Coated woodfree graphic paper	240		4,870
South Africa	Adamas Mill	Uncoated woodfree graphic paper (specialities)	40		
	Enstra Mill	Bleached chemical pulp for own consumption		105	
		Uncoated graphic and business paper	200		
	Stanger Mill	Bleached bagasse pulp for own consumption		60	
		Coated woodfree graphic paper and tissue paper	110		1,870
		Total Sappi Fine Paper	4,350	1,760	9,310

* *Rounded to nearest 10.*

** *Production at Blackburn Mill ceased on 17 October 2008. No alternative to the closure of the mill was found during the employee representative consultation process, which ended on 11 November 2008.*

*** *Production on Paper Machine No 5 at Maastricht Mill will cease around mid December 2008. Consultations and social plan negotiations with works council and unions were concluded in early October 2008.*

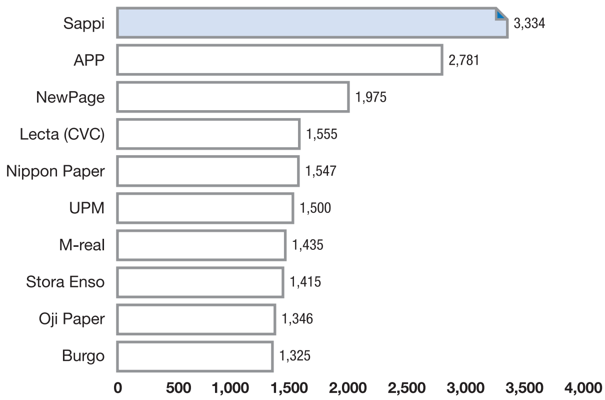
Overview

Sappi Fine Paper sales represented 81% of group sales. Divisional operating profit excluding special items increased 79% to US$156 million for the year – 43% of the group's total. The improvement came entirely from the North American business. The business' return on net operating assets was 9%.

EBITDA increased 18% to US$457 million, 62% of the group's total.

As in the previous year, high input costs had a major impact in all regions of the business. Wood, energy and chemical price increases had a US$98 million unfavourable impact on operating profit.

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



Source: EMGE

Europe

The business maintained a similar level of operating profit to last year excluding special items, despite prices remaining flat for most of the year, while input costs continued to rise.

When we reviewed our strategy earlier this year it was clear that improving the returns in Europe was fundamental to the success of the group. After an extensive review of our options for this business we concluded that a structural solution was needed, which led us to enter an agreement to acquire M-real's coated graphic paper business (see pages 32 and 33 for an overview of the M-real acquisition).

Our acquisition of M-real's coated business, the announced closure of over 1.2 million tons of coated fine paper capacity and the recent weakening of the Euro against the US Dollar, which will improve export margins, will all contribute to improving returns in this business.

To combat rising costs the business extended the extensive efficiency initiatives implemented in the prior two years. Initiatives now include sales excellence, improving product design, and asset optimisation. We also expect prices for many of our inputs including pulp, wood, energy and chemicals to soften in reaction to a global economic slow down and lower oil and other commodity prices.

Customer service, reliability and consistency are established priorities of this business and will be a cornerstone of our integration of the M-real coated graphics business after completion of the acquisition.

During the year we developed and introduced a number of new products to meet specific needs of our customers. The launch of Tempo™ went well and sales have grown steadily. This product improves job turnaround as a result of fast ink-drying and provides other efficiencies for printers. We continue to undertake research and to invest in developing the design of our products and processes to improve both our own and our customers' profitability.

We announced the closure of Blackburn Mill and Maastricht Paper Machine No 5 as a result of poor profitability. The closures have been completed and are expected to result in future annual benefits to operating profit of US$30 million.

Price increases for coated fine paper were realised in September, and subsequently prices have risen further. This is very encouraging after seven years of declining prices. We have announced further price increases for January 2009.

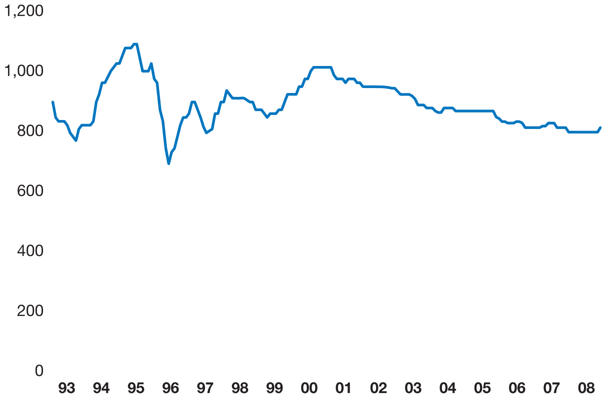
Looking at the year ahead and current macro-economic conditions, we can expect demand to contract. Performance of the European business is, however, expected to benefit from an improved supply/demand balance due to capacity closures, lower input costs including pulp, the market price of which has declined approximately 25% since June, a weaker Euro and a higher price level. We are approximately three times more sensitive to price and cost changes than to volume changes and therefore we remain positive about improving the performance of our business and about a successful integration of the acquisition.

North America

Operating performance improved further during the year. Prices for coated paper increased which, together with our improved operating and cost efficiency, was sufficient to offset the significant input cost increases.

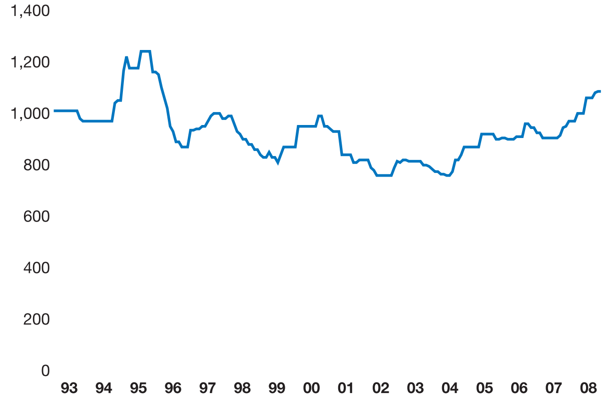
We have had good support from our customers in response to our new product and brand line-up and continued efforts to

Coated woodfree prices (Euro/metric ton**) 90g/m² sheets
Germany



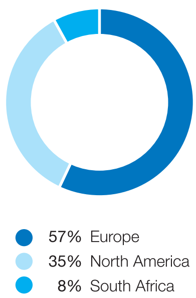
*** Prices are list prices. Actual transaction prices could differ from prices depicted in the graph.*
Source: RISI

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

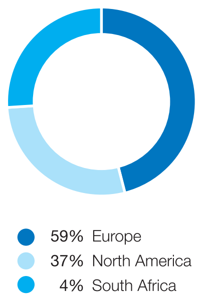


*** Prices are list prices. Actual transaction prices could differ from prices depicted in the graph.*
Source: RISI

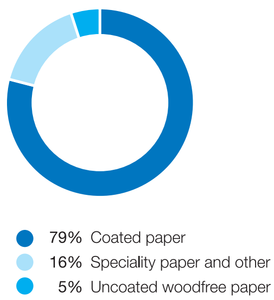
Fine paper – share of division's sales



Fine paper – share of division's net operating assets



Fine paper – share of division's sales by product



deliver excellent service and responsiveness to their needs. New products launched over the last three years represented 24% of our sales in 2008.

Demand for coated fine paper declined during the year as the US economy contracted, and we expect further demand decline as the US economy is expected to remain weak in the year ahead. The strengthening of the US Dollar will increase the susceptibility of the market to imports.

We expect that these less favourable conditions will be partly offset by the expected softening of input costs and our actions to improve efficiency and eliminate waste.

Southern Africa

Although we saw improved pricing, margins were impacted by rising input costs, mainly labour, pulp and chemicals.

We expect the business to benefit from lower input costs including pulp in the year ahead; however, labour costs are likely to rise significantly. Overall the business is expected to improve its margins in the year ahead.

The acquisition of M-real's coated graphic paper business

We are acquiring the coated graphic paper business of M-real for €750 million, including the brands, know-how, intellectual property, order books, and four mills. We will also enter into agreements to sell the coated paper output of two mills, which will continue to be owned and operated by M-real, and contracts to purchase pulp, wood and energy from M-real and its associates.

Mills to be acquired

Kirkniemi Mill – Finland

- Coated papers for web (reels) printing
- Products are part of the well known Galerie stable of brands: Galerie Lite, Galerie Brite and Galerie Fine
- Three paper machines
- Capacity of 740,000 tons of coated magazine paper per annum; 338,000 tons of mechanical pulp per annum
- Produces 295 MWh from leased power plant

Kangas Mill – Finland

- Produces Galerie Silk, a coated magazine paper
- Capacity of 210,000 tons per annum
- One paper machine – rebuilt in 2001

Stockstadt Mill – Germany

- Produces coated and uncoated fine paper for sheet fed printing
- Pulp integrated with own power plant
- Capacity of 210,000 tons coated fine paper; 210,000 tons of uncoated woodfree paper; 160,000 tons of chemical pulp
- Two paper machines

Biberist Mill – Switzerland

- Produces coated fine paper for the graphic arts industry and uncoated fine paper mainly for office use
- Capacity of 430,000 tons of coated fine paper and 75,000 tons of uncoated fine paper
- Three paper machines

Distribution agreements

Husum Paper Machine 8, Sweden

- Annual capacity of 285,000 tons of coated fine paper
- Mainly for magazine paper market
- **Products:** Galerie Fine Gloss (80 –130g/m^2) coated woodfree paper with high brightness, smoothness and improved opacity

Äänekoski Paper Machine 2, Finland

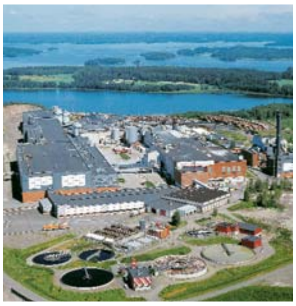
- Produces coated woodfree art paper on one paper machine, under the brand name Galerie Art
- Annual capacity 200,000 tons

Coated paper production to remain with M-real

Sappi entered into distribution agreements for the output of the following paper machines:

- Husum Paper Machine 8; and
- Äänekoski Paper Machine 2

Husum Paper Machine 8 and Äänekoski Paper Machine 2 will continue to produce coated fine paper and remain under M-real's ownership. Sappi will sell the paper on a commission basis on behalf of M-real.

(Source: M-real's Image bank)

Transaction rationale

Sappi's strategy calls for a structural solution to key problems in the European coated paper market

- Transaction achieves required consolidation in a fragmented market
- Supports Sappi's position as a global leader with a focus on industry leading cost position
- The transaction strengthens Sappi's No 1 position in coated fine paper and Sappi becomes No 3 in coated magazine paper in Europe
- Expected synergies of €120 million per annum to be achieved in three years; working towards higher internal target
- Sappi acquires M-real's worldclass brands (including Galerie Fine) and M-real's established customer base
- Price per ton of acquired capacity (€400/ US$600) is low compared to recent similar transactions, which have been priced at over US$800/ton

The acquisition meets Sappi's strategic and financial criteria:

- Increased profitability and return from synergies
- Improved cash flows
- Improved balance sheet ratios
- Increased customer base and consolidation of market share
- Maximised flexibility of capacity utilisation and improved efficiencies
- Improved customer service and reliability
- Expanded product and brand range

Transaction funding overview

Sources of funds	EUR million
Equity	500
Equity sources*:	
• Rights offer	450
• M-real to hold	50
Vendor note**	250
Assumed net liabilities	50
Total sources	800

Uses of funds	EUR million
Acquisition consideration	750
Fees and other costs	50
Total uses	800

* **Equity rights offer:**
– Improves balance sheet ratios

** **Vendor note**
– Tenure 48 months
– Interest rate stepping up

Approvals for transaction:

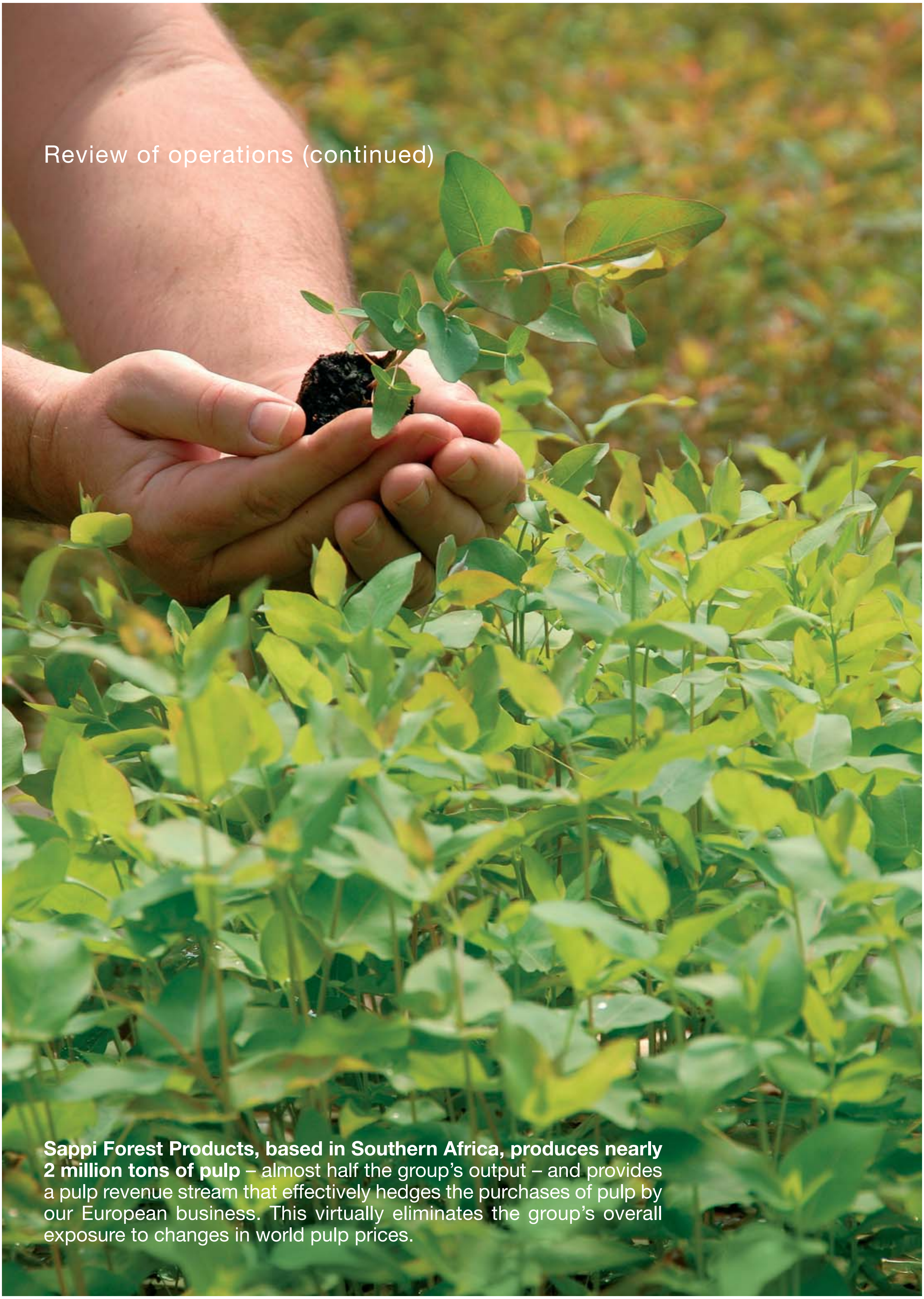
- Obtained European Commission clearance on 31 October 2008
- Shareholders voted in favour of acquisition on 03 November 2008

M-real's brands

Sappi is acquiring M-real's worldclass graphic paper brands including:

Allegro Furioso Mega EuroArt Plus

Era Galerie Cento Tauro



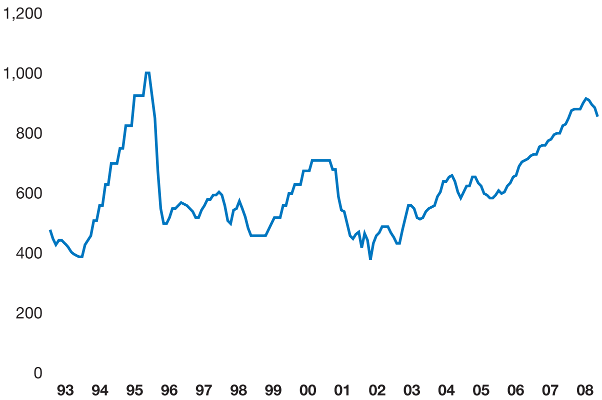
Sappi Forest Products, based in Southern Africa, produces nearly 2 million tons of pulp – almost half the group's output – and provides a pulp revenue stream that effectively hedges the purchases of pulp by our European business. This virtually eliminates the group's overall exposure to changes in world pulp prices.

Sappi Forest Products

Divisions	Mills/ factories/ plantations	Products produced	Capacity ('000 tons) Paper	Capacity ('000 tons) Pulp	Employees*
Sappi Kraft	Cape Kraft Mill	Waste-based linerboard and corrugating medium	60		
	Ngodwana Mill	Unbleached kraft pulp for own consumption, bleached chemical pulp for own consumption and market pulp		410	
		Mechanical pulp for own consumption		100	
		Kraft and white top linerboard	240		
		Newsprint	140		
	Tugela Mill	Unbleached kraft and semi-chemical pulp for own consumption		350	
		Kraft linerboard and corrugating medium	300		
		Other kraft packaging paper	90		2,310
	Usutu Mill	Unbleached kraft market pulp		190	590
Sappi Saicor	Saiccor Mill***	Chemical cellulose		800	1,220
Sappi Forests		Capacity/ hectares '000			
	KwaZulu Natal	Plantations (pulpwood and sawlogs)** 240ha			
	Mpumalanga	Plantations (pulpwood and sawlogs)** 245ha			
	Usutu Mill	Plantations (pulpwood) ** 70ha			
	Sawmills	Sawn Timber 85m³			1,460
		Total Sappi Forest Products	830	1,850	5,580

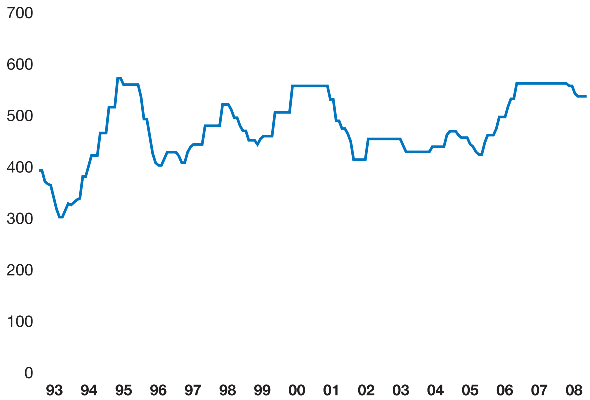
* Rounded to nearest 10.
** Plantations include title deed and lease area as well as projects.
*** Saiccor's pulp capacity has increased to 800 000 after the expansion started up in September 2008.

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



*** Prices are list prices. Actual transaction prices could differ from prices depicted in the graph.*
Source: RISI

Kraft Linerboard (US$/metric ton**) 175g/m +
CIF Germany



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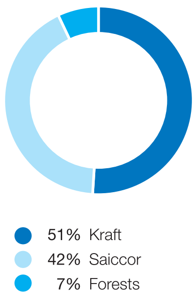
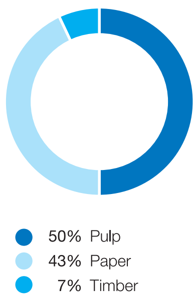
Source: RISI

Forest products – share of division's sales



Forest products – share of division's sales



Sappi Forest Product's business

Sappi Saiccor is the world's largest manufacturer of chemical cellulose and has one of the lowest-cost positions. The uses of chemical cellulose range from the production of viscose and lyocell fibres, moulding powders, cellophane, cellulose acetate for filter tow used in cigarette filters, and excipients for pharmaceuticals.

Sappi Kraft makes bleached and unbleached kraft pulp, containerboard, packaging paper and newsprint.

Sappi Forests has some 535,000 hectares of land under direct and indirect management of which 389,000 hectares are afforested. More than 34.5 million tons of timber stands on this land. In 2008, Sappi's own land provided 72% of the wood needs of our Southern African businesses. All wood grown on Sappi owned, leased or managed land is Forest Stewardship Council (FSC) and ISO 9000 certified. Sappi's sawmill, Lomati, produces sawn timber for the construction industry.

Overview

The forest products business represented 19% of group sales for the year and generated US$203 million of operating profit excluding special items (91% of last year) representing 55% of the group total. The return on net operating assets was 11.8%.

EBITDA declined 8% to US$275 million, 38% of the group's total, mainly as a result of the high cost of raw material inputs and the increase in employment costs.

Demand and prices in the international pulp markets was strong but prices started to soften in the final quarter and have softened further since then. In the Southern African market demand for packaging paper and newsprint was firm.

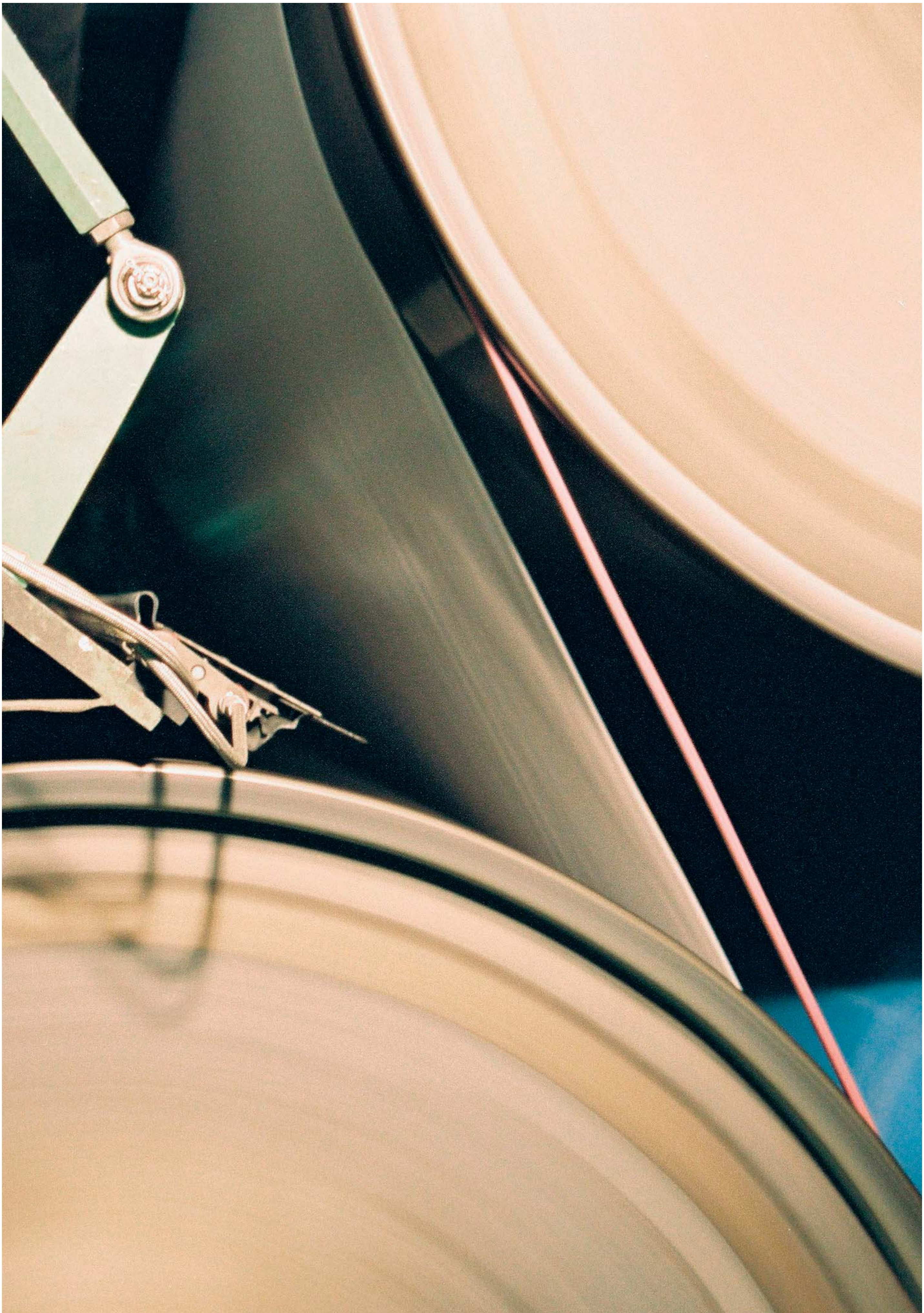
The weaker Rand relative to the US Dollar and Euro had a positive effect on margins.

The Saiccor Mill expansion was commissioned towards the end of the fourth quarter, increasing the mill's chemical cellulose capacity by 225,000 tons to 800,000 tons. Although we have experienced a softening in demand since year end and pulp prices have weakened, the prospects for this business, which sells mainly to the textile industry, are excellent. The impact of weaker prices is currently largely offset by the weaker Rand against the US Dollar.

We had a second season of severe fires during the year resulting in damage to 26,000 hectares of our plantations. We are reviewing our fire protection methods to ensure we are better placed to deal with the threat of fires in future dry seasons.

In addition to re-establishing the plantations damaged by fire, we have a strategy to develop a substantial additional low-cost wood resource in Southern Africa. Fibre has become more scarce and valuable over the last few years as pressure to find renewable energy sources grows. We initiated a project to plant 150,000 hectares of additional plantations in Southern Africa over the next five to 10 years to create a low-cost fibre resource for future expansion.

In the year ahead we expect demand to be weaker and international pulp prices to be lower on average than last year. Input costs are, however, expected to decline significantly in response to the reduction in oil and commodity prices. We also expect that the weakening of the Rand against the US Dollar will have a favourable impact on margins.



Value added statement

for the year ended 30 September 2008

One measure of wealth created is the amount of value added to the cost of materials and services purchased. This value added statement sets out the value added by the Sappi group and how it was distributed among stakeholders.

US$ million	2008	2007	2006
Sales	**5,863**	5,304	4,941
Income from investments	**38**	21	26
Less: Paid to suppliers for materials and services	**4,077**	3,631	3,495
Total value added	**1,824**	1,694	1,472
Distributed as follows:			
To employees as salaries, wages and other benefits	**965**	867	802
To lenders of capital as interest	**179**	169	157
To shareholders as dividends	**73**	68	68
To governments as taxation	**89**	111	103
Total value added distributed	**1,306**	1,215	1,130
Portion of value added reinvested to sustain and expand the business	**518**	479	342
Total value added distributed and reinvested	**1,824**	1,694	1,472
Taxation			
Paid in taxes to governments (including US$6 million (September 2007: US$38 million) direct taxes on income)	**89**	111	103
Collected on behalf of, and paid over to governments:			
– Employees' taxation deducted from remuneration paid	**158**	148	139
– Net value added taxation (VAT)	**(47)**	39	74
Total	**200**	298	316

Value added

Sales for the 2008 year increased 11% as a result of higher prices and the effect of translation of Euro sales to US Dollars at a higher Euro/Dollar exchange rate. Sales volumes in 2008 were at similar levels to 2007.

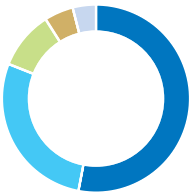
The 12% increase from 2007 to 2008 in amounts paid to suppliers for materials and services reflect the high input cost increases that were experienced during the year, particularly as they relate to wood, energy and chemical costs.

Value distributed

The value distributed per category for the past three years is depicted in the graphs below. There has been no significant shift in the proportionate spend in each category, other than the increase in the value added which has been reinvested in the business. This is mainly resulting from the capital expenditure incurred on the Saiccor expansion project.

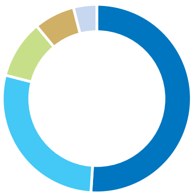
Value added distributed amongst our stakeholders and reinvested in the business (US$ million)

2008



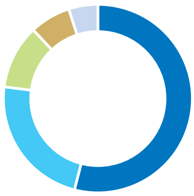
53%	To employees as salaries, wages and other benefits	965
28%	Reinvested to grow the business	518
10%	To lenders of capital as interest	179
5%	To governments as taxation	89
4%	To shareholders as dividends	73

2007



51%	To employees as salaries, wages and other benefits	867
28%	Reinvested to grow the business	479
10%	To lenders of capital as interest	169
7%	To governments as taxation	111
4%	To shareholders as dividends	68

2006



54%	To employees as salaries, wages and other benefits	802
23%	Reinvested to grow the business	342
11%	To lenders of capital as interest	157
7%	To governments as taxation	103
5%	To shareholders as dividends	68

Risk management

Our top risks

These risks are further discussed in Sappi's annual report on Form 20-F filed with the US Securities and Exchange Commission which is available on our website www.sappi.com or in hard copy on request.

Systemic risks

- **We operate in a highly cyclical industry that may cause substantial fluctuations in our results.**
- The markets for our pulp and paper products are significantly affected by changes in industry capacity and output levels and by cyclical changes in the world economy such as the current global economic downturn. We maintain a high level of economic pulp integration on a group-wide basis which minimises the impact of pulp price fluctuations on our results. A significant increase in the prices for our major inputs, cannot always be sufficiently addressed by increasing our selling prices to offset the effects of increased costs and we therefore pursue improved efficiencies in all aspects of our business.

- **The markets for pulp and paper products are competitive.**
- We will continue to strengthen our leadership position in our core businesses through organic growth, as well as through acquisitions, to ensure our global competitiveness.

- **The cost of complying with environmental regulation may be significant to our business.**
- We strive to ensure that we comply with applicable environmental laws and co-operate across regions to help us apply best practices in a sustainable manner.

- **The availability and cost of insurance cover can vary considerably from year to year as a result of events beyond our control, and this can result in our paying higher premiums and periodically being unable to maintain the levels or types of insurance carried.**
- We continue working on improved enterprise risk management to lower the risk of incurring losses from uncontrolled incidents.

- **New technologies or changes in consumer preferences may affect our ability to compete successfully.**
- We regularly assess changing consumer preferences and new technologies, which could impact consumption of our products or their competitiveness. We design and implement appropriate responses to these changes in the form of new or improved products, enhanced product features, or improvements in the level and quality of product servicing.

Business risks

- **We may not be able to successfully or timeously integrate the M-real coated graphic paper business (see description on pages 32 and 33) into our existing business, and may not realise the full extent of the anticipated benefits.**

- We have a good track record with the integration of acquired businesses. The due diligence process was very comprehensive. We have put in place an experienced integration team that will support line management and drive the achievement of synergies.

- **Our indebtedness may impair our financial and operating flexibility.**

- Cash generation and improving our balance sheet structure, including a reduction in borrowings, are priorities for management.

- **Fluctuations in the value of currencies, particularly the Rand and the Euro, in relation to the US Dollar have in the past had and could in the future have a significant impact on our earnings.**

- We manage our economic and transactional currency exposures on a group basis. However, we do not manage translation exposure which arises from translating the group's assets, liabilities, income and expenditure into the US Dollar, our reporting currency.

- **There are risks relating to the countries in which we operate that could affect your investment in our company.**

- We manage these risks in each country. We do, however, operate in a broad spread of countries which helps mitigate the risk in any individual country.

- **We face certain risks in dealing with HIV/Aids which may have an adverse effect on our southern African operations.**

- We have comprehensive programmes designed to mitigate the impact of the disease on our people and our business.

- **A limited number of customers account for a significant amount of our revenues.**

- We understand that the success of our business depends on working closely with our customers, providing a high level of service and reliability. We manage and regularly review credit and other exposures. We also purchase credit insurance to cover a major part of our outstanding receivables.

- **Because of the nature of our business and workforce, we are facing challenges in the retention and succession planning of management that could adversely affect our business.**

- We have put in place a number of initiatives [including engagement management, performance management and incentives] to mitigate this risk.

- **The inability to recover increasing input costs through increased prices**

- We approach this in several ways including a focus on improving procurement methods, finding alternative lower-cost fuels and raw materials, minimising waste, improving manufacturing and logistics efficiencies and implementing energy reduction initiatives.

- **Catastrophic events, such as fires, affecting our plantations may adversely impact our ability to supply our southern African mills with timber.**

- We have implemented a number of risk and fire control measures and are re-evaluating our processes after two years of extensive damage.

Risk management philosophy

The Sappi Limited board recognises that risk management success can only be achieved if all three elements of risk, namely threat, uncertainty and opportunity, are recognised and managed in an integrated fashion. The board is also fully committed to:

- complying with the risk management requirements of the Code of Conduct of the Second Report of the King Committee on Corporate Governance (King 2).
- complying with the risk management requirements of the Sarbanes-Oxley Act;
- evaluating its risk management processes in terms of the COSO framework (adjusted to Sappi's own needs) to enhance the overall risk management framework;
- ensuring that an integrated enterprise-wide risk management system is implemented throughout its operations.

Risk management mandate

The Group Risk Management Team is mandated by the Sappi Limited Board to establish, coordinate and drive the Risk Management process throughout Sappi. It has established a comprehensive risk management system to identify and manage significant risks.

Risk management methodology

Complete risk assessments are conducted at least annually in our operations and for the group, and are updated every six months. The process uses our strategy as the base against which to assess risk scenarios. The scope of the risk assessment includes risks that may lead to a significant loss, or loss of opportunity or may affect the current strategic plan. These risks are identified and analysed, and risk responses to each individual risk are designed, planned, implemented and monitored. Risks classified as 'uncontrollable', or those risks where the root causes are outside of the control of Sappi, are identified. The responses to the risks are classified under the headings of Transfer, Treat, Tolerate, Terminate, Exploit and Avoid.

The risk assessments are reviewed by the Sappi Group Risk Management Team during facilitated workshops where the risks are evaluated and ranked. The resultant risk profiles are reviewed by our group executive and are reported to the Audit committee at least once every six months and are reported to the board at least annually.

In addition to the above mentioned risks, the risks and opportunities that may only manifest over the longer term (three to five year horizon), are identified and reported to the Audit committee at least annually.

This methodology ensures that risk assessments are undertaken at least annually; are reviewed every six months; that identified risks are prioritised according to the potential impact on the company; and cost-effective responses are designed and implemented to counter the effects of identified losses.

Risk financing

The risk assessment process is conducted by external risk engineers, who conduct both underwriting surveys as well as risk control surveys of all the Sappi facilities. The risk control survey reports rate and rank the identified risks and make recommendations to address the probability and/or severity of these risks. This process is focused primarily on the risk exposures associated with insurable risks.

Insurance

Sappi follows a practice of insuring its assets against unavoidable loss arising from catastrophic events. These events include fire, flood, explosion, earthquake and machinery breakdown. Insurance also covers the business interruption which may result from these events. Specific environmental risks are also insured. In line with previous years, the board decided not to take separate cover for losses from acts of terrorism, which is consistent with current practice in the paper manufacturing industry. This insurance cover excludes insurance for plantations, which is placed separately.

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

Sappi has successfully negotiated the renewal of its 2009 insurance cover at rates similar to those of 2008. Self-insured retention for any one property damage occurrence has remained at US$25 million, with an unchanged annual aggregate of US$40 million. For property damage and business interruption insurance, cost-effective cover to full value is not readily available. However, the directors believe that the loss limit cover of US$1 billion should be adequate for what they have determined as the reasonably foreseeable loss for any single claim.

Insurance cover for credit risks currently applies on a regional basis to Sappi's North American, European and South African domestic trade receivables.

Sappi places the insurance for its plantations on a stand-alone basis into local and European insurance markets. The widespread fires that occurred in South Africa and which resulted in extensive damage to our plantations, exhausted our plantation insurance cover. As the fires occured at the end of the high risk season, reinstatement insurance cover was not purchased for the remainder of the current insurance period. Plantation insurance cover will be renewed effective 01 April 2009 before commencement of the next high risk season.

For a summary of our top risks, please see page 40 of this report.

Chief financial officer's report

Mark Thompson

Introduction

The objective of this discussion and analysis is to provide additional insight into the operating performance and financial position of the group. This report should be read in conjunction with the operational reviews on pages 28 to 37 and the group annual financial statements beginning on page 72.

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

	Income statement Average rates			Balance sheet Closing rates		
	2008	2007	2006	**2008**	2007	2006
US Dollar/SA Rand	**7.4294**	7.1741	6.6039	**8.0751**	6.8713	7.7738
EURO/US Dollar	**1.5064**	1.3336	1.2315	**1.4615**	1.4272	1.2672

Operating performance

Since fiscal 2006, Operating Profit excluding Special Items (which we believe is a good indicator of underlying operating performance) has improved year by year from US$91 million in fiscal 2006 to US$366 million in fiscal 2008.

The key indicators of the group's operating performance are:

Key figures: (US$ millions)	**2008**	2007	2006
Sales	**5,863**	5,304	4,941
Operating profit/loss	**314**	383	125
Special items – losses (gains)*	**52**	(70)	(34)
Operating profit excluding special items**	**366**	313	91
EBITDA excluding special items**	**740**	688	483
Basic EPS (US cents)	**45**	89	(2)
Net working capital* **	**422**	395	424
Key ratios: (%)			
Operating profit to sales	**5.4**	7.2	2.5
Operating profit excluding special items to sales	**6.2**	5.9	1.8
Operating profit excluding special items to Capital Employed (ROCE)*	**9.1**	8.3	2.6
EBITDA excluding special items to sales	**12.6**	13.0	9.8
Return on average equity (ROE)*	**6.0**	12.6	(0.3)
Net working capital to sales	**7.2**	7.5	8.6

* *Refer to page 188 for the definition of the term.*
** *Refer to page 59 for the reconciliation of operating profit and EBITDA excluding special items to operating profit.*
*** *Net working capital = Inventory plus trade and other receivables minus trade and other payables and provisions.*

Sales

Sales volumes

Sales volume by division is shown in the table below:

Sales volume metric tons (000's)	2008	2007	2006
Fine Paper	**4,438**	4,349	4,204
North America	**1,553**	1,506	1,426
Europe	**2,546**	2,493	2,450
South Africa	**339**	350	328
Forest Products	**2,413**	2,514	2,995
Pulp & paper	**1,419**	1,484	1,470
Forestry	**994**	1,030	1,525
Total	**6,851**	6,863	7,199

Sales volumes declined by approximately 12,000 tons in fiscal 2008, mainly due to a 101,000 ton decline in volumes at Forest Products partly offset by an increase of 89,000 tons in Fine Paper volumes. Fine Paper volumes increased mainly due to increased sales in North America and Europe as market share was regained. The decline at Forest Products was attributable to reduced external forestry sales volumes (36,000 tons) and production issues which impacted pulp and paper volumes adversely (65,000 tons). External forestry sales volumes were intentionally reduced as timber resources are being managed to meet current and future internal timber requirements.

Sales revenue

Sales revenue by division is shown in the table below:

Sales US$ million	2008	2007	2006
Fine Paper	**4,764**	4,256	3,958
North America	**1,664**	1,511	1,439
Europe	**2,720**	2,387	2,194
South Africa	**380**	358	325
Forest Products	**1,099**	1,048	983
Pulp & paper	**1,023**	979	896
Forestry	**76**	69	87
Total	**5,863**	5,304	4,941

In fiscal 2008, group sales revenue increased by US$559 million (10.5%) to US$5,863 million compared to fiscal 2007. Increases were seen in all divisions.

Changes in sales in US Dollars are impacted by volume, price and exchange rate movements. The table below reflects the impact of each of these items on the sales revenue of each division.

Sales variance analysis	2008				2007			
US$ million	**Volume**	**Price**	**Exchange Rate**	**Total**	Volume	Price	Exchange Rate	Total
Fine Paper								
North America	**47**	**106**	**–**	**153**	81	(9)	–	72
Europe	**51**	**(30)**	**312**	**333**	39	(28)	182	193
South Africa	**(11)**	**47**	**(14)**	**22**	22	41	(30)	33
Total	**87**	**123**	**298**	**508**	**142**	**4**	**152**	**298**
Forest Products								
Pulp & Paper	**(43)**	**123**	**(36)**	**44**	9	159	(85)	83
Forestry	**(2)**	**12**	**(3)**	**7**	(28)	16	(6)	(18)
Total	**(45)**	**135**	**(39)**	**51**	**(19)**	**175**	**(91)**	**65**
Total	**42**	**258**	**259**	**559**	**123**	**179**	**61**	**363**

In monetary terms, volume accounted for an increase in sales revenue of US$42 million compared to the previous year. Although volume (in tons) reduced during the year by an overall 12,000 tons, in monetary terms, the higher value of fine paper volume increases (89,000 tons) exceeded the lower value volume reductions of 101,000 tons in Forest Products.

Price increases accounted for US$258 million of the increase in sales revenue compared to fiscal 2007. US$106 million of this increase arose due to better price realisation on paper and pulp in North America. The improved paper price realisation was due to the improved coated fine paper supply demand balance in the region. Higher international pulp prices benefited our Forest

Products business (US$135 million). These positive pricing impacts, together with improved selling prices in the South African Fine Paper business (US$47 million) were partly offset by lower selling prices in Europe (US$30 million).

Exchange rates also had a large positive impact (US$259 million) on the increase in sales revenue in 2008. The exchange rate impact reflects the movement in US$/Euro and ZAR/US$ exchange rates when translating sales from underlying currencies into US Dollars, our reporting currency. The US$/Euro exchange rate weakened from an average of US$1.33/Euro in fiscal 2007 to US$1.51/Euro in fiscal 2008. This impacted the European Region's sales in US Dollars favourably by US$312 million in fiscal 2008. The weakening of the Rand against the US Dollar from an average of ZAR7.17/US$ in fiscal 2007 to ZAR7.43/US$ in fiscal 2008 resulted in the US Dollar value of the South African Region's sales reducing by US$53 million in total.

Sales revenue per ton increased by 11% from US$773 per ton in fiscal 2007 to US$856 per ton in fiscal 2008.

Costs

Variable costs

The group's variable manufacturing costs increased by US$388 million (14%) in fiscal 2008 compared to fiscal 2007.

An analysis of variable costs by major raw material category is as follows:

Variable manufacturing costs US$ million	2008	2007	2006
Wood	**722**	635	631
Energy	**558**	438	433
Pulp*	**702**	623	563
Other**	**1,091**	989	889
Total	**3,073**	2,685	2,516

* *Pulp includes only bought in fully bleached hardwood and softwood.*

** *Other costs relate to inputs such as chemicals, water, fillers, bought in pulp (other than fully bleached hardwood and softwood) and consumables.*

Increases occurred in all categories, driven by volume and, more particularly, by price increases and exchange rates. The impact of each of these elements is shown in the table below:

Variable cost movement analysis	**2008**				2007			
US$ million	**Volume**	**Price**	**Exchange Rate**	**Total**	Volume	Price	Exchange Rate	Total
Wood	**41**	**28**	**18**	**87**	(43)	42	5	4
Energy	**5**	**87**	**28**	**120**	(7)	5	7	5
Pulp	**(12)**	**39**	**52**	**79**	(15)	50	25	60
Other	**(19)**	**54**	**67**	**102**	71	3	26	100
Total	**15**	**208**	**165**	**388**	**6**	**100**	**63**	**169**

The increase in bought-in wood volumes (US$41 million) was partially off-set by decreased volumes of pulp and other raw materials consumed, resulting in a net increase of US$15 million due to volume changes compared to fiscal 2007.

High world commodity prices reflected in price increases in all categories of raw materials but particularly in energy prices which increased by approximately 20% compared to prices in fiscal 2007. Overall price increases contributed US$208 million to the total increase in variable costs.

The impact of converting costs incurred in non-US Dollar currencies into US Dollar at the different exchange rates prevailing in fiscal 2008 compared to fiscal 2007, was to increase variable costs in US Dollars by US$165 million compared to fiscal 2007.

On a per ton basis, variable costs increased by 15% from US$391 in fiscal 2007 to US$449 per ton in fiscal 2008.

An analysis of variable manufacturing costs in US Dollars by region is as follows:

Regional variable manufacturing costs US$ million	2008	2007	2006
SFPNA	**925**	869	825
SFPE	**1,608**	1,370	1,231
SFPSA	**229**	210	203
Forest Products	**542**	462	484

* *The above figures are before consolidating entries.*

The largest increases were experienced in Europe (17%) and Forest Products (17%) with the increases for North America and Fine Paper South Africa being 6% and 9% respectively.

Fixed costs

Fixed costs increased by US$111 million in 2008 compared to 2007. The major components of fixed costs (shown here in US Dollars) were as follows:

Fixed costs US$ million	2008	2007	2006
Personnel	**1,016**	926	878
Maintenance	**253**	236	229
Depreciation	**370**	372	387
Other	**280**	274	305
Total	**1,919**	**1,808**	**1,799**

In fiscal 2008, fixed costs increased by 6% in US Dollars compared to fiscal 2007. Of this increase, 76% (US$84 million) was due to the impact of exchange rates when translating costs in Euro and Rand into the US Dollar reporting currency. Thus, excluding the currency impact, fixed costs were well controlled, increasing by only 1.5% (US$27 million) year-on-year.

An analysis of fixed costs by region is as follows:

Regional fixed costs US$ million	2008	2007	2006
SFPNA*	**543**	542	561
SFPE*	**863**	778	770
SFPSA*	**111**	107	104
Forest Products	**403**	374	377
Total	**1,919**	**1,808**	**1,799**

* *SFPNA – Sappi Fine Paper North America, SFPE – Sappi Fine Paper Europe, SFPSA – Sappi Fine Paper South Africa.*

Sales and costs per ton

In the tables below we set out the sales and costs per ton in both the local currency and US Dollars for each of the divisions and the group for the past three years.

Sappi Fine Paper North America

SFPNA sales and cost per ton US$/ton	2008 US$/ton	2007 US$/ton	2006 US$/ton
Sales	**1,071**	1,003	1,009
Costs	**1,010**	988	1,030
Operating profit excluding special items	**61**	**15**	**(21)**

Although cost management and product re-design have been major focus areas in recent years, the region experienced a 2.2% increase in cost per ton as a result of international commodity price pressures. An improved supply-demand balance in the market during fiscal 2008 facilitated a 7% selling price increase per ton.

Sappi Fine Paper Europe

	2008		2007		2006	
SFPE sales and cost per ton	**€/ton**	**US$/ton**	€/ton	US$/ton	€/ton	US$/ton
Sales	**709**	**1,068**	718	957	728	896
Costs	**694**	**1,046**	701	935	724	891
Operating profit excl special items	**15**	**22**	17	22	4	5

In local currency (Euro), sales prices declined 3% compared to fiscal 2006, although, due to the weakening US Dollar over that period, sales prices increased in US Dollar terms. In Euro, costs per ton decreased from €724 to €694 (4%) compared to fiscal 2006.

Sappi Fine Paper South Africa

SFPSA sales and cost per ton	2008 ZAR/ton	2008 US$/ton	2007 ZAR/ton	2007 US$/ton	2006 ZAR/ton	2006 US$/ton
Sales	**8,320**	**1,121**	7,339	1,023	6,544	991
Costs	**8,195**	**1,103**	7,153	997	6,663	1,009
Operating profit excluding special items	**133**	**18**	186	26	(119)	(18)

Pricing in local currency (Rand) benefited from the weakening of the Rand against the US Dollar which reduces the threat of marginal imports to the region. Sales prices per ton in Rand terms improved 27% since fiscal 2006. Costs per ton in Rand terms increased 23% since fiscal 2006 due to international commodity price movements and increased personnel costs.

Sappi Forest Products

SFP sales and cost per ton	2008 ZAR/ton	2008 US$/ton	2007 ZAR/ton	2007 US$/ton	2006 ZAR/ton	2006 US$/ton
Sales	**3,380**	**455**	2,992	417	2,166	328
Costs	**2,756**	**371**	2,353	328	1,915	290
Operating profit excluding special items	**624**	**84**	639	89	251	38

The Region saw the benefit of escalating pulp prices and the weakening of the Rand against the US Dollar on the revenue line. Sales price per ton in Rand terms increased 56% over the past three years while costs per ton in Rand terms increased 44% over the same period.

Sappi group

Sappi group sales and cost per ton US$	2008	2007	2006
Sales	**856**	773	686
Costs	**803**	727	673
Operating profit excluding special items	**53**	**46**	**13**

Movements at a group level reflect the underlying regional prices and costs per ton and the impact of exchange rates on translation into the reporting currency.

In US Dollar terms sales price per ton in fiscal 2008 increased by 25% compared to fiscal 2006 and cost per ton increased by 19% compared to fiscal 2006 leading to the margin per ton increasing from US$13 to US$53 over that period.

Operating profit

Below is an abridged income statement by fiscal period for the years 2006 to 2008:

Abridged income statement US$ million	2008	2007	2006
Sales	**5,863**	5,304	4,941
Delivery costs	**509**	453	441
Variable manufacturing costs	**3,073**	2,685	2,516
Contribution	**2,281**	2,166	1,984
Fixed costs	**1,919**	1,808	1,799
Special items	**52**	(70)	(34)
Other	**(4)**	45	94
Operating profit	**314**	383	125

In considering operating profit, we believe that it is useful to highlight special items.

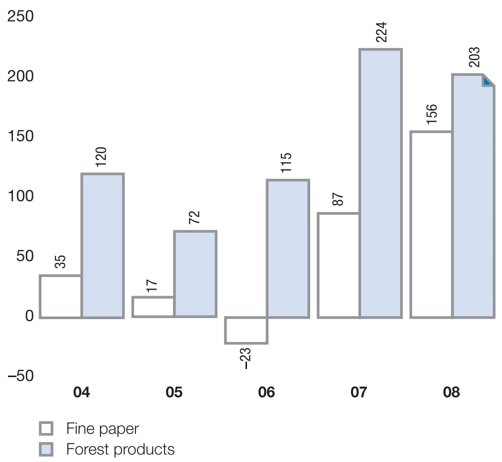
Special items are those items which management believes are material by nature or amount in relation to the operating results and require separate disclosure. Such items would generally include profit and loss on disposal of property, investments and businesses, asset impairments, restructuring charges, natural disasters and non-cash gains or losses on the price fair value adjustment of plantations.

The table below shows the items classified as special items in each of the past three years and the reconciliation of operating profit to operating profit excluding special items:

US$ million	2008	2007	2006
Operating profit	**314**	383	125
Special items before tax			
Plantation fair value price adjustment	**(120)**	(54)	(34)
Asset impairments/ (reversals)	**119**	–	(31)
Restructuring and closure costs/(reversal)	**41**	(7)	50
Fire, flood, storm and related events	**17**	17	9
Pension restructuring gain	**–**	–	(28)
Profit on sale of fixed assets	**(5)**	(26)	–
Operating profit excluding special items	**366**	313	91

Operating profit excluding special items has shown a steady improvement since its low point in fiscal 2005, as is reflected in the bar chart below:

Operating profit excluding special items trend* (US$ million)



** Excludes Corporate (2008: US$7 million; 2007 US$2 million; 2006: (US$1 million); 2005: (US$6 million); 2004: (US$9 million))*

Divisional contributions to operating profit excluding special items in the last three years are set out in the table below:

Operating profit excluding special items US$ million	2008	2007	2006
Fine Paper	**156**	87	(23)
North America	**95**	22	(30)
Europe	**55**	56	13
South Africa	**6**	9	(6)
Forest Products	**203**	224	115
Corporate	**7**	2	(1)
Total	**366**	313	91

During fiscal 2008 operating profit excluding special items improved by US$53 million to US$366 million from US$313 million in fiscal 2007. The major reasons for this improvement were a US$559 million increase in sales discussed earlier, partly offset by a US$388 million and US$111 million increase in variable and fixed costs respectively. Operating profit after special items declined from US$383 million in fiscal 2007 to US$314 million in fiscal 2008 mainly due to the net special items charge of US$52 million in 2008 and a credit of US$70 million in 2007, both explained above.

Key target ratios

Our results have generally shown improvement in recent years. However, performance is still below the key target ratios which have been set, as indicated in the table below:

Key Ratios	Target	2008	2007	2006
Operating profit excluding special items to sales	>8.5%	**6.2%**	5.9%	1.8%
EBITDA excluding special items to sales	>15%	**12.6%**	13.0%	9.8%
Operating profit excluding special items to capital employed (ROCE)*	**>12%**	**9.1%**	**8.3%**	**2.6%**
Return on average equity (ROE)*	>11%	**6.0%**	12.6%	(0.3)%

**Refer to page 188 for definition of the term.*

We have derived these target ratios to meet the group's weighted average cost of capital after adjusting book assets for inflation.

These key target ratios are closely monitored and benchmarked against peer groups.

Major sensitivities

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

Operating profit excluding special items sensitivity		SFPE EURO million	SFPNA US$ million	SFPSA ZAR million	Forest Products ZAR million	Group US$ million
Volumes Change	1%	9	6	11	36	25
Selling Prices Change	1%	29	18	35	105	78
Pulp Price Change/Ton	US$10	7	2	8	(56)	6
Variable Costs Change	1%	18	11	22	56	46
Fixed Costs Change	1%	7	5	9	29	19

The calculation of these sensitivities on operating profit excluding special items assumes all other factors remain the same and does not take into account potential management interventions to mitigate negative impacts or enhance benefits. As the table shows, the impact on the individual businesses of one sensitivity may be different as indeed is the case with changes in international pulp prices which affect Forest Products (which is a net seller of pulp) and the European business (which is a net purchaser of pulp) in opposite ways.

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

Finance costs

Details of net finance costs are set out below:

US$ million	**2008**	2007	2006
Interest paid	**181**	173	162
Interest earned	**(38)**	(21)	(26)
Finance costs capitalised	**(16)**	(14)	(2)
Net foreign exchange gains	**(8)**	(13)	(7)
Net movement on marking-to-market of financial instruments	**7**	9	3
Net finance costs	**126**	**134**	**130**

Net interest paid (interest paid less interest earned) in fiscal 2008 was US$143 million compared to US$152 million in 2007. The decrease was mainly due to the lower level of US Dollar interest rates in 2008 and the resulting lower interest cost on the group's floating rate debt.

The much higher finance costs capitalised in fiscal 2008 and fiscal 2007 relate to the Saiccor Mill expansion project in South Africa. The expansion was commissioned during fiscal 2008 and capitalisation of finance costs on this project has ceased.

The group's policy is to identify foreign exchange transaction risks when they arise and to cover these risks to the functional currency of the operation where the risk lies. The majority of the group's foreign exchange exposures are covered centrally by the group treasury which nets the internal exposures and hedges the residual exposure with third party banks. Due mainly to the timing of the netting process some residual foreign exchange results arise and these results (ie gain of US$8 million in 2008) are shown as part of Finance Costs.

The 'net movement on marking-to-market of financial instruments' relates to the net impact of currency and interest rate movements after hedge accounting for certain interest rate and currency swaps the group has entered into in order to swap US$857 million of fixed rate debt to floating rates and in order to manage the interest and currency exposure on US$233 million of cross border inter-company loans.

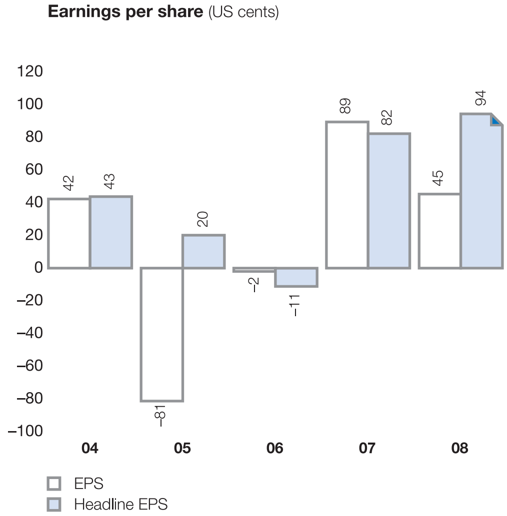
Taxation

US$ million	2008	2007	2006
Profit (loss) before taxation	**188**	249	(5)
Expected taxation charge (benefit)	**38**	50	(1)
Tax rate reductions	**(9)**	(19)	(1)
Net effect of losses with no tax relief and permanent differences	**35**	(1)	3
Secondary Tax on Companies	**7**	8	9
Other	**15**	9	(11)
Taxation charge (benefit)	**86**	47	(1)
Effective tax rate	**46%**	19%	15%

With a profit before taxation of US$188 million, the total taxation charge to the income statement of US$86 million results in a tax rate of 46%. The expected taxation charge of approximately 20% (US$38 million) was favourably impacted by tax rate reductions in South Africa. On the other hand, tax relief was not taken on the taxation losses of certain loss-making entities due to management's judgement that these losses may not be recoverable in the near future and certain of the group's profit are not taxed as a result of losses carried forward or favourable permanent differences. The Secondary Tax on Companies of US$7 million relates to South African tax on the group dividend paid during the year at a rate of 10%.

Earnings per share

The group has not issued significant additional shares over the five years to September 2008 and as a result earnings per share have tracked profit for the year closely. A listing requirement of the JSE Limited in South Africa is to disclose 'headline earnings per share' which removes items of a capital nature from the calculation – the computation of headline earnings per share is disclosed in Note 7 to the financial statements. Earnings per share and headline earnings per share over the past five years are depicted in the bar chart below left.



In fiscal 2008 earnings per share was adversely impacted by certain major items classified as special items (discussed in Operating Profit on page 47). These major items being asset impairments (US$119 million), restructuring provisions (US$41 million) and fire and flood related events (US$17 million). These negative impacts were partly offset by a favourable fair value price adjustment (US$120 million). Excluding these special items after the impact of tax, earnings per share for fiscal 2008 would have been 75 US cents. On the same basis, earnings per share excluding special items for fiscal 2007 would have been 67 US cents and for fiscal 2006 negative 22 US cents.

Working capital

Optimising the levels of our working capital is a key management focus area. The aim is to minimise the investment in working capital to the point where it does not negatively impact profitability by more than the savings in finance costs from the lower investment in working capital.

We regularly compare our ratio of working capital to annual sales to those of our peers, and we believe that our working capital management compares favourably in that regard, although we have identified opportunities to improve this further. Managing the average monthly level of net working capital is a large element of the management incentive scheme for all businesses.

The component parts of our working capital at the financial year end for the past three years are shown in the table below, as is the net working capital to sales percentage.

US$ million	2008	2007	2006
Inventories	**725**	712	699
Receivables	**698**	653	573
Payables	**(1001)**	(970)	(848)
Net working capital	**422**	395	424
Net working capital to sales	**7.2%**	7.5%	8.6%

Cash flow analysis

In the table below we present the group's cash flow statement in a summarised format.

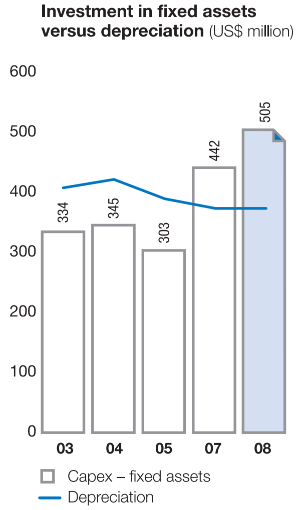
US$ million	2008	2007	2006
Cash generated by operations before post employment benefits	**711**	686	464
Contributions to post employment benefits	**(88)**	(101)	(68)
Cash generated by operations	**623**	585	396
Net movement in working capital	**1**	60	(17)
Cash generated by operating activities	**624**	645	379
Cash spent to maintain and expand assets	**(505)**	(442)	(303)
Finance costs	**(126)**	(162)	(138)
Taxation	**(70)**	(27)	(13)
Other	**11**	78	16
Dividends to shareholders	**(73)**	(68)	(68)
Net cash (utilised)/generated	**(139)**	24	(127)

In line with the required accounting disclosure, we show 'Contributions to post employment benefits' (US$88 million and US$101 million in fiscal 2008 and fiscal 2007 respectively) as a reduction to 'Cash generated by operations'. Approximately US$38 million in 2008 and US$49 million in 2007 of the contributions to post employment funding relate to 'catching-up' on deficits in certain of our funds. Assuming stock markets recover in 2009 or 2010 and that long-term discount rates remain favourable to pension schemes, we expect the 'catch-up' element of our post retirement contribution payouts to reduce substantially in fiscal 2010 and thereafter.

In fiscal 2007 and fiscal 2008 cash spent to maintain and expand assets was higher than usual due to the Saiccor expansion project (US$236 million in fiscal 2008 and US$247 million in fiscal 2007) and also due to the acquisition of Paper Machine 3 at Somerset (US$75 million in fiscal 2008) after the termination of the lease over that paper machine.

Due largely to the higher than usual capital expenditure, we utilised net cash of US$139 million in fiscal 2008.

Over the past five years the relationship between capital expenditure and depreciation was as follows:



Capital expenditure by region may be summarised as follows:

US$ million	2008	2007	2006
Fine Paper	**230**	156	203
North America *	**130**	42	48
Europe	**91**	102	136
South Africa	**9**	12	19
Forest Products	**274**	285	99
Saiccor upgrade	**236**	247	32
Other	**38**	38	67
Corporate	**1**	1	1
Total	**505**	442	303

** 2008 includes Paper Machine No 3 at Somerset after termination of the lease (US$75 million).*

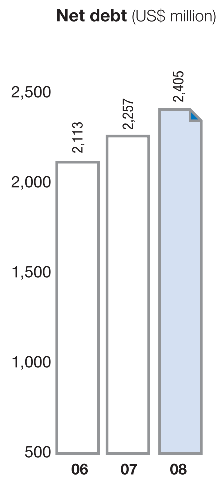
The above figures include both 'maintenance' and 'expansion' capital expenditures which in fiscal 2008 were US$250 million and US$255 million respectively.

Debt

General

Debt is a major source of funding for the group. In the management of debt the group focuses on net debt, which is the sum of current and non-current interest-bearing borrowings and bank overdraft, net of cash, cash equivalents and short-term deposits.

The development of net debt over the past three years is shown in the bar chart below:



As shown in the table below, as at the end of fiscal 2008, 41% of our total assets were financed by net debt, the balance being financed by equity and current and non-current non-interest bearing debt:

US$ million	%	2008	%	2007	%	2006
Net debt	**41**	**2,405**	38	2,257	40	2,113
Shareholder's equity	**28**	**1,605**	30	1,816	26	1,386
Other liabilities (non interest bearing)	**31**	**1,825**	32	1,907	34	1,794
Total assets (excluding cash)	**100**	**5,835**	100	5,980	100	5,293

The movement in net debt over the past three years is explained below.

US$ million	2008	2007	2006
Net debt at beginning of period	**2,257**	2,113	2,008
Cash utilised/(generated) during the period	**139**	(24)	127
Currency and fair value impact	**9**	168	(22)
Net debt at end of period	**2,405**	2,257	2,113

Since the beginning of fiscal 2006, net debt has increased by US$397 million. US$155 million of this increase was due to the impact of translating our European and South African debt into the weakening US$ and other fair value adjustments. During this period we utilised US$242 million of cash due mainly to the expenditure over the past three years on the Saiccor Mill expansion project (US$515 million) and the acquisition of Paper Machine No 3 at Somerset Mill (US$75 million).

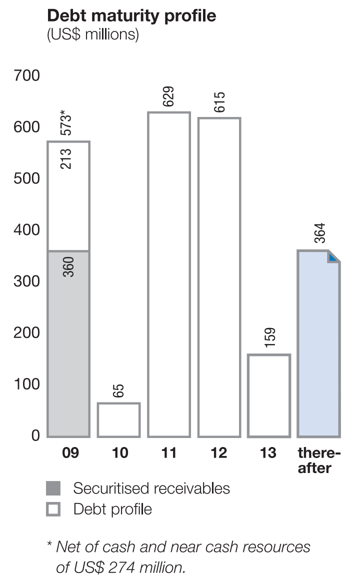
Debt profile

The make-up of net debt is set out in the table below:

US$ million	2008	2007	2006
Long-term debt	**1,832**	1,828	1,634
Short-term debt	**821**	771	694
Bank overdraft	**26**	22	9
Cash	**(274)**	(364)	(224)
Net debt	**2,405**	2,257	2,113

The short-term debt of US$821 million in 2008 includes an amount of US$360 million (2007: US$354 million) of securitised receivables funding under various revolving securitisation programmes.

The average maturity of our debt is 5.7 years with the profile as shown below.



We believe we follow a prudent approach with regard to liquidity risk. As at September 2008 financial year-end, short-term debt and overdraft funding was US$847 million, US$274 million of which was covered by cash and near cash resources. Thus, the true short-term liquidity exposure is more of the order of US$573 million. Of this, US$360 million (at the financial year-end) was in the form of revolving securitised trade receivables funding which in the normal course we expect to continue to be available. For further information on group borrowing facilities secured by trade receivables, refer to Note 20 of the Financial Statements.

The group has unutilised committed and uncommitted borrowing facilities of US$605 million and US$478 million respectively. The committed facilities are largely in terms of the undrawn portion of our €600 million syndicated loan facility.

The make-up of net debt by currency is shown in the following table:

Net debt by currency ratio	2008	2007	2006
USD	**41.3%**	40.0%	45.0%
EUR	**40.3%**	42.0%	40.0%
CHF	**6.3%**	7.0%	6.0%
ZAR	**12.1%**	11.0%	9.0%

Off balance sheet funding

Off balance sheet funding at the end of each of the last three financial years is shown below:

US$ millions	2008	2007	2006
Forest Products securitisation	**194**	145	106
Somerset Paper Machine No 3 lease	**–**	86	104
Westbrook biomass lease	**–**	5	13
Total	**194**	236	223

The Forest Products securitisation facility involves the outright sale of receivables to a financing vehicle and we expect this funding to remain off-balance sheet for the foreseeable future. For more information on this, refer to note 16 to the Financial Statements.

Interest on borrowings

To compare our borrowing costs with market rates, we convert interest rates on all debt to US$ equivalent rates. The resulting interest rate is currently 4.51% before taking account of interest rate swaps taken up to swap US$857 million of borrowings from fixed to floating interest rates.

The average tenure of our debt is 5.7 years. Compared with the current six-year US$ swap rate (a benchmark rate at which blue chip credits transact in longer term maturities) of 3.65%, our average interest cost is 86 basis points above the swap rate.

The fixed to floating interest rate swaps decrease the total interest cost to 4.06%, which is 41 basis points above the six-year US$ swap rate.

We expect that in current market circumstances, and based on our current credit ratings, raising new debt or replacing existing debt would be at substantially higher margins than we are currently paying.

Interest rate risk

The group has a policy of maintaining a reasonable balance between fixed and variable rate loans which enables it to minimise the impact of borrowing costs on reported earnings. Hedging activity in relation to borrowings are restricted to interest rate swaps and where appropriate, cross-currency swaps.

In the 2008 financial year no further interest rate swaps were concluded and, at year end, the ratio of gross debt at fixed and floating interest rates was 39:61 respectively.

Covenants

Financial covenants apply to approximately US$920 million of our non-South African long-term debt and our €600 million syndicated loan facility. This debt is supported by a Sappi Limited guarantee. For this reason the first two of the three covenants mentioned below are measured on a consolidated group level.

1. Net Debt to Adjusted Total Capitalisation (on the basis agreed with our lenders) should not exceed 65%.

2. EBITDA to Net Interest should not be less than

   (a) 3.0 times over four quarters' average and

   (b) 3.5 times over eight quarters' average.

3. The Net Debt to Adjusted Total Capitalisation of Sappi Manufacturing (Pty) Ltd, the subsidiary that owns virtually all of our southern African assets and operations, should not exceed 65%.

The table below shows that as at September 2008 we were comfortably in compliance with these covenants.

Group covenants		2008	Covenant
Net debt to total capitalisation		55.9%	< 65%
EBITDA to net interest	– 4 Quarters	5.91	> 3.0
	– 8 Quarters	5.57	> 3.5
Sappi Manufacturing Covenant			
Net debt to total capitalisation		21.4%	< 65%

These covenants also apply to the securitisation programmes with outstanding balances of US$360 million at the end of September 2008. No Sappi Limited guarantee has been provided for these facilities.

Credit ratings

At the time of writing, our credit ratings were as follows:

Fitch South African national rating

Sappi Manufacturing (Pty) Limited	AA-/F1+/Stable (June 2008)

Moody's international rating

Sappi Papier Holding GmbH (supported by Sappi Limited guarantee)	Ba2/NP/Stable (September 2008)

Standard & Poor's international rating

Corporate Credit Rating	BB/B/Stable (September 2008)

In October 2007, S&P revised its rating for the group from BB+ to BB, while moving the outlook from negative to stable. This change was mainly as a result of an industry-wide re-rating of the European Forest Products sector, sustained cost inflation, and an uncertain outlook for paper pricing and demand in the light of an expected softening of economic growth. In April 2008, the outlook was changed to negative in view of the challenging market conditions. However, the outlook was returned to stable after the announcement of the M-real transaction in view of the level of equity funding proposed and the improved outlook for the rating metrics to meet the requirements of the rating.

In June 2008, Moody's revised its rating for the group from Ba1 to Ba2, with a stable outlook. The main reasons for this revision were the difficult market conditions in the European paper industry, and the slower than expected improvement in the key rating metrics. In September 2008 this rating and outlook were confirmed after the announcement of the M-real transaction.

Fitch confirmed the Sappi Manufacturing rating in June 2008, commenting on the strong contribution by Saiccor and the sound debt position.

Gearing

Net debt to capitalisation for each of the past three years as set out below:

US$ million	**2008**	2007	2006
Net debt	**2,405**	2,257	2,113
Net debt & equity	**4,010**	4,073	3,499
Net debt to capitalisation ratio	**60%**	55%	60%

Management monitors the group's gearing in the context of the complex trade-offs associated with determining an appropriate level of debt finance, viz – financial risk, credit rating, the cost of debt and the expected return that can be earned on that debt. With regard to our debt level we also monitor cash flow to net interest cover. We recognise that we operate in a mature industry that normally generates substantial and reasonably reliable cash flows and that management has significant flexibility to delay or minimise capital expenditure (which is a major absorber of cash) in difficult times, in order to reduce financial risk.

Significant accounting policies and judgments

The group has defined accounting policies as significant if they have the potential to materially affect the group's financial performance, position or cash flow statement.

The group's significant accounting policies are those that relate to:

- Asset impairments;
- Plantations;
- Taxation;
- Property, plant and equipment;
- Hedge accounting;
- Post employment benefit funds; and
- Provisions.

The effect of these accounting policies and judgments is included on page 94 of the financial statements.

Effect of the adoption of new standards

There has been no effect on the group's reported results because of new accounting standards which the group has adopted in the current year.

Impact of accounting standards not yet adopted

The group accounting policies set out certain accounting standards which the group has not yet adopted. The group has done a preliminary evaluation of the potential effect of these standards and has determined that they will not have a material impact on the group's reported result, although there will be more disclosure that is required by the group.

Shareholding and equity

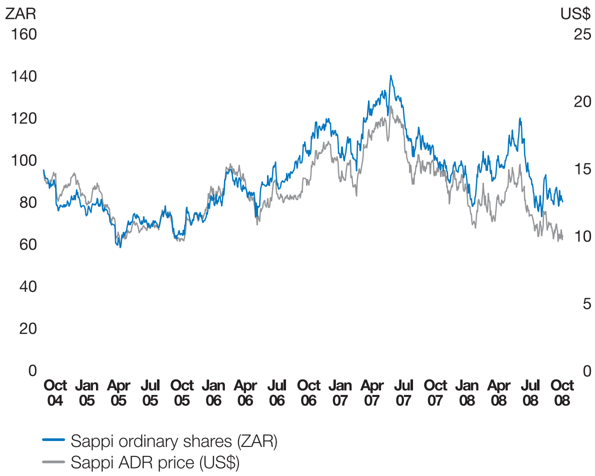
Shareholding

The group's primary listing is on the JSE Limited, the main stock exchange in South Africa, and has secondary listings on the New York and London Stock Exchanges. Information regarding shares, share price, the value of shares traded, main shareholders and other related information is contained on pages 60 and 61 of the Annual Report.

Share price performance*

Sappi share price is shown on the graph below:

Sappi share price – 01 October 2004 to October 2008



** Pre November 2008 rights offering.*

The percentage change has been calculated based on a comparison of the weighted average daily share price in the six months prior to the commencement date, compared to the weighted average daily share price in the six months prior to the end date plus dividends paid during the period. The percentage change is a simple TSR over that period, and is based on the US Dollar price of the share.

Other matters

Impairment of assets

Usutu Mill

Usutu Mill is an unbleached pulp mill and forms part of the Sappi Forest Products reporting segment. In August 2008, forest fires caused by severe weather conditions resulted in damage to approximately 26,000 hectares of planted trees. The volume of trees damaged reduced the value of the Usutu Mill which has therefore been impaired. In 2008, a charge of US$37 million was recorded in respect of this impairment.

Blackburn and Maastricht Mills

Maastricht and Blackburn mills form part of Sappi Fine Paper Europe. Maastricht Mill produces coated fine and label paper while Blackburn produced coated fine and board paper. Due to the significant increases in input costs and the overcapacity in the European market, Blackburn Mill and Maastricht Paper Machine No 5 were unable to produce acceptable returns on investment, despite significant efforts to curb costs and improve profitability. Production at Blackburn Mill ceased on 17 October 2008. No alternative to the closure of the mill was found during the employee representative consultation process, which ended on 11 November 2008. In respect of Paper Machine No 5 at Maastricht Mill, consultations and social plan negotiations with works council and unions were concluded in early October 2008. Production on Paper Machine No 5 at Maastricht Mill ceased around mid December 2008. An impairment loss of US$78 million was recognised as a result.

European restructuring

The closures at Blackburn Mill and Maastricht have affected approximately 300 employees. A provision of US$47 million relating to severance, retrenchment and other related costs was raised during fiscal 2008.

Dividends

On 06 November 2008, the directors declared a dividend (number 85) of 16 US cents per share (US$37 million) which was paid to shareholders on 02 December 2008. This dividend was declared after year-end and is not included as a liability in these financial statements.

The group aims to declare annual dividends, which, over time, incorporate real growth for shareholders. To this end, dividend cover in each year will vary in line with changes in the business cycle, but the current intention is to maintain a long-term average earnings to dividend ratio of three to one. The 2008 dividend was covered 2,8 times by basic earnings per share.

Litigation

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

Post year-end events

On 29 September 2008, Sappi announced that it had signed an agreement to acquire a substantial portion of the coated graphic paper business of M-real for €750 million (US$1.1 billion;

ZAR8.9 billion), subject to a purchase price adjustment for net debt and working capital. The transaction includes four graphic paper mills – the Kirkniemi Mill and the Kangas Mill in Finland, the Stockstadt Mill in Germany and the Biberist Mill in Switzerland – and other specified assets, as well as all of the know-how, brands, order books, customer lists, intellectual property and goodwill of the coated graphic paper business of M-real. In addition, Sappi will enter into the transitional marketing agreements under which M-real will produce products at certain graphic paper machines at the Husum Mill (Sweden) and the Äänekoski Mill (Finland) and Sappi will market and distribute those products. The transaction also includes long-term supply agreements for wood, pulp and other services. The acquisition will be financed through a combination of equity, assumed debt, the cash proceeds from a rights offering and a vendor note.

On 03 November, 2008, Sappi's shareholders approved the transaction and a rights offering to finance a portion of the transaction. Sappi has also to date obtained various regulatory approvals for the acquisition, including European Union competition approval. The acquisition is expected to close on 31 December 2008.

Sappi subsequently successfully completed a rights offering of 286,886,270 new ordinary shares at a subscription price of ZAR20.27 per new share. New shares were issued in a ratio of six (6) new shares for every five (5) Sappi shares held.

Conclusion

We will again strive to generate increased cash returns for shareholders by optimising the main factors that management has influence over and that contribute to increasing cash flow.

In this regard we will focus on improving operating profit and thereby improving cash flow, and on optimising working capital and debt levels. We will also again strive to mobilise cash generated efficiently by carefully evaluating whether to return cash to shareholders, to re-invest it in the company or to repay debt.

In view of the current financial market turmoil, special attention will be focused on the group's liquidity in fiscal 2009.

M R Thompson
chief financial officer

23 December 2008

Five year review

	September 2008 US$ million	September 2007 US$ million	September 2006 US$ million	September 2005*** US$ million	Not restated for IFRS* September 2004 US$ million
Income statement					
Sales	**5,863**	5,304	4,941	5,018	4,728
Operating profit excluding special items	**366**	313	91	83	146
Special items** losses (gains)	**52**	(70)	(34)	192	(42)
Operating profit (loss)	**314**	383	125	(109)	188
Net finance costs	**126**	134	130	80	110
Profit (loss) before taxation	**188**	249	(5)	(189)	78
Taxation charge (benefit)	**86**	47	(1)	(5)	(17)
Profit (loss) for the year	**102**	202	(4)	(184)	95
Balance sheet					
Non-current assets	**4,408**	4,608	3,997	4,244	4,564
Current assets	**1,701**	1,736	1,500	1,645	1,580
Assets held for sale	**–**	–	20	–	–
Total assets	**6,109**	6,344	5,517	5,889	6,144
Current liabilities	**1,926**	1,916	1,666	1,753	1,524
Shareholders' equity	**1,605**	1,816	1,386	1,589	2,157
Capital employed	**4,010**	4,073	3,499	3,597	3,741
Net debt	**2,405**	2,257	2,113	2,008	1,584
Cash flow					
Cash generated from operations	**623**	585	396	569	601
Decrease (increase) in working capital	**1**	60	(17)	(30)	(50)
Finance costs paid	**(139)**	(183)	(164)	(162)	(136)
Finance revenue received	**13**	21	26	35	27
Taxation paid	**(70)**	(27)	(13)	(43)	(31)
Dividends paid	**(73)**	(68)	(68)	(68)	(66)
Cash retained from operating activities	**355**	388	160	301	345
Capital expenditure	**505**	458	303	345	334
Cash effects of financing activities	**49**	98	(21)	(37)	(121)
EBITDA excluding special items(1)	**740**	688	483	507	556
Statistics					
Number of ordinary shares (millions)					
In issue at year end(2)	**229.2**	228.5	227.0	225.9	226.5
Weighted average number of shares in issue during the year(2)	**228.8**	227.8	226.2	225.8	226.3
Per share information (US cents per share)					
Basic earnings (loss)	**45**	89	(2)	(81)	42
Diluted earnings (loss)	**44**	88	(2)	(81)	42
Headline earnings (loss)	**94**	82	(11)	20	43
Diluted headline earnings (loss)	**93**	81	(11)	20	43
Ordinary dividend declared(3)	**16**	32	30	30	30
Net asset value	**700**	795	611	703	952
Ordinary dividend cover (times)(3)	**2.8**	2.8	–	–	1.4
Profitability ratios (%)					
Operating profit (loss) excluding special items to sales	**6.2**	5.9	1.8	1.7	3.1
EBITDA excluding special items to sales	**12.6**	13.0	9.8	10.1	11.8
Operating profit (loss) excluding special items to capital employed (ROCE)	**9.1**	8.3	2.6	2.3	4.1
Profit (loss) to average ordinary shareholders' equity (ROE)	**6.0**	12.6	(0.3)	(10.4)	4.6

	September 2008 US$ million	September 2007 US$ million	September 2006 US$ million	September 2005*** US$ million	Not restated for IFRS* September 2004 US$ million
Debt ratios (%)					
Net debt to total capitalisation	**0.60**	0.55	0.60	0.56	0.42
Efficiency ratios (%)					
Asset turnover ratio	**0.96**	0.84	0.90	0.85	0.77
Inventory turnover ratio	**6.9**	6.4	6.3	6.3	5.4
Liquidity ratios (%)					
Current asset ratio	**0.88**	0.91	0.90	0.94	1.04
Trade accounts receivable days outstanding (including receivables securitised)	**48**	49	44	45	56
Cash interest cover (times)	**4.4**	3.8	2.9	4.6	5.5
Number of employees	**15,156**	15,081	15,200	15,618	16,010
Sales per employee (US$'000)	**387**	352	325	321	295
Exchange rates					
US$ per one Euro exchange rate – closing	**1.4615**	1.4272	1.2672	1.2030	1.2309
US$ per one Euro exchange rate – average (12 month)	**1.5064**	1.3336	1.2315	1.2659	1.2152
ZAR to one US$ exchange rate – closing	**8.0751**	6.8713	7.7738	6.3656	6.4290
ZAR to one US$ exchange rate – average (12 month)	**7.4294**	7.1741	6.6039	6.2418	6.6824

Definitions for various terms and ratios used above are included in the glossary on page 188.

Reconciliation of profit (loss) for the year to operating profit excluding special items and EBITDA excluding special items(1)

	September 2008 US$ million	September 2007 US$ million	September 2006 US$ million	September 2005 *** US$ million	September 2004 US$ million
Profit (loss) for the year	**102**	202	(4)	(184)	95
Net finance costs	**126**	134	130	80	110
Taxation (benefit) charge	**86**	47	(1)	(5)	(17)
Special items losses (gains)	**52**	(70)	(34)	192	(42)
Operating profit excluding special items	**366**	313	91	83	146
Depreciation and amortisation	**374**	375	392	424	410
EBITDA excluding special items	**740**	688	483	507	556

(1) In compliance with the U.S. Securities Exchange Commission (SEC) rules relating to 'Conditions for Use of Non-GAAP Financial Measures', we have reconciled EBITDA excluding special items to net profit rather than operating profit. As a result our definition retains minority interest as part of EBITDA excluding special items.

Operating profit excluding special items represents earnings before interest (net finance costs), taxation and special items. Net finance costs includes: gross interest paid; interest received; interest capitalised; net foreign exchange gains; and net fair value adjustments on interest rate financial instruments. See the group income statement for an explanation of the computation of net finance costs. Special items cover those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items would generally include profit and loss on disposal of property, investments and businesses, asset impairments, restructuring charges, financial impacts of natural disasters and non-cash gains or losses on the price fair value adjustment of plantations.

EBITDA excluding special items represents operating profit before depreciation, amortisation and special items.

We use both operating profit excluding special items and EBITDA excluding special items as internal measures of performance to benchmark and compare performance, both between our own operations and as against other companies. Operating profit excluding special items and EBITDA excluding special items are measures used by the group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We believe they are useful and commonly used measures of financial performance in addition to net profit, operating profit and other profitability measures under IFRS because they facilitate operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortisation methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe both operating profit excluding special items and EBITDA excluding special items can provide a useful additional basis for comparing the current performance of the operations being evaluated. For these reasons, we believe operating profit excluding special items and EBITDA excluding special items and similar measures are regularly used by the investment community as a means of comparison of companies in our industry. Different companies and analysts may calculate operating profit excluding special items and EBITDA excluding special items differently, so making comparisons among companies on this basis should be done very carefully. Operating profit excluding special items and EBITDA excluding special items are not measures of performance under IFRS and should not be considered in isolation or construed as a substitute for operating profit or net profit as indicators of the company's operations in accordance with IFRS.

(2) Net of treasury shares (refer note 17).

(3) The dividends for all the financial years were declared subsequent to year end.

** The financial results of the group have from the beginning of the 2005 financial year been prepared in accordance with International Financial Reporting Standards. Figures prior to 2005 prepared in accordance with SA GAAP have not been restated to comply with International Financial Reporting Standards.*

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

**** The year ended September 2005 included 53 weeks.*

Share statistics

at September 2008

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares*	% of shares in issue
1 – 5,000	5,188	85.7	2,649,472	1.2
5,001 – 10,000	180	3.0	1,309,917	0.6
10,001 – 50,000	317	5.2	7,521,414	3.3
50,001 – 100,000	117	1.9	8,492,024	3.7
100,001 – 1,000,000	212	3.5	45,892,506	20.0
Over 1,000,000	39	0.7	163,299,898	71.2
	6,053	100.0	229,165,231	100.0

Shareholder spread – type of shareholder	% of shares in issue
Non-public	0.02
Group directors	0.02
Associates of group directors	–
Trustees of the company's share and retirement funding schemes	–
Shareowners who, by virtue of any agreement, have the right to nominate board members	–
Shareowners interested in 10% or more of the issued shares	–
Public (the number of public shareholders as at September 2008 was 6,051)	99.98
	100.00

* *The number of shares excludes 9,906,661 treasury shares held by the group.*

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

A large number of shares are held by nominee companies for beneficial shareholders. Pursuant to Section 140A of the South African Companies Act, 1973, as amended, the directors have investigated the beneficial ownership of shares in Sappi Limited including those which are registered in the nominee holdings and these investigations revealed as of September 2008 the following beneficial holders of more than 5% of the issued share capital of Sappi Limited:

	Shares	%
Public Investment Commissioner (SA)	26,156,661	11.4
Industrial Development Corporation (SA)	15,420,620	6.7

Further, as a result of these investigations, the directors have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of September 2008, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

	Shares	%
Allan Gray Limited	55,177,014	24.1
Old Mutual Investment Group South Africa	25,185,015	11.0
Rand Merchant Bank	16,545,506	7.2

Share statistics

for the year ended September 2008

Share statistics		**September 2008**	September 2007	September 2006	September 2005	September 2004
Ordinary shares in issue (millions)**		**229.2**	228.5	227.0	225.9	226.5
Net asset value per share (US cents)		**700**	795	611	703	952
Number of shares traded (millions)						
JSE		**241.58**	246.95	252.60	264.70	304.25
New York		**51.04**	49.81	57.60	83.60	51.56
Value of shares traded						
JSE (ZAR million)		**22,623.4**	27,983.7	20,946.0	20,035.7	28,608.9
New York (US$ million)		**634.3**	770.8	715.0	999.4	707.1
Percentage of issued shares traded		**127.7**	129.9	136.7	154.2	157.1
Market price per share						
– year end	JSE (South African cents)	**8,000**	10,450	10,029	7,475	9,040
	New York (US$)	**10.00**	15.30	12.73	11.79	14.11
– highest	JSE (South African cents)	**12,100**	14,150	10,100	9,550	10,450
	New York (US$)	**15.79**	19.84	15.40	15.50	16.13
– lowest	JSE (South African cents)	**7,165**	9,425	6,105	5,780	7,720
	New York (US$)	**9.10**	12.48	9.46	9.14	12.60
Earnings yield (%)*		**9.49**	5.39	negative	1.70	3.06
Dividend yield (%)*		**1.61**	2.10	2.33	2.56	2.13
Price/earnings ratio (times)*		**10.54**	18.55	negative	58.70	32.70
Total market capitalisation (US$ million)*		**2,271**	3,475	2,928	2,652	3,185

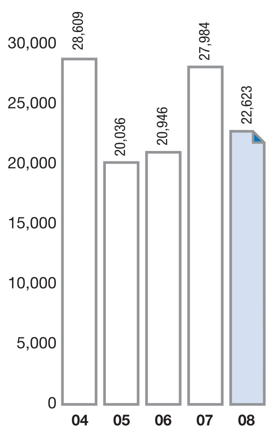
* *Based on financial year end closing prices on the JSE Limited. Income statement amounts have been converted at average year-to-date exchange rates.*

** *The number of shares excludes 9,906,661 treasury shares held by the group.*

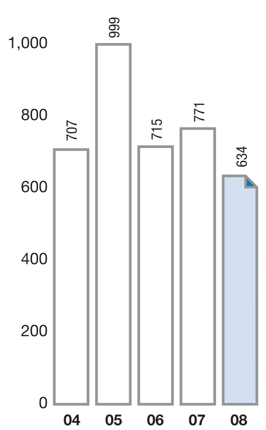
Sappi is also listed on the London Stock Exchange however the shares are traded infrequently and that is why the LSE statistics have not been presented above.

Note: *Definitions for various terms and ratios used above are included in the glossary on page 188.*

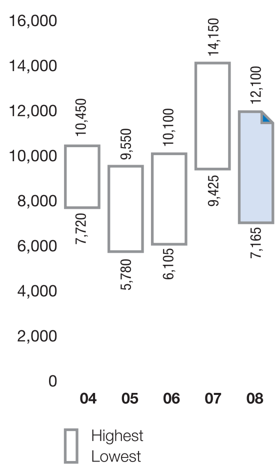
Value of Sappi shares traded on the JSE Limited (ZAR million)



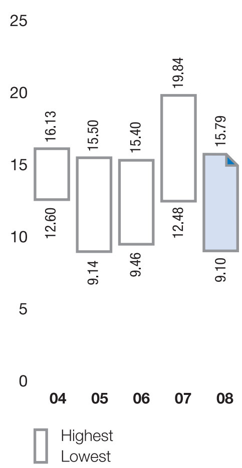
Value of Sappi ADRs traded on the New York Stock Exchange (US$ million)

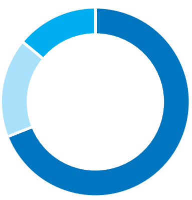


Sappi share price
(SA cents per share)



Sappi ADR price
(US$ per share)





Geographic ownership*

- 69% South African investors
- 17% North American investors
- 14% European investors and the rest of the world

** As at September 2008*

Corporate governance

We are committed to the highest standards of corporate governance and continue to seek areas of improvement by measuring ourselves against international best practice.

The group endorses the Code of Corporate Practices and Conduct as contained in the South African King II Report issued in 2002, and continues to apply the principles incorporated therein. The group maintains its primary listing on the JSE Limited as well as listings on the New York and London Stock Exchanges. The group complies in all material aspects with the regulations and codes of these exchanges as they apply to Sappi.

Summary

The following table provides a summary of how we have implemented corporate governance. Discussed are the seven characteristics of good governance (King II report) and certain selected international best practices (from the King II report and other sources). Full disclosure is provided on the areas where the board has applied these standards differently. The board believes that in certain circumstances this is justified when this is in the best interest of the group and the principles of good governance are balanced.

Element/best practice	Sappi application/comments
Discipline	
Clear and comprehensive board charter approved by the board	The charter sets out powers, responsibilities, functions, delegation of authority, and the areas of authority expressly reserved for the board. The current charter was reviewed in 2008 as part of our continuous improvement efforts. A copy is available on the company website www.sappi.com
In terms of the board charter, the board should meet five times per year (at least once per quarter).	The board met eight times during the year
Changes to the governance structure and compliance thereto subject to discussion at Annual General Meeting	The financial statements, including our report on Corporate Governance, as well as the appointment of directors, their remuneration and resolutions related to issuance of and re-purchase of shares are submitted to the Annual General Meeting of shareholders for approval. Refer to page 191 for the notice to shareholders
Transparency	
Clear disclosure of strategies, objectives and corporate governance.	A summary of the Sappi Limited strategy and how we measure our progress is available in the annual report and on the company website www.sappi.com. Both the progress against these objectives as well as our corporate governance are fully disclosed in this annual report. A disclosure committee comprising management from various fields of expertise is responsible for reviewing financial reporting disclosures
Fees for non-executive directors should be submitted to the shareholders in general meeting for approval	Refer to page 191 for the notice to shareholders which sets out the proposed fees for 2008/2009
Full disclosure of directors' remuneration and additional information concerning incentive schemes for senior management	For a full disclosure refer to note 34 'Directors Remuneration'. Information concerning the management incentive scheme and share incentive scheme can be found under the compensation report on pages 70 to 71

Element/best practice	Sappi application/comments
Stakeholder communication	The investor relations department as well as the corporate communications department maintain regular contact with relevant stakeholders and utilises the company website www.sappi.com as a means of distributing relevant information. Stakeholders can also contact Sappi directly via a contact form on the company website. Refer to the sustainability report on pages 6 to 9 for further description of our communication efforts
Independence	
Given the strategic operational role of the chief executive officer, this function should be separate from that of the chairperson of the board.	The role of chief executive officer is held by Mr Ralph Boëttger. This role is separate separate from the chairperson of the board
Audit committee should consist of independent board members. Remuneration committee should consist of mainly non-executive members	The audit committee and the compensation committee both consist entirely of independent non-executive directors
Majority of independent board members	11 of the 13 board members are independent
The chairperson should preferably be an independent non-executive director	The chairperson of the board is Dr Danie Cronjé, an independent, non-executive director. Dr Cronjé took over the chairperson responsibilities following Mr Eugene van As' retirement from the board at the AGM in March 2008
Accountability	
Effective subcommittees to assist the board	To manage its workload, the board has appointed sub-committees with the specific objective of evaluating key areas of business performance, in particular governance, on a more detailed basis and to report to the board regularly on any issues that might arise although it is understood that delegation of responsibilities to sub-committees does not relieve the board of its ultimate responsibility for the affairs of the company. The following board committees have been appointed to deal with specific subjects: • Nomination and governance committee • Audit committee • Compensation committee • Human resources committee In addition, a number of management committees have been formed to assist the chief executive officer in the discharge of his responsibilities: • Sustainability council • Treasury committee • Executive management committee • Technical committees • Disclosure committee • Group risk management team
Performance related elements should constitute a substantial portion of the total remuneration policy	A significant portion of the remuneration of the executive directors and senior management consists of a performance bonus and awards in terms of the Sappi Limited Performance Share Incentive Scheme to align their objectives with those of stakeholders. Refer to pages 174 to 180 for details of these incentive schemes

Element/best practice	Sappi application/comments
Accountability	
Board and director evaluations	The board, through the nomination and governance committee, performs regular self evaluations of its committees and the contribution of each individual director. The composition and effectiveness of the board and its committees form part of this evaluation
The board should regularly review processes and procedures to ensure the effectiveness of the group's internal systems of control, so that its decision-making capability and the accuracy of its reporting are maintained at a high level at all times	This review is primarily the role of the audit committee, refer to the further disclosure disclosure on its activities in this section
Responsibility	
Risk management: the board must identify key risk areas and monitor effectiveness of the risk management process	A management committee is responsible for the implementation of risk management. The board monitors the overall process of risk management in conjuction conjunction with the audit committee
Induction and training of directors	Induction programmes are tailored for each individual director on appointment as a director and continued individual training is available thereafter
Terms should not exceed three years	Directors retire by rotation at least every three years
Skills, experience and background	Prior to the nomination of all candidates to the board, the nomination and governance committee considers the skills, experience and background of such candidates in order to ensure an appropriate balance to the composition of the board
Fairness	
Equal rights for shareholders and other stakeholders	Each shareholder has the right to one vote for each share held. The interests of minority shareholders are protected in law and in the regulations of the stock exchanges on which Sappi Limited is listed
Every listed company should have a practice regulating dealings in its securities by directors, officers and other selected employees	An approved policy has been implemented
Whistle blowing	'Hotlines' are available for all our employees to report anonymously on environmental, safety, ethics, accounting, auditing, control issues or other concerns
Social responsibility	
Sustainability report	The group's sustainability management programme and activities are covered in a separate Sustainable Development report which will be issued simultaneously with this annual report. Also see pages 6 to 9 of this report

The board of directors

The basis for good governance at Sappi is laid out in the charter for the board of directors as published on the company website www.sappi.com. This charter sets out the role of the board and its committees, guidelines and internal rules for board and board committee composition, frequency of meetings, annual work plans and evaluations of board and board committee and compliance with board policies. It also specifically defines the roles of the chairman and chief executive officer.

The board currently comprises two executive and eleven independent, non-executive directors, who collectively determine major policies and strategies. The non-executive directors do not derive any benefits from the company for their services as directors other than their fees. The business experience and expertise of the non-executive directors enable them to evaluate strategy and to act in the group's best interest, and to provide a check and balance to the executive directors.

The composition of the board, its sub-committees and attendance at meetings, including by teleconference and videoconference, is summarised in the following table:

			Board committees							
Name	Status	Board	Audit committee		Nomination and governance		Compensation		Human resources	
R Boëttger	chief executive officer	8/8	B	7/7	B	6/6	B	4/4		
M R Thompson	chief financial officer	8/8	B	7/7						
E van As[1]	non-executive, chairman	3/3			√	4/4			√C	1/1
D Cronjé[2]	independent non-executive, chairman	7/7	B	3/3	√	3/3	B	4/4	√C	1/1
D C Brink	senior independent non-executive	8/8	√	6/7	√	6/6	√C	4/4		
M Feldberg	independent non-executive	6/8			√C	6/6	√	4/4		
J E Healey	independent non-executive	8/8	√	7/7					√	2/2
D Konar	independent non-executive	7/8	√C	7/7					√	2/2
H C Mamsch	independent non-executive	8/8	√	6/7			√	4/4		
J McKenzie	independent non-executive	8/8					√	4/4		
K R Osar[3]	independent non-executive	8/8	√	6/6						
B Radebe	independent non-executive	8/8							√	2/2
A N R Rudd[4]	independent non-executive	6/8			√	3/3	√	4/4		
F A Sonn	independent non-executive	7/8			√	6/6				

1) E van As retired as chairman of the board at the AGM in March 2008.
2) Dr D Cronjé took over chairman of the board responsibilities at the March 2008 AGM as well as being appointed to the nomination and governance and human resources committees.
3) K R Osar was appointed to the audit committee in November 2007.
4) A N R Rudd was appointed to the nomination and governance committee in February 2008.

√ indicates board committee membership, C indicates board committee chairman and B indicates attendance by invitation. The figures in each column indicate the number of meetings attended out of the maximum possible number of meetings.

Induction and training of directors

Following appointment to the board, directors receive a comprehensive induction tailored to their individual needs. This includes meetings with senior management to enable them to build up a detailed understanding of the group's business and strategy, and the key risks and issues that it faces. During the year the new chairman of the board followed an in-depth induction programme, which involved presentations and site visits to major operations as well as meetings with fellow directors and executive management. The company secretary arranges induction training for the new independent non-executive directors, where appropriate. Additional training is available so that directors can suitably update their skills and knowledge as appropriate.

Board committees

The board has established sub-committees to assist it to properly discharge its duties. These sub-committees operate within written terms of reference set by the board. Each committee performs an annual self-assessment. The board sub-committees are as follows:

Audit committee

The audit committee was established in 1984 and assists the board in discharging its duties relating to the:

- safeguarding of assets;
- oversight role for the risk management function;
- operation of adequate systems, and control processes;
- reviewing of financial information and the preparation of accurate financial reporting in compliance with all applicable legal requirements and accounting standards;
- oversight of the external auditors' qualifications, experience and independence;
- oversight of the performance of the internal and external audit functions; and
- monitoring of compliance with applicable external legal and regulatory requirements.

In terms of the South African Corporate Laws Amendment Act, which came into effect during the financial year, the audit committee is required to perform certain duties, including the nomination for appointment of an independent auditor and the determination of the independence of the auditor. The audit committee monitors the qualifications, expertise, resources and independence of both the internal and external auditors and assesses annually the auditors' performance and effectiveness. The audit committee approves the external auditor's engagement letter, nature and scope of the audit and the audit fee. The audit committee can confirm that it is satisfied with the independence of the external auditor for the 2008 financial year. The audit committee oversees the financial reporting process and is concerned with compliance with accounting policies, group policies, legal requirements and internal controls within the group. It reviews compliance with the group's code of ethics and ensures facilities are in place to enable employees to submit concerns confidentially or anonymously, and ensures independent investigations are conducted where necessary. The audit committee consists of five independent, non-executive directors and has satisfied its responsibilities for the year in terms of the mandate. The adequacy of the mandate is reviewed and reassessed annually and several changes were made during 2008 to accommodate requirements of the Corporate Laws Amendment Act. The audit committee meets with senior management, which includes the chief executive officer and the chief financial officer, at least four times a year. The external and internal auditors attend these meetings and have unrestricted access to the committee and its chairman. The external and internal auditors meet privately with the audit committee on a regular basis. The audit committee chairman is available at the annual general meeting. Regional committees exist in the three major regions and are chaired by independent non-executive directors. These committees have a mandate from the group's audit committee, to whom they report on a regular basis and they meet at least four times per year. These regional committees assist the Sappi Limited audit committee in the discharge of its duties, particularly as regards the requirements of the Corporate Laws Amendment Act, such as the review of the performance, independence and effectiveness of the auditors as well as the review of the financial information and systems of internal controls of all major operations throughout the group. Dr D Konar has been designated as the audit committee financial expert as required by the Sarbanes-Oxley Act of 2002.

Human resources committee

The responsibilities of the Human resources committee are, inter alia, to determine the group's human resource policy and strategy, assist with the hiring and setting of terms and conditions of employment of executives, the approval of retirement policies and succession planning for management and the chief executive officer as well as employment equity and transformation in South Africa. The human resources committee consists of three independent non-executive directors and the independent non-executive chairman of the group (who serves as chairman of the committee).

Management representation at meetings is by way of invitation and not as members of the committee. This representation includes the chief executive officer of the group as well as the group head of human resources.

Compensation committee

The compensation committee ensures that the compensation philosophy and practices of the group are aligned to the strategy and performance goals. It reviews and agrees compensation of executive directors and senior executives. It also reviews and agrees executive proposals on the compensation of non-executive directors for approval by the Board and ultimately by shareholders. The compensation committee consists of five independent non-executive directors (one of whom serves as chairman). Directors' emoluments are disclosed in the notes 34 to 36 of the group annual financial statements.

Management representation at meetings is by way of invitation and not as members of the committee. This representation includes the chief executive officer of the group as well as the group head of human resources. For further details on compensation and management incentives at Sappi please refer to the Compensation report on pages 70 to 71.

Nomination and governance committee

The nomination and governance committee considers the leadership requirements of the group and identifies and nominates suitable candidates for appointment to the board for board and then shareholders' approval. It reviews the composition of the board and performs regular self evaluations of the board and the various board committees. This evaluation includes board members' individual as well as collective contributions and performance. The committee makes appropriate recommendations to the board based on these evaluations, at least annually. A policy detailing the procedures for appointments to the board is in place. The committee makes recommendations on corporate governance practices and disclosures for Sappi and reviews compliance with corporate governance requirements. The nomination and governance committee consists of five independent non-executive directors (one of whom serves as chairman). The chief executive officer is invited to meetings of the committee.

Management committees

Responsibility for the day to day management of the group has been assigned by the board to the chief executive officer. To assist the chief executive officer in discharging these duties, a number of management committees have been formed.

Sustainability council

A sustainability council has been constituted as a management committee consisting of senior executive and corporate management representatives (human resources, risk, financial, technical, legal, communications and regional environmental specialists), as well as one non-executive director. The council oversees and provides direction to management's responsibilities regarding sustainable development, risk management and occupational health and safety.

Sappi strives to be a trustworthy and valuable corporate citizen. Making appropriate social investment and managing the impact on the environment are an integral part of sound corporate governance. Sappi is committed to promoting a racially, culturally and ethnically diverse workplace. Sappi promotes fair employment practices and complies with employment equity legislation in the countries in which we operate. The group encourages open dialogue, employee participation and a culture of engagement with all our stakeholders.

A separate sustainability review is included on pages 6 to 9.

Please also refer to our 2008 Sustainable Development Report available on request or at www.sappi.com.

Executive committee

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

Disclosure committee

This committee comprises members of the executive committee and senior management from various disciplines whose objective is to review and discuss any financial information prepared for public release.

Treasury committee

The treasury committee is an advisory body to the chief financial officer for Sappi's treasury activities and operations. The committee meets every second week. The committee comprises senior financial and treasury managers. The responsibility of the committee is to review and discuss treasury related matters.

Technical committees

A number of technical committees have been established which focus on global technical alignment, performance and efficiency measurement as well as new product development. Knowledge generated is rapidly transferred between regions through the technical committees who help to ensure that areas of development are targeted, projects are correctly resourced and global shuts are properly planned.

Group risk management team

The board recognises that risk management success can only be achieved if all three elements of risk, namely threat, uncertainty and opportunity, are recognised and managed in an integrated fashion. The Group Risk Management Team is mandated by the Sappi Limited board to establish, coordinate and drive the risk management process throughout Sappi. It has established a comprehensive risk management system to identify and manage significant risks. A full report on Sappi's risk management can be found on pages 40 to 42.

Financial statements

The directors are responsible for overseeing the preparation and final approval of the group annual financial statements. The auditors are responsible for auditing the group annual financial statements and expressing an opinion thereon. While management is responsible for the preparation of the annual financial statements, the directors have overall responsibility to ensure that suitable accounting policies, supported by reasonable and prudent judgements and estimates, are used in the preparation of the annual financial statements, which fairly present in all material respects the state of affairs of the group.

The directors are responsible for determining that appropriate accounting standards have been applied and adequate accounting records have been maintained. The directors also oversee the appropriate adoption of the going concern basis in preparing the annual financial statements, based on the historic financial performance of the group, the ready access to financial resources and financial forecasts. The group's results are reviewed prior to submission to the board as follows:

- All four quarters and financial year end – by the disclosure committee and audit committee; and
- Interim and final quarters – by the group's external auditors.

Internal controls

The board is responsible for the group's systems of internal financial and operational control. The group's internal controls and systems are designed to provide reasonable assurance as to the integrity and reliability of external financial reports, that assets are adequately safeguarded against material loss and that transactions are properly authorised and recorded. Such controls are based on established written policies and procedures which are monitored throughout the group and are applied by trained, skilled personnel with an appropriate segregation of duties through clearly defined lines of accountability and delegation of authority. The control system includes comprehensive reporting and analysis of actual results against approved standards and budgets. All employees are required to maintain the highest ethical standards in ensuring that the company's business practices are conducted in a manner which in all reasonable circumstances is above reproach. As part of an ongoing process, reviews were undertaken across the group of the effectiveness of various elements of the group's internal controls, procedures and systems. Where potential improvements are identified, they are being addressed. The reviews enabled management to further strengthen the group's controls and the results of the reviews did not indicate any material breakdown in the functioning of these controls, procedures and systems during the year under review. A material breakdown is defined as a critical weakness in process or financial systems which could result in a material loss, contingency or uncertainty requiring disclosure in the published annual financial statements. Section 404 of the US Sarbanes-Oxley Act requires companies listed on the NYSE to complete a comprehensive evaluation and report on the effectiveness of their internal controls over financial reporting. Sappi has conducted its third evaluation at the end of fiscal 2008 and will include its section 404 report in its Form 20-F to be filed with the United States Securities and Exchange Commission.

Disclosure controls

Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the group in the reports that it files or submits is accumulated and communicated to the group's management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. The group has implemented disclosure controls and procedures as deemed appropriate by management. The disclosure committee meets to review all Sappi Limited external financial reports prior to their release. On occasion, these meetings are held jointly with the audit committee.

Internal audit

The group's internal audit department has a current complement of 20 persons, of which 15 are experienced and qualified and five are in training. It has a specific mandate from the audit committee and independently appraises the adequacy and effectiveness of the group's systems, financial internal controls and accounting records, reporting its findings to local and divisional management, the external auditors as well as the respective audit committees. The head of internal audit reports to the audit committee on a functional basis and to the chief financial officer on a daily operational basis and has direct access to the chief executive officer. The internal audit coverage plan is based on a risk assessment performed for each operating unit. This incorporates risks identified by management during the group risk assessment process as well as the results of audit work performed. This process ensures that the audit coverage is focused on identified high risk areas. During 2008 internal audit focused on expanding the IT audit scope to provide additional assurance to management in the IT security audit area, application control reviews and forensic IT audit. Internal Audit also started to focus more resources on operational audits and the inclusion of the top risks per region in the determination of the audit coverage plan. Internal audit meets privately with the audit committee and individual board members on a regular basis. The report submitted by Internal Audit to the audit committee includes amongst other things an overview of hotline allegations and forensic activities, a summary of potentially significant control issues identified, audit risk assessments, audit coverage plans, actual performance against planned activities, the periodic evaluation of the system of internal controls and details of any scope restrictions as well as audit resource developments.

Company secretary

All directors have access to the advice and services of the company secretary and are entitled and authorised to seek independent and professional advice about affairs of the group at the group's expense. The company secretary is responsible for the duties set out in section 268G of the South African Companies Act of 1973. Specific responsibilities include the provision of guidance to directors as to how to discharge their duties in the best interests of the company as well as arranging for the induction of new directors.

Code of ethics

Sappi requires its directors and employees to act with the utmost good faith and integrity in all transactions and with all stakeholders with whom they interact. This commitment is reflected in the group's code of ethics that commits the company and employees to sound business practices and compliance with legislation. ('Hotlines') have been implemented for all the regions in which the group operates. This service, operated by various independent companies, enables employees to report anonymously; environmental, safety, ethics, accounting, auditing, control issues or other concerns. All reported matters are followed up by group internal audit, resolved appropriately and reported to the audit committee. Of all complaints reported to the hotlines since inception none included fraudulent financial reporting. As the company is listed on the NYSE and has securities registered under the US Securities Exchange Act of 1934, it is subject to the US Foreign Corrupt Practices Act (FCPA). The company has ensured that all aspects of the FCPA have been addressed in its policies.

As part of continuous improvement the company completed a review of the wording of the code and communicated a new and revised version to all employees during 2008. The revised code is also available on the company website.

Legal compliance programme

A legal compliance programme designed to increase awareness of, and enhance compliance with, applicable legislation is in place. This programme involves the delegation of responsibility for compliance with country specific legislation to designated people throughout the organisation and includes a quarterly self-assessment process. The self-assessment process includes a review of any changes in legislation and the impact of these changes on the business. The group compliance officer reports quarterly to the group audit committee.

Information technology (IT) governance

The need for strong IT governance has been recognised within Sappi and as such the group is actively involved in reviewing its IT governance structures. IT governance represents one of the pillars of the IT strategy and Sappi adheres to industry recognised best practices as laid down by the IT governance Institute and more specifically the new standard for governance ISO/IEC 38500.

Interest in contracts

The group has a policy regulating disclosure of interest in contracts. The policy dictates that all employees disclose any interest in contracts to assess any possible conflict of interest. The policy also dictates that directors and senior officers of the group must disclose any interest in contracts as well as other appointments to assess any conflict of interest in fiduciary duties. During the year under review, save as disclosed in the financial statements, no directors had a significant interest in any material contract or arrangement entered into by the company or its subsidiaries.

Insider trading

The company has a code of conduct for dealing in company securities. No employee of Sappi in possession of material non-public information in respect of Sappi Limited or any of its subsidiaries, nor any member of his/her family or household may, at any time, buy or sell securities of Sappi Limited or its subsidiaries, or engage in any other action to take advantage of such information. All officers, directors and employees who have access to unpublished price-sensitive information are precluded from trading in Sappi Limited securities during 'closed periods', which apply from the end of the financial quarters in March, June, September and December respectively, until two full business days after the release of the results for the respective quarters. Prior to dealing in Sappi Limited securities (even outside closed periods); clearance is required from the Sappi Limited chairman through the Sappi Limited group secretary. In practice, the chairman clears the transactions of directors of Sappi Limited and its subsidiaries and the chairman himself requires the clearance of the audit committee chairman for his own transactions.

Fraud and illegal acts

The group does not engage in or accept or condone the engaging in of any illegal acts in the conduct of its business. The directors' policy is to actively pursue and encourage prosecution of perpetrators of fraudulent or other illegal activities should they become aware of any such acts. The group has implemented hotlines to facilitate reporting any fraudulent, illegal acts or unethical behaviour which are externally managed and administered.

Communication

The board is responsible for presenting a balanced and understandable assessment of the company's position in reporting to stakeholders. The reporting addresses material matters of significant interest and is based on principles of openness and substance over form. We recognise that the reporting and communication is made in the context that society now demands greater transparency and accountability from companies regarding non-financial matters. The board strives to ensure that reports present a comprehensive and objective assessment of the activities of the company so that stakeholders with a legitimate interest in the company's affairs can obtain full, fair and honest information regarding its performance. The board takes cognisance of the communities in which it operates when communicating to its stakeholders. For further details of our communication activities please refer to the sustainability report on page 6 to 9.

Compensation report

Compensation committee

Sappi has a dedicated board committee that determines governance of compensation matters, group compensation philosophy, compensation of executive directors and other senior managers as well as the compensation of non-executive directors which is approved by the board and ultimately by the shareholders.

The compensation committee meets twice a year and holds special meetings on an ad hoc basis when necessary. Attendance at these meetings is set out in the Corporate Governance section on page 65. The committee comprises five independent non-executive directors (one of whom serves as a chairperson).

Members of the committee during fiscal 2008 were Mr D C Brink (chairman); Prof M Feldberg; Mr H C Mamsch; Mr J D McKenzie and Sir A N R Rudd.

At the invitation of the committee, Dr D C Cronjé (group chairman), Mr R J Boëttger (group chief executive officer) and Ms L Swartz (group head human resources) attended meetings except where matters pertaining to their own compensation were considered. Mr D J O'Connor (group company secretary) also attended meetings by invitation.

Compensation committee mandate

The compensation committee is responsible for:

- Ensuring that the compensation philosophy and practices of the group are aligned to the strategy and performance goals;
- Reviewing the compensation of company directors and senior executives to ensure that they are fairly rewarded based on their performance and contribution to the company's overall performance and that the compensation packages are market related;
- Satisfying shareholders that the senior executive compensation is set by a committee of board members who are independent and who will give due regard to the interests of the shareholders and to the financial and commercial health of the group;
- Reviewing and agreeing of proposals (submitted by the group executive committee) on the fees and benefits of non-executive directors, including reference to external benchmarks, and to make recommendations to the board.

Compensation philosophy

Underpinning our compensation practices is a philosophy that is based on the following principles:

- Reward people fairly and equitably in relation to job levels, experience and the employment market;
- Achieve competitive compensation levels, which enables the group to attract and retain talented individuals;
- Align the interests of management with those of the group's shareholders;
- Implement a globally consistent pay philosophy with regional application to local market practices.

Our compensation practice aims to meet the following objectives:

- Attract, retain and motivate high calibre employees at all levels;
- Reward individuals and teams for their contribution and performance that delivers on the business objectives;
- Encourage behaviour which is linked to the six core Sappi Leadership Competencies (leading others, strategic thinking, operational delivery, driving change, commercial insight and self-awareness) and/or group values (excellence, integrity and respect).

Compensation structures

Our compensation structures comprise of fixed and variable components:

Fixed pay:	base salary and benefits
Variable pay:	annual performance bonus and long-term share incentive programmes

Base salary

Base salary is targeted at the median of the market for comparable roles in companies of similar size. Market data is used to benchmark salary levels and to inform decisions on base salary changes. Salaries are reviewed annually and an individual's performance is a key consideration.

Retirement benefits

Across the group and based on the location, employees are offered membership in a defined benefit or a defined contribution fund.

In certain European jurisdictions, retirement benefits are provided by the state through the social security system. The design of both the defined benefit and contribution schemes in Europe takes into account these social security benefits when determining the contribution tables and final pensions earned.

Contributions to plans are either contributory or non-contributory. A number of defined benefit plans in the group have been closed to new entrants. Employees who participate in these legacy defined benefit plans continue to accrue benefits in such plans.

Other benefits

These include benefits such as medical insurance, death and disability insurance, vehicle benefits, leave and recognition for service, and are applied where applicable in respective regions and employee categories.

Variable pay

- **Short-term incentives**

  Executive directors and other key management personnel throughout the group participate in an annual management incentive scheme.

  Incentive target awards range from 15% to 85% of base salary.

  The key business performance criteria for the 2008 financial year were operating income, working capital and capital expenditure.

  All other employees participate in either sales incentive plans, performance bonus schemes or receive discretionary bonuses or a thirteenth cheque payment.

  Payments in terms of short-term incentives are dependent upon achievement of the business performance targets or production/sales targets being met or exceeded in addition to an employee's individual performance.

- **Long-term incentive programmes**

  The group operates two long-term incentive programmes: the Sappi Share Incentive Scheme and the Performance Share Incentive Plan.

  For 2008, executive directors and other key management personnel received share allocations under the Performance Share Incentive Plan. All other employees who are eligible to participate in the share scheme received share options under the Share Incentive Scheme.

  Long-term incentives are intended to be a key retention tool.

  Details of The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Plan can be found in note 29 on page 144.

- **Service contracts and notice provisions**

  The group chief executive officer and his direct reports all have employment contracts which outline the required notice periods in the event of a termination of employment.

  The notice terms vary from six months to 18 months, and include base salary plus benefits, for that period.

Annual financial statements

for the year ended September 2008

Auditor's report

Independent auditor's report to the members of Sappi Limited

We have audited the group annual financial statements of Sappi Limited, which comprise the directors' report, the group balance sheet as at September 2008, the group income statement, the group statement of recognised income and expense and the group cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 75 to 81 and pages 85 to 180.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the group as at September 2008, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board, and in the manner required by the Companies Act of South Africa.

Deloitte & Touche
Per M J Comber
Partner

03 December 2008

Deloitte & Touche – Registered Auditors
Buildings 1 and 2, Deloitte Place
The Woodlands, Woodlands Drive, Woodmead Sandton
Johannesburg, South Africa

National Executive: G G Gelink Chief Executive A E Swiegers Chief Operating Officer G M Pinnock Audit D L Kennedy Tax & Legal and Financial Advisory L Geeringh Consulting L Bam Corporate Finance C R Beukman Finance T J Brown Clients & Markets N T Mtoba Chairman of the Board

A full list of partners and directors is available on request.

Directors' approval

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

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

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

The above statements were approved by the board of directors on 03 December 2008 and were signed on its behalf by:

R J Boëttger
chief executive officer

M R Thompson
chief financial officer

Sappi Limited

Secretary's certificate

In terms of section 268G(d) of the Companies Act of South Africa, I hereby certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies, for the financial year ended September 2008, all such returns as are required of a public company in terms of this Act and that such returns are true, correct and up to date.

Sappi Management Services (Pty) Limited
D J O'Connor
group secretary

03 December 2008

Directors' report
for the year ended September 2008

Your directors submit their report for the year ended September 2008.

Business of Sappi Limited (Sappi or the company) and its operating companies mentioned below (the group)

The group manufactures and sells a wide range of pulp, paper and wood products for use in almost every sphere of economic activity. The group conducts its business through two business units, namely:

- Sappi Fine Paper; and
- Sappi Forest Products.

Sappi Fine Paper has manufacturing and marketing facilities in Europe, North America, Southern Africa and Asia and produces mainly high quality branded coated fine paper. It also manufactures uncoated graphic and business paper, coated and uncoated specialities papers, and casting release paper used in the manufacture of artificial leather and textured polyurethane applications. Sappi Forest Products, based in South Africa, produces packaging paper and newsprint, pulp, chemical cellulose, and forest and timber products for Southern Africa and export markets. Sappi Trading operates a trading network for the marketing and distribution of chemical cellulose and market pulp throughout the world and of the group's other products in areas outside our core operating regions of North America, Europe and Southern Africa.

Reporting period

The group's financial period ends on the Sunday closest to the year end date and results are reported as if at the year end date.

International Financial Reporting Standards (IFRS)

As a South African company and in terms of the requirements of the JSE Limited (JSE), Sappi's financial reporting is based on IFRS as published by the International Accounting Standards Board (IASB).

Sappi no longer reconciles its reporting annually from IFRS to US GAAP. This follows a release by the US Securities Exchange Commission (SEC) on 21 December 2007 which allows Foreign Private Issuers to file Annual Financial Statements prepared under IFRS as issued by the IASB, without reconciliation to US GAAP.

The US Dollar is the major trading currency of the pulp and paper industry. The group reports its results in US Dollars in order to facilitate the understanding of the results.

Share capital

As at September 2008 the authorised and issued share capital of Sappi were as follows:

Authorised:	
325,000,000 ordinary shares of ZAR1 each	ZAR325 million
Issued:	
239,071,892 ordinary shares of ZAR1 each	US$28 million
Share premium	US$679 million

The authorised and issued share capital have been increased substantially subsequent to year end for purposes of funding the acquisition of M-real's coated graphic paper business announced on 29 September 2008. Further comprehensive details can be found in the Rights Offering Circular approved by the directors on 10 November 2008 and posted to qualifying shareholders on 24 November 2008.

Purchase of shares by a subsidiary

Through a wholly-owned subsidiary the Sappi group has to date acquired approximately 19.4 million Sappi shares – (treasury shares) on the open market of the JSE Limited for approximately US$186.7 million. This accords with Sappi's stated intention, announced on 9 November 2000, and the approval given at all subsequent annual general meetings of the company's shareholders, for a wholly owned Sappi subsidiary to acquire Sappi shares, if prevailing circumstances (including market conditions) so warrant. None of these shares were acquired during the 2008 financial year. Some of the treasury shares, have been, and will continue to be, utilised to meet the requirements of the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Trust from time to time. During the year, approximately 725,950 treasury shares were issued to participants of the Sappi Limited Share Incentive Trust for a consideration of approximately US$6.2 million. Refer to note 29 of the group annual financial statements for additional details relating to these treasury shares.

As the company is currently conducting a rights issue, it is unlikely that the company will seek approval for the purchase of Sappi shares in the foreseeable future.

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

During August 2008, Sappi announced the planned closures of the Blackburn mill and the Maastricht Mill's Paper Machine No 5. Further details can be found in note 9 of the group annual financial statements.

On 29 September 2008, Sappi announced the proposed acquisition of a substantial portion of M-real's coated graphic paper business (the transaction) for €750 million and that the transaction would be financed through a combination of equity, assumed debt, the cash proceeds from a rights offering and a vendor note.

On 3 November 2008, Sappi's shareholders approved the transaction and a rights offering to finance a portion of the transaction.

Following such approvals, Sappi has commenced a rights offering of 286,886,270 new ordinary shares at a subscription price of ZAR20.27 per new share. New shares will be issued at a ratio of six new shares for every five Sappi shares held. In connection with the rights offering, Sappi has entered into an underwriting agreement with two international banks.

Sappi has also to date obtained various regulatory approvals for the acquisition, including the approval of the competition authorities of the European Union. The transaction is expected to be consummated on 31 December 2008.

Financing

During the first half of fiscal 2008, Sappi Manufacturing (Pty) Ltd raised ZAR240 million in long term bank debt to fund a portion of the Saiccor expansion project. The average tenure of this debt at year end is 4.2 years.

Of the EUR600 million five-year revolving credit facility obtained in 2005, approximately EUR400 million remains unutilised and is considered as a strategic back-up line.

There have been no changes to the group's other long-term debt. Covenants on all international term debt are identical and long-term debt is supported by a Sappi Limited guarantee.

At the end of the financial year, Sappi's net debt had an average time to maturity of 5.7 years.

In the financial year, Sappi concluded no further interest rate swaps and, at year end, the ratio of gross debt at fixed and floating interest rates was 39:61.

There are no long-term debt repayments scheduled for the remainder of 2008 or 2009.

Dividends

The directors have declared a dividend (number 85) of 16 US cents per share (2007: 32 US cents) for the year ended September 2008. The record date for the dividend was 28 November 2008 and payment was made on 2 December 2008.

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

Sappi has in place two share-based incentive programmes. The first is The Sappi Limited Share Incentive Trust (the Scheme) which was approved by shareholders in March 1997, and which has been amended in certain respects from time to time. The second is The Sappi Limited Performance Share Incentive Trust (the Plan) which was approved by shareholders in 2005.

In approving the Plan, shareholders fixed the maximum number of shares which may be allocated in aggregate to the Scheme and the Plan at 19 million shares (equivalent to 7.9% of the shares currently in issue), subject to adjustment in case of any increase or reduction of Sappi's issued share capital on any conversion, redemptions, consolidations, sub-division and/or any rights or capitalisation issues of shares.

In connection with the rights offering, adjustments are made to outstanding grants to employees to address the dilution resulting from the change in the number of shares issued as a result of the rights offering.

Borrowing facilities

The group's net debt at September 2008 amounted to US$2.4 billion (September 2007: US$2.6 billion). The company's Articles of Association allow net borrowings of up to US$5.85 billion. Details of the non-current borrowings are set out in note 20 of the group annual financial statements.

Insurance

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

Fixed assets

The only major changes in the nature of the fixed assets of the group are as set out under note 9 in the group annual financial statements. There was no change to the group's policy relating to the use of fixed assets.

Litigation

We become involved from time to time in various claims and lawsuits incidental to the ordinary course of our business. We are not currently involved in legal proceedings which, either individually or in the aggregate, are expected to have a material adverse effect on our business, assets or properties (see note 26).

Directors and secretaries

The directors of Sappi Limited are set out below:

Executive directors:

Roeloff (Ralph) Jacobus Boëttger
Mark Richard Thompson

Non-executive directors:

Daniël (Danie) Christiaan Cronjé (chairman)
David Charles Brink
Meyer Feldberg
James Edward Healey
Deenadayalen (Len) Konar
Helmut Claus-Jürgen Mamsch
John (Jock) David McKenzie
Karen Rohn Osar
Bridgette Radebe
Sir Anthony Nigel Russell Rudd
Franklin Abraham Sonn

During the year, Mr Eugene van As retired as chairman and as a director. Dr Danie C Cronje was appointed to the board during the year as an independent non-executive director and succeeded Mr Eugene van As as chairman in March 2008. In terms of the company's Articles of Association these appointments were confirmed at the annual general meeting held on 3 March 2008.

At the year end there were thirteen directors, two of whom were executive directors. All eleven non-executive directors are independent.

In terms of the company's Articles of Association, Mr D C Brink, Professor M Feldberg, Mr J E Healey and Mr H C Mamsch will retire by rotation from the board at the forthcoming annual general meeting and all being eligible, have offered themselves for re-election. The current directors have recommended them for re-appointment. Mr D C Brink turns 70 years of age during the course of 2009. His reappointment, if approved, will be for approximately nine months until 31 December 2009, when in terms of company policy, he will retire from the board. Likewise, Dr F A Sonn will turn 70 years of age in 2009. He will retire from the board on 31 December 2009.

The beneficial interests of directors in the shares of the company (including options and rights and options in terms of the Scheme and conditional share awards in terms of the Plan) are disclosed in notes 35 and 36 to the group annual financial statements.

A register of interests of directors and other executives in shares of the company is available to shareholders and the public on request.

The secretaries and their business and postal addresses are set out on page 195.

Special resolutions

A full list of the special resolutions passed by the company and its subsidiaries during the year will be made available to shareholders on request.

Subsidiary companies

Details of the company's significant subsidiaries are set out in Annexure A on page 187 of the condensed company financial statements.

Group income statement

for the year ended September 2008

US$ million	Note	**2008**	2007	2006
Sales		**5,863**	5,304	4,941
Cost of sales	4	**5,016**	4,591	4,419
Gross profit		**847**	713	522
Selling, general and administrative expenses	4	**385**	362	367
Other operating expenses (income)	4	**165**	(22)	29
Share of (profit) loss from associates and joint ventures	13	**(17)**	(10)	1
Operating profit	4	**314**	383	125
Net finance costs	5	**126**	134	130
Finance costs		**181**	173	162
Finance revenue		**(38)**	(21)	(26)
Finance cost capitalised		**(16)**	(14)	(2)
Net foreign exchange gains		**(8)**	(13)	(7)
Net fair value loss on financial instruments		**7**	9	3
Profit (loss) before taxation		**188**	249	(5)
Taxation charge (benefit)	6	**86**	47	(1)
Profit (loss) for the year		**102**	202	(4)
Weighted average number of ordinary shares in issue (millions)		**228.8**	227.8	226.2
Basic earnings (loss) per share (US cents)	7	**45**	89	(2)
Diluted earnings (loss) per share (US cents)	7	**44**	88	(2)
Dividends per share (US cents) – declared after year-end	8	**16**	32	30

Group balance sheet
at September 2008

US$ million	Note	2008	2007
Assets			
Non-current assets		**4,408**	4,608
Property, plant and equipment	9	**3,361**	3,491
Plantations	10	**631**	636
Deferred tax assets	11	**41**	60
Goodwill and intangible assets	12	**7**	7
Joint ventures and associates	13	**124**	112
Other non-current assets	14	**168**	165
Derivative financial instruments	30	**76**	137
Current assets		**1,701**	1,736
Inventories	15	**725**	712
Trade and other receivables	16	**698**	653
Derivative financial instruments	30	**4**	7
Cash and cash equivalents		**274**	364
Total assets		**6,109**	6,344
Equity and liabilities			
Shareholders' equity		**1,605**	1,816
Ordinary share capital and share premium	17,18	**707**	825
Non-distributable reserves	18,19	**124**	114
Foreign currency translation reserve	18	**(121)**	9
Retained earnings	18	**895**	868
Non-current liabilities		**2,578**	2,612
Interest-bearing borrowings	20	**1,832**	1,828
Deferred tax liabilities	11	**399**	385
Derivative financial instruments	30	**1**	15
Other non-current liabilities	21	**346**	384
Current liabilities		**1,926**	1,916
Interest-bearing borrowings	20	**821**	771
Overdraft		**26**	22
Derivative financial instruments	30	**24**	28
Trade and other payables		**959**	952
Taxation payable		**54**	125
Provisions	22	**42**	18
Total equity and liabilities		**6,109**	6,344

Group cash flow statement

for the year ended September 2008

US$ million	Note	**2008**	2007	2006
Cash retained from operating activities		**355**	388	160
Cash generated from operations	23.1	**623**	585	396
– Decrease (increase) in working capital	23.2	**1**	60	(17)
Cash generated from operating activities		**624**	645	379
– Finance costs paid	23.3	**(139)**	(183)	(164)
– Finance revenue received		**13**	21	26
– Taxation paid	23.4	**(70)**	(27)	(13)
Cash available from operating activities		**428**	456	228
– Dividends paid		**(73)**	(68)	(68)
Cash utilised in investing activities		**(494)**	(364)	(287)
Investment to maintain operations		**(239)**	(38)	(144)
– Replacement of non-current assets	23.5	**(250)**	(116)	(160)
– Proceeds on disposal of non-current assets	23.6	**7**	50	4
– Decrease in other non-current assets		**4**	28	12
Investment to expand operations		**(255)**	(326)	(143)
– Additions of non-current assets		**(255)**	(326)	(143)
Cash effects of financing activities		**49**	98	(21)
Proceeds from interest-bearing borrowings*		**2,077**	806	925
Repayment of interest-bearing borrowings*		**(2,032)**	(719)	(793)
Increase (decrease) in bank overdrafts		**4**	11	(153)
Net movement in cash and cash equivalents		**(90)**	122	(148)
Cash and cash equivalents at beginning of year		**364**	224	367
Translation effects		**–**	18	5
Cash and cash equivalents at end of year	23.7	**274**	364	224

* *Includes gross cash flows relating to ongoing short-term financing activities.*

Group statement of recognised income and expense
for the year ended September 2008

US$ million	**2008**	2007	2006
Pension fund assets recognised (not recognised)	**–**	45	(43)
Actuarial gains on pension and other post-employment benefit liabilities	**7**	101	100
Fair value adjustment on available for sale financial instruments	**–**	1	–
Deferred taxation on above items	**(1)**	(21)	(10)
Exchange differences on translation	**(262)**	151	(189)
Net (expense) income recorded directly in equity	**(256)**	277	(142)
Profit (loss) for the year	**102**	202	(4)
Total recognised (expense) income for the year	**(154)**	479	(146)

Group income statement in Rands convenience translation

for the year ended September 2008

	Unaudited		
ZAR million	**2008**	2007	2006
Sales	**43,559**	38,051	32,630
Cost of sales	**37,266**	32,936	29,183
Gross profit	**6,293**	5,115	3,447
Selling, general and administrative expenses	**2,860**	2,597	2,423
Other operating expenses (income)	**1,226**	(158)	192
Share of (profit) loss from associates and joint ventures	**(126)**	(72)	7
Operating profit	**2,333**	2,748	825
Net finance costs	**937**	962	858
Finance costs	**1,345**	1,241	1,069
Finance revenue	**(282)**	(151)	(172)
Finance cost capitalised	**(119)**	(100)	(13)
Net foreign exchange gains	**(59)**	(93)	(46)
Net fair value loss on financial instruments	**52**	65	20
Profit (loss) before taxation	**1,396**	1,786	(33)
Taxation charge (benefit)	**638**	337	(7)
Profit (loss) for the year	**758**	1,449	(26)
Weighted average number of ordinary shares in issue (millions)	**228.8**	227.8	226.2
Basic earnings (loss) per share (SA cents)	**334**	638	(13)
Diluted earnings (loss) per share (SA cents)	**327**	631	(13)
Dividends per share (SA cents) – declared after year end	**156**	209	220

Note:

The above financial results have been translated into ZAR from US Dollars using the exchange rates as set out in accounting policies note 2.2.1. The year end rate was used for translating assets and liabilities and the average rate for translating income, expenditure and cash flow items except for dividends which have been translated at the rate of exchange on the date of declaration. The translation was made solely for the convenience of the readers and is not defined in IAS 21. It should be noted that the translated ZAR figures from US Dollars do not necessarily represent that these US Dollar amounts could be converted into ZAR at the time when the transaction occurred.

Group balance sheet in Rands convenience translation

at September 2008

	Unaudited	
ZAR million	**2008**	2007
Assets		
Non-current assets	**35,594**	31,662
Property, plant and equipment	**27,140**	23,988
Plantations	**5,095**	4,370
Deferred tax assets	**331**	412
Goodwill and intangible assets	**57**	48
Joint ventures and associates	**1,001**	770
Other non-current assets	**1,356**	1,133
Derivative financial instruments	**614**	941
Current assets	**13,735**	11,928
Inventories	**5,854**	4,892
Trade and other receivables	**5,636**	4,487
Derivative financial instruments	**32**	48
Cash and cash equivalents	**2,213**	2,501
Total assets	**49,329**	43,590
Equity and liabilities		
Shareholders' equity	**12,961**	12,478
Non-current liabilities	**20,817**	17,947
Interest-bearing borrowings	**14,794**	12,561
Deferred tax liabilities	**3,222**	2,645
Derivative financial instruments	**8**	103
Other non-current liabilities	**2,793**	2,638
Current liabilities	**15,551**	13,165
Interest-bearing borrowings	**6,630**	5,298
Overdraft	**210**	151
Derivative financial instruments	**194**	192
Trade and other payables	**7,744**	6,541
Taxation payable	**436**	859
Provisions	**337**	124
Total equity and liabilities	**49,329**	43,590

Note:

The above financial results have been translated into ZAR from US Dollars using the exchange rates as set out in accounting policies note 2.2.1. The year end rate was used for translating assets and liabilities and the average rate for translating income, expenditure and cash flow items except for dividends which have been translated at the rate of exchange on the date of declaration. The translation was made solely for the convenience of the readers and is not defined in IAS 21. It should be noted that the translated ZAR figures from US Dollars do not necessarily represent that these US Dollar amounts could be converted into ZAR at the time when the transaction occurred.

Group cash flow statement in Rands convenience translation

for the year ended September 2008

		Unaudited	
ZAR million	**2008**	2007	2006
Cash retained from operating activities	**2,638**	2,783	1,057
Cash generated from operations	**4,586**	4,234	2,650
– Decrease (increase) in working capital	**7**	430	(112)
Cash generated from operating activities	**4,593**	4,664	2,538
– Finance costs paid	**(1,033)**	(1,313)	(1,083)
– Finance revenue received	**97**	151	172
– Taxation paid	**(520)**	(194)	(86)
Cash available from operating activities	**3,137**	3,308	1,541
– Dividends paid	**(499)**	(525)	(484)
Cash utilised in investing activities	**(3,669)**	(2,611)	(1,896)
Investment to maintain operations	**(1,775)**	(272)	(952)
– Replacement of non-current assets	**(1,857)**	(832)	(1,057)
– Proceeds on disposal of non-current assets	**52**	359	26
– Decrease in other non-current assets	**30**	201	79
Investment to expand operations	**(1,894)**	(2,339)	(944)
– Additions of non-current assets	**(1,894)**	(2,339)	(944)
Cash effects of financing activities	**364**	703	(138)
Proceeds from interest-bearing borrowings*	**15,431**	5,782	6,109
Repayment of interest-bearing borrowings*	**(15,097)**	(5,158)	(5,237)
Increase (decrease) in bank overdrafts	**30**	79	(1,010)
Net movement in cash and cash equivalents	**(667)**	875	(977)
Cash and cash equivalents at beginning of year	**2,501**	1,741	2,336
Translation effects	**379**	(115)	382
Cash and cash equivalents at end of year	**2,213**	2,501	1,741

* *Includes gross cash flows relating to ongoing short term financing activities.*

Note:
The above financial results have been translated into ZAR from US Dollars using the exchange rates as set out in accounting policies note 2.2.1. The year end rate was used for translating assets and liabilities and the average rate for translating income, expenditure and cash flow items except for dividends which have been translated at the rate of exchange on the date of declaration. The translation was made solely for the convenience of the readers and is not defined in IAS 21. It should be noted that the translated ZAR figures from US Dollars do not necessarily represent that these US Dollar amounts could be converted into ZAR at the time when the transaction occurred.

Notes to the group annual financial statements
for the year ended September 2008

1. Business

Sappi Limited, a corporation organised under the laws of the Republic of South Africa (the “company” and, together with its consolidated subsidiaries, “Sappi” or the “group”), was formed in 1936 and is a major, vertically integrated international pulp and paper producer. Sappi is a leading global producer of coated fine paper and chemical cellulose. The group has manufacturing facilities in nine countries, on four continents, and customers in over 100 countries across the globe.

The group is composed of its Sappi Fine Paper and Sappi Forest Products business units. Sappi Fine Paper has manufacturing and marketing facilities in North America, Europe, Southern Africa and Asia and produces mainly high quality branded coated fine paper. It also manufactures uncoated graphic and business paper, coated and uncoated speciality paper, and casting release paper used in the manufacture of artificial leather and textured polyurethane applications. Sappi Forest Products, based in Southern Africa, produces commodity paper products, pulp, chemical cellulose and forest and timber products for Southern Africa and export markets. The group operates a trading network called Sappi Trading for the international marketing and distribution of chemical cellulose and market pulp throughout the world and of the group’s other products in areas outside our core operating regions of North America, Europe and Southern Africa. All sales and costs associated with Sappi Trading are allocated to our two reporting segments.

2. Accounting policies

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

2.1 Basis of preparation

The group’s consolidated financial statements have been prepared in accordance with:

- International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB; and
- the requirements of the South African Companies Act of 1973.

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

The financial statements are prepared on the historical-cost basis, except for certain financial assets and liabilities and plantations that are stated at their fair value.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by all the group entities.

(i) Fiscal year

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

Accordingly the last three financial years ended as follows:

- 28 September 2008 (year ended September 2008) (52 weeks)
- 30 September 2007 (year ended September 2007) (52 weeks)
- 01 October 2006 (year ended September 2006) (52 weeks)

The financial years commenced as follows:

- 01 October 2007 (October 2007)
- 02 October 2006 (October 2006)
- 03 October 2005 (October 2005)

(ii) Underlying concepts

The financial statements are prepared on the going concern basis.

Assets and liabilities and income and expenses are not offset in the income statement or balance sheet unless specifically permitted by an accounting standard or interpretation.

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

Prior period errors are retrospectively restated if material.

2.2 Accounting policies

2.2.1 Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are converted into the functional currency of the group’s individual operations at the rate of exchange ruling at the date of such transactions.

2. Accounting policies (continued)

Monetary and non-monetary assets and liabilities in foreign currencies are translated into the functional currency of the entities in the group at rates of exchange ruling at the reporting date. Non-monetary assets (plantations) denominated in foreign currencies that are stated at fair value are translated into the functional currency of the group's individual operations at foreign exchange rates ruling at the reporting date.

Exchange gains and losses on the translation and settlement of foreign currency monetary assets and liabilities during the period are recognised in the income statement in the period in which they arise.

(ii) Consolidation of foreign operations
The assets and liabilities, including goodwill of entities that have non-dollar functional currencies are translated at the closing rate, while the income and expenses are translated using the average exchange rate. The differences that arise on translation are reported directly in equity. These translation differences are recognised in profit or loss for the period on disposal of the foreign operation.

The functional currency of the European business is Euro, the Southern African business is ZAR and the North American business is US Dollars. Other minor companies in the group may have different functional currencies depending on the business environment in which they operate.

Goodwill and fair value adjustments arising on the acquisition of a non-dollar functional currency entity are treated as assets and liabilities of the entity and are translated at the closing rate.

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

	Rate at		
	Sep 08	Sep 07	Sep 06
ZAR to one US$	**8.0751**	6.8713	7.7738
GBP to one US$	**0.5421**	0.4885	0.5340
EUR to one US$	**0.6843**	0.7007	0.7891

	Average annual rate		
	Sep 08	Sep 07	Sep 06
ZAR to one US$	**7.4294**	7.1741	6.6039
GBP to one US$	**0.5049**	0.5072	0.5560
EUR to one US$	**0.6638**	0.7499	0.8120

2.2.2 Group accounting

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

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

(ii) Associates and Joint Ventures
The results and assets and liabilities of associates and joint ventures are incorporated in the group's financial statements using the equity method of accounting. The share of the associates' or joint venture's retained income, which is the profit after tax, is determined from their latest financial statements. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments. When the group's share of losses exceeds the carrying amount of the associate or joint venture, the carrying amount is reduced to nil, inclusive of any debt outstanding, and recognition of further losses is discontinued, except to the extent that the group has incurred or guaranteed obligations in respect of the associate or joint venture.

Where an entity within the group transacts with an associate or joint venture of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant associate or joint venture.

Investments in associates and joint ventures held with the intention of disposing thereof within 12 months are accounted for as non-current assets held for sale.

(iii) Goodwill
The excess between the cost of the business combination and the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill in the balance sheet.

Goodwill is subsequently held at cost less any accumulated impairment losses. Goodwill is not amortised but tested for impairment annually or more frequently where there is an indication of impairment.

Goodwill is tested for impairment based on an allocation to one or more cash-generating units (CGUs) in which the synergies from the business combinations are expected. Each CGU containing goodwill is tested annually for impairment. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to a CGU and then to reduce the carrying amount of the other assets in the CGU on a pro-rata basis. Impairment losses relating to goodwill are not reversed.

Critical areas of judgement and the use of estimates involving goodwill are included in section 2.3 of the accounting policies.

2.2.3 Environmental expenditures and liabilities

Environmental expenditure that pertains to current operations or relates to future revenues are expensed or capitalised, consistent with the company's capitalisation policy. Expenditures that result from the remediation of an existing condition caused by past operations, and do not contribute to current or future revenues, are recognised in profit and loss for the period.

Environmental accruals are recorded based on current interpretation of environmental laws and regulations. Amounts accrued do not include third-party recoveries. All available information is considered including the results of remedial investigation/feasibility studies (RI/FS). In evaluating any disposal site environmental exposure, an assessment is made of the company's potential share of the remediation costs by reference to the known or estimated volume of the company's waste that was sent to the site and the range of costs to treat similar waste at other sites if a RI/FS is not available.

2.2.4 Financial instruments

(i) Initial recognition

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

(ii) Initial measurement

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

Financial instruments carried at fair value through profit and loss are measured at fair value on transaction date. All transaction costs are immediately written off in the income statement.

(iii) Subsequent measurement

Subsequent to initial measurement, financial instruments are either measured at fair value or amortised cost, depending on their classification:

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

Financial instruments at fair value through profit or loss consist of items classified as held for trading. The group has not designated any financial instruments as at fair value through profit or loss.

- **Non-trading financial liabilities**

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

- **Held-to-maturity financial assets**

Held-to-maturity financial assets are measured at amortised cost, with interest income recognised in profit and loss for the period.

The group does not presently have any held to maturity financial assets.

- **Loans and receivables**

Loans and receivables are carried at amortised cost, with interest revenue recognised in profit and loss for the period. The majority of the group's receivables are included in the loans and receivables category.

- **Available-for-sale financial assets**

Available-for-sale financial assets are measured at fair value, with any gains and losses recognised directly in equity along with the associated deferred taxation. Any foreign currency translation gains or losses or interest revenue, measured on an effective-yield basis, are removed from equity to the income statement on debt instruments when they arise.

(iv) Embedded derivatives

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

2. Accounting policies (continued)

(v) Derecognition

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

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

(vi) Impairment of financial assets

- **Loans and receivables**

An impairment is recognised when there is evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment is charged to the income statement.

- **Available-for-sale financial assets**

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

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases due to an objective event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in profit or loss for the period. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

(vii) Derivatives and hedge accounting

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

Hedging relationships are of three types:

- **Fair value hedges**

If a fair value hedge meets the conditions for hedge accounting, any gain or loss on the hedged item attributable to the hedged risk is included in the carrying amount of the hedged item and recognised in profit or loss. The changes in the fair value of the hedging instrument and the hedged item is recognised in net finance costs in profit or loss.

- **Cash flow hedges**

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

The gains or losses, which are recognised directly in shareholders' equity, are transferred to income in the same period in which the hedged transaction affects income. Any ineffectiveness related to cash flow hedges is recognised in the profit or loss for the period.

The group does not currently apply cash flow hedge accounting.

- **Hedge of a net investment in a foreign operation**

The group does not currently have any hedges of net investments in foreign operations.

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised when, for cash flow hedges, the designation is revoked and the forecast transaction is no longer expected to occur. Any cumulative gain or loss on the hedging instrument for a forecast transaction is retained in equity until the transaction occurs, unless the transaction is no longer expected to occur, in which case it is transferred to profit or loss for the period.

Critical areas of judgement and the use of estimates involving hedge accounting are included in section 2.3 of the accounting policies.

(viii) Offsetting financial instruments and related income

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off and there is an intention of settling on a net basis or realising the asset and settling the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the balance sheet, with the exception of those relating to hedges, which are disclosed in accordance with the profit or loss effect of the hedged item.

(ix) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method taking into account the expected timing and amount of cash flows.

(x) Other

Dividends from investments and gains or losses on the sale of investments are recognised in profit or loss when the amount of revenue from the transaction or service can be measured reliably, it is probable that the economic benefits of the transaction or service will flow to the group and the costs associated with the transaction or service can be measured reliably.

2.2.5 Government grants

Government grants are recognised in income over the periods necessary to match them with the related costs which they are intended to compensate.

Government grants related to assets are recognised by deducting the grant from the carrying amount of the related asset.

2.2.6 Intangible assets

(i) Research activities
Expenditures on research activities, internally generated goodwill and brands are recognised in profit or loss as an expense as incurred.

(ii) Development activities
Expenditure on engineering projects, computer software and other development activities, is capitalised if these projects and activities are technically and commercially feasible and the group has sufficient resources to complete development.

Computer development expenditure is amortised only once the relevant software has been commissioned. Intangible assets are stated at cost less accumulated amortisation and impairment losses. Intangible assets, which have not yet been commissioned, are stated at cost less impairment losses.

Amortisation of engineering projects, computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, not exceeding five years. Subsequent expenditure relating to computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

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

2.2.7 Impairment of assets other than goodwill and financial instruments

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

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

Should there be any indications of impairment, the recoverable amounts of the assets are estimated. These impairments, where the carrying value of an asset exceeds its recoverable amount, or the reversal of a previously recognised impairment, are recognised in profit or loss for the period.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value-in-use. The fair value less cost to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

For an asset whose cash flows are largely dependent on those of other assets the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

When an asset previously tested as part of a larger CGU is no longer expected to contribute to the future cash flows of this CGU or is no longer in use, the applicable asset is evaluated on a stand-alone basis.

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

Critical areas of judgement and the use of estimates involving asset impairments are included in section 2.3 of the accounting policies.

2.2.8 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion, distribution and selling.

Cost is determined on the following basis:

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

2. **Accounting policies** (continued)

2.2.9 Leases

(i) The group as lessee

Leases in respect of which the group bears substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

Lease payments are allocated between capital repayments and finance charges using the effective interest rate method.

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

Leases in respect of which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments made under operating leases are charged to income on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the group's benefit.

(ii) Recognition of lease of land

Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. The land and buildings elements of a lease are considered separately for the purpose of lease classification.

If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, where the building is a finance lease, unless it is clear that both elements are operating leases.

2.2.10 Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying value will be recovered principally through sale within 12 months rather than use. Non-current assets held for sale are measured at the lower of carrying amount and fair value less cost to sell and are not depreciated.

The entire asset or disposal group must be available for immediate sale in its present condition and the sale should be highly probable, with an active programme to find a buyer and the appropriate level of management approving the sale. The group does not currently have any discontinued operations.

2.2.11 Provisions

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

The following specific policies are applied:

- A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable costs of meeting the obligations under the contract.
- A provision for restructuring is recognised only if the group has created a detailed formal plan and raised a valid expectation, among those parties directly affected, that the plan will be carried out, either by having begun implementation or by publicly announcing the plan's main features. Future operating costs or losses are not provided for.

Critical areas of judgement and the use of estimates involving provisions are included in section 2.3 of the accounting policies.

2.2.12 Pension plans and other post-retirement benefits

(i) Post-employment benefits – pensions

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

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

The group's policy is to recognise actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, in the consolidated statement of recognised income and expense. Any increase in the present value of plan liabilities expected to arise due to current service costs is charged to operating profit. The expected return on plan assets and the expected increase during the period in the present value of plan liabilities are included in investment income and interest expense.

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

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

Contributions in respect of defined-contribution plans are recognised as an expense in profit or loss as incurred.

(ii) Post employment benefits – medical

The projected unit credit method is used in determining the present value of post employment medical benefits. The estimated cost of retiree health care and life insurance benefit plans is accrued during the participants' actual service periods up to the dates they become eligible for full benefits. Experience adjustments and plan amendments in respect of existing employees are treated in a similar manner as described in the preceding paragraph, in the statement of recognised income and expenditure.

(iii) Workmen's compensation insurance

Sappi Fine Paper North America has a combination of self-insured and insured workers' compensation programmes. The self-insurance claim liability for workers' compensation is based on claims reported and actuarial estimates of adverse developments and claims incurred but not reported.

Critical areas of judgement and the use of estimates involving pension plans and other post-retirement benefits are included in section 2.3 of the accounting policies.

2.2.13 Plantations

Plantations are stated at fair value less estimated cost to sell at the harvesting stage. Fair value is determined using the present value of expected future cash flows for immature timber and the standing value method for mature timber. The age threshold used for quantifying immature timber is dependent on the rotation period of the specific timber genus which varies between eight to eighteen years. In the Southern African region softwood less than eight years and hardwood less than five years is classified as immature timber. All changes in fair value are recognised in the period in which they arise.

The fair value of immature timber calculation takes into account; unadjusted current market prices, estimated projected growth over the rotation period for the existing immature timber volumes in metric ton, cost of delivery and estimated maintenance costs up to the timber becoming mature. The standing value for mature timber is based on unadjusted current market prices in available markets and estimated timber volumes in metric tons less cost of delivery.

Cost of delivery includes all costs associated with getting the harvested agricultural produce to the market, being harvesting, loading, transport and allocated fixed overheads.

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

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

Sappi directly manages plantations established on its own land that the company either owns or leases from a third party. Indirectly managed plantations represent plantations established on land held by independent commercial farmers where Sappi provides technical advice on the growing and tendering of trees. The associated costs for managing the plantations are recognised as silviculture costs in cost of sales (see note 4.1).

Critical areas of judgement and the use of estimates involving plantations are included in section 2.3 of the accounting policies.

2.2.14 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the estimated cost of dismantling and removing the assets, where specifically required in terms of legislative requirements or a constructive obligation exists.

Owner-occupied investment properties and properties in the course of construction are carried at cost, less any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value. Cost includes professional

2. Accounting policies (continued)

fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy. Depreciation commences, on the same basis as other property assets, when the assets are ready for their intended use. The group currently does not hold any investment properties.

Subsequent expenditure is capitalised when it is measurable and will result in probable future economic benefits. Expenditure incurred to replace a component of an item of owner-occupied property or equipment is capitalised to the cost of the item of owner-occupied property and equipment and the part replaced is derecognised. All other expenditure is recognised in profit or loss as an expense when incurred.

Depreciation is charged to write off the depreciable amount of the assets, other than land, over their estimated useful lives to estimated residual values, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

Critical areas of judgement and the use of estimates involving property, plant and equipment are included in section 2.3 of the accounting policies.

2.2.15 Segment reporting

The primary business segments are Sappi Fine Paper and Sappi Forest Products. On a secondary segment basis, significant geographic regions have been identified based on the location of the productive assets, being Asia, Southern Africa, Europe and North America.

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

2.2.16 Share-based payments

(i) Equity-settled share-based payment transactions with employees

The services received in an equity-settled share-based payment transaction with employees are measured at the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date.

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

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

(ii) Measurement of fair value of equity instruments granted

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

2.2.17 Shareholders' equity

(i) Share capital

Share capital issued by the company is recorded as the proceeds received, net of direct issue costs.

Ordinary and preference share capital is classified as equity, if the shares are non-redeemable by the shareholder and any dividends are discretionary.

Shares repurchased by the issuing company are cancelled.

(ii) Treasury shares

When share capital recognised as equity is repurchased by the company or other members of the group, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity.

Shares repurchased by group companies are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares and the cost price of the shares is presented as a deduction from total equity.

(iii) Dividends

Dividends are recognised as distributions within equity in the period in which they are payable to shareholders. Dividends for the year that are declared after the balance sheet date are disclosed in the dividends note. Taxation costs incurred on dividends are recognised in the period in which the dividend is declared.

2.2.18 Taxation

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

(i) Current taxation

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

Secondary Tax on Companies (STC) is a South African Income Tax, that arises from the distribution of dividends and is recognised at the same time as the liability to pay the related dividend.

(ii) Deferred taxation

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the balance sheet date. Deferred taxation is charged to profit or loss for the period, except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is an acquisition. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred taxation asset is recognised to the extent that it is probable that future taxable income will be available against which the unutilised taxation losses and deductible temporary differences can be used. The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Critical areas of judgement and the use of estimates involving taxation are included in section 2.3 of the accounting policies.

2.2.19 Borrowing costs

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

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

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

2.2.20 Cost of sales

When inventories are sold, the carrying amount is recognised as part of cost of sales. Any write down of inventories to net realisable value and all losses of inventories or reversals of previous write downs or losses are recognised in cost of sales in the period the write down, loss or reversal occurs.

2.2.21 Revenue

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

Revenue is measured at the fair value of the amount received or receivable. Trade and settlement discounts, rebates and customer returns given are included in sales.

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

2.2.22 Emission trading

The group accounts for grants allocated by governments for emission rights as an intangible asset with an equal liability at the time of the grant. The asset and liability are recognised at a nominal amount when the grants are issued.

2. **Accounting policies** (continued)

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

Where the group has allowances that exceed actual emissions and the excess allowances are sold to parties outside the group, a gain is recognised in profit or loss for the period.

2.2.23 Black Economic Employment (BEE) deal

The group has entered into a transaction that introduces empowered black ownership to the group's land portfolio in South Africa. This empowerment transaction has resulted in our empowerment partner obtaining an undivided 25% interest of this land portfolio via a swap arrangement for the continued right of use of the land. This transaction was based on the current fair value of the 25% undivided interest in the share of the land.

In terms of the agreement, both Sappi and the empowerment partner have issued preference shares, for the purchase of undivided share of land and the continued right of use of the land respectively, the terms of which require payment of dividends on an annual basis. Sappi's liability for dividends will vary in relation to the value of 25% of the undivided share of the land not paid for by redemption of the preference shares issued to the empowerment partner.

The group has recognised a financial derivative liability in terms of IAS 39: Financial Instruments Recognition and Measurement. The liability is initially recognised at fair value. Subsequently the liability will continue to be measured at fair value with changes in fair value recognised in profit or loss in each financial reporting period.

2.3 Critical accounting policies and estimates

Our group financial statements have been prepared in accordance with IFRS as issued by the IASB. The preparation of financial statements requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities.

Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience, current and expected economic conditions, and in some cases, actuarial techniques. The group constantly re-evaluates these significant factors and makes adjustments where facts and circumstances dictate. The group believes that the following accounting policies are critical due to the degree of estimation required and/or the potential material impact they may have on the group's financial position and performance.

Asset impairments

The group periodically evaluates its long-lived assets for impairment, including identifiable intangibles and goodwill, whenever events, such as losses being incurred, or changes in circumstances, such as changes in the pulp and paper market, indicate that the carrying amount of the asset may not be recoverable. Our judgements regarding the existence of impairment indicators are based on market conditions and operational performance of the business. Future events could cause management to conclude that impairment indicators exist.

In order to assess if there is any impairment, we estimate the future cash flows expected to result from the use of the asset(s) and its eventual disposition. Considerable management judgement is necessary to estimate discounted future cash flows, including appropriate bases for making judgements and estimates as to future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, changes in the planned use of machinery or equipment or closing of facilities. The calculation of appropriate pre-tax discount rates (weighted average cost of capital) is another sensitive input to the valuation. While every effort is made to make use of independent information and apply consistent methodology, actual circumstances or outcomes could vary significantly from such estimates, including as a result of changes in the economic and business environment. These variances could result in changes in useful lives or impairment. These changes can have either a positive or negative impact on our estimates of impairment and can result in additional charges.

Goodwill impairment testing is conducted at reporting unit levels of our business and is based on a cash flow based valuation model to determine the fair value of the cash generating unit. The assumptions used in estimating future cash flows were based upon our business forecasts and incorporated external information from industry sources, where applicable. Actual outcomes could vary significantly from our business forecasts. Changes in certain of these estimates could have a material effect on the estimated fair value of the reporting unit. In addition to the judgments described in the preceding paragraph that are necessary in estimating future cash flows, significant judgments in estimating discounted cash flows also include the selection of the pre-tax discount rate (weighted average cost of capital) and the terminal value (net present value at end of period where there is a willing buyer and seller) multiple used in our valuation model. The discount rate used in our valuation model considers a debt and equity mix, a market risk premium, and other factors consistent with valuation methodologies. The terminal value multiple used in our valuation model considered the valuations for comparable companies.

Small changes to the valuation model would not significantly impact the results of our valuation; however, if future cash flows were materially different than our forecasts, then the assessment of the potential impairment of the carrying value may be impacted.

Property, plant and equipment

Where significant parts of an item of property, plant and equipment have different useful lives to the item itself, these parts are depreciated over their estimated useful lives. The methods of depreciation, useful lives and residual values are reviewed annually. Depreciation rates for similar items of plant or equipment could vary significantly based on the location and use of the asset.

Determining the depreciable amount for an item of plant and equipment, the residual amount of the item of plant and equipment is taken into consideration. The residual value for the majority of items of plant and equipment has been deemed to be zero by management due to the underlying nature of the equipment.

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

Land	No depreciation
Buildings	straight line 40 years
Plant	straight line 5 to 20 years
Vehicles	straight line 5 to 10 years
Furniture and equipment	straight line 3 to 6 years

Assets held under finance leases are depreciated over their expected useful lives or the term of the relevant lease, where shorter. The useful lives and residual values of property, plant and equipment are reviewed on an annual basis and are revised when the current estimate is different from the existing estimate.

For material items of property, plant and equipment an internal engineer is used to assist in determining the remaining useful lives and residual values. Management believes that the assigned values and useful lives, including the underlying assumptions have been adequately considered and consistently applied. Different assumptions and assigned useful lives could have an impact on the reported amounts.

Taxation

The group estimates its income taxes in each of the jurisdictions in which it operates. This process involves estimating its current tax liability together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheet.

The group then assesses the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent recovery is not likely, a deferred tax asset is not recognised. In recognising deferred tax assets the group considers profit forecasts including the effect of exchange rate fluctuations on sales and external market conditions. Where it is probable that a position may be successfully challenged by revenue authorities, a tax provision is raised for the tax on the probable adjustment. Management's judgement is required in determining the provision for income taxes, deferred tax assets and liabilities. Deferred tax assets have been recognised where management believes there are sufficient taxable temporary differences or convincing other evidence that sufficient taxable profits will be available in future to realise deferred tax assets. Although the deferred tax assets which have been recognised are considered realisable, actual amounts could be reduced if future taxable income is not achieved. This can materially affect our reported net income and financial position.

Hedge accounting for financial instruments

The financial instruments that are used in hedging transactions are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in either the fair value or cash flows of the related underlying exposures. Hedge accounting is mainly used for debt instruments to hedge interest rate and foreign currency risk exposures and for firm commitments to hedge foreign currency risk exposures. We do not currently use hedge accounting for trading transactions.

External market data is applied in measuring the hedge effectiveness of financial instruments. Hedge ineffectiveness is recognised immediately against income.

2. Accounting policies (continued)

Refer to note 30.6 of the Group Annual Financial Statements contained elsewhere in this Annual Report for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

Plantations

The fair value of immature timber is the present value of the expected future cashflows taking into account, unadjusted current market prices in available markets, estimated projected growth over the rotation period for the existing immature timber volumes in metric ton, cost of delivery and estimated maintenance costs up to the timber becoming usable. The discount rate used is the applicable pre-tax weighted average cost of capital of the business unit. Determining the appropriate discount rate requires significant assumption and judgement and changes in these assumptions could change the outcomes of the plantation valuations. The standing value of mature timber is based on unadjusted current market prices in available markets and estimated timber volumes in metric tons less cost of delivery at current market prices.

Management focuses their attention on good husbandry techniques which include ensuring that the rotation of plantations is met with adequate planting activities for future harvesting. The rotation periods vary from eight to eighteen years in Southern Africa.

Assumptions and estimates are used in the recording of plantation volumes, maintenance cost per metric ton, and depletion. Changes in the assumptions or estimates used in these calculations may affect the group's results, in particular, our plantation valuation and depletion costs.

A key assumption and estimation is the projected growth estimation over a period of eight to eighteen years per rotation. The inputs to our immature timber growth model are complex and involve estimations and judgements, all of which are regularly updated. Sappi established a long term sample plot network which is representative of the species and sites on which we grow trees and the measured data from these permanent sample plots are used as input into our growth estimation. Periodic adjustments are made to existing models for new genetic material.

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

Ruling unadjusted current market prices applied at the reporting date, as well as the assumptions that are used in determining the extent of biological transformation (growth) can have a significant effect on the valuation of the plantations, and as a result, the amount recorded in the income statement arising from fair value changes and growth. In addition, the discount rate applied in the valuation of immature timber has an impact as tabled below.

US$ million	**2008**	2007	2006
Fair value changes			
1% increase in market prices	**17**	17	14
1% decrease in market prices	**(17)**	(17)	(14)
Discount rate			
(for immature timber)			
1% increase in rate	**(4)**	(4)	(3)
1% decrease in rate	**4**	4	4
Volume assumption			
1% increase in estimate of volume	**6**	6	5
1% decrease in estimate of volume	**(6)**	(6)	(5)
Growth assumptions			
1% increase in rate of growth	**1**	2	1
1% decrease in rate of growth	**(1)**	(2)	(1)

The group is exposed to financial risks arising from climatic changes, disease and other natural risks such as fire, flooding and storms and human-induced losses arising from strikes, civil commotion and malicious damage. These risks are covered by an appropriate level of insurance as determined by management. The plantations have an integrated management system that is certified to ISO 9001, ISO 14001, OHSAS 18001 and FSC standards.

For further information see note 10 of our group annual financial statements.

Post-employment benefits

The group accounts for its pension benefits and its other post retirement benefits using actuarial models. These models use an attribution approach that generally spreads individual events over the service lives of the employees in the plan. Examples of 'events' are changes in actuarial assumptions such as discount rate, expected long-term rate of return on plan assets, and rate of compensation increases.

The principle underlying the required attribution approach is that employees render service over their service lives on a relatively consistent basis and, therefore, the income statement effects of pension benefits or post retirement healthcare benefits are earned in, and should be expensed in the same pattern.

Numerous estimates and assumptions are required, in the actuarial models, to determine the proper amount of pension and other post retirement liabilities to record in the group's consolidated financial statements and set the expense for the next fiscal year. These include discount rate, return on assets, salary increases, health care cost trends, longevity and service lives of employees. Although there is authoritative guidance on how to select these assumptions, our management and its actuaries exercise some degree of judgement when selecting these assumptions. Selecting different assumptions, as well as actual versus expected results, would change the net periodic benefit cost and funded status of the benefit plans recognised in the financial statements.

Refer to notes 27 and 28 for the key assumptions, the benefit obligations, plan assets, net periodic pension cost and the impact on the future financial results of the group in relation to post employment benefits that may arise due changes in economic conditions, employee demographics and investment performance as at the end of September 2008 and September 2007.

Provisions

Provisions are recognised when a reliable estimate can be made of the amount that the group would rationally pay to settle the liability. Risks, uncertainties and future events, such as changes in law and technology, are taken into account by management in determining the best estimates.

The establishment and review of the provisions requires significant judgement by management as to whether or not there is a probable obligation and as to whether or not a reliable estimate can be made of the amount of the obligation. All provisions are reviewed at each balance sheet date. Various uncertainties can result in obligations not being considered probable or estimable for significant periods of time. As a consequence, potentially material obligations may have no provisions and a change in facts or circumstances that results in an obligation becoming probable or estimable can lead to a need for the establishment of material provisions. In addition, where estimated amounts vary from initial estimates the provisions may be revised materially, up or down, based on the facts.

2.4 Adoption of accounting standards in the current year

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

IFRS 7 – Financial Instruments: Disclosures

The group has adopted IFRS 7 Financial Instruments: Disclosures. This has resulted in the financial instrument disclosures previously required by IAS 32 Financial Instruments: Presentation and Disclosure being replaced by those required under IFRS 7.

Adoption of this standard had no impact on the reported profits or financial position of the group.

IFRIC 10 – Interim Financial Reporting

The interpretation addresses an apparent conflict between the requirements of IAS 34 – interim financial reporting and those in other standards on the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets. The interpretation concludes that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill, or an investment in either an equity instrument or a financial asset carried at cost.

The implementation of this interpretation did not have a material impact on the group's reported results or financial position.

IFRIC 11 – Group and Treasury Share Transactions

This interpretation addresses two issues. The first is whether the transactions should be accounted for as equity-settled or as cash-settled share-based payment arrangements, and the second where a share-based payment transaction involves two or more entities within the same group.

The implementation of this interpretation did not have a material impact on the group's reported results or financial position.

IAS 1 – Amendment to International Accounting Standard 1 – Presentation of Financial Statements: Capital Disclosures

The amendment requires the group to disclose information that will enable users of its financial statements to evaluate the group's objectives, policies and processes of managing capital.

Adoption of this standard had no impact on the reported profits or financial position of the group.

2. Accounting policies (continued)

Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Instruments

This amendment permits an entity to reclassify some financial instruments out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables, if the entity has the intention and ability to hold that financial asset for the foreseeable future.

The implementation of this amendment did not have a material impact on the group's reported results or financial position.

2.5 Potential impact of future changes in accounting policies

The following standards, interpretations and significant amendments or revisions to standards which have been issued but which are not yet effective and which are applicable to Sappi, have not been applied in these financial statements:

Revised IAS 1 – Presentation of Financial Statements

The main changes from the previous standard require that an entity must present:

- all non-owner changes in equity (that is, 'comprehensive income') – either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income);
- a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy; retrospectively or makes a retrospective restatement;
- income tax relating to each component of other comprehensive income; and
- reclassification adjustments relating to components of other comprehensive income.

This revised standard is effective for our September 2010 year end.

IFRS 8 – Operating Segments

This standard introduces the concept of an operating segment; it expands the identification criteria for segments of an entity and the measurement of segment results. This statement will allow an entity to align its operating segment reporting with the internal identification and reporting structure.

The standard first becomes applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

IFRIC 12 – Service Concession Arrangements

The interpretation serves to clarify the treatment of arrangements whereby a government or other body grants contracts for the supply of public services – such as roads, energy distribution, prisons or hospitals – to private operators. The objective of this IFRIC is to clarify aspects of accounting for service concession arrangements.

The interpretation first becomes applicable to the group for the financial year ending September 2009, and we are currently assessing the impact of this on the group.

IFRIC 13 – Customer Loyalty Programmes

This interpretation addresses accounting by entities that grant loyalty awards to customers who buy other goods or services. The interpretation deals with the accounting treatment of the obligations to provide free or discounted goods or services granted under such a programme.

The interpretation first becomes applicable to the group for the financial year ending September 2009, and we are currently assessing the impact of this on the group.

IFRIC 15 – Agreements for the Construction of Real Estate

The Interpretation provides guidance on when and how to apply IAS 11 Construction Contracts and IAS 18 Revenue to real estate construction agreements before construction is complete.

The interpretation first becomes applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

The Interpretation clarifies the accounting for net investment hedges and it provides guidance on the following issues:

- which foreign currency risks qualify for hedge accounting, and what amount can be designated;

- where within the group the hedging instrument can be held; and
- what amount should be reclassified to profit or loss when the foreign operation is disposed of.

The interpretation first becomes applicable to the group for the financial year ending September 2009, and we are currently assessing the impact of this on the group.

Revision to IFRS 3: Business Combinations

The standard introduces a comprehensive revision of some of the aspects of business combination accounting by restricting options or allowable methods. The revised standard aims to achieve greater consistency in business combination accounting among entities applying IFRS.

The revised standard will only be applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

Amendments to IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Investments in Joint Ventures

As part of the IASB's revision to IFRS 3 Business Combinations, IAS 27, IAS 28 and IAS 31 were also amended.

The amendments first become applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of these on the group.

Amendment to IFRS 2 Vesting Conditions and Cancellations

The amendment clarifies the definition of vesting conditions and provides guidance on the accounting treatment of cancellations by other parties.

The amendment will only be applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement on Eligible Hedged Items

The amendment clarifies that:

- inflation can only be designated as a hedged risk or portion, if it is a contractually-specified portion of the cash flows of a recognised financial instrument;
- the time value of a purchased option used as a hedging instrument is not a risk or a portion of a risk present in a hedged item, and would cause ineffectiveness if the entire option is designated as a hedging instrument; and
- a risk-free or benchmark interest rate portion of the fair value of a fixed rate financial instrument will normally be separately identifiable and reliably measurable, and hence may be hedged.

The amendment first becomes applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

Various improvements to IFRSs

A number of standards have been amended as part of the IASB's improvement project. We are assessing the impact of these amendments on the group.

3. Segment information

For management purposes, the group has two reporting segments which operate as separate business units: Sappi Fine Paper and Sappi Forest Products. These divisions are the basis on which the group reports its primary segment information. Sappi Fine Paper produces coated and uncoated fine paper and speciality paper grades. Sappi Forest Products produces commodity paper products, pulp, forest and timber products. The secondary segments have been determined by the geographical location of the production facilities: North America, Europe and Southern Africa.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (refer note 2.2).

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

	Sappi Fine Paper			Sappi Forest Products		
US$ million	**2008**	2007	2006	**2008**	2007	2006
External sales(1)	**4,764**	4,256	3,958	**1,099**	1,048	983
Inter-segment sales	**677**	602	504	**657**	658	517
Total sales	**5,441**	4,858	4,462	**1,756**	1,706	1,500
Segment result(2)	**34**	119	(49)	**273**	264	175
Share of profit (loss) of equity investments	**2**	3	1	**5**	3	(1)
Depreciation	**300**	298	321	**73**	75	68
Amortisation and fellings	**–**	1	2	**80**	70	74
Asset impairments	**82**	2	6	**37**	–	3
Asset impairment reversals	**–**	–	–	**–**	–	(40)
Other non-cash expenses (including fair value adjustment on plantations)	**151**	(11)	62	**(150)**	(117)	(131)
Capital expenditures	**216**	158	203	**290**	299	99
Total assets(6)	**3,724**	3,931	3,810	**2,049**	2,096	1,419
Operating assets(3)(6)	**3,678**	3,836	3,726	**1,972**	1,984	1,407
Operating liabilities(4)	**706**	682	639	**241**	251	178
Net operating assets(5)(6)	**2,955**	3,121	3,049	**1,721**	1,654	1,188
Property, plant and equipment	**2,353**	2,503	2,478	**1,008**	988	669

	Sappi Fine Paper								
	North America			Europe			Southern Africa		
US$ million	**2008**	2007	2006	**2008**	2007	2006	**2008**	2007	2006
Sales(1)	**1,664**	1,511	1,439	**2,720**	2,387	2,194	**380**	358	325
Segment result(2)	**92**	22	(16)	**(64)**	88	(27)	**6**	9	(6)
Capital expenditures	**125**	44	48	**82**	102	136	**9**	12	19
Operating assets(3)	**1,285**	1,263	1,334	**2,226**	2,371	2,196	**167**	202	196
Net operating assets(5)	**1,087**	1,031	1,108	**1,758**	1,941	1,796	**110**	149	145
Property, plant and equipment	**879**	864	926	**1,363**	1,502	1,428	**111**	137	124

Corporate and eliminations			Group		
2008	2007	2006	**2008**	2007	2006
–	–	–	**5,863**	5,304	4,941
(1,334)	(1,260)	(1,021)	**–**	–	–
(1,334)	(1,260)	(1,021)	**5,863**	5,304	4,941
7	–	(1)	**314**	383	125
10	4	(1)	**17**	10	(1)
1	1	1	**374**	374	390
–	–	–	**80**	71	76
–	–	–	**119**	2	9
–	–	–	**–**	–	(40)
(58)	(14)	(58)	**(57)**	(142)	(127)
1	1	1	**507**	458	303
336	317	288	**6,109**	6,344	5,517
144	99	86	**5,794**	5,919	5,219
78	66	45	**1,025**	999	862
39	21	19	**4,715**	4,796	4,256
–	–	2	**3,361**	3,491	3,149

Sappi Forest Products								
Southern Africa			Corporate and other			Group		
2008	2007	2006	**2008**	2007	2006	**2008**	2007	2006
1,099	1,048	983	**–**	–	–	**5,863**	5,304	4,941
273	264	175	**7**	–	(1)	**314**	383	125
290	299	99	**1**	1	1	**507**	458	303
1,972	1,984	1,407	**144**	99	86	**5,794**	5,919	5,219
1,721	1,654	1,188	**39**	21	19	**4,715**	4,796	4,256
1,008	988	669	**–**	–	2	**3,361**	3,491	3,149

3. Segment information (continued)

Sales by geographical location of customers

US$ million	2008	2007	2006
North America	**1,716**	1,559	1,502
Europe	**2,319**	2,078	1,972
Southern Africa	**883**	789	750
Asia and other	**945**	878	717
	5,863	5,304	4,941

(1) Sales where the product is manufactured.
(2) Segment result is operating profit (loss).
(3) Operating assets consist of property, plant and equipment, plantations, non-current assets (excluding deferred taxation) and current assets (excluding cash).
(4) Operating liabilities consist of trade payables, other payables, provisions and derivative financial instruments.
(5) Net operating assets consist of operating assets less operating liabilities, adjusted for taxation payable and dividends payable.
(6) Corporate region includes the group's treasury operations and the investment in the Chinese joint venture.

4.1 Operating profit

US$ million	2008 Cost of sales	2008 Selling, general and administrative expenses	2007 Cost of sales	2007 Selling, general and administrative expenses	2006 Cost of sales	2006 Selling, general and administrative expenses
Operating profit has been arrived at after charging (crediting):						
Raw materials, energy and other direct input costs*	**3,073**	**–**	2,685	–	2,516	–
Wood (includes felling adjustment)(1)	**722**	**–**	635	–	631	–
Energy	**558**	**–**	438	–	433	–
Chemicals	**898**	**–**	676	–	658	–
Pulp	**791**	**–**	623	–	563	–
Other variable costs	**104**	**–**	313	–	231	–
Fair value adjustment on plantations(1)						
Growth	**(70)**	**–**	(76)	–	(70)	–
Price	**(120)**	**–**	(54)	–	(34)	–
Employment costs	**864**	**153**	809	116	769	109
Depreciation	**350**	**24**	350	24	362	28
Delivery charges	**509**	**–**	453	–	441	–
Maintenance	**252**	**–**	235	–	226	–
Other overheads*	**158**	**–**	189	–	209	–
Marketing and selling expenses	**–**	**105**	–	91	–	86
Administrative and general expenses	**–**	**103**	–	131	–	144
	5,016	**385**	4,591	362	4,419	367

(1) Fair value adjustment on plantations.
** Costs included in Raw materials in 2007 have been reallocated to Other overheads of US$58 million (2006: US$31 million).*

US$ million	2008	2007	2006
4.1 Operating profit (continued)			
Changes in volumes			
Fellings	**80**	70	74
Growth	**(70)**	(76)	(70)
	10	(6)	4
Plantation price fair value adjustment	**(120)**	(54)	(34)
	(110)	(60)	(30)
Silviculture costs (included within cost of sales)	**50**	41	43
Leasing charges for premises	**16**	16	15
Leasing charges for plant and equipment	**32**	43	44
Remuneration paid other than to employees of the company in respect of:	**33**	31	44
– technical services	**15**	15	10
– administration services	**18**	16	34
Auditors' remuneration:	**10**	7	9
– audit and related services	**6**	5	7
– tax planning and tax advice	**1**	2	2
– Acquisition related services**	**3**	–	–
Government grants towards environmental expenditure	**(1)**	–	(1)
Research and development costs	**34**	34	34
Amortisation	**–**	1	2
Cost on derecognition of loans and receivables*	**22**	15	12
4.2 Employment cost			
Wages and salaries	**921**	816	813
Defined contribution plan expense (refer note 27)	**23**	18	10
Pension costs (refer note 27)	**9**	20	(1)
Post employment benefit other than pensions expense (refer note 28)	**14**	13	12
Share-based payment expense	**10**	5	6
Other	**40**	53	38
	1,017	925	878
4.3 Other operating expenses (income)			
Net asset impairment (reversal)	**119**	2	(31)
(Profit) loss on sale and write-off of property, plant and equipment	**(5)**	(24)	13
Restructuring provisions raised (released) and closure costs (refer note 22)	**41**	(11)	44

* *The cost on sale of trade receivables relates to the derecognition of trade receivables in terms of the securitisation programme in South Africa and to the sale of letters of credit in Hong Kong.*
** *These costs are included in other non-current assets in note 14.*

US$ million	2008	2007	2006
5. Net finance costs			
Gross interest and other finance costs on liabilities carried at amortised cost	**181**	173	162
– Interest on bank overdrafts	**4**	8	11
– Interest on redeemable bonds and other loans	**174**	161	143
– Interest cost on finance lease obligations	**3**	4	8
Finance revenue received on assets carried at amortised cost	**(38)**	(21)	(26)
– Interest on bank accounts	**(22)**	(3)	(8)
– Interest revenue on other loans and investments	**(16)**	(18)	(18)
Interest capitalised to property, plant and equipment	**(16)**	(14)	(2)
Net foreign exchange gains	**(8)**	(13)	(7)
Net fair value loss on financial instruments	**7**	9	3
– Loss on intercompany non hedged loans	**2**	7	4
– Amortisation of cost of de-designated hedges	**5**	2	2
– Hedge ineffectiveness			
– (gain) loss on hedging instrument (derivative)	**(30)**	(14)	14
– loss (gain) on hedged item	**30**	14	(17)
	126	134	130
6. Taxation charge (benefit)			
Current taxation:			
– Current year	**23**	44	8
– Prior year over provision*	**(19)**	(7)	(3)
– Other company taxes	**2**	1	–
Deferred taxation: (refer note 11)			
– Current year**	**89**	36	(6)
– Prior year (over) under provision	**–**	(8)	1
– Attributable to tax rate changes	**(9)**	(19)	(1)
	86	47	(1)
* Primarily relates to the expiration of statute of limitations in various jurisdictions			
** Includes Secondary Tax on Companies (STC)[1]	**7**	8	9
Due to the utilisation of previously unrecognised tax assets, the deferred taxation expense for the year has been reduced by	**19**	11	24

In addition to income taxation expense charges to profit and loss, a deferred taxation charge of US$1 million (2007: US$18 million; 2006: US$13 million) has been recognised directly in equity (refer note 11).

US$ million	2008	2007	2006
6. Taxation charge (benefit)			
Reconciliation of the tax rate			
Profit (loss) before taxation	**188**	249	(5)
Profit-making regions	**560**	424	268
Loss-making regions	**(372)**	(175)	(273)
Taxation at the average statutory tax rate	**72**	68	(13)
Profit-making regions at 30% (2007: 28%; 2006: 28%)	**167**	119	75
Loss-making regions at 26% (2007: 29%; 2006: 32%)	**(95)**	(51)	(88)
Net exempt income and non-tax deductible expenditure	**(51)**	(34)	(24)
Effect of tax rate changes	**(9)**	(19)	(1)
Deferred tax asset not recognised	**103**	49	54
Utilisation of previously unrecognised tax assets	**(19)**	(11)	(24)
Secondary Tax on Companies (STC)	**7**	8	9
Prior year adjustments	**(19)**	(15)	(2)
Other taxes	**2**	1	–
Taxation charge (benefit)	**86**	47	(1)
Effective tax rate for the year	**46%**	19%	15%

Our effective tax rate reflects the benefits from reduced tax rates in South Africa (2008: US$9 million; 2007: nil; 2006: nil), Germany (2008: nil; 2007: US$19 million; 2006: nil) and The Netherlands (2008: nil; 2007: US$2 million; 2006: US$1 million). The corporate tax rate in South Africa was reduced from 29% in 2007 to 28% in 2008. The corporate tax rate in Germany was reduced from 38% in 2006 to 30% in 2007. In The Netherlands the corporate tax rate was reduced from 31.5% in 2005 to 29.6% in 2006 and 25.5% in 2007. In addition a taxation charge of US$2 million was recognised in 2007 as a result of the substantively enacted STC rate adjustment from 12.5% to 10% (effective date: 01 October 2007). The deferred tax asset not recognised in the current year is primarily relating to the restructuring and impairment charges recognised in Europe for which no relief is expected.

On 06 November 2008, the directors declared a dividend (number 85) of 16 US cents per share (US$37 million) to be paid to shareholders on 02 December 2008 (refer note 8). The estimated STC on this dividend at a rate of 10% is US$4 million which will fully utilise our STC credits of US$2 million (refer note 11).

(1) The imposition of Secondary Tax on Companies (STC) effectively means that a dual corporate taxation system exists in South Africa comprising a normal income taxation and STC. Liability for STC is determined independently from normal income taxation and is paid by South African companies at the flat rate of 10% in respect of the amount of dividends declared less all dividends which accrued to them (but subject to certain exclusions) during its relevant 'dividend cycle'. 'Dividend cycle' means the period commencing on the day following the date of accrual to a company's shareholders of the last dividend declared by that company and ending on the date on which the dividend in question accrues to the shareholder concerned. An excess of dividends accruing to a company over dividends paid may be carried forward to subsequent dividend cycles as an STC credit.

7. Earnings per share and headline earnings per share

Basic earnings per share (EPS)

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

	2008			2007			2006		
	Profit US$ million	**Shares millions**	**Earnings per share US cents**	Profit US$ million	Shares millions	Earnings per share US cents	Loss US$ million	Shares millions	Earnings per share US cents
Basic EPS calculation	**102**	**228.8**	**45**	202	227.8	89	(4)	226.2	(2)
Share options and performance shares under Sappi Limited Share Trust	**–**	**2.3**	**–**	–	2.7	–	–	–	–
Diluted EPS calculation	**102**	**231.1**	**44**	202	230.5	88	(4)	226.2	(2)

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR94.08 (2007: ZAR114.42; 2006: ZAR82.90) and exclude the effect of certain share options granted under the Sappi share incentive scheme as they would be anti-dilutive.

The number of share options not included in the weighted average number of shares (as they would have been anti-dilutive) are 2.3 million (September 2007: 0.8 million; September 2006: 4.2 million).

7. Earnings per share and headline earnings per share (continued)

Headline earnings per share*

Headline earnings per share is based on the group's headline earnings divided by the weighted average number of shares in issue during the year. This is a JSE Limited required measure.

Reconciliation between net profit (loss) for the year and headline earnings:

	2008			2007			2006		
	Gross	**Tax**	**Net**	Gross	Tax	Net	Gross	Tax	Net
Attributable earnings (loss) to ordinary shareholders	**188**	**86**	**102**	249	47	202	(5)	(1)	(4)
(Profit) loss on sale and write-off of property, plant and equipment	**(5)**	**–**	**(5)**	(24)	(6)	(18)	14	5	9
Impairment (reversals) of plant and equipment	**119**	**–**	**119**	2	–	2	(31)	–	(31)
Headline earnings (loss)	**302**	**86**	**216**	227	41	186	(22)	4	(26)
Weighted average number of ordinary shares in issue (millions)			**228.8**			227.8			226.2
Headline earnings (loss) per share (US cents)			**94**			82			(11)
Diluted weighted average number of shares (millions)			**231.1**			230.5			226.2
Diluted headline earnings (loss) per share (US cents)			**93**			81			(11)

* *Headline earnings – as defined in circular 8/2007 issued by the South African Institute of Chartered Accountants, separates from earnings all separately identifiable re-measurements. It is not necessarily a measure of sustainable earnings. It is a listing requirement of the JSE Limited to disclose headline earnings per share.*

US$ million	2008	2007	2006
8. Dividends			
Dividend number 84 paid on 08 January 2008: 32 US cents per share (2007: 30 US cents per share; 2006: 30 US cents per share), net of dividends attributable to treasury shares.	**(73)**	(68)	(68)
On 06 November 2008, the directors declared a dividend (number 85) of 16 US cents per share (US$37 million) which was payable to shareholders on 02 December 2008. This dividend was declared after year end and was not included as a liability in these financial statements.			
9. Property, plant and equipment			
Land and buildings			
At cost	**1,457**	1,429	
Accumulated depreciation and impairments	**845**	810	
	612	619	
Plant and equipment*			
At cost	**7,056**	6,928	
Accumulated depreciation and impairments	**4,448**	4,225	
	2,608	2,703	
Capitalised leased assets**			
At cost	**751**	773	
Accumulated depreciation and impairments	**610**	604	
	141	169	
Aggregate cost	**9,264**	9,130	
Aggregate accumulated depreciation and impairments	**5,903**	5,639	
Aggregate book value	**3,361**	3,491	

** Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure in a separate class of assets.*
*** Capitalised leased assets consist primarily of plant and equipment.*

9. Property, plant and equipment (continued)

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

US$ million	Land and buildings	Plant and equipment	Capitalised leased assets	**Total**
Net book value at September 2006	582	2,359	188	**3,129**
Additions[(1)]	19	437	2	**458**
Disposals	(3)	(2)	–	**(5)**
Depreciation	(33)	(312)	(29)	**(374)**
Impairment	–	(2)	–	**(2)**
Translation difference	54	223	8	**285**
Net book value at September 2007	619	2,703	169	**3,491**
Additions[(1)]	59	446	2	**507**
Disposals	–	(6)	–	**(6)**
Depreciation	(34)	(316)	(24)	**(374)**
Impairment	(13)	(106)	–	**(119)**
Translation difference	(19)	(113)	(6)	**(138)**
Net book value at September 2008	612	2,608	141	**3,361**

(1) Additions include capitalised interest of US$16 million (2007: US$14 million) capitalised at 10% (2007: 9.5%).

Details of land and buildings are available at the registered offices of the respective companies who own the assets (refer note 24 for details of encumbrances).

September 2008

Usutu Mill

Usutu Mill is an unbleached pulp mill and forms part of the Sappi Forest Products reporting segment. In August 2008, forest fires caused by severe weather conditions resulted in the loss of approximately 28% of the mill's fibre supply, resulting in insufficient fibre for the mill to continue operating in the long term under its current regime. An impairment loss of US$37 million has been recognised as a result. The recoverable amount of the various assets has been determined on the basis of value in use. The value in use was established using a pre-tax real discount rate of 3.6%.

Blackburn and Maastricht mills

Maastricht and Blackburn Mills form part of Sappi Fine Paper Europe. Maastricht Mill produces coated fine and label paper while Blackburn produces coated fine and board paper. Due to the ongoing increases in input costs and the overcapacity in the European market, Blackburn Mill and Maastricht Paper Machine No. 5 have been unable to produce acceptable returns on investment, despite significant efforts to curb costs and improve profitability. Production at Blackburn Mill ceased on 17 October 2008. No alternative to the closure of the mill was found during the employee representative consultation process, which ended on 11 November 2008. In respect of Paper Machine No. 5 at Maastricht Mill, consultations and social plan negotiations with works council and unions were concluded in early October 2008.

Production on Paper Machine No. 5 at Maastricht Mill will cease around mid December 2008. A non-cash impairment charge of US$78 million has been recognised as a result of these closures. The recoverable amount of the assets at both sites has been determined on the basis of value in use. The value in use was calculated using a pre-tax real discount rate of 6.1%.

US$ million	2008	2007
10. Plantations		
Fair value of plantations at beginning of year	**636**	520
Gains arising from growth	**70**	76
Fire, hazardous weather and other damages	**(10)**	(13)
Gains arising from fair value price changes	**120**	54
Harvesting – agriculture produce (fellings)	**(80)**	(70)
Translation difference	**(105)**	69
Fair value of plantations at end of year	**631**	636

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

Sappi owns approximately 369,000 (2007: 369,000) hectares of plantation directly and indirectly manages a further 166,000 (2007: 184,000) hectares. 389,000 (2007: 409,000) hectares of this land is forested with approximately 35 million (2007: 37 million) standing tons of timber.

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

Sappi owns plantations on land that we own, as well as on land that we lease. We disclose both of these as directly managed plantations.

With regard to indirectly managed plantations, Sappi has several different types of agreements with over 3,600 different independent farmers. The agreement depends on the type and specific needs of the farmer and the areas planted. These agreements range in time from one to more than twenty years. In certain circumstances we provide loans to the farmers, which are disclosed as accounts receivable in the group balance sheet (these loans are considered immaterial to the group). If Sappi provides seedlings, silviculture and/or technical assistance, the costs are expensed when incurred by the group.

US$ million	2008 Assets	2008 Liabilities	2007 Assets	2007 Liabilities
11. Deferred tax				
Other liabilities, accruals and prepayments	**(106)**	**6**	(100)	16
Inventory	**2**	**–**	2	1
USA alternative minimum taxation credit carry forward	**11**	**–**	11	–
Unutilised Secondary Tax on Companies (STC) credits[1]	**2**	**–**	10	–
Tax loss carry forward	**389**	**27**	379	19
Property, plant and equipment	**(163)**	**(254)**	(168)	(234)
Plantations	**(11)**	**(162)**	(12)	(165)
Other non-current assets	**35**	**–**	37	–
Other non-current liabilities	**(118)**	**(16)**	(99)	(22)
	41	**(399)**	60	(385)

(1) Refer note 6 'Taxation charge (benefit)' for a description of STC credits.

Negative asset and liability positions

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

Deferred tax assets recognised on the balance sheet

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

Unrecognised deferred tax assets

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

US$ million	2008	2007
11. Deferred tax (continued)		
The unrecognised deferred tax assets relate to the following:		
Other non-current liabilities	**29**	31
Tax losses	**538**	475
Property, plant and equipment	**24**	–
	591	506
Attributable to the following tax jurisdictions:		
Belgium	**6**	2
The Netherlands	**20**	2
United Kingdom	**75**	59
United States of America	**188**	190
Swaziland	**27**	19
South Africa	**2**	2
Austria	**273**	232
	591	506
Expiry after five years	**165**	155
Indefinite life	**426**	351
	591	506
The following table shows the movement in the unrecognised deferred tax assets for the year		
Balance at beginning of year	**506**	465
Unrecognised deferred tax assets originating during the current year	**89**	6
Prior year adjustments	**4**	8
Rate adjustments	**–**	(6)
Movement in foreign exchange rates	**(8)**	33
Balance at end of year	**591**	506

US$ million	2008	2007
11. Deferred tax (continued)		
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	**60**	74
Deferred tax liabilities	**(385)**	(336)
	(325)	(262)
Deferred taxation charge for the year (refer note 6)	**(89)**	(28)
Other liabilities, accruals and prepayments	**(11)**	(37)
Inventory	**–**	(4)
Utilisation of Secondary Tax on Companies (STC) credits	**(7)**	(8)
Tax loss carry forward	**19**	29
Property, plant and equipment	**(37)**	15
Plantations	**(29)**	(13)
Other non-current assets	**(2)**	2
Other non-current liabilities	**(22)**	(12)
Amounts recorded directly against equity	**(1)**	(18)
Rate adjustments	**9**	19
Translation differences	**48**	(36)
Deferred tax balances at end of year	**(358)**	(325)
Deferred tax assets	**41**	60
Deferred tax liabilities	**(399)**	(385)

Secondary Tax on Companies (STC)

STC is levied on South African companies at a rate of 10% with effect from 01 October 2007 (previously 12.5%) on net dividends declared.

Current and deferred tax are measured at the tax rate applicable to undistributed income and therefore only take STC into account to the extent that dividends have been received or paid.

On declaration of a dividend, the company includes the STC on this dividend in its computation of the income taxation expense in the period of such declaration.

US$ million	2008	2007
Undistributed earnings that would be subject to STC	**895**	868
Tax effect if distributed	**81**	79
Available STC credits at end of year	**2**	10

US$ million	2008 Goodwill	2008 Licence fees	2008 Patents	2008 Total	2007 Goodwill	2007 Licence fees	2007 Patents	2007 Total
12. Goodwill and intangible assets								
Cost net of accumulated amortisation and impairment at beginning of year	**4**	**3**	**–**	**7**	4	3	1	8
Amortisation	**–**	**–**	**–**	**–**	–	–	(1)	(1)
Net carrying amount	**4**	**3**	**–**	**7**	4	3	–	7
Cost (gross carrying amount)	**4**	**3**	**21**	**28**	4	3	21	28
Accumulated amortisation and impairment	**–**	**–**	**(21)**	**(21)**	–	–	(21)	(21)
Net carrying amount	**4**	**3**	**–**	**7**	4	3	–	7

	2008	2007
13. Joint ventures and associates*		
Cost of equity investments	**99**	106
Share of post-acquisition profit, net of distributions received	**14**	1
Foreign currency translation effect	**11**	5
	124	112
Summarised financial information in respect of the group's equity investments is set out below:		
Total assets	**659**	641
Total liabilities	**338**	376
Net assets	**321**	265
Group's share of equity investments net assets	**124**	106

	2008	2007	2006
Sales	**902**	749	331
Profit (loss) for the period	**46**	20	(4)
Group's share of equity investments' profit (loss) for the period	**17**	10	(1)

13. Joint ventures and associates* continued

Jiangxi Chenming

During 2005 Sappi acquired 34% of Jiangxi Chenming Paper Company Limited (Jiangxi Chenming) in a joint venture arrangement. Jiangxi Chenming is established in the People's Republic of China and is principally engaged in the manufacturing and sales of paper and paper products. The annual financial statements of Jiangxi Chenming are to 31 December of each year. The last audited financials were to 31 December 2006.

Umkomaas Lignin (Pty) Ltd

A joint venture agreement between Sappi and Borregaard Industries Limited for the construction and operation of a lignin plant at Umkomaas and the development, production and sale of products based on lignosulphates in order to build a sustainable lignin business. The annual financial statements of Umkomaas Lignin (Pty) Ltd are to 31 December of each year which is the year end of Borregaard. The last audited financials were to 31 December 2007.

Sapin S.A.

A joint venture agreement located in Belgium for the buying and selling of wood and wood chips to Sappi and other paper manufacturers. The annual financial statements of Sapin S.A. are to 31 December of each year. The last audited financials were to 31 December 2007.

Papierholz Austria GmbH

A joint venture agreement for the buying and selling of wood and wood chips to Sappi and other paper and pulp manufacturers. The annual financial statements of Papierholz Austria GmbH are to 31 December of each year. The last audited financials were to 31 December 2007.

VOF Warmtekracht

A joint venture agreement located in The Netherlands between Sappi and Essent for a co-generation electricity and steam producing plant. The annual financial statements of VOF Warmtekracht are to 31 December of each year. The last audited financials were to 31 December 2007.

Timber IV

In 1998, our interests in timberlands located in Maine and certain equipment and machinery were sold to a third party timber company, Plum Creek Timberlands LLP, in exchange for cash of US$3 million and three promissory notes receivable in the aggregate amount of US$171 million. In 1999, Sappi contributed these promissory notes to a special purpose entity (SPE). The promissory notes were pledged as collateral for the SPE to issue bonds to investors in the amount of US$156 million. This has been partially repaid as described below. The SPE is bankruptcy remote and serves to protect the investors in the notes from any credit risk relating to Sappi Limited by isolating cash flows from the Plum Creek notes receivable. The structure was set up to raise funding using the promissory notes as collateral in a manner that would not result in either debt or the Plum Creek Timberlands LLP notes being reflected on balance sheet. This would not be the case if we monetised the promissory notes through an issuance of secured notes directly or by an entity that was required to be consolidated in our financial statements under the applicable accounting principles. In 2001, Sappi contributed its interest in the SPE to a limited liability company in exchange for 90% of the outstanding limited liability membership interest. All voting control of the limited liability company is controlled by an unrelated investor and therefore has not been consolidated by Sappi in its financial statements. The SPE is not consolidated in our financial statements because we have taken the position that it is controlled by an unrelated investor which has sufficient equity capital at risk. Sappi's investment in the SPE is US$11 million as of September 2008 (2007: US$11 million).

13. Joint ventures and associates* continued

The Limited Liability Company Agreement dated 04 May 2001 between Sappi and the unrelated investor was revised in 2007 as follows:

- a waiver has been granted for any administrative breach in respect of past distributions to the extent that they may have violated return of capital restrictions; and
- an allowance was made for the distribution to the members, prior to 04 May 2007 of amounts received by the company in respect of the bond that was due in February 2007.

The SPE may not be liquidated prior to repayment of the bonds it issued. The first tranche of the bonds matured on 11 February, 2007. The SPE distributed to the limited liability company the net proceeds (US$6 million) for the first repayment receivable (US$71 million) and the bonds (US$65 million). The limited liability company distributed these proceeds to its members. The remaining bonds mature in 2 further tranches on 11 February, 2009, and 11 February, 2011. Sappi may not redeem its investment in the SPE (via its ownership interest in the limited liability company) prior to complete repayment of the bonds issued by the SPE and our investment has a subordinate interest to the payment of the outstanding bonds. We have not guaranteed the obligations of the SPE and the holders of the notes payable issued by the SPE have no recourse to us.

The annual financial statements of Timber IV are to 30 September of each year. The results are unaudited.

The directors believe that the book values of the joint ventures and associates equate to the market values.

** Where the year ends of joint ventures and associates are different to Sappi's, the management accounts are used for the periods to Sappi's year end.*

US$ million	2008	2007
14. Other non-current assets		
Loans to the Sappi Limited Share Incentive Trust participants	**6**	8
Financial assets*	**22**	25
Post-employment benefits – pension asset (refer note 27)	**117**	118
Acquisition costs**	**10**	–
Other loans	**13**	14
	168	165

** Details of investments are available at the registered offices of the respective companies.*
*** Acquisition costs relate to the proposed acquisition of M-real's coated graphic paper business (refer note 32). These costs have been capitalised as management deems it probable that the acquisition will be completed during fiscal 2009.*

US$ million	2008	2007
15. Inventories		
Raw materials	**163**	145
Work in progress	**62**	58
Finished goods	**324**	328
Consumable stores and spares	**176**	181
	725	712

The charge to the group income statement relating to the write down of inventories to net realisable value amounted to US$11 million (2007: US$12 million and 2006: US$19 million). An amount of US$1 million (September 2007: US$1 million and September 2006: US$1 million) in respect of the finished goods inventory write-down for the prior year was reversed in the current year due to changing market conditions.

The cost of inventories recognised as an expense and included in cost of sales amounted to US$4,552 million (September 2007: US$4,150 million and September 2006: US$3,984 million).

US$ million	2008	2007
16. Trade and other receivables		
Trade accounts receivable, gross	**579**	566
Provision for impairment	**(5)**	(13)
Trade accounts receivable, net	**574**	553
Prepayments and other receivables	**124**	100
	698	653

Management rate the quality of the trade and other receivables, which are neither past due nor impaired, periodically against its own internal credit rating parameters. The quality of these trade receivables at balance sheet date were rated at the top range of our parameters.

The carrying amount of US$698 million (2007: US$653 million) represents the group's maximum credit risk exposure.

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

16.1 Reconciliation of the provision for impairment

	2008	2007
Opening balance	**13**	17
Impairment provision created	**3**	–
Impairment provision reversed	**(9)**	–
Bad debts written off	**(2)**	(4)
Closing balance	**5**	13

An allowance has been made for estimated irrecoverable amounts from the sale of goods of US$5 million (2007: US$13 million). This allowance has been determined by reference to past default experience.

16.2 Analysis of amounts past due

September 2008

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

	Not impaired	Impaired	Total
Less than 7 days overdue	**15**	**–**	**15**
Between 7 and 30 days overdue	**18**	**–**	**18**
Between 30 and 60 days overdue	**6**	**–**	**6**
More than 60 days overdue	**7**	**5**	**12**
	46	**5**	**51**

16. Trade and other receivables (continued)

16.2 Analysis of amounts past due (continued)

September 2007
The following provides an analysis of the amounts that are past the due contractual maturity dates:

	Not impaired	Impaired	Total
Less than 7 days overdue	16	–	16
Between 7 and 30 days overdue	12	–	12
Between 30 and 60 days overdue	2	–	2
More than 60 days overdue	2	6	8
	32	6	38

All amounts due which are beyond their contractual repayment terms are reported to regional management on a regular basis. Any provision for impairment is required to be approved by the regional credit controller. All provisions for impairment greater than US$50,000 are required to be approved by regional management. The group has a provision of US$5 million (2007: US$6 million) against trade receivables that are past due. The group holds collateral of US$17 million (2007: US$14 million) against these trade receivables that are past due.

US$ million	**2008**	2007
The group has granted facilties to customers to buy on credit for the following amounts:		
Less than and equal to US$0.5 million	**280**	302
Less than US$1 million but equal to or greater than US$0.5 million	**246**	408
Less than US$3 million but equal to or greater than US$1 million	**426**	453
Less than US$5 million but equal to or greater than US$3 million	**207**	200
Equal to or greater than US$5 million	**812**	444
	1,971	1,807

16.3 Fair value

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

16.4 Trade receivables pledged as security

Trade receivables with a value of US$415 million (2007: US$415 million) have been pledged as collateral for amounts received from the banks in respect of the securitisation programme. The value of the associated liabilities at year end amounted to US$360 million (2007: US$354 million). The group is restricted from selling and repledging the trade receivables that have been pledged as collateral for the liability.

16.5 Off balance sheet structures

Letters of credit discounting
To improve the group working capital, the group sells certain Letters of Credit to ABN AMRO Hong Kong and DBS bank (London) every month end at a discount on a non recourse basis.

'Scheck-Wechsel'
The Scheck-Wechsel is a financial guarantee supplied to the bank of certain trade receivables who wish to obtain a loan to finance early payment of trade receivables thereby benefiting from an early settlement discount. By signing the Scheck-Wechsel, Sappi provides a financial guarantee to the bank of the customer. This financial guarantee contract falls under the scope of IAS 39 Financial instruments.

This financial guarantee contract is initially recognised at fair value. At inception the risk for Sappi having to reimburse the bank is nil because there is no evidence that the customer will not reimburse its loan to the bank. There is also no guarantee fee due by the bank and the Scheck-Wechsel is a short term instrument (maximum 90 days). Therefore the fair value is zero

at inception. Subsequently the financial guarantee contract is measured at the higher of:
(i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and
(ii) the amount initially recognised less any cumulative amortisation.

As no event of default has occurred, no provision has been set up and the fair value at year-end remains at zero. However, according to IAS 37 a contingent liability of US$20 million (2007: US$20 million) has been disclosed in this respect.

Trade receivables securitisation

To improve our cash flows in a cost-effective manner, we sell all eligible trade receivables on a non-recourse basis to special purpose entities (SPEs) that are owned and controlled by third party financial institutions. Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Trading sell their trade receivables on a recourse basis whilst Sappi Forest Products sell their trade receivables on a non-recourse basis. These SPEs are funded in the commercial paper market and are not limited to transactions with us but securitise assets on behalf of their sponsors for a diverse range of unrelated parties. We have a servicing agreement with the entities acquiring our receivables, acting as servicers for the collection of cash and administration of the trade receivables sold.

Sappi Forest Products securitisation facility

Sappi sells the majority of its ZAR receivables to a securitisation vehicle managed by Rand Merchant Bank that issues commercial paper to finance the purchase of the receivables. Sappi retains a small proportion of the credit risk attached to each underlying receivable. Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is adjusted dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is JIBAR (Johannesburg Inter Bank Agreed Rate) plus a spread. This structure is currently treated as an off balance sheet arrangement.

We have no obligation to repurchase any receivables which may default and do not guarantee the recoverability of any amounts apart from a small portion on a proportionate basis over and above the first tier loss provisions. The total amount of trade receivables sold at the end of September 2008 amounted to US$194 million (September 2007: US$144 million). Details of the securitisation programme at the end of fiscal 2008 and 2007 are disclosed in the tables below.

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

Details of the securitisation facility at September are set out below:

Bank	Currency	Value	Facility	Discount charges
2008				
Rand Merchant Bank	ZAR	ZAR1,568 million	Unlimited*	Linked to 3 month JIBAR
2007				
Rand Merchant Bank	ZAR	ZAR993 million	Unlimited*	Linked to 3 month JIBAR

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

Details of the on-balance sheet securitisation facilities that are applicable to Sappi Fine Paper are described in note 20.

A significant portion of the group's sales and accounts receivable are from major groups of customers. Two (2007: two) of the group's major customers, represent more than 10% of our sales during the year ended September 2008. These sales were recorded in Sappi Fine Paper. The sales for the year ended September 2008 amounted to US$1,242 million (two customers 2007: US$1,143 million). The trade receivables balance, net of securitisation, outstanding on balance sheet at September 2008 was US$83 million (September 2007: two customers US$49 million). Where appropriate, credit insurance has been taken out over the group's trade receivables.

16. Trade and other receivables (continued)

16.5 Off balance sheet structures (continued)

None of the group's other receivable financial instruments represent a high concentration of credit risk because the group has dealings with a variety of major banks and customers world-wide.

The group has the following amounts due from single customers:

	2008			2007		
	No of customers	**US$m**	**Percentage**	No of customers	US$m	Percentage
Greater than or equal to US$10 million	**6**	**122**	**21%**	7	106	19%
Greater than or equal to US$5 million	**9**	**62**	**11%**	11	70	13%
Less than US$5 million	**1,713**	**390**	**68%**	1,788	377	68%
	1,728	**574**	**100%**	1,806	553	100%

None of the trade receivables, with balances of equal to or greater than US$5 million as at year end have breached their contractual maturity terms. No impairment charges have been recognised in respect of customers who owe the group more than US$5 million. Refer note 30 for further details on credit risk.

US$ million	2008	2007
17. Ordinary share capital and share premium		
Authorised share capital:		
325,000,000 (September 2007: 325,000,000) shares of ZAR1 each		
Issued share capital:		
239,071,892 (September 2007: 239,071,892) shares of ZAR1 each	**28**	34
Share premium	**679**	791
	707	825

Included in the issued ordinary shares above are 9,906,661 (September 2007: 10,600,811) shares held as treasury shares by group entities, including The Sappi Limited Share Incentive Trust (the Scheme). These may be utilised to meet the requirements of the Scheme.

	Number of shares	
The movement in the number of treasury shares is set out in the table below:		
Treasury shares at beginning of year (including Scheme shares)	**10,600,811**	12,077,861
Treasury shares issued to participants of the Scheme	**(694,150)**	(1,477,050)
– Share options (per note 29)	**(452,200)**	(1,046,800)
– Allocation shares (per note 29)	**(273,750)**	(450,650)
– Scheme shares forfeited, released and other	**31,800**	20,400
Treasury shares at end of year	**9,906,661**	10,600,811

17. Ordinary share capital and share premium (continued)

Sappi has a general authority to purchase its shares up to a maximum of 10% of the issued ordinary share capital in any one financial year. This was ratified at the annual general meeting of shareholders on 3 March 2008. The general authority is subject to the Listings Requirements of the JSE Limited and the Companies Act No 61 of 1973 of South Africa, as amended and expires at the next annual general meeting.

Included in the 85,928,108 unissued shares and in the 239,071,892 issued shares are a total of 19,000,000 shares which may be used to meet the requirements of the Scheme and/or The Sappi Limited Performance Share Incentive Trust (the Plan). In terms of the rules of the Scheme and the Plan the maximum number of shares which may be acquired in aggregate by the Scheme and/or the Plan and allocated to participants of the Scheme and/or the Plan from time to time is 19,000,000 shares, subject to adjustment in case of any increase or reduction of Sappi's issued share capital on any conversion, redemption, consolidation, sub-division and/or any rights or capitalisation issue of shares. Sappi is obliged to reserve and keep available at all times out of its authorised but unissued share capital such number of shares (together with any Treasury shares held by Sappi subsidiaries which may be used for the purposes of the Scheme and/or the Plan) as shall then be required in terms of the Scheme and/or the Plan. Authority to use treasury shares for the purposes of the Scheme and/or the Plan was granted by shareholders at the annual general meeting held on 7 March 2005.

Since March 1994, 6,752,522 (September 2007: 8,223,372) shares have been allocated to the Scheme participants and paid for and 5,772,812 (September 2007: 5,980,162) shares have been allocated to the Scheme participants and not yet paid for. In terms of the Plan, 3,961,100 (September 2007: 3,928,400) shares have been allocated and remain unpaid for to the Plan participants.

Shares allocated and accepted more than ten years ago are added back to the number of shares that the Scheme and/or the Plan may acquire.

The net after tax loss on sale of treasury shares to participants written off against share premium for September 2008 was US$1 million (September 2007: US$1 million).

Subsequent to year end, Sappi Limited launched a fully underwritten rights offer (refer note 32 for further details).

18. Reconciliation of changes in equity

US$ million	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distrib-utable reserves	Foreign currency translation reserve	Retained earnings	Total
Balance – September 2005	225.9	35	832	867	95	2	625	1,589
Transfer from distributable reserves	–	–	–	–	5	–	(5)	–
Share-based payment	–	–	–	–	6	–	–	6
Transfers to Sappi Limited Share Incentive Trust	1.1	–	5	5	–	–	–	5
Total recognised expense	–	(6)	(151)	(157)	3	(35)	43	(146)
Dividends – US$0.30 per share*	–	–	–	–	–	–	(68)	(68)
Balance – September 2006	227.0	29	686	715	109	(33)	595	1,386
Transfer to distributable reserves	–	–	–	–	(13)	–	13	–
Share-based payment	–	–	–	–	5	–	–	5
Transfers to Sappi Limited Share Incentive Trust	1.5	–	14	14	–	–	–	14
Total recognised income	–	5	91	96	13	42	328	479
Dividends – US$0.30 per share*	–	–	–	–	–	–	(68)	(68)
Balance – September 2007	228.5	34	791	825	114	9	868	1,816
Transfer from distributable reserves	–	–	–	–	8	–	(8)	–
Share-based payments	–	–	–	–	10	–	–	10
Transfers to Sappi Limited Share Incentive Trust	0.7	–	6	6	–	–	–	6
Total recognised expense	–	(6)	(118)	(124)	(8)	(130)	108	(154)
Dividends – US$0.32 per share*	–	–	–	–	–	–	(73)	(73)
Balance – September 2008	229.2	28	679	707	124	(121)	895	1,605
Note reference:				17	19			

* *Dividends relate to the previous financial year's earnings but were declared subsequent to year-end.*

18. Reconciliation of changes in equity (continued)

Capital risk management

The capital structure of the group consists of:

- issued share capital and premium and accumulated profits disclosed in note 17 and 18 respectively;
- debt, which includes interest bearing borrowings and obligations due under finance leases disclosed under note 20; and
- cash and cash equivalents.

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

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

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

During fiscal 2008 and 2007 we were in compliance with the financial covenants relating to the material loans payable.

The group's strategy with regard to capital risk management remains unchanged from 2007.

US$ million	2008	2007
19. Non-distributable reserves		
Reduction in capital arising from the transfer of share premium under a special resolution dated 14 April 1975	**1**	1
Capitalisation of distributable reserves	**13**	15
Legal reserves in subsidiaries	**75**	66
Share-based payment reserve	**35**	32
	124	114

19. Non-distributable reserves (continued)

	2008					2007				
	Capital reduction	**Capital-isation reserve**	**Legal reserves**	**Share-based pay-ment reserve**	**Total**	Capital reduction	Capital-sation reserve	Legal reserves	Share-based pay-ment reserve	Total
Opening balance	**1**	**15**	**66**	**32**	**114**	1	13	71	24	109
Transfer from retained earnings	**–**	**–**	**8**	**–**	**8**	–	–	–	–	–
Released to retained earnings	**–**	**–**	**–**	**–**	**–**	–	–	(13)	–	(13)
Share-based payment expense	**–**	**–**	**–**	**10**	**10**	–	–	–	5	5
Translation difference	**–**	**(2)**	**1**	**(7)**	**(8)**	–	2	8	3	13
	1	**13**	**75**	**35**	**124**	1	15	66	32	114

The amounts recorded as "Capitalisation of distributable reserves" and "Legal reserves in subsidiaries" represent equity of the company that is not available for distribution as a result of appropriations of equity by subsidiaries and legal requirements, respectively.

20. Interest-bearing borrowings

	2008	2007
Secured borrowings		
– Mortgage and pledge over trade receivables and certain assets (refer note 24 for details of encumbered assets)	**468**	457
– Capitalised lease liabilities (refer note 24 for details of encumbered assets)	**29**	41
Total secured borrowings	**497**	498
Unsecured borrowings	**2,156**	2,101
Total borrowings (refer note 30)	**2,653**	2,599
Less: Current portion included in current liabilities	**821**	771
	1,832	1,828

US$ million	2008	2007
20. Interest-bearing borrowings (continued)		
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2008	**–**	771
2009*	**821**	19
2010	**65**	69
2011	**629**	623
2012	**615**	619
2013 (September 2008: thereafter)	**159**	498
Thereafter	**364**	–
	2,653	2,599

* *Included in the US$821 million reflected as short-term payable in 2009 is US$360 million debt relating to securitisation funding (2008: US$354 million included in US$771 million) which has the character of a short-term revolving facility but is expected to run until 2012 under the existing contractual arrangements. A further amount of US$297 million (2007: US$142 million) is the utilisation under our revolving credit facility, and while rolled on a short term basis the facility has a maturity date of May 2010.*

Capitalised lease liabilities

Finance leases are primarily for plant and equipment. Lease terms generally range from 5 to 10 years with options to make early settlements or renew at varying terms. At the time of entering into capital lease agreements, the commitments are recorded at their present value using applicable interest rates. As of September 2008, the aggregate amounts of minimum lease payments and the related imputed interest under capitalised lease contracts payable in each of the next five financial years and thereafter are as follows:

	2008			2007		
	Minimum lease payments	**Interest**	**Present value of minimum lease payments**	Minimum lease payments	Interest	Present value of minimum lease payments
Payable in the year ended September:						
2008	**–**	**–**	**–**	13	(3)	10
2009	**10**	**(3)**	**7**	12	(5)	7
2010	**4**	**(2)**	**2**	5	(3)	2
2011	**4**	**(2)**	**2**	5	(2)	3
2012	**5**	**(2)**	**3**	5	(1)	4
2013 (September 2007: thereafter)	**5**	**(1)**	**4**	18	(3)	15
Thereafter	**12**	**(1)**	**11**	–	–	–
Total future minimum lease payments	**40**	**(11)**	**29**	58	(17)	41

20. **Interest-bearing borrowings** (continued)

Set out below are details of the more significant non-current interest-bearing borrowings in the group at September 2008.

	Currency	Interest rate[9]	Principal amount outstanding	Balance sheet value	Security/ Cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	US$	Variable[7]	US$500 million	US$490 million[2,3,6]	Unsecured	June 2012	No financial covenants
Public bond	US$	Variable[7]	US$250 million	US$239 million[2,3,6]	Unsecured	June 2032	No financial covenants
Town of Skowhegan	US$	Variable[7]	US$35 million	US$35 million[6]	Land and buildings (partially)	October 2015	No financial covenants
Town of Skowhegan	US$	Variable[7]	US$28 million	US$28 million[6]	Land and buildings (partially)	November 2013	No financial covenants
Michigan Strategic Fund and City of Westbrook	US$	Variable[7]	US$44 million	US$45 million[6]	Land and buildings (partially)	January 2022	No financial covenants
Public bond	ZAR	Fixed	ZAR1,000 million	ZAR1,000 million	Unsecured	June 2013	No financial covenants
Public bond	ZAR	Fixed	ZAR1,000 million	ZAR999 million	Unsecured	October 2011	No financial covenants
Bravura/ Sanlam	ZAR	Fixed	ZAR109 million	ZAR109 million	Unsecured	November 2012	No financial covenants
Bravura/ Sanlam	ZAR	Fixed	ZAR108 million	ZAR108 million	Unsecured	January 2013	No financial covenants
Bravura/ Sanlam	ZAR	Fixed	ZAR27 million	ZAR27 million	Unsecured	March 2013	No financial covenants
Secured loans							
State Street Bank[10]	EUR	Variable	EUR150 million	EUR150 million	Trade receivables	Revolving facility	EBITDA to net interest and net debt to capitalistion[5]
State Street Bank[10]	US$	Variable	US$73 million	US$73 million	Trade receivables	Revolving facility	EBITDA to net interest and net debt to capitalistion[5]
State Street Bank[10]	US$	Variable	US$68 million	US$68 million	Trade receivables	Revolving facility	EBITDA to net interest and net debt to capitalistion[5]

20. Interest-bearing borrowings (continued)

	Currency	Interest rate[9]	Principal amount outstanding	Balance sheet value	Security/ Cession	Expiry	Financial covenants
Capitalised leases							
Standard Bank	ZAR	Fixed	ZAR45 million	ZAR47 million[1]	Plant and equipment	October 2008	No financial covenants
Rand Merchant Bank	ZAR	Fixed	ZAR169 million	ZAR169 million[1]	Buildings	September 2015	No financial covenants
Unsecured bank term loans							
BNP Paribas Syndication	EUR	Variable	EUR100 million	EUR100 million		November 2008	No financial covenants
BNP Paribas	EUR	Variable	EUR25 million	EUR25 million		November 2008	No financial covenants
Österreichische Kontrollbank	EUR	Variable	EUR58 million	EUR58 million[1,8]		March 2009	No financial covenants
Österreichische Kontrollbank	EUR	Fixed	EUR400 million	EUR399 million[2,6,8]		December 2010	EBITDA to net interest and net debt to capitalistion[5]
ABN AMRO	US$	Fixed	US$21 million	US$21 million		May 2009	No financial covenants
Österreichische Kontrollbank	US$	Fixed	US$38 million	US$38 million[2,6,8]		June 2010	EBITDA to net interest and net debt to capitalistion[5]
BNP Paribas Syndication	CHF	Variable	CHF165 million	CHF165 million[2,8]		November 2008	EBITDA to net interest and net debt to capitalistion[5]
Nedbank	ZAR	Fixed	ZAR349 million	ZAR349 million[1]		January 2011	No financial covenants
Commerzbank	ZAR	Fixed	ZAR147 million	ZAR147 million[1]		March 2010	No financial covenants
Calyon	ZAR	Variable	ZAR55 million	ZAR55 million[1,4]		October 2009	EBITDA to net interest and net debt to capitalistion
RZB Bank	EUR	Fixed	EUR7 million	EUR7 million		December 2009	No financial covenants

20. **Interest-bearing borrowings** (continued)

	Local currency	US$ million
The analysis of the currency per debt is:		
US$	1,038	1,038
Swiss Franc	165	151
EURO	747	1,091
ZAR	3,009	373
		2,653

(1) The value outstanding equals the total facility available.
(2) In terms of the agreement, limitations exist on liens, sale and leaseback transactions and mergers and consolidation. Sappi Limited must maintain a majority holding in Sappi Papier Holding GmbH Group.
(3) Sappi Papier Holding GmbH, Sappi Limited or Sappi International SA may at any time redeem the June 2012 and 2032 public bonds (the 'Securities') in whole or in part at a redemption price equal to the greater of (i) 100% of the principal amount of the Securities to be redeemed and (ii) a make-whole amount based upon the present values of remaining payments at a rate based upon yields of specified US treasury securities plus 25 basis points, with respect to the 2012 Securities, and 30 basis points, with respect to the 2032 Securities, together with, in each case, accrued interest on the principal amount of the securities to be redeemed to the date of redemption.
(4) The financial covenant relates to the financial position of Sappi Manufacturing, a wholly owned subsidiary of Sappi Limited.
(5) Financial covenants relate to the Sappi Limited Group.
(6) The principal value of the loans / bonds corresponds to the amount of the facility, however, the outstanding amount has been adjusted by the discounts paid upfront and the fair value adjustments relating to hedge accounting.
(7) Fixed rates have been swapped into variable rates. These swaps are subject to hedge accounting in order to reduce as far as possible the fair value exposure. Changes in fair value of the underlying debt which are attributable to changes in credit spread have been excluded from the hedging relationship.
(8) A limitation exists on the disposal of assets. Sappi Limited must maintain a majority in Sappi Papier Holding GmbH Group.
(9) The nature of the variable rates for the group bonds is explained in note 30 to the financial statements. The nature of the interest rates is determined with reference to the underlying economic hedging instrument.
(10) Trade receivables have been securitised for the amounts outstanding.

A detailed reconciliation of total interest bearing borrowings has been performed in note 30.

Other restrictions

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

During fiscal 2008 and 2007 we were in compliance with the financial covenants relating to the material loans payable. Regular monitoring of compliance with applicable covenants occurs. If there is a possible breach of a financial covenant in the future, negotiations are commenced with the applicable institutions before such breach occurs.

Borrowing facilities secured by trade receivables

The group undertakes several trade receivable securitisation programmes due to the cost effectiveness of such structures. These structures, with the exception of the South African scheme, are treated as on balance sheet, with a corresponding liability (external loan) being recognised and corresponding interest is recognised as finance cost.

The trade receivables are legally transferred, however most of the market risk (foreign exchange risk and interest rate risk) and the credit risk is retained by Sappi. As a consequence based on the risks and rewards evaluation these securitisations do not qualify for de-recognition under IAS 39.

Further detail of the value of trade receivables pledged as security for these loans is included in note 16 of the financial statements.

Sappi Fine Paper North America

Sappi sells the majority of its US$ receivables to Galleon Capital LLC on a non recourse basis. Credit enhancement includes a 3% deferred purchase price plus a letter in the amount of US$18 million that relates to the uninsured portion of those obligors with concentrations above 3% (Sappi, as servicer of the receivables, is responsible for the collection of all amounts that are due from the customer). The rate of discounting charged on the receivables is LIBOR (London Inter Bank Offered Rate) plus a margin for receivables to customers located in OECD countries.

20. **Interest-bearing borrowings** (continued)

Sappi Fine Paper Europe

Sappi sells the majority of its receivables to Galleon Capital LLC on a non recourse basis. Credit enhancement is calculated by deducting a deferred purchase price of 14%. Sappi is responsible for the collection of all amounts that are due from the customer. The rate of discounting that is charged on the receivables is EURIBOR (European Inter Bank Offered Rate) plus a margin for receivables to customers located in OECD countries plus a further margin for receivables to customers located in non-OECD countries.

Sappi Trading

Sappi sells the majority of its US$ denominated receivables to Galleon Capital LLC on a non recourse basis. Credit enhancement is calculated by deducting a deferred purchase price of 14%. A letter of credit is issued by Sappi to Galleon Capital LLC as a guarantee for funding of excess concentrations if this would be the case. Sappi is responsible for the collection of all amounts that are due from the customer. The rate of discounting that is charged on the receivables is LIBOR (London Inter Bank Offered Rate) plus a margin for receivables to customers located in OECD countries plus a further margin for receivables to customers located in non-OECD countries.

Non-utilised facilities

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

Non-utilised committed facilities

US$ million	Currency	Interest rate	2008	2007
Commercial Paper*	ZAR	Variable (JIBAR)	**25**	1
Syndicated loan**	EUR	Variable (EURIBOR)	**580**	713
			605	714

* *Commercial paper programme sponsored by Investec for a committed liquidity facility of ZAR200 million for each further issue. The remainder of the unutilised portion of the total ZAR1 billion programme facility has been included under uncommitted facilities disclosed below.*

** *Syndicated loan with a consortium of banks with BNP Paribas as agent with a remaining revolving facility available of EUR397 million, which are subject to net finance cost cover and debt to total capitalisation ratio financial covenants which relate to the Sappi Limited group.*

These committed facilities represent amounts that the group could utilise. The syndicated loan facility matures in May 2010 and the commercial paper facility is ongoing without a precise maturity date. We have paid a total commitment fee of US$1 million (2007 US$2 million) in respect of the syndicated loan facility.

Non-utilised uncommitted facilities

Geographic region	Currency	Interest rate	2008	2007
Southern Africa	ZAR	Variable (JIBAR)	**205**	150
Group Treasury – Europe	EUR	Variable (EURIBOR)	**143**	277
Europe	EUR	Variable (EURIBOR)	**130**	–
Europe	USD	Variable (LIBOR)	**–**	69
			478	496
Total non-utilised facilities excluding cash			**1,083**	1,210

Fair value

The fair value of all interest bearing borrowings is disclosed in note 30 on financial instruments.

US$ million		2008	2007
21.	**Other non-current liabilities**		
	Post-employment benefits – pension liability (refer note 27)	**144**	144
	Post-employment benefits other than pension liability (refer note 28)	**141**	181
	Long-term employee benefits	**6**	10
	Workmen's compensation	**7**	6
	Long service awards	**18**	19
	Land restoration obligation	**16**	16
	Deferred income	**4**	1
	Other	**10**	7
		346	384
22.	**Provisions**		
	Summary of provisions:		
	Restructuring provisions	**41**	16
	Other provisions	**1**	2
	Balance at September*	**42**	18

* *These are all current liabilities.*

Restructuring provisions	Severance, retrench-ment and related costs	Lease cancellation and penalty costs	Other restructuring	Total
Balance at September 2006*	40	–	1	**41**
Increase in provisions	6	–	1	**7**
Utilised	(16)	–	(1)	**(17)**
Released during the year	(17)	–	–	**(17)**
Other movements	(1)	–	–	**(1)**
Translation effect	3	–	–	**3**
Balance at September 2007*	15	–	1	**16**
Increase in provisions	23	5	19	**47**
Utilised	(8)	–	–	**(8)**
Released during the year	(4)	–	–	**(4)**
Other movements	1	–	(10)	**(9)**
Translation effect	–	(1)	–	**(1)**
Balance at September 2008*	27	4	10	**41**

* *These are all included in current liabilities.*

22. **Provisions** (continued)

Restructuring plans

Sappi Fine Paper Europe

Regional Restructuring. The regional restructuring plan was introduced in fiscal 2006. The original number of employees expected to be impacted by this plan was 650. From a total of 650, 450 employees were expected to receive termination benefits. The remaining number of 200 employees was comprised of those who were employed on a contractual basis as well as employees nearing retirement. The number of employees expected to receive termination benefits was revised from 450 to 357 at September 2007 and further revised to 347 at the end of fiscal 2008 of which 333 were already impacted. The total provision relating to the restructuring plan at of the end of fiscal 2008 is approximately US$5 million (2007: US$15 million).

Blackburn Mill. During the financial year ended September 2008, Sappi Fine Paper Europe announced that it had entered into a consultation process with employee representatives with a view to cease production at Blackburn Mill which had an annual production capacity of 120,000 tons of graphic coated fine paper. Whilst various ancillary production and selling activities are ongoing, the mill ceased production of paper in October 2008, and on 11th November 2008, the consultation process with employee representatives came to an end resulting in 95 employees being made redundant. A further 34 employees are expected to be made redundant by the end of March 2009. A provision of US$23 million relating to severance, retrenchment and other related closure costs has been raised.

Maastricht Mill. During the financial year ended September 2008, Sappi Fine Paper Europe announced that it had entered into a consultation process with employee representatives with a view to shutting down one of its coated paper machines with an annual production capacity of 60,000 tons of graphic coated fine paper at Maastricht Mill. Negotiations with Unions and the Works Council were concluded in October 2008. Cessation of production is expected to occur in December 2008 and to affect 175 employees. A provision of US$24 million relating to severance, retrenchment and other related closure costs has been raised.

Sappi Fine Paper North America

Muskegon Mill. In 2007 Sappi Fine Paper North America completed its plan of restructuring the Muskegon Mill. The total number of remaining employees who were expected to be affected by the restructuring plan was 23 at the beginning of fiscal 2007. All these employees were impacted by the plan by the end of the year. Approximately half of the provision of US$1 million that remained at the end of fiscal 2006 was utilised to provide severance and related costs and the remainder was reversed.

Regional head office. All the remaining activities of the restructuring plan relating to the regional head office were completed during fiscal 2007.

US$ million	2008	2007	2006
23. Notes to the cash flow statement			
23.1 Cash generated from operations			
Profit (loss) for the year	**102**	202	(4)
Adjustment for:			
– Depreciation	**374**	374	390
– Fellings	**80**	70	74
– Amortisation	**–**	1	2
– Taxation charge (benefit)	**86**	47	(1)
– Net finance costs	**126**	134	130
– Other asset impairments (reversals) and write-offs	**119**	2	(14)
– Fair value adjustment gains and growth on plantations	**(190)**	(130)	(104)
– Post employment benefits funding	**(88)**	(101)	(68)
– Other non-cash items	**14**	(14)	(9)
	623	585	396
23.2 Increase in working capital			
(Increase) decrease in inventories	**(38)**	44	(3)
Increase in receivables	**(19)**	(38)	(3)
Increase (decrease) in payables	**58**	54	(11)
	1	60	(17)
23.3 Finance costs paid			
Gross interest and other finance costs	**(181)**	(173)	(162)
Net foreign exchange gains	**8**	13	7
Net loss on marking to market of financial instruments	**(7)**	(9)	(3)
Non-cash movements included in items above	**41**	(14)	(6)
	(139)	(183)	(164)
23.4 Taxation paid			
Amounts unpaid at beginning of year	**(125)**	(101)	(120)
Translation effects	**7**	(12)	9
Amounts charged to the income statement	**(6)**	(38)	(5)
Reversal of non-cash movements	**–**	(1)	2
Amounts unpaid at end of year	**54**	125	101
Cash amounts paid	**(70)**	(27)	(13)
23.5 Replacement of non-current assets			
Property, plant and equipment	**(250)**	(116)	(160)

US$ million	2008	2007	2006
23. Notes to the cash flow statement (continued)			
23.6 Proceeds on disposal of non-current assets			
Book value of property, plant and equipment disposed of	**2**	23	2
Profit on disposal	**5**	27	2
	7	50	4
23.7 Cash and cash equivalents			
Cash and deposits on call	**221**	354	218
Money market instruments	**53**	10	6
	274	364	224
24. Encumbered assets			
The book values of assets which are mortgaged, hypothecated or subject to a pledge as security for borrowings, subject to third party ownership in terms of capitalised leases or suspensive sale agreements are as follows:			
Land and buildings	**17**	24	
Plant and equipment	**4**	28	
Trade receivables	**415**	415	
	436	467	

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

A significant portion of the assets at Cloquet Mill are subject to several long-term, cross-border leases assumed at the time of its acquisition in May 2002. Under the lease arrangements, the previous owner sold assets to an unrelated third party, leased the assets back, and made an upfront lease payment. As a result, no future lease payments are required under the agreement.

Sappi has the right to acquire full ownership of these assets at the end of the lease term. Early termination of the lease may occur under three different scenarios; namely, under Scenario A, payment would be made by Sappi as a result of the following events: voluntary early termination, termination due to default and total loss of plant and equipment without substitution; under Scenario B, payment would be made by Sappi as a result of changes in statute rendering the agreement illegal or unenforceable; and under Scenario C, the lease naturally expires or early termination is triggered by the lessor. As at September 2008 the termination value of this lease is approximately US$8 million (September 2007: US$10 million).

Refer to note 9 for details on property, plant and equipment.

US$ million	2008	2007
25. Commitments		
Capital commitments		
Contracted but not provided	**76**	188
Approved but not contracted	**130**	249
	206	437
Future forecasted cashflows of capital commitments:		
2008	**–**	389
2009	**154**	33
2010	**35**	15
Thereafter	**17**	–
	206	437
The capital expenditure is expected to be financed by funds generated by the business, existing cash resources and borrowing facilities available to the group.		
Lease commitments		
Future minimum obligations under operating leases:		
Payable in the year ended September:		
2008	**–**	112
2009	**28**	14
2010	**14**	10
2011	**9**	5
2012	**4**	2
2013 (September 2007: thereafter)	**2**	2
Thereafter	**35**	–
	92	145

Future minimum obligations under operating leases include the following two significant arrangements:

Sale and Lease Back of the Somerset Paper Machine: In 1997 we sold one of our paper machines at our Somerset Mill for US$150 million and entered into a leaseback arrangement. This transaction diversified our sources of funding and provided a longer-term horizon to our repayment profile. This qualified as an operating lease under the applicable accounting principles. The lease term expired after 15 years, and an option was available to either return the paper machine; renew the lease for at least 2 years, but for no longer than 80% of its remaining useful life; or repurchase it at its fair market value at the end of the lease term. On January 29, 2008, we exercised our purchase option under the lease agreement to buy back Somerset Paper Machine No. 3 for approximately US$75 million. Lease payments made during fiscal year 2008 amounted to US$7.6 million.

*We*stbrook Cogeneration Agreement: In 1982 a cogeneration facility was installed adjacent to our Westbrook Mill at a cost of US$86 million, to supply steam and electricity to the mill on a take-or-pay basis. We took the position that this was an operating lease. An unrelated investor owned the facility. In July 2007, we notified the lessor of our intent to purchase the asset in accordance with the terms of the agreement at the end of the Basic Term (July 15, 2008) at its fair market value and on 29 August 2008, we purchased the facility for approximately US$10 million. Lease payments in fiscal 2008 amounted to US$4.8 million.

Environmental matters: Further information on capital commitments relating to environmental matters can be found in note 33.

US$ million	2008	2007
26. Contingent liabilities		
Guarantees and suretyships	**38**	43
Other contingent liabilities	**7**	26

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

Other contingent liabilities mainly relate to taxation queries to which certain group companies are subject. The decrease in contingent liabilities reflects management's revised estimate of losses which could arise from taxation queries to which certain group companies are subject. These amounts have been recognised as current income tax liabilities.

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

27. Post-employment benefits – pensions

Defined contribution plans

The group operates eleven defined contribution retirement benefit schemes covering all qualifying employees. The assets of the schemes are held separately from those of the group in funds under the control of trustees. In addition the group participates in a country-wide union scheme open to eligible employees in South Africa.

The total cost charged to the income statement of US$23 million (September 2007: US$18 million, September 2006: US$10 million) represents contributions payable to these schemes by the group based on the rates specified in the rules of these schemes. As at September 2008, US$2 million (September 2007: nil, September 2006: nil) was due in respect of the current reporting period that had not yet been paid over to the schemes.

Defined benefit plans

The group operates eight large defined benefit pension plans plus a number of smaller plans. This includes plans closed to new entrants as well as plans closed for future accrual for existing members. Those plans, open to new entrants or future accrual, cover all qualifying employees. Such plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country. Benefits are generally based upon compensation and years of service. In North America benefits are based on a 'multiplier' and years of service for most schemes, which historically has increased from time to time. With the exception of our German and Austrian plans (which are unfunded), the assets of these schemes are held in separate trustee administered funds which are subject to varying statutory requirements in the particular countries concerned. In terms of these requirements, periodic actuarial valuations of these funds are performed by independent actuaries. As at September 2008, the number of active members in schemes is approximately 8,000.

Actuarial valuations of the European and North American funds are performed annually. An actuarial review is performed annually for the South African and United Kingdom funds, with an actuarial valuation being performed on a tri-annual basis.

Group companies have no other significant post-employment benefit liabilities except for the following:

- health care benefits provided to persons in North America and in South Africa (refer note 28).
- jubilee (long service award schemes) provided in continental Europe and an early retirement plan in Belgium, totalling $23 million (included within other non-current liabilities in note 21).

All obligations and assets were measured at the end of this financial year.

27. Post-employment benefits – pensions (continued)

	2008				2007			
US$ million	**Southern Africa**	**Europe (incl UK)**	**North America**	**Total**	Southern Africa	Europe (incl UK)	North America	Total
Change in present value of defined benefit obligation								
Defined benefit obligations at beginning of year	**305**	**889**	**413**	**1,607**	256	819	438	1,513
Current service cost	**8**	**12**	**6**	**26**	10	11	7	28
Past service cost	**–**	**1**	**–**	**1**	–	–	1	1
Interest cost	**24**	**47**	**26**	**97**	24	39	25	88
Plan participants' contribution	**4**	**–**	**–**	**4**	4	–	–	4
Actuarial loss (gain) experience	**11**	**(2)**	**7**	**16**	(16)	7	(4)	(13)
Actuarial (gain) loss assumptions	**(11)**	**(127)**	**(51)**	**(189)**	20	(37)	(30)	(47)
Gain on curtailment and settlement	**–**	**(1)**	**–**	**(1)**	–	–	–	–
Benefits paid	**(26)**	**(50)**	**(23)**	**(99)**	(27)	(44)	(24)	(95)
Translation difference	**(44)**	**(4)**	**–**	**(48)**	34	94	–	128
Defined benefit obligation at end of year	**271**	**765**	**378**	**1,414**	305	889	413	1,607
Present value of wholly unfunded obligations	**–**	**114**	**3**	**117**	–	129	3	132
Present value of wholly and partly funded obligations	**271**	**651**	**375**	**1,297**	305	760	410	1,475
Change in fair value of plan assets								
Fair value of plan assets at beginning of year	**398**	**763**	**384**	**1,545**	295	661	329	1,285
Expected return on plan assets	**36**	**46**	**33**	**115**	32	39	27	98
Actuarial (loss) gain on plan assets	**(30)**	**(93)**	**(66)**	**(189)**	40	(14)	15	41
Employer contribution	**9**	**32**	**34**	**75**	11	41	37	89
Additional employer contribution	**–**	**1**	**–**	**1**	–	1	–	1
Plan participants' contribution	**4**	**–**	**–**	**4**	4	–	–	4
Benefits paid	**(26)**	**(50)**	**(23)**	**(99)**	(27)	(44)	(24)	(95)
Translation difference	**(59)**	**(6)**	**–**	**(65)**	43	79	–	122
Fair value of plan assets at end of year	**332**	**693**	**362**	**1,387**	398	763	384	1,545
Surplus (deficit)	**61**	**(72)**	**(16)**	**(27)**	93	(126)	(29)	(62)
Unrecognised past service cost	**–**	**–**	**–**	**–**	–	–	1	1
Recognised pension plan asset (liability)	**61**	**(72)**	**(16)**	**(27)**	93	(126)	(28)	(61)

27. Post-employment benefits – pensions (continued)

US$ million	2008 Southern Africa	2008 Europe (incl UK)	2008 North America	2008 Total	2007 Southern Africa	2007 Europe (incl UK)	2007 North America	2007 Total
Periodic pension cost recognised in income statement								
Current service cost	**8**	**12**	**6**	**26**	10	11	7	28
Past service cost	**–**	**1**	**–**	**1**	–	–	–	–
Fund administration costs	**–**	**–**	**–**	**–**	1	–	–	1
Interest cost	**24**	**47**	**26**	**97**	24	39	25	88
Expected return on plan assets	**(36)**	**(46)**	**(33)**	**(115)**	(32)	(39)	(27)	(98)
Amortisation of past service cost	**–**	**–**	**1**	**1**	–	–	1	1
Gain on curtailment and settlement	**–**	**(1)**	**–**	**(1)**	–	–	–	–
Net periodic pension (credit) cost charged to cost of sales and selling, general and administrative expenses	**(4)**	**13**	**–**	**9**	3	11	6	20
Actual return (loss) on plan assets	**6**	**(47)**	**(33)**	**(74)**	74	26	42	142
Actual return (loss) on plan assets (%)	**1.3**	**(6.2)**	**(9.0)**	**(5.0)**	25.0	3.9	12.9	11.0
Amounts recognised in the statement of recognised income and expense								
Actuarial (losses) gains	**(30)**	**36**	**(22)**	**(16)**	36	16	49	101
Pension asset surplus release	**–**	**–**	**–**	**–**	45	–	–	45
Cumulative actuarial gains and losses recognised in the statement of recognised income and expense								
Actuarial gains (losses)	**52**	**(98)**	**(81)**	**(127)**	82	(134)	(59)	(111)
Weighted average actuarial assumptions at balance sheet date:								
Discount rate (%)	**9.00**	**6.90**	**7.60**		8.25	5.30	6.30	
Compensation increase (%)*	**6.45**	**3.10**	**3.50**		6.24	3.05	3.50	
Expected return on assets (%)	**9.40**	**6.75**	**8.25**		9.66	6.00	8.25	
Weighted average actuarial assumptions used to determine periodic pension cost:								
Discount rate (%)	**8.25**	**5.30**	**6.30**		8.50	4.65	5.75	
Compensation increase (%)*	**6.24**	**3.05**	**3.50**		6.00	3.30	3.50	
Expected return on assets (%)	**9.66**	**6.00**	**8.25**		10.50	5.60	8.25	

* *Weighted average of schemes that use a compensation increase assumption.*

27. Post-employment benefits – pensions (continued)

Illustrating sensitivity

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

US$ million	1% increase in discount rate	1% decrease in discount rate	1% increase in salary increase rate	1% decrease in salary increase rate
2008				
(Decrease) Increase in defined benefit obligation	**(141)**	**167**	**37**	**(34)**
(Decrease) Increase in aggregate of current service cost and interest cost	**(2)**	**7**	**–**	**–**
2007				
(Decrease) Increase in defined benefit obligation	(175)	213	35	(43)
(Decrease) Increase in aggregate of current service cost and interest cost	(6)	8	–	–

	2008	2007
Pension plan liability is presented on the balance sheet as follows:		
Pension liability (refer note 21)	**144**	144
Pension asset (refer note 14)	**(117)**	(118)
Pension liability (included in other payables)	**–**	35
	27	61

In determining the expected long term return assumption on plan assets, Sappi considers the relative weighting of plan assets to various asset classes, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance.

Peer data and historical returns are reviewed to check for reasonableness and appropriateness. In addition, Sappi may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.

27. Post-employment benefits – pensions (continued)

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 includes selecting investment managers, setting long-term strategic targets and rebalancing assets periodically. Target versus actual weighted average allocations (by region) are shown below:

	2008			2007		
	Southern Africa	**Europe (incl UK)**	**North America**	Southern Africa	Europe (incl UK)	North America
Weighted average target asset allocation by region	**%**	**%**	**%**	%	%	%
Equity	**40.2**	**37.6**	**38.0**	40.0	21.1	48.0
Debt securities	**43.8**	**58.7**	**22.0**	44.0	65.6	22.0
Real estate	**0.0**	**0.0**	**0.0**	0.0	1.1	0.0
Other	**16.0**	**3.7**	**40.0**	16.0	12.2	30.0
Weighted average actual asset allocation by region	**%**	**%**	**%**	%	%	%
Equity	**24.9**	**34.4**	**35.0**	55.0	23.1	38.2
Debt securities	**51.8**	**49.6**	**22.0**	30.0	63.6	23.2
Real estate	**0.0**	**3.9**	**0.0**	0.0	1.5	0.0
Other	**23.2**	**12.1**	**43.0**	15.0	11.8	38.6

Expected benefit payments for pension benefits are as follows:

US$ million	Southern Africa	Europe (incl UK)	North America	**Total**
Payable in the year ending September:				
2009	10	42	22	**74**
2010	11	45	22	**78**
2011	11	47	23	**81**
2012	12	47	24	**83**
2013	12	50	26	**88**
Years 2014 – 2018	68	258	152	**478**

The expected company contributions for 2009 are US$76 million.

27. **Post-employment benefits – pensions** (continued)

Aggregate total of present value of the defined benefit obligation, fair value of assets and the surplus or deficit in the defined benefit plans for the current annual period and for the previous four annual periods (ignoring unrecognised adjustments):

US$ million	**2008**	2007	2006	2005	2004
Defined benefit obligations	**1,414**	1,607	1,513	1,589	1,420
Fair value of assets	**1,387**	1,545	1,285	1,222	1,081
(Deficit)	**(27)**	(62)	(228)	(367)	(339)

Aggregate gains and losses arising on plan liabilities and plan assets
for the current annual period and for the previous four annual periods:

	2008	2007	2006	2005	2004
Plan liabilities gains (losses)	**173**	60	73	(141)	(35)
Plan assets (losses) gains	**(189)**	41	27	82	26
Net (losses) gains	**(16)**	101	100	(59)	(9)

Reconciliation of gains and losses to Group Statement of Recognised Income and Expenses	
Net (losses) from pensions	**(16)**
Net gains from post employment benefits other than pensions (note 28)	**23**
Net gains to Group Statement of Recognised Income and Expenses	**7**

28. Post-employment benefits other than pensions

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

Actuarial valuations of all the plans are performed annually.

The North American and the South African post-employment obligations were measured at the end of the financial year.

The following schedule provides the plans' funded status and obligations for the group:

	2008			2007		
US$ million	**South Africa**	**North America**	**Total**	South Africa	North America	Total
Change in present value of defined benefit obligation						
Defined benefit obligations at beginning of year	**78**	**95**	**173**	61	103	164
Current service cost	**2**	**2**	**4**	1	2	3
Past service cost	**–**	**–**	**–**	–	(2)	(2)
Interest cost	**6**	**5**	**11**	6	5	11
Actuarial (gain) loss experience	**(1)**	**(10)**	**(11)**	(6)	(3)	(9)
Actuarial (gain) loss assumptions	**(4)**	**(8)**	**(12)**	13	(4)	9
Benefits paid	**(3)**	**(7)**	**(10)**	(6)	(6)	(12)
Translation difference	**(12)**	**–**	**(12)**	9	–	9
Defined benefit obligation at end of year	**66**	**77**	**143**	78	95	173
Present value of wholly unfunded obligations	**66**	**77**	**143**	78	95	173
Unrecognised past service credit	**–**	**(5)**	**(5)**	–	(6)	(6)
Recognised post employment benefit liability	**(66)**	**(82)**	**(148)**	(78)	(101)	(179)
Periodic post-employment benefit cost recognised in income statement						
Current service cost	**2**	**2**	**4**	1	2	3
Interest cost	**6**	**5**	**11**	6	5	11
Amortisation of past service credit	**–**	**(1)**	**(1)**	–	(1)	(1)
Gain on curtailments & settlements	**–**	**–**	**–**	–	(1)	(1)
Net periodic post-employment benefit cost charged to cost of sales and selling, general and administrative expenses	**8**	**6**	**14**	7	5	12

28. **Post-employment benefits other than pensions** (continued)

	2008			2007		
US$ million	**South Africa**	**North America**	**Total**	South Africa	North America	Total
Amounts recognised in the statement of recognised income and expense						
Actuarial gains (losses)	**5**	**18**	**23**	(7)	7	–
Cumulative actuarial gains and losses recognised in the statement of recognised income and expense						
Actuarial losses	**(19)**	**(13)**	**(32)**	(24)	(31)	(55)
Weighted average actuarial assumptions at balance sheet date:	**%**	**%**		%	%	
Discount rate	**9.00**	**7.60**		8.25	6.30	
Health care cost trend initial rate	**7.00**	**9.00**		6.75	9.50	
which gradually reduces to an ultimate rate of	**7.00**	**5.00**		6.75	5.00	
over a period of (years)	**–**	**4**		–	5	
Weighted average actuarial assumptions used to determine periodic benefit cost:	**%**	**%**		%	%	
Discount rate	**8.25**	**6.30**		8.50	5.75	
Health care cost trend initial rate	**6.75**	**9.50**		6.50	10.00	
which gradually reduces to an ultimate rate of	**6.75**	**5.00**		5.60	5.00	
over a period of (years)	**–**	**5**		–	5	

28. Post-employment benefits other than pensions (continued)

Illustrating sensitivity

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

	1% increase in discount rate	**1% decrease in discount rate**	**1% increase in health care cost trend rate**	**1% decrease in health care cost trend rate**
2008				
(Decrease) Increase in defined benefit obligation	**(14)**	**16**	**13**	**(11)**
(Decrease) Increase in aggregate of current service cost and interest cost	**(1)**	**1**	**1**	**(1)**
2007				
(Decrease) Increase in defined benefit obligation	n/a	n/a	14	(10)
(Decrease) Increase in aggregate of current service cost and interest cost	n/a	n/a	1	(1)

US$ million	**2008**	2007
Post-employment benefits other than pension liabilities are presented on the balance sheet as follows:		
Post-employment benefits other than pension liability (refer note 21)	**141**	181
Post-employment benefits other than pension included in other payables (receivables)	**7**	(2)
	148	179

Expected benefit payments for other than pension benefits are as follows:

	South Africa	North America	**Total**
Payable in the year ending September:			
2009	3	9	**12**
2010	3	9	**12**
2011	3	8	**11**
2012	4	8	**12**
2013	4	8	**12**
Years 2014 – 2018	20	32	**52**

The expected employer contribution for 2009 is US$11 million.

28. Post-employment benefits other than pensions (continued)

Aggregate total of present value of the defined benefit obligation in the post retirement medical plans for the current annual period and for the previous four annual periods (ignoring unrecognised adjustments):

	2008	2007	2006	2005	2004
Defined benefit obligations	**143**	173	164	178	172

Aggregate gains and losses arising on plan liabilities for the current annual period and previous four annual periods:

	2008	2007	2006	2005	2004
Plan liabilities gains (losses)	**23**	–	(1)	–	(8)

29. Share-based payments

The Sappi Limited Share Incentive Trust and The Sappi Limited Performance Share Incentive Trust
At the annual general meeting of shareholders held on 7 March 2005, shareholders adopted The Sappi Limited Performance Share Incentive Trust (Plan) in addition to The Sappi Limited Share Incentive Trust (Scheme) which had been adopted on 5 March 1997, and fixed the aggregate number of shares which may be acquired by all participants under the Plan together with the Trust at 19,000,000 shares, which constitute 7.9% of the issued share capital of Sappi Limited.

The Sappi Limited Share Incentive Trust (Scheme)
Under the rules of the Scheme, participants may be offered the opportunity to acquire ordinary shares (Scheme shares). This entails that Scheme shares are sold by the Scheme to participants on the basis that ownership thereof passes to the participant on conclusion of the contract but the purchase price is not payable immediately. Scheme shares are registered in the name of the participants and will be pledged in favour of the Scheme as security for payment of debt. Subject to certain limitations, a participant's outstanding share debt will bear interest at such rate as determined by the board of directors. Dividends on Scheme shares are paid to the Scheme and will be applied in the payment of such interest. Scheme shares may only be released to participants as described below.

Under the rules of the Scheme, participants may be offered options to acquire ordinary shares (Share options). This entails that employees are offered options to purchase or subscribe for shares. Each share option will confer to the holder the right to purchase or subscribe for one ordinary share. This is based on the terms and conditions of the Scheme. Share options may only be released to participants as described below.

Under the rules of the Scheme, participants may be granted options to enter into agreements with the company to acquire ordinary shares (Allocation shares). These options need to be exercised by the employee within 12 months, failing which the option will automatically lapse. The exercise of the option must be accompanied by a deposit (if any) as determined by the board of directors of Sappi (the board). The participant will be entitled to take delivery of and pay for Allocation shares which are subject to the rules as described below.

Certain managerial employees are eligible to participate in the Scheme. The amount payable by a participant for Scheme Shares, Share Options or Allocation Shares 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 Scheme Shares, Share Options or Allocation Shares, as the case may be, to a participant. Pursuant to resolutions of the board passed in accordance with the rules of the Scheme, Scheme Shares may be released from the Scheme to participants, Share Options may be exercised by participants and Allocation Shares may be delivered to participants as follows for allocations prior to November 2004:

(i) 20% of the total number of shares after one year has elapsed from the date of acceptance by the participant of the grant;
(ii) up to 40% of the total number of shares after two years have elapsed from the date of acceptance by the participant of the grant;

(iii) up to 60% of the total number of shares after three years have elapsed from the date of acceptance by the participant of the grant;
(iv) up to 80% of the total number of shares after four years have elapsed from the date of acceptance by the participant of the grant and
(v) the balance of the shares after five years have elapsed from the date of acceptance by the participant of the grant;

and for allocations subsequent to November 2004 as follows:

(i) 25% of the total number of shares after one year has elapsed from the date of acceptance by the participant of the grant;
(ii) up to 50% of the total number of shares after two years have elapsed from the date of acceptance by the participant of the grant;
(iii) up to 75% of the total number of shares after three years have elapsed from the date of acceptance by the participant of the grant; and
(iv) the balance of the shares after four years have elapsed from the date of acceptance by the participant of the grant;

provided that the board may, at its discretion, anticipate or postpone such dates. Prior to the annual general meeting held on 2 March 2000, the Scheme provided that Share Options will lapse, among other reasons, if they remain unexercised after the tenth anniversary of the acceptance and that Scheme Shares and Allocation Shares must be paid for in full by participants by no later than the tenth anniversary of the acceptance. However, the annual general meeting approved an amendment to decrease the aforesaid ten-year period to eight years, in respect of offers made since 3 December 1999. The board has resolved that the benefits under the Scheme of Participants will be accelerated in the event of a change of control of the company, as defined in the Scheme, becoming effective (a) if, in concluding the change of control, the board in office at the time immediately prior to the proposed change of control being communicated to the board ceases to be able to determine the future employment conditions of the group's employees or (b) unless the change of control is initiated by the board. Participants are entitled to require such acceleration by written notice to the company within a period of 90 days after the date upon which such change of control becomes effective.

The Scheme provides that appropriate adjustments are to be made to the rights of Participants in the event that the group, 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 will be officers and other employees of the company may be awarded conditional contracts to acquire Shares for no cash consideration. If the performance criteria from time to time determined by the human resources committee or compensation committee of the board (Performance Criteria) applicable to each Conditional Contract, are met or exceeded, then Participants shall be entitled to receive such number of shares as specified in the Conditional Contract for no cash consideration after the fourth anniversary of the date on which the board resolves to award a Conditional Contract to that Participant. The Performance Criteria shall entail a benchmarking of the company's performance against an appropriate peer group of companies.

If the board determines that the Performance Criteria embodied in a Conditional Contract have not been satisfied or exceeded, the number of shares to be allotted and issued and/or transferred to a Participant under and in terms of such Conditional Contract shall be adjusted downwards.

Provision is made for appropriate adjustments to be made to the rights of Participants in the event that the company, inter alia, undertakes a rights offer, is a party to a scheme of arrangement affecting the structuring of its issued share capital or reduces its share capital 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 person/s (or those persons acting in concert) who have control of the company as at an Allocation date, take/s any decision, pass/es any resolution and/or take/s any action the effect of which is to delist the company from the JSE Limited and the company becomes aware of such decision, resolution and/or action, 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 he/she would have been entitled to had the Performance Criteria been achieved.

29. **Share-based payments** (continued)

Allocations (number of shares)	**2008**	2007
During the year the following offers were made to employees:		
Share Options	**925,700**	–
Share Options Declined	**(14,000)**	–
Performance Shares**	**730,000**	1,713,000
Performance Share Declined	**–**	(1,500)
Restricted shares**	**–**	45,000
	1,641,700	1,756,500

Scheme shares, share options, restricted shares, performance shares and allocation shares activity was as follows during the financial years ended September 2008 and 2007:

	Scheme Shares***	Restricted Shares	Share options(1)	Performance shares(2)	Weighted average exercise price (ZAR)*	Allocation Shares(1)	Weighted average exercise price (ZAR)*	Total Shares
Outstanding at September 2006	1,535,362	12,500	4,503,450	1,892,400	85.09	1,930,500	90.82	9,874,212
– Offered and accepted	–	45,000	–	1,711,500	–	–	–	1,756,500
– Paid for/released	(92,700)	(47,500)	(1,046,800)	–	64.88	(450,650)	61.86	(1,637,650)
– Returned, lapsed and forfeited	–	–	(327,700)	(286,500)	52.54	(71,300)	124.94	(685,500)
Outstanding at September 2007	1,442,662	10,000	3,128,950	3,317,400	49.01	1,408,550	98.20	9,307,562
– Offered and accepted	–	–	911,700	730,000	52.02	–	–	1,641,700
– Paid for/released	(90,800)	–	(452,200)	–	63.47	(273,750)	–	(816,750)
– Returned, lapsed and forfeited	(31,800)	–	(355,750)	(96,300)	93.76	(29,350)	–	(513,200)
Back into Trust	31,800	–	–	–	147.20	–	–	31,800
Outstanding at September 2008	**1,351,862**	**10,000**	**3,232,700**	**3,951,100**	**46.00**	**1,105,450**	**98.20**	**9,651,112**
Exercisable at September 2006	595,750	–	2,525,750	–	85.69	1,436,950	86.55	4,558,450
Exercisable at September 2007	587,600	–	2,104,550	–	96.21	1,196,650	99.71	5,800,130
Exercisable at September 2008	491,300	–	1,906,330	5,000	96.97	1,032,300	110.22	3,434,930

* *The share options are issued in South African Rands.*
** *Restricted shares (awarded on an ad-hoc basis to certain individuals on various terms and conditions) and performance shares are issued for no cash consideration. The value is determined on the day the shares are taken up.*
*** *The number of Scheme shares, which are not subject to credit sales amounts to 855,662 (2007: 823,862).*
(1) *Issued in terms of the Scheme.*
(2) *Issued in terms of the Plan.*

The fair value of Scheme shares held at September 2008 was US$8.7 million (September 2007: US$12.5 million).

29. Share-based payments (continued)

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

	2008	2007	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
19 January 1998	**–**	30,100	Time	(i)	19 January 2008	19.90
14 December 1998	**48,300**	79,700	Time	(i)	14 December 2008	22.10
03 February 1999	**1,000**	1,000	Time	(i)	03 February 2009	22.35
21 December 1999	**–**	284,800	Time	(i)	21 December 2007	53.85
15 January 2001	**213,800**	243,200	Time	(i)	15 January 2009	49.00
15 August 2001	**–**	5,000	Time	(i)	15 August 2009	75.90
04 February 2002	**7,000**	7,000	Time	(i)	04 February 2010	131.40
28 March 2002	**623,000**	662,000	Time	(i)	28 March 2010	147.20
30 January 2003	**–**	250,000	Time	(i)	30 January 2011	115.00
13 February 2003	**743,800**	813,300	Time	(i)	13 February 2011	112.83
30 December 2003	**150,250**	155,500	Time	(i)	30 December 2011	79.25
14 January 2004	**630,700**	801,800	Time	(i)	14 January 2012	79.25
25 March 2004	**1,000**	1,000	Time	(i)	25 March 2012	86.60
26 March 2004	**–**	3,000	Time	(i)	26 March 2012	87.50
13 December 2004	**1,029,500**	1,200,100	Time	(i)	13 December 2012	78.00
13 December 2004	**148,000**	148,000	Performance	13 December 2008	N/A	–
13 December 2005	**1,413,800**	1,462,900	Performance	13 December 2009	N/A	–
08 August 2006	**50,000**	50,000	Performance	08 August 2010	N/A	–
15 January 2007	**5,000**	5,000	Performance	31 December 2007	N/A	–
15 January 2007	**5,000**	5,000	Performance	31 December 2008	N/A	–
15 January 2007	**5,000**	5,000	Performance	31 December 2009	N/A	–
29 January 2007	**50,000**	50,000	Performance	29 January 2011	N/A	–
31 May 2007	**1,419,300**	1,456,500	Performance	31 May 2011	N/A	–
01 June 2007	**–**	10,000	Performance	01 June 2011	N/A	–
02 July 2007	**100,000**	100,000	Performance	02 July 2011	N/A	–
10 September 2007	**10,000**	10,000	Time	10 September 2008	N/A	–
10 September 2007	**25,000**	25,000	Performance	10 September 2011	N/A	–
12 December 2007	**610,600**	–	Time	12 December 2011	12 December 2015	91.32
12 December 2007	**525,000**	–	Performance	12 December 2011	N/A	–
19 March 2008	**279,200**	–	Time	19 March 2012	19 March 2016	98.80
19 March 2008	**205,000**	–	Performance	12 March 2012	N/A	–
	8,299,250	7,864,900				

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

29. **Share-based payment** (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 32	Issue 32	Issue 32	Issue 33	Issue 33	Issue 33
Date of grant	12 Dec 07	12 Dec 07	12 Dec 07	19 Mar 08	19 Mar 08	19 Mar 08
Type of award	Normal Option	Performance	Performance	Normal Option	Performance	Performance
Share Price at grant date	ZAR90.00	US$14.22	US$14.22	ZAR94.98	US$11.64	US$11.64
Strike Price of share	ZAR91.32	–	–	ZAR98.8	–	–
Vesting Period	4 years	4 years	4 years	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	Proportionately over time	Market related – relative to peers	Cash Flow Return on Net Assets relative to peers
Expected life of options (years)	8 years	n/a	n/a	8 years	n/a	n/a
Market related vesting conditions	n/a	Yes	No	n/a	Yes	No
Percentage expected to vest	n/a	39.4%	100%	n/a	41.8%	100%
Number of shares offered	633,000	525,000	525,000	282,900	205,000	205,000
Volatility	30.5%	32,4%	n/a	30.8%	33.0%	n/a
Risk free discount rate	11.6% (US yield)	5.3% (US yield)	n/a	11.8% (US yield)	2.7% (US yield)	n/a
Expected dividend yield	2.29%	2.11%	2.11%	2.34%	2.75%	2.75%
Expected percentage of issuance	95%	95%	95%	95%	95%	95%
Model used to value	Binomial	Modified binomial	Market price	Binomial	Modified binomial	Market price
Fair value of option	ZAR43.75	ZAR53.13	ZAR70.22	ZAR41.70	ZAR52.07	ZAR68.68

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

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

	2008 Number of options/ shares	2007 Number of options/ shares
At beginning of year	**249,000**	633,000
Share Options, Restricted Shares and Performance Shares granted	**90,000**	–
Share Options and Allocation Shares exercised/declined	**–**	(90,000)
Shares removed on resignation or retirement of directors	**–**	(394,000)
Shares brought in on appointment of director	**–**	100,000
At end of year	**339,000**	249,000

29. Share-based payment (continued)

The following table sets forth certain information with respect to the 339,000 Share Options and Performance Shares granted by Sappi to executive directors:

Issue date	Number of options/shares	Expiry date	Exercise price (ZAR)
15 January 2001	3,000	15 January 2009	49.00
28 March 2002	15,000	28 March 2010	147.20
13 February 2003	15,000	13 February 2011	112.83
30 December 2003	18,000	30 December 2011	79.25
13 December 2004	18,000	13 December 2012	78.00
13 December 2004 *	6,000	13 December 2008	–
13 December 2005 *	24,000	13 December 2009	–
08 August 2006 *	50,000	08 August 2010	–
02 July 2007 *	100,000	02 July 2011	–
12 December 2007 *	90,000	12 December 2011	–
	339,000		

* *Performance shares.*

Refer to note 36 for further information on Directors participation in the Scheme and the Plan.

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

30. 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
– foreign exchange risk
– commodity price and availability risk
b) credit risk
c) liquidity 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 the group's interest rate, foreign currency, liquidity and credit risk (insofar as it relates to deposits of cash, cash equivalents and financial investments).

Commodity risk and credit risk (insofar as it relates to trade receivables) are primarily managed regionally but are co-ordinated on a group basis.

30. Financial instruments (continued)

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 the financial instruments and risks referred to in this note.

a) Market risk

Interest rate risk

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

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

Interest-bearing borrowings

The table below provides information about Sappi's current and non-current borrowings that are sensitive to changes in interest rates. The table presents discounted cash flows by expected maturity dates. The average fixed effective interest rates presented below are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward looking average variable effective interest rates for the financial years ended September 2008 and thereafter are based on the yield curves for each respective currency as published by Reuters on 28 September 2008. The information is presented in US$, which is the group's reporting currency.

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

	Expected maturity date									
(US$ equivalent in millions)	2009	2010	2011	2012	2013	2014+	Total Carrying Value	**2008 Fair Value**	2007 Carrying Value	2007 Fair Value
US Dollar										
Fixed rate	21	38	–	–	–	–	59	**58**	55	56
Average interest rate (%)	4.00	4.49	–	–	–	–	4.31		5.01	
Variable rate(1)(2)	142	–	–	487	–	350	979	**885**	946	947
Average interest rate (%)	4.08	4.18	4.18	6.84	4.18	7.33	6.61		7.39	
Euro										
Fixed rate	6	6	584	2	2	3	603	**582**	716	721
Average interest rate (%)	5.97	6.05	4.61	2.45	3.64	1.84	4.62		4.69	
Variable rate(3)	488	–	–	–	–	–	488	**488**	297	297
Average interest rate (%)	4.43	–	–	–	–	–	4.43		3.98	
Rand										
Fixed rate	7	20	45	126	157	11	366	**350**	399	408
Average interest rate (%)	9.46	8.70	8.84	10.65	9.64	11.28	9.88		9.81	
Variable rate(4)	6	1	–	–	–	–	7	**7**	44	44
Average interest rate (%)	10.67	10.67	–	–	–	–	10.67		9.84	

30. Financial instruments (continued)

(US$ equivalent in millions)	Expected maturity date 2009	2010	2011	2012	2013	2014+	Total Carrying Value	**2008 Fair Value**	2007 Carrying Value	2007 Fair Value
Swiss Franc										
Fixed rate										
Average interest rate (%)										
Variable rate	151	–	–	–	–	–	151	**151**	142	142
Average interest rate (%)	3.26	–	–	–	–	–	3.26		3.3	
Total										
Fixed rate	34	64	629	128	159	14	1,028	**990**	1,170	1,184
Average interest rate (%)	5.43	5.94	4.91	10.55	9.57	9.05	6.47		6.46	
Variable rate	787	1	–	487	–	350	1,625	**1,531**	1,429	1,429
Average interest rate (%)	4.19	10.67	–	6.84	–	7.33	5.66		6.36	
Fixed and variable	821	65	629	615	159	364	2,653	**2,521**	2,599	2,613
Current portion							821	**821**	771	764
Long term portion							1,832	**1,700**	1,828	1,898
Total interest-bearing borrowings (refer note 20)							2,653	**2,521**	2,599	2,662

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

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

(1) Includes fixed rate loans where fixed-for-floating rate swap contracts have been used to convert the exposure to floating rates. Some of the swaps do not cover the full term of loans.
(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) The Rand floating interest rates are predominately based on the Johannesburg Inter-bank Agreed Rate (JIBAR).

The range of interest rates in respect of all non-current borrowings comprising both fixed and floating rate obligations, is between 2.45% and 11.28% (depending on currency). At September 2008, 39% of Sappi's borrowings were at fixed rates of interest, and 61% were at floating rates. Floating rates of interest are based on LIBOR for US$ borrowings, on EURIBOR for Euro denominated borrowings and on JIBAR for ZAR borrowings. Fixed rates of interest are based on contract rates.

Sappi's Southern African operations have in the past been particularly vulnerable to adverse changes in short-term domestic interest rates, as a result of the volatility in interest rates in South Africa. During 2008 domestic interest rates have increased from 10.26 % to 12.05 % for the 3-month JIBAR.

Sappi uses interest rate options, caps, swaps and interest rate and currency swaps 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. The group has designated certain derivatives as hedges of fixed rate debt in a documented hedging strategy.

30. **Financial Instruments** (continued)

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. The hedge relationship has been assessed as highly effective on a quarterly basis. Changes in the fair value of the underlying debt, attributable to changes in the credit spread are excluded from the hedging relationship.

The group has determined at inception and in subsequent periods that the derivatives are highly effective in offsetting fair value exposure of the debt being designated as hedged. Because only interest rate risk is designated as being hedged, credit risk related to the hedged debt is excluded from the group's assessment of the hedge being highly effective. The carrying value of the hedged debt is adjusted to reflect only changes in fair value related to changes in interest rates. This is offset by the change in fair value of the derivative instrument, which reflects changes in fair value related to both interest rate risk and credit risk.

At September 2008 Sappi had in total seven US$ interest rate swap contracts, converting fixed rates to floating rates, outstanding for a total amount of US$856.6 million and the swaps had a positive total fair value of US$18.7 million (2007: seven contracts, total amount US$856.6 million, negative fair value US$10 million) and an interest rate and currency swap (IRCS) contract outstanding for the amount of US$233 million with a positive fair value of US$56.8 million. This swap converts future US$ cash flows into GBP and fixed US$ interest rates into fixed GBP interest rates (2007: US$350 million with a fair value of US$137 million). See details of the swaps in the table below:

Instrument	Interest Rate	Maturity date	Nominal value US$ million	Fair value* favourable (unfavourable) US$ million
Interest rate swaps:				
	6.75% to variable (LIBOR)	June 2012	250	4
	6.75% to variable (LIBOR)	June 2012	200	2
	6.75% to variable (LIBOR)	June 2012	50	1
	7.50% to variable (LIBOR)	June 2012	250	6
	5.90% to variable (LIBOR)	November 2013	28	1
	7.38% to variable (LIBOR)	July 2014	44	2
	6.65% to variable (LIBOR)	October 2014	35	2
Interest rate and currency swaps:				
	US Dollar 6.30% into Pound Sterling 6.66%	December 2009	233	57
Total				75

** This refers to the carrying value.*

The fair value of interest rate swaps and IRCS is the estimated amount that Sappi would pay or receive to terminate the agreement at the balance sheet date, taking into account current interest rates and the current creditworthiness of the counterparties considering the specific relationships of Sappi group with those counterparties.

30. **Financial Instruments** (continued)

Summary sensitivity analyses external interest rate derivatives

The following is a sensitivity analysis of the impact on the income statement in US Dollars due to the 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, including fixed rate debt swapped into floating rates, is carried out separately (see below).

Interest rate currency swap

Scenario name	Base value	Scenario value	Change	% Change
–50 bps GBP-LIBOR-6M	56.8	57.9	1.1	1.9
+50 bps GBP-LIBOR-6M	56.8	55.8	(1.0)	(1.8)

Scenario name	Base value	Scenario value	Change	% Change
–50 bps USD-LIBOR-3M	56.8	56.0	(0.8)	(1.4)
+50 bps USD-LIBOR-3M	56.8	57.7	0.9	1.6

The IRCS covers an intra-group loan from a GBP-reporting Sappi entity of US$233 million, maturing in tranches between December 2008 and 2009. The derivative converts fixed US$ interest payments of 6.30% into fixed GBP interest income of 6.6%, 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 intra-group loan.

At 28 September 2008 the fair value of the derivative amounted to US$56.8 million ('Base Value' in the table above), of which US$51.1 million was due to the exchange rate movement between inception and the reporting date. This amount is compensated by the opposite movement of the underlying loan and therefore has no impact on the income statement. The portion of the fair value due to interest rate movements, which has impacted the income statement, amounts to a negative value of US$2.3 million. This value will reduce to zero at maturity.

For the period outstanding, the table above shows the impact that a shift of 50 bps on the LIBOR curve would have on the fair value. An increase in the US$ LIBOR adds to the fair value, as does a decrease of the GBP LIBOR. When the GBP and the US$ interest rates move the same way, the one roughly compensates the other. If the rates would drift in opposite directions this would have an impact of approximately US$2 million for a shift of 50 bps.

Since the inception of the instrument, the largest shift in opposite directions experienced over a twelve-month period was 3.14%, due to a decrease in US$ rates of 2.56 % and an increase in the GBP rates of 0.58%. Applied to the fair value as per 28 September 2008, this would have resulted in a negative change in fair value of US$5.8 million.

Interest rate currency swap

Scenario name	Base value	Scenario value	Change	% Change
–256 bps USD-LIBOR-3M	56.8	52.2	(4.6)	(8.1)
+58 bps GBP-LIBOR-6M	56.8	55.6	(1.2)	(2.1)
Total			(5.8)	

30. **Financial instruments** (continued)

The interest rate swaps (fixed to floating) applied to the US$750 million bonds issued by Sappi Papier Holding (SPH) and to the US$106 million bonds issued by SD Warren show the following sensitivity to a 50 bps interest rate change on a tenor of four years for the Sappi Papier Holding bonds and six years for the SD Warren bonds:

IRS – Sappi Papier Holding

Scenario name	Base value	Scenario value	Change	% Change
–50 bps USD-LIBOR-3M	(750.7)	(749.6)	1.1	(0.1)
+50 bps USD-LIBOR-3M	(750.7)	(751.7)	(1.0)	0.1

IRS – SD Warren

Scenario name	Base value	Scenario value	Change	% Change
–50 bps USD-LIBOR-3M	(106.8)	(106.6)	0.2	(0.2)
+50 bps USD-LIBOR-3M	(106.8)	(107.0)	(0.2)	0.2

The largest change in the 3-month USD interest rates since inception of the swaps in a twelve month period was a 2.56% decrease. Applied to the fair value as per September 2008, the net impact on the SPH bonds would have been a US$5.5 million gain and for the SD Warren bonds a US$1.0 million gain.

IRS – Sappi Papier Holding

Scenario name	Base value	Scenario value	Change	% Change
–256 bps USD-LIBOR-3M	(750.7)	(745.2)	5.5	(0.7)

IRS – SD Warren

Scenario name	Base value	Scenario value	Change	% Change
–256 bps USD-LIBOR-3M	(106.8)	(105.8)	1.0	(0.9)

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

30. **Financial instruments** (continued)

Sensitivity analysis of 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. It is worth noting that the change in value of the securitisation debt is included in the sensitivity analysis of floating rate debt in the table below.

Securitisation in Europe and Hong Kong	Notional	Impact on income statement of downgrade below BB credit rating
Europe	219.9	0.11
Hong Kong	73.5	0.04
Sub-total	293.4	0.15
Impact calculated on total portfolio amounts to:	0.05%	

The pricing of the securitisation contracts in Europe and Hong Kong would be impacted as set out in the table above if the company were to be downgraded below the current rating. The US securitisation arrangement would not be impacted by a possible downgrade, as there are sufficient other credit enhancements to mitigate the co-mingling risk.

All other external debt would not be impacted by a possible downgrading of Sappi.

Sensitivity analysis of interest rate risk of floating rate debt – in '000 USD

US$ million	Total	Fixed rate	Floating rate	Impact on I/S of 50 bps interest
Total debt	2,653.3	1,028.5	1,624.9	8.1
Ratio fixed/floating to total debt		39%	61%	

The floating rate debt represents 61% 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$8.1 million.

30. Financial instruments (continued)

Currency risk

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

- Economic exposure consists of planned net foreign currency trade in goods and services not yet manifested in the form of actual invoices and orders;
- Transaction exposure arises due to transactions entered into, which result in a flow of cash in foreign currency, such as payments under foreign currency long and short term loan liabilities, purchases and sales of goods and services, capital expenditure purchases and dividends. Where possible, commercial transactions are only entered into in currencies that are readily convertible by means of formal external forward exchange contracts; and
- Translation exposure arises when translating the groups 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. On consolidation this gives rise to translation exposure which is not hedged.

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

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	USD	EUR	ZAR	GBP	Other (converted into USD)
2008							
Financial assets							
Other non-current assets	**168**	**44**	2	5	37	–	–
Long term derivative financial instruments*	**76**	**76**	(223)	–	–	299	–
Trade and other receivables	**698**	**626**	287	275	22	32	10
Current derivative financial instruments*	**4**	**4**	1	–	–	3	–
Cash and cash equivalents	**274**	**274**	82	101	91	–	–
		1,024	149	381	150	334	10
Financial liabilities							
Non-current interest-bearing borrowings	**1,832**	**1,832**	875	597	360	–	–
Derivative financial instruments*	**1**	**1**	–	–	1	–	–
Current interest-bearing borrowings	**821**	**821**	164	494	12	–	151
Overdraft	**26**	**26**	–	10	2	4	10
Current: derivative financial instruments*	**24**	**24**	24	–	–	–	–
Trade and other payables	**959**	**756**	196	297	239	8	16
		3,460	**1,259**	**1,398**	**614**	**12**	**177**
Foreign exchange gap		**(2,436)**	**(1,110)**	**(1,017)**	**(464)**	**322**	**(167)**

30. **Financial instruments** (continued)

Currency risk (continued)

	Total	Total in scope	USD	EUR	ZAR	GBP	Other (converted into USD)
2007							
Financial assets							
Other non-current assets	165	36	1	6	29	–	–
Long term derivative financial instruments*	137	137	(356)	–	–	493	–
Trade and other receivables	653	600	295	201	27	32	45
Current derivative financial instruments*	7	7	7	–	–	–	–
Cash and cash equivalents	364	364	79	108	174	–	3
		1,144	26	315	230	525	48
Financial liabilities							
Non-current interest-bearing borrowings	1,828	1,828	851	576	401	–	–
Derivative financial instruments*	15	15	12	3	–	–	–
Current interest-bearing borrowings	771	771	162	425	42	–	142
Overdraft	22	22	7	8	1	2	4
Current: derivative financial instruments*	28	28	26	–	2	–	–
Trade and other payables	952	816	214	341	252	6	3
		3,480	1,272	1,353	698	8	149
Foreign exchange gap		(2,336)	(1,246)	(1,038)	(468)	517	(101)

* *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.

30. **Financial instruments** (continued)

The group's foreign currency forward exchange contracts at September 2008 are detailed below.

US$ million		**2008** Contract amount (notional amount)	**2008** Fair value* (un-favourable) favourable	2007 Contract amount	2007 Fair value* (un-favourable) favourable
Foreign currency					
Bought:	US Dollar	**2**	**–**	33	(2)
	EURO	**13**	**–**	27	–
	ZAR	**11**	**–**	–	–
Sold:	US Dollar	**(168)**	**(3)**	(173)	7
	EURO	**(735)**	**(17)**	(875)	(25)
	ZAR	**–**	**–**	(89)	(4)
		(877)	**(20)**	(1,077)	(24)

* *This refers to the fair value.*

The fair value of foreign currency contracts has been computed by the group based upon the market data valid at September 2008.

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

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

The foreign currency forward exchange contracts have different maturities, with the most extended maturity date being September 2009.

As at the year end there was an open exposure of US$35.6 million which has since been hedged.

Sensitivity analysis – in USD gain (loss)

Base currency	Exposure	+10 %	–10%
EUR	(28.8)	(2.6)	3.2
GBP	1.3	0.1	(0.1)
USD	13.0	1.2	(1.4)
ZAR	(24.4)	(2.2)	2.7
Other currencies	3.3	0.3	(0.4)
Total	(35.6)	(3.2)	4.0

Based on the exposure as at September 2008, 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$3.2 million (increase of 10%) or a gain of US$4.0 million (decrease of 10%).

During 2008 we have contracted non-deliverable average rate foreign exchange transactions for a total notional value of US$173.4 million which were used as an overlay hedge of export sales. Since these contracts have all matured before 28 September 2008, these constitute non-representative positions. The total impact on the income statement amounts to a loss of US$2.7 million.

30. Financial instruments (continued)

Commodity risk

Commodity risk arises mainly from price volatility and threats to security of supply.

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 group manages security of supply by establishing alternate sources of supply and focusing on products and processes that allow the use of alternative commodities. Sappi examines its supply and quality risk on an ongoing basis with the view to continuously improve its commodity management practices.

During 2008 we have not contracted any derivatives with respect to commodities.

b) Credit risk

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

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

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

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

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

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

A large percentage of our trade receivables are credit insured.

Hedge accounting

The group has the following fair value hedges which qualify for hedge accounting:

Bonds at fixed interest rates for a total notional amount of US$856 million are hedged by seven external interest rate swaps (IRS). These IRS with a positive fair value of US$18.7 million convert the US$ fixed interest rates into floating 6-month LIBOR set in arrears. The hedged risk is designated to be the interest rate risk arising from fluctuations in the US LIBOR swap curve. The effect of this transaction is to convert fixed rate debt into floating rate debt.

In fiscal 2005 the hedge was de-designated at the end of March, April and June 2005 respectively and was only re-designated in June 2005. During this period, hedge accounting was interrupted for a certain number of deals. The changes in fair value of the bonds until the moment of de-designation are amortised over the remaining life of the hedge.

30. **Financial instruments** (continued)

In fiscal 2007 Sappi decided to replace its valuation and hedge effectiveness tool by the REVALHedgeRx Module (see description hereunder). At the same time it was decided to switch from the Volatility Variance Method (VVM) to the linear regression analysis as the statistical test, which is an appropriate alternative to test hedge effectiveness of a fair value hedge.

A change in the hedge effectiveness measurement methodology requires the de-designation of the existing hedge relationship. Simultaneously a re-designation of the same hedge relationship was carried out, however this has catered for a revised hedge effectiveness measurement methodology. There was no material impact on the income statement as a result of this change.

As the swaps were contracted some time after the issuance of the underlying bonds, at the time of designating the hedge relationship it was required to mark-to-market the bonds for the hedged risk (ie for changes in the benchmark interest rate) in order to determine the hedged fair value at inception of the hedge (create an initial fair value benchmark) which was different to the face value as market conditions had changed since the bonds were issued. All future hedge adjustments to the carrying value of the bonds are based on changes in the fair value of this benchmark due to changes in the benchmark interest rate. The bonds are remeasured for changes in the benchmark interest rate and the swaps are revalued for changes in their fair value on a monthly basis and show movements in line with changing market conditions. Over the life of the bonds, the hedged fair value benchmark will revert to the face value of the bonds (the repayment amounts), whereas the hedging swaps will revert to a final fair value of zero. The carrying value of the bonds, including the effect of hedge accounting, will at maturity be equal to the sum of (1) the face value and (2) the total change in the initial hedged fair value (fair value benchmark), which will be different to the effective amount to be repaid (the face value). Therefore Sappi decided in fiscal 2007 to amortise the mismatch between the initial fair value benchmark and the face value payable at maturity in order to recognise the income statement impact over the remaining period until maturity, instead of recognising the difference only at maturity.

The following is an analysis of the impact on pre-tax profit and loss from the period

(without brackets favourable)	**2008 US$ million**	2007 US$ million
De/re-designation	**–**	–
Amortisation*	**(5)**	(2)
Residual ineffectiveness	**–**	–
– gain on hedging instruments	**30**	14
– loss on hedged item	**(30)**	(14)
Total	**(5)**	(2)

* *The outstanding amount on the balance sheet to be amortised over the next five years corresponds to US$27.9 million.*

Sappi uses the REVALHedgeRx module (REVAL), a web based application providing treasury and risk management solutions supplied by Reval.Com, Inc., a financial technology company based in New York to assess both the prospective and the retrospective effectiveness of the 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 and, was highly effective in a retrospective hedge effectiveness test.

The number of data points used to measure 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.

30. **Financial instruments** (continued)

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 the inception date by creating a proxy trade. Actual historical 3-month US$ 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 for the retrospective test.

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

During September and October 2006, Sappi entered into firm commitments for the purchase of equipment in foreign currency. These commitments were hedged for foreign exchange risk by forward exchange contracts and were designated as a fair value hedge. The hedged risk was designated to be the foreign currency risk arising from fluctuations in the foreign currency rates relating to the purchase of equipment.

The fair value hedge was accounted for as follows:

The hedging instrument was recorded at fair value in the balance sheet with changes in fair value recorded through the income statement. The full fair value method is used to calculate the changes in fair value of the hedging instrument. At maturity of the foreign exchange contract the related cash flows were booked at the spot rate of that day according to IAS 21.

The firm commitment (hedged item) was not recognised in the balance sheet at inception of the hedge because it was an executory contract for the future delivery of equipment. Only the subsequent changes in fair value of the commitment attributable to the hedged risk are recorded on the balance sheet and through the income statement.

In 2008, Sappi took delivery of the purchased equipment. Hedge accounting has been discontinued in the 2008 fiscal year. The portion of the hedge that was determined to be effective has been included on the balance sheet as part of the cost of purchase for the equipment.

c) 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.

30. Financial Instruments (continued)

Liquidity risk management – September 2008

	Total financial assets and liabilities	Fair value of financial instru-ments	Undiscounted cash flows 0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years	Total
Financial assets								
Other non-current assets	**44**	**44**	12	–	14	5	6	37
Long term derivative financial instruments	**76**	**76**	38	10	37	–	1	86
Receive leg			186	35	211	127	8	567
Pay leg			(148)	(25)	(174)	(127)	(7)	(481)
Trade and other receivables	**626**	**626**	609	17	–	–	–	626
Current derivative financial instruments	**4**	**4**	5	–	–	–	–	5
Receive leg			335	–	–	–	–	335
Pay leg			(330)	–	–	–	–	(330)
Cash and cash equivalents	**274**	**274**	257	17	–	–	–	274
			921	44	51	5	7	1,028
Financial liabilities								
Interest-bearing borrowings	**1,832**	**1,719**	57	55	186	1,658	762	2,718
Derivative financial instruments	**1**	**1**	–	–	–	–	1	1
Pay leg			–	–	–	–	1	1
Receive leg			–	–	–	–	–	–
Other non-current liabilities			–	–	–	–	–	–
Interest-bearing borrowings	**821**	**821**	709	128	–	–	–	837
Overdraft	**26**	**26**	26	–	–	–	–	26
Current derivative financial instruments	**24**	**24**	23	–	–	–	–	23
Pay leg			578	–	–	–	–	578
Receive leg			(555)	–	–	–	–	(555)
Trade and other payables	**756**	**756**	695	42	–	–	–	737
			1,510	225	186	1,658	763	4,342
Liquidity gap			(589)	(181)	(135)	(1,653)	(756)	(3,314)

30. **Financial Instruments** (continued)

Liquidity risk management – September 2007

	Total financial assets and liabilities	Fair value of financial instru-ments	0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years	Total
Financial assets								
Other non-current assets	36	36	12	–	9	2	12	35
Long term derivative financial instruments	137	137	50	4	51	47	(1)	151
Receive leg			180	15	183	187	15	580
Pay leg			(130)	(11)	(132)	(140)	(16)	(429)
Trade and other receivables	600	607	604	3	–	–	–	607
Current derivative financial instruments	7	7	9	–	–	–	–	9
Receive leg			312	–	3	–	–	315
Pay leg			(303)	–	(3)	–	–	(306)
Cash and cash equivalents	364	364	364	–	–	–	–	364
			1,039	7	60	49	11	1,166
Financial liabilities								
Interest-bearing borrowings	1,828	1,898	50	59	148	1,660	958	2,875
Derivative financial instruments	15	15	5	1	3	12	–	21
Pay leg			70	34	55	170	–	329
Receive leg			(65)	(33)	(52)	(158)	–	(308)
Interest-bearing borrowings	771	764	677	112	–	–	–	789
Overdraft	22	22	22	–	–	–	–	22
Current derivative financial instruments	28	28	32	2	–	–	–	34
Pay leg			908	23	1	–	–	932
Receive leg			(876)	(21)	(1)	–	–	(898)
Trade and other payables	816	818	796	1	7	–	–	804
			1,582	175	158	1,672	958	4,545
Liquidity gap			(543)	(168)	(98)	(1,623)	(947)	(3,379)

30. Financial Instruments (continued)

Derivative financial instruments with maturity profile

The following tables indicates the different types of derivative financial instruments for 2008 and 2007, included within the various categories on the face of the balance sheet.

The reported maturity analysis is calculated based on an undiscounted basis.

			Maturity analysis				
			Undiscounted cash flows				
Classes of financial instruments	**Total**	**Fair value hedge**	**<6M**	**>6M <1Y**	**>1Y <2Y**	**>2Y <5Y**	**>5Y**
September 2008							
Assets							
Fair value of derivatives by risk factor							
Interest rate risk							
Interest rate swaps	76	76	38	10	37	–	1
receiving leg	532	532	186	35	211	127	8
paying leg	(456)	(456)	(148)	(25)	(174)	(127)	(7)
Foreign exchange risk							
FX forward contracts	4	–	5	–	–	–	–
receiving leg	334	(11)	335	–	–	–	–
paying leg	(330)	11	(330)	–	–	–	–
Liabilities							
Fair value of derivatives by risk factor							
Interest rate risk							
Interest rate swaps	(1)	–	–	–	–	–	(1)
paying leg	(1)	–	–	–	–	–	(1)
receiving leg	–	–	–	–	–	–	–
Foreign exchange risk							
FX forward contracts	(24)	–	(23)	–	–	–	–
paying leg	(576)	–	(578)	–	–	–	–
receiving leg	552	–	555	–	–	–	–

30. **Financial Instruments** (continued)

Derivative financial instruments with maturity profile (continued)

Classes of financial instruments	Total	Fair value hedge	Maturity analysis – Undiscounted cash flows <6M	>6M <1Y	>1Y <2Y	>2Y <5Y	>5Y
September 2007							
Assets							
Fair value of derivatives by risk factor							
Interest rate risk							
Interest rate swaps	137	137	50	4	51	47	(1)
receiving leg	536	536	180	15	183	187	15
paying leg	(399)	(399)	(130)	(11)	(132)	(140)	(16)
Foreign exchange risk							
FX forward contracts	7	–	9	–	–	–	–
receiving leg	309	–	312	–	–	–	–
paying leg	(302)	–	(303)	–	–	–	–
Liabilities							
Fair value of derivatives by risk factor							
Interest rate risk							
Interest rate swaps	(12)	(12)	(2)	(1)	(3)	(13)	–
paying leg	(246)	(246)	(28)	(27)	(56)	(171)	–
receiving leg	234	234	26	26	53	158	–
Foreign exchange risk							
FX forward contracts	(31)	(4)	(27)	(1)	–	–	–
paying leg	(879)	(89)	(794)	(1)	–	–	–
receiving leg	848	85	767	–	–	–	–

30. **Financial Instruments** (continued)

Fair values

All financial instruments are carried at fair value or amounts that approximate fair value, except 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.

No financial assets were carried at an amount in excess of fair value.

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

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

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and have to be settled by delivery of such unquoted equity instruments, are not measured at fair value but at cost.

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

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

30. Financial Instruments (continued)

Fair values (continued)

September 2008	Total balance	Out of scope IAS 39	Categories according to IAS 39				Total in scope	Fair value
Classes of financial instruments			Held for trading	Loans and receiv-ables	Held to maturity	Available for sale		
Non-current assets								
Other non-current assets	**168**	124	–	30	–	14	44	44
Loans to associates (minority interests)		–	–	3	–	–	3	3
AFS – Club debentures		–	–	–	–	2	2	2
AFS – (Investment) funds		–	–	–	–	12	12	12
Other assets		124	–	27	–	–	27	27
Derivative financial instruments	**76**	–	76	–	–	–	76	76
Current assets								
Trade and other receivables	**698**	72	–	626	–	–	626	626
Trade receivables		–	–	574	–	–	574	574
Other accounts receivable – current		72	–	52	–	–	52	52
Derivative financial instruments	**4**	–	4	–	–	–	4	4
Cash (and cash equivalents)	**274**	–	–	274	–	–	274	274
Overnight deposits and current accounts (incl. petty cash)		–	–	59	–	–	59	59
Time deposits (< 3 months)		–	–	162	–	–	162	162
Money market funds		–	–	53	–	–	53	53

30. Financial Instruments (continued)

Fair values (continued)

September 2008	Total balance	Out of scope IAS 39	Categories according to IAS 39		Total in scope	Fair value
Classes of financial instruments			Held for trading	Other financial liabilities		
Non current liabilities						
Interest bearing borrowings	**1,832**	–	–	1,832	1,832	1,719
Bank loans payable (>1 year) – including syndicated loans		–	–	664	664	642
Bonds		–	–	1,084	1,084	998
Financial leasing liabilities		–	–	21	21	21
Other		–	–	63	63	58
Derivative financial instruments	**1**	–	1	–	1	1
Current liabilities						
Interest bearing borrowings	**821**	–	–	821	821	821
Bank loans payable (< 1 year) – incl. syndicated loans		–	–	446	446	446
Current portion of other non-current loans payable		–	–	6	6	6
Financial leasing liabilities		–	–	2	2	2
Secured loans (< 1 year)		–	–	142	142	142
Securitisation debt		–	–	220	220	220
Other current loans – external		–	–	5	5	5
Overdraft						
Bank overdrafts (< 3 months)	**26**	–	–	26	26	26
Derivative financial instruments	**24**	–	24	–	24	24
Trade and other payables	**959**	203	–	756	756	756
Accruals		202	–	233	233	233
Accounts payable to associates		–	–	1	1	1
Other accounts payable – current		1	–	522	522	522

30. **Financial Instruments** (continued)

7. Fair values (continued)

September 2007	Total balance	Out of scope IAS 39	Categories according to IAS 39				Total in scope	Fair value
Classes of financial instruments			Held for trading	Loans and receiv-ables	Held to maturity	Available for sale		
Non-current assets								
Other non-current assets	165	129	–	22	–	14	36	36
Loans to associates (minority interests)		–	–	3	–	–	3	3
AFS – Club debentures		–	–	–	–	1	1	1
AFS – (Investment) funds		–	–	–	–	13	13	13
Other assets		129	–	19	–	–	19	19
Derivative financial instruments	137	–	137	–	–	–	137	137
Current assets								
Trade and other receivables	653	53	–	600	–	–	600	607
Trade receivables		–	–	553	–	–	553	553
Other accounts receivable – current		53	–	47	–	–	47	54
Derivative financial instruments	7	–	7	–	–	–	7	7
Cash (and cash equivalents)	364	–	–	364	–	–	364	364
Overnight deposits and current accounts (including petty cash)		–	–	236	–	–	236	236
Time deposits (< 3 months)		–	–	117	–	–	117	117
Money market funds		–	–	11	–	–	11	11

30. Financial Instruments (continued)

Fair values (continued)

September 2007	Total balance	Out of scope IAS 39	Categories according to IAS 39		Total in scope	Fair value
Classes of financial instruments			Held for trading	Other financial liabilities		
Non current liabilities						
Interest bearing borrowings	1,828	–	–	1,828	1,828	1,898
Bank loans payable (>1 year)						
– including syndicated loans		–	–	624	624	631
Bonds		–	–	1,093	1,093	1,144
Financial leasing liabilities		–	–	32	32	37
Other		–	–	79	79	86
Derivative financial instruments	15	–	15	–	15	15
Current liabilities						
Interest bearing borrowings	771	–	–	771	771	764
Bank loans payable (<1 year)						
– including syndicated loans		–	–	374	374	374
Commercial paper		–	–	28	28	28
Financial leasing liabilities		–	–	9	9	7
Securitisation debt		–	–	354	354	354
Other current loans – external		–	–	6	6	1
Overdraft						
Bank overdrafts (<3 months)	22	–	–	22	22	22
Derivative financial instruments	28	–	28	–	28	28
Trade and other payables	952	136	–	816	816	818
Accruals		136	–	304	304	306
Accounts payable to associates		–	–	7	7	7
Other accounts payable – current		–	–	505	505	505

31. Related party transactions

Transactions between Sappi Limited and its subsidiaries, which are related parties of the group, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and related parties are disclosed below:

US$ million	Sale of goods			Purchases of goods			Amounts owed by related parties		Amounts owed to related parties	
Joint ventures	**2008**	2007	2006	**2008**	2007	2006	**2008**	2007	**2008**	2007
Jiangxi Chenming	**4.0**	3.8	2.3	**2.6**	2.2	9.0	**–**	–	**7.6**	8.3
Sapin S.A.	**0.3**	–	–	**30.9**	28.2	19.9	**–**	–	**1.1**	2.1
VOF Warmtekracht	**44.2**	41.4	35.7	**32.8**	30.5	26.1	**–**	–		–
Umkomaas Lignin (Pty) Ltd	**1.1**	0.9	0.6	**–**	–	–	**0.7**	1.6		–
Papierholz Austria GmbH		–	–	**92.7**	90.4	55.7	**–**	–	**5.3**	3.8
	49.6	46.1	38.6	**159.0**	151.3	110.7	**0.7**	1.6	**14.0**	14.2

Joint venture Timber IV: A full description of the transaction concerning Timber IV is discussed in note 13.

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.

Directors

Details relating to executive and non-executive directors' emoluments, interests and participation in the Scheme and Plan are disclosed in notes 34 – 36.

Interest of directors in contracts

None of the directors have a material interest in any transaction with the company or any of its subsidiaries, other than those on a normal employment basis. Professor 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 (Proprietary) Limited, a transaction sponsor to Sappi Ltd.

Key management personnel

Compensation for key management was as follows:

	Total excluding directors			Total including directors		
US$ million	**2008**	2007	2006	**2008**	2007	2006
Short term benefits	**2.9**	2.5	2.0	**4.3**	4.1	7.2
Post – employment benefits	**0.4**	0.3	0.6	**0.7**	0.8	3.3
Share- based payments	**0.0**	0.2	0.1	**–**	0.2	0.5
	3.3	3.0	2.7	**5.0**	5.1	11.0

The number of key management personnel included above for 2008 was ten (2007: twelve).

32. Events after balance sheet date

On 29 September 2008, Sappi announced that it had signed an agreement to acquire a substantial portion of the the coated graphic paper business of M-real Corporation (M-real) for €750 million (US$1.1 billion; ZAR8.9 billion), subject to a purchase price adjustment for net debt and working capital. The transaction includes four graphic paper mills – the Kirkniemi Mill and the Kangas Mill in Finland, the Stockstadt Mill in Germany and the Biberist Mill in Switzerland – and other specified assets, as well as all of the know-how, brands, order books, customer lists, intellectual property and goodwill of the coated graphic paper business of M-real. In addition, Sappi will enter into the transitional marketing agreements under which M-real will produce products at certain graphic paper machines at the Husum mill (Sweden) and the Äänekoski Mill (Finland) and Sappi will market and distribute those products. The transaction also includes the long term supply agreements for wood, pulp and other services. The acquisition will be financed through a combination of equity, assumed debt, the cash proceeds from a rights offering and a vendor note.

On November 03, 2008, Sappi's shareholders approved the transaction and a rights offering to finance a portion of the transaction.

Following such approvals, Sappi has commenced a rights offering of 286,886,270 new ordinary shares at a subscription price of ZAR20.27 per new share.

New shares will be issued at a ratio of 6 new shares for every 5 Sappi shares held. In connection with the rights offering, Sappi has entered into an underwriting agreement with two international banks.

Sappi has also to date obtained various regulatory approvals for the acquisition, including with respect to European Union competition regulations.

33. Environmental matters

We are subject to a wide range of environmental laws and regulations in the various jurisdictions in which we operate, and these laws and regulations 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 in our businesses, and we expect to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions including carbon dioxide and other greenhouse gases (GHG), waste water discharges and waste management. We closely monitor the potential for changes in pollution control laws and take actions with respect to our operations accordingly. Sappi spent approximately US$15 million in the financial year ended September 2008 (September 2007: US$15 million) on capital projects that control air or water emissions or otherwise create an environmental benefit.

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. The State of Maine has ordered a hearing, scheduled for later this year, to determine whether it will require Sappi Fine Paper North America to install a fishway at its Cumberland Mills dam on the Presumpscot River. A fishway on the Cumberland Mills dam would trigger the obligation to install fishways at Sappi Fine Paper North America's dams upstream of the Cumberland Mills dam, to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of these projects, if required, is estimated to be approximately US$18 million. Previous settlement discussions with government agencies and environmental groups regarding the removal of the Cumberland Mills dam were not successful.

Although the United States has not ratified the Kyoto Protocol, and has not yet adopted a federal programme for controlling GHG emissions, there are various state and regional initiatives regarding GHG regulation and Congress is considering a number of legislative proposals regarding climate change. Accordingly, we closely monitor state, regional and federal GHG initiatives in anticipation of any potential effects on our operations.

Our European facilities are subject to extensive environmental regulation in the various countries in which we operate. For example:

- The Integrated Pollution Prevention and Control directive regulates air emissions, water discharges and defines permit requirements and best available techniques for pollution control.
- The national European laws regulate the waste disposal framework and place restrictions on landfilling materials in order to reduce contaminated leachate and methane emissions. Prevention, re-use and recycling (material or thermal) are the preferred waste management methods. In Austria, Germany and The Netherlands only inert ash or slag from thermal recycling and incineration processes may be placed in landfills.
- In The Netherlands we, together with other paper manufacturers, have signed an agreement with the national government to improve environmental management and further limit emissions.

The countries within which we operate in Europe have all ratified the Kyoto Protocol and we have developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reductions cost effectively. Our expenditures related to GHG compliance in Europe are not expected to be material.

In South Africa, requirements under the National Water Act, National Environmental Management Act and the Air Quality Bill may result in additional expenditures and/or operational constraints. South Africa is also a signatory of the Kyoto Protocol and Sappi is currently identifying and initiating Clean Development Mechanism projects at a number of our South African mills. Although we are uncertain as to the ultimate effect on our South African operations, our current assessment of the legislation is that any compliance expenditures or operational constraints will not be material to our financial condition.

34. Directors' remuneration

Non-executive directors

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

Non-executive directors' fees reflect their services as directors and services on various sub-committees on which they serve, and the quantum of committee fees depends on whether the director is an ordinary member or a chairman of the committee.

The extreme volatility of currencies, in particular the Rand/US Dollar exchange rate in the past few years, caused severe distortion of the relative fees 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.

	2008			
Director	Board fees	Committee fees	Travel allowance	Total
US$				
D C Brink	**52,332**	**42,130**	**5,200**	**99,662**
M Feldberg	**57,200**	**49,700**	**10,400**	**117,300**
J E Healey	**67,600**	**70,700**	**15,600**	**153,900**
D Konar	**34,889**	**57,340**	**5,200**	**97,429**
H C Mamsch	**87,535**	**97,041**	**10,400**	**194,976**
B Radebe	**37,796**	**9,422**	**5,200**	**52,418**
A N R Rudd	**74,068**	**47,530**	**7,800**	**129,398**
F A Sonn	**34,889**	**9,422**	**5,200**	**49,511**
E van As(1)	**84,126**	**–**	**5,000**	**89,126**
K Osar	**67,600**	**23,835**	**13,000**	**104,435**
J McKenzie	**37,796**	**8,637**	**5,200**	**51,633**
D C Cronje(2)	**131,344**	**–**	**2,600**	**133,944**
	767,175	**415,758**	**90,800**	**1,273,733**

(1) Includes board fees received by Mr van As for the period September 2007 to March 2008. Mr van As also received consulting fees of US$16,825 for the same period not included in the above.
(2) Appointed in January 2008.

34. Directors' remuneration (continued)

Non-executive directors (continued)

Director	2007			
	Board fees	Committee fees	Travel allowance	Total
US$				
D C Brink	41,817	40,423	5,000	87,240
M Feldberg	50,000	48,000	12,500	110,500
J E Healey	50,000	68,000	15,000	133,000
K de Kluis(3)	16,265	16,265	2,500	35,030
D Konar	27,878	52,736	5,000	85,614
H C Mamsch	65,060	93,568	10,000	168,628
B Radebe	27,878	18,121	5,000	50,999
A N R Rudd	65,060	27,601	2,500	95,161
F A Sonn	27,878	9,060	5,000	41,938
E van As	48,787	–	5,000	53,787
K Osar(4)	20,835	–	7,500	28,335
J McKenzie(5)	2,324	–	–	2,324
	443,782	373,774	75,000	892,556

(3) Retired in December 2006.
(4) Appointed in May 2007.
(5) Appointed in September 2007.

Our pay philosophy aims to provide executives with remuneration which allows them to enjoy similar and appropriate standards of living and at the same time to create wealth equally no matter where they live and work.

Whilst the payment of executives in different currencies creates perceived inequities, due attention is given to ensure that internal equity exists and is maintained, through comparisons against cost of living indices and the manner in which pay is structured in the various countries.

Bonus and performance related payments are based on corporate and individual performance. Under this, executives may be awarded up to 110% of their annual salary if group and personal performance objectives as agreed by the remuneration committee are met. Bonuses relate to amounts paid in the current year, but based on the previous year's performance.

Average exchange rates for the year concerned are again applied in the tables in converting the currency of payment into US Dollars.

34. **Directors' remuneration** (continued)

Executive directors[1]

	2008						
Director	**Salary**	**Prior year bonuses and perfor-mance related payments[2]**	**Sums paid by way of expense allowance**	**Contri-butions paid under pension and medical aid schemes**	**Benefit received from credit scheme share funding**	**Other**	**Total**
US$							
M R Thompson	**299,113**	**180,552**	**433**	**99,688**	**–**	**–**	**579,786**
R J Boëttger	**669,955**	**204,705**	**–**	**191,327**	**–**	**–**	**1,065,987**
	969,068	**385,257**	**433**	**291,015**	**–**	**–**	**1,645,773**

(1) Executive directors are paid remuneration packages which aim to be competitive in the countries in which they live and work, and they are generally paid in the currency of those countries.
(2) Bonuses and performance related payments are in respect of the previous year's performance paid in the current year.

	2007						
Director	Salary	Prior year bonuses and perfor-mance related payments[2]	Sums paid by way of expense allowance	Contri-butions paid under pension and medical aid schemes	Benefit received from credit scheme share funding	Other	Total
US$							
W Pfarl[3]	536,552	255,071	2,708	132,087	–	393,688	1,320,106
M R Thompson	272,354	84,910	448	100,515	–	–	458,227
E van As[4]	696,953	–	–	–	–	146,360	843,313
R J Boëttger[5]	161,737	–	–	46,412	516,248	–	724,397
	1,667,596	339,981	3,156	279,014	516,248	540,048	3,346,043

(1) Executive directors are paid remuneration packages which aim to be competitive in the countries in which they live and work, and they are generally paid in the currency of those countries.
(2) Bonuses and performance related payments are in respect of the previous year's performance paid in the current year.
(3) Retired June 2007. Mr Pfarl received a pension disbursement benefit of US\$346,085 included in other benefits.
(4) Mr van As received a salary of US\$696,953 (ZAR5 million) while acting as CEO. Includes board fees paid to Mr van As for the period September 2006 till August 2007 when his executive responsibilities terminated upon the appointment of Mr Boëttger as CEO. Mr van As then resumed his non-executive chairman responsibilities.
(5) Appointed as CEO in July 2007. Mr Boëttger received 35,000 restricted shares which vest on 31 December 2007 included under benefit received from credit scheme share funding. A share based expense of US\$516,248 was recognised in the 2007 year's income statement, based on a share-price of ZAR106.00.

34. Directors' remuneration (continued)

Details of directors' service contracts

The executive directors have service contracts with notice periods of 2 years or less. These notice periods are in line with international norms for executive directors.

Other than the non-executive chairman, Dr Cronje, none of the other non-executive directors have service contracts with the company.

None of the directors have provisions for pre-determined compensation on termination of their contracts exceeding 2 years' gross remuneration and benefits in kind.

35. Directors' interests

The following table sets out the directors' interests in the shares in Sappi Limited. For the purpose of this table, directors' interests are those in shares owned either directly or indirectly as well as those shares in respect of which directors have vested obligations to purchase shares or repay loans in terms of the Sappi Limited Share Incentive Trust.

	2008			2007		
	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						
D C Brink	**–**	**–**	**10,000**	–	–	10,000
M Feldberg	**–**	**–**	**–**	–	–	–
J E Healey	**–**	**–**	**–**	–	–	–
D Konar	**–**	**–**	**–**	–	–	–
H C Mamsch	**–**	**–**	**–**	–	–	–
B Radebe	**–**	**–**	**–**	–	–	–
A N R Rudd	**–**	**–**	**–**	–	–	–
F A Sonn	**–**	**–**	**–**	–	–	–
E van As	**–**	**–**	**–**	–	–	–
K Osar(1)	**–**	**–**	**–**	–	–	–
J McKenzie(2)	**–**	**–**	**–**	–	–	–
D C Cronje(6)	**–**	**–**	**–**	–	–	–
Executive directors						
M R Thompson	**–**	**39,900**	**–**	–	36,300	–
R J Boëttger(3)	**35,000**	**–**	**–**	–	–	–
W Pfarl(4)	**–**	**–**	**–**	–	–	–
E van As(5)	**–**	**–**	**–**	248,000	200,000	316,959
Total	**35,000**	**39,900**	**10,000**	248,000	236,300	326,959

(1) Appointed in May 2007.
(2) Appointed in September 2007.
(3) Appointed in July 2007. Mr Boëttger received 35,000 restricted shares in 2007 as part of his appointment which vested on 31 December 2007 (See directors remuneration for 2007 foot note (6)).
(4) Retired June 2007.
(5) Retired August 2007 from executive duties and retired in March 2008 as non-executive chairman.
(6) Appointed in January 2008.

35. Directors' interests (continued)

Directors' interests in contracts

The directors have certified that they had no material interest in any significant transaction with either the company or any of its subsidiaries. Therefore there is no conflict of interest with regard to directors' interests in contracts.

36. Directors' participation in The Sappi Limited Share Incentive Trust (Scheme) and The Sappi Limited Performance Share Incentive Trust (Plan)

Share options, allocation shares and performance shares

The following table sets out all share options (whether vested or unvested), all other unvested allocation shares and performance shares granted to, and exercised by, each executive director in terms of the Scheme and the Plan during the year ended September 2008. These interests are also included in 'Directors' interests' in note 35. Details of share dealings are included in the second table. Non-executive directors do not have any allocation shares, share options or performance shares. Executive directors who retire have 12 months in which to settle their share options and allocation shares, unless extension is granted by the remuneration committee of the board of directors.

For performance shares there is a formula by which retired executive directors will receive a proportion of any shares which may have vested at the end of the four year period.

Executive directors

	R J Boëttger[(2)]		M R Thompson[(1)]		**Total 2008**	Total 2007
	Allocated price	No of shares	Allocated price	No of shares	**No of shares**	No of shares
Outstanding at September 2007						
Number of shares held		100,000		149,000	**249,000**	633,000
Issue 25			R49.00	3,000		
Issue 26			R147.20	15,000		
Issue 27			R112.83	15,000		
Issue 28a			R79.25	18,000		
Issue 29			R78.00	18,000		
Performance shares 29[(3)]				6,000		
Performance shares 30[(3)]				24,000		
Performance shares 30a[(3)]				50,000		
Performance shares 31a[(3)]		100,000				
Offered and accepted						
Performance shares 32		50,000		40,000		
Paid for						
Number of shares						90,000
Resignation/Retirement as executive director						
Number of shares						394,000
Appointment as director						
Number of shares						100,000

36. Directors' participation in The Sappi Limited Share Incentive Trust (Scheme) and The Sappi Limited Performance Share Incentive Trust (Plan) (continued)

Share options, allocation shares and performance shares (continued)

Executive directors

	R J Boëttger[2]		M R Thompson[1]		**Total 2008**	Total 2007
	Allocated price	No of shares	Allocated price	No of shares	**No of shares**	No of shares
Outstanding at September 2008						
Number of shares held		150,000		189,000	339,000	249,000
Issue 25			R49.00	3,000		
Issue 26			R147.20	15,000		
Issue 27			R112.83	15,000		
Issue 28a			R79.25	18,000		
Issue 29			R78.00	18,000		
Performance shares 29[3]				6,000		
Performance shares 30[3]				24,000		
Performance shares 30a[3]				50,000		
Performance shares 31a[3]		100,000				
Performance shares 32		50,000		40,000		
Expiry dates						
Issue 25			15 Jan 09			
Issue 26			28 Mar 10			
Issue 27			13 Feb 11			
Issue 28a			30 Dec 11			
Issue 29			13 Dec 12			
Performance shares 29[3]			13 Dec 08			
Performance shares 30[3]			13 Dec 09			
Performance shares 30a[3]			08 Aug 10			
Performance shares 31a[3]	02 Jul 11					
Performance shares 32	12 Dec 11		12 Dec 11			

Changes in executive directors' share options, allocation shares and performance shares after year-end.

(1) Appointed an executive director on 08 August 2006.
(2) Appointed in July 2007.
(3) Performance shares are issued when all conditions per Note 30 are met.

36. Directors' participation in The Sappi Limited Share Incentive Trust (Scheme) and The Sappi Limited Performance Share Incentive Trust (Plan) (continued)

Share options, allocation shares and performance shares (continued)

Dealings in the Scheme and the Plan for the year ended September 2008

None for the current year

Dealings in the Scheme and the Plan for the year ended September 2007

Director		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment	Gains on shares paid for US$[1]
Executive directors						
W Pfarl[2]	Option	15 November 2006	50,000	R53.85	R111.19	397,962
	Deferred Sale	15 November 2006	25,000	R49.00	R111.19	215,811
M R Thompson	Deferred Sale	14 December 2006	15,000	R53.85	R115.79	133,004
Total			90,000			746,777

(1) Converted from South African Rand to US Dollars at the exchange rates on the date of sale.
(2) Retired June 2007.

Company auditor's report

Independent auditor's report to the members of Sappi Limited

The condensed annual financial statements of Sappi Limited set out on pages 182 to 187 have been derived from the annual financial statements of the company for the year ended September 2008. We have audited the annual financial statements in accordance with International Auditing Standards (IAS). In our report dated 03 December 2008, we expressed an unqualified opinion on the annual financial statements from which the condensed financial statements were derived.

Opinion

In our opinion, the accompanying condensed financial statements are consistent, in all material respects, with the annual financial statements from which they were derived.

For a better understanding of the scope of our audit and the company's financial position, the results of its operations and cash flows for the period, the condensed financial statements should be read in conjunction with our audit report and the annual financial statements from which they were derived.

Deloitte & Touche
Per M J Comber
Partner

03 December 2008

Deloitte & Touche – Registered Auditors
Buildings 1 and 2, Deloitte Place
The Woodlands, Woodlands Drive, Woodmead Sandton
Johannesburg, South Africa

National Executive: G G Gelink Chief Executive A E Swiegers Chief Operating Officer G M Pinnock Audit D L Kennedy Tax & Legal and Financial Advisory L Geeringh Consulting L Bam Corporate Finance C R Beukman Finance T J Brown Clients & Markets N T Mtoba Chairman of the Board

A full list of partners and directors is available on request.

Condensed Sappi Limited company income statement
for the year ended September 2008

ZAR million	Note	**2008**	2007
Operating loss	1	**(154)**	(14)
Income from subsidiaries	2	**611**	498
Net finance income	3	**5**	15
Profit before taxation		**462**	499
Taxation – Current		**(44)**	(38)
– Deferred		**61**	70
Profit for the year		**445**	467

Condensed Sappi Limited company balance sheet

at September 2008

ZAR million		2008	2007
Assets			
Non-current assets		**14,950**	14,663
Property, plant and equipment		**3**	4
Investments in subsidiaries	(Annexure A)	**12,319**	12,253
Intercompany receivables	(Annexure A)	**2,420**	2,217
Loan to Executive Share Purchase Trust		**104**	109
Project costs capitalised		**85**	–
Deferred tax asset		**19**	80
Current assets		**41**	82
Cash		**–**	1
Receivables		**5**	2
Intercompany receivables	(Annexure A)	**36**	79
Total assets		**14,991**	14,745
Equity and liabilities			
Shareholders' equity		**14,750**	14,575
Ordinary share capital		**239**	239
Share premium		**6,427**	6,427
Non-distributable reserves		**247**	18
Distributable reserves		**7,837**	7,891
Non-current liabilities			
Intercompany payables	(Annexure A)	**30**	1
Current liabilities		**211**	169
Trade and other payables		**123**	61
Intercompany payables	(Annexure A)	**75**	69
Taxation payable		**13**	39
Total equity and liabilities		**14,991**	14,745

Condensed Sappi Limited company cash flow statement

for the year ended September 2008

ZAR million	**2008**	2007
Profit before interest and taxation	**457**	484
Adjustments:		
Dividends received – pre-acquisition	**136**	–
Impairment of investment	**113**	–
Subsidiary transactions	**(123)**	157
Other	**13**	(24)
Cash generated from operations	**596**	617
Movement in working capital	**57**	8
Net finance income	**5**	15
Taxation paid	**18**	(6)
Dividends paid	**(499)**	(525)
Cash retained from operating activities	**177**	109
Fixed asset purchases	**(1)**	(1)
(Increase) decrease in non-current assets	**(80)**	6
Increase in investments	**(315)**	(113)
Proceeds from share option deliveries	**218**	–
Net movement in cash and cash equivalents	**(1)**	1
Cash and cash equivalents at beginning of year	**1**	–
Cash and cash equivalents at end of year	**–**	1

Condensed Sappi Limited company statement of recognised income and expense

for the year ended September 2008

ZAR million	**2008**	2007
Profit for the year	**445**	467
Total recognised income for the year	**445**	467

Notes to the condensed Sappi Limited company financial statements
for the year ended September 2008

ZAR million		2008	2007
1.	**Operating loss**		
	The operating loss is arrived at after taking into account the items detailed below:		
	Depreciation	**2**	3
	Technical and administrative services paid other than to bona fide employees of the company	**10**	27
	Auditors' remuneration	**35**	15
	– fees for audit and related services	**8**	12
	– fees for other services	**5**	3
	– fees for acquisition related services*	**22**	–
	Directors' remuneration	**18**	17
	Staff costs	**89**	79
	Management fees received from subsidiaries	**224**	253
	Impairment of investment	**113**	–
2.	**Income from subsidiaries**		
	Dividends received from subsidiaries	**611**	498
3.	**Net finance income**		
	Interest paid	**(1)**	–
	Interest received	**15**	12
	Net foreign exchange (losses) gains	**(9)**	3
		5	15

4. Reconciliation of changes in equity

ZAR million	Number of ordinary shares	Ordinary share capital	Share premium	Non-distributable reserves	Distributable reserves	Total
Balance – September 2006	239.1	239	6,427	45	7,949	14,660
Profit for the year	–	–	–	–	467	467
Dividends	–	–	–	–	(525)	(525)
Share-based payments	–	–	–	(27)	–	(27)
Balance – September 2007	239.1	239	6,427	18	7,891	14,575
Profit for the year	–	–	–	–	445	445
Dividends	–	–	–	–	(499)	(499)
Share-based payments	–	–	–	229	–	229
Balance – September 2008	**239.1**	**239**	**6,427**	**247**	**7,837**	**14,750**

* *These costs are included in project costs capitalised.*

ZAR million	2008	2007
5. Commitments		
Revenue commitments		
Operating leases and rentals		
Payable within one year	**1**	1
Payable in two to five years	**1**	2
	2	3
6. Contingent liabilities		
Guarantees and suretyships	**13,099**	10,653

7. Basis of preparation

The annual financial statements from which these condensed financial statements have been derived have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Investments
at September 2008

			Effective holding		Book value of investment		Loan to subsidiary		Loan from subsidiary	
Annexure A **Investments in subsidiaries and joint venture**		Share capital	**2008** **%**	2007 %	**2008** **ZAR million**	2007 ZAR million	**2008** **ZAR million**	2007 ZAR million	**2008** **ZAR million**	2007 ZAR million
Set out below are the more significant subsidiaries and joint ventures or those that have a loan with Sappi Limited										
Southern Africa										
Sappi Management Services (Pty) Ltd	M	ZAR100	**100**	100	**–**	–	**456**	401	**–**	–
Sappi Manufacturing (Pty) Ltd	O	ZAR12,026,250	**100**	100	**1,851**	1,851	**1,357**	1,153	**–**	–
Sappi Share Facilitation Company (Pty) Ltd	O	ZAR1,000	**100**	100	**–**	–	**607**	663	**–**	–
Usutu Pulp Company Ltd	O	SZL10,000,000	**100**	100	**–**	–	**–**	–	**–**	–
America										
S.D. Warren Company	O	USD1,000	**100**	100	**–**	–	**–**	–	**(35)**	(17)
Sappi Cloquet LLC	O	–(1)	**100**	100	**–**	–	**–**	–	**–**	–
Europe										
Sappi Alfeld GmbH	O	EUR31,200,000	**100**	100	**–**	–	**–**	–	**–**	(2)
Sappi Austria Produktions GmbH and CoKG	O	EUR35,000	**100**	100	**–**	–	**–**	–	**–**	–
Sappi Deutschland GmbH	O	EUR25,565	**100**	100	**–**	–	**–**	–	**–**	–
Sappi Ehingen GmbH	O	EUR20,800,000	**100**	100	**–**	–	**–**	–	**–**	–
Sappi Esus Beteiligungs-verwaltungs GmbH	H	EUR1,000,000	**100**	100	**–**	–	**–**	–	**–**	–
Sappi Europe SA	O	EUR15,130,751	**100**	100	**–**	–	**–**	–	**(31)**	(25)
Sappi Fine Paper plc	M	GBP50,000	**100**	100	**1**	1	**–**	–	**–**	–
Sappi Holding GmbH	H	EUR72,700	**100**	100	**10,375**	10,059	**–**	–	**(6)**	(7)
Sappi International SA	F	EUR1,200,603,930	**100**	100	**–**	–	**32**	3	**–**	–
Sappi Lanaken NV	O	EUR51,377,000	**100**	100	**–**	–	**–**	–	**–**	–
Sappi Lanaken Press Paper NV	O	EUR57,179,613	**100**	100	**–**	–	**–**	–	**–**	–
Sappi Maastricht BV	O	EUR31,992	**100**	100	**–**	–	**–**	–	**–**	–
Sappi Nijmegen BV	O	EUR59,037	**100**	100	**–**	–	**–**	–	**–**	–
Sappi Papier Holding GmbH	H&O	EUR72,700	**100**	100	**–**	–	**1**	74	**–**	–
Sappi Trading Pulp AG	O	CHF100,000	**100**	100	**–**	–	**–**	–	**–**	(16)
Sappi UK Ltd	O	GBP74,020,000	**100**	100	**–**	–	**–**	–	**–**	(2)
Asia										
Jiangxi Chenming Paper Co. Ltd	JV	RMB1,424,160,000	**34**	100	**–**	–	**–**	–	**–**	–
Other										
Brocas Ltd(2)	H	US$3,385,401	**100**	100	**–**	122	**–**	–	**–**	–
Lignin Insurance Co. Ltd(3)	F	US$656,000	**100**	100	**85**	221	**3**	1	**–**	–
Employee share participation Trusts					**–**	–	**–**	–	**(30)**	–
Various other companies					**7**	8	**–**	1	**(3)**	(1)
					12,319	12,262	**2,456**	2,296	**(105)**	(70)
Write down of investment in subsidiaries					**–**	(9)	**–**	–	**–**	–
					12,319	12,253	**2,456**	2,296	**(105)**	(70)

Holding companies	H	Management companies	M
Operating companies	O	Joint venture	JV
Finance companies	F		

(1) No issued share capital, only additional paid in capital of US$488 million.
(2) Impairment of investment.
(3) Declared a dividend out of pre-acquisition reserves.

Glossary

General definitions

bleached pulp – pulp that has been bleached by means of chemical additives to make it suitable for fine paper production

chemical cellulose – highly purified chemical pulp intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament

chemical pulp – a generic term for pulp made from wood fibre that has been produced in a chemical process

coated fine paper – coated paper made from chemical pulp. Also referred to as coated free sheet

coated papers – papers that contain a layer of coating material on one or both sides. The coating materials, consisting of pigments and binders, act as a filler to improve the printing surface of the paper

corrugating medium – paperboard made from chemical and semi-chemical pulp, or waste paper, that is to be converted to a corrugated board by passing it through corrugating cylinders. Corrugating medium between layers of linerboard form the board from which corrugated boxes are produced

COSO – the Committee of Sponsoring Organisations of the Treadway Commission

fibre – fibre is generally referred to as pulp in the paper industry. Wood is treated chemically or mechanically to separate the fibres during the pulping process

fine paper – paper usually produced from chemical pulp for printing and writing purposes and consisting of coated and uncoated paper

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

Greenhouse gases (GHGs) – the GHGs included in the Kyoto Protocol are carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride

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

JSE Limited – the main securities exchange in South Africa, previously known as the Johannesburg Stock Exchange

kraft paper – packaging paper (bleached or unbleached) made from kraft pulp

kraft pulp – chemical wood pulp produced by digesting wood by means of the sulphate pulping process

Kyoto Protocol – a document signed by over 160 countries at Kyoto, Japan in December 1997 which commits signatories to reducing their emission of greenhouse gases relative to levels emitted in 1990

Lost-Time Injury Frequency Rate (LTIFR)

$$= \frac{\text{number of lost time injuries} \times 200\,000}{\text{exposure hours}}$$

linerboard – the grade of paperboard used for the exterior facings of corrugated board. Linerboard is combined with corrugating medium by converters to produce corrugated board used in boxes

market pulp – pulp produced for sale on the open market, as opposed to that produced for own consumption in an integrated mill

mechanical pulp – pulp produced by means of the mechanical grinding or refining of wood or wood chips

NBSK – Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, mainly produced from spruce trees in Scandinavia, Canada and north eastern USA. The price of NBSK is a benchmark widely used in the pulp and paper industry for comparative purposes

newsprint – paper produced for the printing of newspapers mainly from mechanical pulp and/or recycled waste paper

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

packaging paper – paper used for packaging purposes

PEFC – the world's largest forest certification system, the PEFC is focused on promoting sustainable forest management. Using multi-stakeholder processes, the organisation develops forest management certification standards and schemes which have been signed by 37 nations in Europe and other inter-governmental processes for sustainable forestry management around the world

pulpwood – wood suitable for producing pulp – usually not of sufficient standard for saw-milling

release paper – backing paper for self-adhesives and/or paper used to impart designs on or to polymers, eg artificial leather

sackkraft – kraft paper used to produce multiwall paper sacks

silviculture costs – growing and tending costs of trees in forestry operations

speciality paper – a generic term for a group of papers intended for commercial and industrial use such as flexible packaging, metallised base paper, coated bag paper, etc

thermo-mechanical pulp – pulp produced by processing wood fibres using heat and mechanical grinding or refining wood or wood chips.

tons – term used in this report to denote a metric ton of 1 000 kg

uncoated woodfree paper – printing and writing paper made from bleached chemical pulp used for general printing, photocopying and stationery, etc. Referred to as uncoated as it does not contain a layer of pigment to give it a coated surface

woodfree paper – paper made from chemical pulp

General financial definitions

acquisition date – the date on which control in respect of subsidiaries, joint control in joint ventures and significant influence in associates commences

associate – an entity, other than a subsidiary or joint venture, over which the group has significant influence over financial and operating policies

basic earnings per share – net profit for the year divided by the weighted average number of shares in issue during the year

commissioning date – the date that an item of property, plant and equipment, whether acquired or constructed, is brought into use

control – the ability, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefit from its activities. When assessing the ability to control an entity, the existence and effect of potential voting rights that are presently exercisable or convertible are taken into account

diluted earnings per share – is calculated by assuming conversion or exercise of all potentially dilutive shares, share options and share awards

discount rate – the rate used for purposes of determining discounted cash flows. This pre-tax interest rate reflects the current market assessment of the time value of money. In determining the cash flows the risks specific to the asset or liability are taken into account in determining those cash flows and are not included in determining the discount rate

disposal date – the date on which control in respect of subsidiaries, joint control in joint ventures and significant influence in associates ceases

fair value – the value for which an asset could be exchanged or a liability settled in a market related transaction

financial results – comprise the financial position (assets, liabilities and equity), results of operations (revenue and expenses) and cash flows of an entity and of the group

functional currency – the currency of the primary economic environment in which the entity operates

foreign operation – an entity whose activities are based or conducted in a country other than that of the reporting entity (Sappi Limited)

group – the group comprises Sappi Limited, its subsidiaries and its interest in joint ventures and associates

joint venture – an economic activity over which the group exercises joint control established under a contractual arrangement

operation – a component of the group:

- that represents a separate major line of business or geographical area of operation; and
- is distinguished separately for financial and operating purposes

presentation currency – the currency in which financial results of an entity are presented

qualifying asset – an asset that necessarily takes a substantial period (normally in excess of six months) to get ready for its intended use

recoverable amount – the amount that reflects the greater of the net selling price and the value in use that can be attributed to an asset as a result of its ongoing use by the entity. In determining the value in use, expected future cash flows are discounted to their present values using the discount rate

related party – parties are considered to be related if one party directly or indirectly has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or is a member of the key management of Sappi Limited

share-based payment – a transaction in which Sappi Limited issues shares or share options to group employees as compensation for services rendered

significant influence – the ability, directly or indirectly, to participate in, but not exercise control over, the financial and operating policy decisions of an entity so as to obtain economic benefit from its activities

Non-GAAP financial definitions

The group believes that it is useful to report these non-GAAP measures for the following reasons:

- these measures are used by the group for internal performance analysis;
- the presentation by the group's reported business segments of these measures facilitates comparability with other companies in our industry, although the group's measures may not be comparable with similarly titled profit measurements reported by other companies; and
- it is useful in connection with discussion with the investment analyst community and debt rating agencies

These non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS

asset turnover (times) – sales divided by total assets

average – averages are calculated as the sum of the opening and closing balances for the relevant period divided by two

capital employed – shareholders' equity plus net debt

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

current asset ratio – current assets divided by current liabilities

dividend yield – dividends per share, which were declared after year end, in US cents divided by the financial year end closing prices on the JSE Limited converted to US cents using the closing financial year end exchange rate

earnings yield – headline earnings per share divided by the financial year end closing prices on the JSE Limited converted to US cents using the closing financial year end exchange rate

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

fellings – the amount charged against the income statement representing the standing value of the plantations harvested

headline earnings – as defined in circular 8/2007 issued by the South African Institute of Chartered Accountants, separates from earnings all separately identifiable re-measurements. It is not necessarily a measure of sustainable earnings. It is a listing requirement of the JSE Limited to disclose headline earnings per share

inventory turnover (times) – cost of sales divided by inventory on hand at balance sheet date

net assets – total assets less total liabilities

net asset value per share – net assets divided by the number of shares in issue at balance sheet date

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

net debt to total capitalisation – net debt divided by capital employed

net operating assets – total assets (excluding deferred taxation and cash) less current liabilities (excluding interest-bearing borrowings and overdraft)

ordinary dividend cover – profit for the period divided by the ordinary dividend declared multiplied by the actual number of shares in issue at period end

ordinary shareholders' interest per share – shareholders' equity divided by the actual number of shares in issue at year end

price/earnings ratio – the financial year end closing prices on the JSE Limited converted to US cents using the closing financial year end exchange rate divided by headline earnings per share

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

ROCE – return on average capital employed. Operating profit excluding special items divided by average capital employed

RONOA – return on average net operating assets. Operating profit excluding special items divided by average net operating assets

sales per employee – sales for the year divided by the average number of employees

SG&A – selling, general and administrative expenses

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

total market capitalisation – ordinary number of shares in issue (excluding treasury shares held by the group) multiplied by the financial year end closing prices on the JSE Limited converted to US cents using the closing financial year end exchange rate

trade receivables days outstanding (including securitised balances) – gross trade receivables, including receivables securitised, divided by sales multiplied by the number of days in the year

Notice to shareholders

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to what action you should take, please consult your stockbroker, banker, attorney, accountant or other professional advisor immediately.

Sappi Limited
(Registration No 1936/008963/06)
(Sappi)

The seventy-second annual general meeting of Sappi will be held in the Auditorium, ground floor, 48 Ameshoff Street, Braamfontein, Johannesburg on Monday, 2 March 2009, at 15:00. The following business will be transacted and resolutions proposed with or without modification.

1. Annual financial statements: Receive and consider the annual financial statements for the year ended September 2008.

2. Ordinary resolutions numbers 1.1 to 1.4: Re-election of the directors retiring by rotation in terms of Sappi's articles of association (see notes below). The board has evaluated the performances of each of the directors who are retiring by rotation, and recommends and supports the re-election of each of them.*

In the case of Mr David Charles Brink, his re-election will be until 31 December 2009, when in terms of the company's practice, he will retire from the board, having reached retirement age of 70 years during the course of the year.

It is intended that all the directors who retire by rotation will attend the annual general meeting, either in person or by means of videoconferencing.

Ordinary resolution number 1.1
"Resolved that Mr David Charles Brink is re-elected as a director of Sappi Limited until 31 December 2009."

Ordinary resolution number 1.2
"Resolved that Professor Meyer Feldberg is re-elected as a director of Sappi Limited."

Ordinary resolution number 1.3
"Resolved that Mr James Edward Healey is re-elected as a director of Sappi Limited."

Ordinary resolution number 1.4
"Resolved that Mr Helmut Claus-Jürgen Mamsch is re-elected as a director of Sappi Limited."

* *See page 194 for the biographies of the retiring directors proposed for re-election.*

3. Special resolution number 1: Decrease in authorised share capital

"Resolved that, the authorised ordinary share capital of the company be and is reduced from ZAR1,325,000,000 comprising 1,325,000,000 ordinary shares of ZAR1.00 each to ZAR725,000,000 comprising 725,000,000 ordinary shares of ZAR1.00 each, by the cancellation of 600,000,000 unissued ordinary shares of ZAR1.00 each, which at the time of passing of this resolution, have not been taken up or agreed to be taken up by any person."

The reason for special resolution number 1, is to reduce the authorised share capital of the company by cancelling 600,000,000 unissued ordinary shares having a par value of ZAR1.00 each in the authorised share capital of the company which, at the time of passing of this resolution, have not been taken up or agreed to be taken up by any person. The effect of passing special resolution 1 will be to decrease the authorised share capital of the company by ZAR600,000,000 by the cancellation of 600,000,000 ordinary shares having a par value of ZAR1.00 each.

4. Ordinary resolution number 2: Re-appointment of auditors

The board has evaluated the performance of Deloitte and Touche and recommends and supports their re-appointment as auditors of Sappi.

"Resolved that Deloitte and Touche are re-appointed as the auditors of Sappi Limited for the year ending September 2009."

5. Ordinary resolution number 3: Placing of unissued shares and treasury shares under the control of the directors

"Resolved that, subject to the provisions of the Companies Act 61 of 1973, as amended and the Listings Requirements of the JSE Limited, a total of 25,000,000 ordinary shares in Sappi Limited (comprising ordinary shares in the authorised but issued share capital of Sappi and/or treasury shares owned by one or more subsidiaries of Sappi from time to time), be and are hereby placed under the control of the directors of Sappi, who are authorised by way of a general authority to allot and issue or otherwise dispose of all or any of such shares to such person/s on such terms and conditions and at such times as the directors of Sappi may from time to time in their discretion deem fit."

It is recorded that the Listing Requirements **(Listing Requirements)** of the JSE Limited **(JSE)** currently require, inter alia, that a company may only undertake a general issue for cash or be generally authorised to use treasury shares if:

1. authorised to do so by a general authority, which shall only be valid until the next annual general meeting of the company or for 15 months from the date of passing of such resolution, whichever period is the shorter;

2. such shares are issued or sold, as the case may be, to public shareholders (as defined in the Listings Requirements) and not to related parties;

3. such shares do not in any one financial year in the aggregate exceed 15% of the company's issued shares, as determined in accordance with paragraph 5.52(c) of the Listings Requirements. It is recorded that the shares contemplated in ordinary resolution number 3 constitute approximately 4.65% of the expected issued share capital of Sappi as at 31 December 2008;

4. the maximum discount at which such shares may be issued or sold (as the case may be) is 10% of the weighted average trading price of such shares on the JSE over the 30 business days prior to the date of determination of the issue or sale price, as the case may be; and

5. such general authority is approved by a 75% majority of the votes cast in favour of such resolution by all equity securities holders present or represented by proxy at the general meeting convened to approve such resolution.

   The reason for and effect of this ordinary resolution is to authorise the board of directors of Sappi to issue unissued shares in the authorised but unissued share capital of Sappi and to sell treasury shares, thereby providing the company with the flexibility to improve its liquidity in the current uncertain market conditions, subject to a limitation of 25,000,000 shares in the aggregate.

   No issue and/or sale of these shares is contemplated at present or will be made which could effectively transfer control of Sappi without the prior approval of shareholders in general meeting.

6. Ordinary resolution number 4: Non-executive directors' fees

"Resolved that, with effect from 01 October 2008 and until otherwise determined by Sappi Limited (**Sappi**) in general meeting, the remuneration of the non-executive directors for their services shall be adjusted as follows:

1. Sappi board fees	**From**	**To**
Chairperson	ZAR1,500,000 pa*	ZAR1,650,000 pa*

* *Inclusive of all committee fees.*

Senior independent non-executive director	ZAR324,000 pa	ZAR356,000 pa
Other directors		
If South African resident	ZAR216,000 pa	ZAR237,500 pa
If European resident	GBP34,000 pa	GBP35,700 pa
If USA resident	US$52,000 pa	US$54,000 pa

2. Audit committees

Group committee		
Chairperson		
If South African resident	ZAR216,000 pa	ZAR237,500 pa
If European resident	GBP34,000 pa	GBP35,700 pa
If USA resident	US$52,000 pa	US$54,000 pa
Other members		
If South African resident	ZAR108,000 pa	ZAR118,000 pa
If European resident	GBP17,000 pa	GBP17,900 pa
If USA resident	US$26,000 pa	US$27,000 pa
Regional audit committees		
Chairperson		
If South African resident	ZAR28,000 per meeting	ZAR30,500 per meeting
If European resident	GBP4,400 per meeting	GBP4,600 per meeting
If USA resident	US$6,500 per meeting	US$6,750 per meeting

3. Human resources committee, compensation committee, nomination and governance committee and any additional committees

Chairperson	**From**	**To**
If South African resident	ZAR135,000 pa	ZAR148,000 pa
If European resident	GBP20,500 pa	GBP21,500 pa
If USA resident	US$31,000 pa	US$32,200 pa
Other members		
If South African resident	ZAR70,000 pa	ZAR77,000 pa
If European resident	GBP14,400 pa	GBP15,100 pa
If USA resident	US$18,700 pa	US$19,500 pa

4. Additional meeting fees

Board meetings in excess of five meetings per annum (whether attended in person or by teleconference/videoconference)

	From	**To**
If South African resident	ZAR21,600 per meeting	ZAR23,700 per meeting
If European resident	GBP3,400 per meeting	GBP3,500 per meeting
If USA resident	US$5,200 per meeting	US$5,400 per meeting

5. Travel compensation

For more than 10 flight hours return	US$2,600 per meeting	US$2,700 per meeting

Sappi indicated in the notice to shareholders dated 06 December 2004 that it planned to review directors' fees annually in future. Ordinary resolution number 4 increases the remuneration currently paid to non-executive directors (save for the non-executive chairperson), and board committee members by between approximately 3.2% and 10% per annum depending generally on the domicile of the directors and the currency in which they are paid, with effect from 01 October 2008. The fees were last increased with effect from 01 October 2007 and have been reviewed to ensure that Sappi's fees remain generally comparable with those of its peer companies in the various countries in which its directors are domiciled. A new non-executive chairperson was elected during the year. Shareholders authorised the board to determine the fee to be paid to the new chairperson and the board determined remuneration for the new chairperson at the rate of ZAR1,500,000 pa.

The responsibility of non-executive directors continues to increase substantially flowing from legislative, regulatory and corporate governance requirements. The proposed fees are considered reasonable in the circumstances.

The practice has been and will continue to be that directors' and board committee fees are paid to non-executive directors only.

In line with their international responsibilities, directors resident in South Africa will be entitled to be paid up to one third of their directors' fees in either United States dollars or British pounds sterling.

7. Ordinary resolution number 5: Signature of documents

"Resolved that any director of Sappi Limited is authorised to sign all such documents and do all such things as may be necessary for or incidental to the implementation of the resolutions passed at the annual general meeting held on 02 March 2009 or any adjournment thereof."

Proxies

A shareholder is entitled to appoint one or more proxies to attend, speak and on a poll to vote in his stead. A proxy need not be a shareholder. For the convenience of shareholders, a form of proxy is enclosed, together with a form of direction for holders of depository interests.

The attached form of proxy is only to be completed by a shareholder who holds Sappi shares in certificated form or has dematerialised his shares (ie has replaced the paper share certificates with electronic records of ownership under JSE's electronic settlement system (Strate Limited) and is recorded in the sub-register in 'own name' dematerialised form (ie a shareholder who has specifically instructed his Central Securities Depositary Participant (CSDP) or broker to hold his shares in his own name on Sappi's sub-register).

A shareholder who has dematerialised his shares and who is not registered as an 'own name' dematerialised shareholder and who wishes to:

– attend the annual general meeting must instruct his CSDP or broker to provide him with a letter of representation to enable him to attend such meeting; or

– vote but not to attend the annual general meeting, must provide his CSDP or broker with his voting instructions in terms of the relevant custody agreement between him and his CSDP or broker.

Such a shareholder must not complete the attached form of proxy.

When authorised to do so, CSDPs or brokers recorded in Sappi's sub-register or their nominees should vote either by appointing a duly authorised representative to attend and vote at the annual general meeting to be held on 02 March 2009 or any adjournment thereof or by completing the attached form of proxy and returning it to one of the addresses indicated on the form of proxy in accordance with the instructions thereon.

Questions

The board welcomes shareholders to ask questions at the Annual General Meeting. In order to facilitate the handling of questions at the meeting, shareholders who wish to ask questions at the meeting are encouraged to submit their questions in writing to the group secretary by 17:00 on Thursday, 26 February 2009 at:

7th Floor
48 Ameshoff Street
Braamfontein
Johannesburg 2001

or

PO Box 31560
Braamfontein
2017

Sappi Management Services (Pty) Limited
Secretaries: per D J O'Connor
48 Ameshoff Street
Braamfontein, Johannesburg 2001

23 December 2008

Notes

Directors retiring by rotation who are seeking re-election

David Charles Brink (69) (senior independent director)
MSc Eng (Mining), DCom (hc), Graduate Diploma (Company Direction) (South African citizen)

Mr Brink was appointed a non-executive director of Sappi Limited in March 1994 and in March 2006 he was appointed senior independent director. Mr Brink also serves on the boards of Steinhoff International Holdings Limited, the Business Trust, Absa Bank Limited, Absa Group Limited, the National Business Initiative and is vice president of the Institute of Directors in South Africa.

Mr Brink retired from the boards of BHP Billiton Limited and BHP Billiton plc in November 2007 after serving on those boards and their predecessor companies since 1994. He is also a past chief executive officer and chairman of construction group Murray & Roberts Holdings Limited.

Mr Brink turns 70 years of age during the course of 2009. His re-appointment to the Sappi board, if approved, will be for nine months until 31 December 2009, when in terms of company policy, he will retire from the board.

Meyer Feldberg (66) (independent)
BA, MBA, PhD (US citizen)

Professor Feldberg's career has included teaching and leadership positions in the business schools of the universities of Cape Town, Northwestern and Tulane. He served as president of Illinois Institute of Technology for three years and as dean of Columbia Business School for fifteen years. He is currently dean emeritus and professor of Leadership at Columbia Business School. He is also a senior advisor to Morgan Stanley in New York. Professor Feldberg serves on the Advisory Board of the British American Business Council and has served on the Council of Competitiveness in Washington, DC. In 2001, the International Centre in New York honoured Professor Feldberg as a distinguished foreign-born American who has made a significant contribution to American life. In 2007, Mayor Michael Bloomberg appointed him president of New York City Global Partners. He is a director of major public companies including Macy's Inc, Revlon Inc, PRIMEDIA Inc and UBS Global Asset Management.

Professor Feldberg was appointed to the board of directors of Sappi Limited in March 2002 and is currently chairman of the nomination and governance committee and a member of the compensation committee.

James Edward Healey (67) (independent)
BSc (Public Accounting), Honorary Doctor (Commercial Science), Certified Public Accountant (USA), (US citizen)

Mr Healey joined the Sappi Limited board with effect from July 2004. He has held various senior financial positions in a career spanning 37 years. In 1995, Mr Healey became vice president and treasurer of Bestfoods, formerly CPC International Inc. In 1997, he became executive vice president and chief financial officer of Nabisco Holdings Inc, one of the world's largest snack food manufacturers, a position from which he retired at the end of 2000.

Mr Healey is a member of the audit committee of Sappi Limited and also a member of the human resources committee. He is chairman of the audit committee of Sappi Fine Paper North America.

Helmut Claus-Jürgen Mamsch (64) (independent)
(German citizen)

Mr Mamsch studied economics at Deutsche Aussenhandels- und Verkehrs-Akademie, Bremen and also received training in business administration and shipping in Germany, the UK and Belgium. He worked for 20 years in international trade and shipping. In 1989, he joined VEBA AG (now E ON AG), Germany's largest utility-based conglomerate. From 1993 to 2000, he was a VEBA AG management board member and as from 1998 responsible for their US electronic businesses and their Corporate Strategy and Development.

In 1997, he joined Logica as a non-executive director and until 2007 was appointed their deputy chairman. Mr Mamsch also serves on the board of Electrocomponents plc and GKN plc.

Mr Mamsch was appointed as a non-executive director of Sappi Limited in January 2004 and is currently a member of both the audit committee and the compensation committee of Sappi Limited. He is chairman of the audit committee of Sappi Fine Paper Europe.

Administration

Sappi Limited

Reg No 1936/008963/06
JSE code: SAP
ISIN code: ZAE 000006284
NYSE code: SPP
LSE code: SAZ

Group secretary

Denis O'Connor

Secretaries

Sappi Management Services (Pty) Limited
48 Ameshoff Street
2001 Braamfontein
South Africa
PO Box 31560
2017 Braamfontein
South Africa

Telephone +27 (0)11 407 8111
Fax +27 (0)11 339 1881
e-Mail Denis.O'Connor@sappi.com
Website www.sappi.com

Transfer secretaries

South Africa
Computershare Investor Services (Pty) Limited
70 Marshall Street
2001 Johannesburg
PO Box 61051
2107 Marshalltown

Telephone +27 (0)11 370 5000
Fax +27 (0)11 370 5217
e-Mail registrar@computershare.co.za

United Kingdom

Depository
Capita IRG Trustees Limited
The Registry
34 Beckenham Road
Beckenham
Kent, BR3 4TU

Telephone 0871 664 0300
(from outside the UK: +44 (0)20 8639 3399)
Fax +44 (0)20 8639 2342
e-Mail ssd@capitaregistrars.com
Website www.capitaregistrars.com

Transfer secretaries
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12 Castle Street
St Helier
Jersey
JE2 3RT

Telephone 0871 664 0300
(from outside the UK: +44 (0)20 8639 3399)
Fax +44 (0)20 8639 2342
e-Mail ssd@capitaregistrars.com
Website www.capitaregistrars.com

United States ADR Depositary

The Bank of New York Mellon
Investor Relations
PO Box 11258
Church Street Station
New York, NY 10286-1258

Telephone (US only) 1 888 BNYADRS
Telephone (outside the US) +1 201 680 6825
e-Mail shrrelations@bnymellon.com
Website www.bnymellon.com/shareowner

Corporate affairs

André Oberholzer – Group Head
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Investor relations

Wikus van Zyl – Group Investor Relations Manager
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e-Mail Wikus.van.Zyl@sappi.com

Shareholder's diary

Annual general meeting	02 March 2009
First and third quarter reports released	February and July 2009
Second quarter and half-year report released	May 2009
Financial year end	September 2009
Preliminary results for the fourth quarter and year released, dividend announcement	November 2009
Annual report posted to shareholders	December 2009

sappi

Proxy form for annual general meeting

Sappi Limited
(Registration number 1936/008963/06)
(Incorporated in the Republic of South Africa)
(Sappi or the company)
Issuer Code: SAP JSE Code: SAP ISIN Code: ZAE000006284
For use by shareholders who –

- hold shares in certificated form; or
- hold dematerialised shares (i.e. where the paper share certificates representing the shares have been replaced with electronic records of ownership under the electronic settlement and depositary system (Strate Limited) of the JSE Limited) and are recorded in Sappi's sub-register with 'own name' registration) (i.e. shareholders who have specifically instructed their Central Securities Depositary Participant ('CSDP') to record the holding of their shares in their own name in Sappi's sub register).

If you are unable to attend the seventy-first annual general meeting of the members to be held at 15:00 on Monday, 2 March 2009 in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, Republic of South Africa, you should complete and return the form of proxy as soon as possible, but in any event to be received by no later than 15:00 South African time on Saturday, 28 February 2009, to Sappi's transfer secretaries, Computershare Investor Services (Proprietary) Limited, by way of hand delivery to 70 Marshall Street, Johannesburg, 2001, Republic of South Africa or by way of postal delivery to PO Box 61051, Marshalltown, 2107, Republic of South Africa or to Capita IRG Trustees Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

Shareholders who have dematerialised their shares and who do not have 'own name' registration who wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with the relevant letter of representation to enable them to attend such meeting, or, alternatively, should they wish to vote but not to attend the annual general meeting, they must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. **Such shareholders must not complete this form of proxy.**

A separate form of direction is attached for completion by holders of depositary Interests with CREST.

I/We

of

being (a) shareholder(s) of Sappi holding Sappi shares and entitled to vote at the above-mentioned

annual general meeting, appoint

or failing him/her

or failing him/her

or failing him/her, the chairman of the meeting as my/our proxy to attend and speak and, on a poll, to vote for me/us on the resolutions to be proposed (with or without modification) at the annual general meeting of Sappi to be held at 15:00 on Monday, 2 March 2009 or any adjournment thereof, as follows:

	Number of shares		
	For	Against	Abstain
Ordinary resolution number 1 – Re-election of directors retiring by rotation in terms of Sappi's articles of association*			
Ordinary resolution number 1.1 – Re-election of Mr David Charles Brink as a director of Sappi until 31 December 2009			
Ordinary resolution number 1.2 – Re-election of Professor Meyer Feldberg as a director of Sappi Limited			
Ordinary resolution number 1.3 – Re-election of Mr James Edward Healey as a director of Sappi Limited			
Ordinary resolution number 1.4 – Re-election of Mr Helmut Claus-Jürgen Mamsch as a director of Sappi Limited			
Ordinary resolution number 2 – Re appointment of Deloitte & Touche as auditors for the year ending 30 September 2009			
Special resolution number 1 – Decrease in authorised share capital			
Ordinary resolution number 3 – Placing a total of 25,000,000 unissued Sappi shares and/or treasury shares (constituting approximately 4.65% of Sappi's issued share capital) under the control of the directors of Sappi with the authority to allot and/or issue and/or otherwise dispose of same in terms of the SA Companies Act and the Listings Requirements of the JSE Limited			
Ordinary resolution number 4 – Adjustment of non-executive directors' fees			
Ordinary resolution number 5 – Authority for directors to sign all documents and do all things necessary to implement the above resolutions			

Insert 'X' in the appropriate block if you wish to vote all your shares in the same manner. If not, insert the number of votes in the appropriate block. If no indication is given, the proxy will vote as he/she thinks fit.

Signed at on

Assisted by me (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be shareholders of Sappi) to attend, speak, and on a poll, vote in place of that shareholder at the annual general meeting or any adjournment thereof.

* *Refer note to Notice of Meeting on page 191.*

Notes to proxy

The form of proxy must only be used by certificated shareholders or shareholders who hold dematerialised shares with 'own name' registration. Other shareholders are reminded that the onus is on them to communicate with their CSDP or broker.

Instructions on signing and lodging the annual general meeting proxy form

1 A deletion of any printed matter (only where a shareholder is allowed to choose between more than one alternative option) and the completion of any blank spaces need not be signed or initialled. Any alteration must be signed, not initialled.

2 The chairman shall be entitled to decline to accept the authority of the signatory –

2.1 under a power of attorney; or

2.2 on behalf of a company,

if the power of attorney or authority has not been lodged at the offices of the company's transfer secretaries, Computershare Investor Services (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001, Republic of South Africa or posted to PO Box 61051, Marshalltown, 2107, Republic of South Africa or lodged at Capita IRG Trustees Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by 15:00 South African time on Saturday, 28 February 2009.

3 The signatory may insert the name(s) of any person(s) whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose.

4 When there are joint holders of shares and if more than one of such joint holders is present or represented, the person whose name appears first in the register in respect of such shares or his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof.

5 The completion and lodging of the form of proxy will not preclude the signatory from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.

6 Forms of proxy must be lodged with, or posted to, the offices of the company's transfer secretaries, Computershare Investor Services (Proprietary) Limited, at 70 Marshall Street, Johannesburg, 2001, Republic of South Africa, (for hand delivery) or PO Box 61051, Marshalltown, 2107, Republic of South Africa (for postal delivery) or lodged at the offices of Capita IRG Trustees Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by not later than 15:00 South African time on Saturday, 28 February 2009.

7 If the signatory does not indicate in the appropriate place on the face hereof how he/she wishes to vote in respect of a particular resolution, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution.

8 The chairman of the annual general meeting may reject any proxy form which is completed other than in accordance with these instructions and may accept any proxy form when he is satisfied as to the manner in which a member wishes to vote.

sappi

Form of direction for holders of depository interests

Sappi Limited
Incorporated in the Republic of South Africa
Registration number 1936/008963/06
'Issuer Company'

Form of direction

Form of direction for completion by holders of Depository Interests representing shares on a one for one basis in the Issuer Company in respect of the Seventy First Annual General Meeting of the Issuer Company convened for 15:00 (South African time) on Monday, 02 March 2009 in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, South Africa.

I/We (full names in BLOCK LETTERS)

of (address in BLOCK LETTERS

being a holder of Depository Interest representing shares in the Issuer Company hereby instruct Capita IRG Trustees Limited, the depository, to vote for me/us and on my/our behalf in person or by proxy at the General Meeting of the Issuer Company to be held on the above date (and at any adjournment thereof) as directed by an X in the spaces below.

Please indicate with an 'X' in the spaces below how you wish your vote to be cast. If no indication is given, you will be deemed as instructing the depository to abstain from voting.

	Number of shares		
	For	Against	Abstain
Ordinary resolution number 1 – Re-election of directors retiring by rotation in terms of Sappi's articles of association*			
Ordinary resolution number 1.1 – Re-election of Mr David Charles Brink as a director of Sappi until 31 December 2009			
Ordinary resolution number 1.2 – Re-election of Professor Meyer Feldberg as a director of Sappi Limited			
Ordinary resolution number 1.3 – Re-election of Mr James Edward Healey as a director of Sappi Limited			
Ordinary resolution number 1.4 – Re-election of Mr Helmut Claus-Jürgen Mamsch as a director of Sappi Limited			
Special resolution number 1 – Decrease in authorised share capital			
Ordinary resolution number 2 – Re-appointment of Deloitte & Touche as auditors for the year ending 30 September 2009			
Ordinary resolution number 3 – Placing a total of 25,000,000 unissued Sappi shares and/or treasury shares (constituting approximately 4,65% of Sappi's issued share capital) under the control of the directors of Sappi with the authority to allot and/or issue and/or otherwise dispose of same in terms of the SA Companies Act and the Listings Requirements of the JSE Limited			
Ordinary resolution number 4 – Adjustment of non executive directors' fees			
Ordinary resolution number 5 – Authority for directors to sign all documents and do all such things necessary to implement the above resolutions			

Signed at on 2008

* *Refer to Notice of Meeting on page 194.*

Notes

1. To be effective, this form of direction and the power of attorney or other authority (if any) under which it is signed, or a notarially or otherwise certified copy of such power of authority, must be deposited at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Ken BR3 4TU not later than 72 hours before the time appointed for holding the meeting.

2. Any alterations made to this form of direction should be initialled.

3. In the case of a corporation this form of direction should be given under its Common Seal or under the hand of an officer or attorney duly authorised in writing.

4. Please indicate how you wish your votes to be cast by placing an 'X' in the box provided. On receipt of this form duly signed, you will be deemed to have authorised Capita IRG Trustees Limited to vote, or to abstain from voting, as per your instructions.

sappi

Form of direction for holders of depository interests

Sappi Limited
Incorporated in the Republic of South Africa
Registration number 1936/008963/06
'Issuer Company'

Form of direction

Form of direction for completion by holders of Depository Interests representing shares on a one for one basis in the Issuer Company in respect of the Seventy First Annual General Meeting of the Issuer Company convened for 15:00 (South African time) on Monday, 02 March 2009 in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, South Africa.

I/We (full names in BLOCK LETTERS)

of (address in BLOCK LETTERS

being a holder of Depository Interest representing shares in the Issuer Company hereby instruct Capita IRG Trustees Limited, the depository, to vote for me/us and on my/our behalf in person or by proxy at the General Meeting of the Issuer Company to be held on the above date (and at any adjournment thereof) as directed by an X in the spaces below.

Please indicate with an 'X' in the spaces below how you wish your vote to be cast. If no indication is given, you will be deemed as instructing the depository to abstain from voting.

	Number of shares		
	For	Against	Abstain
Ordinary resolution number 1 – Re election of directors retiring by rotation in terms of Sappi's articles of association*			
Ordinary resolution number 1.1 – Re-election of Mr David Charles Brink as a director of Sappi until 31 December 2009			
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Ordinary resolution number 1.3 – Re-election of Mr James Edward Healey as a director of Sappi Limited			
Ordinary resolution number 1.4 – Re-election of Mr Helmut Claus-Jürgen Mamsch as a director of Sappi Limited			
Special resolution number 1 – Decrease in authorised share capital			
Ordinary resolution number 2 – Re appointment of Deloitte & Touche as auditors for the year ending 30 September 2009			
Ordinary resolution number 3 – Placing a total of 25,000,000 unissued Sappi shares and/or treasury shares (constituting approximately 4,65% of Sappi's issued share capital) under the control of the directors of Sappi with the authority to allot and/or issue and/or otherwise dispose of same in terms of the SA Companies Act and the Listings Requirements of the JSE Limited			
Ordinary resolution number 4 – Adjustment of non executive directors' fees			
Ordinary resolution number 5 – Authority for directors to sign all documents and do all such things necessary to implement the above resolutions			

Signed at on 2008

* *Refer to Notice of Meeting on page 194.*

Notes

1. To be effective, this form of direction and the power of attorney or other authority (if any) under which it is signed, or a notarially or otherwise certified copy of such power of authority, must be deposited at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Ken BR3 4TU not later than 72 hours before the time appointed for holding the meeting.

2. Any alterations made to this form of direction should be initialled.

3. In the case of a corporation this form of direction should be given under its Common Seal or under the hand of an officer or attorney duly authorised in writing.

4. Please indicate how you wish your votes to be cast by placing an 'X' in the box provided. On receipt of this form duly signed, you will be deemed to have authorised Capita IRG Trustees Limited to vote, or to abstain from voting, as per your instructions.

Forward-looking statements

Certain statements in this report that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors, that could cause actual results and company plans and objectives to differ materially from those expressed or implied in the forward-looking statements (or from past results). Such risks, uncertainties and factors include, but are not limited to,risks relating to the acquisition of the coated graphic paper business of M-real such as the risk that the acquired business will not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected, expected revenue synergies and cost savings from the acquisition may not be fully realised or realized within the expected time frame, revenues following the acquisition may be lower than expected, any anticipated benefits from the consolidation of the European paper business may not be achieved or the related financings, the highly cyclical nature of the pulp and paper industry and the current global economic downturn (and the factors that contribute to such cyclicality, such as levels of demand, production capacity, production, input costs including raw material, energy and employee costs, and pricing), adverse changes in the markets for the group's products, consequences of substantial leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed, changing regulatory requirements, unanticipated production disruptions, economic and political conditions in international markets, the impact of investments, acquisitions and dispositions (including related financing), any delays, unexpected costs or other problems experienced with integrating acquisitions and achieving expected savings and synergies and currency fluctuations.

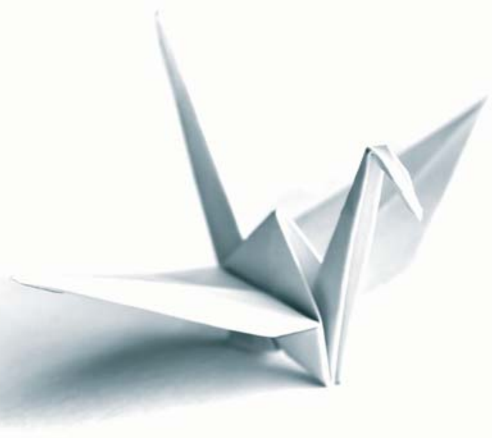
The company undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

We have included in this report an estimate of total synergies from the proposed acquisition of M-real's coated graphic paper business and the integration of the acquired business into our existing business. The estimate of synergies that we expect to achieve following the completion of the proposed acquisition is based on assumptions which in the view of our management were prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of our management's knowledge and belief, the expected course of action and the expected future financial impact on our performance due to the proposed acquisition. However, the assumptions about these expected synergies are inherently uncertain and, though considered reasonable by management as of the date of preparation, are subject to a wide variety of significant business, economic and competitive risks and uncertainties that could cause actual results to differ materially from those contained in this estimate of synergies. There can be no assurance that we will be able to successfully implement the strategic or operational initiatives that are intended, or realise the estimated synergies. This synergy estimate is not a profit forecast or a profit estimate and should not be treated as such or relied on by shareholders or prospective investors to calculate the likely level of profits or losses for Sappi for fiscal 2009 or beyond.

www.sappi.com

This report has been compiled and produced by Sappi Corporate Affairs©
Sappi House • 48 Ameshoff Street • 2001 Braamfontein • Johannesburg • South Africa

STUDIO 5



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