

sappi

annual report 2009

Great ideas start on paper.



The paper used in this year's report - Tempo™ and Triple Green™ Silk - are good examples of Sappi's product innovation and underline our efforts to support environmentally friendly printing.

Tempo™ won the Pulp and Paper International (PPI) innovation award in 2009, not only because of its productivity benefits for printers (quick drying) but also its environmental benefit (saving energy and chemicals, and reducing paper waste), which are important criteria for PPI judges.

* Tempo™: Cover 250g/m²; pages 1-64: 150g/m²
Triple Green™ Silk: pages 65-208: 115g/m²

Our reporting strategy

As a leading global business, Sappi subscribes to best international practice in 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 make informed decisions about their interactions with the group.

For a complete view of Sappi's strategy, performance **in the year ended September 2009** and longer term prospects, stakeholders are directed to the following sources of company information:

- Quarterly results announcements and analyst presentations
- Annual report and accounts, prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)
- Form 20-F, prepared in accordance with US Securities and Exchange Commission (SEC) regulations
- Sustainable development report, published on the group website http://sappi.investoreports.com/sappi_sdr_2009/
- Group website – www.sappi.com

Note: Please refer to the glossary of terms used in this report on pages 199 to 201

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

- JSE Limited, South Africa (primary listing)
- New York Stock Exchange, USA (secondary listing)

Exchange rates

	2009		2008		2007	
	Year average	Closing rate	Year average	Closing rate	Year average	Closing rate
US Dollar (US\$)/ Rand (ZAR)	9.0135	7.4112	7.4294	8.0751	7.1741	6.8713
Euro (EUR)/(€)/ US Dollar (US\$)	1.3657	1.4688	1.5064	1.4615	1.3336	1.4272
Pound (GBP)/(£)/ US Dollar (US\$)	1.5578	1.5955	1.9804	1.8448	1.9715	2.0471

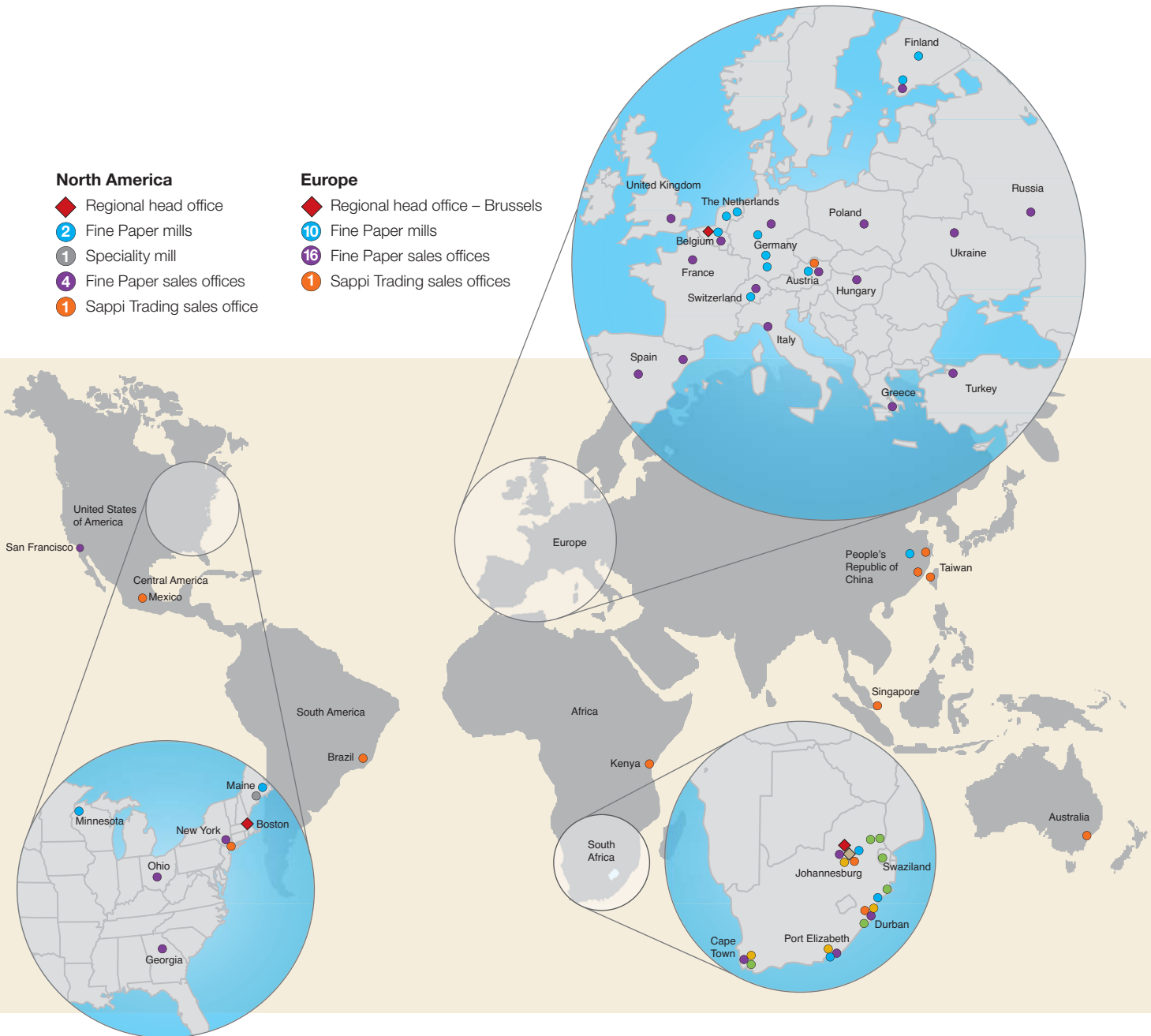
*In striving to provide a more integrated report, we have made a few key improvements as indicated below with an asterisk**

Our report in overview

our business	2	Our global reach A quick overview of our business, including a high-level description and showing the geographic spread of our operations.	5	Our performance against strategic objectives Sets out our strategic goal and specific priorities, and plots our progress against these in the year under review.	* 14	Our sustainable business cycle A process diagram that provides a full picture of our business, showing inputs, outputs and impacts of our operations. It also indicates the management systems used in our operations.		
	3	Our business structure Indicates the divisional structure of our business, including our Chinese joint venture, gives sales and pulp capacity, and provides key facts.	6	Our performance against financial targets Provides five-year trends in key financials and sets out the group's performance against its stated financial targets. Also shows regional sales by source and destination.	16	Our products Describes the wide range of end-uses and lists our major brands within each of our main product categories, and shows sales by product group.		
	4	Our performance in 2009 An overview of our performance against the prior year, including financial and strategic highlights, and key ratios.	* 8	Our performance against sustainability objectives A comprehensive overview of our commitment to sustainable development, and our performance against the triple bottom line objectives set out in our Sustainability Charter.	18	Our objectives for 2010 Sets out management's priorities for the year ahead.		
	our performance	19	Letter to shareholders From the chairman and chief executive officer; reviews the group's performance and strategic developments in the year, and provides prospects for the year ahead.	30	Review of operations Sappi Fine Paper	62	Five-year review Sets out key financials from the income statement, balance sheet and cash flow statement, as well as profitability, efficiency and liquidity ratios, and exchange rates, over a five-year period.	
		24	Interview with the chief executive officer He answers investors' most frequently asked questions.	36	Review of operations Sappi Forest Products	64	Share statistics Provides relevant statistics, including number of shareholders, number of shares in issue, number and value of shares traded, price per share, earnings and dividend yields, PE ratio and total market capitalisation.	
		26	Our leadership Provides short CVs for the non-executive and executive members of our board of directors, and lists senior management in Sappi Limited and our operating divisions.	40	Value added statement			
				41	Chief financial officer's report			
		governance	67	Risk management	70	Corporate governance Includes an indication of the implications of King III on our governance processes.	83	Compensation report
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Our global reach

Founded and incorporated in South Africa in 1936, Sappi is today, 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.



North America

- ◆ Regional head office
- ② Fine Paper mills
- ① Speciality mill
- ④ Fine Paper sales offices
- ① Sappi Trading sales office

Europe

- ◆ Regional head office – Brussels
- ⑩ Fine Paper mills
- ①⑥ Fine Paper sales offices
- ① Sappi Trading sales offices

Central America

- ① Sappi Trading sales office

South America

- ① Sappi Trading sales office

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

East Africa

- ① Sappi Trading sales office

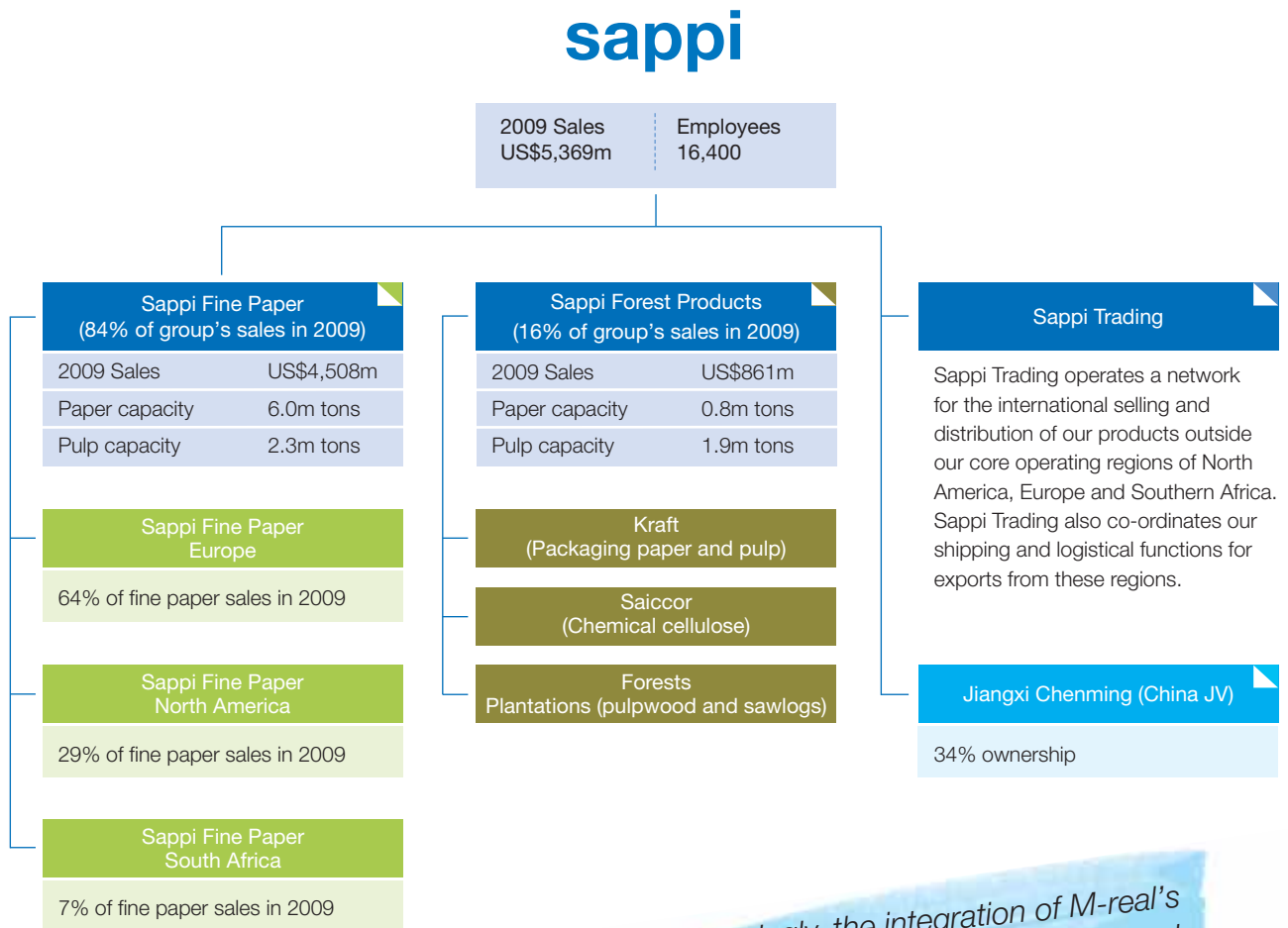
Asia

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

Australia

- ① Sappi Trading sales office

Our business structure



Pleasingly, the integration of M-real's coated graphic paper business went extremely well. Our European team focused on building customer relationships, engaging with employees and realising synergies.

Key facts

- Manufacturing operations on **four** continents
- Sales in over **100** countries
- **16,400** employees worldwide
- Paper production of **6.8** million tons per annum
- Chemical cellulose production of **800,000** tons per annum
- Paper pulp production of **3.3** million tons per annum

Our performance in 2009

All our operations have acted to improve energy efficiency and self-sufficiency.

Financial

- Sales down 8% to US\$5.4 billion
- Operating profit of US\$33 million (2008: US\$366 million) excluding special items; special items amounted to a net pre-tax charge of US\$106 million
- Basic EPS loss of 37 US cents, unfavourably affected by special items of 13 US cents (2008: EPS of 28 US cents; unfavourably affected by special items of 23 US cents)
- Cash generated of US\$289 million (2008: cash utilised of US\$139 million)
- Net debt of US\$2.6 billion, up US\$171 million
- No dividend declared

Major strategic achievements

- Acquisition of M-real's coated graphic paper business completed on 31 December 2008
- Saiccor Mill expansion reached full production in September 2009
- Debt refinanced; good liquidity and extended maturities secured

	September 2009	September 2008	ZAR convenience translation	
	US\$ million	US\$ million	September 2009	September 2008
			ZAR million⁽³⁾	ZAR million ⁽³⁾
Sales	5,369	5,863	48,393	43,559
Operating (loss) profit	(73)	314	(658)	2,333
Special items – losses	106	52	955	386
Operating profit excluding special items	33	366	297	2,719
EBITDA excluding special items ⁽¹⁾	431	740	3,885	5,498
(Loss) profit for the year	(177)	102	(1,595)	758
	US cents	US cents	SA cents⁽³⁾	SA cents ⁽³⁾
Basic (loss) earnings per share	(37)	28	(333)	208
Dividend per share ⁽²⁾	–	16	–	156
Ordinary shareholders' interest per share	348	700	2,578	5,655
	Achieved	Achieved		
	September 2009	September 2008		
Operating (loss) profit to sales (%)	(1.4)	5.4		
Operating profit excluding special items to sales (%)	0.6	6.2		
EBITDA excluding special items to sales	8.0	12.6		
Operating profit excluding special items to capital employed (ROCE) (%)	0.8	9.1		
Return on equity (ROE) (%)	(10.4)	6.0		
Net debt to total capitalisation	58.9	60.0		
Cash interest cover (times)	3.2	4.4		

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

(2) The dividend for the prior financial year was declared subsequent to year end.

(3) The translation to South African Rands from United States Dollars has been calculated at an average rate for the year of US\$1 to ZAR9.0135 (September 2008: US\$1 to ZAR7.4294), except for dividends which have been translated at the rate of exchange on the date of declaration.

Note:
Definitions for various terms and ratios used above are included in the glossary on page 199.

Our performance against strategic objectives

Our goal is to be, on a sustainable basis, the most profitable company in paper, pulp and cellulose-based solutions. Our key measures are Return on Capital Employed (ROCE) and to beat our cost of capital, as a minimum. We 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 explore opportunities across the broad spectrum of coated paper, including growing our speciality business. We plan to grow our chemical cellulose business and are expanding our low-cost fibre base in Southern Africa. We are investing in energy reduction and self-sufficiency projects and extracting chemicals 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 the financial year
<p>Achieve our ROCE target of greater than 12% and therefore exceed our cost of capital</p>	<ul style="list-style-type: none"> • We fell well short of our target in all regions. • We have acted to improve our performance, resulting in a turnaround in our fourth quarter, particularly in North America. • We expect to see the results of these actions in the next year.
<p>Strengthen our leadership position in our core businesses through organic growth and selective acquisitions</p>	<ul style="list-style-type: none"> • The Saiccor Mill expansion reached full production by year-end, increasing chemical cellulose production capacity by 30%. • The M-real acquisition strengthened our position in the European coated paper market. Performance in the combined business is expected to improve as further synergies are achieved and market conditions improve.
<p>Expand our low-cost plantation fibre base in Southern Africa as a resource to grow our pulp and chemical cellulose businesses</p>	<ul style="list-style-type: none"> • We continued to expand our plantation investments in Southern Africa through tree breeding and selected acquisitions. Subsequent to year-end we agreed to acquire 14,000 hectares of developed softwood plantations close to Ngodwana Mill. • Trial plantings of Eucalyptus in Mozambique have grown well and the project is making progress.
<p>Drive efficient manufacturing and logistics to remain a low-cost producer</p>	<ul style="list-style-type: none"> • We made significant progress in reducing variable costs with a focus on product design, procurement, waste reduction and operating efficiency. • Actions to reduce fixed costs included the closure of Blackburn Mill, Muskegon Mill, Paper Machine No 5 at Maastricht Mill, and discussions with labour representatives about our intention to close Usutu Pulp Mill and possibly Kangas Mill. The number of people employed in each region was reduced through efficiency measures. • Synergy benefits following the M-real acquisition for the nine months to September 2009 totalled €73 million, above our target of €60 million.
<p>Drive growth through customer service, innovation and reliability</p>	<ul style="list-style-type: none"> • Our market research has shown that our customers place customer service and reliability high on their list of requirements. We believe we have made good progress in meeting customer needs during the year and continue to work closely with customers on meeting their needs more profitably. • A higher proportion of our sales came from newly designed products, particularly in North America.
<p>Entrench our core values: Excellence Integrity Respect</p>	<ul style="list-style-type: none"> • Our values were derived from internal dialogue and incorporated in our Code of Ethics, Strategy Statement and Sustainability Charter. The rollout of our values as part of the integration of M-real has helped to create a motivated single team in Europe.
<p>Black Economic Empowerment (BEE) in South Africa</p>	<ul style="list-style-type: none"> • We improved our audited BEE score to 54 points from 41 points. • We envisage undertaking a broad-based equity transaction within the next year.

Our performance against financial targets*

for the year ended 30 September 2009

Current target

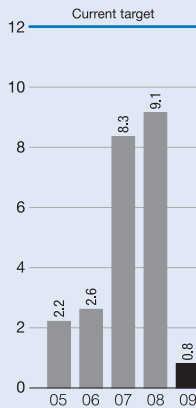
Operating profit excluding special items to capital employed (ROCE)

Target ROCE is >12% as a minimum to beat our weighted average cost of capital.

Performance

All regions fell well short of the target. We took action to improve our performance, with a turnaround in quarter four, particularly in North America. We expect further improvement in the current year.

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



Current target

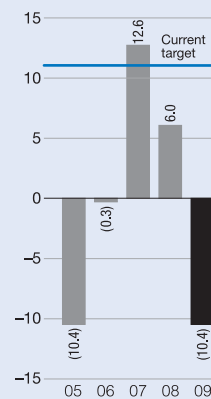
Return on equity (ROE) (%)

ROE of 11%; to provide shareholders with an after tax return that, on average, exceeds the weighted regional risk-free rate by at least five percentage points.

Performance

ROE declined sharply due to lower net profit, partly a result of negative non-cash plantation fair value adjustments made in accordance with IFRS.

Return on equity (ROE) (%)



Current target

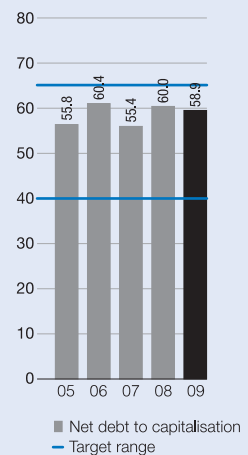
Net debt to total capitalisation

To operate in a range of 40% to 65%. This range was set after the adoption of IFRS in 2005.

Performance

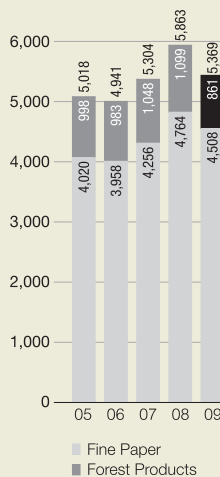
The ratio improved slightly due to the rights offer undertaken as part of the acquisition. This benefit was offset by higher net debt and the impact on equity of the net loss, including the effect of asset impairments, unfavourable plantation fair value adjustments and the currency effect.

Net debt to total capitalisation (%)

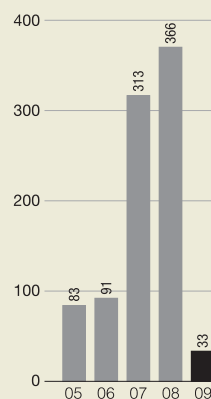


Five-year highlights

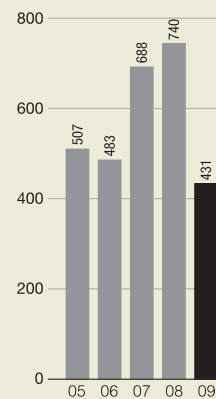
Sales (US\$ million)



Operating profit excluding special items (US\$ million)



EBITDA excluding special items (US\$ million)



*See definitions on page 199.

While we reported losses in the second and third quarters, we achieved a turnaround in the fourth quarter. This resulted in a small operating profit, excluding special items for the year.

Current target

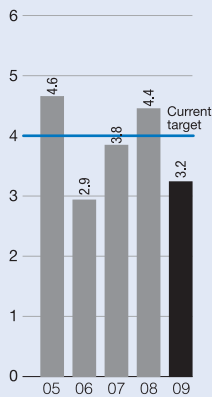
Cash interest cover (times)

To exceed a level of 4 times cover.

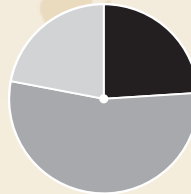
Performance

Cash interest cover was lower due to lower cash generated from operations and higher net finance costs.

Cash interest cover (times)



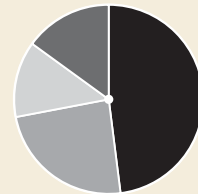
Sales by source*



- 24% North America
- 54% Europe
- 22% Southern Africa

* Where the product is manufactured.

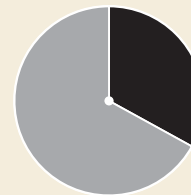
Sales by destination**



- 48% Europe
- 24% North America
- 13% Southern Africa
- 15% Asia and other

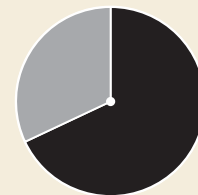
** Where the product is sold.

Operating profit excluding special items



- 33% Fine Paper
- 67% Forest Products

Share of group's net operating assets

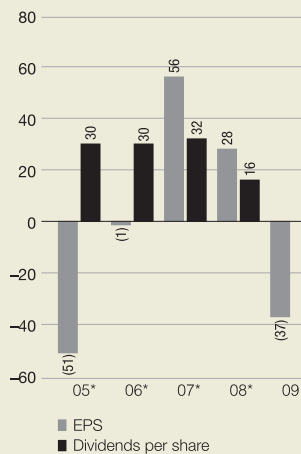


- 68% Fine Paper
- 32% Forest Products

Net profit (loss) (US\$ million)

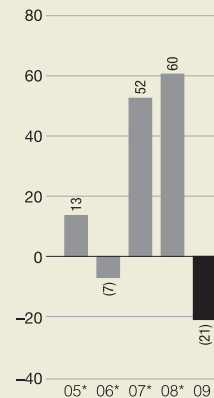


Earnings and dividends per share (US cents)



* Restated for the rights issue in fiscal 2009.

Headline EPS (US cents)



* Restated for the rights issue in fiscal 2009.

Our performance against sustainability objectives

Our sustainability vision

To embed the 3Ps of Prosperity, People and Planet into our everyday business processes, to add value to all stakeholders, and to help achieve the Sappi Limited goal to be, on a sustainable basis, the most profitable company in paper, pulp and cellulose-based solutions.


Our approach to sustainability

Our Sustainability Charter, which sets out specific Prosperity, People and Planet commitments, is the roadmap for embedding sustainability practices into our business. The table that starts below shows our performance against the objectives set out in the Charter, as well as our future targets.

International, independently verified management systems including forest certification systems (FSC, PEFC and SFI®), OHSAS 18001 and OSHA health and safety standards, ISO 14001 environmental standards and ISO 9001 quality standards underpin our strategic approach to sustainable development. This is enhanced by the use of external indicators and benchmarks such as the Global Reporting Initiative (GRI) G3 guidelines, the JSE Socially Responsible Investment (SRI) Index, the Carbon Disclosure Project and the UN Global Compact.

Our regional sustainability councils report to a Group Sustainable Development Council (GSDC). Ultimate responsibility for sustainability rests with the executive sustainability committee. Chaired by an independent non-executive director, this committee determines the priorities for the group's efforts.

Prosperity

 = charter commitment


Sappi performance indicators	Actual performance	Future targets	 More info
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Focus on long-term profitable growth

This commitment supports our strategic and financial objectives, set out on pages 5 to 7.

Value add Increased shareholder value and financial viability will enhance Sappi's overall sustainability.

Promote an ethical culture

<ul style="list-style-type: none"> Code of Ethics Governance 	<ul style="list-style-type: none"> Post-roll out internal communications through posters Group and Regional Sustainability Councils operating well Formation of board/executive sustainability committee 	<ul style="list-style-type: none"> Conduct employee survey on Code of Ethics understanding and compliance 	
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Value add The basis of sound governance and stakeholder confidence; also enhances reputation and licence to trade.

Drive customer satisfaction through technology and innovation

<ul style="list-style-type: none"> Investment in new products Margins and market share in the profitable and fast growing digital print sector in Europe 	<ul style="list-style-type: none"> In Europe, launch of Identicate™ – security tracking paper using nanotechnology In North America, launch of a range of digital papers and new Mokka pattern for casting release papers In South Africa, new passport paper to enhanced specifications and launch of wet strength label paper for beverage bottles Our market share in the European digital print sector is not significant yet. Sappi is developing tailor-made solutions for digital print 	<ul style="list-style-type: none"> Review current portfolio of brands and product selection Investigate return on capital employed (ROCE) assessment of research and development Understand customer/end-user needs and Sappi's performance in satisfying these Increase amount of revenue/profit from 'new' business Secure a leading position in the emerging segments, while taking a profitable share in the already developed digital print segments. New product solutions will be launched in Europe in early 2010 	
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Sappi performance indicators	Actual performance	Future targets	 More info
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Drive customer satisfaction through technology and innovation (continued)

<ul style="list-style-type: none"> • Technical Innovation Awards (TIA) • Invest in wood fibre genetics development 	<ul style="list-style-type: none"> • Technology Centre in South Africa global winner of TIA awards in 2009 for development of new passport paper • South Africa participating in wood fibre molecular genetics programme 	<ul style="list-style-type: none"> • Continue to promote development of disruptive technology through TIA awards • Continue collaborating in the enhancement of wood fibre in South Africa 	
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Value add Technological developments have resulted in competition from alternative forms of media and alternative products like plastic, thus meeting customers' needs through innovation is crucial.

Build on our competitive position in our core markets

<ul style="list-style-type: none"> • Promotion of the Sappi brand • SWOT analyses with respect to our main competitors 	<ul style="list-style-type: none"> • Continued reputational enhancement through initiatives aimed at the design and print industries, eg 'Ideas that Matter' and 'Life with Print' 	<ul style="list-style-type: none"> • Explore further initiatives with designers and printers • Set and measure against targets of what we must improve, reduce, eliminate, create • Monitor developments such as Walmart's sustainability index and Newsweek's Green Rankings • Establish customers' perception of Sappi's sustainable performance 	 
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Value add Lost market share is difficult to regain, our strong sustainability platform will enhance the value of our brands.

Maintain our licence to trade

<ul style="list-style-type: none"> • Compliance with regulatory frameworks • In South Africa, Broad-based Black Economic Empowerment (BBBEE) scorecard rating • Participation and inclusion in external indices • UN Global Compact • Copenhagen Communiqué on climate change 	<ul style="list-style-type: none"> • Effective legal compliance programme • In 2009, we achieved a score of 54 points and an overall BBBEE status of a 'level six contributor' (BB rating) status and a preferential procurement recognition level of 60% (improvement from previous score of 41 points and level seven status) • Assessed as one of the top performers on the JSE SRI Index in 2008 and 2009 and improved performance on the Dow Jones World Sustainability Index in 2009 • Rated as top 20 GRI compliant company by Sustainability Services in evaluation of over 400 South African companies • UN Global Compact principles reported • Committed to meet the Copenhagen Communiqué goals 	<ul style="list-style-type: none"> • Strategise BEE ownership options and execute to enhance ownership scorecard • Achieve a 'level five contributor' (BEE rating) status and preferential procurement recognition level of 80% in 2010 • Continue making use of external benchmarks to assess sustainability performance • Implement lessons learned from external assessments • Report on level of GRI compliance and obtain assessment of sustainability reporting by GRI • Continue reporting on compliance with UN Global compact principles • Report back on progress in terms of Copenhagen climate change objectives 	  
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Value add Being a responsible corporate citizen and matching our words with our actions, Sappi will become the organisation of choice to partner with.

Create value for all stakeholders


<ul style="list-style-type: none"> • Value add, direct and indirect, to parties Sappi engages with 	<ul style="list-style-type: none"> • Direct economic value added to businesses and communities and multiplier effect related to each mill/operation 	<ul style="list-style-type: none"> • Assess value add of each mill 	
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Value add We cannot do business in a failing society which ignores People and Planet. Issues such as climate change have not just an environmental, but a socio-economic impact.

People


 = charter commitment


Sappi performance indicators	Actual performance	Future targets	 More info
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 **Cultivate an inclusive, diverse workplace**


<ul style="list-style-type: none"> Promotion of gender and race equality Achievement of South Africa's Employment Equity indicators 	<ul style="list-style-type: none"> Canvassed feedback from employees through employment engagement survey In South Africa, 4,766 employees participated in employment equity training, 1,042 in diversity management and discrimination awareness programmes Improvement on various criteria and review of BBBEE scorecard results 	<ul style="list-style-type: none"> Monitor employee diversity profile Review targets 	
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Value add Enhances Sappi's reputation internally and externally.

 **Be a great place to work**

<ul style="list-style-type: none"> Global engagement survey Regional recognition programmes Reward/remuneration based on merit Absenteeism and labour turnover statistics 	<ul style="list-style-type: none"> 65% improvement in participation in survey since previous survey in 2007 Results from survey show significant shift in employees' commitment to Sappi Absenteeism and turnover within industry averages 	<ul style="list-style-type: none"> Implementation of action plans flowing from results of global survey Report on employee wellbeing programmes and outcomes Overall absenteeism of <5% and voluntary turnover of <10% 	
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Value add Valuing our employees through recognition; granting freedom with responsibility; allowing people to stretch and reach their full potential; safety at work and living the Sappi values. A fulfilled workforce is a committed and productive one.

 **Provide training and development opportunities**

<ul style="list-style-type: none"> Targets set on training hours and spend per employee Sappi Leadership Academy Talent and succession planning review 	<ul style="list-style-type: none"> Training hours increased in South Africa: 109 hours per employee (target: 45); North America achieved 32 hours (target: 60) for employees and 15,683 for customers (target: 10,000); Europe achieved 21 hours (target: 40 per employee) Training and development spend as a percentage of payroll was 1.3% in 2009 Further wave of Sappi managers successfully completed programme Common and standardised talent management and succession planning progress embedded in the organisation 	<ul style="list-style-type: none"> Classify and report on training in global categories Report on talent pipeline 	<p>Training and development spend as a percentage of payroll</p> <h1 style="font-size: 2em; color: #0070C0;">1.34%</h1> <p>in 2009</p>
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Value add Stimulates productivity and retention.

Sappi performance indicators	Actual performance	Future targets	More info
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Engage with stakeholders openly and constructively

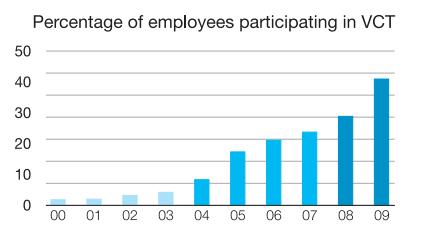
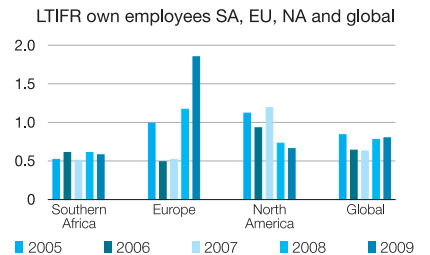
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|--|---|--|
| <ul style="list-style-type: none"> Regular contact with shareholders and customers Internal and external communications Participation in industry association initiatives Feedback from communities surrounding our operations | <ul style="list-style-type: none"> Roadshows, mill visits and one-on-one discussions with shareholders and analysts Increased contact of management with customers and suppliers Regular updates from CEO and management on policies, strategies and key developments to employees Regional CEOs actively involved in industry associations Mill committee meetings held with communities on topics of mutual interest | <ul style="list-style-type: none"> CEO and management to maintain high level of visibility and accessibility to all stakeholders Focus communication to target audience via all channels |
|--|---|--|



Value add Understanding what our stakeholders perceive as responsible behaviour, meeting these expectations and achieving recognition will deliver obvious value.

Prioritise wellbeing, safety and health

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> Measurement, monitoring and management of safety indicators in terms of employees and contractors with the aim of achieving zero harm Mills safety milestones Internationally recognised certification standards, such as OHSAS and OSHA Management of health issues affecting the workforce | <ul style="list-style-type: none"> In North America and South Africa, the Lost Time Injury Frequency Rate (LTIFR) improved for employees and contractors, but declined in Europe as a result of inclusion of the acquired mills. Their safety performance needed considerable attention and change in behaviour. Following intervention noticeable improvement in last quarter
<i>(See shareholder letter on page 19)</i> Technology Centre, Pretoria achieve safety diamond status (36 months without lost-time injuries), Cape Kraft and Enstra Mills achieve safety platinum status (24 months without lost-time injuries); Tugela and Usutu Mills achieve safety gold status (12 months without lost-time injuries) Move from OSHA to OHSAS in North America Safety audits performed Employee wellbeing programmes focus on holistic health issues pertinent to each site In South Africa, participation in voluntary counselling and testing (VCT) for HIV/AIDS up from 28% in 2008 to just over 40% in 2009 | <ul style="list-style-type: none"> Reduce LTIFR and fatalities to zero Focus on executing safety strategies which include further training, visible senior leadership and improved contractor vetting, management and safety performance Improving the identification and reporting of all classifications of injuries to more fully identify the root causes and corrective actions Report more fully on occupational injuries Increase number of mills achieving safety 'diamond' status Measure, monitor and report on occupational health risks Identify the risks that influence the HIV prevalence within Sappi employees |
|---|---|--|



Value add Has a positive impact on morale, productivity and reputation.


Partner with communities

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> Corporate Social Responsibility (CSR) spend on literacy, skills development, education, job creation, health, environment, HIV/AIDS | <ul style="list-style-type: none"> Total CSR spend of US\$2 million Majority of funding allocated to SA, with education, the environment and health and welfare receiving the most funding | <ul style="list-style-type: none"> Review areas of spend Report on impact of projects |
|---|--|---|



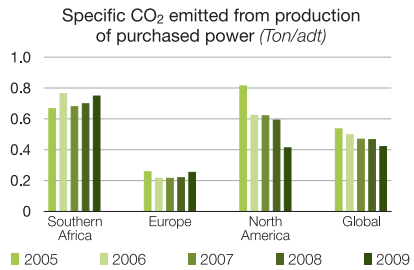
Value add Facilitates the resolution of issues, enhances our licence to trade and brand reputation.

Planet


 = charter commitment



Sappi performance indicators	Actual performance	Future targets	 More info
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 **Reducing greenhouse gas emissions and increasing our use of renewable energy**


<ul style="list-style-type: none"> • Energy consumption • CO₂ emissions • Percentage of renewable energy • Percentage of self-generated power 	<ul style="list-style-type: none"> • Globally over five years, achieved a drop of 11% in specific* purchased energy per ton of pulp and specific CO₂ emissions dropped by 2% • In 2009, in North America more than 83% of all energy used was derived from renewable resources, in South Africa 41%, and in Europe 30% with our global figure at 50% 	<ul style="list-style-type: none"> • Explore cogeneration and biofuel opportunities • Monitor regulatory developments following the Copenhagen climate change summit • Report on carbon footprint methodology 	<p>Specific CO₂ emitted from production of purchased power (Ton/adt)</p>  <table border="1"> <caption>Specific CO₂ emitted from production of purchased power (Ton/adt)</caption> <thead> <tr> <th>Region</th> <th>2005</th> <th>2006</th> <th>2007</th> <th>2008</th> <th>2009</th> </tr> </thead> <tbody> <tr> <td>Southern Africa</td> <td>~0.75</td> <td>~0.70</td> <td>~0.70</td> <td>~0.70</td> <td>~0.70</td> </tr> <tr> <td>Europe</td> <td>~0.25</td> <td>~0.25</td> <td>~0.25</td> <td>~0.25</td> <td>~0.25</td> </tr> <tr> <td>North America</td> <td>~0.80</td> <td>~0.65</td> <td>~0.60</td> <td>~0.45</td> <td>~0.45</td> </tr> <tr> <td>Global</td> <td>~0.55</td> <td>~0.50</td> <td>~0.45</td> <td>~0.45</td> <td>~0.45</td> </tr> </tbody> </table>	Region	2005	2006	2007	2008	2009	Southern Africa	~0.75	~0.70	~0.70	~0.70	~0.70	Europe	~0.25	~0.25	~0.25	~0.25	~0.25	North America	~0.80	~0.65	~0.60	~0.45	~0.45	Global	~0.55	~0.50	~0.45	~0.45	~0.45
Region	2005	2006	2007	2008	2009																												
Southern Africa	~0.75	~0.70	~0.70	~0.70	~0.70																												
Europe	~0.25	~0.25	~0.25	~0.25	~0.25																												
North America	~0.80	~0.65	~0.60	~0.45	~0.45																												
Global	~0.55	~0.50	~0.45	~0.45	~0.45																												


Value add Given the global focus on climate change, there are significant opportunities to leverage Sappi's high levels of renewable energy and low carbon footprint compared to other products, such as plastics. Reducing energy use also has economic benefits.

 **Safeguard biodiversity by promoting sustainable forestry**

<ul style="list-style-type: none"> • Tree improvement programme to increase yields per hectare • Pest and disease resistance • Biocontrol • Management of riparian zones • Involvement of communities in conservation/tourism initiatives 	<ul style="list-style-type: none"> • Strong involvement in fibre research • Commercialisation of certain hybrids to reduce risk of pests etc • Carried out extensive research on effect of cossid moth on <i>eucalyptus nitens</i> • Corporate Social Responsibility spend on ecotourism 	<ul style="list-style-type: none"> • Continue funding support and technical expertise to facilitate breakthrough in fibre molecular research programme • Investigate the use of offset programmes 	 
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Value add Entrenches our competitive advantage by reassuring stakeholders on issues such as deforestation and provides ecotourism opportunities in SA.

 **Continue our commitment to applying independent, environmental, wood and fibre management systems**

<ul style="list-style-type: none"> • Use of FSC, PEFC and SFI® certification systems 	<ul style="list-style-type: none"> • Percentage of certified fibre used: 61.6% PEFC and 11.7% FSC Europe, 51% North America (SFI®) and 70% South Africa (FSC) 	<ul style="list-style-type: none"> • Increase percentage of certified fibre in pulp and paper 	
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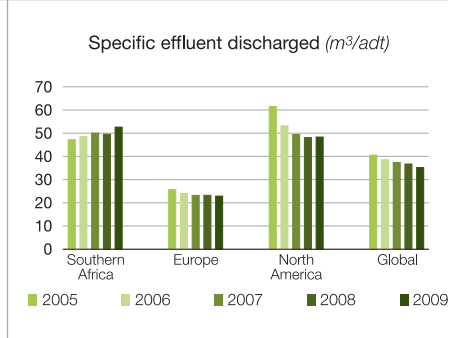
Value add Supports our position on environmental concerns.



Sappi performance indicators	Actual performance	Future targets	More info
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Reduce solid waste and improve water quality

<ul style="list-style-type: none"> Recycling of materials for re-use Solid waste to landfill Combustible solid waste Use of EFC and TCF bleaching processes Measurement of total suspended solids and chemical oxygen demand 	<ul style="list-style-type: none"> Globally decrease in solid waste to landfill of 21% over five years Globally, over five years, specific water use per ton of pulp dropped by 10% Globally in 2009, total suspended solids and chemical oxygen demand in effluent decreased by 18% and 4% respectively 	<ul style="list-style-type: none"> Increase use of solid waste Decrease waste to landfill Focus on decreasing total specific water use Improve the quality of effluent
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Value add Re-using and minimising waste has economic and environmental advantages. Improving water quality is important from an environmental point of view, especially with global pressure on water resources and in light of consumer concerns about bleaching processes.

Promote the recovery and use of recycled fibre

<ul style="list-style-type: none"> Environmental impact of cleaning and handling recovered fibres Use of post consumer and post industrial waste 	<ul style="list-style-type: none"> Increased product offering with Royal Roto™ Recycled and Triple Green™ Embossed 	<ul style="list-style-type: none"> Continue to meet customer needs for products containing post consumer and post industrial waste
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Value add It makes economic sense in view of global demand for recovered fibre and adds to our product offering.

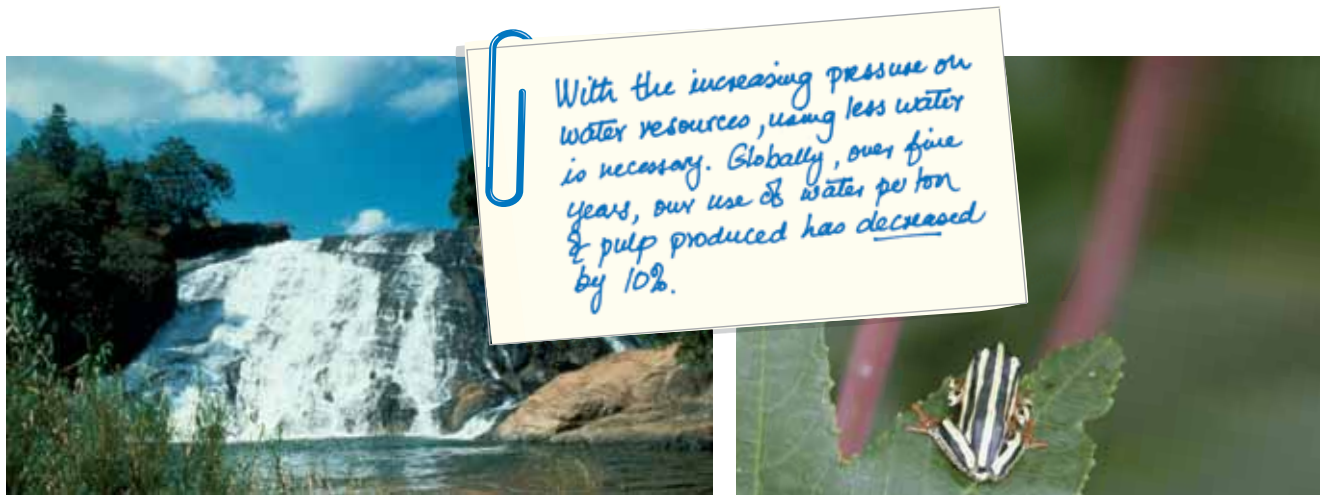
Conform with best environmental practice and legislation

<ul style="list-style-type: none"> Transfer of best practice within the group Benchmarks established by industry associations Local legislation 	<ul style="list-style-type: none"> Training relating to North American Lacey Act 	<ul style="list-style-type: none"> Leverage opportunities created by changes in carbon legislation Participate in industry groups to influence legislative changes
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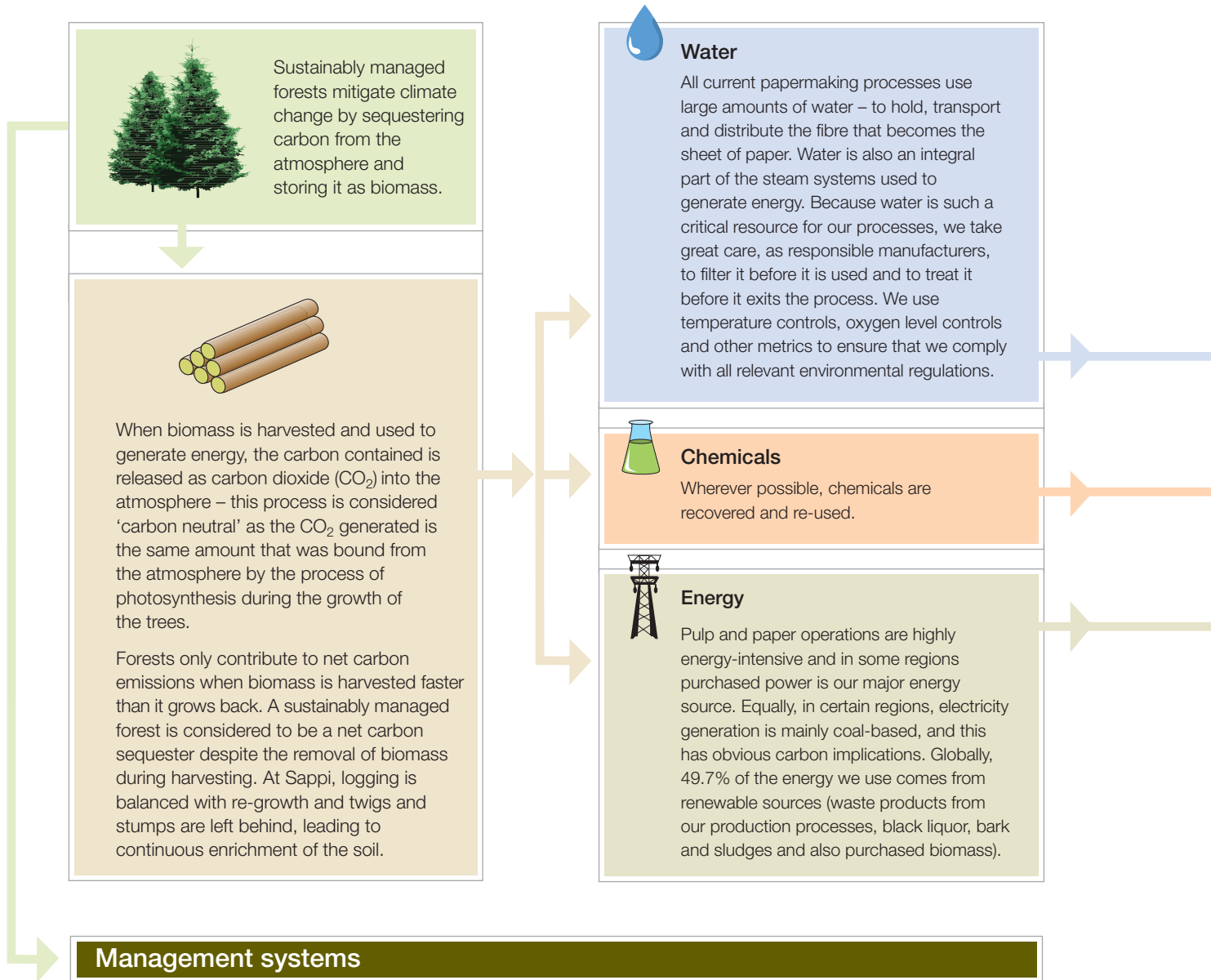
Value add Underpins our licence to trade and enhances our reputation.

* Data is given in specific form. This means that the actual quantity consumed, whether energy, water, emissions or solid waste is expressed in terms of a production parameter. For Sappi, as with other pulp and paper industries, this parameter is air dry tons (adt) of product.



Our sustainable business cycle

This diagram provides a full picture of our business. It brings together the inputs, outputs and impacts of our operations.

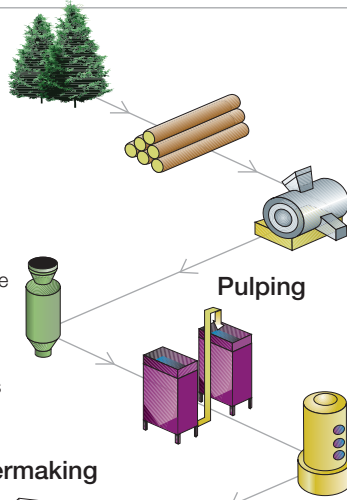


Management systems			
			<ul style="list-style-type: none"> • International, independently verified management systems underpin our approach to sustainable development. • We use internationally recognised health and safety systems to ensure the safety of our people. • The rights of indigenous peoples are protected by the forest management systems used by Sappi.
		ISO 9001 ISO 14001 OHSAS 18000 OSHA	

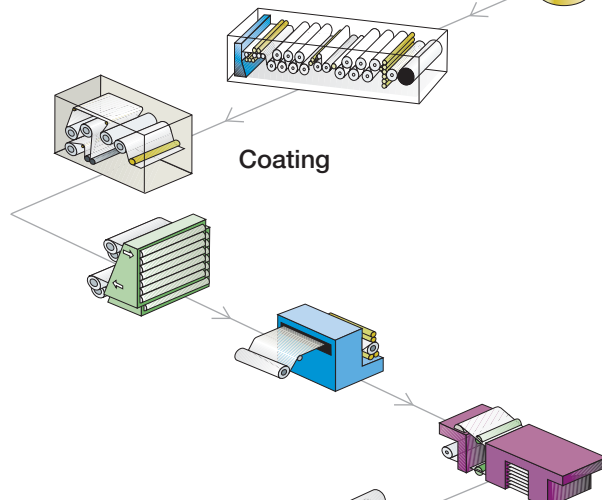
Papermaking process

Pulping and chemical recovery process

In integrated pulp mills (mills which produce their own pulp), the black liquor created during the pulping process is a primary source of renewable energy. Black liquor is burnt in the recovery boiler, producing steam and energy which is used in the mill.



Papermaking



Paper in the marketplace

Despite the rise of electronic media, the use of paper is increasing throughout the world. Paper plays an important role in promoting growth and development. Wood products and the wood fibre in paper store carbon throughout their lifetime and can be recycled or burnt for renewable energy generation.

Despatch

To mitigate our carbon footprint, we are increasingly moving product by rail rather than road.

Recycling process

We are driving the use of recovered fibre throughout our operations. The majority of our products are recyclable. We offer many products that meet the needs of environmentally-conscious consumers including:



Royal™ Roto Recycled

Royal™ Web Recycled

Triple Green™

Typek Recycled™

Opus® Web

Tempo™

Effluent

Total suspended solids (TSS) and chemical oxygen demand (COD) are good indicators of water quality. Globally, the TSS and COD in the effluent we discharge shows a decline over five years.

CO₂

Our mills emit carbon dioxide (CO₂), one of the main greenhouse gases (GHGs) responsible for global warming. Globally, CO₂ emissions throughout our mills show a declining trend from 2005.

Waste to landfill

We add value to waste products in a number of different ways.

- The ash created by burning bark, branches and other biomass from trees in our mill boilers, can be used as fertiliser and a soil additive
- Lime mud, a by-product of the pulping process, is used by farmers to control soil pH
- Waste sludge can be used in applications such as the manufacture of bricks, cement or household products such as cat litter
- At Enstra Mill, lime produced as a by-product during the manufacturing process is sent to a wash plant on site. From here it is sold to the metallurgical industry and used to neutralise acid mine drainage in a process patented by the CSIR
- At Alfeld Mill, coarse pigments from repulping internal broke are recovered from paper machine effluent and reprocessed to substitute virgin material. In another process, coating colour is also recovered from effluent and reprocessed.

Methane emitted from landfill

Methane, a GHG with a global warming potential approximately 23 times more potent than CO₂, is emitted from landfills. Globally, the amount of solid waste to landfill shows a steady decline, in line with our move away from coal-fired boilers to gas- and biomass-fired boilers (Gratkorn and Tugela Mills).

A percentage of water and chemicals is recycled.

Our products

1 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, coffee table, photographic and art books, magazines and calendars.



Products and brands

- Allegro
- Era (recycled)
- EuroArt Plus
- Flo®
- Furioso
- Galerie
- HannoArt™
- Magno™
- McCoy®
- Opus®
- Quatro™
- Royal™
- Somerset®
- Tempo™
- Triple Green™

2 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) and security paper for election, passport and vehicle licensing paper.



Coated speciality

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

3 Uncoated paper

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



Products and brands

- African Dream™
- Camelot Cartridge®
- Cento
- 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®
- Tauro
- Tissue wadding
- Tokai®
- Typek®
- Uniqa®
- Vanguard

Great idea - to improve our fibre yield. We have commercialised a pine hybrid with an estimated yield gain of 65% and a eucalyptus hybrid with a yield gain of over 30%.

All our South African businesses are focused on developing niche products and services to improve our customer offerings and profitability.

4

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 containerboard, 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™

5

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 its suitability for particular applications.

The purity and viscosity of the chemical cellulose are the key determinants of its suitability for particular applications.

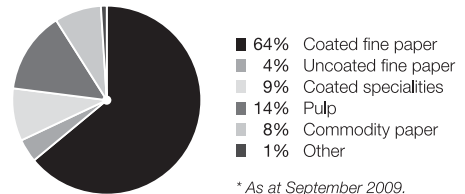
Timber products

includes sawn timber for construction and furniture manufacturing.

Pulp

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

Sales by product group*



Our brands

ALGRO	Allegro	Cento
Era	Flo	Furioso
Galerie	HannoArt	magno
Mega	McCoy	Opus
parade	presto	quatro
royal	Somerset	TAURO
tempo	sappi triple green™ <small>sugar cane fibre, chlorine-free, sustainable alternative.</small>	

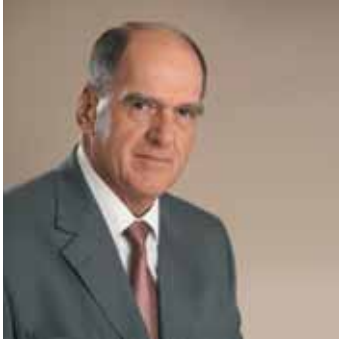
our business



Our objectives for 2010

- Improve profitability and returns
- Generate strong cash flow and reduce debt
- Engage with customers to meet changing market needs and economics
- Align manufacturing footprint with market environment (including possible capacity reduction)
- Implement BEE equity deal
- Optimise expanded Saiccor to improve efficiency and profitability
- Realise post-acquisition synergy targets and acceptable returns in Europe

Letter to shareholders from the chairman and chief executive officer



Danie Cronjé
chairman



Ralph Boöttger
chief executive officer

We are of the opinion that it is prudent to maintain a higher cash balance as a cushion in view of the economic uncertainty, and are confident the group has sufficient liquidity to meet its business requirements going forward.

Market conditions in the year ending September 2009 were amongst the worst in the group's 73-year existence. The year was marked by the rapid fall in demand which began late in the first quarter in the chemical cellulose business, closely followed by the global decline in coated paper demand.

We started the year announcing the acquisition of M-real's coated graphic paper business (the acquisition) and a rights offer to partly finance the transaction. The acquisition was completed on 31 December 2008 after a successful rights offer.

Faced with sharply lower volumes and price pressure in many markets, we acted rapidly to curtail production and align our output to demand. Management also took decisive action to reduce costs to support the business in these extreme conditions.

Performance against objectives

We had some successes in relation to our targets for the year, but failed in our primary objective of meaningful progress towards acceptable returns. In a year in which our shareholders took up a €450 million rights offer, our key measure of return on capital employed declined to less than 1% from 9.1% the year before.

Pleasingly, the integration of M-real's coated graphic paper business went extremely well. Our European team focused on building customer relationships, engaging with employees and realising synergies. We received considerable support from our customers and worked closely with them during the integration process. Our people were quick to form a single team to tackle both the challenges of integration and the grave market conditions. While business performance deteriorated sharply as a result of the conditions, we exceeded our synergy target of €60 million for the nine months to September 2009.

Synergies were achieved mainly in procurement savings in excess of market price declines, the benefits of order books taken over when M-real ceased coated paper production at its Gohrsmühle and Hallein Mills, and reduced selling, general and administrative expenses.

The ramp up of chemical cellulose production to full capacity following the expansion of the Saiccor Mill was initially deferred due to the slump in demand earlier in the year, but recommenced in April. By September 2009, we were successfully operating at close to full capacity with high quality output. In the fourth quarter, interruptions caused by an industry-wide wage strike led to further delays and a loss of some 30,000 tons of output.

At the beginning of the year, we singled out generating cash flow, containing capital expenditure and preserving group liquidity as priority objectives. As the year progressed these became our main priorities. Net cash generated by the group was US\$289 million, excluding the cash outlay to finance the acquisition, compared to net cash utilised of US\$139 million the year before. Capital expenditure reduced from US\$505 million in 2008, which included part of the Saiccor expansion, to US\$175 million. This was allocated mainly to keep our asset base in safe and efficient condition, and represented approximately 47% of

depreciation for the year. Our target for capital expenditure is below US\$200 million a year for the next two financial years.

At year-end, the group had cash available of US\$770 million and an unutilised committed revolving credit facility (RCF) of approximately US\$300 million. This is well in excess of our interest-bearing short-term debt, including the receivables securitisation programme which runs to December 2011 but is treated as short-term debt. We are of the opinion that it is prudent to maintain a higher cash balance as a cushion in view of the economic uncertainty, and are confident the group has sufficient liquidity to meet its business requirements going forward.

We also set out to improve the structure of our balance sheet, which we achieved in two ways. Firstly, we financed the acquisition mainly with equity, marginally improving the group's debt to total capitalisation ratio, and took on additional debt with a four-year term. Secondly, we committed to refinancing our RCF, which was due to expire in May 2010, and a €400 million bank loan maturing in December 2010. The major refinancing is described fully in the chief financial officer's report, but suffice to say it has extended our debt maturities significantly and provided strong liquidity. There are no major debt maturities until the repayment of our US\$500 million bonds in June 2012.

Following the refinancing, our net finance costs are expected to increase to US\$250 million in the 2010 financial year. Consequently, management has set an objective to substantially reduce gearing and net debt within three years.

Financial performance

Group operating profit, excluding special items declined sharply to US\$33 million from US\$366 million last year. While we reported losses in the second and third quarters, we achieved a turnaround in the fourth quarter. This resulted in a small operating profit, excluding special items for the year.

Special items reduced operating profit by US\$106 million. The major unfavourable items, which were mainly non-cash, were a plantation price fair value adjustment, impairment of the coated mechanical business unit



Kirkniemi Mill, Finland

in Europe and restructuring charges in respect of Muskegon Mill. These were partly offset by the cash benefit of alternative fuel tax credits in the United States.

The group recorded a basic loss per share of 37 US cents after unfavourable special items of 13 US cents. This compares to last year's earnings of 28 US cents, which reflected the unfavourable impact of 23 US cents of special items.

Net debt rose by US\$171 million to around US\$2,6 billion at the end of the financial year. The debt incurred for the acquisition was US\$317 million, nearly matched by cash of US\$289 million generated in the year.

Regional performance

After a weak start to the year, the North American business returned to profitability in June and had a particularly strong final quarter. This resulted in operating profit, excluding special items at close to breakeven for the year. US demand for coated woodfree paper collapsed by as much as 30% in the early part of calendar 2009 and demand for the full year was 27% below last year. Despite gaining market share, we curtailed production for extensive periods and suspended operations at Muskegon Mill in March, and closed the mill in August. Pulp markets were weak and the price collapse took a heavy toll on our North American business. We worked closely with customers to adapt our product lines to changing needs and economics. Management's action to reduce costs preserved healthy margins despite 11% lower prices on a year-on-year basis in the final quarter. The benefit of alternative fuel tax credits added US\$87 million to operating profit and US\$65 million to cash generated. We expect the credits to expire in December 2009, but we believe we will receive an additional US\$45 million in the first financial quarter of 2010.

Our European business realised improved prices for coated woodfree paper in the first half of the year after eight years of gradually declining prices. However, after the decline in demand of up to 30% in the first half of calendar 2009, excess supply over demand made the higher prices unsustainable. Prices declined gradually before stabilising in September. The acquisition strengthened our market position in Europe and enhanced our product and service offerings. Despite achieving €73 million in acquisition synergies, operating profit, excluding special items declined to around breakeven level. This indicates the extent of the decline in the business due to the exceptional drop in demand. Cost reduction was a major feature of the year and our operating profit breakeven production level improved to approximately 80% from approximately 95% of capacity last year. Subsequent to year end, we announced our discussions with labour representatives about the possible closure of the 210,000 ton Kangas Mill in Finland.

Our South African businesses had a disappointing year. Although demand in the domestic market held up longer than in other regions, there is still no sign of recovery following a 15% drop in demand experienced since March. In addition, the stronger Rand resulted in increased competition from imports and downward pressure on pricing. The chemical cellulose business experienced a steep decline in demand and prices from the latter part of the first quarter. Demand levels recovered strongly from March and the NBSK pulp benchmark price improved steadily from its low point of US\$577 per ton in March to US\$720 per ton at the end of September. However, this was still US\$180 per ton below the peak of August 2008. The business incurred additional operating costs as a result of the interrupted ramp up of the Saiccor Mill. These sub-optimal operating conditions included the use of oil to fire the boilers, and increased chemical loads and people to operate the new plant. Input costs remained high in the first half of the year but wood, chemical and coal costs have since declined. The plant was operating efficiently and producing top quality products by September 2009. It is well positioned for the next financial year with strong order books, although the stronger Rand continues to depress margins. We took steps in the latter part of the year to reduce fixed costs across the business. In October 2009, we announced that we were in discussions with labour representatives about the intention to cease operations at the Usutu Pulp Mill in Swaziland in January 2010. All our South African businesses are focused on developing niche products and services to improve our customer offerings and profitability.

Sustainability performance

We manage sustainability as an integral part of our business and decision-making and strive to create value for current and future stakeholders. Particular themes in our sustainability efforts, discussed elsewhere in this report, include reducing carbon emissions and energy consumption, investing in renewable energy from biomass, sustainable forest management and chain of custody of our fibre inputs, water quality and



consumption as well as managing the group's safety performance and long-term viability of our manufacturing sites, together with measures to address the levels of HIV/AIDS infection in our Southern African business.

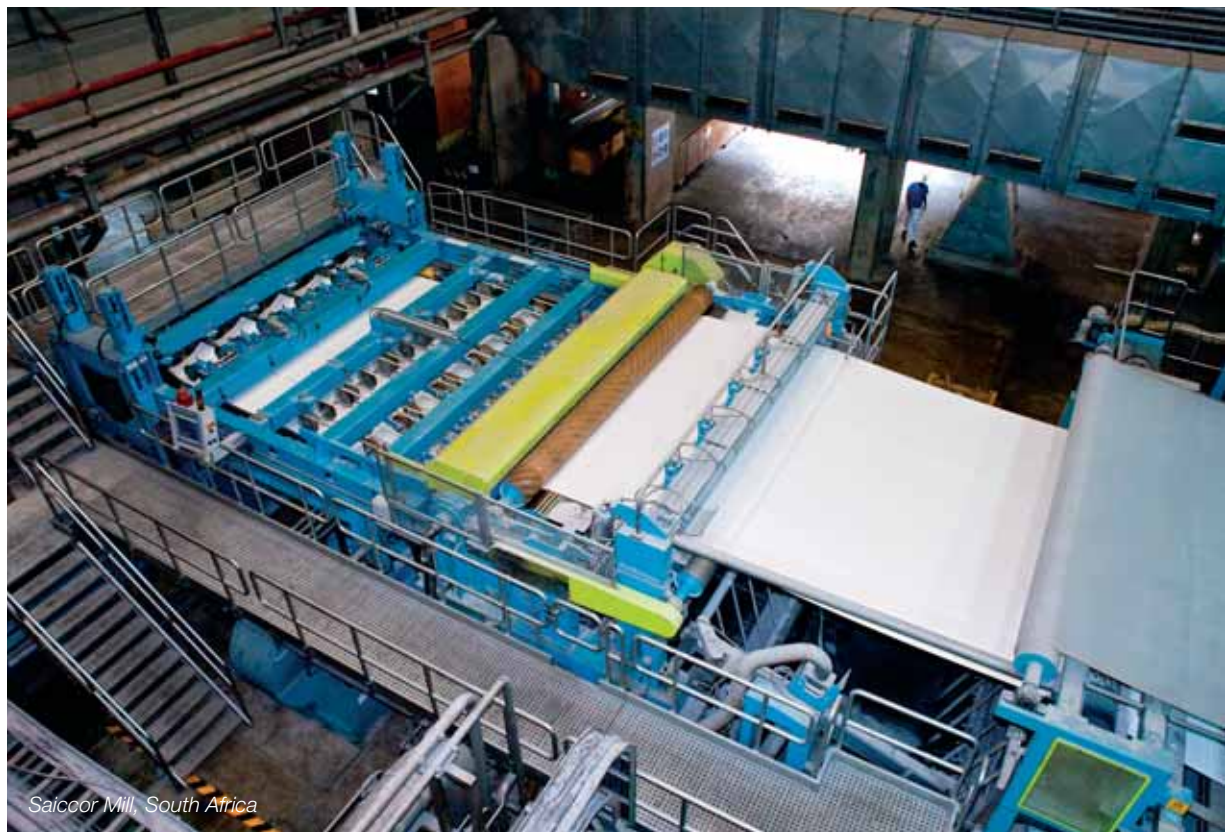
Safety is prioritised throughout our group, with the objective of eliminating all harm to people in our operations. The lost time injury frequency rate, which is our primary measure, reflected an improving trend for employees and contractors in the year. Sadly and regrettably, nine people died in work-related accidents of which eight were in our forestry operations and one at our Tugela Mill, in Southern Africa. This is totally unacceptable and we view any fatalities in a most serious light. Safety is receiving attention at the highest level and in particular our forestry division is focusing on improving its safety management systems including specific protocols to prevent fatalities. Critical task analyses and procedures, planned job observations, root cause analyses and safety communication and promotion are being re-emphasised. Our behaviour-based safety systems are entrenched across the group and receive constant management attention.

Our industry has been slow to demonstrate its strengths in relation to its carbon footprint relative to many other industries. For generations our wood has been sourced from sustainably managed sources, a high proportion of our energy has been derived from biomass, either in the form of forest and woodyard waste or as black liquor separated from the fibre in the pulping process. Our customers have also recycled large percentages of all paper consumed as new paper, moulded fibre products and as fuels.

Please refer to the overview of sustainability performance against objectives starting on page 8 for more information on our specific sustainability initiatives.

Black Economic Empowerment (BEE)

Our South African business signed the Forestry Charter, which sets industry targets in seven categories broadly similar to the DTI's Code of Good Practice for Broad-based BEE. Our BEE rating, independently audited by Empowerdex in terms of the DTI code, improved to 54% from 41%. We are of the opinion that it is imperative for the group to enter into a BEE equity transaction that seeks to broaden the base of shareholders and we aim to complete such a transaction within the foreseeable future.



Looking forward

Although global economic conditions remain uncertain, we expect demand conditions to be significantly better in the year ahead. Demand on paper producers should be similar to that on end-users which, even if it remains at 2009 levels, will result in up to a 10% improvement on the previous year for paper producers. Any improvement in end-user demand from current low levels will be a welcome bonus. We expect demand for chemical cellulose and paper pulp to remain firm, and modest price improvements in financial 2010.

The low point in commodity prices was reached earlier in 2009 and we expect some increase in input costs in the next few quarters. Pulp prices have risen since March and the crude oil price has more than doubled from its low in December 2008.

All our operations have acted to improve energy efficiency and self-sufficiency. The benefits of greater energy self-sufficiency at the Saiccor Mill, which generates some 70% of the power it needs, will be realised now that the expansion is fully operational. Our North American business is most advanced in using renewable energy resources with 83% of energy provided from renewable sources (Southern Africa 41% and Europe 30%).

Management's actions over the last year have helped us navigate turbulent economic conditions and will stand us in good stead going forward. The refinancing undertaken has provided sufficient liquidity to deal with the foreseeable cash requirements of our business. We have also devoted resources at all levels of the business to improving our understanding of customer needs and meeting them by developing new products and services.

We expect an improvement in operating profitability excluding special items in financial 2010, based on a gradual recovery in global economic conditions and the decisive action taken to improve our businesses. While we will continue to face volatile market conditions and our finance costs will be substantially higher than in the past, we believe we are on the way to improved profitability and returns, and lower debt levels.

Appreciation

This has been an exceptionally difficult year for all our stakeholders and we value their ongoing support. Our customers have given us tremendous encouragement as we have integrated our new businesses in Europe and ramped up our Saiccor Mill expansion. We will continue to work closely with our customers to develop even stronger relationships.

Our more than 16,000 people have tackled the challenges of the global downturn wholeheartedly, despite the uncertainty that has characterised this period. Regrettably, we had to reduce the number of people we employ and although we have endeavoured to approach these reductions fairly and compassionately, we fully understand this has resulted in hardship for individuals, families and communities.

There have been no bonuses awarded under the group's management incentive scheme related to the 2009 financial year irrespective of personal or business unit performance, given the group's poor profitability. While this was well accepted by all concerned, it is important to record that staff and management at all levels made huge personal and collective contributions to the group's progress. The many actions on different fronts to deal with the economic downturn and to position the group for the upturn were deftly handled and we thank all our people for their efforts.

The confidence and insight provided by our board has allowed the group to tackle many challenges promptly and effectively, and we thank them for their guidance and accessibility.

Dave Brink and Franklin Sonn will be retiring from the board at the end of December 2009 after 15 and 10 years of service respectively. Dave has held the role of senior independent director since 2006. Both have made considerable contributions to the group and we thank them for their support and the wisdom they have brought to Sappi's development.

We thank our shareholders for their support in a difficult year, and assure you of our best efforts to generate better returns in the years ahead.

Danie Cronjé
chairman

Ralph Boëtger
chief executive officer

04 December 2009

Interview with Ralph Boëttger, chief executive officer

Real answers to questions most posed by stakeholders in our interactions with them over the last year.

Q

A

- Considering how the global economic crisis has panned out and the collapse in demand for coated paper, do you still think the acquisition was a good move?
- The sharp drop in demand and difficult market conditions have certainly meant that the full benefits of the acquisition have been delayed. We don't see demand returning to historic levels in the near term, and we may need to align capacity to demand levels or consolidate further to help improve market dynamics and achieve acceptable returns. While we will never know what our results would have been without the acquisition, I think they may have been much worse. So yes, I still think it was a good strategic move but we will have to measure the result over a few years to know better.
- How do you reconcile your stated achievement of acquisition synergies with the poor results of the European business?
- Firstly, we have applied rigorous measures vetted by an external party, to appraise synergy benefits. We have aimed to remove market effects and benefits not strictly related to the combination of the businesses from our calculations which have in turn been reviewed by our internal auditors. We are satisfied that our disclosure is realistic. Reconciling the synergy achievement to the overall results of the European business shows that the European business without the acquisition would likely have returned a substantial operating loss, excluding special items for the year.
- How much of the decline in coated paper consumption is structural as a result of new media?
- Our view is that a downward shift in coated paper demand is likely in the developed markets following the current recession, but we would expect demand over the next year or so to improve from these very low levels to around 10% short of 2007/2008 levels. After that we expect a gradual decline in demand in developed markets and modest growth in developing markets. We do believe that print media and coated paper will continue to play an important role in communication, advertising and promotion. Paper will stay relevant because it is versatile and effective in conveying messages and images, and because its environmental credentials continue to improve.
- Since Sappi is very focused on the coated paper segment, how will the group grow as coated paper consumption in the developed economies matures?
- We are convinced that we can improve the profitability and returns of our coated paper business, by managing our business with a focus on customers, cash generation, costs and strict allocation of capital expenditure. Also, our speciality paper businesses have good growth prospects. Some of these are based on proprietary technologies which have applications beyond graphics, packaging and even paper itself. Our chemical cellulose business has strong prospects both in existing and novel applications. Since our business is based on renewable wood resources and we have many technologies to improve and benefit those resources, we see a great future for the group.
- You have improved the group's debt maturities and liquidity. Can Sappi afford the higher interest rate costs of its refinanced debt?
- Yes. The increase in interest costs will add substantially to our finance costs, but the group's ability to generate cash is strong. While taking steps to improve profitability, we will have to stay focused on generating cash and containing capital expenditure. Importantly, we also aim to reduce debt substantially over the next three years. We know the additional finance costs are a burden, but we took the view that re-establishing good liquidity and extending debt maturities were essential and this could only be achieved at the available market interest rates.
- How do you see Sappi's profit growth in the year ahead?
- We expect a gradual improvement in market conditions over the next year. Combined with the improvements made to our business in the last year, better conditions should lead to much better operating results. The upside if market conditions improve faster than we expect, could be exciting given our operational gearing.



our performance

Allentown Distribution Centre, North America

Our leadership

Independent non-executive directors



Daniël (Danie) Christiaan Cronjé

Chairman

Age: 63

Qualifications:

BCom (Hons), MCom, DCom

Nationality: South African

Appointed: January 2008

Sappi board committee memberships

- Human resources and transformation committee (chairman)
- Nomination and governance committee* (Attends audit committee meetings and compensation committee meetings ex officio)

* *Chairman from 01 January 2010*

Other board and organisation memberships

Eqstra Holdings Limited (chairman), TSB Sugar Holdings Limited

Skills, expertise and experience

Dr Cronjé retired in July 2007 as chairman of both ABSA Group Limited and ABSA Bank Limited (a leading South African banking organisation in which Barclays plc obtained a majority share in 2005).

Dr Cronjé had been with 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.



David (Dave) Charles Brink

Senior independent director

Age: 70*

Qualifications:

MSc Eng (Mining), DCom (hc), Graduate Diploma (Company Direction)

Nationality: South African

Appointed: March 1994.

* *Retires 31 December 2009*

Sappi board committee memberships

- Audit committee
- Compensation committee (chairman)
- Nomination and governance committee

Other board and organisation memberships

ABSA Bank Limited (chairman), ABSA Group Limited (chairman), Steinhoff International Holdings Limited, SA Institute of Directors (vice president), The Business Trust (South Africa), The National Business Initiative (South Africa)

Skills, expertise and experience

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 and Roberts Holdings Limited.



Professor Meyer Feldberg

Age: 67

Qualifications:

BA, MBA, PhD (American)

Nationality: American

Appointed: March 2002

Sappi board committee memberships

- Compensation committee*
- Nomination and governance committee (chairman)**

* *Chairman from 01 January 2010*

** *Member only from 01 January 2010*

Other board and organisation memberships

Include British American Business Council (advisory board member), Columbia University Business School, Macy's Inc, Morgan Stanley (senior advisor), New York City Ballet, New York City Global Partners (president, appointed by the Mayor of New York City), PRIMEDIA Inc, Revlon Inc, UBS Global Asset Management, University of Cape Town Graduate School of Business.

Skills, expertise and experience

Professor Feldberg is currently serving as a Senior Advisor to Morgan Stanley. His career has included teaching and leadership positions in the business schools of the University 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 15 years. He is currently dean emeritus and professor of leadership at Columbia Business School. He 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.



James (Jim) Edward Healey

Age: 68

Qualifications:

BSc (Public Accounting), Honorary Doctor (Commercial Science), Certified Public Accountant (USA)

Nationality: American

Appointed: July 2004

Sappi board committee memberships

- Audit committee
- Human resources and transformation committee
- Sappi Fine Paper North America audit committee (chairman)

Skills, expertise and experience

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

Age: 55

Qualifications: BCom, MAS, DCom, CA (SA)

Nationality: South African

Appointed: March 2002

Sappi board committee memberships

- Audit committee (chairman)
- Human resources and transformation committee

Other board and organisation memberships

These include Exxaro Resources Limited (acting chairman), Illovo Sugar Limited, Implementation Oversight Panel of the World Bank (co-chairman), JD Group Limited, Mustek Limited (chairman), South African Reserve Bank, Steinhoff International Holdings Limited (chairman)

Skills, expertise and experience

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 in South Africa, the Securities Regulation Panel and the SA Institute of Directors. He is a past member and chairman of the external audit committee of the International Monetary Fund.



Helmut Claus-Jurgen Mamsch

Age: 65

Nationality: German

Appointed: January 2004

Sappi board committee memberships

- Audit committee
- Compensation committee
- Sappi Fine Paper Europe audit committee (chairman)

Other board and organisation memberships

Electrocomponents plc (chairman), GKN plc

Skills, expertise and experience

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, 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 their deputy chairman.



John (Jock) David McKenzie

Age: 62

Qualifications: BSc Chemical Engineering (cum laude), MA

Nationality: South African

Appointed: September 2007

Sappi board committee memberships

- Compensation committee
- Sustainability executive committee (chairman of this management committee)

Other board and organisation memberships

Accelerate Cape Town, Coronation Fund Managers, University of Cape Town Foundation (chairman)

Skills, expertise and experience

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. He was a member of the Singapore Economic Development Board from 2000 to 2003.



Karen Rohn Osar

Age: 60

Qualifications: BA, MBA, Finance

Nationality: American

Appointed: May 2007

Sappi board committee memberships

- Audit committee

Other board and organisation memberships

Innophos Holdings, Inc (chairperson of audit committee), Webster Financial Corporation

Skills, expertise and experience

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 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 has chaired several board audit committees.

Independent non-executive directors continued



Bridgette Radebe

Sappi board committee memberships

- Human resources and transformation committee

Other board and organisation memberships

Mmakau Mining (Pty) Limited (executive chairperson), South African Mining Development Association (president), Minerals and Mining Development Board (vice president), New Africa Mining fund (founder and board trustee)

Skills, expertise and experience

Ms Radebe was the first black South African deep level hard rock mining entrepreneur in the 1980s. She has more than a decade of experience in contract mining, mining construction and mining mergers and acquisitions. She is founder of Mmakau Mining which has investments in platinum, coal, chrome and gold mines as well as shaft sinkers. She participated in the design of the South African Mining Charter and present mining legislation.

Age: 49

Qualifications:

BA (Pol Sc and Socio)

Nationality: South African

Appointed: May 2004



Sir Anthony Nigel Russel Rudd

Sappi board committee memberships

- Compensation committee
- Nomination and governance committee

Other board and organisation memberships

BAA Limited (chairman), BAE Systems plc, Invensys plc (chairman), Pendragon plc (chairman)

Skills, expertise and experience

Sir Nigel Rudd 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 was knighted by the Queen for services to the manufacturing industry in the UK in 1996 and holds honorary doctorates at both the 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.

Age: 63

Qualifications:

DL, Chartered Accountant

Nationality: British

Appointed: April 2006



Franklin Abraham Sonn

Sappi board committee memberships

- Nomination and governance committee

Other board and organisation memberships

African Star Ventures (Pty) Limited (chairman), Ekapa Mining (Pty) Limited (chairman), Esorfranki Limited, Imalivest (Pty) Limited (chairman), KV 3 Engineers (Pty) Limited (chairman), Macsteel Service Centres SA (Pty) Limited, Pioneer Group Limited, RGA Reinsurance Co of SA Limited, Steinhoff International Holdings Limited, University of Cape Town Graduate School of Business (executive in residence), University of the Free State (chancellor), Xinerjistix Management Services (Pty) Limited.

Skills, expertise and experience

Dr Sonn was formerly Rector of Peninsula Technikon in Cape Town for 17 years and was appointed democratic South Africa's first Ambassador to the United States from 1995 to 1998. Dr Sonn is the recipient of 12 honorary doctorates in Law, Education, Humanities and Philosophy from various institutions in South Africa, Europe and North America. He is chairman, trustee and patron to numerous organisations of civil society. He retired recently as chairman of Airports Company South Africa Limited and as non-executive director of ABSA Group, Metropolitan Holdings Limited and Metropolitan Life Limited.

Age: 70

Qualifications:

BA Hons, HDip Ed

Nationality: South African

Appointed: July 1999

** Retires 31 December 2009*

Executive directors



Roeloff (Ralph) Jacobus Boëttger

Chief executive officer

Age: 48

Qualifications:

BAcc Hons, CA (SA)

Nationality: South African

Appointed: July 2007

Sappi board committee memberships

Attends meetings of all board committees by invitation

Skills, expertise and experience

At the age of 34 he 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 with Imperial Holdings following Imperial's acquisition of Safair. 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. He is well versed in managing an operation with diverse cultures.



Mark Richard Thompson

Chief financial officer

Age: 57

Qualifications:

BCom, BAcc, LLB, CA (SA)

Nationality: South African

Appointed: August 2006

Sappi board committee memberships

Attends audit committee meetings by invitation

Skills, expertise and experience

Mr Thompson joined Sappi in 1999 as group corporate counsel and was appointed to his present position in August 2006. 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 (48) BAcc Hons, CA (SA)

Chief financial officer

*Mark Thompson (57) BCom, BAcc, LLB, CA (SA)

Group financial manager

Stephen Blyth (35) BCom, PG Dip Acc, CA (SA), HDip Tax**

Group financial controller

Laurence Newman (53) BCom, BAcc, CA (SA)

Group head internal audit

Roland Agar (45) BCom BAcc, CA (SA)

Group management accountant

Wikus van Zyl (41) BCom Hons, CA (SA)

Group tax manager

Bernd Ross (50) MS (Economics and Business Administration)

Group treasurer

Jörg Pässler (49) BCom Hons, MCom, HDip Tax, CAIB (SA)

Group head technology

*Andrea Rossi (55) BSc (Engineering) Hons, C Eng

Group risk manager

Molupe Thelejane (39) BSc (Chemical Engineering)

Chief information officer

Bradley Coward (54) Grad Dip (Corporate Direction and Business Management), Cert (Senior Management and Leadership Development)

Group head strategic development

*Robert Hope (57) BA Hons (Economics), MRICS

Group investor relations manager

Graeme Wild (37) BSc (Forestry), MBA

Group head human resources

*Lucia Swartz (52) BA, Dip HR

Group head corporate affairs

André Oberholzer (43) BCom (Law)

Group corporate counsel

Ria Sanz (44) BCom, LLB, HDip Tax, Admitted Attorney

Integration executive

*Alex Thiel (48) BSc (Mechanical Engineering), MBA (Financial Management and IT)

Sappi Fine Paper

Sappi Fine Paper Europe

Chief executive officer

*Berry Wiersum (54) MA (Medieval and Modern History)

Chief financial officer

Glen Pearce (46) BCom Hons, CA (SA)

General counsel

Hannes Boner (46) lic iur, DHEE, Admitted Attorney

Human resources director

Rainer Neumann (47) MS (Administrative Sciences), MS (Industrial Relations and HRM)

Manufacturing, research and development director

Mat Quaedvlieg (59) BS (Electronics)

Marketing sales graphic papers director

Marco Eikelenboom (42) MS (Economics and Business Administration)

Procurement, supply chain, IT and business planning director

Gregory Gettinger (47) PhD (Economics and Business Administration)

Speciality papers director

Theo Reijnen (62) BS (Economics)

Sappi Fine Paper North America

President and chief executive officer

*Mark Gardner (54) BSc (Industrial Technology)

Vice president and chief financial officer

Annette Luchene (47) BS (Accounting), MBA

Executive vice president strategic marketing and chief sustainability officer

Jennifer Miller (54) BA (Economics), Juris Doctor

Vice president corporate development and chief information officer

Anne Ayer (44) BA (Psychology), MBA

Vice president human resources and general counsel

Sarah Manchester (44) BA (History), Juris Doctor

Vice president manufacturing

John Donahue (54), BS (Chemical Engineering)

Vice president release and technical specialties businesses

Bob Weeden (58) BS (Chemistry), MS (Management)

Vice president sales

Bob Forsberg (47) BA (Economics and Art History)

Vice president supply chain

Randy Rotermund (47) BS, Imaging Technology, MBA

Sappi Fine Paper South Africa

Managing director

Dinga Mncube (49) Dip (Forestry), BSc (Forest Management),

MSc (Forest Products), Dip (Business Management), MCom

General manager marketing

Bernhard Riegler (39) APD Diploma

Sappi Forest Products

Chief executive officer

*Jan Labuschagne (49) BCom Hons, CA (SA)

Finance director

Colin Mowatt (52) BCom Acc, CA (SA), EDP, MBL

Human resources director

Brian Dick (59) BAdmin***

Information technology director

Deon van Aarde (49) BCompt

Technical director

Bertus van der Merwe (56) BSc, MBA, HDip (Engineering)

Sappi Forests managing director

Hendrik de Jongh (54), NDip (Elec), GCC (Elec), MDP

Sappi Kraft managing director

Albert Lubbe (61) NDip Mech, GCC (Mech), AEP

Sappi regional procurement director

Nat Maelane (50) MDP, SEP

Sappi Saiccor managing director

Alan Tubb (59) BSc (Electrical Engineering), GCC (Mines and Works), BCom

Sappi Trading

Chief executive officer

Wayne Rau (47) HND (Marketing), Senior Executive Programme

Financial director

Henri Kirsten (56) BCom, BCompt Hons, CA (SA)

* Group executive committee.

** John Shaw (33) BCom, PG Dip Man Acc, PG Dip Acc, CA (SA), will replace Stephen Blyth on 01 January 2010 on his appointment to a new position in Sappi.

*** Jeanett Modise (46) BCom, MDP, MBL will replace Brian Dick on 01 January 2010 on his retirement from Sappi.

Review of operations

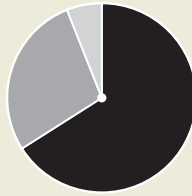
Sappi Fine Paper

Fine Paper share of division's sales



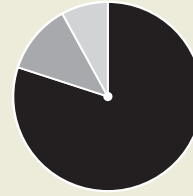
■ 64% Europe
■ 29% North America
■ 7% South Africa

Fine Paper share of division's net operating assets



■ 66% Europe
■ 28% North America
■ 6% South Africa

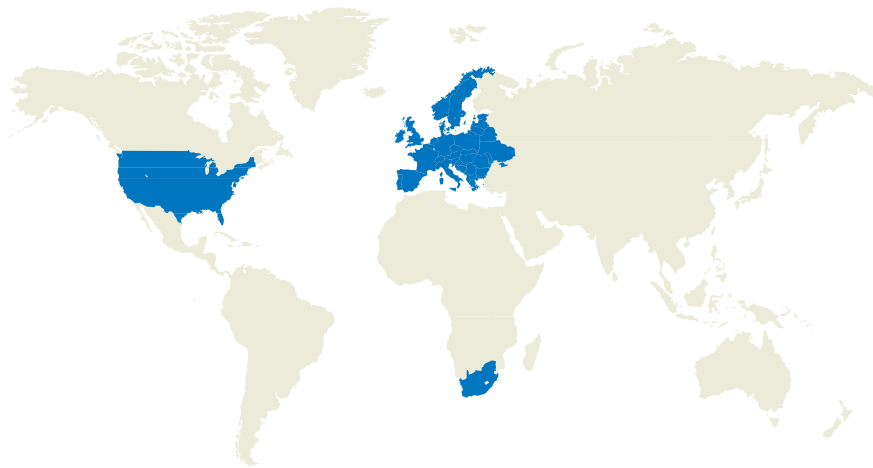
Fine Paper share of division's sales by product



■ 80% Coated paper
■ 12% Speciality paper and other
■ 8% Uncoated woodfree paper



Biberist Mill, Switzerland



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		455	
		Coated woodfree paper	330		
	Somerset Mill	Bleached chemical pulp for own consumption and market pulp		490	
		Coated woodfree paper	795		
	Westbrook Mill	Coated speciality paper	35		
		Total North America	1,160	945	
Europe	Alfeld Mill	Bleached chemical pulp for own consumption		125	
		Coated woodfree paper, coated and uncoated speciality paper	330		
	Biberist Mill***	Coated woodfree paper, uncoated woodfree paper	500		
	Ehingen Mill	Bleached chemical pulp for own consumption and market pulp		135	
		Coated woodfree paper	250		
	Gratkorn Mill	Bleached chemical pulp for own consumption		255	
		Coated woodfree paper	950		
	Kangas Mill****†	Coated mechanical paper	210		
	Kirkniemi Mill***	Bleached Mechanical pulp for own consumption		330	
		Coated mechanical paper	730		
	Lanaken Mill	Bleached chemi-thermo mechanical pulp for own consumption		180	
		Coated mechanical paper	500		
	Maastricht Mill**	Coated woodfree paper, coated speciality paper	280		
	Nijmegen Mill	Coated woodfree paper	240		
Stockstadt Mill***	Bleached chemical pulp for own consumption and market pulp		150		
	Coated woodfree paper, uncoated woodfree paper	430			
Total Europe	4,420	1,175	6,680		
South Africa	Adamas Mill	Uncoated woodfree paper (specialities)	40		
	Enstra Mill	Bleached chemical pulp for own consumption		105	
		Uncoated woodfree and business paper	200		
	Stanger Mill	Bleached bagasse pulp for own consumption		60	
		Coated woodfree paper and tissue paper	110		
Total South Africa	350	165	1,720		
Total Sappi Fine Paper	5,930	2,285	10,740		

* Rounded to nearest 10.

** Production on Paper Machine No 5 at Maastricht Mill ceased in December 2008.

*** Mills acquired from M-real in January 2009.

† Kangas Mill announced in October 2009 possible closure.

Sappi Fine Paper's main product line, coated graphic paper, contributes 67% of group sales by value, and is used in producing 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, like that used in flexible packaging, and casting release paper, used in the manufacture of synthetic leather and decorative laminate products. Total paper sales represent 84% of group sales. The geographic spread of our operations allows us to optimise our global knowledge of market developments, operating best practices and technology. Sappi Fine Paper is approximately 63% integrated in pulp, with Europe a major net buyer of pulp and North America a net seller of pulp.

Europe

As we completed the acquisition at the end of December 2008 demand across Europe began falling as a result of the global economic downturn. We acted quickly to curtail output to match demand and took account of the unprecedented market conditions as we integrated the new business.

The European team was well prepared for the integration, which went smoothly. We placed particular emphasis on customer relations and service and our market shares for coated fine paper and coated magazine paper, at year end, were in line with the theoretical market shares of the two businesses combined. It is pleasing that our people came together enthusiastically and our team in Europe is highly motivated and focused on further optimising our business.

We achieved synergy benefits in excess of the €60 million target for the nine months to September 2009, and we expect to achieve the full target of €120 million a year ahead of the three-year timeframe.

The team is currently working with customers to find ways to improve their profitability and ours, based on improving our understanding of their needs and serving them better while reducing complexity and cost throughout the supply chain. We expect these initiatives to deliver significant benefits over the next few years.

Acquisition synergies: Synergy achievement

Sources of synergies	Nine months to September 2009 EUR million
Procurement (excluding market effects)	30
Asset optimisation (including benefits of acquired order books)	23
SG&A reduction	22
Other (including recipe changes and manufacturing efficiency)	11
Transitional and once-off costs	(13)
Total	73*

* Annualised – €97 million.
 – Nine-month target – €60 million.
 – Full target – €120 million per annum within three years.



Our lower production levels resulted in a reduced environmental impact in terms of lower water consumption (11%) and reduced carbon dioxide emissions (18%). However, the frequent stops and starts necessitated by market conditions reduced our efficiencies resulting in higher emissions per ton produced.

During the year, we launched a revolutionary coated fine paper, Tempo™, which was named as the innovation of the year by Pulp & Paper International (PPI). The product markedly reduces ink drying time, providing major efficiencies for printers, and allowing them to reduce the use of dusting powder resulting in cost and environmental benefits.

After a weak start to the year, the North American business returned to profitability in June and had a particularly strong final quarter.

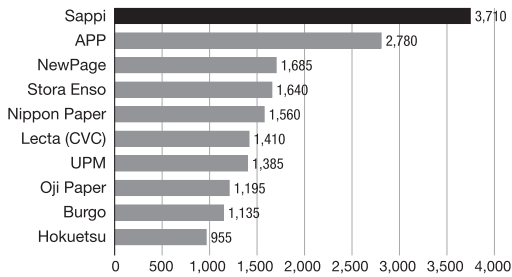
North America

Faced with a drop in demand of up to 30% in the early part of the year, we took decisive action to improve our business. This included a restructuring, necessitated by closing our operations at Muskegon Mill. We now have two very efficient coated fine paper mills which took up the full range of products previously supplied by Muskegon Mill, without interruption.

We continued working with our customers to ensure our product range serves their changing requirements. Flo, a coated fine paper brand which includes sheets and web, showed improved profitability during the year by meeting the needs of our important economy sector customers. Our specialties business launched new products and patterns in the casting release market during the year and experienced a good uptake by customers. The new Mokka pattern, which adds a suede finish to the cast product, is expected to become a leading pattern in terms of quality and profitability.

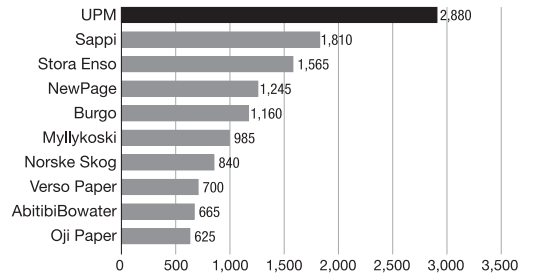
Cost reduction was a major theme in the year and we focused on product design, procurement, eliminating waste and operational efficiency. We managed to reduce fixed costs in absolute and per unit terms.

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

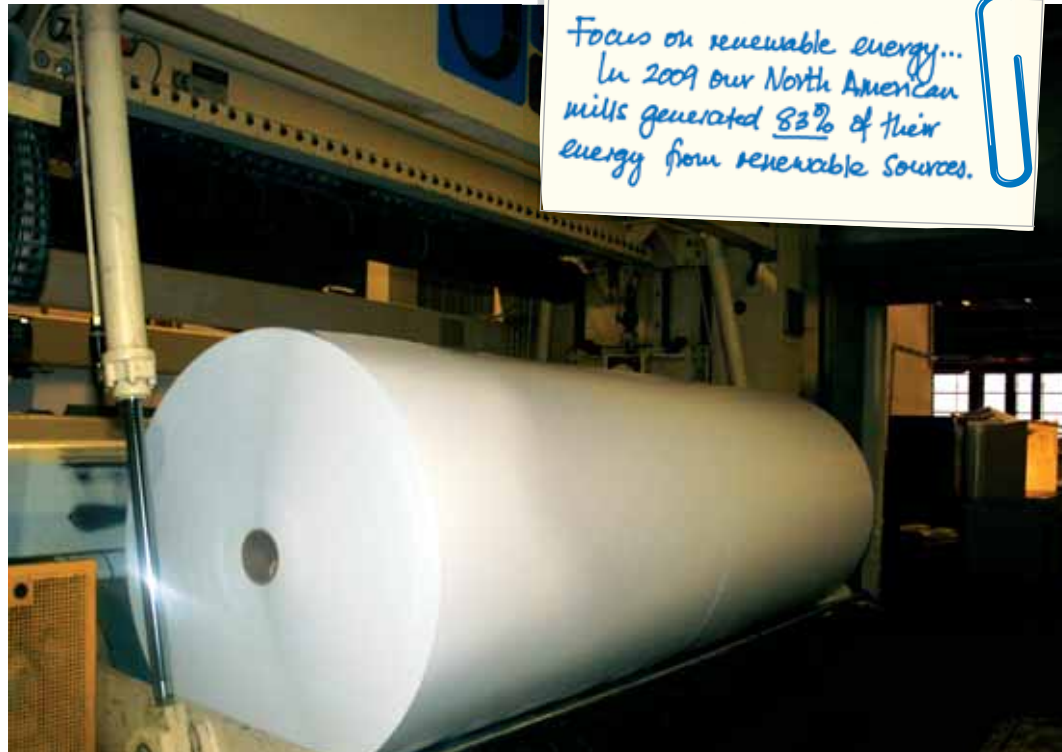


Source: EMGE, September 2009

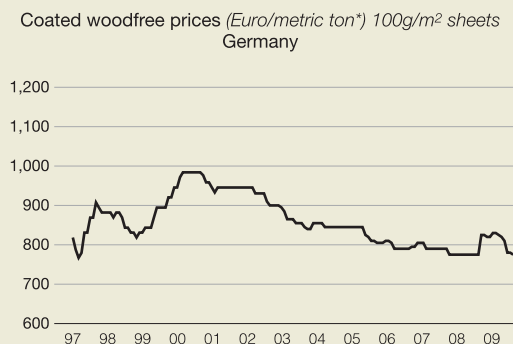
Sappi's global position – capacity ('000 tons)
Coated mechanical paper



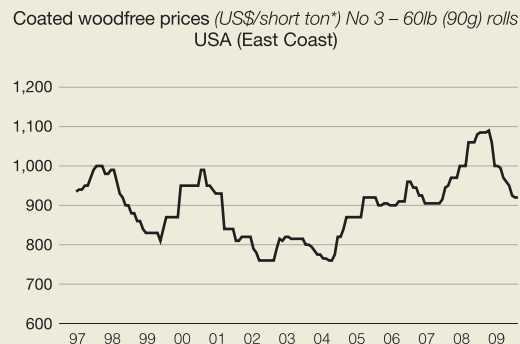
Source: EMGE, September 2009



Focus on renewable energy...
In 2009 our North American mills generated 83% of their energy from renewable sources.



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



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

We also placed particular emphasis on reducing energy consumption. We use a high proportion of renewable and biomass fuels which comprised 83% of our total energy consumption in 2009. This has lowered our carbon footprint significantly. In October 2010, we will commission a recovery boiler project at the Somerset Mill to further reduce our reliance on fossil fuels and improve our energy efficiency further.

In 2009, we realised a benefit from alternative fuel tax credits of US\$87 million. We expect to be entitled to additional tax credits of approximately US\$45 million before the law under which the credits are available expires in December 2009.

The business leadership was recognised when Mark Gardner, chief executive officer of our North American business, was named chief executive officer of the year by the Paper Industry Management Association.

Southern Africa

The Southern African business, which is the smallest part of the fine paper business, also experienced a major fall in demand, which came later than the decline in the other two regions.

Innovation was a key theme for the business during the year, with achievements, including the expansion of the security paper business into new market segments and the launch of wet strength label paper for beverage bottles.

The business is focused on developing other niche products.

Going forward

We expect a gradual improvement in demand for coated paper in our major markets over the next year but do not expect it to recover to pre-recession levels in the near term.

Our businesses will continue to seek opportunities to enhance business opportunities and reduce costs. We will also look at rationalising our businesses further, particularly in Europe where we expect further consolidation of the industry.

We expect export markets to improve in the year ahead in terms of both prices and volumes.



our performance

Gratkorn Mill, Austria

Review of operations

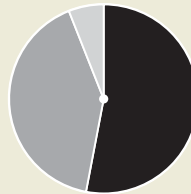
Sappi Forest Products

Forest Products share of division's sales



- 50% Kraft
- 44% Saiccor
- 6% Forests

Forest Products share of division's sales by product

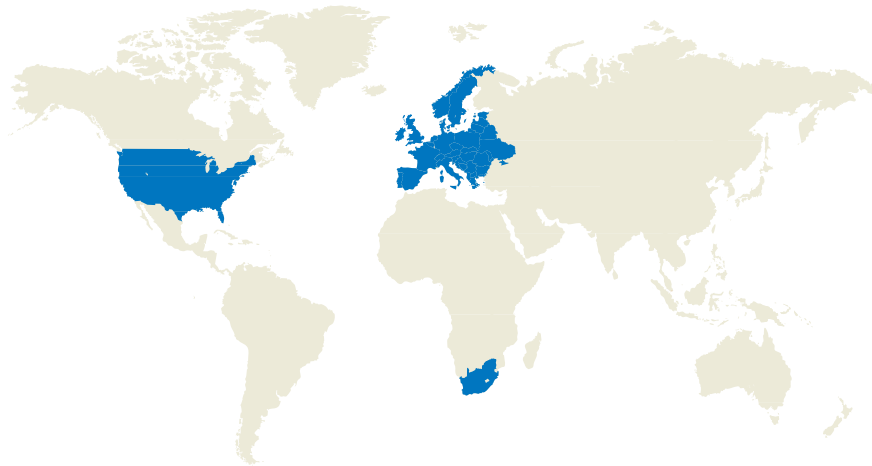


- 53% Pulp
- 41% Paper
- 6% Timber



We expanded the world's largest chemical cellulose mill to produce 800,000 tpa of product used in the manufacture of viscose textiles and a wide variety of food, pharmaceutical and household products.

Saiccor Mill, South Africa



Divisions	Mills/ factories/ plantations	Products produced	Capacity ('000 tons)		Employees*
			Paper	Pulp	
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		
	Usutu Mill**	Other kraft packaging paper	90		2,240
Unbleached kraft market pulp			190	560	
Total Sappi Kraft			830	1,050	2,800
Sappi Saiccor	Saiccor Mill	Chemical cellulose		800	1,220
Sappi Forests			Capacity/ hectares '000		
	KwaZulu Natal	Plantations (pulpwood and sawlogs)***	220ha		
	Mpumalanga	Plantations (pulpwood and sawlogs)***	241ha		
	Usutu Mill**	Plantations (pulpwood)***	66ha		
	Sawmills	Sawn timber	85m ³		1,130
Total Sappi Forest Products			830	1,850	5,150

* Rounded to nearest 10.

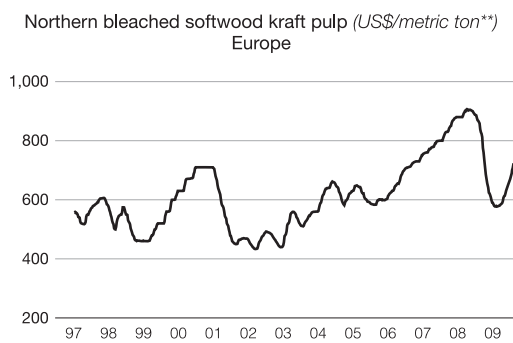
** Usutu Mill announced possible closure in October 2009.

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

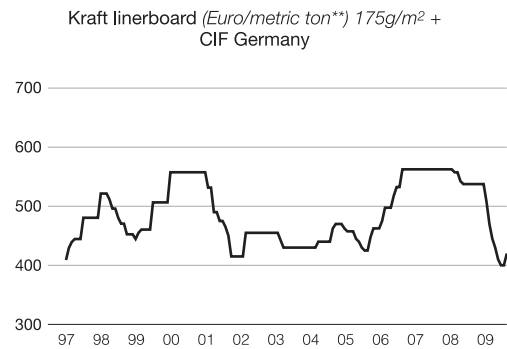
Sappi Forest Products, based in Southern Africa, produces nearly two million tons of pulp. The business is a significant net seller of pulp and together with the North American net surplus provides a pulp revenue stream that effectively hedges most of the purchases of pulp by our European business. This virtually eliminates the group's overall exposure to changes in world pulp prices.

Sappi Saiccor is the world's largest manufacturer of chemical cellulose and has one of the lowest-cost positions. The uses of chemical cellulose are wide-ranging and include producing viscose and lyocell fibres, moulding powders, cellophane, cellulose acetate for filter tow, and micro crystalline cellulose and ethers for pharmaceutical and food applications.

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



** Prices are index prices. Actual transaction prices could differ from prices depicted in the graph.
Source: FOEX PIX Pulp Price Index



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

Sappi Forests has some 527,000 hectares of land under direct and indirect management, of which 380,000 hectares are forested. More than 34 million tons of timber stands on this land. Sappi's owned plantations provide 70% of the wood needs of our Southern African businesses. All wood grown on Sappi-owned land is Forest Stewardship Council (FSC) and ISO 9000 certified. Sappi's sawmill, Lomati, produces sawn timber for the construction industry.

Review

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

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

We continue to develop our wood resources through a combination of tree breeding to improve yield and fibre characteristics, and selective acquisition of plantations close to our major centres of operations. We recently reached an agreement to acquire 14,000 hectares of softwood plantations close to our Ngodwana Mill in Mpumalanga Province, South Africa.

We made progress in our feasibility project to create a substantial plantation resource in Mozambique with very successful trial plantings of Eucalyptus.

The major development in our business last year was the ramp up of production at the expanded Saiccor Mill, which added 30% production capacity. This will also contribute significantly to the future sustainability of the business by increasing power self-sufficiency to 70% and boosting the recovery of energy and chemicals from waste.

Over the past few years forest fires have destroyed around 40% of Usutu Pulp Company's plantations in Swaziland. As a result, the Usutu Pulp Mill is no longer sustainable. We intend to close the pulp mill in January 2010, and are in discussion with labour representatives. We are exploring ways to benefit Usutu's plantation wood in future, including with third party investors.

Other actions we have taken to improve our business include the reduction of approximately 300 positions across the operations, partly as a result of the mothballing of a 60,000 ton containerboard machine at Tugela Mill and of parts of the Ngodwana Pulp Mill which will result in a small net reduction in its pulp output.

Our Forest Products business continues to work with customers to develop new product and service solutions, including the design of high-performance packaging and new uses for chemical

...following the expansion of the Saiccor Mill by September 2009, we were successfully operating at close to full capacity with high quality output.

cellulose. We are engaging with major South African supermarket chains to offer more environmentally benign paper bags and packets as an alternative to plastic bags, and expect the initiative to be launched early in 2010.

We continue to explore opportunities to invest in power cogeneration facilities to increase our power self-sufficiency, and to increase the proportion of renewables in our total energy mix. To date it has been difficult to reach agreement with the power utility on either sales or transmission agreements which would allow us to transfer our power from one mill to another, to optimise energy efficiencies. Our new performance-based log-transporting vehicles will help reduce our wood costs and lower our carbon footprint by reducing fuel consumption per ton transported, by 18%.

Going forward

We expect firm markets for chemical cellulose in the year ahead. Our focus will therefore be on optimising production at the Saiccor Mill. Although the timing of an upturn in the Southern African domestic markets is unclear, we expect a gradual improvement from current levels of low demand.

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

We expect to benefit, over the next year, from cost initiatives launched in the last few months and our objective will be to bolster the resilience of our business notwithstanding the strength of the Rand relative to the US Dollar.

Through our membership of EUCAGEN (Eucalyptus Genome Network) we have been involved in sequencing the eucalyptus genome, essential for improved research capability.



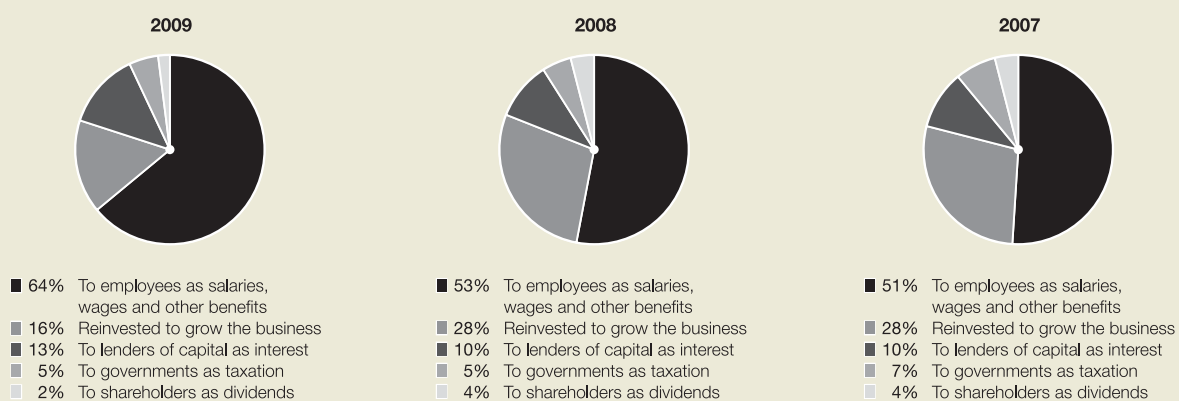
Value added statement

for the year ended September 2009

US\$ million	2009	2008	2007
Sales	5,369	5,863	5,304
Income from investments	61	38	21
Less: Paid to suppliers for materials and services	3,865	4,077	3,631
Total value added	1,565	1,824	1,694
Distributed as follows:			
To employees as salaries, wages and other benefits	1,002	965	867
To lenders of capital as interest	205	179	169
To shareholders as dividends	37	73	68
To governments as taxation	76	89	111
Total value added distributed	1,320	1,306	1,215
Portion of value added reinvested to sustain and expand the business	245	518	479
Total value added distributed and reinvested	1,565	1,824	1,694
Taxation			
Paid in taxes to governments (including US\$3 million (September 2008: US\$6 million, September 2007: US\$38 million) direct taxes on income)	76	89	111
Collected on behalf of, and paid over to governments:			
– Employees' taxation deducted from remuneration paid	148	158	148
– Net value added taxation (VAT)	(149)	(47)	39
Total	75	200	298

* Excludes the acquisition of the coated graphic business of M-real.

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



Chief financial officer's report



Mark Thompson

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	
	2009	2008	2009	2008
Euro (EUR)(€)/US Dollar (US\$)	1.3657	1.5064	1.4688	1.4615
US Dollar (US\$)/Rand (ZAR)	9.0135	7.4294	7.4112	8.0751

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 30 to 39 and the group annual financial statements beginning on page 92.

In summary, fiscal 2009 was a busy but challenging year for our group. In December 2008, we concluded a rights issue of €450 million and the proceeds of this rights issue were used to finance in part the acquisition of four mills and the graphics paper business of M-real for an enterprise value of €750 million (the acquisition). The acquisition, which is described in more detail in note 34 of the annual financial statements, was completed on 31 December 2008.

In July/August 2009, we completed a major refinancing of our debt. We refinanced well in advance of its maturity a €400 million syndicated bank loan (which was due for repayment in December 2010) with a €400 million five-year amortising loan and we put in place a new three-year revolving credit facility of €209 million, which remains undrawn. In August 2009 we raised two five-year bonds with a face value of US\$300 million (for the US Dollar tranche) and €350 million (for the Euro tranche). The proceeds of the bonds together with some of our cash holdings were used to repay the drawings under our previous revolving credit facility, the vendor loan notes (issued to M-real in part payment of the acquisition) at a discount and other short-term debt. The refinancing has significantly improved our liquidity position and positively affected our debt maturities as well. In addition, we now have solid cash resources – US\$770 million as at the end of our financial year. More details about these refinancing activities are given later in this report.

On the operating front, our financial results were heavily impacted by the global economic crisis which began in our first quarter. However, we took a number of actions to mitigate this and improve our business. The acquisition was successfully integrated into our European business and we realised synergy benefits in excess of the €60 million target we set ourselves for the nine months to September 2009. We started up the US\$500 million Saiccor expansion and this plant is now running at close to full design capacity in order to meet demand. The Muskegon Mill in North America was closed and post our year end we announced the possible closure of our Kangas Mill in Finland and our Usutu Mill in Swaziland. During the year all our businesses focused aggressively on cost reduction and will continue to do so. We believe that these actions and others that we are considering will yield rewards in the next and following years.

Operating performance of our divisions

We believe that operating profit excluding special items is a good indicator of underlying operating performance as it excludes what management believes are items that are non-recurring and/or uncontrollable in the normal course. Please see page 52 further on for a full explanation of special items.

Operating profit excluding special items declined significantly compared to fiscal 2008 from US\$366 million to US\$33 million.

The contribution by each of our divisions to the group operating profit excluding special items was as follows:

US\$ million	2009	2008
Europe	12	55
North America	(2)	95
South Africa	(1)	6
Fine Paper	9	156
Forest Products	18	203
Corporate and other	6	7
Sappi group	33	366

Three of our four business units have home or 'functional' currencies other than the US Dollar (which is our reporting currency) as follows:

Business unit	Functional currency	% of group sales
Sappi Fine Paper		
Sappi Fine Paper Europe (SFPE)	EUR	54
Sappi Fine Paper North America (SFPNA)	US Dollar	24
Sappi Fine Paper South Africa (SFP SA)	SA Rand	6
Forest Products	SA Rand	16
		100

The revenue and cost items of each of the non-US Dollar units (which constitute approximately 75% of the group's sales) are translated into US Dollars at the average exchange rate for the period in order to arrive at the group revenue and costs in US Dollars. When exchange rates differ from one period to the next, the impact on our revenue and costs in US Dollars can be large, but largely off-set one another at the net level (when netting costs against revenue). Indeed in fiscal 2009, the impact of translating the sales of our European and South African businesses into US Dollars had a big (US\$547 million) negative impact on group sales revenue compared to fiscal 2008, but this was offset by a positive impact of US\$553 million on costs translated into US Dollars.

Thus, while the translation impact is large on sales and costs, on a net basis, this impact is relatively small. This translation impact complicates and distorts the comparison of sales and costs in US Dollars year-on-year and for this reason we believe it is more instructive to analyse the performance of each division compared to fiscal 2008 in that division's home currency. This we do starting on the next page.

Information about the mills (and their capacities and products, etc) in each of the divisions is set out on pages 31 and 37. Also, further information about each of the divisions is given in the operational reviews on pages 30 to 39 and in the group annual financial statements.

Sappi Fine Paper Europe

	2009	2008	2009	2008
Sales volume (metric tons '000)	2,956	2,546		
	EUR million		EUR per ton	
Sales	2,120	1,806	717	709
Variable manufacturing and delivery costs	(1,330)	(1,204)	(450)	(473)
Contribution	790	602	267	236
Fixed costs	(771)	(573)	(261)	(225)
Sundry (costs) income and consolidation entries	(10)	8	(3)	4
Operating profit excluding special items	9	37	3	15
Special items – losses	(58)	(79)		
Operating loss	(49)	(42)		

Overall, sales volumes in metric tons increased by 16% to approximately 2,956,000 tons. This increase was entirely due to the acquisition. Excluding the sales volume of the acquired mills of approximately 926,000 tons included in the 2009 results, sales volume was down 20% compared to fiscal 2008 at 2,030,000 tons, reflecting the significant fall-off in demand following the global economic downturn.

The division's main products are coated woodfree paper, coated magazine paper and speciality paper. In Europe we produce approximately 44% of the pulp required to produce our paper products – the rest is purchased in the market.

According to industry statistics, demand for coated woodfree products declined by approximately 17% in the European region and exports of coated woodfree paper from Europe declined by 33% compared to 2008 due to a slowdown in global economic and advertising activity. Industry average selling prices of coated woodfree paper in Euro terms increased by approximately 5% despite the severe slowdown in demand, due to curtailment, closures in production capacity and producer consolidation (particularly our acquisition from M-real).

The demand for coated magazine paper products declined by approximately 25% compared to 2008. Industry average selling prices in Euro terms for 2009 were at a similar level as the average for 2008, but prices ended the year approximately 10% lower than in September 2008.

Overall, our average selling price per ton realised was slightly higher (1%) at €717 per ton than in 2008 (€709 per ton).

Cost saving initiatives remained a key focus area of the European business both as part of its synergy realisation programme and in the normal course.

	2009	2008	2009	2008
	EUR million		EUR per ton	
Variable manufacturing costs				
Wood	136	125	46	49
Energy	250	185	85	73
Pulp	301	317	102	125
Chemicals	369	340	125	134
Other	116	96	39	37
Delivery costs	158	141	53	55
Total	1,330	1,204	450	473

Variable costs per ton declined by 5% to €450 per ton compared to €473 per ton in 2008. This reduction was due to reduced global commodity prices – in particular market pulp of which we bought in approximately 0.9 million tons – the realisation of cost synergies from the acquisition and cost reductions through process as well as product re-engineering initiatives.

	2009	2008
	EUR million	
Fixed costs		
Personnel	418	316
Maintenance	82	61
Depreciation	153	118
Services and administration	118	78
Total	771	573

Fixed costs increased by €198 million compared to fiscal 2008, this increase was mainly due to the acquisition.

Our European business is highly sensitive to changes in selling prices, variable costs and volume as is more fully described in the section 'Major sensitivities' further on in this report.

Special items in 2009 include a €55 million impairment of the coated mechanical business unit to take account of the weak market conditions. Special items in 2008 of €79 million related mainly to the charges taken upon closure of the Blackburn Mill and the cessation of production at Maastricht Mill's Paper Machine No 5.

Sappi Fine Paper North America

	2009	2008	2009	2008
	US\$ million		US\$ per ton	
Sales volume (metric tons '000)	1,274	1,553		
Sales	1,295	1,664	1,016	1,071
Variable manufacturing and delivery costs	(812)	(1,056)	(637)	(680)
Contribution	483	608	379	391
Fixed costs	(475)	(543)	(373)	(350)
Sundry (costs) income and consolidation entries	(10)	30	(8)	20
Operating (loss) profit excluding special items	(2)	95	(2)	61
Special items – gains (losses)	55	(3)		
Operating profit	53	92		

This division produces coated woodfree paper, speciality paper and pulp. Approximately 300,000 tons of this pulp is surplus to its own needs, and is sold as market pulp, although other types of pulp are purchased.

Compared to fiscal 2008, sales volume dropped by 18% to 1,274,000 tons in 2009 as a result of the significant decrease in economic activity and demand for print advertising in North America. In these circumstances we decided to close our Muskegon Mill which was the smallest and least efficient of our North American coated woodfree mills. The full range of products previously produced at the Muskegon Mill were successfully transitioned to our Somerset and Cloquet Mills. Despite the difficult market environment and the closure of one of our mills, we gained 2% coated woodfree market share compared to fiscal 2008.

Average selling price per ton for the business as a whole declined by 5% compared to fiscal 2008 due to the weaker demand for all our products. Our pulp selling prices in this region dropped by US\$184 per metric ton or approximately 28% compared to fiscal 2008.

	2009	2008	2009	2008
	US\$ million		US\$ per ton	
Variable manufacturing costs				
Wood	194	202	152	130
Energy	115	156	90	100
Pulp	49	139	38	90
Chemicals	223	266	175	171
Other	108	129	85	83
Delivery costs	123	164	97	106
Total	812	1,056	637	680

Total variable costs decreased by approximately 23% due to the significant amount of curtailment of output during 2009 to align with reduced demand (including the suspension and closure of operations of the Muskegon Mill), and due to reduced variable manufacturing costs per ton. Variable manufacturing costs per ton decreased by 6% in fiscal 2009 compared to fiscal 2008, largely due to decreases in the costs of purchased pulp and energy costs, partially offset by increases in the cost of wood and chemicals.

	2009	2008
	US\$ million	
Fixed costs		
Personnel	243	270
Maintenance	60	70
Depreciation	90	95
Services and administration	82	108
Total	475	543

The impact of our restructuring actions and focus on a reduction of overheads is reflected in the reduction of US\$68 million in fixed costs compared to last year. In addition to permanent SG&A restructuring actions during the year, we also ceased operations at our Muskegon Mill.

Special items in 2009 of US\$55 million consist mainly of US\$87 million relating to the alternative fuel tax credit partly offset by US\$31 million of restructuring and related costs flowing from the closure of the Muskegon Mill and other restructuring initiatives.

Sappi Fine Paper South Africa

	2009	2008	2009	2008
Sales volume (metric tons '000)	305	339		
	ZAR million		ZAR per ton	
Sales	2,866	2,823	9,397	8,327
Variable manufacturing and delivery costs	(2,028)	(1,874)	(6,649)	(5,529)
Contribution	838	949	2,748	2,798
Fixed costs	(833)	(822)	(2,731)	(2,425)
Sundry costs and consolidation entries	(14)	(82)	(47)	(240)
Operating (loss) profit excluding special items	(9)	45	(30)	133
Special items – losses	(18)	–		
Operating (loss) profit	(27)	45		

Our South African fine paper business manufactures coated and uncoated woodfree paper and some of the pulp it requires for own consumption.

Although sales volume declined 10% compared to fiscal 2008, we managed to increase our average selling price per ton by 13% to ZAR9,397 per ton and this enabled us to increase sales slightly to ZAR2,866 million in 2009. Selling prices were unfortunately under pressure towards the end of the year due to increased competition from imports as the Rand strengthened against the US Dollar.

	2009	2008	2009	2008
	ZAR million		ZAR per ton	
Variable manufacturing costs				
Wood	99	106	325	313
Energy	277	200	908	590
Pulp	730	613	2,393	1,808
Chemicals	443	451	1,452	1,330
Other	302	311	991	919
Delivery costs	177	193	580	569
Total	2,028	1,874	6,649	5,529

Variable costs per ton increased by 20% compared to 2008 mainly due to an increase in energy costs, production problems at our Enstra Mill and the fact that we had to buy in pulp at our Stanger Mill due to the shortage of bagasse during the year (bagasse is waste from the sugar industry and forms the base of the feedstock for our own pulp production at Stanger).

	2009	2008
	ZAR million	
Fixed costs		
Personnel	429	440
Maintenance	105	102
Depreciation	121	108
Services and administration	178	172
Total	833	822

As in the case of the other regions, the South African businesses also places great emphasis on the management of fixed costs. We were able to contain fixed costs to a 1% increase over 2008 through various cost reduction actions.

As of fiscal 2010, Sappi Fine Paper South Africa will be incorporated into the Sappi Forest Products division. We do not consider this change in our future reporting to be material.

Sappi Forest Products

	2009	2008	2009	2008
Sales volume (metric tons '000)	2,172	2,413		
	ZAR million		ZAR per ton	
Sales	7,761	8,165	3,573	3,384
Variable manufacturing and delivery costs	(4,618)	(4,117)	(2,126)	(1,706)
Contribution	3,143	4,048	1,447	1,678
Fixed costs	(3,335)	(2,991)	(1,535)	(1,240)
Other income and consolidation entries	354	451	163	187
Operating profit excluding special items	162	1,508	75	625
Special items – (losses) gains	(631)	520		
Operating (loss) profit	(469)	2,028		

Our Forest Products business produces various types of packaging paper and board, newsprint, paper pulp (for own use and sale as market pulp) and chemical cellulose pulp. All chemical cellulose pulp is sold in the export market.

As with our other businesses, our Forest Products business experienced a severe decline in demand for all major products, particularly in our chemical cellulose business during the first half of fiscal 2009. The two major factors impacting our revenue from chemical cellulose are the Rand/US Dollar exchange rate and the NBSK market price. The Rand was weak against the US Dollar during the first half of our fiscal year, which is beneficial for our exports, but this benefit from the exchange rate was largely negated by the depressed demand levels for export product. As demand for chemical cellulose and NBSK pulp prices started to recover from March 2009, the Rand started to strengthen against the US Dollar, negatively affecting the benefit of increased export volumes and improved selling prices. The average NBSK price was 26% lower during 2009 compared to fiscal 2008.

Local sales in the region benefited from the weaker Rand to the US Dollar during the early part of 2009, which reduced import substitution and improved local pricing. The Rand strengthened against the US Dollar during the second half of the year, increasing competition from imports and placing pressure on local product prices.

	2009	2008	2009	2008
	ZAR million		ZAR per ton	
Variable manufacturing costs				
Wood	2,100	1,966	967	815
Energy	738	597	340	247
Chemicals	706	585	325	242
Other	211	190	97	79
Delivery costs	863	779	397	323
Total	4,618	4,117	2,126	1,706

Variable input costs per ton increased significantly in the year compared to fiscal 2008. This was due to additional operating costs incurred as a result of the interrupted ramp up of the Saiccor Mill expansion and the decision to take commercial downtime as local demand in the packaging business weakened during the latter part of the year. Sub-optimal operating conditions included the use of additional oil to fire the boilers, and additional chemical loads and additional people required for the new Saiccor plant. Input costs remained high in the first half of the year but wood, chemical and coal costs have since decreased. The average wood costs increased significantly in 2009 compared to 2008, due to a wood shortage after severe forest fires in Southern Africa that occurred in 2007 and 2008. Energy costs increased sharply due to increased electricity prices in South Africa.

	2009	2008
	ZAR million	
Fixed costs		
Personnel	1,415	1,319
Maintenance	593	574
Depreciation	629	471
Services and administration	698	627
Total	3,335	2,991

Personnel costs in our Forest Products division increased due to the skills shortage in South Africa, particularly in skilled technical functions. Fixed costs increased by 12% from ZAR2,991 million to ZAR3,335 million compared to fiscal 2008. This increase was mainly due to a 34% increase in depreciation, a significant increase in plantation fire prevention costs and also higher than usual plantation re-establishment costs. The increase in depreciation is a result of the capacity expansion at the Saiccor Mill.

Special items in 2009 of ZAR631 million consist mainly of a negative plantation price fair value adjustment of ZAR606 million. Special items in 2008 of ZAR520 million consist mainly of a positive plantation price fair value adjustment of ZAR890 million offset by asset impairments and losses due to fire damage.

Corporate and other

	2009	2008
	US\$ million	
Attributable profit from China joint venture	4	10
Other	2	(3)
Operating profit excluding special items	6	7

Our income statement

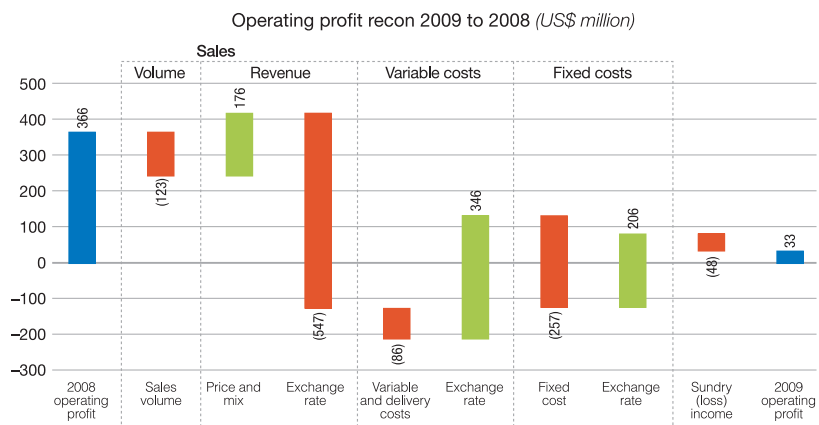
Our group financial results can be summarised as follows:

	2009	% Change	2008
Sales volume (metric tons '000)	6,707	(2)	6,851
	US\$ million		US\$ million
Sales revenue	5,369	(8)	5,863
Variable manufacturing and delivery costs	(3,322)	(7)	(3,582)
Contribution	2,047		2,281
Fixed costs	(1,970)	5	(1,919)
Sundry (loss) income*	(44)		4
Operating profit excluding special items	33	(91)	366
Special items	(106)		(52)
Operating (loss) profit	(73)		314
Finance costs	(145)	15	(126)
(Loss) profit before tax	(218)		188
Taxation	41		(86)
Net (loss) profit	(177)		102
Basic (loss) earnings per share (US cents)	(37)		28

* Sundry (loss) income consists mainly of inventory revaluation, plantation fair value volume adjustments and external debtors securitisation costs.

Operating profit, excluding special items compared to 2008

For the group, the decline in operating profit excluding special items is depicted in terms of sales, variable costs and fixed costs in the chart below:



Notes

1. Operating profit excludes special items.
2. 'Exchange rate' reflects the impact of changes in the average rates of translation.

Sales

Compared to fiscal 2008, group sales declined by US\$494 million (8%) from US\$5,863 million in 2008 to US\$5,369 million in 2009. This decline was due to lower volumes (US\$123 million in monetary terms) and the negative impact of translating the sales of the European and South African divisions into US Dollars (US\$547 million) partly offset by better price and product mix (US\$176 million).

In terms of metric tons, sales volumes declined by 144,000 tons from 6,851 million tons in 2008 to 6,707 million tons in 2009 as shown in the table below:

Sales volumes – tons '000	2009	% Change	2008
Europe	2,956	16	2,546
Europe, excluding acquired mills	2,030	(20)	2,546
Acquired mills	926	n/a	–
North America	1,274	(18)	1,553
Fine Paper South Africa	305	(10)	339
Forest Products	2,172	(10)	2,413
Forest Products – pulp and paper	1,355	(5)	1,419
Forest Products – forestry	817	(18)	994
Sappi group	6,707	(2)	6,851

At constant exchange rates, price per ton realised on sales was US\$26 per ton higher than in fiscal 2008 (US\$882 per ton in 2009 compared to US\$856 per ton in 2008). This increase was mainly due to the fact that we added 926,000 tons of business at a higher average price of approximately US\$960 per ton as a result of the acquisition in December 2008. Thus, more higher value tons of coated paper were sold in 2009 relative to 2008.

The average exchange rate of the US Dollar was stronger versus the Euro in 2009 than in 2008 (Euro/US\$1.3657 compared to Euro/US\$1.5064 in 2008). This difference in translating the sales of our European business had a US\$298 million negative impact on the group's sales in US Dollars. The stronger US Dollar versus the South African Rand (US\$/ZAR9.0135 in 2009 compared to US\$/ZAR7.4294 in 2008) also had the effect of reducing the sales of the South African divisions in US Dollars compared to fiscal 2008 by US\$249 million.

Variable and delivery costs

Variable manufacturing costs relate to costs of inputs which vary directly with output. The 'Other' costs component included under variable manufacturing costs in the table below, relates to inputs such as water, filler materials and consumables.

Delivery costs relate closely to sales volumes. An analysis of variable costs by major category is as follows:

US\$ million	2009	2008
Wood	663	722
Energy	584	558
Pulp	543	702
Chemicals	868	935
Other	210	156
Variable manufacturing costs	2,868	3,073
Delivery costs	454	509
Total	3,322	3,582

Group variable costs in fiscal 2009 were US\$260 million lower than in fiscal 2008 (US\$3,322 million in 2009 compared to US\$3,582 million in 2008). Our variable costs are impacted by sales volumes, the underlying price of inputs and the exchange rate effects on translation of our European and South African businesses into US Dollars. The impact on 2009 operating profit of volume and price changes in variable costs in regional home currencies, as discussed earlier in this report, was negative US\$86 million, offset by a US\$346 million positive currency translation effect.

Cost management remains a major focus area in our group. We continue to engage in a number of cost reduction initiatives aimed at offsetting the impact of increases in input costs. These initiatives are aimed at improved procurement strategies and product re-engineering initiatives to reduce raw material input costs through substitution. Product design and raw material inputs are constantly reviewed to ensure that product attributes and quality meet market specifications.

Fixed costs

The major components of fixed costs were as follows:

US\$ million	2009	2008
Personnel	1,046	1,017
Maintenance	250	252
Depreciation	396	374
Services and administration	278	276
	1,970	1,919

Fixed costs increased by US\$51 million (3%) compared to 2008 from US\$1,919 million in 2008 to US\$1,970 million in 2009. However, fixed costs of the European and South African businesses were favourably impacted by the stronger US Dollar in 2009 compared to 2008 in an amount of US\$206 million. So, in local currency terms, group fixed costs actually increased by the equivalent of US\$257 million.

The main reason for this increase was the acquisition which added €198 million to the group's fixed cost base.

To mitigate the impact of challenging market conditions, we have engaged in many restructuring actions and fixed cost reduction programmes in all our regional businesses. Some of these are mentioned earlier on in the operating performance of our divisions.

Key operating targets

Our financial targets and our performance against these targets are set out and discussed on page 6 of the annual report.

Our key operating target is for operating profit excluding special items to exceed 12% of capital employed (ROCE). This target has been derived to meet the group's weighted average cost of capital after adjusting book assets for inflation. Our performance against this target for 2009 was below 1% – clearly not an acceptable return for our shareholders.

In order to meet our ROCE target we need to improve operating profit excluding special items to around US\$520 million, given our current level of debt and equity.

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.

		SFPE EUR million	SFPNA US\$ million	SFPSA ZAR million	Forest Products ZAR million	Group US\$ million
Operating profit excluding special items sensitivity						
Volumes change	1%	10	5	10	37	25
Selling prices change	1%	24	14	27	34	56
Pulp price change/ton	US\$10	8	0	7	(52)	6
Variable costs change	1%	12	7	19	40	32
Fixed costs change	1%	5	4	9	34	15

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

Special items

Special items are those items which management believe are material by nature or amount to the operating results and require separate disclosure. Such items generally include profit and loss on disposal of property, investments and businesses, asset impairments, restructuring charges, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and unusual government subsidies such as the alternative fuel tax credits paid to qualifying pulp producers in the USA.

Special items for the year compared to 2008 are shown in the table below:

US\$ million gain (loss)	2009	2008
Plantation price fair value adjustment	(67)	120
Restructuring provisions raised	(34)	(41)
Asset impairments	(79)	(119)
Fuel Tax Credits in North America	87	–
Fire, flood and related events	(11)	(17)
Other	(2)	5
Loss for the period	(106)	(52)

Our operating profit in 2009 was negatively affected by a plantation price fair value adjustment of US\$67 million, restructuring charges of US\$34 million and impairment charges of US\$79 million, partly offset by alternative fuel tax credits earned in North America of US\$87 million (alternative fuel tax credits are discussed in more detail in note 2 of this annual report). Our plantation price fair value adjustment was negative for the year due to increases in wood delivery costs exceeding wood price increases. The restructuring charges relate mainly to the closure of the Muskegon Mill and the impairment charges represent the impairment of the coated mechanical paper business unit in Europe to take account of weak market conditions.

After taking account of these items, our operating loss for fiscal 2009 was US\$73 million compared to an operating profit of US\$314 million in fiscal 2008.

Finance costs

Details of net finance costs are set out below:

US\$ million	2009	2008
Net interest paid	137	143
Finance costs capitalised	–	(16)
Net foreign exchange gains	(17)	(8)
Net fair value loss on financial instruments	25	7
Net finance costs	145	126

Net interest paid (interest paid less interest earned) in fiscal 2009 was US\$137 million compared to US\$143 million in 2008. While interest rates remained low in all our borrowing currencies, net interest paid was unusually low in fiscal 2009 because of the US\$41 million discount obtained on repaying the €220 million M-real vendor loan notes in the last quarter of our financial year. The finance costs capitalised in fiscal 2008 relate to the Saiccor Mill expansion project in South Africa.

The net fair value financial instrument loss includes an amount of US\$20 million arising from our unwinding fixed to variable swaps with a notional value of US\$857 million. The unwinding of these swaps resulted in a positive cash inflow of US\$55 million. In view of the refinancing transactions completed in the last quarter of our financial year, and as outlined in more detail below, the net interest paid will increase substantially in future years as interest margins on the new financing reflect current market conditions and the current Sappi credit rating.

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 division 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.

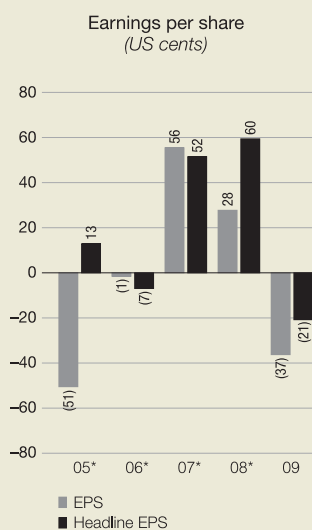
Taxation

US\$ million	2009	2008
(Loss) profit before taxation	(218)	188
Expected taxation (benefit) charge	(60)	38
Tax rate reductions	(3)	(9)
Net effect of losses with no tax relief and permanent differences	18	35
Secondary Tax on Companies	4	7
Other	–	15
Taxation (benefit) charge	(41)	86
Effective tax rate	19%	46%

With a loss before taxation of US\$218 million, the total taxation relief to the income statement of US\$41 million resulted in a tax rate of 19%. The expected taxation relief of US\$60 million was reduced due to no tax relief being taken on the losses of certain loss-making entities because, in our judgement, these losses may not be recoverable in the near future. In addition, certain of the group's profit is not taxed as a result of losses carried forward or favourable permanent differences.

Earnings per share

The loss per share for fiscal 2009 was 37 US cents. As required by IFRS, prior period earnings per share figures have been restated to take into account the bonus element of the rights issue concluded in December 2008 by adjusting the weighted average number of shares in each prior year by a factor of 1.58. Please refer to note 7 to the annual financial statements for an explanation of how this adjustment factor is calculated.



* Restated for the rights issue in fiscal 2009.

A Listing Requirement of the JSE Securities Exchange in South Africa is to disclose 'headline earnings per share'. The computation of headline earnings per share is disclosed in note 7 to the group annual financial statements. Earnings per share and headline earnings per share over the past five years are depicted in the bar chart alongside.

In fiscal 2009, earnings per share was adversely impacted by certain major items classified as special items (discussed above). Excluding these special items after the impact of tax, earnings per share for fiscal 2009 would have been negative 24 US cents. On the same basis, earnings per share, excluding special items (after the impact of tax) for fiscal 2008 would have been 46 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 our businesses.

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

US\$ million	2009	2008
Inventories	792	725
Receivables	858	698
Payables	(1,151)	(1,001)
Net working capital	499	422
Net working capital to sales	9.3%	7.2%

As part of the acquisition at the end of the first quarter of fiscal 2009, we acquired €232 million (US\$326 million) of additional working capital – which amount was included in the purchase price. In the three quarters following the acquisition, great efforts were made by our European division to reduce net working capital to be more in line with the lower levels of business following the global economic crises. These efforts are reflected in the large (US\$152 million) release of cash from working capital shown in the cash flow analysis section further on. Nevertheless, net working capital as a percentage of sales was higher (9.3%) in fiscal 2009 compared to 7.2% in 2008.

As part of our measures to address current challenging market conditions we have intensified our efforts to minimise investment in working capital by setting tight working capital targets for fiscal 2010.

Cash flow analysis

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

US\$ million	2009	2008
Cash generated by operations before post employment benefits	494	711
Contributions to post employment benefits	(62)	(88)
Cash generated by operations	432	623
Net movement in working capital	152	1
Cash generated by operating activities	584	624
Cash spent to maintain and expand non-current assets*	(176)	(505)
Finance costs	(81)	(126)
Taxation	(5)	(70)
Other	4	11
Dividends to shareholders	(37)	(73)
Net cash generated (utilised)	289	(139)

* 2009 excludes US\$590 million relating to the acquisition and includes US\$1 million of plantation expenditure.

We generated cash from operations of US\$432 million in 2009 compared to US\$623 million in 2008. The significant decline in operating profit during 2009 resulted in lower cash generated from operations when compared to 2008.

Contributions to post employment benefits include approximately US\$44 million in 2009 and US\$38 million in 2008 of 'catch-up' payments to reduce funding deficits in certain of our funds. We expect our total contributions in 2010 to be slightly above the 2009 levels.

The US\$152 million of cash released from working capital relates mainly to working capital reduction in the European business following the acquisition as discussed in the section above.

Our net cash generated for 2009 of US\$289 million included US\$65 million of cash received for alternative fuel tax credits by our North American business and also an amount of US\$55 million received when we unwound fixed-to-floating interest rate swaps as discussed above.

Our investment in non-current assets was US\$329 million lower than in 2008, due to the completion of the Saiccor Mill expansion and our drive to reduce capital expenditure during the difficult market conditions we experienced during the year.

Over the past five years the relationship between investment in property, plant and equipment and depreciation is depicted alongside.

Investment in non-current assets by region was as follows:

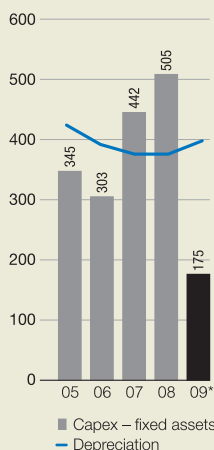
US\$ million	2009	2008
Fine Paper	116	230
North America*	28	130
Europe	83	91
South Africa	5	9
Forest Products	62	274
Saiccor upgrade	18	236
Other**	44	38
Corporate	(2)	1
Total**	176	505

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

** 2009 includes expenditure of US\$1 million relating to plantations.

The above figures include both 'maintenance' and 'expansion' expenditures relating to non-current assets – the latter was US\$29 million in fiscal 2009.

Investment in property, plant and equipment versus depreciation (US\$ million)



* Excludes US\$1 million expenditure relating to plantations.

Debt

Debt is a major source of funding for the group. In the management of debt we focus 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.

Net debt

The movement in net debt from 2008 to 2009 is explained below:

US\$ million	2009
Net debt at beginning of year	2,405
Cash generated during the year*	(289)
Debt assumed with the acquisition	52
Acquisition fees	32
Vendor loan notes (€220 million)	307
Discount on the subsequent repayment of vendor loan notes	(41)
Fair value adjustments	53
Currency and other	57
Net debt at end of year	2,576

* Excludes cash outflow relating to the acquisition which was funded by the €450 million rights issue.

During the year, net debt increased by US\$171 million. As part of the acquisition funding, we issued €220 million (US\$307 million) of vendor loan notes to M-real (which were subsequently repurchased at a discount of approximately US\$41 million) and we assumed debt of US\$52 million. This was offset by strong cash generation from operations after deducting capital expenditure of US\$289 million for the year.

During the year, we embarked on a major refinancing of our debt in order to refinance impending maturities and short-term debt. All new debt taken up during the year was used to either settle existing facilities (including the vendor loan notes) or hold as cash for liquidity purposes and therefore did not result in an increase net debt.

Debt structure

Two material debt maturities were approaching that required refinancing; namely a €600 million revolving credit facility (RCF) due for repayment in May 2010 and a €400 million syndicated bank facility (the OeKB facility) maturing in December 2010. In order to address these maturities and to term out short-term debt, the following actions were taken:

- The €400 million OeKB facility was refinanced with a new €400 million five-year amortising loan profile until 2014.
- New public bonds of approximately US\$800 million maturing in 2014 were issued.
- The proceeds of these bonds, together with surplus cash balances, were used to repay amounts outstanding under our previous RCF, the majority of our short-term debt and the M-real vendor loan note at a substantial discount.
- A new RCF of €209 million with a tenure of three years was arranged, which remains unutilised at this point in time.

The refinancing has improved the group's debt structure considerably. This is indicated by comparing the position as at end September 2008 with September 2009, which shows that net short-term debt has improved from a negative position of US\$724 million at September 2008 to a positive US\$150 million (ie cash holdings exceed short-term debt by US\$150 million).

US\$ million	2009	2008
Long-term debt	2,726	1,681
RCF drawn	–	151
Securitised debtors	400	362
Overdrafts, commercial paper	125	315
Short-term position of long-term debt	95	170
Less: Cash	(770)	(274)
Net short-term debt	(150)	724
Total net debt	2,576	2,405

Following this refinancing, we have a much improved liquidity position with cash of US\$770 million available at the end of September 2009 and no major debt maturities before 2012. We are of the opinion that it is prudent to maintain an increased cash balance as a cushion in times of economic uncertainty. Our finance costs have increased significantly and at current interest rates we expect our net finance costs for 2010 to increase to approximately US\$250 million. In order to continue reducing our net debt we will focus on cash generation and will manage our capital expenditures tightly but at a level which ensures that we maintain our assets in good condition and meet our commitments to health, safety and environmental standards.

The major elements of the refinancing are discussed below.

Revolving credit facility

In June 2005, we entered into a €600 million revolving credit facility with a consortium of banks – the maturity date of this facility was 31 May 2010. This facility was cancelled in August 2009 and replaced with a new secured revolving credit facility, providing for up to €209 million of borrowing availability in Euros or US Dollars. This facility remains undrawn. The facility terminates on 31 May 2012 and the annual interest rate on drawings is calculated based on Euribor plus a margin varying between 3.00% and 6.50% (currently 4.50%), depending on the credit rating assigned to Sappi Papier Holding's secured debt rating. Sappi Papier Holding is the holding company for all of the group's assets outside of Southern Africa. A commitment fee of 45% of the margin referred to above is payable to the extent the facility is undrawn.

OeKB syndicated credit facility

In May 2003, Sappi Papier Holding entered into a term loan facility with the Oesterreichische Kontrollbank (OeKB) and a group of banks, which provided a €500 million borrowing facility for the purpose of refinancing the purchase price of the 2002 Cloquet acquisition in the USA. The fully utilised loan had a first repayment of €100 million in December 2004 and a final repayment of €400 million scheduled for 31 December 2010. The €400 million outstanding was refinanced in August 2009 by the OeKB and a group of banks with a secured five-year amortising facility, terminating on 30 June 2014. The annual interest rate is calculated based on Euribor, plus a margin varying between 4.00% and 7.50% (currently 5.5%), depending on the credit rating assigned to Sappi Papier Holding's secured debt rating, plus certain costs.

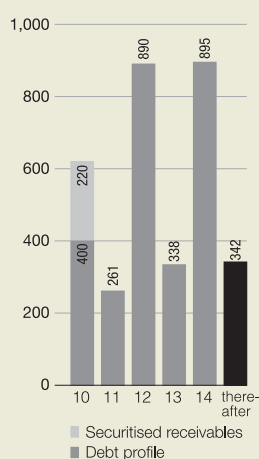
2009 Guaranteed notes

In July 2009, a subsidiary of Sappi Papier Holding issued US\$300 million 12% secured guaranteed notes due 2014 and €350 million 11.75% secured guaranteed notes due 2032 (together, the '2009 notes'). Interest on the notes is payable semi-annually.

The revolving credit facility, the OeKB facility and the 2009 notes are guaranteed by Sappi Limited and certain material subsidiaries and share in a security package consisting of mortgage bonds over certain property and plant, pledges of shares of certain material subsidiaries, pledges of receivables under certain material intercompany loans and pledges of certain inventories at Sappi Fine Paper North America.

Further information about security over our borrowings is contained in notes 20 and 24 to our annual financial statements.

Debt maturity profile (US\$ million)



The 2009 notes and our bank facilities contain customary affirmative and negative covenants restricting, among other things, the granting of security, incurrence of indebtedness, the provision of loans and guarantees, mergers and dispositions and certain restricted payments, including the payment of dividends.

Vendor loan notes

As part of the consideration price for the acquisition, Sappi Papier Holding issued to M-real Corporation the vendor loan notes of €220 million in December 2008. The notes carried an interest rate stepping up from 9% to 15% over time. The notes had a maturity of up to 48 months and ranked pari passu with our existing long-term debt. The vendor loan notes were repaid in full on 27 August 2009 at a discount of 13.5% (approximately €30 million/US\$41 million), utilising proceeds from the issuance of the 2009 notes.

Debt maturity structure

Following the refinancing, the average maturity of our debt is 4.8 years, with the profile as shown alongside.

As at September 2009 financial year end, short-term debt and overdraft funding was US\$620 million, all of which – and US\$150 million of the 2011 maturities – is covered by cash and near cash resources of US\$770 million. In addition, included in the short-term debt is US\$400 million of funding in the form of revolving securitised trade receivables funding, which in the normal course we expect to continue to be available and not to require refinancing. For further information on group borrowing facilities secured by trade receivables, please refer to note 20 to the annual financial statements.

In addition, we have unutilised committed and uncommitted borrowing facilities of US\$307 million and US\$156 million respectively. The committed facilities consist of the undrawn portion of our €209 million RCF. A downgrade of our public debt ratings could result in banks reviewing the availability of uncommitted facilities.

Net debt by currency

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

Net debt by currency ratio	2009	2008
US\$	48.4%	41.3%
EUR	34.1%	40.3%
CHF	0%	6.3%
ZAR	17.5%	12.1%

Off-balance sheet funding

Off-balance sheet funding at the end of each of the last two financial years comprises a debtor's securitisation programme at Forest Products, amounting to US\$194 million and US\$171 million in 2008 and 2009 respectively. This securitisation programme involves the outright sale of receivables to FirstRand Bank Limited and we expect this funding to remain off-balance sheet for the foreseeable future. For more information on this, please refer to note 16 to the annual financial statements.

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. Exceptions are made when fixed rates can be obtained at attractive rates, as this strategy locks in acceptable interest rates for the life of the borrowing instrument. Hedging activity in relation to borrowings are restricted to interest rate swaps and where appropriate, cross-currency swaps.

As explained above, a number of interest rate swaps were unwound during the financial year. A new interest rate and currency swap of US\$300 million was taken up in August 2009 to hedge the new US\$300 million public bonds in the books of Sappi Papier Holding, a Euro functional currency company. At year end, the ratio of gross debt at fixed and floating interest rates was 85:15 respectively.

Covenants

Financial covenants apply to approximately US\$588 million of our non-South African long-term debt and our unutilised €209 million revolving credit 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. The covenants also differ from measurement period to period, as they are set in line with the long-term forecast of group results.

Sappi Papier Holding financial covenants require that:

- (i) At the end of each quarter the mean average of the ratios of EBITDA to consolidated net interest expense for that quarter and each of the three preceding quarters be not less than 2:1 (increasing over the term of the facility to 2.5 in July 2012);
- (ii) The ratio of net debt to EBITDA be not greater than 6:1 (reducing over the term of the facility to 4:1 in September 2012); and
- (iii) With regard to Sappi Manufacturing (Pty) Limited (the holding company for South African agents) and its subsidiaries only, the ratio of net debt to equity be not, at the end of any quarter, greater than 0.65:1, and at the end of the full-year, the ratio of EBITDA (as defined) to consolidated net interest paid for that period be not less than 2:1, for the period ended September 2009.

The table below shows that as at September 2009 we were in compliance with these covenants.

US\$ million	Fiscal 2009	Covenant
Group covenants		
Net debt to EBITDA	4.63	<6.0
EBITDA to net interest	3.96	>2.0
Sappi manufacturing covenants		
Net debt to equity	43.1%	<65%
EBITDA to net interest	3.17	>2.0

The group financial covenants also apply to the securitisation programmes with outstanding balances of US\$400 million at the end of September 2009. No Sappi Limited guarantee has been provided for these facilities.

Dividend restriction

Under the recently concluded financing arrangements, the group is restricted from paying cash dividends in certain circumstances – for example while the net debt to EBITDA ratio exceeds 4:1 or when the EBITDA to fixed charges (generally consolidated net interest expense) ratio is less than 2:1. In addition, any cash dividends paid may not exceed 50% of net profit, excluding special items.

Credit ratings

At the date of this annual report, our credit ratings were as follows:

Fitch South African national rating	
Sappi Manufacturing (Pty) Limited	A/F1/Negative (November 2009)
Moody's international rating	
Sappi Papier Holding GmbH	
(Supported by Sappi Limited guarantee)	Ba3/NP/Stable (September 2009)
Secured Debt Rating	Ba2 (September 2009)
Unsecured Debt Rating	B2 (September 2009)
Standard & Poor's international rating	
Corporate Credit Rating	BB-/B/Stable (September 2009)
Secured Debt Rating	BB (September 2009)
Unsecured Debt Rating	B+ (September 2009)

In May 2009, 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 economic growth. One of the key requirements of this rating was the successful refinancing of material debt maturities in 2010, well ahead of time. This refinancing took place in August 2009 and S&P subsequently confirmed the rating.

In June 2009, Moody's revised its rating from Ba2 to Ba3, 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 2009 this rating and outlook were confirmed after the successful refinancing of material 2010 debt maturities.

In November 2009 Fitch revised their Sappi Manufacturing local South African rating from A+/F1/Negative to A/F1/Negative, mainly due to the continuing difficult market and trading conditions, and the resulting negative impact on the operating margins of Sappi Manufacturing when compared to the requirements for the previous rating.

A security rating is not a recommendation to buy, sell or hold securities and it may be revised or withdrawn at any time by the rating agencies without prior notice to us. Each rating should be evaluated independently of any other rating.

Gearing

Net debt to capitalisation for each of the past two years is set out below:

US\$ million	2009	2008
Net debt	2,576	2,405
Net debt and equity	4,370	4,010
Net debt to capitalisation ratio	59%	60%

Given our relatively high level of fixed costs, we are highly 'operationally' geared – changes in volume, sales prices and variable costs have a material effect on our operating results. After the re-financing of much of our debt at our current credit rating, finance costs have increased substantially – previously most of our debt had been raised when the group had a much better credit rating. The higher finance costs we now face have increased our 'financial' gearing and we plan to address this by aggressively reducing our debt levels. We have made a good start at this by generating net cash of US\$289 million in fiscal 2009 – despite the difficult operating conditions.

Significant accounting policies and judgements

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.

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

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

The effect of these accounting policies and judgements is included in note 2 to the annual financial statements.

Shareholding and equity

The group's primary listing is on the JSE Limited, South Africa's stock exchange, and has a secondary listing on the New York Stock Exchange. Sappi delisted from the London Stock Exchange in November 2009. Information regarding shares, share price, the value of shares traded, main shareholders and other related information is contained on pages 64 and 65 of this annual report.

Share price performance



During the year, we increased our authorised share capital as a result of the rights issue and the issuance of shares to M-real in part payment for the acquisition. We issued 286.9 million shares in terms of the rights offer and 11.2 million shares to M-real. Please refer to the Directors' report for further detail on the changes in share capital during the year.

The share prices in the graph above have been revised by an adjustment factor of 1.58 to reflect the impact of the rights offer. Please refer to earnings per share above and also note 7 to the annual financial statements for further details on this adjustment factor.

The group's equity increased by US\$189 million during 2009 from US\$1,605 million at the end of September 2008 to US\$1,794 million at the end of September 2009. This increase arose as follows:

	US\$ million
Equity – September 2008	1,605
Rights offer – net proceeds	544
Shares issued to M-real (in part payment of the acquisition)	45
Dividend in respect of fiscal 2008	(37)
Loss for the year	(177)
Actuarial loss on pension funds (net of tax)	(197)
Other	11
Equity – September 2009	1,794

The actuarial loss on pension funds arose mainly as a result of an unusually large drop in discount rates, which caused pension fund liabilities to increase by more than the growth in the underlying asset portfolio. We do not expect this to result in a significant increase in the group's contributions to its pension funds for the next few years as the contribution rates are set using a funding basis as opposed to a (more conservative) accounting basis, minimum statutory recovery rates (pace of funding) in certain countries have recently been eased and the returns of the underlying equity asset portfolios are expected to improve on the 2009 performance, thereby helping to close deficits.

Conclusion

On the operating front, we have taken a number of actions to improve our business. Although our finance costs have increased, we have a strong liquidity position.

We expect improved operating results in 2010 and will continue to focus on generating cash and reducing our debt.

M R Thompson
chief financial officer

04 December 2009

Five-year review

for the year ended September 2009

	September 2009 US\$ million	September 2008 US\$ million	September 2007 US\$ million	September 2006 US\$ million	September 2005** US\$ million
Income statement					
Sales	5,369	5,863	5,304	4,941	5,018
Operating profit excluding special items	33	366	313	91	83
Special items* losses (gains)	106	52	(70)	(34)	192
Operating (loss) profit	(73)	314	383	125	(109)
Net finance costs	145	126	134	130	80
(Loss) profit before taxation	(218)	188	249	(5)	(189)
Taxation (benefit) charge	(41)	86	47	(1)	(5)
(Loss) profit for the year	(177)	102	202	(4)	(184)
Balance sheet					
Total assets	7,297	6,109	6,344	5,517	5,889
Non-current assets	4,867	4,408	4,608	3,997	4,244
Current assets	2,430	1,701	1,736	1,500	1,645
Assets held for sale	–	–	–	20	–
Current liabilities	1,841	1,926	1,916	1,666	1,753
Shareholders' equity	1,794	1,605	1,816	1,386	1,589
Net debt	2,576	2,405	2,257	2,113	2,008
Capital employed	4,370	4,010	4,073	3,499	3,597
Cash flow					
Cash generated from operations	432	623	585	396	569
Decrease (increase) in working capital	152	1	60	(17)	(30)
Finance costs paid	(107)	(139)	(183)	(164)	(162)
Finance revenue received	26	13	21	26	35
Taxation paid	(5)	(70)	(27)	(13)	(43)
Dividends paid	(37)	(73)	(68)	(68)	(68)
Cash retained from operating activities	461	355	388	160	301
Capital expenditure (gross)	175	505	458	303	345
Cash effects of financing activities	707	49	98	(21)	(37)
EBITDA excluding special items ⁽¹⁾	431	740	688	483	507
Statistics					
Number of ordinary shares (millions)					
In issue at year end ⁽²⁾	515.7	229.2	228.5	227.0	225.9
Basic weighted average number of shares in issue during the year ^(2,4)	482.6	362.2	360.6	358.0	357.4
Per share information (US cents per share)					
Basic (loss) earnings ⁽⁴⁾	(37)	28	56	(1)	(51)
Diluted (loss) earnings ⁽⁴⁾	(37)	28	55	(1)	(51)
Headline (loss) earnings ⁽⁴⁾	(21)	60	52	(7)	13
Diluted headline (loss) earnings ⁽⁴⁾	(21)	59	51	(7)	13
Ordinary dividend declared ⁽³⁾	–	16	32	30	30
Net asset value	348	700	795	611	703
Ordinary dividend cover (times) ⁽³⁾	–	2.8	2.8	–	–
Profitability ratios (%)					
Operating profit excluding special items to sales	0.6	6.2	5.9	1.8	1.7
EBITDA excluding special items to sales	8.0	12.6	13.0	9.8	10.1
Operating profit excluding special items to capital employed (ROCE)	0.8	9.1	8.3	2.6	2.3
(Loss) profit to average ordinary shareholders' equity (ROE)	(10.4)	6.0	12.6	(0.3)	(10.4)

	September 2009 US\$ million	September 2008 US\$ million	September 2007 US\$ million	September 2006 US\$ million	September 2005** US\$ million
Debt ratios (%)					
Net debt to total capitalisation	58.9	60.0	55.4	60.4	55.8
Efficiency ratios					
Asset turnover (times)	0.7	1.0	0.8	0.9	0.9
Inventory turnover ratio	6.3	6.9	6.4	6.3	6.3
Liquidity ratios					
Current asset ratio	1.3	0.9	0.9	0.9	0.9
Trade accounts receivable days outstanding (including receivables securitised)	58	48	49	44	45
Cash interest cover (times)	3.2	4.4	3.8	2.9	4.6
Number of employees	16,427	15,156	15,081	15,200	15,618
Sales per employee (US\$'000)	327	387	352	325	321
Exchange rates					
US\$ per one Euro exchange rate – closing	1.4688	1.4615	1.4272	1.2672	1.2030
US\$ per one Euro exchange rate – average (12 month)	1.3657	1.5064	1.3336	1.2315	1.2659
ZAR to one US\$ exchange rate – closing	7.4112	8.0751	6.8713	7.7738	6.3656
ZAR to one US\$ exchange rate – average (12 month)	9.0135	7.4294	7.1741	6.6039	6.2418

Definitions for various terms and ratios used above are included in the glossary on page 199.

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

	September 2009 US\$ million	September 2008 US\$ million	September 2007 US\$ million	September 2006 US\$ million	September 2005** US\$ million
(Loss) profit for the year	(177)	102	202	(4)	(184)
Net finance costs	145	126	134	130	80
Taxation (benefit) charge	(41)	86	47	(1)	(5)
Special items – losses (gains)	106	52	(70)	(34)	192
Operating profit excluding special items	33	366	313	91	83
Depreciation and amortisation	398	374	375	392	424
EBITDA excluding special items ⁽¹⁾	431	740	688	483	507

(1) In compliance with the US 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 believes 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, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash.

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.

(4) Restated for the bonus element of the rights issue (refer note 7).

* 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, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash.

** The year ended September 2005 included 53 weeks.

Share statistics

at September 2009

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares*	% of shares in issue
1 – 5,000	5,455	82.8	4,107,630	0.8
5,001 – 10,000	236	3.6	1,709,659	0.3
10,001 – 50,000	334	5.1	7,778,376	1.5
50,001 – 100,000	140	2.1	10,135,496	2.0
100,001 – 1,000,000	339	5.1	116,634,218	22.6
Over 1,000,000	86	1.3	375,367,926	72.8
	6,590	100.0	515,733,305	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 2009 was 6,587)				99.98
				100.00

* The number of shares excludes 21,384,559 treasury shares held by the group.

Sappi has a primary listing on the JSE Limited and a secondary listing on the New York 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 2009, the following beneficial holders of more than 5% of the issued share capital of Sappi Limited:

	Shares	%
Public Investment Commissioner (SA)	43,340,842	8.4
Old Mutual Life Assurance Company Limited (ZA)	25,987,096	5.0

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 2009, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

	Shares	%
Allan Gray Limited	153,036,665	29.7
Old Mutual Investment Group South Africa	66,834,079	13.0
Rand Merchant Bank	42,578,535	8.3

	September 2009 US\$ million	September 2008 US\$ million	September 2007 US\$ million	September 2006 US\$ million	September 2005** US\$ million
Share statistics					
Ordinary shares in issue (millions)**	515.7	229.2	228.5	227.0	225.9
Net asset value per share (US cents)	348	700	795	611	703
Number of shares traded (millions)					
JSE	443.40	241.58	246.95	252.60	264.70
New York	66.28	51.04	49.81	57.60	83.60
Value of shares traded					
JSE (ZAR million)	12,989.4	22,623.4	27,983.7	20,946.0	20,035.7
New York (US\$ million)	259.1	634.3	770.8	715.0	999.4
Percentage of issued shares traded	98.8	127.7	129.9	136.7	154.2
Market price per share ⁽¹⁾					
– year end					
JSE (South African cents)	2,855	5,054	6,602	6,336	4,722
New York (US\$)	3.76	6.32	9.67	8.04	7.45
– highest					
JSE (South African cents)	5,403	7,661	8,824	6,389	6,008
New York (US\$)	6.41	9.98	12.24	9.62	9.41
– lowest					
JSE (South African cents)	1,290	4,700	6,263	3,948	3,675
New York (US\$)	1.24	5.72	7.88	5.98	6.00
Earnings yield (%)*	negative	9.58	5.41	negative	1.75
Dividend yield (%)*	–	2.56	3.33	3.68	4.04
Price/earnings ratio (times)*	–	10.43	18.48	–	57.08
Total market capitalisation (US\$ million)*	1,985	1,435	2,196	1,850	1,676

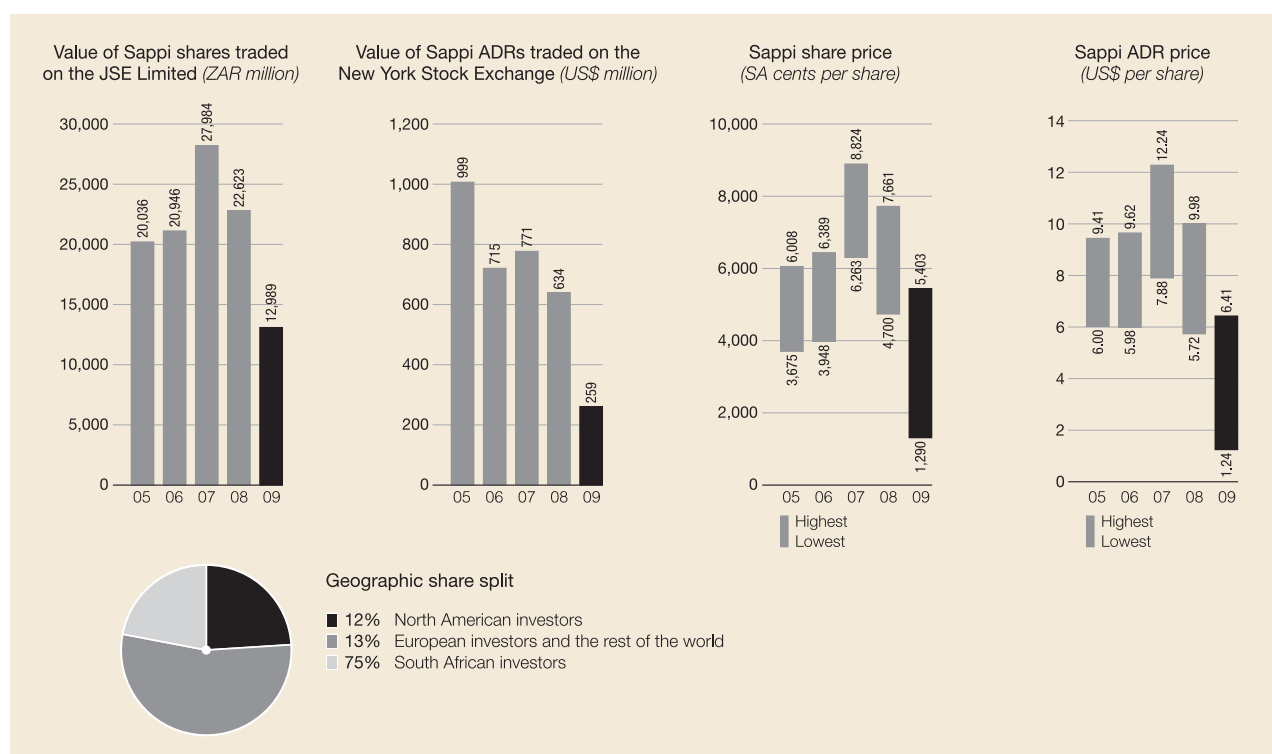
* Based on financial year end closing prices on the JSE Limited. Income statement amounts have been converted at average year-to-date exchange rates.

** The number of shares excludes 21,384,559 treasury shares held by the group.

(1) Historical share prices shown in the table above have been adjusted by 1.58 (an adjustment factor) for the effect of the issuance of 286,886,270 new ordinary shares of ZAR1.00 each, at a subscription price of ZAR20.27 per rights offer share in the ratio of 6 rights offer shares for every five Sappi shares held. The adjustment factor applied to historical share prices was based on the theoretical ex-rights price (TERP) calculation shown below.

TERP is the [(number of new shares multiplied by the subscription price) plus the (number of shares held multiplied by the ex-dividend share price)] all divided by the (number of new shares plus the number of shares held prior to the rights offer). The adjustment factor of 1.58 is calculated using the pre-announcement price divided by the TERP. (Refer to note 7).

Note: Definitions for various terms and ratios used above are included in the glossary from page 199 to 201.





Risk management

This table provides the latest review of the significant exposures Sappi faces as it goes forward. The Sappi group risk profile is reviewed at least twice annually to comply with the company's Listings Requirements of the various exchanges and to give management comprehensive risk management information to enable them to make informed risk-based decisions. The risks are categorised as systemic or business risks and are ranked according to management's assessment of the likelihood of occurrence and severity. These risks are further discussed in Sappi's annual report on Form 20-F filed with the US Securities Exchange which is available on our website www.sappi.com or in hard copy on request.

Systemic risks

Overall ranking	Risk	Risk description and mitigation
1	Global economic conditions may cause substantial fluctuations in our results	Our pulp and paper products are significantly affected by cyclical changes in industry capacity and output levels and by changes in the world economy. As a result of periodic supply and demand imbalances in the pulp and paper industry, these markets historically have been cyclical, with volatile pulp and paper prices. In addition, recent turmoil in the world economy led to sharp reductions in volume and pressure on prices in many of our markets and we acted rapidly to match our output to demand by curtailing production for extended periods and ceasing operations at Muskegon Mill. We are working closely with our customers on all these actions as we adapt our product lines to match market needs and economics. We took actions to improve efficiencies and reduce costs in all aspects of our business under these difficult conditions. We continue to maintain a high level of economic pulp integration on a group-wide basis which reduces the impact of pulp price fluctuations on our results. We will consider taking further downtime in fiscal 2010 to balance supply and demand
2	The markets for pulp and paper products are highly competitive	There has been a recent trend towards consolidation in the pulp and paper industry creating larger, more focused companies. We have expanded Saiccor Mill to strengthen our leading position in the chemical cellulose market, while the Acquisition enhanced our position in the woodfree coated paper market. We also continue to drive good customer service, innovation and efficient manufacturing and logistics
7	Continued volatility in equity markets and declining yields in the bond markets could adversely affect the funded status and funding needs of our post employment benefit funds	The general outlook for the forthcoming financial years is that bond and equity markets could remain uncertain, which in turn could result in significant swings in yields on corporate bonds and government bonds as well as continued volatility within the equity markets. The risk exists that equity and bond markets will not recover to the level of past highs. As a result we continue to monitor movements in the global equity and bond markets and pay additional contributions to meet minimum funding targets where appropriate. We also note and react to existing and potential changes in statutory funding requirements
8	The cost of complying with environmental, health and safety laws may be significant to our business	We are subject to a wide range of environmental, health and safety laws and regulations in the various jurisdictions in which we operate and we strive to comply with applicable laws and co-operate across regions to apply best practices in a sustainable manner. ISO 14000, Forest Stewardship Council and other recognised programmes are well entrenched across the group. We have also made significant investments in operational and maintenance activities related to reductions in air emissions, wastewater discharges and waste generation. We closely monitor the potential for changes in pollution control laws and take actions with respect to our operations accordingly. The health and safety of our own employees and contractors remain a priority
9	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 expect a gradual decline in demand for paper in developed markets as a result of new media. Nevertheless we expect that print and coated paper will continue to play an important role in the communication, advertising and promotional mix, particularly in developing markets where we expect to see growth in demand. Moreover we design and implement new or improved products, enhanced product features, or improvements in the level and quality of product servicing. For example, our Forest Products business continues to work with customers to develop new product and service solutions, including the design of high-performance packaging using our paper. Our chemical cellulose business has good growth prospects in terms of existing uses and innovative uses. In North America an increased proportion of our sales is derived from newly designed products. Our European operations have successfully launched innovative products like Tempo™

Business risks

Overall ranking	Risk	Risk description and mitigation
3	The current global liquidity and credit crises could have a negative impact on our major customers which in turn could materially adversely affect our results of operations and financial position	The current global liquidity and credit crises are having a significant negative impact on businesses around the world, including some of our major customers. We are 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 significant part of our outstanding receivables
4	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 in these currencies	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. 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 forward exchange contracts and currency options. Foreign currency capital expenditure on projects is covered as soon as practical (subject to regulatory approval)
5	The inability to obtain energy or raw materials at favourable prices could adversely affect our operations	We require substantial amounts of wood, chemicals and energy for our production activities. The prices for and availability of these energy supplies and raw materials may be subject to change or curtailment. To mitigate the risk, we are improving procurement methods, finding alternative lower-cost fuels and raw materials, further minimising waste, improving manufacturing and logistics efficiencies and implementing energy reduction initiatives
6	Catastrophic events affecting our plantations, such as fires, may adversely impact our ability to supply our Southern African mills with timber from the region	The Southern African landscape is prone to, and ecologically adapted to, frequent fires. The risk of uncontrolled fires entering and burning significant areas of plantations is high, but under normal weather conditions this risk is managed through comprehensive fire prevention and protection plans which include an increased focus on training our people, building community awareness of the destruction caused by fires, and upgrading fire detection systems and firefighting equipment
10	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 as outlined in the chief financial officer's report
11	We require a significant amount of cash to fund our business.	Our ability to fund our working capital, capital expenditure, research and development requirements, and to make payments on our debt principally depends on cash available from our credit facilities, other debt arrangements and our operating performance. Our year end cash balance following the refinancing of our debt profile provides us with adequate headroom to fund our short-term requirements. We are also focusing on profit improvement in our operations by reducing fixed and variable costs, spending capital prudently and tightly controlling working capital
12	A limited number of customers account for a significant amount of our revenues	Any adverse development affecting our principal customers or our relationships with our principal customers could have an adverse effect on our business and results of operations. We maintain good relationships with our customers and work together with them to address developments that could adversely affect their business
13	There are risks relating to the countries in which we operate that could impact our earnings	We own manufacturing operations in six countries in Europe, three states in the United States, South Africa and Swaziland, and have an investment in a joint venture in China. Country risks arise from being subject to various economic, fiscal, monetary, regulatory, operational and political factors that affect companies generally and which may change as economic, social or political circumstances change. We manage these risks in each country. The broad spread of countries we operate in helps mitigate the risks in any individual country
14	Concerns about the effects of climate change may have an impact on our business	Concerns about the global warming and carbon footprint as well as legal and financial incentives favouring alternative fuels are causing the increased use of sustainable, non-fossil fuel sources for electricity generation. Electricity generation companies are competing for the same raw material, namely wood and wood chips, in the same markets as us, driving prices upwards, especially during winter in the Northern hemisphere The increased emphasis on water footprint in Southern Africa is causing increased focus on the sustainable use of water by mills, on ensuring the quality of water released back into the water systems and on the control of effluent
15	Because of the nature of our business and workforce, we may face challenges in the retention of skilled staff that could adversely affect our business	We are facing an aging demographic work profile among our staff due to the mature nature of our industry and the rural and often remote location of our mills, together with the generally long tenure of employees at the mills. We have put in place a number of initiatives, including engagement management, performance management and incentives to mitigate this risk
16	A large percentage of our employees are unionised and wage increases or work stoppages by our unionised employees may have a material adverse effect on our business	We may not be able to negotiate acceptable new collective bargaining agreements or future restructuring agreements, which could result in labour disputes. We strive to have good relations with our employees, even if general economic conditions may lead to strike action from time to time as happened in South Africa in 2009. Our cordial relations have enabled us to negotiate acceptable new collective bargaining agreements and we have recently reached agreements with our employees regarding workforce reductions, closures and other restructurings
17	We face certain risks in dealing with HIV/AIDS which may have an adverse effect on our Southern African operations	There is a serious problem with HIV/AIDS infection among our southern African workforce, as there is in southern Africa generally. We have comprehensive programmes designed to mitigate the impact of the disease on our people and our business and these are addressed more fully in our sustainability report which can be accessed on our website

Risk 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 and mandates of the Code of Conduct of the Second Report of the King committee on Corporate Governance (King II);
- 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; and
- ensuring an integrated risk management system is implemented throughout its operations.

The group risk management team was 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.

Complete risk assessments are conducted at least annually in our divisions (including Sappi Trading) 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 identified 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 once every six months and are reported to the board 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.

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. External risk engineers 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 also covers business interruption events 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. Sappi places the insurance for its plantations on a stand-alone basis into international insurance markets. The impact of widespread fires on our plantations this year was substantially less than in 2007 and 2008.

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

Sappi has negotiated the renewal of its 2010 insurance cover at rates similar to those of 2009. 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 reasonable foreseeable loss for any single claim.

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

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 King III Report issued on 01 September 2009 for implementation by March 2010, is currently being studied within Sappi and preparations are in progress for adoption of incremental new principles contained therein, to the extent not already adopted. The group maintains its primary listing on the JSE Limited as well as a listing on the New York Stock Exchange. The group delisted from the London Stock Exchange, effective 02 November 2009. 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, the recently issued King III 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 while the principles of good governance are maintained.

	Element/best practice	Sappi application/comments	King III report implications
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 May 2009 as part of our continuous improvement efforts. A copy is available on the company website (www.sappi.com)	Will be revised to reflect incremental new requirements, for example, by adding IT governance to the board agenda
	The board should meet at least once per quarter	The board met five 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 202 for the notice to shareholders	Changes will be communicated via the report on corporate governance
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	Changes relating to corporate governance will be set out in the annual report
	Fees for non-executive directors should be submitted to the shareholders in general meeting for approval	Refer to page 202 for the notice to shareholders which sets out the proposed fees for 2009/2010	√
	Full disclosure of directors' remuneration and additional information concerning incentive schemes for senior management	Refer to the compensation report for full disclosure in the directors' remuneration and incentive schemes for senior management	Improved disclosure included in annual report
	Stakeholder communication	The investor relations department as well as the corporate communications department maintain regular contact with relevant stakeholders and utilise 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 summary on pages 8 to 13 for further description of our communication efforts	Improved focus on sustainability through the sustainability executive committee and sustainability reporting via the integrated annual report

	Element/best practice	Sappi application/comments	King III report implications
Independence	Given the strategic operational role of the chief executive officer, this function should be separate from that of the chairman of the board	The role of chief executive officer is held by Mr Ralph Boëttger. This role is separate from the chairman of the board	√ In addition, King III recommends that the memorandum of incorporation of the company should allow the board to remove any director from the board, including executive directors, without shareholder approval being necessary √
	Audit committee should consist of independent board members. Remuneration committee should consist entirely or mainly of independent, non-executive directors	At Sappi the functions of a remuneration committee are split between a compensation committee and human resources and transformation committee. Although the chairman of the board is also the chairman of the human resources and transformation committee he is not a member of the compensation committee or the audit committee. These committees all comprise independent, non-executive directors	All members of board sub-committees must be board members √ Regional audit sub-committees may include executive and non-executive directors The sustainability executive committee is chaired by an independent, non-executive director
	Majority of independent board members The chairman should preferably be an independent non-executive director	11 of the 13 board members are independent, non-executive directors The chairman of the board is Dr Danie Cronjé, an independent, non-executive director	A minimum of two executive directors, specifically the chief executive officer and chief financial officer must be appointed to the board √ The chairman of the board should not be the chief executive officer √
Accountability	Effective sub-committees 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: <ul style="list-style-type: none"> • Nomination and governance committee • Audit committee • Compensation committee • Human resources and transformation committee In addition, a number of management sub-committees have been formed to assist the chief executive officer and chief financial officer in the discharge of their responsibilities: <ul style="list-style-type: none"> • Executive management committee • Sustainability executive committee (chaired by an independent non-executive director) • Sustainability council • Disclosure committee • Treasury committee • Technical committees • Group risk management team 	Substantially in place. An IT steering committee will be established to promote IT governance throughout the group It is recommended that audit committee responsibility be expanded beyond financial reporting to include sustainability
	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 the compensation report on page 83 for details of these incentive schemes	It is recommended that the remuneration policy be put forward by the board to the shareholders to enable shareholders to express their views on the remuneration policy
	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	Board has considered whether to continue to do the evaluation in-house or by independent service providers and has decided to contract outside service providers, every three years

	Element/best practice	Sappi application/comments	King III report implications
Accountability	The board should regularly review processes and procedures to ensure the effectiveness of the company'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 on its activities in this section	A combined assurance model will be formalised during 2010 with oversight by the audit committee A formally documented holistic review (based on the combined assurance) of internal financial controls will be performed by the audit committee with their conclusions reported to the board and stakeholders
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 conjunction with the audit committee	Risk management process is currently being revised with oversight from the audit committee and board. One of the items to consider is the recommendation that a risk committee be appointed by the board as a standing committee. Sappi is of the view that the current oversight by the audit committee and board together with the group risk management team sufficiently addresses this aspect
	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	Substantially adopted. Additional training for directors regarding risk and IT governance in 2010
	Terms should not exceed three years but re-election by shareholders at the AGM is allowed, if eligible	The board has the right to appoint new directors during the year and the appointments of such directors require to be confirmed by shareholders at the next annual general meeting (AGM) after the appointment. Such directors are also required to retire at that AGM and are eligible for re-election to the board. A programme of staggered rotation is in place whereby directors retire by rotation at least every three years and can be re-elected by shareholders at the AGM. The nomination and governance committee makes recommendations to the board as to eligibility, taking into account past performance and contribution. The board, in turn, makes recommendations for re-election to the shareholders at the AGM	√
	Skills, experience, background and new ideas	All candidates for board positions are considered and evaluated by the nomination and governance committee prior to nomination and appointment to the board. Factors considered for new candidates and for existing board members during annual evaluation, include background, skills, experience, performance, as well as a balance between continuity and the need for new ideas. The evaluation of directors includes an interview with the chairman and senior independent, non-executive directors who report back to the nomination and governance committee as well as a self-assessment based evaluation	√

	Element/best practice	Sappi application/comments	King III report implications
Fairness	Equal rights for shareholders and other stakeholders	Each shareholder has the right to one vote for each share held. The Code of Ethics deals with the nature of Sappi's interactions with stakeholders and further information is included throughout this report. Shareholders and other stakeholders have access to communication material and disclosures by the company	Substantially in place. Further improvements will be made via disclosures in the integrated report
	Every listed company should have a practice regulating dealings in its securities by directors, officers and other selected employees	Such a code is in place	√
	Whistleblowing	Hotlines are available for all our employees to report anonymously on environmental, safety, ethics, accounting, auditing, control issues or other concerns. A web-based anonymous facility was also established during 2009 to supplement the Hotlines. A number of tip-offs are received directly by Internal Audit or by management. These tip-offs are received and treated anonymously where requested	√
Social responsibility	Sustainability report	The group's sustainability management programme and activities are increasingly becoming embedded in the operations of Sappi and relevant information is integrated in the annual report. Sustainability is also covered in a sustainable development report which will be issued online simultaneously with this annual report. (Also see pages 8 to 13 of the annual report for an summary of key sustainability items)	Further embedding of sustainability management in the operations of Sappi and improved integrated reporting

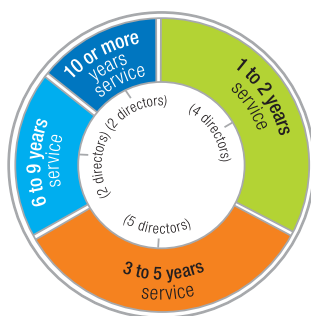
Legend:

√ In compliance, no changes required.

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 workplans and evaluations of board and board committees and compliance with board policies. It also specifically defines the roles of the chairman and chief executive officer.

Years of service of directors on the Sappi Limited board



The board currently comprises two executive and 11 independent, non-executive directors, who collectively determine major policies and strategies and are responsible for managing risk. 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 in terms of years of board membership reflects a balance between continuity and the need for new ideas. This forms part of the annual evaluation by the nomination and governance committee. Refer to the chart alongside:

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

Name	Status	Board committees					
		Board	Audit committee	Nomination and Governance	Compensation ⁽⁵⁾	Human Resources and Transformation	
R Boëttger	chief executive officer	5/5	B 7/7	B 5/5	B 4/4	B 2/2	
M R Thompson	chief financial officer	5/5	B 7/7				
D Cronjé ⁽¹⁾	independent non-executive chairman	5/5	E 7/7	✓ 4/5	E 4/4	✓C 2/2	
D C Brink ⁽²⁾	senior independent non-executive	5/5	✓ 6/7	✓ 5/5	✓C 4/4		
M Feldberg ⁽³⁾	independent non-executive	5/5		✓C 5/5	✓ 4/4		
J E Healey	independent non-executive	5/5	✓ 7/7			✓ 2/2	
D Konar	independent non-executive	5/5	✓C 7/7			✓ 2/2	
H C Mamsch	independent non-executive	5/5	✓ 7/7		✓ 4/4		
J McKenzie	independent non-executive	5/5			✓ 4/4		
K R Osar	independent non-executive	5/5	✓ 7/7				
B Radebe	independent non-executive	5/5				✓ 1/2	
A N R Rudd	independent non-executive	5/5		✓ 4/5	✓ 4/4		
F A Sonn ⁽²⁾	independent non-executive	5/5		✓ 3/5			
P Mageza ⁽⁴⁾	independent non-executive						
R Thummer ⁽⁴⁾	non-executive						

1) Dr D Cronjé will take over the chairmanship of the nomination and governance committee from Mr M Feldberg, effective 01 January 2010.

2) Retires as an independent non-executive director on 31 December 2009.

3) Mr M Feldberg will take over the chairmanship of the compensation committee from Mr D Brink, following his retirement on 31 December 2009.

4) Subsequent to the year end, Mr P N Mageza and Dr R Thummer were appointed to the board with effect from 01 January 2010 and 01 February 2010 respectively.

5) The second meeting was held on 01 October 2009.

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

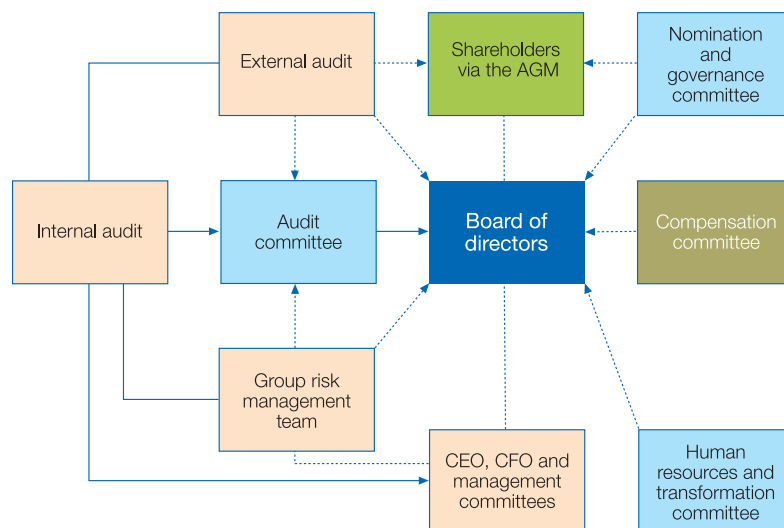
Induction and training of directors

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 which involved presentations and site visits to major operations as well as meetings with the chairman, 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. Update briefings are provided to directors on important corporate governance and statutory developments as well as significant operational matters.

Board committees

The board has established sub-committees to assist it with the discharge of 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:

Governance structures: Sappi board committees



Major external regulations

South African Companies Act as well as the corporate legislation in the regions and countries where we have operating units
 JSE and NYSE Listings Requirements
 SEC Rules and Regulations, Sarbanes-Oxley Act
 Competition/Antitrust legislation
 US Foreign Corrupt Practices Act (FCPA)
 US Securities Act and US Securities Exchange Act
 King II Report, as well as the recently issued King III Report

Major internal regulations

Articles of Association of Sappi Limited
 Board and board sub-committee charters
 Policies and procedures
 Risk and internal control framework
 Code of Ethics

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 and statements in compliance with all applicable legal requirements and accounting standards;
- reviews compliance with the group's Code of Ethics;
- oversight of the external auditors' qualifications, experience and independence;
- consideration and approval of non-audit services provided by the external auditors;
- oversight of the performance of the internal and external audit functions;
- monitoring of compliance with applicable external legal and regulatory requirements; and
- oversight of non-financial risks and controls as well as IT governance matters through a combined assurance model which will be enhanced during 2010 in line with King III Report principles.

In terms of the 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 auditor's 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 2009 financial year. The audit committee considers and approves non-audit services provided by the external auditors. This is only contemplated for those non-audit services where significant cost or efficiency benefits are anticipated from utilising external audit as opposed to other service providers. 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. 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 audit committee also meets at least once per year with the management disclosure committee. 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. The audit committee also considered and satisfied itself of the appropriateness of the expertise and experience of the chief financial officer. Dr D Konar has been designated as the audit committee financial expert as required by the Sarbanes-Oxley Act of 2002.

Human resources and transformation 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 company as well as the Group Head 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 compensation report on pages 83 to 89.

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 company as well as the Group Head Human Resources. For further details on compensation and management incentives at Sappi please refer to the compensation report on pages 83 to 91.

Nomination and governance committee

The nomination and governance committee considers the leadership requirements of the company 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. Recommendations are in turn made by the board to the shareholders at the annual general meeting. 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.

Governance structures: Sappi management committees



Sustainability executive committee

A sustainability executive committee has been constituted during 2009 as an executive management committee with board representation, consisting of senior executive and corporate management representatives as well as one non-executive director who chairs the committee and acts as a link between the board and the committee. The sustainability executive committee has a charter from the board. Its mandate is essentially to oversee the group's sustainability strategies and platform.

Sustainability council

A sustainability council constituted in 2008 continues in a support role to the newly formed sustainability executive committee. The council's focus is both strategic and operational and membership is representative of the operational nature of many of its initiatives. Regional councils were also created to deal with the day-to-day sustainability issues. The council plays a key role in managing and entrenching sustainability in the business and will continue to develop ideas and roll out programmes within the business.

Sappi strives to be a trustworthy and valuable corporate citizen. The group encourages open dialogue, employee participation and a culture of engagement with all our stakeholders.

Sustainability information is integrated in the annual report with a summary provided on pages 8 to 13.

Please also refer to our 2009 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. Membership of the disclosure committee was expanded in 2009 to include the regional chief financial officers. An open invitation to attend disclosure committee meetings has been extended to the head of internal audit in line with the strategic repositioning of internal audit as recommended in the King III Report.

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 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 group risk management team is mandated by the Sappi Limited

board to establish, co-ordinate and drive the risk management process throughout Sappi. It has established a comprehensive risk management system to identify and manage significant risks. The group risk management team reports regularly on risks to the audit committee who have an oversight role with regards to the risk management processes at Sappi as well as to the board. A full report on Sappi's risk management can be found on pages 67 to 69.

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, have been used in the preparation of the annual financial statements, which fairly present in all material respects the state of affairs of the group. In 2006, the group adopted International Financial Reporting Standards as issued by the International Accounting Standards Board. 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 historical 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;
- Interim and final quarters – by both the group's external auditors, and the audit committee; and
- In 2009, additional reviews were performed by the group's external auditors for quarters one and three as a result of financing activities during the year.

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 the annual financial statements, 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. The internal controls in place are considered to be effective. The internal controls at the four new mills in the Europe region were assessed for adequacy but not for effectiveness as most of the underlying IT systems and platforms were only moved over to Sappi during the course of 2009. This transitional phase will be completed in 2010 and effectiveness testing will be performed. 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 fourth evaluation at the end of fiscal 2009 and will include its Section 404 report in its Form 20-F to be filed with the United States Securities and Exchange Commission.

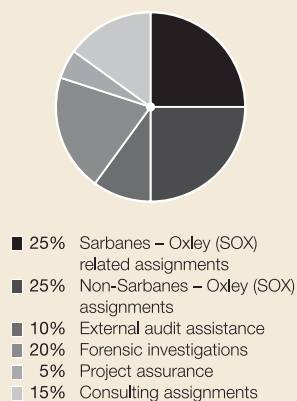
Disclosure controls

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 reviews 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 18 persons, of which 14 are experienced with relevant qualifications and four 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 meets privately with the audit committee and individual board members on a regular basis. The head of internal audit has direct access to the chief executive officer and chief financial officer as well as other senior management, as required, and has an open invitation to attend executive and management committee meetings such as the audit committee, disclosure committee, audit review meetings, chief financial officer meetings, group risk meetings and regional financial committee meetings. Internal audit is also invited to attend and participate in strategic workshops at group and regional levels. This is in line with the strategic positioning of internal audit as recommended by the King III Report whereby internal audit's role should not be restricted to a compliance activity but should be risk-based, aligned with the company's strategy and risk management process. 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 2009, internal audit focused additional resources on IT security, forensic investigations and the integration and control readiness projects relating to the four new mills in the Europe region. 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. Our resources are allocated to audit projects based on a top down risk assessment approach employing the GAIT methodology, which is a guide to assessing the scope of IT general controls based on risk. The different types of audit assignments conducted in 2009 are represented in the chart alongside.

Internal audit project split per category



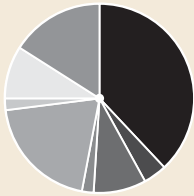
Company secretary

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

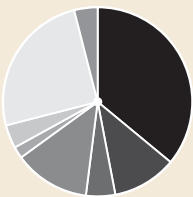
Sappi requires its directors and employees to act with the utmost good faith and integrity in all transactions and with all stakeholders with whom they interact. This commitment is reflected in the group's Code of Ethics that commits the company and employees to sound business practices and compliance with legislation.

Type of tip-offs received



- 38% Corruption and fraud
- 4% Dishonesty – other
- 9% Environment, health and safety
- 2% Follow-up
- 20% Human resources
- 2% Other
- 9% Theft
- 16% Unethical behaviour

Analysis of case outcomes



- 36% Cleared (unfounded)
- 11% Closed – no action (inconclusive)
- 5% Criminal charges
- 13% Disciplined/counselled
- 2% Dismissal
- 4% Other
- 25% Other management action (control improvements)
- 4% Resignation

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.

Hotlines and follow up of tip-offs

'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. The follow-up of all reported matters is co-ordinated by group internal audit. Matters are 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.

The pie chart alongside sets out the type of tip-offs received.

There is approximately an even split between allegations that prove founded on investigation and those where no action is taken as the allegation is unfounded or the evidence available is inconclusive.

Refer to the pie chart alongside which depicts an analysis of case outcomes during the 2009 financial year.

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 periodic 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.

IT governance

The need for strong IT governance has been recognised within Sappi and as such the group is actively involved in reviewing and implementing improved 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. IT governance will be included on the board agenda and will be subject to audit committee oversight in 2010 in line with King III Report recommendations. The establishment of an IT steering committee is envisaged for 2010.

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, none of the 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 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. A web-based global facility was implemented during 2009 to supplement the Hotlines. A fraud and irregularity policy is being developed by management in discussion with internal audit.

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. As such the annual report is seen as an integrated report as referred to in the King III Report. For further details of our sustainability communication activities please refer to the sustainability report on pages 8 to 13.

Compensation report

In 2009, the compensation committee consisted of:

Mr D C Brink (chairman of the committee)
Prof M Feldberg
Mr H C Mamsch
Mr J D Mckenzie
Sir A N R Rudd

Dr D C Cronjé (group chairman) attended meetings ex officio, and at the invitation of the committee, 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.

All members of the committee are independent non-executive directors and all were members of the board and committee at the year end. No committee member has any personal financial interest (other than as shareholder), conflicts of interest arising from cross-directorships, or day-to-day involvement in running the business.

During the course of the year, the committee met twice and conducted one teleconference call.

The committee reviewed and approved:

- The management incentive plan rules for 2009
- The annual incentive plan awards for 2008
- The share grants made for 2009
- The salary increases effective 01 January 2009
- Reviewed and recommended the fees for non-executives directors for approval by shareholders effective October 2009

Management sought advice from PricewaterhouseCoopers on tax and share scheme services and reports were tabled at the compensation committee meetings. Kepler and Associates provided ad hoc advice to management on remuneration practices and trends to assist with background information and related support in formulating recommendations. Werksmans Attorneys provided legal advice on the share scheme incentive programmes.

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 and that the incentive structures for senior management do not inadvertently motivate irresponsible or short-term behaviour which impacts on governance, environmental or social issues;
- Reviewing the compensation of executive directors and other senior key personnel to ensure that they are fairly rewarded based on their level of responsibility, performance and contribution to the company's overall performance and that the compensation packages are market related to attract, motivate and retain individuals;
- Satisfying shareholders that the senior executive compensation is set by a committee of independent directors who give due regard to the interests of shareholders and to the financial and commercial health of the group that incentive awards will result in superior payments for superior performance and nothing or very little incentive rewards for under-performance; and
- Reviewing and agreeing 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.

Executive directors and key management personnel

Compensation policy principles

Our compensation policy for executive directors, including key management personnel, is based on the following core principles:

- Reward individuals 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;
- Creating greater alignment of the interests of management with those of the shareholders; and
- Implement a globally consistent pay philosophy with regional application to local market practices.

The manner in which management achieves their goals and objectives is underpinned by the group's values (excellence, integrity and respect) and the leadership competencies and behaviours (leading others, strategic thinking, operational delivery, driving change, commercial insight and self-awareness).

When evaluating the performance of an individual not only do the numbers count but also how the objectives were achieved.

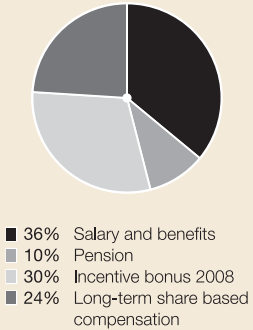
Compensation structures

The compensation of executive directors and key management personnel comprises fixed and variable components.

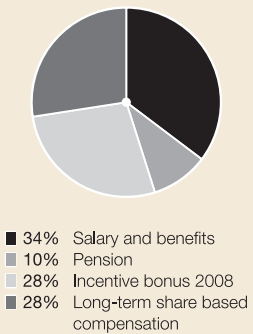
Summary

Component	Objective/policy	Performance period	Commentary
Base salary (fixed)	Market related Target at median levels for comparable roles in global companies of similar size and complexity Market data used to benchmark salary levels	Reviewed annually	Takes into account external benchmarking data; internal equity; individual performance and financial parameters.
Retirement benefit (fixed)	Provided to new hires under defined contribution plans Social security provisions in place in Europe are considered Employees in legacy defined benefit plans continue to accrue benefits in such plans for both past and future service	Not applicable	Market competitive
Other benefits	Non-pensionable Based on local competitive conditions, eg medical insurance	Not applicable	Market competitive
Short-term incentive (variable)	Paid annually provided threshold is reached Target cash award ranges from 50% – 85% of base salary	One year	For 2009, performance targets for awards was based on: 48% – operating profit 24% – working capital management 8% – capital expenditure management 20% – individual performance 2009 financial performance resulted in no bonus awards Motivates short-term performance linked to the business plan and strategy
Long-term incentive (variable)	Awarded annually in the form of performance plan shares Consistent with corporate objectives and long-term nature of our business decision-making Shareholder alignment Incentivises long-term value creation Retention tool for executive director and key management personnel	Four-year performance period	Performance hurdle measures Sappi's Total Shareholder Return (TSR) and Cash Flow Return On Net Assets (CFRONA) relative to a peer group of 14 other industry related companies Payment is subject to the performance shares vesting and to the extent vesting payment is made in shares

Chief executive officer



Chief financial officer



Balance between fixed and variable pay

The chart alongside shows the ratios of performance related compensation to base salary and benefits of executive directors and the relative value of the different elements, including the target bonus and expected value of the long-term share-based compensation awarded in the year ended 30 September 2009.

Base pay

The committee reviews the salaries of executive directors and other key management personnel in December each year.

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 individual performance is a key consideration.

	2009 salary	2008 salary
Executive directors		
R J Boëttger	US\$551,185	US\$669,955
M R Thompson	US\$261,921	US\$299,113

Despite the above US Dollar salary numbers, in South African Rand terms, Mr Boëttger received a 9.9% increase and Mr Thompson received a 10.5% increase in 2009 over 2008.

Both Mr Boëttger and Mr Thompson are based at the South African Head Office and their salary increases were reflective of the South African market conditions.

During 2009, the executive directors and the members of the executive committee voluntarily forfeited one month's salary in support of employees who experienced hardships as a result of our difficult financial year.

Retirement benefits

Across the group and based on the location, it is the company's policy to provide retirement benefits through either a defined contribution fund or a defined benefit fund.

In certain European countries, 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 the plans differ by geography and are either contributory or non-contributory plans. Where defined benefit plans continue to exist in the company, they are mainly legacy plans closed to new hires. Employees who participate in these defined benefit plans continue to accrue past and future 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.

Short-term incentives

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

Incentive target awards range from 30% to 85% of annual base salary.

At the beginning of the financial year, annual incentive targets are set to take account of current business plans and conditions and there is a threshold performance below which no award is paid.

The plan rewards the achievement of group financial, regional financial (where applicable), strategic and individual performance objectives.

The chief executive officer and chief financial officer may earn a bonus of up to 115% of annual base salary, and other key management personnel may earn a bonus of up to between 40% and 95% of their annual base salary, depending upon local market practices in the locations in which they are based.

The key business performance criteria for the 2009 financial year were operating income, working capital and capital expenditure.

The bonuses reflected in this annual report for Mr Boöttger and Mr Thompson are based on performance in the 2008 fiscal year, but were only paid out in December 2008 which falls into fiscal year 2009.

The committee has the right to exercise discretion in authorising adjustments, on both financial and individual performance, which it deems appropriate when evaluating performance against targets at the financial year end.

Management incentive awards for executive directors in December 2008 relating to the year ended September 2008:

Mr Boöttger – 74% of the targeted bonus award

Mr Thompson – 72% of the targeted bonus award

Other key management personnel in Southern Africa and North America received bonus awards which ranged from 68% to 112% of the target awards depending on the performance of the region in which they were located.

Key management personnel in the European region were paid a discretionary bonus as they had not achieved their financial performance threshold despite the strenuous effort and work that went into addressing the issues in their business.

No bonus awards will be paid under the management incentive scheme in December 2009 as the group did not meet its financial performance threshold in the year ended September 2009.

Long-term incentives

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

For 2009, approximately 40 key management personnel (including executive directors) were granted conditional award allocations under the Performance Share Incentive Plan. This award recognises the contribution they make to shareholder value and is designed to retain and incentivise sustainable long-term performance.

When the plan was introduced in 2004, awards made under this plan were subject solely to TSR performance conditions applied after four years from date of grant and relative to a peer group.

In 2006, the plan was amended, and since then 50% of performance share awards to executive directors and other key management personnel have been subject to a TSR performance condition and 50% to cash flow return on net assets performance condition relative to a peer group.

The companies comprising the comparator group for all the performance share awards under the Performance Share Plan which vested in December 2008 are listed below:

AbitibiBowater*	MeadWestvaco	Oji Paper
Aracruz Cellulose	M-real	Stora Enso
Domtar	Nippon Paper	UPM-Kymmene
Holmen	Norske-Skog	Weyerhaeuser
International Paper		

* Abitibi and Bowater merged in 2007.

Kepler and Associates undertook the assessment of the company's TSR performance relative to the comparator group. Sappi's performance relative to the comparator group for 2004 – 2008 performance share plan awards were ranked in seventh place out of 15 companies and resulted in 75% of the shares vesting.

Details of the Sappi Limited Share Incentive Trust and the Sappi Limited Performance Share Incentive Plan can be found in note 29 to the annual financial statements.

Information subject to audit.

Details of executive directors' remuneration are set out below:

Executive directors⁽¹⁾

Director		2009			
		Prior year bonuses and performance related payments ⁽²⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
	Salary				
US\$					
	R J Boöttger	347,548	–	171,550	1,070,283
	M R Thompson	102,582	357	152,230	517,090
		450,130	357	323,780	1,587,373

Director		2008			
		Prior year bonuses and performance related payments ⁽²⁾	Sums paid by way of expense allowance	Contributions paid under pension and medical aid schemes	Total
	Salary				
US\$					
	R J Boöttger	204,705	–	191,327	1,065,987
	M R Thompson	180,552	433	99,688	579,786
		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. Average exchange rates for the year concerned are again applied in the tables in converting the currency of payment into US Dollars.

(2) Bonuses and performance related payments are in respect of the previous year's performance paid in the current year.

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 2009. These interests are also included in 'Directors' interests' in sections of this report. Details of share dealings are included in the second table. 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.

	R J Boëttger		M R Thompson		Total 2009	Total 2008
	Allocated price	Number of shares	Allocated price	Number of shares	Number of shares	Number of shares
Outstanding at beginning of year						
Number of shares held		150,000		189,000	339,000	249,000
Issue 25			ZAR49.00	3,000		
Issue 26			ZAR147.20	15,000		
Issue 27			ZAR112.83	15,000		
Issue 28a			ZAR79.25	18,000		
Issue 29			ZAR78.00	18,000		
Performance shares 29 ⁽¹⁾				6,000		
Performance shares 30 ⁽¹⁾				24,000		
Performance shares 30a ⁽¹⁾				50,000		
Performance shares 31a ⁽¹⁾		100,000				
Performance shares 32		50,000		40,000		
Offered and accepted during the year		334,000		314,800	648,800	90,000
Issue 25 – rights offer			ZAR20.27	3,600		
Issue 26 – rights offer			ZAR20.27	18,000		
Issue 27 – rights offer			ZAR20.27	18,000		
Issue 28a – rights offer			ZAR20.27	21,600		
Issue 29 – rights offer			ZAR20.27	21,600		
Performance shares 29 – rights offer ⁽¹⁾			ZAR20.27	7,200		
Performance shares 30 – rights offer ⁽¹⁾			ZAR20.27	28,800		
Performance shares 30a – rights offer ⁽¹⁾			ZAR20.27	60,000		
Performance shares 31 – rights offer ⁽¹⁾						
Performance shares 31a – rights offer ⁽¹⁾	ZAR20.27	120,000				
Performance shares 32 – rights offer	ZAR20.27	60,000	ZAR20.27	48,000		
Performance shares 34		154,000		88,000		
Paid for during the year						
Number of shares			–	(16,500)	(16,500)	–
Returned, lapsed and forfeited during the year						
Number of shares			–	(3,300)	(3,300)	–

R J Boëttger		M R Thompson		Total 2009	Total 2008
Allocated price	Number of shares	Allocated price	Number of shares	Number of shares	Number of shares
Outstanding at end of year					
Number of shares held				968,000	339,000
	484,000		484,000		
Issue 26		ZAR77.97	33,000		
Issue 27		ZAR62.34	33,000		
Issue 28a		ZAR47.08	39,600		
Issue 29		ZAR46.51	39,600		
Performance shares 30 ⁽¹⁾		ZAR11.06	52,800		
Performance shares 30a ⁽¹⁾		ZAR11.06	110,000		
Performance shares 31a ⁽¹⁾	ZAR11.06				
	220,000				
Performance shares 32 ⁽¹⁾	ZAR11.06				
	110,000	ZAR11.06	88,000		
Performance shares 34			88,000		
	154,000				
Expiry dates					
Issue 26		28 Mar 10			
Issue 27		13 Feb 11			
Issue 28a		30 Dec 11			
Issue 29		13 Dec 12			
Performance shares 30 ⁽¹⁾		13 Dec 09			
Performance shares 30a ⁽¹⁾		08 Aug 10			
Performance shares 31a ⁽¹⁾	02 Jul 11				
Performance shares 32 ⁽¹⁾	12 Dec 11		12 Dec 11		
Performance shares 34	22 Dec 12		22 Dec 12		

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

Dealings in the scheme and the plan for the year ended September 2009

		Date paid for	Number of shares paid for	Allocation price	Market value at date of payment
Director					
Executive directors					
M R Thompson	Deferred sale	17 Dec 08	3,000	ZAR49.00	ZAR33.00
	Deferred rights sale	17 Dec 08	3,600	ZAR20.27	ZAR33.00
	Performance plan	22 Dec 08	4,500	ZAR0.00	ZAR36.70
	Performance plan rights	22 Dec 08	5,400	ZAR20.27	ZAR36.70
Total			16,500		

Dealings in the scheme and the plan for the year ended September 2008

None for the 2008 year					
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Service contracts and notice periods

The group chief executive and his direct reports all have employment contracts which outline the required notice periods in the event of a termination of employment. A payment in lieu of notice may be made on termination of employment. Such payment takes into account base salary and benefits less deductions required by law.

The notice periods vary from three months to 18 months.

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 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.

Director	2009			Total
	Board fees	Committee fees	Travel allowance	
US\$				
D C Brink	39,496	38,054	5,400	82,950
M Feldberg	54,000	51,700	13,500	119,200
J E Healey	54,000	73,500	13,500	141,000
D Konar	26,350	51,811	5,400	83,561
H C Mamsch	55,615	80,072	8,100	143,787
B Radebe	26,349	8,543	5,400	40,292
A N R Rudd	55,615	47,046	8,100	110,761
F A Sonn	26,350	8,543	5,400	40,293
K Osar	54,000	27,000	13,500	94,500
J McKenzie	26,350	23,215	5,400	54,965
D C Cronje ⁽²⁾	183,059	–	5,400	188,459
	601,185	409,484	89,100	1,099,769

Director	2008			
	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.

Other than the non-executive chairman, Dr Cronjé, none of the other non-executive directors have service contracts with the company.

Executive and non-executive directors' interests

The following table shows those directors that have 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.

Director	2009			2008		
	Direct interests		Indirect interests	Direct interests		Indirect interests
	Beneficial	Vested obligations to purchase or repay loans	Beneficial	Beneficial	Vested obligations to purchase or repay loans	Beneficial
Non-executive director						
D C Brink	–	–	22,000	–	–	10,000
Executive directors						
M R Thompson	20,517	89,100	–	–	39,900	–
R J Boëttger	85,000	–	–	35,000	–	–
Total	105,517	89,100	22,000	35,000	39,900	10,000

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.

Annual financial statements

for the year ended September 2009

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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 2009, the group income statement, the group statement of comprehensive income, the group statement of changes in equity 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 97 to 103, pages 107 to 192 and pages 87 to 91.

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 Standards on Auditing. 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 2009, 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

04 December 2009

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 Risk Advisory L Geeringh Consulting
L Bam Corporate Finance C R Beukman Finance T J Brown Clients & Markets
N T Mtoba Chairman of the Board CR Qually Deputy Chairman of the Board.*

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

Directors' approval

The directors are responsible for the maintenance of adequate accounting records and the content, integrity and fair presentation of the annual financial statements of the group and Sappi Limited company, and the related financial information included in this report. These have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, the JSE Limited Listing Requirements and in the manner required by the South African Companies Act. In preparing the financial statements, the group applied appropriate accounting policies supported by reasonable judgments and estimates. The auditors are responsible for auditing the annual financial statements in the course of executing their statutory duties.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and are committed to maintaining a strong control environment. Details relating to the group's internal control environment, including the requirement to comply with section 404 of the US Sarbanes-Oxley Act (a requirement for companies listed on the New York Stock Exchange), are set out in the Corporate Governance section of this report.

The directors are of the opinion, based on the information and explanations given by the company's officers and the internal

auditors, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or loss.

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

The report and annual financial statements of the group and the company appear on pages 97 to 198 and were approved by the board of directors on 04 December 2009 and 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 2009, 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

04 December 2009

Audit committee report

The legal responsibilities of the Sappi Limited group audit committee (the committee) are set out in the Companies Act, 61 of 1973 (as amended). These responsibilities, together with the requirements of compliance with appropriate governance and international best practice, are incorporated in the committee's charter, which is reviewed annually and approved by the board.

Composition of the committee

All independent non-executive directors, with the exception of the chairman of the board, are eligible to serve on the committee. The nomination and governance committee recommends to the board any appointments to or removals from the board, which in turn is responsible for the composition of the committee. The committee has three or more members, all of whom are financially literate, with three members forming a quorum. Access to training is provided on an ongoing basis to assist members in discharging their duties.

The committee comprised the following members during the year and to the date of this report, except where noted otherwise:

- Dr D Konar (Chairman)
- Mr J E Healey
- Mr D C Brink
- Mr H C Mamsch
- Mrs K R Osar

Biographical details of the current members of the committee are set out on pages 26 to 28.

The chief executive officer, chief financial officer, group risk manager, group head internal audit and representatives of the external auditors are invited to attend the committee meetings. The external auditors attend all committee meetings and separate meetings are held to afford them the opportunity of discussion without the presence of management or internal auditors. The internal auditors attend all committee meetings and are similarly afforded separate meetings with the committee.

Internal audit

Internal audit is an independent assurance function, forming part of the Enterprise-wide Risk Management Framework (ERMF). The group head internal audit has a direct reporting line to the committee chairman and also meets regularly with the chief executive officer and the chief financial officer. Further details on the internal audit function are contained in the corporate governance report.

External audit

The group's external auditors are Deloitte & Touche. Fees paid to the auditors are disclosed in note 4 to the annual financial statements. Further details are contained in the corporate governance report.

Key functions and responsibilities of the committee

The key functions and responsibilities of the committee as outlined in the charter are to:

- assist the board of directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within the group in the day-to-day management of its business;
- facilitate and promote communication between the board, management, the external auditors and the group head internal audit;
- introduce such measures as in the committee's opinion may serve to enhance the credibility and objectivity of financial statements and reports prepared with reference to the affairs of the group;
- nominate for appointment as auditors the company registered auditors who, in the opinion of the committee, are independent of the group;
- determine the fees to be paid to the auditors and the auditors' terms of engagement;
- ensure that the appointment of the auditors complies with the Companies Act and any other legislation relating to the appointment of auditors;
- determine the nature and extent of any non-audit services that the auditors may provide to the group;
- approve any contract with the auditors for the provision of non-audit services to the group;
- receive and deal appropriately with any complaints (whether from within or outside the group) relating either to the accounting practices and internal audit of the group or to the contents or auditing of its financial statements, or any other related matter thereto; and
- perform such further functions as may be prescribed.

The committee reports that it has adopted appropriate formal terms of reference to discharge its responsibilities, has regulated its affairs in compliance with its charter and has discharged all its responsibilities as contained therein.

Effectiveness of internal control

The committee monitors the group's internal controls for effectiveness and adherence to the ERMF.

The emphasis on risk governance is based on the group's ERMF. The ERMF places weight on accountability, responsibility, independence, reporting, communications and transparency, both internally and with all our key external stakeholders.

Specific responsibilities of the committee include the following:

Internal control

- Monitoring management's success at creating and maintaining an effective internal control environment throughout the group and at demonstrating and stimulating the necessary respect for this control environment
- Monitoring the identification and correction of weaknesses and breakdowns of systems and internal controls.

Financial control, accounting and reporting

- Monitoring the adequacy and reliability of management information and the efficiency of management information systems

- Monitoring of the adequacy and efficiency of the group's information systems and receiving from them reports thereon
- Reviewing quarterly, interim and final financial results and statements and reporting for proper and complete disclosure of timely, reliable and consistent information and confirming the appropriateness of accounting policies used
- Evaluating on an ongoing basis the appropriateness, adequacy and efficiency of accounting policies and procedures, compliance with generally accepted accounting practice and overall accounting standards as well as any changes thereto
- Discussing and resolving any significant or unusual accounting problems
- Reviewing and monitoring capital expenditure throughout the group for adequate control, monitoring and reporting
- Monitoring the management and reporting of tax-related matters
- Monitoring the management and effectiveness of the accounting and taxation risks as set out in the group's ERMF
- Reviewing and monitoring all key performance indicators to ensure that decision making capabilities and the accuracy of the related reporting and financial results they aid are maintained at industry levels.

Internal audit

- Direct reporting by the group head internal audit to the chairman of the committee
- Monitoring the effectiveness of the internal audit function in terms of its scope, plans, coverage, independence, skills, staffing, overall performance and position within the organisation
- Monitoring and challenging, where appropriate, action taken by management with regard to adverse internal audit findings
- Forming a view on the adequacy and effectiveness of the control environment.

External audit

- Recommending to the board the selection of the external auditors and approving their audit fees
- Monitoring the effectiveness of external auditors in terms of their skills, independence, audit plan, reporting and overall performance
- Approving non-audit services to be rendered by the external auditors and monitoring conflicts of interest
- Considering whether the extent of reliance placed on internal audit by the external auditors is appropriate and whether there are any significant gaps between internal and external audit.

Regulatory reporting

- Reviewing the adequacy of the regulatory reporting processes, including the quality of that reporting and the adequacy of systems and people to perform these functions
- Considering the contents of any regulatory reports related to the key functions of the committee and monitoring management actions to resolve any issues identified
- Performing such other functions as are prescribed in the regulations relating to the Act.

Having considered, analysed, reviewed and debated information provided by management, internal audit and external audit, the committee confirmed that:

- the internal controls of the group have been effective in all material respects throughout the year under review;
- these controls have ensured that the group's assets have been safeguarded;
- proper accounting records have been maintained;
- resources have been utilised efficiently; and
- the skills, independence, audit plan, reporting and overall performance of the external auditors are acceptable and that it recommends their reappointment in 2010.

Appropriateness of the expertise and experience of the chief financial officer

In terms of the JSE Listings Requirements the audit committee had, at its meeting held on 05 November 2009, satisfied itself as to the appropriateness of the expertise and experience of the chief financial officer.

Annual financial statements

The committee has:

- reviewed and discussed the audited annual financial statements included in the annual report with the external auditors, the chief executive officer and the chief financial officer;
- reviewed significant adjustments resulting from external audit queries and accepted any unadjusted audit differences; and
- received and considered reports from the internal auditors.

The committee concurs with and accepts the external auditors' conclusions on the annual financial statements and has recommended the approval thereof to the board. The board has subsequently approved the financial statements, which will be open for discussion at the forthcoming annual general meeting.

Dr D Konar

audit committee chairman

04 December 2009

Directors' report

for the year ended September 2009

Your directors submit their report for the year ended September 2009.

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 specialties papers, and casting release paper used in the manufacture of artificial leather and textured polyurethane applications. Sappi Forest Products, based in Southern 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 issued by the International Accounting Standards Board (IASB).

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.

For the convenience of users, the income statement, the statement of comprehensive income, balance sheet and cash flow statement of the group have been translated into South African Rands on pages 104 to 106.

Share capital

As at September 2009 the authorised and issued share capital of Sappi were as follows:

Authorised:

725,000,000 ordinary shares of ZAR1 each
for an authorised share capital of ZAR725 million

Issued:

537,117,864 ordinary shares of ZAR1 each
for an issued share capital of US\$70 million

Share premium US\$1,471 million

The authorised ordinary share capital was increased during the year from 325,000,000 to 1,325,000,000 ordinary shares with a par value of ZAR1.00 per share to facilitate the rights offer in December 2008. The authorised ordinary share capital was then subsequently reduced from 1,325,000,000 to 725,000,000 ordinary shares with a par value ZAR1.00 per share. The issued ordinary share capital increased during the year from ZAR239,071,892 comprising of 239,071,892 shares of ZAR1.00 per share, to ZAR537,117,864 with the issue of 286,886,270 rights offer shares of ZAR1.00 each at a premium of ZAR19.27 and of 11,159,702 shares of ZAR1.00 at a premium of ZAR36.60 each in settlement of part of the consideration for the acquisition of M-real's coated graphic paper business. Of the 537,117,864 shares in issue, at year end 21,384,559 shares were held by the group through a wholly-owned subsidiary company (see paragraph below).

Purchase of shares by a subsidiary

Through a wholly-owned subsidiary, the Sappi group has to date acquired approximately 21.4 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 09 November 2000, and the approval given at all subsequent annual general meetings of the company's shareholders up to and including 2008, 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 2009 financial year. However, in December 2008, the subsidiary company acquired a further 11,860,873 shares by exercising its rights in terms of the rights offer.

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 382,975 treasury shares were issued to participants of the Sappi Limited Share Incentive Trust. Refer to note 29 of the group annual financial statements for additional details relating to these treasury shares. Following the rights offer in December 2008, and considering that it is the group's stated intention to reduce debt, it is unlikely that the group 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 the 2009 financial year, the following significant announcements were made:

- On 31 December 2008, Sappi announced the successful conclusion of its acquisition of M-real's coated graphic paper business. The acquisition was financed through a combination of equity, assumed debt, the cash proceeds from a fully subscribed rights offering and a vendor loan note
- On 26 August 2009, Sappi announced that it would permanently cease operations at its coated fine paper mill in

Muskegon, Michigan, North America. Further details can be found in note 9 of the group annual financial statements

- On 28 August 2009, Sappi announced the successful completion of a series of refinancing transactions undertaken to improve the group's debt maturity profile and to strengthen its balance sheet. Further details can be found in note 20 of the group annual financial statements and in the Chief Financial Officer's report
- On 31 August 2009, Sappi announced the commencement of a consultation process with employees and trade unions at its South African Kraft and Fine Paper mills regarding cost reduction and efficiency improvement initiatives
- On 02 October 2009, Sappi informed shareholders that it had decided to delist from the London Stock Exchange. The cancellation of the UK listing came into effect on Monday 02 November 2009
- On 22 October 2009, Sappi announced that it would enter into a consultation process with employee representatives at the Kangas Mill in Finland. The aim of this process is to identify the best way of improving company profitability, which may include a full closure of the mill
- On 30 October 2009, Sappi announced the intended closure of Sappi Usutu Pulp Mill and the restructuring of the forestry business in Swaziland in response to market conditions and forest fire damage.

Financing

During the second half of fiscal 2009, the net proceeds of the €350 million and US\$300 million of senior notes due in 2014 were released from escrow and we completed the refinancing of the €400 million (US\$570 million) OeKB loan with a five-year amortising maturity. We repaid in full all amounts outstanding under our previous revolving credit facility (RCF) and replaced it with a new RCF in an amount of €209 million (US\$307 million), all of which remains undrawn. We repaid the entire €220 million of vendor loan notes (entered into earlier in the year to finance part of the acquisition of M-real's coated graphic paper business) at a discount of 13.5% (approximately €30 million/US\$41 million).

During fiscal 2009, Sappi Manufacturing (Pty) Ltd raised ZAR1 billion (US\$135 million) in a combination of long-term bank and public debt.

Following the refinancing, the group has good liquidity with cash exceeding the amount of short-term debt and the undrawn RCF and has no major debt maturities before the US\$500 million 2012 bonds become due in 2012.

Covenants of all international term debt are similar and are detailed in the Chief Financial Officer's report. All long-term debt is supported, amongst others, by a Sappi Limited guarantee. At the end of the 2009 financial year, Sappi's net debt had an average time to maturity of 4.8 years.

Borrowing facilities

The group's net debt at September 2009 amounted to US\$2.6 billion (September 2008: US\$2.4 billion). Details of the

non-current borrowings are set out in note 20 of the group annual financial statements.

Dividends

In light of the group's performance, the priority is to reduce indebtedness and preserve liquidity. The board has therefore decided not to declare a dividend for the current financial year ended September 2009. Refer to the CFO's report for details on the restrictions limiting the payment of cash dividends.

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 7.95% of the shares then 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. Subsequent to the rights offering mentioned above, this number has been adjusted to 42,700,870 shares (still equivalent to 7.95% of the shares currently in issue), in accordance with the rules of the Scheme and of the Plan.

In connection with the rights offering, adjustments were 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. Full details of this are set out in note 29 of the group's current financial statements.

Insurance

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

Property, plant and equipment

The major changes in the nature of the property, plant and equipment relate mainly to the acquisition of M-real's coated graphic paper business. Particulars are set out under notes 9 and 34 of the group annual financial statements. There were no changes to the group's policy relating to the use of property, plant and equipment.

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 composition of the board of directors is provided on pages 26 to 28. There were no changes to the composition of the board during the year and there continued to be 13 directors, two of whom were executive directors. All 11 non-executives remain independent.

In terms of the Company's Articles of Association, Dr D Konar, Mr J D McKenzie, Sir A N R Rudd and Mr M R Thompson will retire by rotation from the board at the forthcoming annual general meeting and all being eligible, have offered themselves for re-election. The board recommends each of them for re-appointment.

Having reached the company's retirement age of 70 years for non-executive directors, Mr D C Brink and Mr F A Sonn will retire from the board on 31 December 2009.

Subsequent to the year end, Mr P N Mageza and Dr R Thummer were appointed to the board with effect from 01 January 2010 and 01 February 2010 respectively. In terms of the company's Articles of Association, it will be necessary to confirm their appointments

at the forthcoming annual general meeting. They will in terms of the Articles of Association retire from the board at that meeting and being eligible, will offer themselves for re-election.

Personal details of Dr D Konar, Mr J D McKenzie, Sir A N R Rudd and Mr M R Thompson are set out on pages 27 to 28 of this report and of Mr P N Mageza and Dr R Thummer are set out on page 205 of this report.

The remuneration and fees of the directors of Sappi Limited are set out in the Compensation report on pages 87 to 91.

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 the Compensation report on pages 87 to 91.

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 206.

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 198.

Group income statement

for the year ended September 2009

US\$ million	Note	2009	2008	2007
Sales		5,369	5,863	5,304
Cost of sales	4	5,029	5,016	4,591
Gross profit		340	847	713
Selling, general and administrative expenses	4	385	385	362
Other operating expenses (income)	4	39	165	(22)
Share of profit from associates and joint ventures	13	(11)	(17)	(10)
Operating (loss) profit	4	(73)	314	383
Net finance costs	5	145	126	134
Finance costs		198	181	173
Finance revenue		(61)	(38)	(21)
Finance cost capitalised		–	(16)	(14)
Net foreign exchange gains		(17)	(8)	(13)
Net fair value loss on financial instruments		25	7	9
(Loss) profit before taxation		(218)	188	249
Taxation (benefit) charge	6	(41)	86	47
(Loss) profit for the year		(177)	102	202
Basic weighted average number of ordinary shares in issue (millions)		482.6	362.2	360.6
Basic (loss) earnings per share (US cents)	7	(37)	28	56
Diluted (loss) earnings per share (US cents)	7	(37)	28	55

Group statement of comprehensive income

for the year ended September 2009

US\$ million	Note	2009	2008	2007
(Loss) profit for the year		(177)	102	202
Other comprehensive income, net of tax	18	(197)	(256)	277
Exchange differences on translation of foreign operations		14	(262)	151
Actuarial (losses) gains on pension funds		(229)	7	101
Pension fund assets recognised		–	–	45
Effect of cash flow hedges		(14)	–	–
Deferred tax on other comprehensive income		32	(1)	(20)
Total comprehensive income for the year		(374)	(154)	479

Group balance sheet

at September 2009

US\$ million	Note	2009	2008
Assets			
Non-current assets			
Property, plant and equipment	9	3,934	3,361
Plantations	10	611	631
Deferred tax assets	11	56	41
Goodwill and intangible assets	12	32	7
Joint ventures and associates	13	123	124
Other non-current assets	14	101	168
Derivative financial instruments	30	10	76
Current assets		2,430	1,701
Inventories	15	792	725
Trade and other receivables	16	858	698
Derivative financial instruments	30	10	4
Cash and cash equivalents		770	274
Total assets		7,297	6,109
Equity and liabilities			
Shareholders' equity			
Ordinary share capital and share premium	17	1,541	707
Non-distributable reserves	19	143	124
Foreign currency translation reserve		(354)	(121)
Hedging reserves		(14)	-
Retained earnings		478	895
Non-current liabilities		3,662	2,578
Interest-bearing borrowings	20	2,726	1,832
Deferred tax liabilities	11	355	399
Derivative financial instruments	30	24	1
Other non-current liabilities	21	557	346
Current liabilities		1,841	1,926
Interest-bearing borrowings	20	601	821
Overdraft		19	26
Derivative financial instruments	30	14	24
Trade and other payables		1,116	959
Taxation payable		56	54
Provisions	22	35	42
Total equity and liabilities		7,297	6,109

Group cash flow statement

for the year ended September 2009

US\$ million	Note	2009	2008	2007
Cash retained from operating activities		461	355	388
Cash generated from operations	23.1	432	623	585
– Decrease in working capital	23.2	152	1	60
Cash generated from operating activities		584	624	645
– Finance costs paid	23.3	(107)	(139)	(183)
– Finance revenue received		26	13	21
– Taxation paid	23.4	(5)	(70)	(27)
Cash available from operating activities		498	428	456
– Dividends paid		(37)	(73)	(68)
Cash utilised in investing activities		(762)	(494)	(364)
Investment to maintain operations		(143)	(239)	(38)
– Replacement of non-current assets	23.5	(147)	(250)	(116)
– Proceeds on disposal of non-current assets	23.6	2	7	50
– Decrease in other non-current assets		2	4	28
Investment to expand operations		(619)	(255)	(326)
– Additions of non-current assets		(29)	(255)	(326)
– Acquisition	34	(590)	–	–
Cash effects of financing activities		707	49	98
Proceeds from interest-bearing borrowings*		3,469	2,077	806
Repayment of interest-bearing borrowings*		(3,222)	(2,032)	(719)
Rights issue proceeds		575	–	–
Costs directly attributable to the rights issue		(31)	–	–
Costs directly attributable to the bond offerings		(78)	–	–
(Decrease) increase in bank overdrafts		(6)	4	11
Net movement in cash and cash equivalents		406	(90)	122
Cash and cash equivalents at beginning of year		274	364	224
Translation effects		90	–	18
Cash and cash equivalents at end of year	23.7	770	274	364

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

Group statement of changes in equity

for the year ended September 2009

US\$ million	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Foreign currency translation reserve	Cash flow hedge accounting reserve	Retained earnings	Total equity
Balance – September 2006	227.0	29	686	715	109	(33)	–	595	1,386
Transfer to retained earnings	–	–	–	–	(13)	–	–	13	–
Share-based payment	–	–	–	–	5	–	–	–	5
Transfers to Sappi Limited Share Incentive Trust	1.5	–	14	14	–	–	–	–	14
Total comprehensive 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 retained earnings	–	–	–	–	8	–	–	(8)	–
Share-based payment	–	–	–	–	10	–	–	–	10
Transfers to Sappi Limited Share Incentive Trust	0.7	–	6	6	–	–	–	–	6
Total comprehensive income	–	(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
Transfer from retained earnings	–	–	–	–	6	–	–	(6)	–
Share-based payments	–	–	–	–	9	–	–	–	9
Transfers to Sappi Limited Share Incentive Trust	0.3	–	2	2	–	–	–	–	2
Rights issue proceeds	275.0	28	547	575	–	–	–	–	575
Costs directly attributable to the rights issue	–	–	(31)	(31)	–	–	–	–	(31)
Issue to M-real	11.2	1	44	45	–	–	–	–	45
Total comprehensive income	–	13	230	243	4	(233)	(14)	(374)	(374)
Dividends – US\$0.16 per share*	–	–	–	–	–	–	–	(37)	(37)
Balance – September 2009	515.7	70	1,471	1,541	143	(354)	(14)	478	1,794
Note reference:				17	19				

* Dividends relate to the previous financial year's earnings but were declared subsequent to year-end.

Group income statement in Rands convenience translation

for the year ended September 2009

ZAR million	Unaudited		
	2009	2008	2007
Sales	48,393	43,559	38,051
Cost of sales	45,329	37,266	32,936
Gross profit	3,064	6,293	5,115
Selling, general and administrative expenses	3,470	2,860	2,597
Other operating expenses (income)	351	1,226	(158)
Share of profit from associates and joint ventures	(99)	(126)	(72)
Operating (loss) profit	(658)	2,333	2,748
Net finance costs	1,307	937	962
Finance costs	1,785	1,345	1,241
Finance revenue	(550)	(282)	(151)
Finance cost capitalised	–	(119)	(100)
Net foreign exchange gains	(153)	(59)	(93)
Net fair value loss on financial instruments	225	52	65
(Loss) profit before taxation	(1,965)	1,396	1,786
Taxation (benefit) charge	(370)	638	337
(Loss) profit for the year	(1,595)	758	1,449
Basic weighted average number of ordinary shares in issue (millions)	482.6	362.2	360.6
Basic (loss) earnings per share (SA cents)	(333)	208	402
Diluted (loss) earnings per share (SA cents)	(333)	208	395

Group statement of comprehensive income in Rands convenience translation

for the year ended September 2009

ZAR million	Unaudited		
	2009	2008	2007
(Loss) profit for the year	(1,595)	758	1,449
Other comprehensive income, net of tax	(1,776)	(1,902)	1,988
Exchange differences on translation of foreign operations	126	(1,947)	1,083
Actuarial (losses) gains on pension funds	(2,064)	52	725
Pension fund assets recognised	–	–	323
Effect of cash flow hedges	(126)	–	–
Deferred tax on other comprehensive income	288	(7)	(143)
Total comprehensive income for the year	(3,371)	(1,144)	3,437

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 2009

ZAR million	Unaudited	
	2009	2008
Assets		
Non-current assets	36,070	35,594
Property, plant and equipment	29,156	27,140
Plantations	4,528	5,095
Deferred tax assets	415	331
Goodwill and intangible assets	237	57
Joint ventures and associates	912	1,001
Other non-current assets	748	1,356
Derivative financial instruments	74	614
Current assets	18,010	13,735
Inventories	5,870	5,854
Trade and other receivables	6,359	5,636
Derivative financial instruments	74	32
Cash and cash equivalents	5,707	2,213
Total assets	54,080	49,329
Equity and liabilities		
Shareholders' equity	13,296	12,961
Non-current liabilities	27,140	20,817
Interest-bearing borrowings	20,203	14,794
Deferred tax liabilities	2,631	3,222
Derivative financial instruments	178	8
Other non-current liabilities	4,128	2,793
Current liabilities	13,644	15,551
Interest-bearing borrowings	4,454	6,630
Overdraft	141	210
Derivative financial instruments	104	194
Trade and other payables	8,271	7,744
Taxation payable	415	436
Provisions	259	337
Total equity and liabilities	54,080	49,329

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 2009

ZAR million	Unaudited		
	2009	2008	2007
Cash retained from operating activities	4,156	2,638	2,783
Cash generated from operations	3,935	4,586	4,234
– Decrease in working capital	1,370	7	430
Cash generated from operating activities	5,305	4,593	4,664
– Finance costs paid	(964)	(1,033)	(1,313)
– Finance revenue received	234	97	151
– Taxation paid	(45)	(520)	(194)
Cash available from operating activities	4,530	3,137	3,308
– Dividends paid	(374)	(499)	(525)
Cash utilised in investing activities	(6,868)	(3,669)	(2,611)
Investment to maintain operations	(1,289)	(1,775)	(272)
– Replacement of non-current assets	(1,325)	(1,857)	(832)
– Proceeds on disposal of non-current assets	18	52	359
– Decrease in other non-current assets	18	30	201
Investment to expand operations	(5,579)	(1,894)	(2,339)
– Additions of non-current assets	(261)	(1,894)	(2,339)
– Acquisition	(5,318)	–	–
Cash effects of financing activities	6,374	364	703
Proceeds from interest-bearing borrowings*	31,268	15,431	5,782
Repayment of interest-bearing borrowings*	(29,041)	(15,097)	(5,158)
Rights issue proceeds	5,183	–	–
Costs directly attributable to the rights issue	(279)	–	–
Costs directly attributable to the bond offerings	(703)	–	–
(Decrease) increase in bank overdrafts	(54)	30	79
Net movement in cash and cash equivalents	3,662	(667)	875
Cash and cash equivalents at beginning of year	2,213	2,501	1,741
Translation effects	(168)	379	(115)
Cash and cash equivalents at end of year	5,707	2,213	2,501

* 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 2009

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 ten countries, on four continents, and customers in over 100 countries across the globe.

The group is comprised 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 its core operating regions of North America, Europe and Southern Africa. All sales and costs associated with Sappi Trading are allocated to our 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. The group has, however, elected to early adopt IAS 1 Presentation of Financial Statements. This did not have an impact on the group's reported results or financial position.

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 except as otherwise indicated.

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.

(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 were as follows:

- 29 September 2008 to 27 September 2009 (52 weeks)
- 01 October 2007 to 28 September 2008 (52 weeks)
- 02 October 2006 to 30 September 2007 (52 weeks)

The group has disclosed two years' comparative information for the income statement, statement of comprehensive income and the cash flow statement to be consistent with its disclosure in the annual report prepared on Form 20-F.

(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.

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.

Exchange gains and losses on the translation and settlement of foreign currency monetary assets and liabilities during the period are recognised in the profit or loss 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 other comprehensive income. These translation differences are recycled through profit or loss for the period on disposal of the foreign operation.

The functional currency of the 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.

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

	Rate at		
	Sep 09	Sep 08	Sep 07
ZAR to one US\$	7.4112	8.0751	6.8713
GBP to one US\$	0.6268	0.5421	0.4885
EUR to one US\$	0.6809	0.6843	0.7007

	Average annual rate		
	Sep 09	Sep 08	Sep 07
ZAR to one US\$	9.0135	7.4294	7.1741
GBP to one US\$	0.6419	0.5049	0.5072
EUR to one US\$	0.7322	0.6638	0.7499

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 ventures' 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.

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.

(iii) Goodwill

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in

accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

The excess between the fair value of the purchase consideration 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 is tested for impairment annually or more frequently where there is an indication of impairment based on an allocation to one or more cash-generating units (CGUs) in which the synergies from the business combinations are expected.

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 are included in section 2.3 of the accounting policies.

2.2.3 Environmental expenditures and liabilities

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 timeframe 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'.

(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.

- **Loans and receivables**

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

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

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

(iv) Embedded derivatives

Certain derivatives embedded in financial and host contracts, are treated as separate derivatives and recognised on a stand-alone 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.

(v) Derecognition

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

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

(vi) Impairment of financial assets

- **Loans and receivables**

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

- **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 equity and the ineffective portion is recognised in profit or loss.

The gains or losses, which are recognised directly in shareholders' equity, are transferred to profit or loss in the same period in which the hedged transaction affects profit or loss.

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

- **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. Where a forecasted transaction is no longer expected to occur, the cumulative gain or loss deferred in equity is transferred to profit or loss.

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.

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 income are recognised in sundry income under Selling, General and Administrative expenses.

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

2.2.6 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 when the relevant software is available for use. Intangible assets are stated at cost less accumulated amortisation and impairment losses. Intangible assets, which are not yet available for use, 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.

(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. Where an impairment exists, the losses are recognised in profit or loss for the period.

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.

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. Reversals of previously recognised impairment losses are recognised in profit or loss for the period.

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.

2.2.9 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 profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the group's benefit.

(ii) Recognition of lease of land

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.

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 cost 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 other comprehensive income. Any increase in the present value of plan liabilities expected to arise due to current service costs is charged to operating profit.

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

(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 18 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 represents 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.

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 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.

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

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.

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 in profit or loss 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. 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.

When dividends received in the current year can be offset against future dividend payments to reduce the STC liability, a deferred tax asset is recognised to the extent of the future reduction in STC.

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 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 off-loading the shipment into the customer warehouse, whereas for the majority of export sales transfer occurs when the goods have been loaded into the relevant carrier, unless the contract of sale specifies different terms.

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

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

2.2.22 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.

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 Empowerment (BEE) transaction

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 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 an 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.

2.2.24 Alternative fuel mixture credits

The US Internal Revenue Code allows an excise tax credit for alternative fuel mixtures produced by a taxpayer for sale, or for use as a fuel in a taxpayer's trade or business. The credit is scheduled to expire on 31 December 2009. During fiscal 2009, the company was notified that its registration as an alternative fuel mixer was approved by the Internal Revenue Service.

The group, through its North American operations qualifies for the alternative fuel mixtures tax credit because it uses a bio-fuel known as black liquor, which is a by-product of its wood pulping process, to power its mills.

The group recognises income for the alternative fuel mixture credits when its right to receive the credit is established. This occurs when the group has complied with the requirements of the Internal Revenue Code and has submitted a claim for the credits due. This is recorded in profit and loss under other operating income.

2.3 Critical accounting policies and estimates

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 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. Judgements regarding the existence of impairment indicators are based on market conditions and the 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, the group estimates the future cash flows expected to result from the use of the asset(s) and its eventual disposition. The group takes into account its ability to carousel products across different operating units within a region when it performs an asset impairment test. 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, the planned use of machinery or equipment or closing of facilities. The calculation of appropriate pre-tax discount rates (impairment discount factor) 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.

Business combinations and goodwill impairments

The group uses judgement, estimates and involves external specialists in determining the fair value of identifiable assets and liabilities acquired in a business combination, as well as calculating the fair value of the purchase consideration on acquisition. The highest and best use of the acquired assets by market participants (as opposed to Sappi's business intentions) is taken into account in determining the fair value of assets acquired in a business combination.

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. The group takes into account its ability to carousel products across different operating units in allocating goodwill to CGUs. Goodwill impairment testing is conducted at reporting unit levels of our business and is based on a cash flow valuation model to determine the fair value of the CGU.

The assumptions used in estimating future cash flows are based on business forecasts and incorporated external information from industry sources, where applicable. Actual outcomes could vary significantly from business forecasts. Changes in certain estimates could have a material effect on the estimated fair value of the reporting unit. In addition to the judgments described above, significant judgements in estimating discounted cash flows also include the selection of the pre-tax discount rate (impairment discount factor) 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 generally considers the debt and equity mix, a market risk premium, and other factors consistent with valuation methodologies. The terminal value multiple used in our valuation model generally also considers the valuations for comparable companies.

Small changes in our valuation model would generally not have a significant impact on 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 on an annual basis and are revised when the current estimate is different from the existing estimate. Depreciation rates for similar items of plant or equipment could vary significantly based on the location and use of the asset.

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

For material items of property, plant and equipment an internal engineer is used to assist in determining the remaining useful lives and residual values.

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 results 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.

Refer to note 30 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 cash flows 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 18 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 18 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.

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.

Ruling unadjusted current market prices and costs to sell 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 profit or loss 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	2009	2008	2007
Market price changes			
1% increase in market prices	12	17	17
1% decrease in market prices	(12)	(17)	(17)
Discount rate			
(for immature timber)			
1% increase in rate	(3)	(4)	(4)
1% decrease in rate	3	4	4
Volume assumption			
1% increase in estimate of volume	6	6	6
1% decrease in estimate of volume	(6)	(6)	(6)
Costs to sell			
1% increase in costs to sell	(9)	(10)	(10)
1% decrease in costs to sell	9	10	10
Growth assumptions			
1% increase in rate of growth	1	1	2
1% decrease in rate of growth	(1)	(1)	(2)

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 profit or loss 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, healthcare 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 to changes in economic conditions, employee demographics and investment performance as at the end of September 2009 and September 2008.

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:

SAICA Circular 3/2009 – Headline earnings

This circular provides rules for calculating headline earnings per accounting standard. In addition, the circular requires a detailed disclosure reconciling headline earnings to the earnings applied in the earnings per share calculation.

The main change from the previous circular 8/2007 on headline earnings was to update the rules for calculating headline earnings for the changes, amendments and revisions that were made to International Financial Reporting Standards. These changes did not result in adjustments to previously published headline earnings.

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.

The early adoption of the revised standard did not have an impact on the group's reported results or financial position.

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

The group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for our accounting periods beginning on or after 01 October 2009 or later periods. These new standards, and their effective dates for the group's annual accounting periods are listed below:

- **IFRS 8** – Operating Segments (September 2010)
- **IFRIC 15** – Agreements for the Construction of Real Estate (September 2010)
- **IFRIC 17** – Distributions of Non-cash Assets to Owners (September 2010)
- **IFRIC18** – Transfers of Assets from Customers (September 2010)

- **Revision to IFRS 3:** Business Combinations (September 2010)
- **Amendments to IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Investments in Joint Ventures** (September 2010)
- **Amendments to IFRS 2 Vesting Conditions and Cancellations** (September 2010)
- **Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions** (September 2010)
- **Amendments to IFRS 7 Financial Instruments: Disclosure** (September 2010)
- **Amendment to IAS 39 Financial Instruments: Recognition and Measurement on Eligible Hedged Items** (September 2010)
- **Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement** (September 2010)
- **Various improvements to IFRSs**

The group is currently evaluating the impact of the adoption of these standards, amendments and interpretations in future periods.

3. Segment information

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 to 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.

US\$ million	Sappi Fine Paper			Sappi Forest Products		
	2009	2008	2007	2009	2008	2007
Income statement						
External sales ⁽¹⁾	4,508	4,764	4,256	861	1,099	1,048
Inter-segment sales	478	677	602	532	657	658
Total sales	4,986	5,441	4,858	1,393	1,756	1,706
Segment result ⁽²⁾	(17)	34	119	(52)	273	264
Share of profit of equity investments	3	2	3	4	5	3
Depreciation	326	300	298	70	73	75
Amortisation and fellings	2	–	1	69	80	70
Asset impairments	74	82	2	5	37	–
Other non-cash expenses (including fair value adjustment on plantations)	136	151	(11)	2	(150)	(117)
Balance sheet						
Capital expenditures	124	216	158	60	290	299
Total assets ⁽⁶⁾	4,500	3,724	3,931	2,002	2,049	2,096
Operating assets ⁽³⁾⁽⁶⁾	4,413	3,678	3,836	1,916	1,972	1,984
Operating liabilities ⁽⁴⁾	870	706	682	223	241	251
Net operating assets ⁽⁵⁾⁽⁶⁾	3,526	2,955	3,121	1,686	1,721	1,654
Property, plant and equipment	2,856	2,353	2,503	1,078	1,008	988

US\$ million	Sappi Fine Paper								
	North America			Europe			Southern Africa		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Sales ⁽¹⁾	1,295	1,664	1,511	2,895	2,720	2,387	318	380	358
Segment result ⁽²⁾	53	92	22	(67)	(64)	88	(3)	6	9
Capital expenditures	31	125	44	82	82	102	11	9	12
Operating assets ⁽³⁾	1,145	1,285	1,263	3,008	2,226	2,371	260	167	202
Net operating assets ⁽⁵⁾	981	1,087	1,031	2,340	1,758	1,941	205	110	149
Property, plant and equipment	810	879	864	1,928	1,363	1,502	118	111	137

Corporate and eliminations			Group		
2009	2008	2007	2009	2008	2007
-	-	-	5,369	5,863	5,304
(1,010)	(1,334)	(1,260)	-	-	-
(1,010)	(1,334)	(1,260)	5,369	5,863	5,304
(4)	7	-	(73)	314	383
4	10	4	11	17	10
-	1	1	396	374	374
-	-	-	71	80	71
-	-	-	79	119	2
(38)	(58)	(14)	100	(57)	(142)
-	1	1	184	507	458
795	336	317	7,297	6,109	6,344
142	144	99	6,471	5,794	5,919
72	78	66	1,165	1,025	999
38	39	21	5,250	4,715	4,796
-	-	-	3,934	3,361	3,491

Sappi Forest Products								
Southern Africa			Corporate and other			Group		
2009	2008	2007	2009	2008	2007	2009	2008	2007
861	1,099	1,048	-	-	-	5,369	5,863	5,304
(52)	273	264	(4)	7	-	(73)	314	383
60	290	299	-	1	1	184	507	458
1,916	1,972	1,984	142	144	99	6,471	5,794	5,919
1,686	1,721	1,654	38	39	21	5,250	4,715	4,796
1,078	1,008	988	-	-	-	3,934	3,361	3,491

3. Segment information continued

Sales by geographical location of customers

US\$ million	2009	2008	2007
North America	1,298	1,716	1,559
Europe	2,557	2,319	2,078
Southern Africa	678	883	789
Asia and other	836	945	878
	5,369	5,863	5,304

(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 and other payables, provisions and current derivative financial instruments.

(5) Net operating assets consist of operating assets less operating liabilities, adjusted for taxation payable and dividends payable.

(6) Corporate includes the group's treasury operations and the investment in the Chinese joint venture.

US\$ million	2009		2008		2007	
	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses	Cost of sales	Selling, general and administrative expenses
4.1 Operating profit						
Operating profit has been arrived at after charging (crediting):						
Raw materials, energy and other direct input costs	2,868	–	3,073	–	2,685	–
Wood (includes felling adjustment ⁽¹⁾)	663	–	722	–	635	–
Energy	584	–	558	–	438	–
Chemicals ⁽²⁾	868	–	935	–	676	–
Pulp ⁽²⁾	543	–	702	–	623	–
Other variable costs ⁽²⁾	210	–	156	–	313	–
Fair value adjustment on plantations ⁽¹⁾						
Growth	(73)	–	(70)	–	(76)	–
Price	67	–	(120)	–	(54)	–
Employment costs	882	164	864	153	809	116
Depreciation	376	20	350	24	350	24
Delivery charges	454	–	509	–	453	–
Maintenance	250	–	252	–	235	–
Other overheads	205	–	158	–	189	–
Marketing and selling expenses	–	102	–	105	–	91
Administrative and general expenses	–	99	–	103	–	131
	5,029	385	5,016	385	4,591	362

(1) Disclosed separately below.

(2) Costs included in pulp in 2008 have been reallocated to chemicals and other variable costs.

US\$ million	2009	2008	2007
4.1 Operating profit <i>continued</i>			
Fair value adjustment on plantations ⁽¹⁾			
Changes in volumes			
Fellings	69	80	70
Growth	(73)	(70)	(76)
	(4)	10	(6)
Plantation price fair value adjustment	67	(120)	(54)
	63	(110)	(60)
Silviculture costs (included within cost of sales)	50	50	41
Leasing charges for premises	16	16	16
Leasing charges for plant and equipment	15	32	43
Remuneration paid other than to employees of the company in respect of:	27	33	31
– technical services	11	15	15
– administration services	16	18	16
Auditors' remuneration:	8	10	7
– audit and related services	6	6	5
– tax planning and tax advice	1	1	2
– acquisition and refinancing related services*	1	3	–
Government grants towards environmental expenditure	(2)	(1)	–
Research and development costs	31	34	34
Amortisation	2	–	1
Cost on derecognition of loans and receivables**	16	22	15
Directors' remuneration			
– executive directors – salaries and benefits	2	2	3
– non-executive directors – fees	1	1	1
4.2 Employment costs			
Wages and salaries	936	921	816
Defined-contribution plan expense (refer to note 27)	33	23	18
Pension costs (refer to note 27)	21	9	20
Post-employment benefits other than pensions expense (refer to note 28)	10	14	13
Share-based payment expense	9	10	5
Other	37	40	53
	1,046	1,017	925
4.3 Other operating expenses (income)			
Included in other operating expenses are the following:			
Asset impairments (refer to note 9)	79	119	2
Profit on sale and write-off of property, plant and equipment	(1)	(5)	(24)
Restructuring provisions raised (released) and closure costs	34	41	(11)
Fuel tax credit	(87)	–	–

* These costs have been capitalised.

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

	2009	2008	2007
5. Net finance costs			
Gross interest and other finance costs on liabilities carried at amortised cost	198	181	173
– Interest on bank overdrafts	6	4	8
– Interest on redeemable bonds and other loans	190	174	161
– Interest cost on finance lease obligations	2	3	4
Finance revenue received on assets carried at amortised cost	(61)	(38)	(21)
– Interest on bank accounts	(16)	(22)	(3)
– Discount on early redemption of vendor loan note	(41)	–	–
– Interest revenue on other loans and investments	(4)	(16)	(18)
Interest capitalised to property, plant and equipment	–	(16)	(14)
Net foreign exchange gains	(17)	(8)	(13)
Net fair value loss on financial instruments	25	7	9
– Realised loss on unwind of interest rate swaps	18	–	–
– (Gain) loss on non-hedged swaps and loans	(2)	2	7
– Amortisation of cost of de-designated hedges	–	5	2
– Hedge ineffectiveness			
– gain on hedging instrument (derivative)	(41)	(30)	(14)
– loss on hedged item	50	30	14
	145	126	134
6. Taxation (benefit) charge			
Current taxation:			
– Current year	6	23	44
– Prior year over provision	(7)	(19)	(7)
– Other company taxes*	4	2	1
Deferred taxation: (refer to note 11)			
– Current year*	(44)	89	36
– Prior year under (over) provision	3	–	(8)
– Attributable to tax rate changes	(3)	(9)	(19)
	(41)	86	47
* Includes Secondary Tax on Companies (STC) ⁽¹⁾	4	7	8
Due to the utilisation of previously unrecognised tax assets, the deferred taxation expense for the year has been reduced by	22	19	11

In addition to income taxation expense charges to profit and loss, deferred tax relief of US\$32 million (2008: US\$1 million charge; 2007: US\$18 million charge) has been recognised directly in equity (refer to note 11).

	2009	2008	2007
6. Taxation (benefit) charge continued			
Reconciliation of the tax rate			
(Loss) profit before taxation	(218)	188	249
Profit-making regions	133	560	424
Loss-making regions	(351)	(372)	(175)
Taxation at the average statutory tax rate	(60)	72	68
Profit-making regions at 28% (2008: 30%; 2007: 28%)	38	167	119
Loss-making regions at 28% (2008: 26%; 2007: 29%)	(98)	(95)	(51)
Net exempt income and non-tax deductible expenditure	(32)	(51)	(34)
Effect of tax rate changes	(3)	(9)	(19)
Deferred tax asset not recognised	72	103	49
Utilisation of previously unrecognised tax assets	(22)	(19)	(11)
Secondary Tax on Companies (STC)	4	7	8
Prior year adjustments	(4)	(19)	(15)
Other taxes	4	2	1
Taxation (benefit) charge	(41)	86	47
Effective tax rate for the year	19%	46%	19%

Our effective tax rate reflects the benefits from reduced tax rates in South Africa (2009: nil; 2008: US\$9 million; 2007: nil), Germany (2009: US\$3 million; 2008: nil; 2007: US\$19 million) and the Netherlands (2009: nil; 2008: nil; 2007: US\$2 million). The corporate tax rate in South Africa was reduced from 29% in 2007 to 28% in 2008. The corporate tax rate (including trade tax) in Germany was reduced from 38% in 2006 to 30% in 2007 and 28.6% in 2009. In the Netherlands, the corporate tax rate was reduced from 29.6% in 2006 to 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).

On 09 November 2009, the directors decided not to declare a dividend in respect of the 2009 financial year (refer to note 8).

(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 the 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

Earnings per share

In November and December 2008, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR1.00 each to qualifying Sappi shareholders recorded in the shareholders' register at the close of business on Friday 21 November 2008, at a subscription price of ZAR20.27 per rights offer share in the ratio of six rights offer shares for every five Sappi shares held. The rights offer was fully subscribed and the shareholders received their shares on 15 December 2008. The rights offer raised ZAR5.8 billion (US\$575 million) which was used to partly finance the acquisition of the coated graphic paper business of M-real and the related costs. In accordance with IAS 33, prior period basic, headline and diluted earnings per share have been restated to take into account the bonus element of the rights offer. The prior period weighted average number of shares has been adjusted by a factor of 1.58 (the adjustment factor). The adjustment factor is calculated using the pre-announcement share price divided by the theoretical ex-rights price (TERP). TERP is the (number of new shares multiplied by the subscription price) plus the (number of shares held multiplied by the ex-dividend share price) all divided by the (number of new shares plus the number of shares held prior to the rights offer).

Basic earnings per share (EPS)

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

	2009			2008			2007		
	Loss US\$ million	Shares millions	Loss per share US cents	Profit US\$ million	Shares millions	Earnings per share US cents	Profit US\$ million	Shares millions	Earnings per share US cents
Basic EPS calculation	(177)	482.6	(37)	102	362.2	28	202	360.6	56
Share options and performance shares under Sappi Limited Share Trust	-	-	-	-	3.6	-	-	4.3	-
Diluted EPS calculation	(177)	482.6	(37)	102	365.8	28	202	364.9	55

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR30.12 (2008: ZAR94.08; 2007: ZAR114.42) 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 2008: 2.3 million; September 2007: 0.8 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 (loss) profit for the year and headline earnings:

	2009			2008			2007		
	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net
Attributable (loss) earnings to ordinary shareholders	(218)	(41)	(177)	188	86	102	249	47	202
Profit on sale and write-off of property, plant and equipment	(1)	–	(1)	(5)	–	(5)	(24)	(6)	(18)
Impairment of plant and equipment	79	–	79	119	–	119	2	–	2
Headline (loss) earnings	(140)	(41)	(99)	302	86	216	227	41	186
Basic weighted average number of ordinary shares in issue (millions)			482.6			362.2			360.6
Headline (loss) earnings per share (US cents)			(21)			60			52
Diluted weighted average number of shares (millions)			482.6			365.8			364.9
Diluted headline (loss) earnings per share (US cents)			(21)			59			51

* Headline earnings – as defined in circular 3/2009 issued by the South African Institute of Chartered Accountants, separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share.

US\$ million	2009	2008	2007
8. Dividends Dividend number 85 paid on 28 November 2008: 16 US cents per share (2008: 32 US cents per share; 2007: 30 US cents per share), net of dividends attributable to treasury shares	(37)	(73)	(68)
The board decided not to declare a dividend in respect of the 2009 financial year.			

US\$ million	2009	2008
9. Property, plant and equipment		
Land and buildings		
At cost	1,686	1,457
Accumulated depreciation and impairments	887	845
	799	612
Plant and equipment*		
At cost	7,863	7,056
Accumulated depreciation and impairments	4,914	4,448
	2,949	2,608
Capitalised leased assets**		
At cost	795	751
Accumulated depreciation and impairments	609	610
	186	141
Aggregate cost	10,344	9,264
Aggregate accumulated depreciation and impairments	6,410	5,903
Aggregate book value	3,934	3,361

* 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.

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 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
Additions ⁽¹⁾	33	150	1	184
Acquisition	169	508	73	750
Disposals	(3)	–	(1)	(4)
Transfers	–	11	(11)	–
Depreciation	(37)	(339)	(20)	(396)
Impairment	–	(79)	–	(79)
Translation difference	25	90	3	118
Net book value at September 2009	799	2,949	186	3,934

(1) No interest was capitalised in fiscal 2009 (2008: US\$16 million capitalised at 10%).

9. Property, plant and equipment continued

Details of land and buildings are available at the registered offices of the respective companies who own the assets (refer to note 24 for details of encumbrances).

Asset impairments

September 2009

Usutu Mill

Usutu Mill is an unbleached pulp mill and forms part of the Sappi Forest Products reporting segment. In 2008, forest fires caused by severe weather conditions resulted in the loss of approximately 28% of the mill's fibre supply and 40% of its plantations, resulting in insufficient fibre for the mill to continue operating in the long term under its existing regime. An impairment loss of US\$37 million was recognised in 2008 and subsequent capital expenditure of US\$5 million, incurred in 2009, has been impaired. 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 10.92%.

Muskegon Mill

On 26 August 2009, Sappi announced that it would permanently cease operations at its coated fine paper mill in Muskegon, Michigan, North America. The property, plant and equipment at the mill had already been fully impaired in prior years.

European mechanical coated cash-generating unit

The mechanical coated cash-generating unit forms part of the Fine Paper segment. Due to the downturn in the market, the net present value of the future cash flows of the cash-generating unit was lower than its carrying amount. As a result, a non-cash impairment charge of US\$74 million has been recognised. The recoverable amount of the various assets within the cash-generating unit has been determined on the basis of value in use. The value in use was established using a pre-tax real discount rate of 7.22%.

September 2008

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 ceased on 19 December 2008. A non-cash impairment charge of US\$78 million was recognised as a result of these closures.

US\$ million	2009	2008
10. Plantations		
Fair value of plantations at beginning of year	631	636
Gains arising from growth	73	70
Fire, hazardous weather and other damages	(2)	(10)
Additions	1	–
(Loss) gain arising from fair value price changes	(67)	120
Harvesting – agriculture produce (fellings)	(69)	(80)
Translation difference	44	(105)
Fair value of plantations at end of year	611	631

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 371,000 (2008: 369,000) hectares of plantation directly and indirectly manages a further 156,000 (2008: 166,000) hectares. 380,000 (2008: 389,000) hectares of this land is forested with approximately 34 million (2008: 35 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 group's own production or sales. Estimated volume changes on a rotational basis amount to approximately five million tons per annum.

We own plantations on land that we own, as well as on land that we lease. We disclose both of these as directly managed plantations.

With regard to indirectly managed plantations, Sappi has several different types of agreements with over 4,300 independent farmers. The agreements depend on the type and specific needs of the farmer and the areas planted. These agreements range in time from one to more than 20 years. In certain circumstances we provide loans to farmers, which are disclosed as accounts receivable in the group balance sheet (these loans are considered immaterial to the group). If Sappi provides seedlings, silviculture and/or technical assistance, the costs are expensed when incurred by the group.

US\$ million	2009		2008	
	Assets	Liabilities	Assets	Liabilities
11. Deferred tax				
Other liabilities, accruals and prepayments	(111)	8	(106)	6
Inventory	5	(4)	2	–
USA alternative minimum taxation credit carry forward	11	–	11	–
Unutilised Secondary Tax on Companies (STC) credits ⁽¹⁾	–	–	2	–
Tax loss carry forward	360	69	389	27
Property, plant and equipment	(141)	(292)	(163)	(254)
Plantations	(20)	(145)	(11)	(162)
Other non-current assets	26	–	35	–
Other non-current liabilities	(74)	9	(118)	(16)
	56	(355)	41	(399)

(1) Refer to note 6 'Taxation (benefit) charge' 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 available unused tax losses. It is expected that there will be sufficient future taxable profits against which these losses can be recovered. In the estimation of future taxable profits, future product pricing and production capacity utilisation are taken into account.

Unrecognised deferred tax assets

Deferred tax assets 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	2009	2008
11. Deferred tax continued		
Unrecognised deferred tax assets relate to the following:		
Other non-current liabilities	66	29
Tax losses	634	538
Property, plant and equipment	–	24
	700	591
Attributable to the following tax jurisdictions:		
Belgium	49	6
The Netherlands	10	20
Finland	39	–
United Kingdom	65	75
United States of America	222	188
Swaziland	28	27
South Africa	2	2
Austria	285	273
	700	591
Expiry after five years	152	165
Indefinite life	548	426
	700	591
<i>The following table shows the movement in the unrecognised deferred tax assets for the year</i>		
Balance at beginning of year	591	506
Unrecognised deferred tax assets originating during the current year	129	108
Utilisation of previously unrecognised tax assets	(22)	(19)
Prior year adjustments	1	4
Rate adjustments	2	–
Movement in foreign exchange rates	(1)	(8)
Balance at end of year	700	591

US\$ million	2009	2008
11. Deferred tax continued		
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	41	60
Deferred tax liabilities	(399)	(385)
	(358)	(325)
Deferred taxation benefit (charge) for the year (refer to note 6)	41	(89)
Other liabilities, accruals and prepayments	(6)	(11)
Inventory	5	-
Utilisation of Secondary Tax on Companies (STC) credits	(2)	(7)
Tax loss carry forward	30	19
Property, plant and equipment	(10)	(37)
Plantations	18	(29)
Other non-current assets	-	(2)
Other non-current liabilities	6	(22)
Amounts recorded directly against equity	32	(1)
Rate adjustments	3	9
Translation differences	(17)	48
Deferred tax balances at end of year	(299)	(358)
Deferred tax assets	56	41
Deferred tax liabilities	(355)	(399)
Secondary Tax on Companies (STC)		
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 declared.		
Undistributed earnings that would be subject to STC	465	895
Tax effect if distributed	42	81
Available STC credits at end of year	-	2

US\$ million	2009					2008				
	Licence					Licence				
	Goodwill	fees	Patents	Brands	Total	Goodwill	fees	Patents	Brands	Total
12. Goodwill and intangible assets										
Cost net of accumulated amortisation and impairment at beginning of year	4	3	-	-	7	4	3	-	-	7
Acquisition	-	-	-	25	25	-	-	-	-	-
Amortisation	-	-	-	(2)	(2)	-	-	-	-	-
Translation difference	-	-	-	2	2	-	-	-	-	-
Net carrying amount	4	3	-	25	32	4	3	-	-	7
Cost (gross carrying amount)	4	3	21	27	55	4	3	21	-	28
Accumulated amortisation and impairment	-	-	(21)	(2)	(23)	-	-	(21)	-	(21)
Net carrying amount	4	3	-	25	32	4	3	-	-	7

US\$ million	2009	2008	
13. Joint ventures and associates*			
Cost of equity investments	99	99	
Share of post-acquisition profit, net of distributions received	24	14	
Foreign currency translation effect	-	11	
	123	124	
Summarised financial information in respect of the group's equity investments is set out below:			
Total assets	638	659	
Total liabilities	312	338	
Net assets	326	321	
Group's share of equity investments net assets	123	124	
	2009	2008	2007
Sales	756	902	749
Profit for the period	28	46	20
Group's share of equity investments' profit for the period	11	17	10

13. Joint ventures and associates*

Jiangxi Chenming

Sappi owns 34% of Jiangxi Chenming Paper Company Limited (Jiangxi Chenming) under 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 financial statements of Jiangxi Chenming are to 31 December of each year which was the reporting date when the company was established. The last audited financials were to 31 December 2008.

Umkomaas Lignin (Pty) Ltd

A joint venture agreement with 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 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 2008.

Sapin SA

A joint venture with Sapin SA located in Belgium for the buying and selling of wood and wood chips to Sappi and other paper manufacturers. The financial statements of Sapin SA are to 31 December of each year which is the year end of Sapin SA. The last audited financials were to 31 December 2008.

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 financial statements of Papierholz Austria GmbH are to 31 December of each year which is the year end of Papierholz Austria GmbH. The last audited financials were to 31 December 2008.

VOF Warmtekracht

A joint venture in the Netherlands between Sappi and Essent for a co-generation electricity and steam producing plant. The financial statements of VOF Warmtekracht are to 31 December of each year which is the year end of VOF Warmtekracht. The last audited financials were to 31 December 2008.

Timber IV

A special purpose entity (SPE) into which Sappi contributed promissory notes (relating to certain Timberlands, equipment and machinery sold by Sappi to a third-party timber company) which were pledged as collateral for the SPE to issue bonds. 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\$6 million as of September 2009 (2008: US\$11 million). The 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 equates to the market values.

* Where the year ends of joint ventures and associates are different to Sappi's, the unaudited management accounts of the joint ventures and associates are used for the periods to Sappi's year end.

US\$ million	2009	2008
14. Other non-current assets		
Loans to the Sappi Limited Share Incentive Trust participants	6	6
Financial assets*	33	22
Post-employment benefits – pension asset (refer to note 27)	52	117
Acquisition costs**	–	10
Other loans	10	13
	101	168

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

** Acquisition costs relate to the acquisition of M-real's coated graphic paper business. These costs were recorded as non-current assets in 2008 pending the successful completion of the Acquisition. In 2009, the costs were recorded as part of the purchase consideration of the Acquisition (refer to note 34).

US\$ million	2009	2008
15. Inventories		
Raw materials	155	163
Work in progress	83	62
Finished goods	347	324
Consumable stores and spares	207	176
	792	725

The charge to the group income statement relating to the write down of inventories to net realisable value amounted to US\$10 million (2008: US\$11 million and 2007: US\$12 million).

The cost of inventories recognised as an expense and included in cost of sales amounted to US\$4,467 million (September 2008: US\$4,552 million and September 2007: US\$4,150 million).

US\$ million	2009	2008
16. Trade and other receivables		
Trade accounts receivable, gross	682	579
Allowance for credit losses	(15)	(5)
Trade accounts receivable, net	667	574
Prepayments and other receivables	191	124
	858	698
Management rate the quality of the trade and other receivables, which are neither past due nor impaired, periodically against its internal credit rating parameters. The quality of these trade receivables is such that management believe no impairment provision is necessary, except in situations where they are part of individually impaired trade receivables.		
The carrying amount of US\$858 million (2008: US\$698 million) represents the group's maximum credit risk exposure from trade and other receivables.		
Prepayments and other receivables primarily represent prepaid insurance and other sundry receivables.		
Trade receivables (including securitised trade receivables) to turnover (%)	16%	13%

US\$ million	2009	2008
16. Trade and other receivables		
16.1 Reconciliation of the allowance for credit losses		
Balance at beginning of year	5	13
Raised during the year	16	3
Released during the year	(6)	(9)
Utilised during the year	–	(2)
Balance at end of year	15	5

An allowance has been made for estimated irrecoverable amounts from the sale of goods of US\$15 million (2008: US\$5 million). This allowance has been determined by reference to past default experience.

16.2 Analysis of amounts past due

September 2009

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	9	–	9
Between 7 and 30 days overdue	29	–	29
Between 30 and 60 days overdue	9	–	9
More than 60 days overdue	19	15	34
	66	15	81

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

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\$15 million (2008: US\$5 million) against trade receivables that are past due.

The group holds collateral of US\$17 million (2008: US\$17 million) against these trade receivables that are past due.

The group has granted facilities to customers to buy on credit for the following amounts:

	2009	2008
Less than US\$0.5 million	332	280
Less than US\$1 million but equal to or greater than US\$0.5 million	275	246
Less than US\$3 million but equal to or greater than US\$1 million	495	426
Less than US\$5 million but equal to or greater than US\$3 million	212	207
Equal to or greater than US\$5 million	951	812
	2,265	1,971

16. Trade and other receivables continued

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\$460 million (2008: 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\$400 million (2008: US\$360 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) at every financial month end on a non-recourse basis.

'Scheck-Wechsel'

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

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\$25 million (2008: US\$20 million) has been disclosed in this respect.

Trade receivables securitisation

To improve their cash flows in a cost-effective manner, Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Trading 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. These SPEs are funded 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 FirstRand Bank Limited, which issues commercial paper to finance the purchase of the receivables. Sappi does not guarantee the recoverability of any amounts, but shares proportionately with FirstRand Bank Limited the credit risk of each underlying receivable, after all recoveries, including insurance recoveries, with Sappi bearing 15% of such risk (and FirstRand Bank Limited the remainder). Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is adjusted dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is JIBAR (Johannesburg Interbank Agreed Rate) plus a spread. This structure is currently treated as an off balance sheet arrangement.

The total amount of trade receivables sold at the end of September 2009 amounted to US\$171 million (September 2008: US\$194 million). Details of the securitisation programme at the end of fiscal 2009 and 2008 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 the 15% mentioned above. There are a number of events which may trigger termination of the facility, amongst others, an amount of defaults above a specified level; terms and conditions of the agreement not being met; or breaches of various credit insurance ratios.

The impact on liquidity varies according to the terms of the agreement; generally, however, future trade receivables would be recorded on balance sheet until a replacement agreement was entered into.

16. Trade and other receivables continued

16.5 Off balance sheet structures continued

Details of the securitisation facility at September 2009 and 2008 are set out below:

Bank	Currency	Value	Facility	Discount charges
2009				
FirstRand Bank Limited	ZAR	ZAR1,268 million	Unlimited*	Linked to 3 month JIBAR
2008				
FirstRand Bank Limited	ZAR	ZAR1,568 million	Unlimited*	Linked to 3 month JIBAR

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

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. None (2008: two) of the group's major customers represented more than 10% of our sales during the year ended September 2009. The sales of these two customers in 2008 were recorded in Sappi Fine Paper and amounted to US\$1,242 million and the outstanding balance, net of securitisation, at September 2008 was US\$83 million. Where appropriate, credit insurance has been taken out over the group's trade receivables.

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 worldwide.

The group has the following amounts due from single customers:

	2009			2008		
	Number of customers	US\$m	Percentage	Number of customers	US\$m	Percentage
Greater than US\$10 million	6	82	12%	6	122	21%
Between US\$5 million and US\$10 million	9	55	8%	9	62	11%
Less than US\$5 million	2,519	530	80%	1,713	390	68%
	2,534	667	100%	1,728	574	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 to note 30 for further details on credit risk.

US\$ million	2009	2008
17. Ordinary share capital and share premium		
Authorised share capital: 725,000,000 (September 2008: 325,000,000) shares of ZAR1 each		
Issued share capital: 537,117,864 (September 2008: 239,071,892) shares of ZAR1 each	70	28
Share premium	1,471	679
	1,541	707

The authorised ordinary share capital was increased during the year from 325,000,000 to 1,325,000,000 ordinary shares with a par value of ZAR1.00 per share prior to the rights offer in December 2008. The authorised ordinary share capital was then subsequently reduced from 1,325,000,000 to 725,000,000 ordinary shares with a par value ZAR1.00 per share. The issued ordinary share capital increased during the year from ZAR239,071,892 to ZAR537,117,864 with the issue of 286,886,270 rights offer shares and 11,159,702 shares in settlement of part of the consideration for the acquisition of the M-real graphic paper business.

Included in the issued ordinary shares above are 21,384,559 (September 2008: 9,906,661) 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)	9,906,661	10,600,811
Rights issue shares subscribed	11,860,873	–
Treasury shares issued to participants of the Scheme	(382,975)	(694,150)
– Share options (per note 29)	(206,140)	(452,200)
– Share plan options (per note 29)	(165,491)	–
– Allocation shares (per note 29)	(214,660)	(273,750)
– Restricted shares (per note 29)	(22,000)	–
– Scheme shares forfeited, released and other	225,316	31,800
Treasury shares at end of year	21,384,559	9,906,661

Included in the 187,882,136 unissued shares and in the 537,117,864 issued shares are a total of 42,700,870 shares (adjusted for the rights issue) 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 42,700,870 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 07 March 2005.

17. Ordinary share capital and share premium continued

Since March 1994, 2,970,582 (September 2008: 6,752,522) shares have been allocated to the Scheme participants and paid for and 11,910,172 (September 2008: 5,772,812) shares have been allocated to the Scheme participants and not yet paid for. In terms of the Plan, 9,736,450 (September 2008: 3,961,100) shares have been allocated and remain unpaid for and 165,491 shares have been allocated and paid for by 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 2009 was US\$0.5 million (September 2008: US\$1 million).

Capital risk management

The capital structure of the group consists of:

- issued share capital and premium and accumulated profits disclosed above and in the statement of changes in equity respectively;
- debt, which includes interest-bearing borrowings and obligations due under finance leases disclosed under note 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 2009 and 2008, 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 2008.

US\$ million	2009	2008	2007
18. Other comprehensive income			
Exchange differences on translation	14	(262)	151
Gross amount	14	(262)	151
Tax	–	–	–
Actuarial (losses) gains on pensions and post-employment benefits	(197)	6	81
Gross amount (refer to notes 27 and 28)	(229)	7	101
Tax	32	(1)	(20)
Pension fund assets recognised	–	–	45
Gross amount	–	–	45
Tax	–	–	–
Cash flow hedge reserves	(14)	–	–
Gross amount	(14)	–	–
Tax	–	–	–
Other comprehensive (expense) income recorded directly in equity	(197)	(256)	277
(Loss) profit for the year	(177)	102	202
Total comprehensive (expense) income for the year	(374)	(154)	479

US\$ million	2009	2008
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	12	13
Legal reserves in subsidiaries	82	75
Share-based payment reserve	48	35
	143	124

	2009					2008				
	Capital reduction	Capitalisation reserve	Legal reserves	Share-based payment reserve	Total	Capital reduction	Capitalisation reserve	Legal reserves	Share-based payment reserve	Total
Opening balance	1	13	75	35	124	1	15	66	32	114
Transfer from retained earnings	–	–	6	–	6	–	–	8	–	8
Share-based payment expense	–	–	–	9	9	–	–	–	10	10
Translation difference	–	(1)	1	4	4	–	(2)	1	(7)	(8)
	1	12	82	48	143	1	13	75	35	124

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.

US\$ million	2009	2008
20. Interest-bearing borrowings		
Secured borrowings		
– Mortgage and pledge over trade receivables and certain assets (refer to note 24 for details of encumbered assets)	1,321	468
– Capitalised lease liabilities (refer to note 24 for details of encumbered assets)	29	29
Total secured borrowings	1,350	497
Unsecured borrowings	1,977	2,156
Total borrowings (refer to note 30)	3,327	2,653
Less: Current portion included in current liabilities	601	821
	2,726	1,832
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2009*	–	821
2010*	601	65
2011	261	629
2012	890	615
2013	338	159
2014 (September 2008: thereafter)	895	364
Thereafter	342	–
	3,327	2,653

* Included in the US\$601 million reflected as payable in 2010 is US\$400 million debt relating to securitisation funding (2009: US\$360 million included in US\$821 million) which has the character of a short-term revolving facility but is expected to run until 2012 under the existing contractual arrangements.

Capitalised lease liabilities

Finance leases are primarily for plant and equipment. Lease terms generally range from five to ten 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 2009, 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:

	2009			2008		
	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:						
2009	–	–	–	10	(3)	7
2010	23	(4)	19	4	(2)	2
2011	17	(3)	14	4	(2)	2
2012	18	(2)	16	5	(2)	3
2013	15	(2)	13	5	(1)	4
2014 (September 2008: thereafter)	6	(1)	5	12	(1)	11
Thereafter	7	(1)	6	–	–	–
Total future minimum lease payments	86	(13)	73	40	(11)	29

20. Interest-bearing borrowings *continued*

Set out below are details of the more significant non-current interest-bearing borrowings in the group at September 2009:

	Currency	Interest rate ⁽⁶⁾	Principal amount outstanding	Balance sheet value	Security/cession	Expiry	Financial covenants
Redeemable bonds							
Public high yield bond	EUR	Fixed ⁽⁷⁾	EUR350 million	EUR313 million ^(2,6)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	August 2014	EBITDA to net interest and net debt to EBITDA ⁽⁵⁾
Public high yield bond	US\$	Fixed ⁽⁷⁾	US\$300 million ⁽⁷⁾	US\$268 million ^(2,6)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	August 2014	EBITDA to net interest and net debt to EBITDA ⁽⁵⁾
Public bond	US\$	Fixed	US\$500 million	US\$520 million ^(2,3,6)	Unsecured	June 2012	No financial covenants
Public bond	US\$	Fixed	US\$250 million	US\$254 million ^(2,3,6)	Unsecured	June 2032	No financial covenants
Town of Skowhegan	US\$	Fixed	US\$35 million	US\$38 million ⁽⁶⁾	Land and buildings (partially)	October 2015	No financial covenants
Town of Skowhegan	US\$	Fixed	US\$28 million	US\$30 million ⁽⁶⁾	Land and buildings (partially)	November 2013	No financial covenants
Michigan Strategic Fund and City of Westbrook	US\$	Fixed	US\$44 million	US\$48 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	ZAR999 million	ZAR999 million	Unsecured	October 2011	No financial covenants
Bravura/Sanlam	ZAR	Fixed	ZAR121 million	ZAR121 million	Unsecured	November 2012	No financial covenants
Bravura/Sanlam	ZAR	Fixed	ZAR120 million	ZAR120 million	Unsecured	January 2013	No financial covenants
Bravura/Sanlam	ZAR	Fixed	ZAR30 million	ZAR30 million	Unsecured	March 2013	No financial covenants
Bravura/Sanlam	ZAR	Fixed	ZAR54 million	ZAR54 million ⁽⁶⁾	Unsecured	December 2013	No financial covenants
Bond Nedbank	ZAR	Fixed	ZAR497 million	ZAR497 million ⁽⁶⁾	Unsecured	June 2012	No financial covenants
Secured loans							
State Street Bank	EUR	Variable	EUR185 million	EUR185 million	Trade receivables	Revolving facility	EBITDA to net interest and net debt to EBITDA ⁽⁵⁾

20. Interest-bearing borrowings continued

	Currency	Interest rate ⁽⁶⁾	Principal amount outstanding	Balance sheet value	Security/cession	Expiry	Financial covenants
Secured loans continued							
State Street Bank	US\$	Variable	US\$61 million	US\$61 million	Trade receivables	Revolving facility	EBITDA to net interest and net debt to EBITDA ⁽⁵⁾
State Street Bank	US\$	Variable	US\$67 million	US\$67 million	Trade receivables	Revolving facility	EBITDA to net interest and net debt to EBITDA ⁽⁵⁾
Österreichische Kontrollbank	EUR	Fixed	EUR400 million	EUR386 million ^(2,6)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	April 2014	EBITDA to net interest and net debt to EBITDA ⁽⁵⁾
Österreichische Kontrollbank	US\$	Fixed	US\$38 million	US\$38 million ^(2,6)	Property, plant and equipment, intercompany receivables and shares in subsidiaries	June 2010	EBITDA to net interest and net debt to EBITDA ⁽⁵⁾
Capitalised leases							
Fortum	EUR	Variable	EUR29 million	EUR29 million	Unsecured	November 2012	No financial covenants
Molsindra	EUR	Fixed	EUR5 million	EUR5 million	Coating machine	January 2010	No financial covenants
Rand Merchant Bank	ZAR	Fixed	ZAR160 million	ZAR160 million ⁽¹⁾	Buildings	September 2015	No financial covenants
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	EUR58 million	EUR58 million ⁽¹⁾		December 2009	No financial covenants
ABN AMRO	US\$	Fixed	US\$20 million	US\$20 million		June 2010	No financial covenants
Nedbank	ZAR	Fixed	ZAR349 million	ZAR349 million ⁽¹⁾		January 2011	No financial covenants
Nedbank	ZAR	Fixed	ZAR479 million	ZAR479 million		March 2014	Gearing ratio/interest and dividend cover
Commerzbank	ZAR	Fixed	ZAR149 million	ZAR149 million ⁽¹⁾		March 2010	No financial covenants
Calyon	ZAR	Variable	ZAR11 million	ZAR11 million ^(1,4)		October 2009	EBITDA to net interest and net debt to EBITDA ⁽⁵⁾
PSG	ZAR	Fixed	ZAR12 million	ZAR12 million ⁽¹⁾		June 2014	No financial covenants
RZB Bank	EUR	Fixed	EUR3 million	EUR3 million		December 2009	No financial covenants

	Local currency million	US\$ million
20. Interest-bearing borrowings continued		
The analysis of the currency per debt is:		
US\$	1,342	1,342
EUR	986	1,448
ZAR	3,981	537
		3,327

(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) US\$ fixed rates have been swapped into Euro fixed rates. These swaps are subject to hedge accounting in order to reduce as far as possible the foreign exchange exposure.

(8) The nature of the 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.

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 2009 and 2008, 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 derecognition 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 of credit 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 Interbank Offered Rate) plus a margin for receivables to customers located in OECD countries.

20. Interest-bearing borrowings *continued*

Sappi Fine Paper Europe and Sappi Trading

Under a combined securitisation arrangement for Sappi Fine Paper Europe and Sappi Trading, Sappi sells 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 LIBOR (London Interbank 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	2009	2008
Commercial paper*	ZAR	Variable (JIBAR)	–	25
Syndicated loan**	EUR	Variable (EURIBOR)	307	580
			307	605

* Commercial paper programme has been terminated.

** Syndicated loan with a consortium of banks with JP Morgan as agent with a remaining revolving facility available of EUR209 million, which is subject to financial covenants which relate to the Sappi Limited group and is secured by the same assets as the public high yield bonds maturing in 2014.

These committed facilities represent amounts that the group could utilise. The syndicated loan facility matures in May 2012.

We have paid a total commitment fee of US\$0.8 million (2008 US\$1 million) in respect of the syndicated loan facility.

Non-utilised uncommitted facilities

Geographic region	Currency	Interest rate	2009	2008
Southern Africa	ZAR	Variable (JIBAR)	445	205
Group Treasury – Europe	EUR	Variable (EURIBOR)	54	143
Europe	EUR	Variable (EURIBOR)	–	130
			499	478
Total non-utilised facilities, excluding cash			806	1,083

Fair value

The fair value of all interest-bearing borrowings is disclosed in note 30 on financial instruments.

US\$ million	2009	2008
21. Other non-current liabilities		
Post-employment benefits – pension liability (refer to note 27)	308	144
Post-employment benefits other than pension liability (refer to note 28)	172	141
Long-term employee benefits	9	6
Workmen's compensation	8	7
Long service awards	27	18
Land restoration obligation	19	16
Deferred income	3	4
Other	11	10
	557	346

US\$ million	2009	2008
22. Provisions		
Restructuring provisions	32	41
Other provisions	3	1
Balance at September*	35	42

* These are all included in current liabilities.

	Severance, retrenchment and related costs	Lease cancellation and penalty costs	Other restructuring	Total
Restructuring provisions				
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
Increase in provisions	17	–	21	38
Utilised	(24)	(1)	(10)	(35)
Released during the year	(1)	–	(4)	(5)
Other movements	(1)	(1)	(5)	(7)
Translation effect	–	1	(1)	–
Balance at September 2009	18	3	11	32

22. Provisions continued

September 2009 restructuring plans

Sappi Fine Paper Europe

Kangas Mill. During the financial year ended September 2009, the company announced that it had entered into a consultation process with employees' representatives with a view to restructuring working models. The consultation process with employee representatives came to an end in July resulting in nine employees being made redundant. After the term of notice and remodelling, employment contracts will end in April 2010. A provision of approximately US\$1 million relating to retrenchment costs has been raised.

Kirkniemi Mill. The mill started consultation negotiations with the employee representatives on 06 April 2009 for production and economical reasons. Negotiations came to an end on 19 May 2009 resulting in 63 employees being made redundant. The timeframe for the reductions is that 44 employees will leave by the end of calendar year 2009. The remaining 19 employees will retire or relocate by the end of calendar year 2010. A provision of approximately US\$2 million has been raised.

Sappi Fine Paper North America

Muskegon Mill. During the financial year ended September 2009, Sappi Fine Paper North America announced the decision to permanently close the Muskegon Mill and integrate the mill's products into the production lines at the Somerset and Cloquet Mills. A total of 190 employees were affected by the closure of the Muskegon Mill. Muskegon Mill had an annual capacity of 170,000 tons of coated fine paper. A provision of approximately US\$21 million relating to restructuring charges has been raised.

Sappi Southern Africa

Regional Restructuring. During the financial year ended September 2009, Sappi Southern Africa announced that it had entered into a process of consultations with employees at Tugela, Ngodwana and Enstra Mills regarding proposals for cost reduction and efficiency improvement initiatives. The restructuring will affect approximately 227 employees. A total provision of approximately US\$2 million was raised.

September 2008 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 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 the end of fiscal 2008 was approximately US\$5 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 11 November 2008, the consultation process with employee representatives came to an end resulting in 95 employees being made redundant. A further 14 employees were made redundant in 2009. A provision of US\$23 million relating to severance, retrenchment and other related closure costs was raised in 2008.

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. Production ceased on 19 December 2008 affecting 175 employees. A provision of US\$24 million relating to severance, retrenchment and other related closure costs was raised.

US\$ million	2009	2008	2007
23. Notes to the cash flow statement			
23.1 Cash generated from operations			
(Loss) profit for the year	(177)	102	202
Adjustment for:			
– Depreciation	396	374	374
– Fellings	69	80	70
– Amortisation	2	–	1
– Taxation (benefit) charge	(41)	86	47
– Net finance costs	145	126	134
– Asset impairments	79	119	2
– Fair value adjustment gains and growth on plantations	(6)	(190)	(130)
– Post employment benefits funding	(62)	(88)	(101)
– Other non-cash items	27	14	(14)
	432	623	585
23.2 Movement in working capital			
Decrease (increase) in inventories	116	(38)	44
Decrease (increase) in receivables	175	(19)	(38)
(Decrease) increase in payables	(139)	58	54
	152	1	60
23.3 Finance costs paid			
Gross interest and other finance costs	(198)	(181)	(173)
Net foreign exchange gains	17	8	13
Net loss on marking to market of financial instruments	(25)	(7)	(9)
Non-cash movements included in items above	99	41	(14)
	(107)	(139)	(183)
23.4 Taxation paid			
Amounts unpaid at beginning of year	(54)	(125)	(101)
Translation effects	(2)	7	(12)
Amounts charged to profit or loss	(3)	(6)	(38)
Reversal of non-cash movements	–	–	(1)
Net amounts unpaid at end of year	54	54	125
Cash amounts paid	(5)	(70)	(27)
23.5 Replacement of non-current assets			
Property, plant and equipment	(146)	(250)	(116)
Plantations	(1)	–	–
	(147)	(250)	(116)
23.6 Proceeds on disposal of non-current assets			
Book value of property, plant and equipment disposed of	–	2	23
Profit on disposal	2	5	27
	2	7	50
23.7 Cash and cash equivalents			
Cash and deposits on call	727	221	354
Money market instruments	43	53	10
	770	274	364

US\$ million	2009	2008
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	322	17
Plant and equipment	1,385	4
Inventory	164	–
Trade receivables	460	415
	2,331	436

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.

The increase in encumbered assets in 2009 relates to the security provided under the facilities entered into in July and August 2009 (Public High Yield Bonds of US\$300 million and EUR350 million; Österreichische Kontrollbank term loans of EUR400 million and US\$38 million, respectively, and the committed revolving credit facility of EUR209 million). The security consists substantially of (i) the land, plant and equipment located at Sappi's production facilities in Gratkorn, Austria; Kirkniemi, Finland; Maastricht, The Netherlands; Nijmegen, The Netherlands; Skowhegan/Somerset, Maine, USA, and Cloquet, Minnesota, USA and (ii) certain inventory owned by SD Warren Company and Sappi Cloquet LLC. The security also includes certain shares in subsidiaries and certain intercompany receivables which are not reflected in the total above.

Refer to note 9 for details on property, plant and equipment.

US\$ million	2009	2008
25. Commitments		
Capital commitments		
Contracted but not provided	62	76
Approved but not contracted	126	130
	188	206
Future forecasted cash flows of capital commitments:		
2009	–	154
2010	102	35
2011 (September 2008: thereafter)	48	17
Thereafter	38	–
	188	206
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:		
2009	–	28
2010	31	14
2011	14	9
2012	7	4
2013	4	2
2014 (September 2008: thereafter)	2	35
Thereafter	2	–
	60	92

Environmental matters: Further information on capital commitments relating to environmental matters can be found in note 33.

US\$ million	2009	2008
26. Contingent liabilities		
Guarantees and suretyships	44	38
Other contingent liabilities	8	7

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 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 defined-contribution schemes of various sizes for all qualifying employees in most regions throughout the group. 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 country-wide union/industry schemes in certain locations open to eligible employees. The number of schemes increased following an acquisition during the year.

The total cost charged to profit or loss of US\$33 million (September 2008: US\$23 million; September 2007: US\$18 million) represents contributions payable to these schemes by the group, based on the rates specified in the rules of these schemes. As at September 2009, US\$2 million (September 2008: US\$2 million; September 2007: nil) was the net position of contributions in the current reporting period that had not yet been paid over to the schemes and prepayments made for contributions due in the next fiscal year.

Defined-benefit plans

The group operates 14 principal defined-benefit plans plus a number of smaller plans. The number of plans has increased following an acquisition during the year. This includes plans closed to new entrants and plans closed to future accrual for existing members. Plans still open to new entrants or future accrual, cover all qualifying employees. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country. Plans remain open to new members except for the following: Plans in Southern Africa, Austria, some in Germany and one in North America are closed to new entrants. Schemes in the UK are closed to future accrual.

Benefits are generally based upon compensation and years of service, with varying definitions of compensation such as average salary close to retirement or career average salary. Exceptions are for some of our German and Austrian plans which provide fixed benefits and some of our North American plans that provide benefits based on years of service and a '\$ multiplier', which historically has increased from time to time. Our pension plan in Switzerland is a defined contribution plan with guaranteed minimum investment returns and pays pensions. The scheme has a liability under IAS19 which is disclosed with other defined benefit plan liabilities in this note.

With the exception of our German and Austrian plans (which are unfunded), the assets of these plans 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. Actuarial valuations of the European and North American funds are performed annually. Actuarial assessments on the funding bases are performed triennially for the South African and United Kingdom funds.

As at September 2009, the number of active members in plans is approximately 8,000.

Group companies have no other significant post employment benefit liabilities, except for the following:

- healthcare benefits provided to persons in North America and in South Africa (refer to note 28); and
- jubilee (long service award schemes) provided in continental Europe, an early retirement (termination) plan in Belgium and ATZ liabilities in Germany totalling US\$36 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

US\$ million	2009				2008			
	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 obligation at beginning of year	271	765	378	1,414	305	889	413	1,607
Current service cost	6	10	5	21	8	12	6	26
Past service (credit) cost	–	(5)	1	(4)	–	1	–	1
Interest cost	22	53	28	103	24	47	26	97
Plan participants' contribution	3	1	–	4	4	–	–	4
Actuarial loss (gain) experience	17	(13)	5	9	11	(2)	7	16
Actuarial loss (gain) assumptions	5	130	110	245	(11)	(127)	(51)	(189)
Gain on curtailment and settlement	–	(1)	–	(1)	–	(1)	–	(1)
Acquisition	–	225	–	225	–	–	–	–
Benefits paid	(28)	(54)	(24)	(106)	(26)	(50)	(23)	(99)
Translation difference	30	5	–	35	(44)	(4)	–	(48)
Defined benefit obligation at end of year	326	1,116	503	1,945	271	765	378	1,414
Present value of wholly unfunded obligations	–	186	4	190	–	114	3	117
Present value of wholly and partly funded obligations	326	930	499	1,755	271	651	375	1,297
Change in fair value of plan assets								
Fair value of plan assets at beginning of year	332	693	362	1,387	398	763	384	1,545
Expected return on plan assets	28	48	28	104	36	46	33	115
Actuarial (loss) gain on plan assets	(6)	18	35	47	(30)	(93)	(66)	(189)
Employer contribution*	7	30	17	54	9	33	34	76
Plan participants' contribution	3	2	–	5	4	–	–	4
Acquisition	–	173	–	173	–	–	–	–
Benefits paid	(28)	(54)	(24)	(106)	(26)	(50)	(23)	(99)
Loss on curtailment and settlement	–	(1)	–	(1)	–	–	–	–
Translation difference	31	1	–	32	(59)	(6)	–	(65)
Fair value of plan assets at end of year	367	910	418	1,695	332	693	362	1,387

* Includes 'additional employer contribution' of US\$1 million disclosed in 2008.

27. Post-employment benefits – pensions continued

US\$ million	2009				2008			
	Southern Africa	Europe (incl UK)	North America	Total	Southern Africa	Europe (incl UK)	North America	Total
Surplus (deficit)	41	(206)	(85)	(250)	61	(72)	(16)	(27)
Unrecognised past service cost	–	(6)	–	(6)	–	–	–	–
Recognised pension plan asset (liability)	41	(212)	(85)	(256)	61	(72)	(16)	(27)
Reconciliation of pension asset (liability) movement in the balance sheet								
Recognised pension plan asset (liability) at beginning of year	61	(72)	(16)	(27)	93	(126)	(28)	(61)
Pension liability acquired during the year	–	(52)	–	(52)	–	–	–	–
Net pension (gain) cost for the year	–	(15)	(6)	(21)	4	(13)	–	(9)
Employer contributions paid	7	30	17	54	9	33	34	76
Net actuarial (loss) gain	(28)	(99)	(80)	(207)	(30)	36	(22)	(16)
Translation difference	1	(4)	–	(3)	(15)	(2)	–	(17)
Recognised pension plan asset (liability) at end of year	41	(212)	(85)	(256)	61	(72)	(16)	(27)
Periodic pension cost recognised in income statement								
Current service cost	6	10	5	21	8	12	6	26
Past service cost	–	–	–	–	–	1	–	1
Fund administration costs	–	–	–	–	–	–	–	–
Interest cost	22	53	28	103	24	47	26	97
Expected return on plan assets	(28)	(48)	(28)	(104)	(36)	(46)	(33)	(115)
Amortisation of past service cost	–	–	1	1	–	–	1	1
Gain on curtailment and settlement	–	–	–	–	–	(1)	–	(1)
Net periodic pension cost (gain) charged to cost of sales and selling, general and administrative expenses	–	15	6	21	(4)	13	–	9

27. Post-employment benefits – pensions continued

US\$ million	2009				2008			
	Southern Africa	Europe (incl UK)	North America	Total	Southern Africa	Europe (incl UK)	North America	Total
Actual return (loss) on plan assets	22	66	63	151	6	(47)	(33)	(74)
Actual return (loss) on plan assets (%)	6.6	7.6	17.5	9.9	1.3	(6.2)	(9.0)	(5.0)
Amounts recognised in statement of other comprehensive income								
Actuarial (losses) gains	(28)	(99)	(80)	(207)	(30)	36	(22)	(16)
Cumulative actuarial gains and losses recognised in statement of other comprehensive income								
Actuarial gains (losses)	24	(197)	(161)	(334)	52	(98)	(81)	(127)
Weighted average actuarial assumptions at balance sheet date:								
Discount rate (%)	9.00	4.90	5.50		9.00	6.90	7.60	
Compensation increase (%)*	6.70	2.60	3.50		6.45	3.10	3.50	
Expected return on assets (%)	9.90	5.30	8.00		9.40	6.75	8.25	
Weighted average actuarial assumptions used to determine periodic pension cost:								
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 of schemes that use a compensation increase assumption.

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:

	2009				2008			
	1% increase in discount rate	1% decrease in discount rate	1% increase in salary rate	1% decrease in salary rate	1% increase in discount rate	1% decrease in discount rate	1% increase in salary rate	1% decrease in salary rate
(Decrease) increase in defined benefit obligation	(204)	245	45	(43)	(141)	167	37	(34)
(Decrease) increase in net periodic pension cost	2	–	–	–	(2)	7	–	–

	2009	2008
27. Post-employment benefits – pensions continued		
<i>Pension plan liability is presented on the balance sheet as follows:</i>		
Pension liability (refer to note 21)	308	144
Pension asset (refer to note 14)	(52)	(117)
	256	27

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

Plan fiduciaries set investment policies and strategies for the local trusts. Long-term strategic investment objectives include preserving the funded status of the trusts 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:

	2009			2008		
	Southern Africa	Europe (incl UK)	North America	Southern Africa	Europe (incl UK)	North America
Weighted average target asset allocation by region	%	%	%	%	%	%
Equity	21	25	38	40	38	38
Debt securities	57	60	49	44	58	22
Real estate	0	6	0	0	0	0
Other	22	9	13	16	4	40
Weighted average actual asset allocation by region	%	%	%	%	%	%
Equity	25	20	41	25	34	35
Debt securities	57	67	46	52	50	22
Real estate	0	5	0	0	4	0
Other	18	8	13	23	12	43

Actual company contributions paid over in 2009 were US\$55 million and expected company contributions for 2010 are US\$73 million.

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:				
2010	14	62	22	98
2011	15	64	23	102
2012	15	65	24	104
2013	16	64	25	105
2014	17	63	27	107
2015 – 2019	96	344	165	605

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):

	2009	2008	2007	2006	2005
Defined benefit obligations	1,945	1,414	1,607	1,513	1,589
Fair value of assets	1,695	1,387	1,545	1,285	1,222
(Deficit)	(250)	(27)	(62)	(228)	(367)

Aggregate gains and losses arising on plan liabilities and plan assets

for the current annual period and for the previous four annual periods:

	2009	2008	2007	2006	2005
Plan liabilities (losses) gains	(254)	173	60	73	(141)
Plan assets gains (losses)	47	(189)	41	27	82
Net (losses) gains	(207)	(16)	101	100	(59)
<i>Reconciliation of gains and losses in statement of other comprehensive income</i>					
Net losses from pensions	(207)				
Net losses from post employment benefits other than pensions (note 28)	(22)				
Net losses in statement of other comprehensive income	(229)				

28. Post-employment benefits – other than pensions continued

	2009			2008			2007		
	South Africa	North America	Total	South Africa	North America	Total	South Africa	North America	Total
Periodic post-employment benefit cost recognised in income statement									
Current service cost	1	1	2	2	2	4	1	2	3
Interest cost	5	5	10	6	5	11	6	5	11
Amortisation of past service credit	–	(1)	(1)	–	(1)	(1)	–	(1)	(1)
Gain on curtailments and settlements	–	(1)	(1)	–	–	–	–	(1)	(1)
Net periodic post-employment benefit cost charged to cost of sales and selling, general and administrative expenses	6	4	10	8	6	14	7	5	12

	2009			2008		
	South Africa	North America	Total	South Africa	North America	Total
Amounts recognised in the statement of other comprehensive income						
Actuarial gains (losses)	(10)	(12)	(22)	5	18	23
Cumulative actuarial gains and losses recognised in the statement of other comprehensive income						
Actuarial losses	(29)	(25)	(54)	(19)	(13)	(32)

	2009		2008	
	South Africa	North America	South Africa	North America
Weighted average actuarial assumptions at balance sheet date:				
Discount rate	9.00	5.20	9.00	7.60
Healthcare cost trend initial rate	7.25	8.00	7.00	9.00
which gradually reduces to an ultimate rate of over a period of (years)	7.25	5.00	7.00	5.00
	–	5	–	4

28. Post-employment benefits – other than pensions continued

	2009		2008	
	South Africa	North America	South Africa	North America
Weighted average actuarial assumptions used to determine periodic post-employment benefit cost:	%	%	%	%
Discount rate	9.00	7.60	8.25	6.30
Healthcare cost trend initial rate	7.00	9.00	6.75	9.50
which gradually reduces to an ultimate rate of over a period of (years)	7.00	5.00	6.75	5.00
	–	4	–	5

Sensitivity analysis

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

	2009				2008			
	1% increase in discount rate	1% decrease in discount rate	1% increase in health-care cost trend rate	1% decrease in health-care cost trend rate	1% increase in discount rate	1% decrease in discount rate	1% increase in health-care cost trend rate	1% decrease in health-care cost trend rate
(Decrease) increase in defined benefit obligation	(17)	20	17	(14)	(14)	16	13	(11)
(Decrease) increase in net periodic post-employment benefit cost	(1)	2	2	(1)	(1)	1	1	(1)

	2009	2008
Post-employment benefits other than pension liabilities are presented on the balance sheet as follows:		
Post-employment benefits other than pension liability (refer to note 21)	172	141
Post-employment benefits other than pension included in other payables (receivables)	7	7
	179	148

Actual employer contribution paid for 2009 was US\$9 million and expected employer contribution for 2010 is US\$11 million.

28. Post-employment benefits – other than pensions continued

Expected benefit payments for other than pension benefits are as follows:

	South Africa	North America	Total
Payable in the year ending September:			
2010	4	8	12
2011	4	8	12
2012	4	8	12
2013	4	7	11
2014	4	7	11
Years 2015 – 2019	24	35	59

Aggregate total of present value of the defined benefit obligation in the benefit plans

for the current annual period and for the previous four annual periods (ignoring unrecognised adjustments):

	2009	2008	2007	2006	2005
Defined benefit obligations	175	143	173	164	178

Aggregate gains and losses arising on plan liabilities

for the current annual period and for the previous four annual periods:

	2009	2008	2007	2006	2005
Plan liabilities (losses) gains	(22)	23	–	(1)	–

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 07 March 2005, shareholders adopted The Sappi Limited Performance Share Incentive Trust (the Plan) in addition to The Sappi Limited Share Incentive Trust (the Scheme) which had been adopted on 05 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 (equivalent to 7.95% of the shares then 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. Subsequent to the December 2008 rights offering, this number has been adjusted to 42,700,870 shares (still equivalent to 7.95% of the shares currently in issue), in accordance with the rules of the Scheme and of the Plan.

The Sappi Limited Share Incentive Trust (the Scheme)

Under the rules of the Scheme, participants (a) may be offered the opportunity to acquire ordinary shares (Scheme shares), (b) may be offered options to acquire ordinary shares (Share options), or (c) may be granted options to enter into agreements with the company to acquire ordinary shares (Allocation shares).

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.

29. Share-based payments continued

The Sappi Limited Share Incentive Trust (the Scheme) continued

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 02 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 03 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 (the 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.

29. Share-based payments continued

The Sappi Limited Performance Share Incentive Trust (the Plan) continued

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.

Rights offer

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

The following table separates the adjustments made to the rights of the Participants following the rights offer from the annual awards:

Allocations (number of shares)	Annual awards	Rights offer	2009	2008
During the year, the following offers were made to employees:				
Share options	2,192,410	3,847,680	6,040,090	925,700
Allocation shares	–	1,345,500	1,345,500	–
Performance shares**	1,815,000	4,725,240	6,540,240	730,000
Scheme shares	–	1,577,834	1,577,834	–
Restricted shares**	–	12,000	12,000	–
Share options and performance shares declined	(62,080)	(63,840)	(125,920)	(14,000)
	3,945,330	11,444,414	15,389,744	1,641,700

29. Share-based payments continued

Scheme shares, Share options, Restricted shares, Performance shares and Allocation shares activity was as follows during the financial years ended September 2009 and 2008:

	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 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
- Offered and accepted	1,577,834	12,000	5,951,970	6,540,240	19.96	1,307,700	20.27	15,389,744
- Paid for/released	(75,060)	(22,000)	(206,140)	(165,491)	20.95	(214,660)	30.68	(683,351)
- Returned, lapsed and forfeited	5,736	-	(734,150)	(360,289)	41.69	(352,540)	54.12	(1,441,243)
- Back into Trust	-	-	-	-	-	-	-	-
Outstanding at September 2009	2,860,372	-	8,244,380	9,965,560	29.33	1,845,950	65.24	22,916,262
Exercisable at September 2007	587,600	-	2,104,550	-	96.21	1,196,650	99.71	3,888,800
Exercisable at September 2008	491,300	-	1,906,330	5,000	96.97	1,032,300	110.22	3,434,930
Exercisable at September 2009	752,600	-	4,835,090	-	55.60	1,845,950	65.24	7,433,640

* 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 2,107,772 (2008: 855,662), includes 1,026,794 rights offer Scheme shares taken up at ZAR20.27 per share, included in offered and accepted in the current fiscal year.

(1) Issued in terms of the Scheme.

(2) Issued in terms of the Plan.

The fair value of Scheme shares held at September 2009 was US\$8.1 million (September 2008: US\$8.7 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:

	2009	2008	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
14 December 1998	–	48,300	Time	(i)	14 December 2008	22.10
03 February 1999	–	1,000	Time	(i)	03 February 2009	22.35
15 January 2001	–	213,800	Time	(i)	15 January 2009	49.00
04 February 2002	–	7,000	Time	(i)	04 February 2010	131.40
28 March 2002 (ii)	1,128,700	623,000	Time	(i)	28 March 2010	77.97
13 February 2003 (ii)	1,383,000	743,800	Time	(i)	13 February 2011	62.34
30 December 2003 (ii)	267,190	150,250	Time	(i)	30 December 2011	47.08
14 January 2004 (ii)	1,311,680	630,700	Time	(i)	14 January 2012	47.08
25 March 2004 (ii)	2,200	1,000	Time	(i)	25 March 2012	86.60
13 December 2004 (ii)	2,115,560	1,029,500	Time	(i)	13 December 2012	46.51
13 December 2004	–	148,000	Performance	13 December 2008	N/A	–
13 December 2005 (ii)	3,030,060	1,413,800	Performance	13 December 2009	N/A	–
08 August 2006 (ii)	110,000	50,000	Performance	08 August 2010	N/A	–
15 January 2007 (ii)	–	5,000	Performance	31 December 2007	N/A	–
15 January 2007 (ii)	–	5,000	Performance	31 December 2008	N/A	–
15 January 2007 (ii)	11,000	5,000	Performance	31 December 2009	N/A	–
29 January 2007 (ii)	110,000	50,000	Performance	29 January 2011	N/A	–
31 May 2007 (ii)	3,008,500	1,419,300	Performance	31 May 2011	N/A	–
02 July 2007 (ii)	220,000	100,000	Performance	02 July 2011	N/A	–
10 September 2007 (ii)	–	10,000	Time	10 September 2008	N/A	–
10 September 2007 (ii)	55,000	25,000	Performance	10 September 2011	N/A	–
12 December 2007 (ii)	1,233,680	610,600	Time	12 December 2011	12 December 2015	91.32
12 December 2007 (ii)	1,155,000	525,000	Performance	12 December 2011	N/A	–
19 March 2008 (ii)	555,060	279,200	Time	19 March 2012	19 March 2016	98.80
19 March 2008 (ii)	451,000	205,000	Performance	12 March 2012	N/A	–
22 December 2008	2,093,260	–	Time	22 December 2012	22 December 2014	35.50
23 December 2008	1,815,000	–	Performance	22 December 2012	N/A	–
	20,055,890	8,299,250				

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

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

29. Share-based payments continued

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

	Issue 34	Issue 34	Issue 34
Date of grant	22 Dec 08	22 Dec 08	22 Dec 08
Type of award	Normal Option	Performance	Performance
Share Price at grant date	ZAR36.7	US\$7.66	US\$7.66
Strike Price of share	ZAR35.5	–	–
Vesting Period	4 years	4 years	4 years
Vesting conditions	Proportionately over time	Market related relative to peers	Cash flow return on net assets relative to peers
Expected life of options (years)	8 years	N/A	N/A
Market related vesting conditions	N/A	Yes	No
Percentage expected to vest	N/A	41.5%	100%
Number of shares offered	2,152,330	912,500	912,500
Volatility	37.6%	41.8%	N/A
Risk free discount rate	11.8%	1.96%	N/A
	(US yield)	(US yield)	
Expected dividend yield	4.40%	4.24%	4.24%
Expected percentage of issuance	95%	95%	95%
Model used to value	Binomial	Modified binomial	Market price
Fair value of option	ZAR11.88	ZAR20.12	ZAR19.39

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:

	2009	2008
	Number of options/shares	Number of options/shares
At beginning of year	339,000	249,000
Share options, Restricted shares and Performance shares granted for rights issue	406,800	–
Share options, Restricted shares and Performance shares granted	242,000	90,000
Share options and Allocation shares declined	(16,500)	–
Shares removed on resignation or retirement of directors	(3,300)	–
At end of year	968,000	339,000

29. Share-based payments continued

The following table sets forth certain information with respect to the 968,000 Share options and Performance shares granted by Sappi to executive directors:

Issue date	Number of options/shares**	Expiry date	Exercise price (ZAR)**
28 March 2002	33,000	28 March 2010	77.97
13 February 2003	33,000	13 February 2011	62.34
30 December 2003	39,600	30 December 2011	47.08
13 December 2004	39,600	13 December 2012	46.51
13 December 2005*	52,800	13 December 2009	–
08 August 2006*	110,000	08 August 2010	–
02 July 2007*	220,000	02 July 2011	–
12 December 2007*	198,000	12 December 2011	–
22 December 2008*	242,000	13 December 2012	–
	968,000		

* Performance shares.

** Adjusted for the share options, restricted shares and performance shares granted as a result of the rights issue.

Refer to the compensation report 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
 - currency risk
 - commodity price 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 (in so far as it relates to deposits of cash, cash equivalents and financial investments).

Commodity risk and credit risk (in so far as it relates to trade receivables) are primarily managed regionally but are coordinated on a group basis.

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.

30. Financial instruments continued

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 cash flows by expected maturity dates and estimated fair value of the borrowings. The average fixed effective interest rates presented below are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2009 and thereafter are based on the yield curves for each respective currency as published by Reuters on 27 September 2009. 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.

(US\$ equivalent in millions)	Expected maturity date						Total Carry- ing value	2009 Fair value	2008 Carry- ing value	2008 Fair value
	2010	2011	2012	2013	2014	2015+				
US Dollar										
Fixed rate	59	2	522	2	29	600	1,214	1,281	59	58
Average interest rate (%)	4.84	-	6.47	-	5.64	10.04	8.12		4.31	
Variable rate ⁽¹⁾	128	-	-	-	-	-	128	128	979	885
Average interest rate (%)	2.08	-	-	-	-	-	2.08		6.61	
Euro										
Fixed rate	13	186	137	137	572	3	1,048	1,290	603	582
Average interest rate (%)	5.86	9.29	9.26	9.27	12.72	1.87	11.09		4.62	
Variable rate ⁽²⁾	368	11	12	9	-	-	400	399	488	488
Average interest rate (%)	2.68	5.35	5.35	5.35	-	-	2.89		4.43	
Rand										
Fixed rate	32	62	219	190	26	7	536	524	366	350
Average interest rate (%)	9.31	9.21	11.11	9.74	10.99	11.67	10.30		9.88	
Variable rate ⁽³⁾	1	-	-	-	-	-	1	1	7	7
Average interest rate (%)	10.55	-	-	-	-	-	10.55		10.67	

30. Financial instruments continued

(US\$ equivalent in millions)	Expected maturity date						Total carrying value	2009 fair value	2008 carrying value	2008 fair value
	2010	2011	2012	2013	2014	2015+				
Swiss Franc										
Fixed rate	–	–	–	–	–	–	–	–		
Average interest rate (%)	–	–	–	–	–	–	–	–		
Variable rate	–	–	–	–	–	–	–	–	151	151
Average interest rate (%)	–	–	–	–	–	–	–	–	3.26	
Total										
Fixed rate	104	250	878	329	627	610	2,798	3,095	1,028	990
Average interest rate (%)	6.34	9.21	8.06	9.49	12.32	10.02	9.65		6.47	
Variable rate	497	11	12	9	–	–	529	528	1,625	1,531
Average interest rate (%)	2.55	5.35	5.35	5.35	–	–	2.72		5.66	
Fixed and variable	601	261	890	338	627	610	3,327	3,623	2,653	2,521
Current portion							601	602	821	821
Long-term portion							2,726	3,021	1,832	1,700
Total interest-bearing borrowings (refer to note 20)							3,327	3,623	2,653	2,521

The values reported under US Dollar fixed rates (2011 and 2013) represent fair value adjustments to hedged items which are non-interest-bearing, which is why there are no average rates stated for these amounts.

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) The US Dollar floating interest rates are based on the London Interbank Offered Rate (LIBOR).

(2) The Euro floating interest rates are based on the European Interbank Offered Rate (EURIBOR).

(3) The Rand floating interest rates are predominately based on the Johannesburg Interbank Agreed Rate (JIBAR).

The range of interest rates in respect of all non-current borrowings comprising both fixed and floating rate obligations, is between 5.35% and 12.32% (depending on currency). At September 2009, 84% of Sappi's borrowings were at fixed rates of interest, and 16% were at floating rates. 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 2009, domestic interest rates have decreased from 12.05% to 7.02% for the three-month JIBAR.

30. Financial instruments continued

Interest rate derivatives

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

Until June 2009, the group had in total seven US\$ interest rate swaps, converting fixed rates to floating rates for a total amount of US\$857 million.

In June 2009, these swaps were sold for a total positive value of US\$55 million and the underlying debt now carries the original fixed interest rates. The total difference between Sappi's valuation on the date of sale and the effective sales price of the swaps amounted to US\$20 million. This difference predominately related to the payment of certain selling costs (breakage fees of US\$13 million, a liquidity reduction and some smaller trading rate differences).

In August 2009, Sappi entered into seven new fixed for fixed interest and currency swaps with different banks, which have been designated as cash flow hedges of future cash flows linked to fixed rate debt denominated in foreign currency. Each swap corresponds to the hedged portion of the underlying US\$300 million senior secured notes due 2014. The swaps convert all future US\$ cash flows into Euro.

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

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

As at September 2009, the effectiveness tests for the above mentioned hedges showed a 100% hedge effectiveness. The swaps showed a total negative fair value of US\$24 million, the negative fair value of the currency leg of the swap of US\$10 million was booked to profit or loss to offset the corresponding foreign currency unrealised gain of the revaluation of the underlying hedged item, whereas the remaining negative fair value of the interest leg of the swap of US\$14 million was deferred in equity.

The existing interest rate and currency swap contract converting future US\$ cash flows into GBP and fixed US\$ interest rates into fixed GBP interest rates (2008: US\$233 million with a fair value of US\$57 million) has an outstanding amount of US\$117 million at September 2009 with a positive fair value of US\$10 million. This derivative is not designated as a hedge in a documented hedge strategy. The changes in fair value of this instrument are booked in profit or loss for the period.

30. Financial instruments continued

See details of the swaps in the table below:

Instrument	Interest rate	Maturity date	Nominal value US\$ million	Sales value	Fair value* favourable (unfavourable) US\$ million	
IRS:	6.75% to variable (LIBOR)	June 2012	250	15	–	
	6.75% to variable (LIBOR)	June 2012	200	12	–	
	6.75% to variable (LIBOR)	June 2012	50	3	–	
	7.50% to variable (LIBOR)	June 2012	250	15	–	
	5.90% to variable (LIBOR)	November 2013	28	3	–	
	7.38% to variable (LIBOR)	July 2014	44	4	–	
	6.65% to variable (LIBOR)	October 2014	35	3	–	
IRCS:	US Dollar 6.30% into Pound Sterling 6.66%	December 2009	117	–	10	
	US Dollar 12% into EUR 12.2375%	August 2014	90	–	(7)	
	US Dollar 12% into EUR 12.3175%	August 2014	50	–	(4)	
	US Dollar 12% into EUR 12.1375%	August 2014	45	–	(3)	
	US Dollar 12% into EUR 12.3375%	August 2014	40	–	(4)	
	US Dollar 12% into EUR 11.8375%	August 2014	25	–	(2)	
	US Dollar 12% into EUR 12.0875%	August 2014	25	–	(2)	
	US Dollar 12% into EUR 12.0875%	August 2014	25	–	(2)	
	Total				55	(14)

* This refers to the carrying value.

The fair value of the 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 the Sappi group with those counterparties. However, this amount excludes the possible breakage and other fees which would be incurred in case of a sale before the maturity date.

30. Financial instruments continued

Summary sensitivity analyses external interest rate derivatives

The following is a sensitivity analysis of the impact on profit or loss in US 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 is carried out separately (see below).

1. IRCS converting fixed US\$ rates into GBP fixed rates

Scenario name	Base value	Scenario value	Change	% Change
-50bps GBP-LIBOR-6M	128.6	128.8	0.2	0.2
+50bps GBP-LIBOR-6M	128.6	128.4	(0.2)	(0.2)

Scenario name	Base value	Scenario value	Change	% Change
-50bps USD-LIBOR-3M	(118.5)	(118.7)	(0.2)	0.2
+50bps USD-LIBOR-3M	(118.5)	(118.3)	0.2	(0.2)

The derivative converts fixed US\$ interest payments of 6.30% into fixed GBP interest income of 6.66%, 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 intragroup loan. This intragroup loan has been reimbursed before its maturity date in September 2009.

At 27 September 2009 the net fair value of the derivative amounted to US\$10.1 million (Gross 'Base Values' in the table above: US\$128.6 million for the GBP leg and US\$ -118.5 million for the US\$ leg) of which US\$9.8 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 (or the underlying cash paid in the same currency as the loan has been reimbursed) and therefore has no impact on profit or loss. The portion of the fair value due to interest rate movements, which has impacted profit or loss, amounts to a positive value of US\$0.3 million. This value will reduce to zero at maturity.

For the period outstanding, the table above shows the impact that a shift of 50bps on the LIBOR curve would have on the fair value. An increase in the USD 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\$0.4 million for a shift of 50bps.

The largest shift experienced over the last 12-month period was a negative net shift of 2.67%, due to a decrease in US\$ rates of 1.25 % and a decrease in the GBP rates of 3.92%. Applied to the fair value as per 27 September 2009, this would have resulted in a positive change in fair value of US\$0.9 million.

30. Financial instruments continued

Scenario name	Base value	Scenario value	Change	% Change
-125bps USD-LIBOR-3M	(118.5)	(118.9)	(0.4)	0.3
-392bps GBP-LIBOR-6M	128.6	129.9	1.3	1.0
Total			0.9	

2. IRCS converting fixed US\$ rates into EUR fixed rates

Scenario name	Base value	Scenario value	Change	% Change
-50bps EURIBOR-6M	(452.7)	(461.8)	(9.1)	2.0
+50bps EURIBOR-6M	(452.7)	(443.8)	8.9	(2.0)
Total			(0.2)	

Scenario name	Base value	Scenario value	Change	% Change
-50bps USD-LIBOR-3M	429.1	437.8	8.7	2.0
+50bps USD-LIBOR-3M	429.1	420.6	(8.5)	(2.0)
Total			0.2	

The derivative converts fixed US\$ interest payments of 12% into fixed EUR interest coupons, as well as the redemption of principal amounts at maturity. The fair value of the instrument is subject to changes of both the inherent exchange rates and interest rates. Fair value changes of the derivative caused by currencies are neutralised by currency changes in the underlying external debt.

At 27 September 2009, the net fair value of the seven derivatives amounted to a negative amount of US\$23.6 million (Gross 'Base Values' in the table above: US\$-452.7 million for the EUR leg and US\$429.1 million for the US\$ leg) of which a negative amount of US\$9.9 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 US\$ external debt and therefore has no impact on profit or loss. The portion of the fair value due to interest rate movements which has been recorded into equity, amounts to a negative value of US\$13.8 million. This value will reduce to zero at maturity.

For the period outstanding, the table above shows the impact that a shift of 50bps on the LIBOR/EURIBOR curve would have on the fair value. A decrease in the USD LIBOR adds to the fair value, as does an increase of the EURIBOR. When the EUR 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\$17.6 million for a shift of 50bps.

The largest shift experienced over the last 12-month period was a negative net shift of 2.26%, due to a decrease in US\$ rates of 2.51 % and a decrease in the EUR rates of 0.25%. Applied to the fair value as per 27 September 2009, this would have resulted in a positive change in fair value of US\$40.9 million.

Scenario name	Base value	Scenario value	Change	% Change
-251bps USD-LIBOR-3M	429.1	474.6	45.5	10.6
-25bps EURIBOR-6M	(452.7)	(457.3)	(4.6)	1.0
Total			40.9	

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

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. The securitisation agreement stipulates that if the company were downgraded below our current grading, an additional margin would be agreed between the bank and the company. In this respect we assumed a hypothetical increase of 1.5%.

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

	Notional	Impact on income statement of downgrade below BB credit rating
Securitisation in Europe and Hong Kong		
Europe	271,863	4,078
Hong Kong	66,650	1,000
Sub-total	338,513	5,078
Impact calculated on total portfolio amounts to:	1.50%	

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. Based on the existing agreement, 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.

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

	Notional	Impact on income statement of downgrade below BB 'secured' credit rating
External loan agreements sensitive to the group's own credit rating		
Commitment fee on unused revolving credit facility	209,000	690
Interest on utilised bank syndicated loan	400,000	3,000
Sub-total	609,000	3,690
Impact calculated on total portfolio amounts to:	0.61%	

Sensitivity analysis of interest rate risk of floating rate debt

	Total	Fixed rate	Floating rate	Impact on income statement of 50bps interest
Total debt	3,327.4	2,798.8	528.6	2.6
Ratio fixed/floating to total debt		84%	16%	

The floating rate debt represents 16% of total debt. If interest rates were to increase (decrease) by 50bps the finance cost on floating rate debt would increase (decrease) by US\$2.6 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 group's assets, liabilities, income and expenditure into the group's presentation currency. Borrowings are taken out in a range of currencies which are based on the group's preferred ratios of gearing and interest cover based on a judgement of the best financial structure for the group. 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)
2009							
Financial assets							
Other non-current assets	101	43	2	11	29	–	1
Non-current derivative financial assets*	10	10	(120)	–	–	130	–
Trade and other receivables	858	734	277	339	22	45	51
Current derivative financial assets*	10	10	10	–	–	–	–
Cash and cash equivalents	770	770	299	383	84	–	4
		1,567	468	733	135	175	56
Financial liabilities							
Non-current interest-bearing borrowings	2,726	2,726	1,154	1,068	504	–	–
Non-current derivative financial liabilities*	24	24	(429)	452	1	–	–
Current interest-bearing borrowings	601	601	187	380	34	–	–
Overdraft	19	19	3	5	–	3	8
Current derivative financial liabilities*	14	14	2	–	–	11	1
Trade and other payables	1,116	860	182	402	216	19	41
		4,244	1,099	2,307	755	33	50
Foreign exchange gap		(2,677)	(631)	(1,574)	(620)	142	6

30. Financial instruments continued

	Total	Total in scope	USD	EUR	ZAR	GBP	Other (converted into USD)
2008							
Financial assets							
Other non-current assets	168	44	2	5	37	–	–
Non-current derivative financial assets*	76	76	(223)	–	–	299	–
Trade and other receivables	698	626	287	275	22	32	10
Current derivative financial assets*	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	–	–
Non-current derivative financial liabilities*	1	1	–	–	1	–	–
Current interest-bearing borrowings	821	821	164	494	12	–	151
Overdraft	26	26	–	10	2	4	10
Current derivative financial liabilities*	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)

* 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 2009 are detailed below:

US\$ million		2009		2008	
		Contract amount (notional amount)	Fair value* (unfavourable) favourable	Contract amount (notional amount)	Fair value* (unfavourable) favourable
Bought:	US Dollar	473	(13)	2	–
	Euro	213	(1)	13	–
	ZAR	–	–	11	–
Sold:	US Dollar	(132)	9	(168)	(3)
	Euro	(16)	–	(735)	(17)
	ZAR	(1)	–	–	–
		537	(5)	(877)	(20)

* 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 2009.

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 April 2010.

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	(7.4)	(0.7)	0.8
GBP	1.5	0.1	(0.2)
CHF	6.8	0.6	(0.8)
SEK	2.6	0.2	(0.3)
JPY	2.4	0.2	(0.3)
ZAR	(32.1)	(2.9)	3.6
Other currencies	0.4	–	–
Total	(25.8)	(2.5)	2.8

Based on the exposure as at 27 September 2009, 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\$2.5 million (increase of 10%) or a gain of US\$2.8 million (decrease of 10%).

During 2009, we have contracted non-deliverable average rate forex transactions for a total notional value of US\$30 million which were used as an overlay hedge of export sales. Since these contracts have all matured before 27 September 2009, these constitute non-representative positions. The total impact on profit or loss amounts to a loss of US\$4.0 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.

During 2009, 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

1. Fair value hedges

Until June 2009, the group had the following fair value hedges which qualified for hedge accounting.

Bonds at fixed interest rates for a total notional amount of US\$856 million were hedged by seven external interest rate swaps (IRS). These interest rate swaps converted the USD fixed interest rates into floating six-month LIBOR set in arrears. The hedged risk was designated to be the interest rate risk arising from fluctuations in the US LIBOR swap curve. The effect of this transaction was to convert fixed rate debt into floating rate debt.

In June 2009, these swaps were sold for a total positive value of US\$55 million (on a clean basis, excluding interest accruals) and the underlying debt now carries the original fixed interest rates. A net loss of US\$18 million was booked to the income statement.

30. Financial instruments continued

1. Fair value hedges continued

The final life-to-date fair value adjustment of the underlying bonds on the date of the sale of the swaps was booked in June 2009 will be amortised over the life of the initial hedge designation period and amounted to US\$46.2 million. The future profit and loss account will be impacted as follows:

Accounting year	in millions US\$
Fourth quarter 2009	0.6
2010	13.2
2011	13.9
2012	14.7
2013	1.8
2014	1.7
2015	0.3
Total	46.2

As at September 2009, the group does not have any outstanding fair value hedges.

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

	2009	2008
	US\$ million at average rate	US\$ million at average rate
(unfavourable) favourable		
Fair value hedges		
Net P/L impact of sale of interest rate swaps	(18)	–
Realised result on sold hedging instruments	52	–
Reversal of life to date fair value adjustment on hedging instruments	(59)	–
Reversal unrealised interest accrual on IRS	(11)	–
Amortisation	–	(5)
Residual ineffectiveness	(9)	–
– gain on hedging instruments	41	30
– loss on hedged item	(50)	(30)
Total	(27)	(5)

30. Financial instruments continued

2. Cash flow hedges

In August 2009, Sappi entered into seven fixed for fixed interest and currency swaps with different banks, which have been designated as cash flow hedges of future cash flows linked to fixed rate debt denominated in foreign currency. Each swap corresponds to the hedged portion of the underlying US\$300 million senior secured notes due 2014. The swaps convert all future US\$ cash flows into Euro.

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

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

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

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

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

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 2009

	Total financial assets and liabilities	Fair value of financial instru- ments	Undiscounted cash flows					Total
			0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years	
Financial assets								
Other non-current assets	43	43	13	1	8	7	15	44
Non-current derivative financial assets	10	10	10	–	–	–	–	10
Receive leg			130	–	–	–	–	130
Pay leg			(120)	–	–	–	–	(120)
Trade and other receivables	734	734	734	–	–	–	–	734
Current derivative financial assets	10	10	11	–	–	–	–	11
Receive leg			262	–	–	–	–	262
Pay leg			(251)	–	–	–	–	(251)
Cash and cash equivalents	770	770	770	–	–	–	–	770
			1,538	1	8	7	15	1,569
Financial liabilities								
Interest-bearing borrowings	2,726	3,021	97	100	494	2,716	123	3,530
Non-current derivative financial liabilities	24	24	1	1	2	17	1	22
Pay leg			19	19	38	425	1	502
Receive leg			(18)	(18)	(36)	(408)	–	(480)
Interest-bearing borrowings	601	602	549	106	–	–	–	655
Overdraft	19	19	19	–	–	–	–	19
Current derivative financial liabilities	14	14	14	–	–	–	–	14
Pay leg			620	–	–	–	–	620
Receive leg			(606)	–	–	–	–	(606)
Trade and other payables	860	860	818	–	–	–	–	818
			1,498	207	496	2,733	124	5,058
Liquidity gap			40	(206)	(488)	(2,726)	(109)	(3,489)

30. Financial instruments continued

Liquidity risk management – September 2008

	Total financial assets and liabilities	Fair value of financial instruments	Undiscounted cash flows					Total
			0 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	> 5 years	
Financial assets								
Other non-current assets	44	44	12	–	14	5	6	37
Non-current derivative financial assets	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 assets	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
Non-current derivative financial liabilities	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 liabilities	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

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for 2009 and 2008, included within the various categories on the face of the balance sheet.

The reported maturity analysis is calculated on an undiscounted basis.

Classes of financial instruments	Total	Fair value hedge	Cash flow hedge	Maturity analysis				
				Undiscounted cash flows				
				<6M	>6M <1Y	>1Y <2Y	>2Y <5Y	>5Y
September 2009								
Assets								
Fair value of derivatives by risk factor								
Interest rate risk								
Interest rate swaps	10	10	-	10	-	-	-	-
receiving leg	130	130	-	130	-	-	-	-
paying leg	(120)	(120)	-	(120)	-	-	-	-
Foreign exchange risk								
FX forward contracts	10	-	-	11	-	-	-	-
receiving leg	260	-	-	262	-	-	-	-
paying leg	(250)	-	-	(251)	-	-	-	-
Liabilities								
Fair value of derivatives by risk factor								
Interest rate risk								
Interest rate swaps	24	-	24	1	1	2	17	1
paying leg	453	-	453	19	19	38	425	1
receiving leg	(429)	-	(429)	(18)	(18)	(36)	(408)	-
Foreign exchange risk								
FX forward contracts	14	-	-	14	-	-	-	-
paying leg	619	-	-	620	-	-	-	-
receiving leg	(605)	-	-	(606)	-	-	-	-

30. Financial instruments continued

Classes of financial instruments	Total	Fair value hedge	Cash flow hedge	Maturity analysis				
				Undiscounted cash flows				
				<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

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

September 2009	Total balance	Out of scope IAS 39	Categories according to IAS 39				Total in scope	Fair value
			Held for trading	Loans and receiv- ables	Held to maturity	Available for sale		
Classes of financial instruments								
Non-current assets								
Other non-current assets	101	58	–	20	–	23	43	43
Loans to associates (minority interests)		–	–	4	–	–	4	4
AFS – Club debentures		–	–	–	–	2	2	2
AFS – (Investment) funds		–	–	–	–	19	19	19
Other assets		58	–	16	–	2	18	18
Derivative financial instruments	10	–	10	–	–	–	10	10
Current assets								
Trade and other receivables	858	124	–	734	–	–	734	734
Trade receivables		–	–	667	–	–	667	667
Other accounts receivable – current		124	–	67	–	–	67	67
Derivative financial instruments	10	–	10	–	–	–	10	10
Cash (and cash equivalents)	770	–	–	770	–	–	770	770
Overnight deposits and current accounts (incl petty cash)		–	–	99	–	–	99	99
Time deposits (<3 months)		–	–	628	–	–	628	628
Money market funds		–	–	43	–	–	43	43

30. Financial instruments continued

September 2009	Total balance	Out of scope IAS 39	Categories according to IAS 39		Total in scope	Fair value
			Held for trading	Other financial liabilities		
Classes of financial instruments						
Non-current liabilities						
Interest-bearing borrowings	2,726	–	–	2,726	2,726	3,021
Bank loans payable (>1 year) – incl syndicated loans		–	–	720	720	804
Bonds		–	–	1,952	1,952	2,161
Financial leasing liabilities		–	–	54	54	56
Derivative financial instruments	24	–	24	–	24	24
Current liabilities						
Interest-bearing borrowings	601	–	–	601	601	602
Bank loans payable (<1 year) – incl syndicated loans		–	–	149	149	150
Current portion of other non-current loans payable		–	–	32	32	32
Financial leasing liabilities		–	–	19	19	19
Secured loans (<1 year)		–	–	67	67	67
Securitisation debt		–	–	333	333	333
Other current loans – external		–	–	1	1	1
Overdraft						
Bank overdrafts (<3 months)	19	–	–	19	19	19
Derivative financial instruments	14	–	14	–	14	14
Trade and other payables	1,116	256	–	860	860	860
Accruals		255	–	262	262	262
Accounts payable to associates		–	–	1	1	1
Other accounts payable – current		1	–	597	597	597

30. Financial instruments continued

September 2008	Total balance	Out of scope IAS 39	Categories according to IAS 39				Total in scope	Fair value
			Held for trading	Loans and receivables	Held to maturity	Available for sale		
Classes of financial instruments								
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

September 2008	Total balance	Out of scope IAS 39	Categories according to IAS 39		Total in scope	Fair value
			Held for trading	Other financial liabilities		
Classes of financial instruments						
Non-current liabilities						
Interest-bearing borrowings	1,832	–	–	1,832	1,832	1,719
Bank loans payable (>1 year) – incl 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

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	
	2009	2008	2007	2009	2008	2007	2009	2008	2009	2008
Joint ventures										
Jiangxi Chenming	2.0	4.0	3.8	1.5	2.6	2.2	–	–	3.7	7.6
Sapin SA	0.4	0.3	–	21.3	30.9	28.2	–	–	0.9	1.1
VOF Warmtekracht	38.1	44.2	41.4	25.0	32.8	30.5	–	–	–	–
Umkomaas Lignin (Pty) Ltd	0.9	1.1	0.9	–	–	–	0.9	0.7	–	–
Papierholz Austria GmbH	–	–	–	68.5	92.7	90.4	–	–	6.1	5.3
	41.4	49.6	46.1	116.3	159.0	151.3	0.9	0.7	10.7	14.0

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 the compensation report.

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 (Pty) Ltd, a transaction sponsor to Sappi Limited.

Key management personnel

Compensation for key management was as follows:

US\$ million	Total excluding directors			Total including directors		
	2009	2008	2007	2009	2008	2007
Short-term benefits	2.9	2.9	2.5	4.3	4.3	4.1
Post employment benefits	0.7	0.4	0.3	0.9	0.7	0.8
Share-based payments	–	–	0.2	–	–	0.2
	3.6	3.3	3.0	5.2	5.0	5.1

The number of key management personnel included above for 2009 was nine (2008: ten).

32. Events after balance sheet date

On 22 October 2009, Sappi announced that it will enter into a consultation process with the employee representatives at its Kangas Mill in Finland. The aim of this process is to identify the best way of improving company profitability, which may include a full closure of the mill. Kangas Mill has the capacity to produce 210,000 tons of coated magazine paper annually.

On 30 October 2009, Sappi announced that it will begin the process of consulting with staff and all other relevant stakeholders regarding its intention to close the Usutu Pulp Mill in the Kingdom of Swaziland on 31 January 2010. With the closure of the mill, Sappi would exit the unbleached softwood flash-dried pulp market served by Usutu Pulp Mill. The mill has a capacity of 190,000 tons annually. Sappi will continue to seek future beneficiation opportunities for the profitable utilisation of the Usutu forests. This could include the introduction of new investors.

At the end of September 2009, no provision had been raised in respect of the proposed restructuring above.

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), wastewater 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\$5 million in the financial year ended September 2009 (September 2008: 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. On 29 June 2009, the State of Maine, Department of Inland Fisheries and Wildlife, issued a decision requiring Sappi Fine Paper North America to install a fish passage at its Cumberland mills dam on the Presumpscot River. A second hearing that began on 18 November 2009 to determine further fishway requirements, including design and operation, has been continued until January 2010, and a decision is expected during the second quarter of 2010. The installation of a fishway on the Cumberland Mills dam will trigger the obligation to install fishways at Sappi Fine Paper North America's dams upstream of the Cumberland Mills dam as well, to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of all these projects is estimated to be in the range of approximately US\$18 million to US\$28 million, part of which is expected to be incurred in the near future and part of which will be incurred over a number of years. Because the proceedings regarding fishway design and operation are still pending, we do not know when the construction phase at the Cumberland Mills dam will begin, or the precise timing for incurring related costs.

We closely monitor state, regional and Federal GHG initiatives in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol, and has not yet adopted a Federal programme for controlling GHG emissions, Congress is considering comprehensive Federal legislation regarding climate change. In addition, the US Environmental Protection Agency has proposed several rules relating to emissions reporting and reductions, and various regional initiatives regarding climate change are in effect or proposed. The nature, scope and timing of such climate change legislation is highly uncertain and, currently, we do not know what effect, if any, such legislation will have on our financial condition and operations.

33. Environmental matters continued

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
- The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonise existing European and national regulations to provide a better protection of human health and our environment is not directly applicable to pulp and paper. It does apply to a number of raw materials that we source. We will also register some intermediate substances in our pulp production processes. Registration requirements for intermediates are rather limited so that the registration costs are not expected to be material
- 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. Acquisition

On 31 December 2008, Sappi acquired M-real's coated graphic paper business for an enterprise value of €750 million (approximately US\$1.1 billion). The final purchase consideration was reduced by assumed debt and other adjustments (including working capital) amounting to €102 million in total. The transaction included M-real's coated graphic paper business, including brands and company knowledge, as well as four coated graphic mills. This transaction has been accounted for by the purchase method of accounting.

The acquisition was financed through a combination of equity, assumed debt, the cash proceeds from a rights offering and a vendor loan note.

The acquired business contributed sales of US\$890 million, net operating profit of US\$33 million and net profit of US\$38 million to the group results for the period from acquisition to 27 September 2009. Included in the net profit of the acquired business for the year, is the US\$41 million discount received on the settlement of the vendor loan notes.

34. Acquisition continued

Details of net assets acquired and goodwill are as follows:

	EUR million	US\$ million
Purchase consideration:		
Cash consideration	401	565
Shares issued*	32	45
Vendor loan note	220	307
Adjustments to working capital	(4)	(6)
Gain on forward exchange contract covering purchase consideration	(24)	(32)
Direct costs relating to the acquisition	23	32
Total purchase consideration	648	911
Provisional fair value of net identifiable assets acquired (see below)	648	911
Provisional goodwill**	–	–

The assets and liabilities arising from the acquisition are as follows:

	EUR million	EUR million	US\$ million	US\$ million
	Acquiree's carrying amount	Provisional fair value	Acquiree's carrying amount	Provisional fair value
Property, plant and equipment	634	531	892	747
Information technology related intangibles	2	2	3	3
Brand names	–	18	–	25
Inventories	118	115	166	162
Trade receivables	200	192	281	270
Prepayments and other debit balances	15	18	21	25
Cash and cash equivalents	5	5	7	7
Trade payables	(85)	(85)	(120)	(120)
Pension liabilities	(37)	(37)	(52)	(52)
Borrowings	(46)	(42)	(65)	(59)
Provisions	(4)	(4)	(6)	(6)
Other payables and accruals	(60)	(65)	(84)	(91)
Net deferred tax (liabilities) assets	(11)	–	(15)	–
Net identifiable assets acquired	731	648	1,028	911

Outflow of cash to acquire business, net of cash acquired:

	EUR million	US\$ million
Cash consideration	401	565
Direct costs relating to acquisition	23	32
Cash and cash equivalents in subsidiary acquired	(5)	(7)
Net cash outflow on acquisition	419	590

* 11,159,702 Sappi shares were issued to M-real as partial payment of the acquisition price. The fair value of US\$45 million (€32 million) was determined using Sappi's published market price at the date of exchange.

** The initial accounting for the business combination has been determined provisionally as at the end of September 2009 because the group is still in the process of finalising the fair values of the identifiable assets and liabilities of the acquired business of M-real.

Company auditor's report

for the year ended September 2009

Independent auditor's report to the members of Sappi Limited

The condensed annual financial statements of Sappi Limited set out on pages 194 to 198 have been derived from the annual financial statements of the company for the year ended September 2009. We have audited the annual financial statements in accordance with International Standards on Auditing. In our report dated 04 December 2009, 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

04 December 2009

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 Risk Advisory L Geeringh Consulting L Barn Corporate Finance C R Beukman Finance T J Brown Clients & Markets N T Mtoba Chairman of the Board CR Qually Deputy 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 2009

ZAR million	Note	2009	2008
Operating loss	1	(38)	(154)
Income from subsidiaries	2	–	611
Net finance income	3	21	5
(Loss) profit before taxation		(17)	462
Taxation – Current		25	(44)
– Deferred		19	61
(Loss) profit for the year		(61)	445

Condensed Sappi Limited company statement of comprehensive income

for the year ended September 2009

ZAR million	2009	2008
(Loss) profit for the year	(61)	445
Other comprehensive income, net of tax	–	–
Total comprehensive income for the year	(61)	445

Condensed Sappi Limited company balance sheet

at September 2009

ZAR million		2009	2008
Assets			
Non-current assets			
Property, plant and equipment		2	3
Investments in subsidiaries	(Annexure A)	18,142	12,319
Intercompany receivables	(Annexure A)	2,199	2,420
Loan to Executive Share Purchase Trust		81	104
Project cost capitalised		–	85
Deferred tax asset		–	19
Current assets		42	41
Receivables		8	5
Intercompany receivables	(Annexure A)	34	36
Total assets		20,466	14,991
Equity and liabilities			
Shareholders' equity			
Ordinary share capital		537	239
Share premium		12,062	6,427
Non-distributable reserves		333	247
Retained earnings		7,402	7,837
Non-current liabilities			
Intercompany payables	(Annexure A)	31	30
Current liabilities		101	211
Trade and other payables		44	123
Intercompany payables	(Annexure A)	42	75
Taxation payable		15	13
Total equity and liabilities		20,466	14,991

Condensed Sappi Limited company statement of changes in equity

for the year ended September 2009

ZAR million	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Distributable reserves	Total equity
Balance – September 2007	239.1	239	6,427	6,666	18	7,891	14,575
Share-based payment	–	–	–	–	229	–	229
Profit for the year	–	–	–	–	–	445	445
Dividends*	–	–	–	–	–	(499)	(499)
Balance – September 2008	239.1	239	6,427	6,666	247	7,837	14,750
Share-based payment	–	–	–	–	86	–	86
Profit for the year	–	–	–	–	–	(61)	(61)
Dividends*	–	–	–	–	–	(374)	(374)
Rights issue proceeds	286.8	287	5,528	5,815	–	–	5,815
Costs directly attributable to the rights issue	–	–	(302)	(302)	–	–	(302)
Issue to M-real	11.2	11	409	420	–	–	420
Balance – September 2009	537.1	537	12,062	12,599	333	7,402	20,334

* Dividends relate to the previous financial year's earnings but were declared subsequent to year end.

Condensed Sappi Limited company cash flow statement

at September 2009

ZAR million	2009	2008
(Loss) profit before interest and taxation	(38)	457
Adjustments:		
Dividends received pre-acquisition	82	136
Impairment of investment	–	113
Subsidiary transactions	306	(123)
Other	13	13
Cash generated from operations	363	596
Movement in working capital	(82)	57
Net finance income	21	5
Taxation paid	(23)	18
Dividends paid	(374)	(499)
Cash (utilised in) retained from operating activities	(95)	177
Fixed asset purchases	–	(1)
Increase in non-current assets	–	(80)
Increase in investments	(5,493)	(315)
Increase in equity and reserves	5,513	–
Proceeds from share option deliveries	75	218
Net movement in cash and cash equivalents	–	(1)
Cash and cash equivalents at beginning of year	–	1
Cash and cash equivalents at end of year	–	–

Notes to the condensed Sappi Limited company financial statements

for the year ended September 2009

ZAR million	2009	2008
1. Operating loss		
The operating loss is arrived at after taking into account the items detailed below:		
Depreciation	2	2
Technical and administrative services paid other than to bona fide employees of the company	10	10
Auditors' remuneration	12	35
– fees for audit and related services	8	8
– fees for other services	4	5
– fees for acquisition and related services	–	22
Directors' remuneration	19	18
Staff costs	96	89
Management fees received from subsidiaries	211	224
Impairment of investment	–	113
2. Income from subsidiaries		
Dividends received from subsidiaries	82	747
Less pre-acquisition portion	(82)	(136)
	–	611
3. Net finance income		
Interest paid	–	(1)
Interest received	35	15
Net foreign exchange losses	(14)	(9)
	21	5
4. Commitments		
Revenue commitments		
Operating leases and rentals		
Payable within one year	1	1
Payable in two to five years	1	1
	2	2
5. Contingent liabilities		
Guarantees and suretyships	20,581	13,099
6. 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 2009

	Share capital	Effective holding		Book value of investment		Loan to subsidiary		Loan from subsidiary			
		2009 %	2008 %	2009 ZAR million	2008 ZAR million	2009 ZAR million	2008 ZAR million	2009 ZAR million	2008 ZAR million		
Annexure A											
Investments in subsidiaries and joint venture											
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	100	-	-	504	456	-	-
Sappi Manufacturing (Pty) Ltd	O	ZAR12,026,250	100	100	1,851	1,851	906	1,357	-	-	
Sappi Share Facilitation Company (Pty) Ltd	O	ZAR1,000	100	100	-	-	789	607	-	-	
Usutu Pulp Company Ltd	O	SZL10,000,000	100	100	-	-	-	-	-	-	
America											
SD Warren Company	O	USD1,000	100	100	-	-	-	-	(7)	(35)	
Sappi Cloquet LLC	O	- ⁽¹⁾	100	100	-	-	-	-	-	-	
Europe											
Sappi Alfeld GmbH	O	EUR31,200,000	100	100	-	-	-	-	-	-	
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											
Beteiligungsverwaltungs GmbH	H	EUR1,000,000	100	100	-	-	-	-	-	-	
Sappi Europe SA	O	EUR15,130,751	100	100	-	-	-	-	(22)	(31)	
Sappi Finland 1 Oy	O	EUR2,500	100	-	-	-	-	-	-	-	
Sappi Fine Paper plc	M	GBP50,000	100	100	1	1	-	-	-	-	
Sappi Holding GmbH	H	EUR72,700	100	100	16,288	10,375	-	-	-	(6)	
Sappi International SA	F	EUR1,200,603,930	100	100	-	-	34	32	-	-	
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 Schweiz AG	O	CHF10,000	100	-	-	-	-	-	-	-	
Sappi Stockstadt GmbH	O	EUR40,000	100	-	-	-	-	-	-	-	
Sappi Papier Holding GmbH	H&O	EUR72,700	100	100	-	-	-	1	(1)	-	
Sappi Trading Pulp AG	O	CHF100,000	100	100	-	-	-	-	(9)	-	
PE Paper Escrow GmbH	F	EUR35,000	100	-	-	-	-	-	-	-	
Sappi UK Ltd	O	GBP74,020,000	100	100	-	-	-	-	-	-	
Asia											
Jiangxi Chenming Paper Co Ltd	JV	RMB1,424,160,000	34	34	-	-	-	-	-	-	
Other											
Brocas Ltd	H	US\$3,385,401	100	100	-	-	-	-	-	-	
Lignin Insurance Co Ltd ⁽²⁾	F	US\$656,000	100	100	2	85	-	3	-	-	
Employee share participation Trusts					-	-	-	-	(31)	(30)	
Various other companies					-	7	-	-	(3)	(3)	
Write down of investment in subsidiaries						18,142	12,319	2,233	2,456	(73)	(105)
						-	-	-	-	-	-
						18,142	12,319	2,233	2,456	(73)	(105)
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) 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

coated mechanical – coated paper made from groundwood pulp which has been produced in a mechanical process, primarily used for magazines, catalogues and advertising material

coated woodfree – coated paper made from chemical pulp which is made from wood fibre that has been produced in a chemical process, primarily used for high end publications and advertising material

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, hydro-fluorocarbons, 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

$$\text{Lost Time Injury Rate (LTIFR) Frequency} = \frac{\text{number of lost time injuries} \times 200,000}{\text{manhours}}$$

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, produced from coniferous trees (ie spruce, pine) in Scandinavia, Canada and northern 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 – embossed paper used to impart design in polyurethane or polyvinyl chloride plastic films for the production of synthetic leather and other textured surfaces. The term also applies to backing paper for self adhesive labels

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 1,000kg

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 – the acquisition of M-real's coated graphic paper business on 31 December 2008

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 unless these are anti-dilutive

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 or currency other than that of the reporting entity

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 3/2009 issued by the South African Institute of Chartered Accountants, separates from earnings all separately identifiable remeasurements. It is not necessarily a measure of sustainable earnings. It is a Listings Requirement of the JSE Limited to disclose headline earnings per share

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, non-recurring integration costs related to acquisitions, financial impacts of natural disasters, non-cash gains or losses on the price fair value adjustment of plantations and alternative fuel tax credits receivable in cash

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-third annual general meeting of Sappi will be held in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg on Monday, 01 March 2010, 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 2009.
2. **Ordinary resolutions numbers 1.1 and 1.2:** confirmation of appointment of directors appointed subsequent to the last annual general meeting and subsequent to the financial year end, and re-election of those directors (see notes below).

Ordinary resolution number 1.1: resolved that the appointment of Mr Peter Nlkateko Mageza with effect from 01 January 2010 is confirmed and as, in terms of the Articles of Association of Sappi Limited, he retires from office at the conclusion of the annual general meeting at which this resolution is considered, he is re-elected as a director of Sappi Limited.

Ordinary resolution number 1.2: resolved that the appointment of Dr Rudolf Thummer with effect from 01 February 2010 is confirmed and as, in terms of the Articles of Association of Sappi Limited, he retires from office at the conclusion of the annual general meeting at which this resolution is considered, he is re-elected as a director of Sappi Limited.

3. **Ordinary resolutions numbers 2.1 to 2.4:** 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.

It is intended that all the directors who retire by rotation will, if possible, attend the annual general meeting, either in person or by means of videoconferencing.

Ordinary resolution number 2.1

'Resolved that Dr Deenadayalen Konar is re-elected as a director of Sappi Limited.'

Ordinary resolution number 2.2

'Resolved that Mr John David McKenzie is re-elected as a director of Sappi Limited.'

Ordinary resolution number 2.3

'Resolved that Sir Anthony Nigel Russell Rudd is re-elected as a director of Sappi Limited.'

Ordinary resolution number 2.4

'Resolved that Mr Mark Richard Thompson is re-elected as a director of Sappi Limited.'

4. **Ordinary resolution number 3:** Re-appointment of auditors

The board has evaluated the performance of Deloitte & Touche and recommends and supports their re-appointment as auditors of Sappi.

'Resolved to re-appoint Deloitte & Touche (with the designated registered auditor currently being Mr M J Comber) as the auditors of Sappi Limited for the year ending September 2010'.

5. **Ordinary resolution number 4:** Placing of unissued shares and treasury shares under the control of the directors

'Resolved that, subject 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 Listings Requirements (**Listings 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 4 constitute approximately 4.65% of the issued share capital of Sappi;
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.

No issue and/or sale of these shares is contemplated at present nor will be made which could effectively transfer control of Sappi without the prior approval of shareholders in general meeting.

6. Ordinary resolution number 5:

Non-executive directors' fees

'Resolved that, with effect from 01 October 2009 and until otherwise determined by Sappi Limited ('Sappi') in general meeting, the remuneration of the non-executive directors for their services shall be increased as follows:

	From	To
1. Sappi board fees		
Chairperson	ZAR1,650,000 pa*	ZAR1,765,500 pa*

* Inclusive of all committee fees.

Senior independent non-executive director

If South African resident	ZAR356,000 pa	ZAR380,900 pa
If European resident		GBP54,600 pa
If USA resident		US\$82,700 pa
Other directors		
If South African resident	ZAR237,500 pa	ZAR254,100 pa
If European resident	GBP35,700 pa	GBP36,400 pa
If USA resident	US\$54,000 pa	US\$55,100 pa

	From	To
2. Audit committees		

Group committee

Chairperson

If South African resident	ZAR237,500 pa	ZAR254,100 pa
If European resident	GBP35,700 pa	GBP36,400 pa
If USA resident	US\$54,000 pa	US\$55,100 pa

Other members

If South African resident	ZAR118,000 pa	ZAR126,300 pa
If European resident	GBP17,900 pa	GBP18,300 pa
If USA resident	US\$27,000 pa	US\$27,500 pa

Regional audit committees

Chairperson		
If South African resident	ZAR30,000 per meeting	ZAR32,100 per meeting
If European resident	GBP4,600 per meeting	GBP4,700 per meeting
If USA resident	US\$6,750 per meeting	US\$6,900 per meeting

	From	To
3. Human resources committee, compensation committee, nomination and governance committee and any additional committees		

Chairperson

If South African resident	ZAR148,000 pa	ZAR158,400 pa
If European resident	GBP21,500 pa	GBP21,900 pa
If USA resident	US\$32,000 pa	US\$32,600 pa

Other members

If South African resident	ZAR77,000 pa	ZAR82,400 pa
If European resident	GBP15,100 pa	GBP15,400 pa
If USA resident	US\$19,500 pa	US\$19,900 pa

Regional audit committees

Chairperson		
If South African resident	ZAR30,000 per meeting	ZAR32,100 per meeting
If European resident	GBP4,600 per meeting	GBP4,700 per meeting
If USA resident	US\$6,750 per meeting	US\$6,900 per meeting

	From	To
4. Additional meeting fees, board meetings in excess of five meetings per annum (whether attended in person or by teleconference/videoconference)		

If South African resident	ZAR23,700 per meeting	ZAR25,400 per meeting
If European resident	GBP3,500 per meeting	GBP3,600 per meeting
If USA resident	US\$5,400 per meeting	US\$5,500 per meeting

	From	To
5. Travel compensation (increase of 3.7%)		
For more than ten flight hours return	US\$2,700 per meeting	US\$2,800 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 5 increases the remuneration currently paid to non-executive directors and board committee members by between approximately 2% and 7% per annum depending generally on the domicile of the directors and the currency in which they are paid, with effect from 01 October 2009. The fees were last increased with effect from 01 October 2008 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.

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.

As at the date of this notice, the board has not made a decision on retaining the position of senior non-independent director after the retirement of the present incumbent, Mr D C Brink, at the end of December 2009. Further information on this will be provided at the meeting. For the purposes of flexibility, the latest fee proposals for the position include the provision for fees not only in rands as in the past, but also in British Pound Sterling and US dollars in the event that the position is retained and a non-South African is appointed. The proposed fees are in the same ratio to the Chairman's fee as the existing senior independent non-executive fee.

7. **Ordinary resolution number 6:** 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 01 March 2010 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.

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 Depository 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 01 March 2010 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 invites shareholders to ask questions at the annual general meeting. In order to facilitate the answering of questions at the meeting, shareholders who wish to ask questions in advance are encouraged to submit their questions in writing to the Group Secretary by 17:00 on Thursday, 25 February 2010 at:

7th Floor
48 Ameshoff Street
Braamfontein
Johannesburg 2001

or

PO Box 31560
Braamfontein
2017

or

by e-Mail to Denis.O'connor@sappi.com

Sappi Management Services (Pty) Limited

Secretaries: per D J O'Connor
48 Ameshoff Street
Braamfontein, Johannesburg 2001

04 December 2009

Notes

Confirmation of appointment of Directors appointed since the last annual general meeting and subsequent to the year end, and the re-election of these directors

Peter Nkateko Mageza (54) ACCA (UK)

Mr Mageza joins the Sappi board on 01 January 2010 as an independent non-executive director after having held senior executive positions across a wide range of industries. He is a former Group Chief Operating Officer of ABSA Group Limited; Assistant General Manager for Process Management at Nedcor Limited; and Chief Executive Officer of Autonet, the road passenger and freight logistics division of Transnet Limited. He serves as a non-executive director on the boards of Bidvest Group Limited, Remgro Limited and Rainbow Chickens Limited. He is a Chartered Certified Accountant and a fellow of the Association of Chartered Certified Accountants (ACCA) in the UK. Mr Mageza will turn 55 years on 28 December 2009.

Dr Rudolf Thummer (61) (Austrian) Dr Techn, Dipl – Ing

Dr Thummer joins the Sappi board on 01 February 2010 as a non-executive director after having served many years in the pulp and paper industry. He joined Hannover Papier in 1979 (later purchased by Sappi) as Manager of Research and Development. In 1982, he became the Paper Mill Manager at Alfeld Mill. In 1990, he was appointed technical director of Alfeld Mill. In 1992, Dr Thummer became an executive board member of the Hannover Papier Group, responsible for Manufacturing at the Alfeld and Ehingen Mills. In 1998, he moved to Sappi Fine Paper Europe based in Brussels, as technical director and executive board member. He was appointed as Sappi Limited group head technology from 01 January 2006 and retired from that position at the end of December 2007. He holds a doctorate in Technical Sciences, and a qualified engineer's degree from the Graz Technical University in Austria. He will turn 62 years on 10 December 2009.

Directors retiring by rotation who are seeking re-election

Please refer to the undermentioned pages of this report for details of the directors who are retiring by rotation and seeking re-election at the annual general meeting on 01 March 2010 :

1. Dr Deenadayalen Konar – page 27
2. Mr John (Jock) David McKenzie – page 27
3. Sir Anthony Nigel Russell Rudd – page 28
4. Mr Mark Richard Thompson – page 28

Shareholders' diary

Annual general meeting	01 March 2010
First and third quarter reports released	January and August 2010
Second quarter and half-year report released	May 2010
Financial year-end	September 2010
Preliminary results for the fourth quarter and year released, dividend announcement	November 2010
Annual report posted to shareholders	December 2010

Administration

Sappi Limited

Registration number 1936/008963/06
 JSE code: SAP
 ISIN code: ZAE 000006284
 NYSE code: SPP

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 States ADR Depository

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
 Telephone +27 (0)11 407 8111
 Fax +27 (0)11 403 8236
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Investor relations

Graeme Wild – Group Investor Relations Manager
 Telephone +27(0)11 407 8391
 Fax +27(0)11 403 1493
 e-Mail Graeme.Wild@sappi.com

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 (ie where the paper share certificates representing the shares have been replaced with electronic records of ownership under the electronic settlement and depository system (Strate Limited) of the JSE Limited and are recorded in Sappi's sub-register with 'own name' registration) (ie shareholders who have specifically instructed their Central Securities Depository 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-third annual general meeting of the members to be held at 15:00 on Monday, 01 March 2010 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 not later than 15:00 South African time on Saturday 27 February 2010, to Sappi's transfer secretaries, Computershare Investor Services (Pty) 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.

Shareholders who have dematerialised their shares and who do not have 'own name' registration and 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.

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 01 March 2010 or any adjournment thereof, as follows:

	Number of shares		
	For	Against	Abstain
Ordinary resolution number 1 – confirmation of appointment and re election of directors appointed since the last annual general meeting*			
Ordinary resolution number 1.1 – Mr Peter Nkateko Mageza			
Ordinary resolution number 1.2 – Dr Rudolf Thummer			
Ordinary resolution number 2 – Re-election of directors retiring by rotation in terms of Sappi's Articles of Association*			
Ordinary resolution number 2.1 – Re-election of Dr Deenadayalen Konar as a director of Sappi Limited			
Ordinary resolution number 2.2 – Re-election of Mr John David McKenzie as a director of Sappi Limited			
Ordinary resolution number 2.3 – Re-election of Sir Anthony Nigel Russel Rudd as a director of Sappi Limited			
Ordinary resolution number 2.4 – Re-election of Mr Mark Richard Thompson as a director of Sappi Limited			
Ordinary resolution number 3 – Re-appointment of Deloitte & Touche as auditors for the year ending 30 September 2010			
Ordinary resolution number 4 – 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 5 – Increase in non-executive directors' fees			
Ordinary resolution number 6 – Authority for directors to sign all documents and do all such 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 202.

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 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001, Republic of South Africa or posted to PO Box 61051, Marshalltown, 2107, Republic of South Africa.
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 stands 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 (Pty) 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), to be received by not later than 15:00 on Saturday 27 February 2010.
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.

forward-looking statements

Certain statements in this release 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. The words 'believe', 'anticipate', 'expect', 'intend', 'estimate', 'plan', 'assume', 'positioned', 'will', 'may', 'should', 'risk' and other similar expressions, which are predictions of or indicate future events and future trends, which do not relate to historical matters, identify forward-looking statements. 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, the impact of the global economic downturn, the risk that the Acquisition 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 realized 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, the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicity, 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, possible early termination of alternative fuel tax credits, unanticipated production disruptions (including as a result of planned or unexpected power outages), 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. We undertake 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 announcement an estimate of total synergies from the Acquisition and the integration of the acquired business into our existing business. The estimate of synergies 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 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.

www.sappi.com

This report has been compiled and produced by Sappi Corporate Affairs© 2009

Sappi House • 48 Ameshoff Street • 2001 Braamfontein • Johannesburg • South Africa

Getting from A to B can sometimes be a little tricky,
but not when you have paper and the power of
imagination building bridges between ideas and
reality. Who knows what divide paper will help us
cross next?

www.sappi.com

