

The Sappi logo is displayed in a bold, lowercase, blue sans-serif font. It is positioned in the upper right quadrant of the page, set against a white rectangular background that is part of a larger white text box. The background of the entire page is a photograph of a paper mill, showing a large pile of wood chips in the lower left and numerous rectangular wood chips flying through the air against a clear blue sky. In the lower right, there are large industrial tanks and pipes, some of which are highlighted with circular white overlays.

sappi

annual report
2010

Our reporting strategy

The King Report on Governance for South Africa 2009 (King III), which is recognised internationally as a leading governance standard, was adopted by the JSE and became effective on 01 March 2010. As we are headquartered in South Africa with our primary listing on the JSE Limited we subscribe to King III. In line with the integrated reporting requirement contained in King III, we have increased the level of integration in this year's report. Primarily we are responding to the guideline to "...transparently disclose

information that is material, relevant, accessible, understandable and comparable" and to demonstrate that "...strategy, risk, performance and sustainability are inseparable" in the way Sappi manages its business.

We use 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 2010 and longer term prospects, stakeholders are directed to the following sources of company information:

- Quarterly results announcements and analyst presentations.
- Annual reports 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, aimed at giving the reader a broad overview of our sustainability performance.
- Our online report (http://sappi.investoreports.com/sappi_sdr_2010) follows the same structure as the printed report, but incorporates additional detail and includes a comprehensive Global Reporting Initiative (GRI) index which has links to relevant sections in the annual report, the Form 20-F and previous sustainability reports.
- Group website – **www.sappi.com**

Note: Please refer to the glossary of terms used in this report on pages 189 to 191.

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)









This report is printed on
Magno Satin: cover – 250g/m²,
pages 1 to 64 – 150g/m² and
Triple Green Silk:
pages 65 to 200 – 115g/m²

Sappi is a leading producer of coated fine paper used in the printing of high end printed communications.

Cover picture: Wood chips are a renewable resource from certified forests used at Sappi Saiccor Mill

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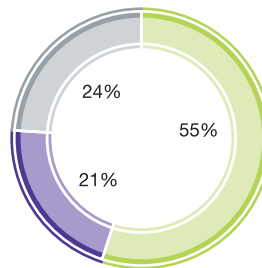
Who we are

Globally Sappi works closely with customers, both direct and indirect, in over 100 countries to provide them with relevant and sustainable paper, paper-pulp and chemical cellulose products and related services and innovations. Our market-leading range of paper-products includes: coated fine papers used by printers, publishers and corporate end-users in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; casting release papers used by suppliers to the fashion, textiles, automobile and household industries; and in the Southern African region newsprint, uncoated graphic and business papers, premium quality packaging papers, paper grade pulp and chemical cellulose. Our chemical cellulose products are used worldwide by converters to create viscose fibre, acetate tow, pharmaceutical products as well as a wide range of consumer products.

The pulp needed for our products is either produced within Sappi or bought from accredited suppliers. Across the group, Sappi is close to 'pulp neutral', meaning that we sell almost as much pulp as we buy.

Sales by source*

2010: US\$6,572 million

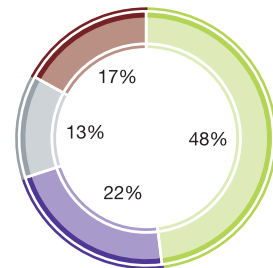


■ Europe
■ North America
■ Southern Africa

* Where the product is manufactured.

Sales by destination**

2010: US\$6,572 million

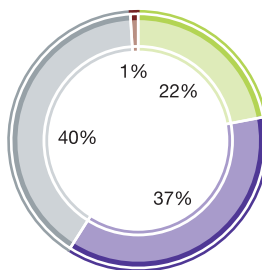


■ Europe
■ North America
■ Southern Africa
■ Asia and other

** Where the product is sold.

Operating profit excluding special items

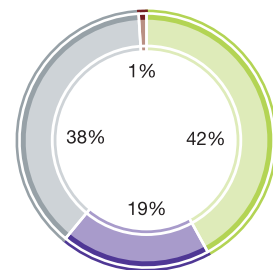
2010: US\$339 million



■ Europe
■ North America
■ Southern Africa
■ Unallocated

Share of group's net operating assets

2010: US\$4,996 million



■ Europe
■ North America
■ Southern Africa
■ Unallocated

Key facts

15,600 employees worldwide

Sales in over 100 countries

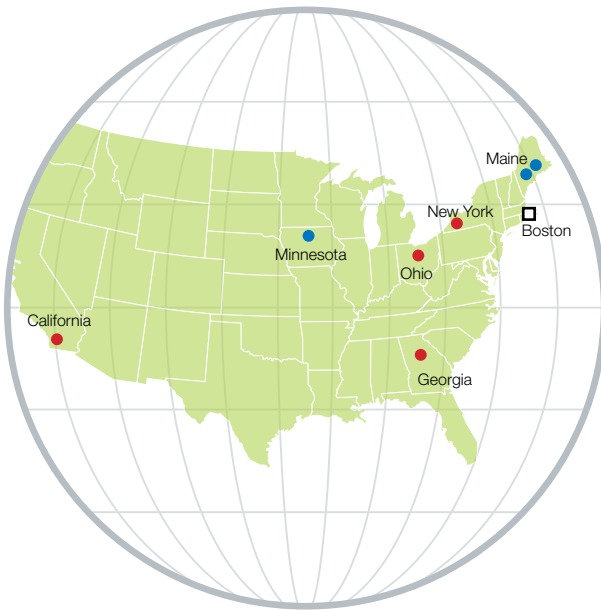
Manufacturing operations on four continents

Paper production capacity of 6.6 million tons per annum

Paper pulp production capacity of 3.3 million tons per annum

Chemical cellulose production capacity of 800,000 tons per annum

Sappi Fine Paper North America	21% of group sales
	3 Mills 4 Sales offices

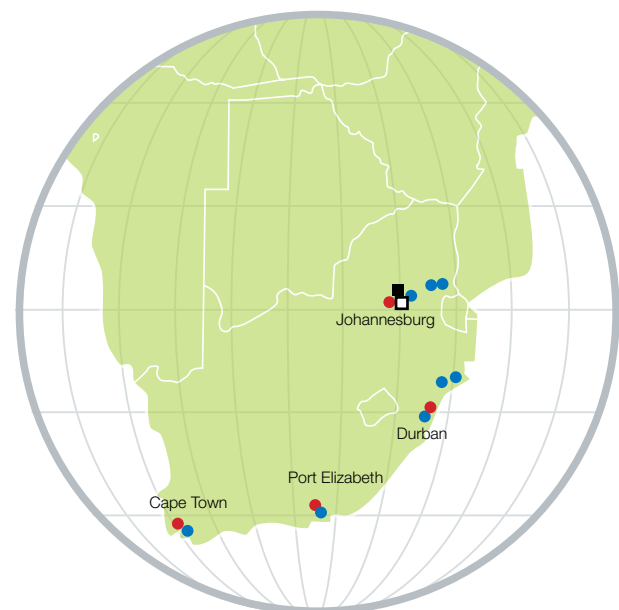


Sappi Fine Paper Europe	55% of group sales
	9 Mills 16 Sales offices



Sappi Trading		
Sappi Trading operates a network for the selling and distribution of our products outside our core operating regions of North America, Europe and Southern Africa. Sappi Trading also co-ordinates our shipping and logistical functions for exports from these regions.	Sales offices	Logistics offices
	Bogotá Hong Kong Johannesburg Mexico City Nairobi São Paulo Singapore Shanghai Sydney Taipei Vienna	Durban New York
Jiangxi Chenming Paper Co (JV) 34% ownership		
China	1 Mill	

Sappi Southern Africa	24% of group sales
Sappi Paper and Paper Packaging	6 Mills + 1 operation 4 Sales offices
Sappi Forests	555,000 ha 1 Sawmill
Sappi Chemical Cellulose	1 Mill



- Corporate head office
- Regional head offices
- Mills
- Sales offices

Performance highlights

2010 was a much improved year for Sappi. Demand for our paper and pulp improved gradually through the year off the very low levels seen in 2009. Pulp prices rose rapidly during the year, benefiting our Southern African and North American businesses, which are net sellers of pulp, but squeezing margins in our European business, which buys approximately half of its pulp requirements. The European business was able to improve margins in the final quarter following three sales price increases for coated woodfree paper during the year, but its margins remained well below acceptable levels. Each of our businesses generated positive operating profit for the year and in the final quarter the group achieved its highest quarterly operating profit (excluding special items) for a number of years.

Sales up 22% to US\$6.6 billion

Operating profit of US\$339 million
(2009: US\$33 million)
excluding special items

Net profit US\$66 million
(2009: US\$177 million loss)

EPS 13 US Cents
(2009: Loss per share 37 US Cents)

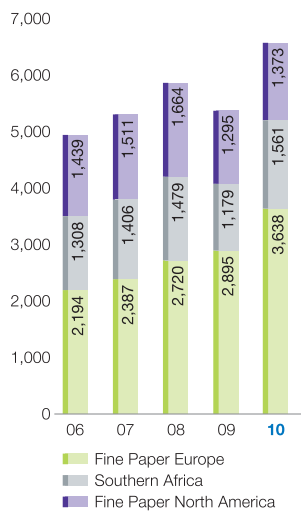
Continuing strong net cash generation of US\$341 million
(2009: US\$289 million, excluding the Acquisition)

Net debt down to US\$2.2 billion
(2009: US\$2.6 billion)

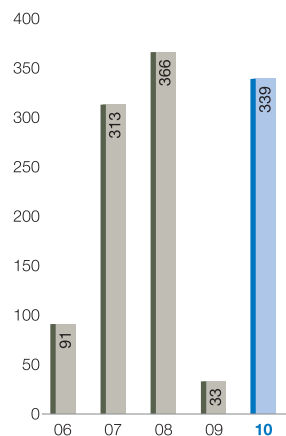
Strong liquidity

Black economic empowerment deal completed

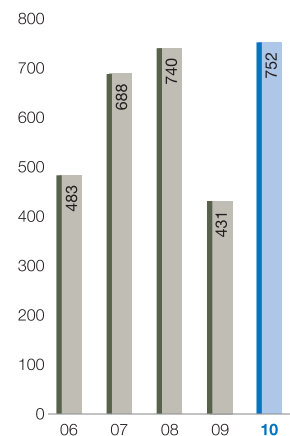
Sales
(US\$ million)



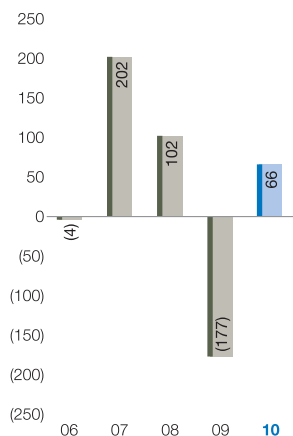
Operating profit excluding special items
(US\$ million)



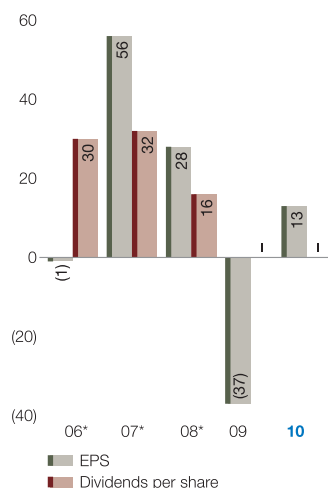
EBITDA excluding special items
(US\$ million)



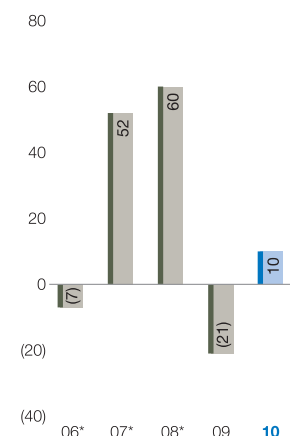
Net profit/(loss)
(US\$ million)



Earnings and dividends per share
(US cents)



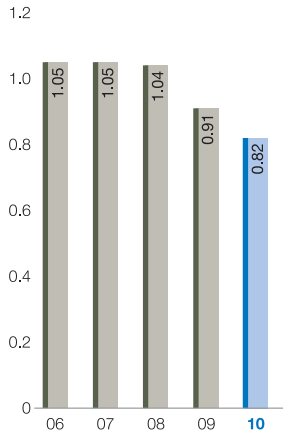
Headline EPS
(US cents)



* Restated for the rights issue in fiscal 2009.

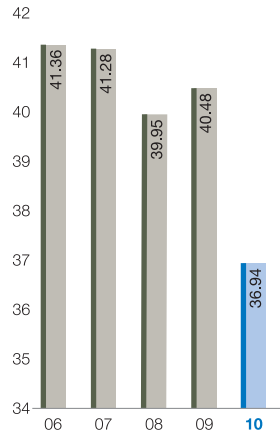
Note: Definitions for various terms and ratios used above are included in the glossary on pages 189 to 191.

Global specific CO₂ emissions from purchased fuels (t/adt)



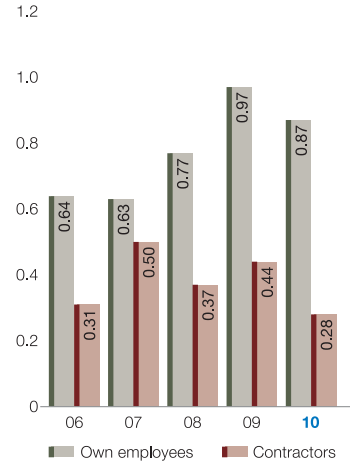
Specific CO₂ emissions from purchased fuels (t/adt)
Specific (ie per air dry ton of pulp produced) CO₂ emissions show a declining trend, reflecting an increase in the use of own renewable fuel, particularly in North America.

Global specific water consumption (m³/adt)



Increases in water consumption for 2009 were the result of decreased production – when production stops or slows, depending on the duration, water is still consumed to keep the machines running. Globally, the total specific (ie per air dry ton of product produced) water use has dropped by approximately 8.2% over the three years.

Global LTIFR – own employees and contractors



Safety performance improved for both employees and contractors. The contractor LTIFR in South Africa is the lowest ever recorded.

Black Economic Empowerment (BEE) Scorecard

Our Southern African business has improved its performance against the Forestry Sector Charter Code, measured by Empowerdex in October 2010, to AA.

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 we interact. This commitment is reflected in the group's Code of Ethics.

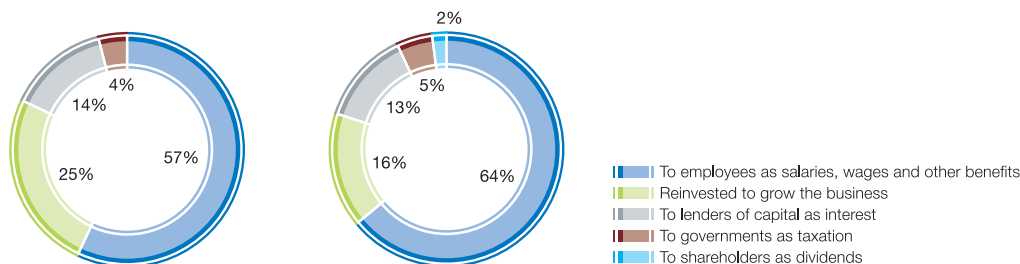
The code is based on Sappi's core values of Excellence, Integrity and Respect. During the year we conducted a survey, "Code of Ethics: are we walking the walk?", which identified that over 85% of all employees were familiar with our Code.

Value added

One measure of wealth created is the amount of value added to the cost of materials and services purchased. Below we have depicted the value added by the Sappi group and how it was distributed among stakeholders.

2010: US\$1,981 million

2009: US\$1,576 million



Letter to the shareholders from the chairman and chief executive officer



Danie Cronjé chairman

Ralph Boëtger chief executive officer

Our objectives for 2011

- Continue improvement of profitability and returns
 - Improve ROCE by >25%
- Reduce net debt and finance costs
 - Reduce net debt to total capitalisation to <50%
- Improve European operating margins and profitability
- Implement new service model in Europe
- Maintain operating profit and operating margins in North America
- Improve profitability of the Paper and Paper Packaging business in Southern Africa

2010 was a much improved year for Sappi. We achieved a gradual improvement in the performance of each of our businesses from the low base of the previous year during which the global economic decline led to reductions in demand of up to 30% for coated paper.

The group returned to profitability for the year, generating a net profit of US\$66 million. By our fourth quarter, most of our businesses were operating at close to full capacity and prices were improving, resulting in a net profit of US\$84 million for the quarter.

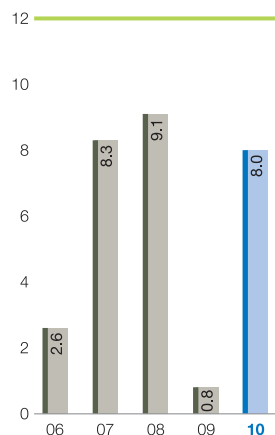
Each of our regional businesses achieved a much improved and positive operating profit for the year and generated significant cash.

Performance against objectives

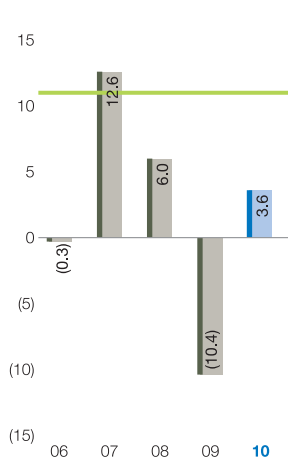
Our primary objective was to restore the group to profitability and to improve returns. Although we are not yet satisfied with the returns, we have made significant progress, achieving a 8% return on capital employed for the year compared to 1% for 2009. In the final quarter, we achieved a 13% return on capital employed, which was ahead of our minimum target of 12%, reflecting the improvement through the year aided by an element of seasonality.

The group's operating profit excluding special items was US\$339 million compared to US\$33 million in 2009. Cash generation after finance costs, taxation and capital expenditure was US\$341 million for the year, above the US\$289 million (excluding the Acquisition) achieved in 2009. Our net debt reduced to approximately US\$2.2 billion as a result of the strong cash generation. Net debt levels have reduced by approximately US\$600 million from their peak in mid-2009 and we believe we are well placed to achieve a level of below US\$2 billion, well ahead of the target date of September 2012.

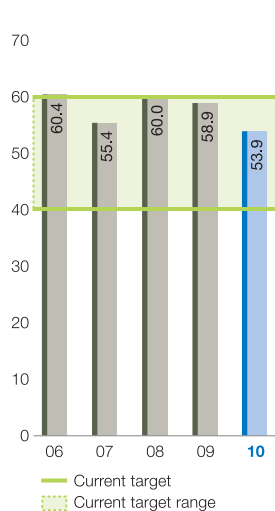
Operating profit excluding special items to capital employed (ROCE) (%)



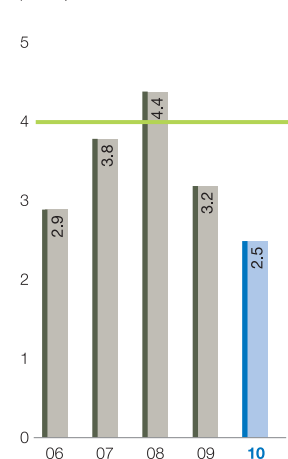
Return on equity (ROE) (%)



Net debt to total capitalisation (%)



Cash interest cover (times)



Regional performance

The outstanding performer of the year was our North American business. Following its restructuring in 2009, the business achieved high operating rates, further improved its collaboration with customers and increased productivity across our operations. Coated paper prices in North America were depressed for most of the year; however, the business benefited from its competitive cost base as well as its surplus pulp position and rapidly increasing pulp prices through the year. The casting release paper speciality business performed well as a result of strong demand particularly from Asia.

Our European business achieved a rapid turnaround in the coated fine paper business with operating rates exceeding 90% for the year. Three coated fine paper price increases were achieved in the second half of the year, with the latest implemented in September. The coated mechanical paper market recovery lagged significantly but, by the final quarter, demand was strong and a small price increase was achieved. The European business purchases approximately 50% of its pulp requirements, which resulted in a significant margin squeeze through the year as pulp prices increased rapidly. Towards the end of the year, the combination of flat or even softer pulp prices and higher paper prices resulted in slightly improved margins.

The Southern African business achieved good results in the chemical cellulose sector following the expansion of the Saiccor Mill, strong demand, good price levels and improving levels of output. The paper and paper packaging paper business' performance was disappointing as a result of weak demand during the first half of the year and less than optimal operating efficiencies; however, the performance improved in the second half. The relative strength of the Rand to the US Dollar had a significant, unfavourable effect not only on exports, but also on the domestic business as a result of the increased competition from imports.

The operating reports and the chief financial officer's report provide additional detail on the year's performance.

Strategic review

Our aim is to be, on a sustainable basis, the most profitable company in paper, pulp and chemical cellulose-based solutions and we measure this in terms of return on capital employed. Although we made significant progress during the year, our performance is still well short of our goal.

Our focus is on improving the performance of our existing businesses and our balance sheet. Our capital investment has therefore been targeted at areas required to keep the core business healthy including cost reduction projects, particularly energy-related. In the year ahead, we will continue to focus on improving the underlying business to create a platform for our future growth in the areas of low cost plantation fibre, chemical cellulose, and forward integration in select areas of the value chain.

During the year, we acquired 14,500 hectares of developed softwood plantations close to Ngodwana Mill and have made good progress

Our primary objective was to restore the group to profitability and to improve returns. We have made significant progress.

in rehabilitating plantations lost to fire in 2007 and 2008, including at Usutu in Swaziland.

At the start of 2009, we acquired the M-real coated paper business to improve our market position and the supply/demand balance. The business has been successfully integrated with our European business and the target synergies have been achieved. With demand levels now closer to the levels achieved in 2008, before the unprecedented collapse in early 2009, we believe the business is well positioned to take full advantage of the acquisition. We continue to explore further strategic changes in order to ensure we rapidly achieve targeted return levels of at least 12% return on capital employed.

How we do business is as important to us as what business we do. In Europe, our Project Breakthrough is based on detailed input from our customers throughout the value chain, academics, and our turnaround experience in North America. We have recently started the implementation of new service offerings, which are supported by our tailor-made support infrastructure and leading products. Throughout the group, we aim to be easier to do business with. Excellence, Integrity and Respect are the core values we apply to how we conduct our business.

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.

The safety of our people is prioritised throughout the group in order to ensure that everyone contributing to our success returns home safely to their families. Regrettably, four people died in work-related accidents during the year. Two of the accidents were in our plantation operations, one at Saiccor Mill in South Africa, and one at Kirkniemi Mill in Finland. We continue to emphasise the importance of leadership, the application of behaviour-based safety systems and of specific protocols to prevent fatalities throughout our operations.

In our approach to sustainability, we recognise that as a major industrial producer we have an impact on our people, on the communities in which we operate and on the environment. We strive to continuously improve our footprint with particular emphasis on carbon emissions, the quality of water and the quality of air. We are advantaged by the nature of our major raw material, which is renewable wood fibre from sustainably managed forests and plantations. We aim to maximise this advantage while simultaneously reducing our other impacts.

Black economic empowerment

We completed a share-based Broad-based Black Economic Empowerment (BBBEE) transaction in June following shareholder approval in April. In the first part of the transaction, Lereko Investments, our strategic empowerment partner, exchanged its interest in Sappi's plantation land for Sappi Limited shares. The second and major part of the transaction, which is fully described on our website, is primarily for the benefit of our employees in South Africa. Our southern African business has improved its overall empowerment scorecard performance measured by an independent rating agency, from BB last year to AA in October 2010. We continue to grapple with the challenge of improving the diversity of our middle to senior management, which is essential to the success of the business in South Africa.

Looking forward

We expect continued gradual improvement in global economic conditions during the year ahead; however, we remain cautious as a result of factors such as expected ongoing volatility of exchange rates which could result in varying levels of growth in the various regions in which we operate or sell our products.

We expect demand for coated paper to continue its recovery next year and for operating margins in our North American and European coated paper businesses to reflect the improvement in demand. Our businesses are likely to be faced with continued high input costs and the margin improvement will require continued cost management and revenue growth through volume, mix and the achievement of higher price levels.

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

Our capital expenditure will be focused on areas required to maintain the business; however, we foresee a modest increase in the year ahead compared to the 2010 level of expenditure, which was approximately US\$200 million, in order to take advantage of high return projects, particularly relating to energy costs.

We expect further improvements in operating profit excluding special items in 2011. The improvement of our European business remains a key focus and we aim to build on the achievements over the past year to return it to acceptable returns. With both economic conditions and our performance improving, we will not need to hold as much cash as we did last year and will therefore continue to repay debt, thereby reducing our finance costs. We expect that our cash generation during the year will reduce our net debt and further reduce our finance costs.

Factors that could upset our expected improvement include, lower than predicted global economic growth which could lead to lower demand and prices for our products, increased currency volatility

Our customers place enormous trust in us and our ability to meet their changing and growing requirements, and we undertake to continue to work closely with them to ensure we meet their and our needs for value.

and new paper capacity in China, which could impact the supply demand balance in our markets.

(A fuller discussion of risks is available on pages 61 to 62.)

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

Appreciation

Many participants have contributed to our improving performance over the past year and we value their support.

Our customers place enormous trust in us and our ability to meet their changing and growing requirements, and we undertake to continue to work closely with them to ensure we meet their and our needs for value.

Our people continue to display a persistence and determination to produce sustainable profits. The initiative and resourcefulness of our people has made it possible to raise our sights and launch into 2011 with ever improving prospects. We thank you.

Our board has continued to provide insight and encouragement as we tackled the challenges of the past two years, and we thank them for their professionalism and openness.

Helmut Mamsch will be retiring from the board at the end of December 2010 after seven years of service. He has contributed considerable expertise and wisdom to the deliberations of our board and audit and compensation committees and as chairman of the Sappi Fine Paper Europe audit committee, and we thank him for his guidance.

We welcomed Peter Mageza, Valli Moosa and Rudolf Thummer to the board during the year. They each bring wide and varied experience to the board. In addition, Mr Moosa's appointment will further strengthen the group's relationship with our strategic empowerment partner, Lereko Investments.

We thank our shareholders for their support and look forward to their participation at the annual general meeting on 09 February 2011.

Danie Cronjé
Chairman

Ralph Boëttger
Chief executive officer

03 December 2010

Interview on strategic matters with Ralph Boëttger, chief executive officer

Last year you said that you expected demand in your coated markets to improve to around 10% short of 2007/2008 levels. How is the recovery progressing?

Our view has been well supported by the recovery in demand in Europe and North America. In Europe, demand for coated woodfree paper in the first nine calendar months of 2010 grew 4% compared to 2009 and in North America, 20%. In our financial year, our European business operated at 93% for coated woodfree paper and North America was effectively fully sold for the whole year. Demand for coated mechanical paper in Europe recovered more slowly but by September 2010, shipments were at a high level. Inventory levels for coated paper remain at relatively low levels compared to prior years.

While we expect recovery to continue in 2011, we continue to expect a gradual decline in coated paper demand in the developed markets from the highs achieved in 2007/2008 as a result of new choices of media.

Do you have greater clarity on what impact 'new media' will have on coated paper consumption?

We have more and more evidence that coated paper will continue to play an important role in communication, advertising and promotion. Many of the 2010 festive season communication programmes were launched in September magazines and catalogues. Magazines such as *Elle* and *Vogue* achieved record and near-record size issues. There is strong evidence that marketing campaigns will integrate print not eliminate it from the media mix. Print is recognised as a leading and trusted part of the mix.

Where will Sappi's future growth come from?

Firstly, our European and Southern African businesses are not yet achieving their full potential returns. In particular, we aim to achieve returns of at least our cost of capital in Europe, our largest business, which will allow the whole group to achieve more than its cost of capital. As far as asset growth is concerned, that will come from increased investment in chemical cellulose and pulp, low cost plantation fibre, some of our speciality businesses and growth along the supply chain.

As our business grows, we foresee a decline in the relative proportion of fine paper, which currently represents 76% of our sales and about 68% of EBITDA.

There is strong evidence that marketing campaigns will integrate print not eliminate it from the media mix. Print is recognised as a leading and trusted part of the mix.

What is the excitement about chemical cellulose?

Importantly, it is a renewable resource with a multitude of uses, from textile fibres, cigarette filters, plastics, pharmaceutical binders, food thickeners and almost certainly more to come.

Viscose fibre producers are our largest customers. Viscose fibres either alone, or in blends with oil-based fibres are important in the overall textile mix because they are absorbent and therefore comfortable to wear. They are an excellent substitute for cotton, which has long-term supply limitations. The growth in viscose and similar cellulosic fibres is expected to be significantly faster than the overall growth in textiles fibres.

Your debt is declining in line with your target but your finance costs remain a burden. What can you do about it?

Our net debt came down by US\$355 million to close to US\$2.2 billion over the year and we repaid certain long-term debt early. Out of prudence, we have continued to hold a higher than historic cash balance, but with the improved performance of our business and the greater stability of financial markets, we aim to gradually reduce cash on hand by repaying debt. This will contribute to reducing our finance costs. We also aim to reduce our gearing further to reduce the proportion of our profit paid out to lenders.

Do you have any other comments?

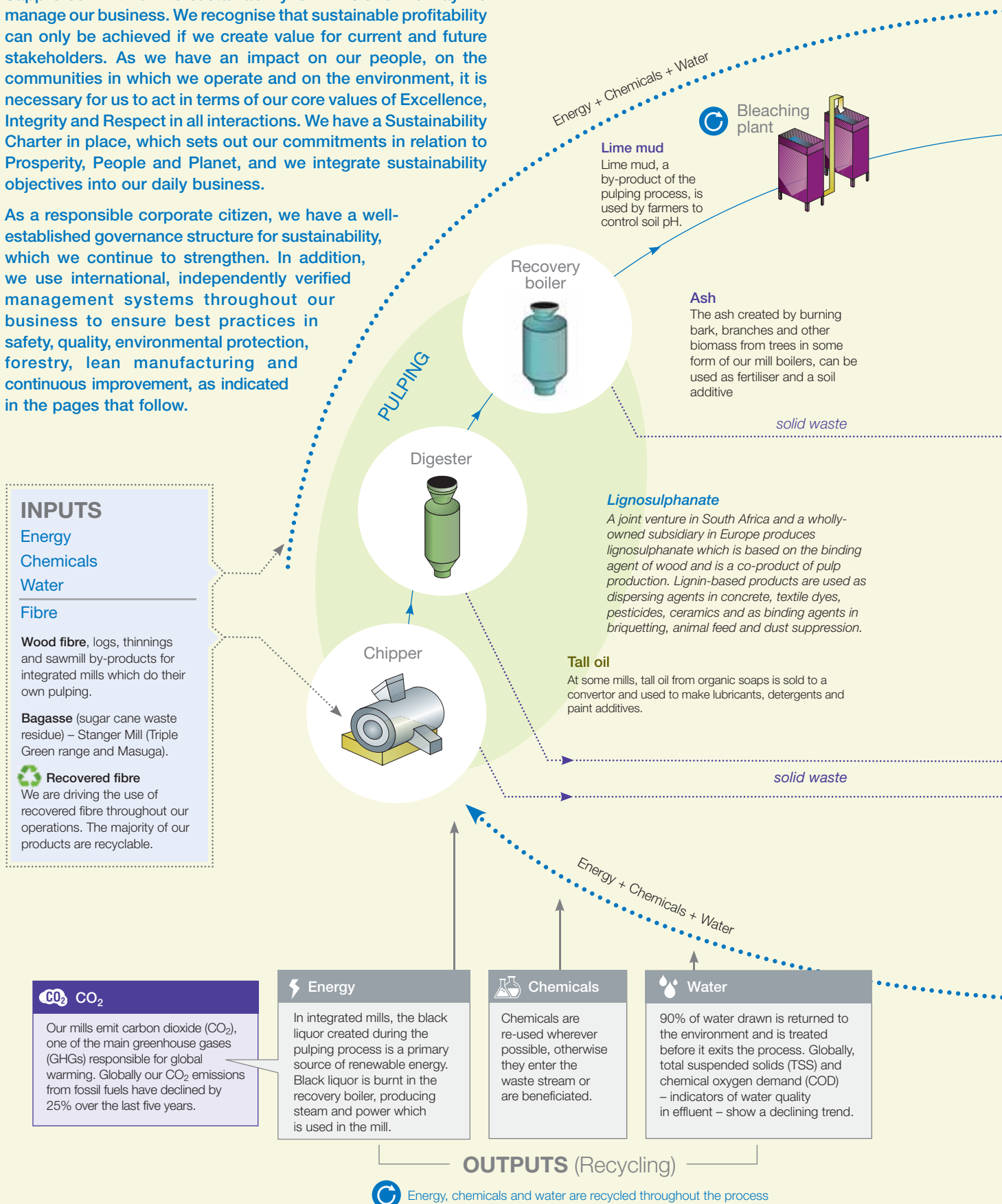
Thank you. I think it is important to record that our people's hard work and persistence is paying off; we are seeing the benefits of the actions we have taken over the past couple of years and it is pleasing to note that we are going into the new year with a run rate performance at close to our target of achieving returns of at least our cost of capital. We are looking forward to improved returns and to growth.

Serious about sustainability

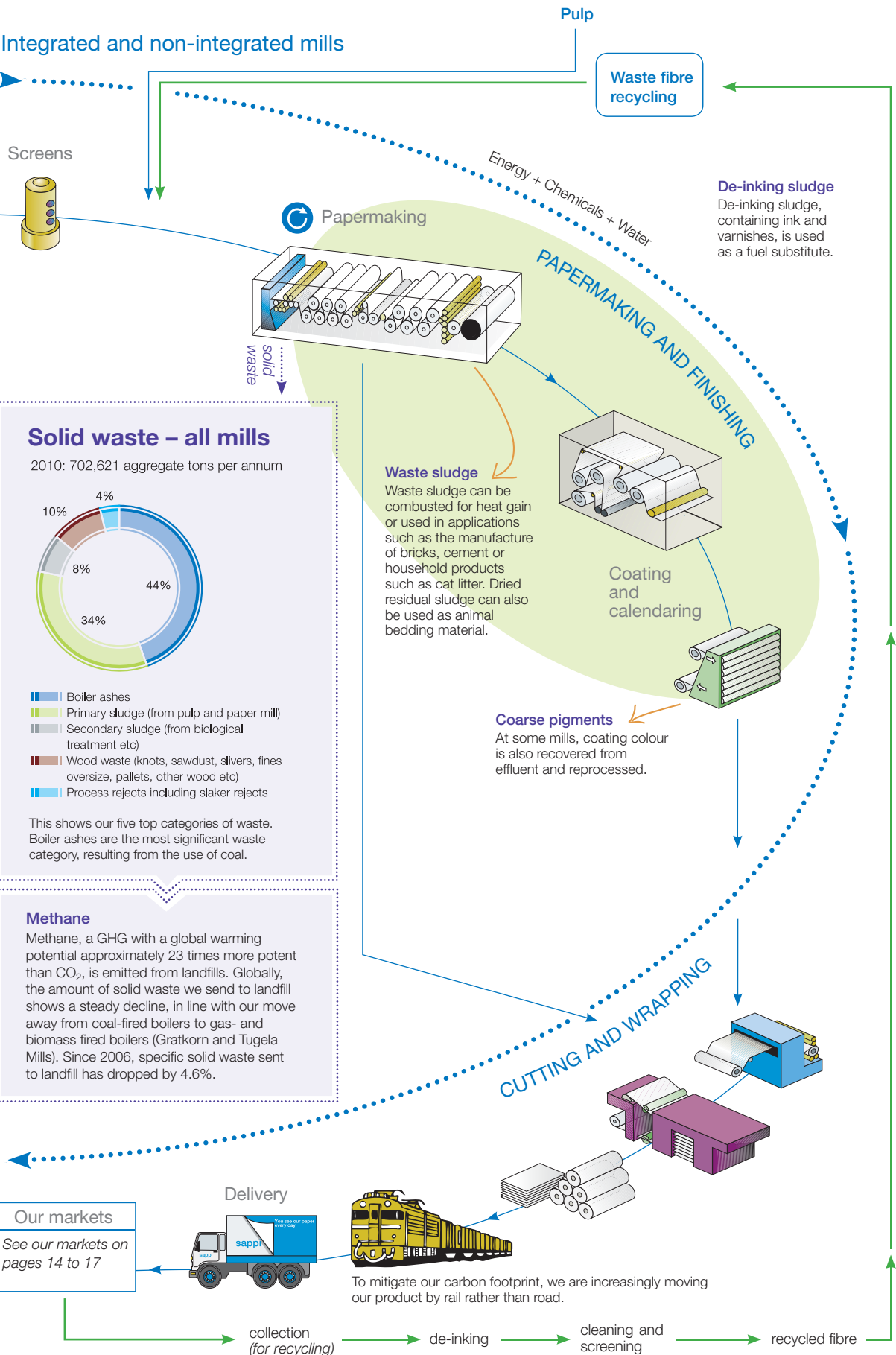
Sappi's commitment to sustainability is intrinsic to the way we manage our business. We recognise that sustainable profitability can only be achieved if we create value for current and future stakeholders. As we have an impact on our people, on the communities in which we operate and on the environment, it is necessary for us to act in terms of our core values of Excellence, Integrity and Respect in all interactions. We have a Sustainability Charter in place, which sets out our commitments in relation to Prosperity, People and Planet, and we integrate sustainability objectives into our daily business.

As a responsible corporate citizen, we have a well-established governance structure for sustainability, which we continue to strengthen. In addition, we use international, independently verified management systems throughout our business to ensure best practices in safety, quality, environmental protection, forestry, lean manufacturing and continuous improvement, as indicated in the pages that follow.

Integrated mills

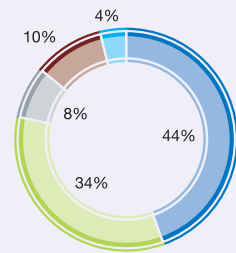


Integrated and non-integrated mills



Solid waste – all mills

2010: 702,621 aggregate tons per annum



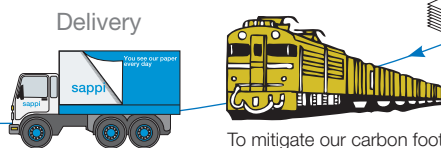
- Boiler ashes
- Primary sludge (from pulp and paper mill)
- Secondary sludge (from biological treatment etc)
- Wood waste (knots, sawdust, slivers, fines oversize, pallets, other wood etc)
- Process rejects including slaker rejects

This shows our five top categories of waste. Boiler ashes are the most significant waste category, resulting from the use of coal.

Methane

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 we send 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). Since 2006, specific solid waste sent to landfill has dropped by 4.6%.

Our markets
See our markets on pages 14 to 17



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

collection (for recycling) → de-inking → cleaning and screening → recycled fibre

Sustainable fibre

Over 15 years, we have increased our fibre yield per hectare of eucalyptus plantation in South Africa by 60%.

In collaboration with the University of Pretoria, Sappi's tree breeders at the Tweedie Research Centre developed a reliable DNA fingerprinting tool to improve breeding efficiency in 2010.

Fibre base

Fibre is an important resource and we continue to invest in developing our low cost fibre base in South Africa by acquiring new land holdings, rehabilitating areas lost to fire and improving fibre yield and characteristics through world-leading tree breeding programmes.

In Europe and North America, fibre is sourced from small and large forest owners close to each operation, with whom we have long-standing relationships. In these regions, we mitigate our fibre supply risk through a combination of approaches which include both short- and long-term wood supply agreements and shareholdings in wood sourcing co-operatives.

An important consideration on fibre supply is the potential impact of climate change on forests and wood plantations. In South Africa, we mitigate the risk of drought and pest attacks through an intensive focus on species and hybrid development that can be adapted to changing climatic regimes. In addition, we conduct extensive research into pest control and disease immunity. Our fire prevention strategy is based on community co-operation and fuel load management.

In North America, the climate change risk is not as immediate as it is in Southern Africa and is more likely to affect us only in the medium- to long-term.

Europe's non-integrated mills which source fibre from South America, where conditions are similar to Southern Africa, could be affected by climatic conditions in the medium-term.

Fibre certification

We are advantaged by the nature of our major raw material, which is renewable wood fibre from sustainably managed forests and plantations. Our operations are certified in accordance with internationally-recognised, independent programmes, such as Forest Stewardship Council (FSC), Programme for the Endorsement of Forest Certification (PEFC) and Sustainable Forestry Initiative (SFI®). Our certification assures stakeholders that we can trace fibre from its source to the end product. This gives our customers the assurance that the pulp and paper products they buy from us originate from plantations and forests that are managed in accordance with stringent environmental and social practices.

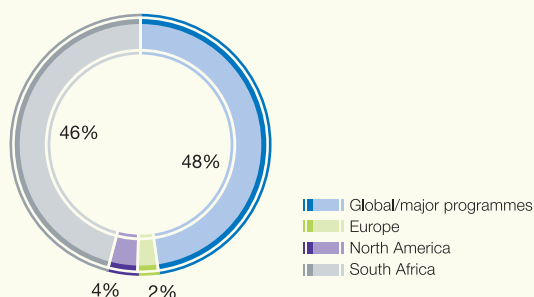
In southern Africa, all our tree plantations are 100% FSC certified and 82% of the fibre used in operations in the reporting period was FSC certified. In Europe and North America, our total fibre procured was certified to the level of 75.4% (PEFC and FSC) and 61% (SFI® and FSC), respectively.

Not only is wood fibre a renewable resource, it is recyclable and biodegradable – attributes which give our products a competitive edge in markets which are becoming increasingly environmentally aware.

Supporting local communities

Corporate social responsibility

2010: US\$2.1 million



Many of our mills are located in non-urban areas. We draw our workforce from local communities. Whenever possible, we employ the services of small- and medium-sized enterprises situated in the areas around our plantations and operations. Through our corporate social responsibility (CSR) programme, we invest in the socio-economic development of these communities. CSR spend in 2010 amounted to US\$2.1 million, or 3.2% of net profit after tax.

Developing our people

Recognising that there is a direct link between our people and our sustained business performance, we aim to develop our employees' skills and abilities and provide them with opportunities to gain new experiences. Global training spend in 2010 was US\$9.8 million (2009: US\$9.1 million).

Energy

Between 2005 and 2010, the amount of specific (per ton of pulp produced) energy we purchased for the mills in operation in 2005 decreased by 33% and fossil-based carbon dioxide emissions have reduced by 30% (20% and 24% when taking into account all the mills in operation in 2005 and all the mills in operation in 2010 respectively).

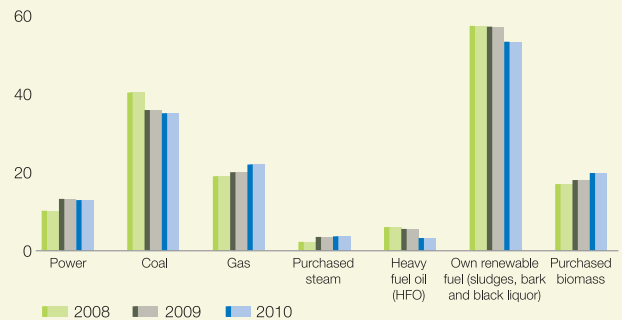
As paper and pulp production is highly energy intensive, the cost and availability of competitive and environmentally-friendly energy sources has both a financial and reputational impact on Sappi. Our high use of renewable energy (approximately 49% globally), derived from black liquor, sludges and biomass gives us a major advantage over other industrial companies. This results in high levels of energy self-sufficiency, lower levels of greenhouse gas emissions from fossil fuels and helps cushion us from proposed carbon taxes or other limits on fossil fuel use.

As a result of reducing fossil base fuels, switching to combined heat and power generation (CHP) plants in Europe, as well as increasing our biomass co-generation, we have succeeded over the past five years in decreasing the amount of specific (per ton of pulp produced) purchased energy and specific fossil-based carbon dioxide emissions.

We will continue to identify and evaluate renewable energy, co-generation and biorefining opportunities.

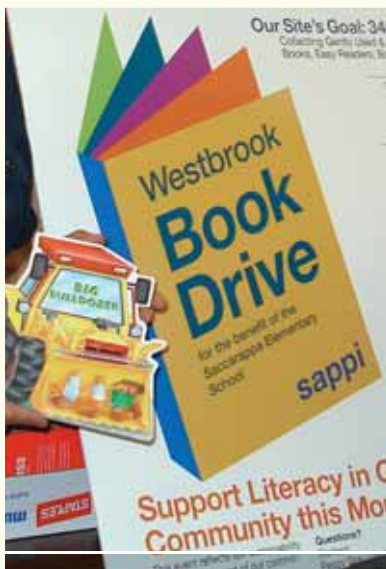
Our sustainability report is available on our website, www.sappi.com and on request in printed form.

EN-3 Direct energy consumption by primary energy source (million GJ/annum)



The black liquor produced in Sappi's integrated mills is renewable and is the dominant fuel for Sappi's operations (30.7%). 'Own renewable fuel' does not fall within the EN-3 definition for direct fuel, but is included here for its relevance to Sappi's energy self-sufficiency. As it is a biomass-derived fuel, it promotes reduced consumption of fossil fuels resulting in a decrease in greenhouse gas emissions. The next most dominant fuel is coal, used extensively in southern Africa. The decreasing trend in coal use is due to Gratkorn Mill which converted from coal to gas use.

The increase in purchased steam is due to its use in Biberist Mill which was acquired by Sappi in 2009 as well as Cape Kraft Mill, which converted from coal-fired boilers to purchased steam. The decrease in own renewable fuel in 2010 was due to the closure of Usutu Mill, responsible for approximately four million GJ/annum. The declining trend in purchased HFO is due to our North American mills replacing HFO with purchased biomass. 'Own renewable fuel' does not fall within the EN-3 definition for direct fuel, but is included here for its relevance to Sappi's sustainability. As this definition includes biomass-derived fuel, it indicates the extent to which we are able to generate our own fuel and hence reduce our consumption of fossil fuels.



The North American Book Drive supported the cause for literacy










Education outreach from the Sappi KwaDukuza Resource Centre in KwaZulu Natal



New to the job – apprentices in Europe

Our markets

Description and typical uses

Woodfree paper made from pulp produced in a chemical process	Coated Higher level of smoothness than uncoated paper achieved by applying a typically clay-based coating on the surface of the paper. As a result, higher reprographic quality and printability is achieved. Uses include marketing promotions and brochures, catalogues, corporate communications materials, direct mail, textbooks and magazines.	
	Uncoated Uses include business forms, business stationery, tissue and photocopy paper as well as cut-size, preprint and office paper. Certain brands are used for books, brochures and magazines.	
	Speciality Can be either coated or uncoated. Uses include bags, labels, flexible and rigid packaging and release paper for casting innovative surface textures (eg artificial leather, decorative laminates) for use in the textile, automotive, furniture and engineering film markets.	
Mechanical paper made from pulp produced in a mechanical process	Coated A coated mechanical fibre-based paper, primarily used for magazines, catalogues and advertising material.	
	Uncoated Mechanical fibre-based printing paper used primarily for the printing of books, and advertising inserts.	
	Newsprint Uses include newspapers and advertising and inserts.	
Packaging products	Packaging paper Heavy and lightweight grades of paper and board mainly used for primary and secondary packaging of fast moving consumer goods, agricultural and industrial products. Products include containerboard (corrugated shipping containers), sack kraft (multi-walled shipping sacks) and machine glazed kraft (grocery bags). Can be coated to enhance barrier and aesthetics properties.	

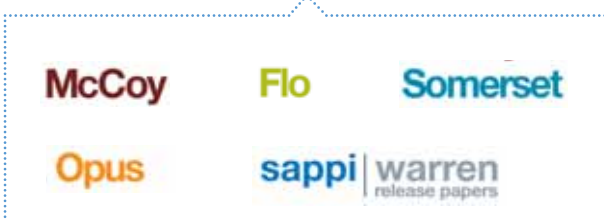
key brands

Europe



Our market in 2010	Demand trends	Share of sales
Demand is still recovering from the low levels of 2009 (as the economy improves), although at a slower pace than in the first half of financial 2010. Magazine advertising pages and increased mailing of catalogues and direct mail have helped the demand recovery.	Demand for coated woodfree paper is expected to continue to grow on a global level, but the impact of electronic media is likely to result in a gradual decline in paper consumption in developed economies over the long-term. Advertising, retail sales, and consumer demand for printed products are primary drivers of demand.	51%
After a slow start in the first few months, the uncoated market in Europe rebounded strongly throughout 2010.	Over the last few years, strong demand in the cut-size business has helped the uncoated office markets. There is a growing trend to print some brochures and magazines on uncoated grades such as Tauro.	7%
Strong recovery versus 2009 in the packaging and labelling markets. The release market also had a good recovery, particularly in terms of Asian demand.	Flexible paper packaging driven by steady consumption growth in the healthy food and drink markets. Paper-based packaging is highly regarded as a sustainable solution. Release paper demand is expected to grow along with the textile and automotive industry, as well as in new and innovative applications.	7%
Demand still below 2008 levels, but a strong recovery from the low levels of 2009, particularly in the second half of financial 2010.	Magazines, one of the main end-uses related to this product group, is doing marginally better than last year mainly due to growing consumption in special interest magazines. As with CWF, advertising expenditure is a key demand driver.	13%
The changing school curriculum in South Africa is resulting in increased demand for book printing grades.	As woodfree grades become more expensive, the demand for improved newsprint and mechanical uncoated grades increases.	7%
Some recovery in demand in South Africa for newsprint, but pagination is still low.	Demand is highly dependent on newspaper circulation and retail advertising. Electronic media has led to newsprint demand declines in most markets across the globe.	
After a weak start to 2010, global packaging markets and our primary market in South Africa started to recover as economic conditions improved.	Packaging demand is driven by population growth, higher standards of living, urbanisation and globalisation. Paper packaging is seen as playing an increasingly important role in an environmentally-conscious world.	



North America



South Africa



Description and typical uses

Pulp	<p>Paper pulp</p> <p>Main raw material used in 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. The chemical processes involve removing the glues (lignins) which bind the wood fibres, to leave cellulose fibres. Paper made from chemical pulp is generally termed 'woodfree'. Uses include paper, paperboard and tissue.</p>	
	<p>Chemical cellulose</p> <p>Manufactured by a similar process to paper grade 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, film, cigarette, chemical and pharmaceutical industries. These include the manufacture of acetate flake, 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 with the purer grades of chemical cellulose generally supplied into the speciality segments.</p>	
Timber products	<p>Sawn timber for construction and furniture manufacturing purposes.</p>	



Publications printed on coated fine paper continue to play an important role in communications, advertising and promotion

Light and heavyweight paper and board is widely used in packaging for consumer goods

Our market in 2010	Demand trends	Share of sales
<p>The global pulp market was characterised by increasing demand, rapidly increasing prices and some supply shocks in 2010.</p>	<p>With gradually improving global demand for paper products, demand for paper pulp is expected to continue to recover.</p>	<p>14%</p>
<p>The global chemical cellulose market remained strong throughout 2010 and demand in many cases exceeded supply.</p>	<p>Chemical cellulose has a wide range of applications, demand for many of which are expected to continue growing at good rates. The textile uses in particular are predicted to show increasing levels of growth as the growth in the supply of cotton becomes increasingly constrained.</p>	
<p>The South African timber market was weak in 2010 with lower demand and an excess of supply.</p>	<p>As consumer and housing markets recover in South Africa, demand for timber products is expected to recover.</p>	<p>1%</p>



Viscose fashion garments are manufactured from textiles made from chemical cellulose

Our chemical cellulose business is well placed as a result of the strong growth in demand for viscose fibres.

Our leadership

Independent non-executive directors



Daniël (Danie) Christiaan Cronjé

Age: 64

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 (Chairman)

(Attends audit committee meetings and compensation committee meetings ex officio)

Other board and organisation memberships

- Die Dagbreek Trust (Chairman)
- Eqstra Holdings Limited (Chairman)

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 4 years and chairman for 10 years. Prior to that Dr Cronjé was lecturer in Money and Banking at Potchefstroom University.

Professor Meyer Feldberg

Age: 68

Qualifications: BA, MBA, PhD
Nationality: American
Appointed: March 2002

Sappi board committee memberships

- Compensation committee (Chairman)
- Nomination and governance committee

Other board and organisation memberships include

- British American Business Council (Advisory Board member)
- Columbia University Business School
- Macy's, Inc
- Morgan Stanley (Senior Adviser)
- New York City Ballet
- New York City Global Partners (President)
- 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: 69

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: 56

Qualifications: BCom, MAS, DCom, CA (SA)
Nationality: South African
Appointed: March 2002

Sappi board committee memberships

- Audit committee (Chairman)
- Nomination and governance committee
- Human resources and transformation committee

Other board and organisation memberships include

- Exxaro Resources Limited (Chairman)
- Illovo Sugar Limited
- Lonmin plc
- 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 and the SA Institute of Directors, past member and chairman of the external audit committee of the International Monetary Fund and member of the Safeguards Panel and Implementation Oversight Panel of the World Bank (Co-Chairman).

Nkateko (Peter) Mageza

Age: 55

Qualifications: FCCA (UK)
Nationality: South African
Appointed: January 2010

Sappi board committee memberships

- Audit committee
- Human resources and transformation committee

Other board and organisation memberships

- Bidvest Group Limited
- Ethos Private Equity Fund
- Rainbow Chickens Limited
- Remgro Limited
- MTN Group Limited

Skills, expertise and experience

Mr Peter Mageza joined the Sappi Board after having held senior executive positions across a wide range of industries. He is a former Group Chief Operating Officer and Executive Director of ABSA Group Limited, Assistant General Manager at Nedcor Limited and Chief Executive Officer of Autonet, the Road Passenger and Freight Logistics Division of Transnet Limited.

Independent non-executive directors continued



**Helmut
Claus-Jurgen
Mamsch***



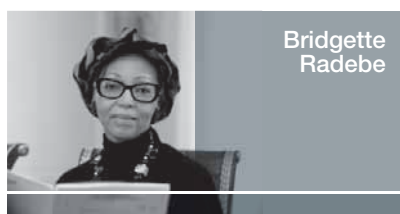
**Karen Rohn
Osar**



**Sir Anthony
Nigel Russell
Rudd**



**John (Jock)
David
McKenzie**



**Bridgette
Radebe**

Helmut Claus-Jurgen Mamsch*

Age: 66

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

- Anita-Thyssen-Stiftung
- 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, as from 1998, responsible for their US electronic businesses and their corporate strategy and development. In 1997 he joined Logica as a non-executive director and until 2007 was their deputy chairman. Until July 2010 he was non-executive Chairman of Electrocomponents plc.

* Retiring at the end of December 2010.

John (Jock) David McKenzie

Age: 63

Qualifications: BSc Chemical Engineering (cum laude), MA

Nationality: South African

Appointed: September 2007

Sappi board committee memberships

- Compensation committee
- Sustainability committee (Chairman)

Other board and organisation directorships

- Accelerate Cape Town (Chairman)
- Coronation Fund Managers
- University of Cape Town Foundation (Chairman)
- WESGRO
- Save the Children (Cape)

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 – 2003.

Karen Rohn Osar

Age: 61

Qualifications: MBA (Finance)

Nationality: American

Appointed: May 2007

Sappi board committee memberships

- Audit committee

Other board and organisation memberships

- Innophos Holdings, Inc. (also Chairperson of Audit Committee)
- Reader's Digest Association
- Webster Financial Corporation

Skills, expertise and experience

Ms Osar was executive vice president and chief financial officer of specialty chemicals company Chemtura Corporation until her retirement in March 2007. Prior to that, she held various senior management and board positions in her career. She was vice president and treasurer for Tenneco, Inc and also served as chief financial officer of Westvaco Corporation and as senior vice president and chief financial officer of the merged MeadWestvaco Corporation. Prior to those appointments she spent 19 years at JP Morgan and Company, becoming a managing director of the Investment Banking Group. She has chaired several board audit committees.

Bridgette Radebe

Age: 50

Qualifications: BA (PolSc and Socio)

Nationality: South African

Appointed: May 2004

Sappi board committee memberships

- Human resources and transformation committee

Other board and organisation memberships

- Mmakau Mining (Pty) Ltd (Executive Chairperson)
- South African Mining Development Association (President)
- Mineral and Mining Development Board (Former Vice Chairman)
- 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.

Sir Anthony Nigel Russell Rudd

Age: 63

Qualifications: DL, Chartered Accountant

Nationality: British

Appointed: April 2006

Sappi board committee memberships

- Compensation committee
- Nomination and governance committee

Other board and organisation memberships

BAA Limited (Chairman)
Invensys 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.

Non-executive directors



Mohammed Valli (Valli) Moosa

Mohammed Valli (Valli) Moosa

Age: 53

Qualifications: BSc (Mathematics)

Nationality: South African

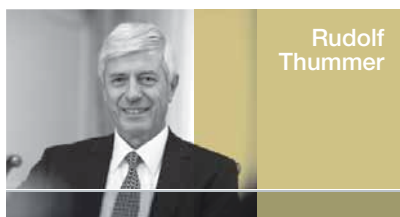
Appointed: August 2010

Other board and organisation memberships

- Auditor General's Advisory Committee (South Africa)
- Anglo Platinum Limited (deputy chairperson and lead independent director)
- Imperial Holdings Limited
- Lereko Investment (Pty) Ltd and various other associate companies of Lereko Investment (Pty) Ltd
- Real Africa Holdings Limited (Chairman)
- Sanlam Limited
- Sun International Limited (Chairman)

Skills, expertise and experience

Mr Moosa is currently the Deputy Chairman of Lereko Investments (Pty) Ltd, Sappi's Strategic Black Economic Environmental Affairs and Tourism, partner. He has held numerous leadership positions across business, Government, politics and civil society in South Africa. To name but a few, he was South African Minister of Environmental Affairs and Tourism, the President of the IUCN (International Union for the Conservation of Nature), Chairman of the UN Commission for Sustainable Development, and he was a long serving National Executive Committee member of the African National Congress (ANC).



Rudolf Thummer

Rudolf Thummer

Age: 63

Qualifications: Dr Techn, Dipl-Ing

Nationality: Austrian

Appointed: February 2010

Sappi board committee memberships

- Sustainability committee

Skills, expertise and experience

Dr Thummer joined the Sappi Board 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 Eningen mills. In 1998 he moved to Sappi Fine Paper Europe based in Brussels as Technical Director and Executive Board Member. He served as Group Head Technology of Sappi Limited from 1 January 2006 up to his retirement at the end of December 2007.

Executive directors



Roeloff (Ralph) Jacobus Boëttger

Chief executive officer



Mark Richard Thompson

Chief financial officer

Roeloff (Ralph) Jacobus Boëttger

Age: 49

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 when Imperial acquired 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

Age: 58

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 prior to that head of the corporate finance division of Central Merchant Bank.

Corporate and divisional management

Sappi Limited

Chief executive officer

*Ralph Boëttger (49) BAcc Hons, CA (SA)

Chief financial officer

*Mark Thompson (58) BCom, BAcc, LLB, CA (SA)

Group financial manager

John Shaw (34) BCom, PG Dip Man Acc, PG Dip Acc, CA (SA)

Group financial controller

Laurence Newman (54) BCom, BAcc, CA (SA)

Group head internal audit

Roland Agar (46) BCom BAcc, CA (SA)

Group internal control and risk manager

Wouter van den Heever (47) BCom Hons, BCompt, MCom, CA (SA), CPA

Group management accountant

Wikus van Zyl (42) BCom Hons, CA (SA)

Group tax manager

Bernd Ross (51) MS (Economics and Business Administration)

Group treasurer

Jörg Pässler (50) BCom Hons, MCom, HDip Tax, CAIB (SA)

Group head technology

*Andrea Rossi (56) BSc (Engineering) Hons, C Eng

Chief information officer

Bradley Coward (55) Grad Dip (Corporate Direction and Business Management), Cert (Senior Management and Leadership Development)

Group head strategic development

*Robert Hope (58) BA Hons (Economics), MRICS

Group investor relations manager

Graeme Wild (38) BSc (Forestry), MBA

Group head human resources

*Lucia Swartz (53) BA, Dip HR

Group head corporate affairs

André Oberholzer (44) BCom (Law)

Group head legal and sustainability

Ria Sanz (45) BCom, LLB, HDip Tax, Admitted Attorney

Group Secretary

Denis O'Connor (59) BA LLB

Sappi Fine Paper Europe

Chief executive officer

*Berry Wiersum (55) MA (Medieval and Modern History)

Chief financial and IT officer

Glen Pearce (47) BCom Hons, CA (SA)

General counsel

Hannes Boner (47) lic iur, DHEE, Admitted Attorney

Human resources director

Rainer Neumann (48) MS (Administrative Sciences), MS (Industrial Relations and HRM)

Manufacturing, research and development director

Mat Quaedvlieg (60) BS (Electronics)

Marketing and sales director

Marco Eikelenboom (43) MS (Economics and Business Administration)

Supply chain, procurement and speciality paper director

Gregory Gettinger (48) PhD (Economics and Business Administration)

Sappi Fine Paper North America

President and chief executive officer

*Mark Gardner (55) BSc (Industrial Technology)

Vice president and chief financial officer

Annette Luchene (48) BS (Accounting), MBA

Executive vice president strategic marketing and chief sustainability officer

Jennifer Miller (55) BA (Economics), Juris Doctor

Vice president corporate development and chief information officer

Anne Ayer (45) BA (Psychology), MBA

Vice president human resources and general counsel

Sarah Manchester (45) BA (History), Juris Doctor

Vice president manufacturing

John Donahue (55), BS (Chemical Engineering)

Vice president release and technical specialties businesses

Bob Weeden (59) BS (Chemistry), MS (Management)

Vice president sales

Bob Forsberg (48) BA (Economics and Art History)

Vice president supply chain

Randy Rotermund (48) BS, Imaging Technology, MBA

Sappi Southern Africa

Chief executive officer

*Alex Thiel (49) BSc (Mechanical Engineering), MBA (Financial Management and IT)**

Finance director

Colin Mowatt (53) BCom Acc, CA (SA), EDP, MBL

Human resources director

Esther Letlape (43) BAdmin Hons (Industrial Psychology)

Information technology director

Deon van Aarde (50) BCompt

Technical director

Bertus van der Merwe (57) BSc, MBA, HDip (Engineering)

Regional procurement director

Nat Maelane (51) MDP, SEP

Strategy and business development director

Tyrone Hawkes (43) BCom Hons, CA (SA)

Sappi Chemical Cellulose

Managing director

Alan Tubb (60) BSc (Electrical Engineering), GCC (Mines and Works), BCom**

Sappi Forests

Managing director

Hendrik de Jongh (55), NDip (Elec), GCC (Elec), MDP

Sappi Paper and Paper Packaging

Marketing executive director

Dinga Mncube (50) Dip (Forestry), BSc (Forest Management), MSc (Forest Products), Dip (Business Management), MCom

Manufacturing director

Pat McGrady (53), BSc (Electrical Engineering), GCC (Factories), EDP

Sappi Trading

Chief executive officer

Wayne Rau (48) HND (Marketing), Senior Executive Programme

Financial director

Henri Kirsten (57) BCom, BCompt Hons, CA (SA)

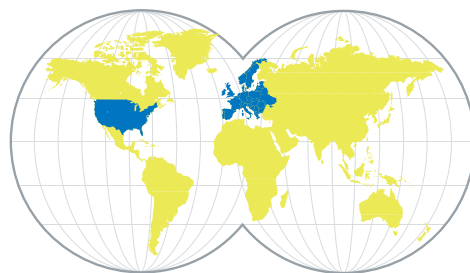
* Group executive committee.

** On 01 January 2011 Gary Bowles (50) BSc (Electrical Engineering), GCC (Electrical), Global Executive Development Programme, Production Management Diploma, will replace Alan Tubb who will be retiring at the end December 2010.

*** Appointed on 01 December 2010.

Review of operations

Sappi Fine Paper



Quality control is an ongoing commitment in producing our products

Review of operations

Sappi Fine Paper

Printed communication remains effective, cost-efficient and powerful in delivering messages to and eliciting actions from target audiences. Printers use Sappi's coated graphics papers because of its quality and the technical support that we provide. Publishers, advertising agencies, designers and corporate end-users rely on Sappi's innovations, sustainable practices and quality products when choosing paper for calendars, catalogues, brochures, books, premium magazines, direct mailings and annual reports. Suppliers, converters and end-use customers also rely on our coated and uncoated speciality paper, such as paper used in flexible packaging, and casting release paper, used in the manufacture of synthetic leather and decorative laminate products. Our range of uncoated graphic and business papers, our technical support services and research and development facilities, as well as our close interaction with our customers across the globe, ensure that we help these customers thrive in their businesses.

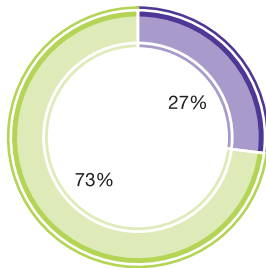
Sappi Fine Paper is approximately 68% integrated in terms of pulp supply. On a regional basis, we purchase approximately half of our pulp requirements in Europe and are net sellers of pulp in North America.

Divisions	Mills	Products produced	Capacity ('000 tons)		Employees*
			Paper	Pulp	
Sappi Fine Paper 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 Sappi Fine Paper North America			1,160	945	2,250
Sappi Fine Paper 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		
	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	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 Sappi Fine Paper Europe			4,210	1,175	6,660
Total Sappi Fine Paper			5,370	2,120	8,910

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

Fine Paper Share of sales

2010: US\$5,011 million

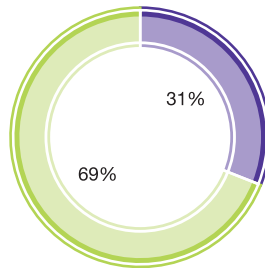


■ North America
■ Europe

* Where the product is manufactured.

Fine Paper Share of net operating assets

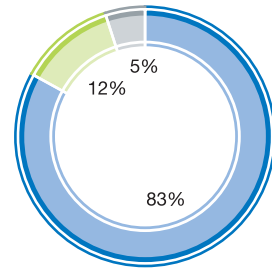
2010: US\$3,044 million



■ North America
■ Europe

Fine Paper Share of sales by product

2010: US\$5,011 million



■ Coated paper
■ Speciality paper and other
■ Uncoated woodfree paper

Europe

Our primary objective was to return the business to profitability. Achieving the target level of synergies related to the acquisition of M-real's coated graphic paper business at the end of 2008 was an important element in this. We achieved our target level of EUR120 million of synergies during the year, well ahead of the target date. The synergies achieved include procurement benefits, sales and administration cost reductions, asset optimisation (including the benefits of acquiring order books), product recipe changes and manufacturing efficiency. Despite these achievements and the significant improvement in the business' performance, we have not yet delivered acceptable profitability or returns from the business.

In response to continued weak demand for coated mechanical paper, we undertook further restructuring during the year, closing the 210,000 ton per annum Kangas Mill in Finland.

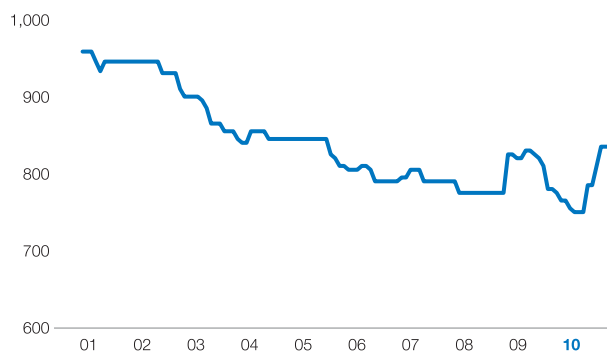
We are currently implementing our innovative service offering which will allow customers to select the combination of service value level most appropriate to their requirements. The implementation follows extensive interaction with our customers and application of lessons learnt in the turnaround of our North

American business. Our goal is to find further ways to improve our and our customer's profitability.

We anticipate having to comply with lower carbon emissions targets over the next few years. We are currently engaged, as part of an industry-wide effort, in trying to ensure that the advantages of the forest products industry and its efficient multi-purpose renewable resource base are recognised by legislators and that we are not adversely impacted by irrational preferences given to wasteful use of forest resources as fuel alone.

The European Commission imposed provisional anti-dumping duties with respect to imports of coated woodfree paper from China with effect from 18 November 2010. The duties range from 19.7% to 39.1% and will help to re-establish a level playing field in European markets.

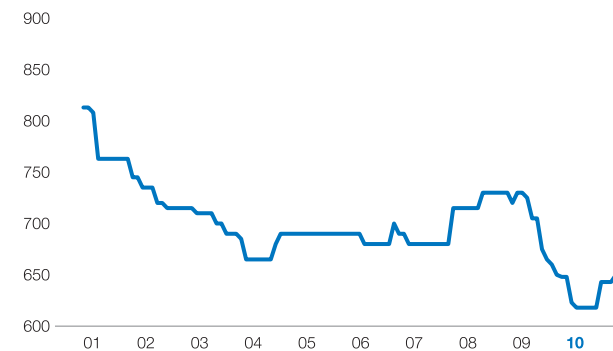
Coated woodfree prices (Euro/metric ton*) 100g/m² sheets Germany



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

Source: RISI

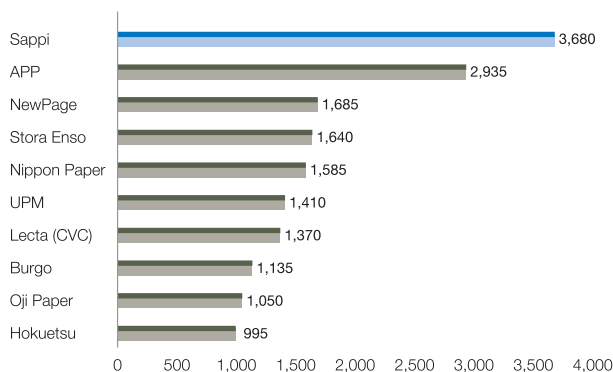
Coated mechanical prices (Euro/metric ton*) 60g/m² offset reels Germany



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

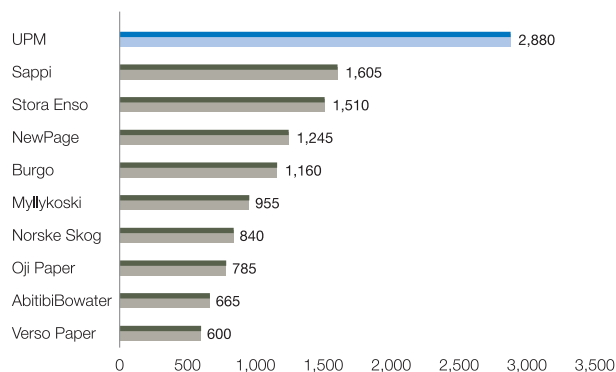
Source: RISI

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



Source: EMGE, September 2010

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



Source: EMGE, September 2010

North America

The business continued the turnaround achieved in the second half of 2009 and delivered a good operating performance for the year.

The business benefited from rising pulp prices and higher pulp production in the year, up 9% on 2009.

The business' integrated approach in identifying and meeting customer's needs, optimising product design, driving procurement and operational efficiencies continued to contribute to improved margins for the business. We reduced fixed costs further during the year both in absolute, and in per unit terms.

The speciality business (casting release paper for textured surfaces) had strong demand for its products, particularly from Asia. The business pioneered a new process, which eliminates six steps in the production of flooring laminates, with a major European flooring producer.

In the latter part of the year, we reduced sales of pulp in preparation for the Somerset pulp mill outage which started on 01 October 2010. During the outage, the mill's recovery boiler was extensively upgraded to further reduce energy costs and the mill's reliance on fossil fuels (see case study below).

The availability of alternative fuel tax credits ended on 31 December 2009. During the 2010 financial year, we realised approximately US\$50 million of credits, which were reported as special items, and received US\$74 million of cash in connection with such credits.

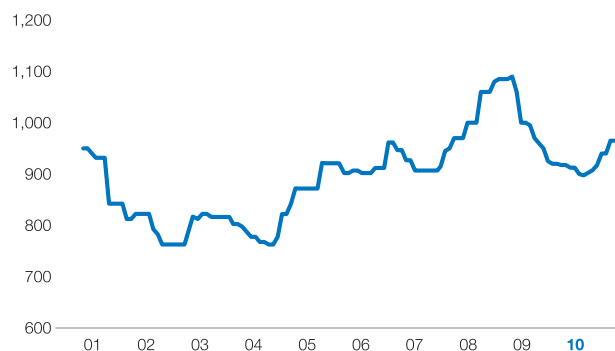
During October 2010, the US International Trade Commission imposed anti-dumping and countervailing duties on imported coated sheet paper from Indonesia and China. The duties which range from 27.1% to 338.7% are expected to re-establish a level playing field in the US.

Going forward

We expect a further gradual improvement in demand for coated paper in our major markets. The supply/demand balance is therefore also expected to improve further in those markets; however, the balance in some of our export markets is likely to be impacted by significant new capacity being built in China.

Our businesses continue to explore opportunities to enhance performance including through innovation, rationalisation or consolidation and most particularly by working more closely with customers. We continue to expect significant further consolidation of the industry.

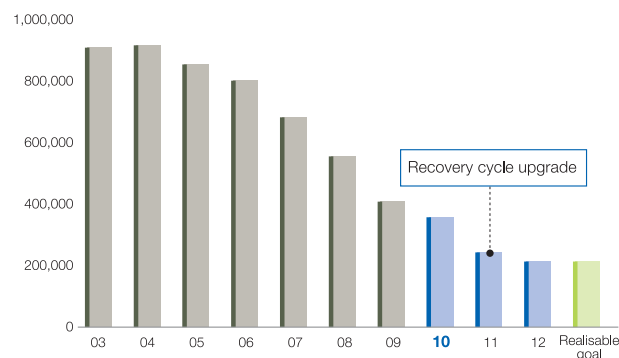
Coated woodfree prices (US\$/short ton*) No 3 – 60lb (90g) rolls
USA (East Coast)



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

Source: RISI

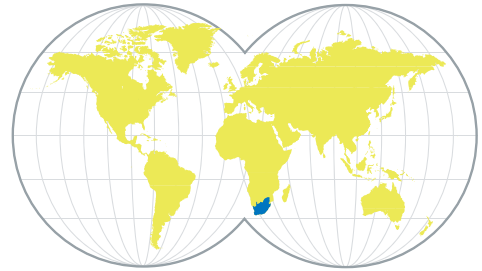
Case study: Oil usage reduction in Somerset Mill (#6 grade oil)
(BBLs/fiscal year)



Source: Sappi

Review of operations

Sappi Southern Africa



Sappi Saiccor Mill produces 800,000tpa of chemical cellulose

Review of operations

Sappi Southern Africa

Sappi was formed in South Africa in 1936 to serve South African consumers with locally produced papers. Sappi Paper and Paper Packaging continues this tradition by innovating and developing new products to meet local demand for newsprint, coated and uncoated fine papers, office and business papers (stationery, printing and photocopying), security and speciality papers (passports and election ballot papers), containerboard (eg cardboard boxes used for exporting fruit) and packaging paper (eg bags for cement, dog food, potatoes and shopping bags). Bleached paper-pulp is sold on the South African and global paper markets.

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

Sappi Forests supplies 70% of the wood requirements of Sappi Southern Africa from both our own and managed commercial timber plantations of 555,000 hectares, currently with more than 35 million tons of standing timber. All wood grown on Sappi owned land is Forest Stewardship Council (FSC®) and ISO 9000 certified. Approximately 150,000 hectares of our plantation land is protected and managed by Sappi Forests to conserve the natural habitat and biodiversity found there, including indigenous forests and wetlands.

Sappi Southern Africa is a net seller of pulp that effectively hedges pulp purchases by our European business.

Divisions	Plantations	Products produced	Capacity ('000s)		Employees*	
			Hectares	m ³		
Sappi Forests	KwaZulu Natal	Plantations (pulpwood and sawlogs)***	231			
	Mpumalanga	Plantations (pulpwood and sawlogs)	258			
	Swaziland	Plantations (pulpwood)	66			
	Sawmills	Sawn timber (m ³)		85		
Total Sappi Forests			555	85	1,150	
Divisions	Mills/Operations	Products produced	Capacity ('000s)		Employees*	
			Paper	Pulp		
Sappi Chemical Cellulose	Saiccor Mill	Chemical cellulose		800	1,220	
	Adamas Mill	Uncoated woodfree paper (specialities)	40			
	Cape Kraft Mill	Waste based linerboard and corrugating medium	60			
	Enstra Mill	Bleached chemical pulp for own consumption		105		
Sappi Paper and Paper Packaging	Ngodwana Mill	Uncoated woodfree and business paper	200			
		Ubleached kraft pulp for own consumption, bleached chemical pulp for own consumption and market pulp		410		
	Stanger Mill	Mechanical pulp for own consumption		100		
		Kraft and white top linerboard	240			
		Newsprint	140			
	Tugela Mill	Bleached bagasse pulp for own consumption		60		
		Coated woodfree paper and tissue paper	110			
	Sappi ReFibre**	Waste paper collection and recycling for own consumption	Ubleached kraft and semi-chemical pulp for own consumption		350	
			Kraft linerboard and corrugating medium	300		
			Other kraft packaging paper	90		
Total Sappi Paper and Paper Packaging			1,180	1,225	4,080	
Total Sappi Southern Africa			1,180	2,025	6,450	

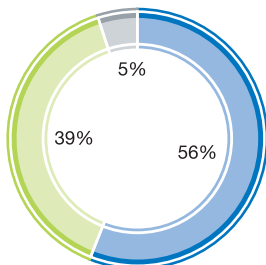
* Rounded to nearest 10 and excludes corporate head office.

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

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

Southern Africa Share of sales

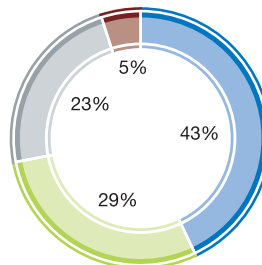
2010: US\$1,561 million



■ Sappi Paper and Paper Packaging
■ Sappi Chemical Cellulose
■ Sappi Forests

Southern Africa Share of sales by product

2010: US\$1,561 million



■ Pulp
■ Packaging paper
■ Fine paper
■ Timber

Access to low cost plantation fibre is a core element of the group's strategy. We have made good progress with rehabilitating the plantations lost to fire in 2007 and 2008. We planted 26,000 hectares during the year of which 6,000 hectares related to rehabilitation, including our plantations in Swaziland.

We acquired 14,500 hectares of developed plantations close to our Ngodwana Mill during the year and continue to work with communities and governments in southern Africa to achieve further afforestation.

Our research into improving our plantation genetics, not only for overall yield but to achieve specific properties, continues to progress, assisted by our involvement in the sequencing of the eucalyptus genome.

Saiccor Mill continued to ramp-up production after its major expansion and achieved a good level of efficiency and consistency in the latter part of the year. The improved consistency resulted in reduced variable costs as the year progressed, particularly in respect of energy costs.

The paper and paper packaging paper mills had mixed performances with significant opportunity for improvement. We reorganised the combined business to ensure a more effective interface with our customers, many of whom buy a wide-range of different products from us. We also increased the focus on manufacturing, including the appointment of a head of manufacturing, for the business, which will assist with the sharing of best practices, implementation of continuous improvement techniques and improved procurement.

The Usutu Pulp Mill was permanently closed in January 2010. We are investing in the rehabilitation of the Usutu plantations which were extensively damaged by fires in 2007 and 2008. We believe that the Usutu plantations are among the best tree growing sites in southern Africa.

During the year, we entered into an agreement to supply renewable energy to the power utility Eskom, from Saiccor Mill. We are also

in discussions to sell the additional power that we are able to generate from our Ngodwana Mill. We will continue to explore the feasibility of further investment to increase our power of self-sufficiency and reduce our energy costs.

We launched the "I Choose Paper" campaign during the year to inform our stakeholders about the advantages of choosing our products manufactured from renewable, sustainable resources. The campaign has generated significant interest.

Going forward

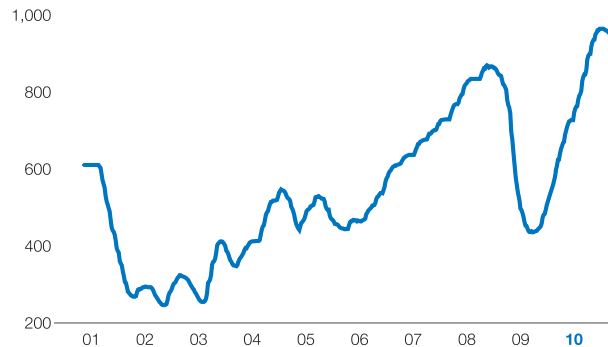
Markets for chemical cellulose are currently strong and expected to remain strong for the year ahead. Although we sell mainly on contracted terms, spot prices are currently at record highs with no sign of abatement.

Demand in our southern African markets is expected to continue its gradual improvement. The exchange rate of the Rand to the US Dollar will have an impact on the performance of the business with a direct impact on export revenues and an indirect impact on the domestic sales levels and prices. A strengthening Rand would be unfavourable for the performance of the southern African business.

We expect the benefit of our reorganisation of the paper and packaging paper business to improve performance during the year as a result of improved customer focus and improving efficiencies.

Paper plays a key role in promoting literacy throughout the developing world and many researchers contend that printed materials are more conducive to an in-depth reading experience than electronic media.

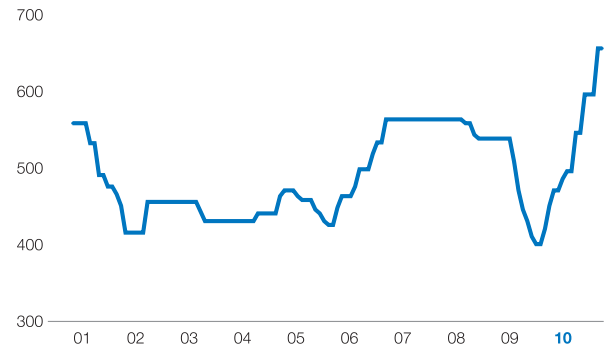
**Northern bleached softwood kraft pulp (US\$/metric ton*)
Europe**



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

Source: FOEX PIX Pulp Price Index

**Kraft linerboard (Euro/metric ton*) 175g/m² +
CIF Germany**



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

Source: RISI



Chemical cellulose manufactured at Sappi Saiccor Mill is exported worldwide

Sappi group review

Section 1



Mark Richard Thompson
Chief financial officer

On the opposite pages of this report we explain the business and operating performance of each of the geographic components of the group in more detail – this is important for a better understanding of the results of the group as a whole.

Our operating performance

For the year ended September 2010, our operating performance improved substantially compared to fiscal 2009 but did not reach the levels achieved in fiscal 2008, nor our target Return on Capital Employed (ROCE).

We are of the opinion that operating profit excluding special items is a good indication of underlying operating performance as it excludes what we believe are items that are unusual, non-recurring and/or uncontrollable and are outside our ordinary day-to-day operations – special items are explained in section 2 later on in this report.

Operating profit excluding special items for the past three years was as follows:

	Fiscal year: 2010	US\$339 million
	2009	US\$33 million
	2008	US\$366 million

To achieve our target of a ROCE of at least 12%, operating profit excluding special items needs to improve to approximately US\$500 million and we hope to get much closer to that target in fiscal 2011. It is encouraging to note that in the final quarter of 2010, the group achieved its highest quarterly operating profit excluding special items (of US\$129 million) for many years which, on an annualised basis, equates to a ROCE in excess of 12%.

The two main reasons for the improved operating performance in 2010 are:

- the better demand for our products in all our major markets compared to the very low levels seen in 2009 following the global economic crisis, resulting in sales volumes increasing by 18% compared to 2009; and
- the improvement in operating margin (operating profit excluding special items to sales) from 0,6% in 2009 to 5,2% in 2010.

Regional operating review

Sappi Fine Paper Europe

Business summary

Our European business consists of nine mills in six countries with an annual capacity to produce:

	Metric tons '000
Coated Woodfree paper	2,600
Uncoated Woodfree paper	280
Coated Mechanical paper	1,230
Speciality paper	100
Total paper	4,210
Pulp	1,175
Total capacity	5,385

More on our mills, their capacities and products are given on page 23 of this annual report.

In 2010, the business consumed approximately 2.1 million tons of pulp in the production of its paper products – of this, it produced approximately 0.9 million tons and purchased approximately 1.2 million tons.

In Europe, we have a market share of about 30% in coated woodfree paper, and 14% in coated mechanical paper.

Operating performance

Operating profit excluding special items

	2010	2009
Volume (metric tons '000)	3,796	2,956

	EUR million		EUR per metric ton	
	2010	2009	2010	2009
Sales	2,664	2,120	702	717
Variable manufacturing and delivery costs	(1,822)	(1,330)	(480)	(450)
Contribution	842	790	222	267
Fixed costs	(847)	(771)	(223)	(261)
Sundry income (costs) and consolidation entries	61	(10)	16	(3)
Operating profit (loss) excluding special items	56	9	15	3

The improved market conditions resulted in an increase in utilisation of our production capacity from 67% in fiscal 2009 to 89% in fiscal 2010. Sales volumes were 28% higher than in fiscal 2009, which included only nine months of the coated paper business acquired from M-real in January 2009. Excluding the sales volume of the acquired business, sales volume for fiscal 2010 increased by 20% compared to fiscal 2009.

Despite the improvement in market conditions, average selling prices realised during fiscal 2010 were lower than those achieved in fiscal 2009. Average realised prices in Euro terms decreased from EUR717 per ton in fiscal 2009 to EUR702 per ton in fiscal 2010. Selling prices started rising in the last six months of the fiscal 2010 year. Our average selling price in Euro terms for the last quarter of fiscal 2010 was EUR753 per ton compared to an average selling price of EUR677 per ton achieved in the last quarter of fiscal 2009.

Sappi group review continued

Section 1

Change in Segment reporting

During the year we adopted IFRS 8 Operating Segments which requires that financial and descriptive information about the components of the business is reported on the basis that this information is regularly evaluated by the chief operating decision maker in deciding how to allocate resources and evaluate performance. In addition to adopting IFRS 8, we have changed our reporting structure to a predominantly geographic basis as indicated below:

Previously	Now
Sappi Fine Paper Europe	Sappi Fine Paper Europe
Sappi Fine Paper North America	Sappi Fine Paper North America
Sappi Fine Paper South Africa	Sappi Fine Paper
Sappi Fine Paper Forest Products	Sappi Southern Africa
Sappi Group	Sappi Group

The change is that Sappi Fine Paper South Africa now reports as a part of the re-named Sappi Southern Africa division and not as part of Sappi Fine Paper.

This change has not had an impact on the group's overall results or financial position.

Other important features of our results

In addition to the improved operating results, other important features of fiscal 2010 are:

- Special items, discussed in section 2 of this report, which overall had a small US\$2 million positive effect on our operating profit this year but had a large US\$106 million negative effect in 2009;
- our higher finance costs in 2010 following our re-financing towards the end of fiscal 2009 – discussed in section 2 of this report;
- the strong net cash generated in 2010 of US\$341 million – discussed in section 3 of this report;
- the reduction of net debt by a further US\$355 million in 2010 to US\$2,221 million, thereby making good progress towards our target to reduce net debt to below US\$2.0 billion by 2012 – discussed in section 4 of this report; and
- our strong liquidity position with cash-on-hand of US\$792 million at the year end – discussed in section 4 of this report.

At the net profit level we earned a rather modest US\$66 million, but this was a significant improvement on the net loss of US\$177 million in 2009.

These and other matters are discussed in more detail later on in this report.

Contents

This report reviews the major elements of our:

Section 2	Income statement	Page 34
Section 3	Cash flow	Page 48
Section 4	Balance sheet	Page 49

and discusses our:

Section 5	Credit rating, and	Page 54
Section 6	Share listing and share price performance	Page 55

Regional operating review continued

Sappi Fine Paper Europe continued

Variable and delivery costs

	EUR million		EUR per metric ton	
	2010	2009	2010	2009
Variable manufacturing costs:				
Wood	179	136	47	46
Energy	262	250	69	85
Pulp	559	301	147	102
Chemicals	469	369	124	125
Other	143	116	38	39
Delivery costs	210	158	55	53
Total	1,822	1,330	480	450

We experienced significant input cost pressure during the year. During fiscal 2010, our European business purchased in the open market approximately 57% of the pulp required for its paper production. Variable manufacturing cost per ton increased by 7% compared to fiscal 2009, due mainly to a 44% increase in pulp costs per ton. This increase was offset to some extent by a decrease in purchased energy prices.

Fixed costs

EUR million	2010	2009
Personnel	460	418
Maintenance	88	82
Depreciation	168	153
Services and administration	131	118
Total	847	771

Fixed costs increased by EUR76 million or 10% in fiscal 2010 compared to fiscal 2009. The major reason for this increase was the inclusion of the acquired business for 12 months in the fiscal 2010 year compared to 9 months in 2009. Excluding the acquired business, fixed costs increased by EUR26 million or 4% in fiscal 2010 compared to fiscal 2009, mainly due to increased personnel and maintenance costs.

Sundry income of EUR61 million for fiscal 2010 included income from carbon emission trading, a positive inventory revaluation, intra-group insurance transfers in respect of the fire at Stockstadt Mill, and sales of by-products and services to third parties.

Sappi group review continued

Section 2

Income statement

Our group financial results can be summarised as follows:

	2010	% Change	2009
Sales volume (metric tons '000)	7,894	18	6,707
	US\$ million		US\$ million
Sales revenue	6,572	22	5,369
Variable manufacturing and delivery costs	(4,117)	24	(3,322)
Contribution	2,455	20	2,047
Fixed costs	(2,164)	10	(1,970)
Sundry income (loss)*	48		(44)
Operating profit excluding special items	339	927	33
Special items	2		(106)
Operating profit (loss)	341		(73)
Finance costs	(255)	76	(145)
Profit (Loss) before tax	86		(218)
Taxation	(20)		41
Net profit (loss)	66		(177)
Basic earnings (loss) per share (US cents)	13		(37)

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

Sales volume

In 2010, sales volume increased by 1.2 million tons to 7.9 million tons or 18% compared to 2009. The regional contributions to sales volumes in 2010 and 2009 are shown below:

Sales volume	2010	% Change	2009
Metric tons '000			
Europe	3,796	28	2,956
North America	1,354	6	1,274
Southern Africa	2,744	11	2,477
Sappi group	7,894	18	6,707

Demand for our products in all regions improved, leading to the 18% sales volume improvement compared to the depressed levels of 2009. Capacity utilisations improved in all regions as shown in the table below. As a group we took about 1.1 million tons of commercial downtime in 2009 compared to approximately 200,000 tons in 2010, most of this in Europe.

Sales volume to capacity	2010	2009
Percentage		
Europe	89	67
North America	93	83
Sappi Southern Africa*	88	84
Sappi group	90	74

* Pulp and paper operations only – Forestry not included.

continues on page 36

Regional operating review continued

Sappi Fine Paper North America

Business summary

Sappi Fine Paper North America owns and operates 3 mills located in the United States which have an annual capacity of:

	Metric tons '000
Coated woodfree paper	1,125
Coated speciality paper	35
Total paper	1,160
Pulp	945
Total capacity	2,105

In approximate terms, the pulp balance of the business is as follows:

	Metric tons '000
Own pulp production	932
Pulp purchases	151
Pulp sales	(292)
Pulp consumption	791

Our market share of the North American coated woodfree paper market is currently approximately 25%.

Operating performance

Operating profit excluding special items

	2010	2009
Volume (metric tons '000)	1,354	1,274

	US\$ million		US\$ per metric ton	
	2010	2009	2010	2009
Sales	1,373	1,295	1,014	1,016
Variable manufacturing and delivery costs	(827)	(812)	(611)	(637)
Contribution	546	483	403	379
Fixed costs	(461)	(475)	(340)	(373)
Sundry income (costs) and consolidation entries	39	(10)	29	(8)
Operating profit (loss) excluding special items	124	(2)	92	(2)

Our North American business delivered an outstanding performance in fiscal 2010 as improved market conditions and business initiatives combined to result in a return on net operating assets of 12.9% and an operating profit margin of 9% for the year.

Demand for coated woodfree products and market pulp improved and prices realised on pulp sales were better than in 2009.

continues on page 37

Sappi group review continued

Section 2

Exchange rates and their impact on the group's results

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

	Income statement average rates		Balance sheet closing rates	
	2010	2009	2010	2009
Euro (EUR) = US Dollar (US\$)	1.3658	1.3657	1.3491	1.4688
US Dollar (US\$) = Rand (ZAR)	7.4917	9.0135	7.0190	7.4112

Two of our three geographic business units (Europe and Southern Africa) have home or functional currencies other than US Dollars (our reporting currency). The revenue and cost items of the two non-US Dollar units 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 group revenue and costs in US Dollars can be large, but largely offset one another at the net level (when netting costs against revenue).

For this reason we isolate the exchange rate impact on revenue and costs by showing the regional revenue and cost items at 2009 exchange rates – we believe this facilitates a better understanding of the underlying movements in revenue and costs in the European and Southern African business.

Compared to fiscal 2009, exchange rates increased Sales by US\$263 million but this was largely offset by the negative impact on variable and delivery costs of US\$153 million and on fixed costs of US\$98 million.

Sales revenue

Sales revenue increased by 22% or US\$1.2 billion compared to 2009. This was due to the additional 1.2 million tons sold at the average price per ton of US\$799 realised in local currencies in 2010 and an exchange rate benefit of US\$263 million arising when translating the sales of our European and Southern African businesses into the weaker US Dollar in 2010.

Sales revenue by region US\$ million	2010	% Change	2009
Europe	3,638	26	2,895
North America	1,373	6	1,295
Southern Africa	1,298	10	1,179
Group at 2009 exchange rates	6,309	18	5,369
Exchange rate impact	263		–
Group as reported	6,572	22	5,369

As shown in the table below, at constant exchange rates the average selling price per ton for the group's products of US\$799 was very similar to 2009 (US\$801 per ton). Prices per ton in Europe were 2% lower than in 2009 and, in Southern Africa, 4% higher than in 2009. In North America, price per ton was almost the same as in 2009.

Regional operating review continued

Sappi Fine Paper North America continued

Sales volume increased by 6% year-on-year. The operations of the Muskegon Mill ceased six months into fiscal 2009. Excluding these volumes in 2009, the increase was 11%. Capacity utilisation improved from 83% in 2009 to 93% in 2010.

The average selling prices realised in fiscal 2010 of US\$1,014 per ton were marginally lower than the US\$1,016 per ton realised in fiscal 2009. Although average selling prices for paper products were slightly lower than 2009, we saw an improving trend in pricing towards the end of the year in-line with the improving market. The lower average paper prices were offset by a significant rise in the average pulp selling price.

Overall sales increased by 6% to US\$1,373 million.

Variable and delivery costs

	US\$ million		US\$ per metric ton	
	2010	2009	2010	2009
Variable manufacturing costs:				
Wood	183	194	135	152
Energy	93	115	69	90
Pulp	89	49	66	38
Chemicals	230	223	170	175
Other	104	108	76	85
Delivery costs	128	123	95	97
Total	827	812	611	637

Variable manufacturing costs per ton of US\$611 decreased by 4% compared to fiscal 2009 due to a decrease in the price of wood, energy and chemicals, partially offset by an increase in purchased pulp.

Fixed costs

US\$ million	2010	2009
Personnel	247	243
Maintenance	62	60
Depreciation	77	90
Services and administration	75	82
Total	461	475

Fixed costs decreased in 2010 compared to 2009 due to a decrease in depreciation and the benefits of ongoing cost reduction efforts in services and administration, offset by small increases in personnel and maintenance costs.

Sundry income in fiscal 2010 included a positive inventory revaluation and electricity sales.

Sappi group review continued

Section 2

The exchange rate impact of US\$34 per ton increased the overall price per ton realised in 2010 by 4% to US\$833 per ton.

Selling price per ton US\$ per ton	2010	% Change	2009
Europe	959	(2)	979
North America	1,014	–	1,016
Southern Africa*	706	4	677
Group at 2009 exchange rates	799	–	801
Exchange rate impact	34		–
Group as reported	833	4	801

* Pulp and paper operations only – Forestry sales not included.

Variable and delivery costs

Compared to 2009, variable manufacturing and delivery costs increased by 24% or US\$794 million to US\$4.1 billion. This was caused by the higher volumes in 2010, a 1% increase in variable costs per ton in local currency and the US\$153 million negative impact of translating the variable costs in Europe and Southern Africa into US Dollars. More details about our variable and delivery costs by region and for the group are shown in the tables below:

Variable and delivery costs by region US\$ million	2010	% Change	2009
Europe	2,488	37	1,816
North America	827	2	812
Southern Africa	753	1	748
Inter-company eliminations	(104)		(54)
Group at 2009 exchange rates	3,964	19	3,323
Exchange rate impact	153		–
Group as reported	4,117	24	3,323

Variable and delivery costs per ton US\$ per ton	2010	% Change	2009
Europe	656	7	615
North America	611	(4)	637
Southern Africa*	274	(9)	302
Group at 2009 exchange rates	502	1	495
Exchange rate impact	20		–
Group as reported	522	5	495

* Pulp and paper operations only – Forestry costs not included.

Regional operating review continued

Sappi Southern Africa

Business summary

The annual capacities and products of the seven mills in our Southern African business are:

	Metric tons '000
Coated woodfree paper	80
Uncoated woodfree paper	200
Speciality paper	40
Packaging paper	690
Newsprint	140
Tissue paper	30
Total paper and packaging capacity	1,180
Paper pulp	1,225
Chemical cellulose pulp	800
Total capacity	3,205

In addition, the business owns, leases or otherwise controls 555,000 hectares of land of which approximately 402,000 hectares is plantable with timber. This resource provides about 70% of the fibre requirements of the business.

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

The business produces 1.2 million tons of paper pulp – some of this is sold and more-or-less an equivalent quantity is purchased. Thus, on a net basis, we are approximately self sufficient for our paper pulp requirements in Southern Africa.

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

Operating performance

Operating profit excluding special items

	2010	2009
Volume (metric tons '000)	2,744	2,477

	ZAR million		ZAR per metric ton	
	2010	2009	2010	2009
Sales	11,695	10,627	4,262	4,290
Variable manufacturing and delivery costs	(6,786)	(6,745)	(2,473)	(2,723)
Contribution	4,909	3,882	1,789	1,567
Fixed costs	(4,324)	(4,168)	(1,576)	(1,683)
Sundry income (costs) and consolidation entries	419	439	153	178
Operating profit (loss) excluding special items	1,004	153	366	62

As with our other businesses, the Southern African business experienced a recovery in demand for all major products during fiscal 2010 after the severe decline in fiscal 2009.

Sappi group review continued

Section 2

Variable and delivery costs

US\$ million	2010	2009
Variable manufacturing costs:		
Wood	706	663
Energy	626	584
Pulp	929	543
Chemicals	1,050	868
Other	259	210
Delivery costs	547	454
Total	4,117	3,322

Fixed costs

Fixed costs increased by US\$194 million (10%) to US\$2.2 billion in 2010 mainly due to the negative impact of exchange rates (US\$98 million) and the effect of having the additional fixed costs in Europe associated with the business acquired from M-real in January 2009 for the full year in fiscal 2010 compared to only nine months in fiscal 2009.

The tables below show the make-up of fixed costs by region and by type of cost:

Fixed costs by region	2010	% Change	2009
US\$ million			
Europe	1,157	10	1,053
North America	461	(3)	475
Southern Africa	480	4	462
Inter-company eliminations	(31)		(20)
Group at 2009 exchange rates	2,066	5	1,970
Exchange rate impact	98		-
Group as reported	2,164	10	1,970

Fixed costs by type	2010	2009
US\$ million		
Personnel	1,176	1,046
Maintenance	275	250
Depreciation	411	396
Services and administration	302	278
Total	2,164	1,970

Regional operating review continued

Sappi Southern Africa continued

Overall sales volumes increased by 11% in fiscal 2010 compared to fiscal 2009. Demand for chemical cellulose was significantly better in fiscal 2010 increasing by 18% compared to fiscal 2009. Volumes in the paper and paper packaging business declined by 3% due to the closure of the Usutu Mill in January 2010 and, to a lesser extent, to production problems experienced at our Ngodwana Mill. Excluding the Usutu Mill volumes in 2009, volumes increased by 6% in fiscal 2010 compared to 2009.

During 2010, average chemical cellulose selling prices in US dollar terms increased by 26% compared to fiscal 2009, but by only 11% in Rand terms due to the strengthening of the Rand to the US Dollar during fiscal 2010. Average selling prices for paper and paper packaging products increased by 4% compared to fiscal 2009. Overall, average prices including timber sales, were marginally lower than fiscal 2009 at ZAR4,262 per ton.

For the whole business, sales increased by 10% to ZAR11.7 billion compared to 2009.

Variable and delivery costs

	ZAR million		ZAR per metric ton	
	2010	2009	2010	2009
Variable manufacturing costs:				
Wood	2,088	1,897	761	766
Energy	1,315	1,158	479	468
Pulp	570	747	208	302
Chemicals	1,340	1,449	488	585
Other	465	455	170	183
Delivery costs	1,008	1,039	367	419
Total	6,786	6,745	2,473	2,723

During fiscal 2010, input costs per ton decreased by 9% to ZAR2,473 compared to fiscal 2009, mainly due to a decrease in volumes of bought-in pulp and decreases in the input prices of chemicals and other costs. The decrease was also partly due to input costs normalising after the interrupted ramp-up of our Saiccor Mill and production curtailments during 2009.

Fixed costs

	ZAR million	
	2010	2009
Personnel	1,982	1,844
Maintenance	699	697
Depreciation	765	750
Services and administration	878	877
Total	4,324	4,168

Fixed costs increased by 4% to ZAR4,324 million. This increase was mainly due to a 7% increase in personnel costs due to the relatively high inflation environment in South Africa and the impact of a skills shortage on personnel costs, particularly in skilled technical functions. Maintenance and services expenses were well controlled and remained at similar levels to 2009.

Sundry income consists mainly of the plantation volume fair value adjustment.

Sappi group review continued

Section 2

Operating profit excluding special items

The contribution by each of our regions to the group operating profit excluding special items over the past three years was as follows:

US\$ million	2010	2009	2008
Europe	76	12	55
North America	124	(2)	95
Southern Africa	134	17	209
Corporate and other	5	6	7
Sappi group	339	33	366

2010 was a great improvement over 2009 due to the better global economic conditions that prevailed in 2010 and the many improvements we have made to all our businesses. These improvements include:

- the closures of three underperforming mills in the past two years – Kangas in Finland, Muskegon in the United States and Usutu in Swaziland;
- the realisation of further synergies from the integration of the M-real coated business we acquired in January 2009;
- our improved market position in Europe following the M-real acquisition which enabled us to put through three consecutive price increases on coated woodfree products, something that has not happened in Europe for nearly a decade – although not adequate to compensate fully for the high cost of bought-in pulp which prevailed for most of the year, these price increases helped us to maintain a small positive margin in our European business;
- the good production performance, particularly in the second half of the year, of our Saiccor Mill in South Africa following completion of the 200,000 ton chemical cellulose expansion project in 2009; and
- the many projects in all parts of the group to reduce manufacturing costs, improve customer relationships, simplify product portfolios and streamline logistics.

Economic conditions permitting, we expect these actions to deliver further improvements to our operating performance in the future and lead to better operating results than the US\$366 million operating profit excluding special items earned in 2008.

North America did particularly well on all counts to deliver an operating profit excluding special items of US\$124 million.

Pulp prices, which rose rapidly during fiscal 2010, impacted the split of operating profit between the regions – benefiting the Southern African and North American businesses (which are net sellers of pulp) and squeezing the margin of the European business (which buys-in approximately half of its pulp consumption). Also, the strong South African Rand compared to the US Dollar and the Euro negatively affected the profits of the Southern African business by not only reducing Rand revenues from exports but also domestic prices as a result of increased competition from imports.

The operating margin (operating profit excluding special items to sales) of each of our businesses is set out below:

Section 2

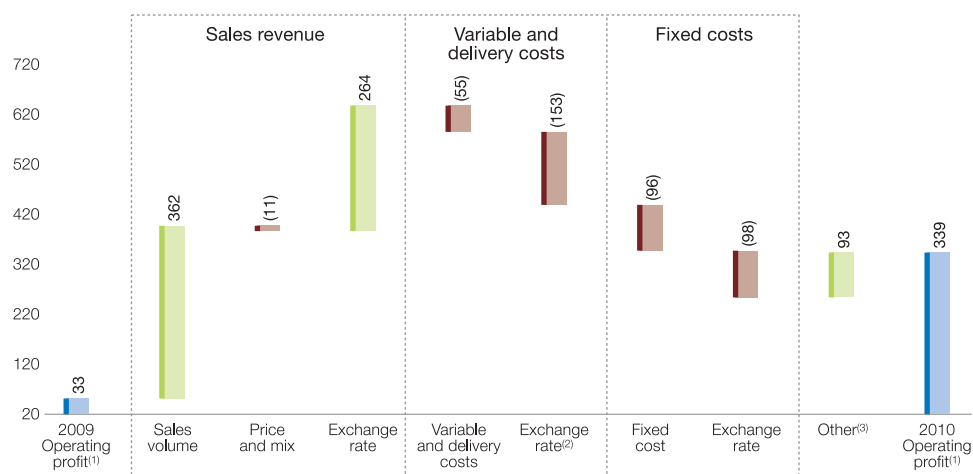
Percentage	2010	2009	2008
Europe	2.1	0.4	2.0
North America	9.0	–	5.7
Southern Africa	8.6	1.4	14.1
Sappi group	5.2	0.6	6.2

To achieve our goal of at least a 12% ROCE we need to improve the group operating margin to around 8% per annum. We expect margins, particularly in Europe and Southern Africa, to improve in 2011.

The bar chart below shows the main components of the “bridge” between our 2009 operating profit excluding special items compared to 2010.

Operating profit reconciliation: 2010 compared to 2009

(US\$ million)



Notes

(1) “Operating profit” excludes special items.

(2) “Exchange rate” reflects the impact of changes in the average rates of translation.

(3) “Other” is mainly the impact of stock revaluation and stock movement on the income statement.

Sappi group review continued

Section 2

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 mixture credits paid to qualifying alternative fuel producers in the USA.

Special Items US\$ million	2010	2009
Plantation price fair value gain (charge)	31	(67)
Fixed asset impairment reversals (impairments)	20	(79)
Restructuring provisions and closure costs	(46)	(34)
US alternative fuel mixture credits	51	87
Broad-based Black Economic Empowerment transaction costs	(23)	-
Fire and flood damage	(26)	(11)
Other costs	(5)	(2)
	2	(106)

The net impact of Special items improved our operating profit in 2010 marginally by US\$2 million. In 2009, the negative impact of US\$106 million was substantial. We explain the major components of the 2010 special items below:

- the favourable non-cash US\$31 million plantation price fair value adjustment was largely due to higher timber prices partly offset by increases in delivery costs – notes 2.3.6 and 10 to the group annual financial statements give a full explanation about the accounting for our plantations;
- the restructuring provisions and closure costs of US\$46 million related to the closure of the Kangas Mill in Finland and the Usutu Pulp Mill in Swaziland, both of which ceased operations in January 2010;
- we earned a further, and final, US\$51 million of alternative fuel mixture credits in the United States of America – please refer to note 2.2.14 of our group annual financial statements for further information about these tax credits;
- we recognised a substantial US\$23 million non-cash charge in accordance with IFRS2 in connection with our Broad-based Black Economic Empowerment transaction which was approved by our shareholders and completed in 2010 – further information on this transaction is disclosed in notes 2.2.10, 17 and 28 to our group annual financial statements;
- our Stockstadt Mill in Germany suffered a major electrical fire in December 2009 costing an estimated US\$30 million. Since we self-insure up to US\$25 million per incident (with an aggregate loss limit of US\$40 million per annum), most of the property damage and business interruption cost of this fire will be covered by the group. The exact amount of this cost will be determined once the claim is finalised.

Operating profit

After taking into account special items, our operating profit for 2010 and 2009 was as follows:

US\$ million	2010	2009
Operating profit excluding special items	339	33
Special Items	2	(106)
Operating profit	341	(73)

Section 2

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 2010 was 8% – we would hope to get considerably closer to the target in 2011.

In order to meet our ROCE target, we need to improve operating profit excluding special items to around US\$500 million, at our current level of capital employed.

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:

Sensitivities	Change	SFPE	SFPNA	SA	Group
		EUR million	US\$ million	ZAR million	US\$ million
Net selling prices	1%	27	13	132	62
Variable costs	1%	18	7	66	38
Sales volume	1%	9	5	54	23
Fixed costs	1%	7	5	47	19
Brent crude oil price	US\$1	4	–	7	6
Pulp prices	US\$10	(9)	2	42	(4)
Wood prices	1%	2	2	5	5
ZAR/US	10 cents	–	–	64	8
Euro/US\$	10 cents	–	3	–	3

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

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 is the case with changes in international pulp prices which affects the Southern African and North American businesses (which are net sellers of pulp) and the European business (which is a net purchaser of pulp) in opposite ways.

Sappi group review continued

Section 2

Finance costs

Comparing our net finance costs year-on-year is complex. The breakdown of the major components of our net finance costs in the table below will be helpful in understanding the comparison and the make-up of our finance costs.

US\$ million	2010	2009
Net interest	293	137
Foreign exchange gains	(17)	(17)
Fair value change in financial instruments	(21)	25
Net finance costs	255	145

Net interest increased significantly from US\$137 million in 2009 to US\$293 million in 2010. Eliminating once-off discounts received on early settlement of debt in 2009 and 2010, net interest paid can be re-stated on a "normalised" basis as follows:

US\$ million	2010	2009
Net interest	293	137
Discounts on early re-purchase of debt	5	41
Normalised net interest	298	178

On this normalised basis, net interest has increased by some US\$120 million compared to 2009. The main reasons for this increase are:

- in the last month of fiscal 2009, we re-financed US\$1.3 billion of maturing low cost debt (costing on average 4.6% per annum) – which was raised at a time when our credit rating was "investment" grade and financial markets were more favourable – with new debt at an average rate of approximately 9.7% per annum – this increased our finance costs by some US\$65 million;
- the US\$27 million non-cash amortisation of discounts and costs relating to the 2009 re-financing;
- the higher interest rate cost on approximately US\$850 million of fixed rate debt which, for most of 2009, was swapped into lower floating rates – these swaps were unwound in 2009 resulting in a cash inflow of US\$50 million;
- in the past two years we have held above average cash balances, serving as a liquidity buffer during the financial crisis and the uncertain economic outlook prevailing since then – the average balances held on deposit in 2010 exceeded those in 2009 but, as the average short-term interest rates were lower than during our 2010 financial year, the interest earned on our cash deposits was lower in 2010 compared to 2009.

The foreign exchange gains of US\$17 million in both 2010 and 2009, arose largely from forward points earned on Rand/US Dollar forward exchange contracts taken out to cover US Dollar denominated exports from the Southern African business.

The fair value adjustments to financial instruments relate mainly to the unwinding of fixed to variable interest rate swaps in 2009. The accounting convention required us to take a charge of US\$20 million in 2009 (on the swaps), but this was off-set in 2010 by the amortisation gain on writing down part of the underlying debt to fair value amounting to US\$21 million. Further amortisation gains in 2011 and 2012 will total approximately US\$24 million.

Taxation

Our tax charge for the year was US\$20 million, resulting in an effective tax rate for the group of 23%. The regional contributions to the charge are set out in the table below:

US\$ million	Profit/(loss) before tax	Tax (charge) relief	Effective tax rate
Europe	(150)	6	(4)%
North America	159	(6)	4%
Southern Africa	77	(20)	26%
Sappi group	86	(20)	23%

In Europe, despite the US\$150 million loss before tax, we only took tax relief on these losses in an amount of US\$6 million because, in our judgement, in certain countries in Europe we may not generate sufficient pre-tax profits to recover these losses in the near future. We also have substantial additional unrecognised tax losses in Austria, Finland, Belgium and The Netherlands which will substantially shield future profits earned in those countries.

The low charge in North America relates mainly to taxes paid in certain of the States in which we operate. At the Federal level we have substantial unrecognised tax losses which, in 2010, largely shielded the profits of our North American business and are expected to continue to shield profits there for some years to come.

The effective tax rate of 26% in Southern Africa is lower than the Southern African statutory rate of 28%. On one hand, no tax relief is available on the Broad-based Black Economic Empowerment transaction (referred to under special items above) and on the closure costs related to the Usutu Pulp Mill (referred to under special items above). On the other hand, profits on exports benefited from lower taxes in certain countries.

Net profit, earnings per share and dividends

We were pleased to again return to profit at the net level. After taking into account finance costs and taxation, our net profit and earnings per share for 2010 and 2009 were as follows:

US\$ million	2010	2009
Operating profit (loss)	341	(73)
Net finance costs	(255)	(145)
Profit (loss) before tax	86	(218)
Taxation (charge) relief	(20)	41
Net profit (loss)	66	(177)
Average number of shares in issue (million)	517	483
Earnings (loss) per share (US cents)	13	(37)

Our board decided that it would not be appropriate to declare a dividend for fiscal 2010.

Section 2

Sappi group review continued

Section 3

Cash flow analysis

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

US\$ million	2010	2009
Operating profit (loss)	341	(73)
Depreciation	411	396
Fellings	71	69
Contributions to post-employment benefits	(73)	(62)
Other non-cash items	(13)	102
Cash generated by operations	737	432
Movements in working capital	(5)	152
Cash generated by operating activities	732	584
Finance costs	(194)	(81)
Taxation	(9)	(5)
Capital expenditure*	(211)	(176)
Dividends paid	–	(37)
Proceeds on disposal of fixed assets	23	4
Net cash generated	341	289

* Excluding the M-real acquisition in fiscal 2009.

Cash generated by operations of US\$737 million was a substantial improvement over the US\$432 million generated in 2009. This improvement was mainly due to the higher operating profit excluding special items in 2010.

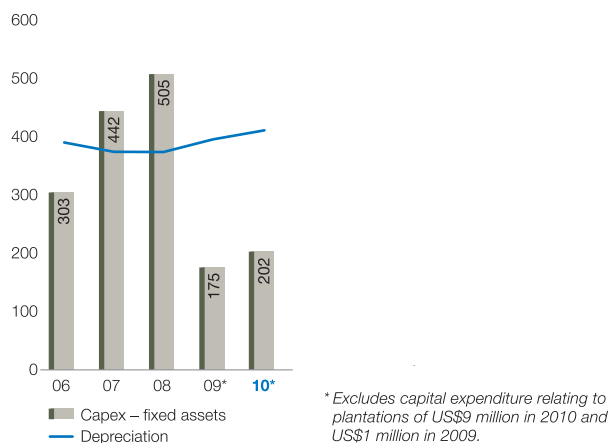
The small working capital increase of US\$5 million was impressive given the large increase in business activity compared to 2009. All our regions managed their working capital very well – this is further discussed in section 4 of this report.

In line with our determination to reduce net debt, capital expenditure was again kept at a relatively low level and aimed mainly at maintaining our production facilities. We spent US\$173 million on maintenance, US\$9 million on acquiring plantations and US\$29 million on expanding and improving our production assets.

Net cash generated was a healthy US\$341 million which went to reduce net debt – please see section 4 for the movement in our net debt.

Investment in fixed assets versus depreciation

(US\$ million)



continues on page 49

Balance sheets

Our group balance sheets can be summarised as follows:

US\$ million	2010	2009
Property, plant and equipment	3,660	3,934
Plantations	687	611
Net working capital	453	534
Other assets	321	332
	5,121	5,411
Net post employment liabilities	(446)	(435)
Other liabilities	(558)	(606)
Employment of capital	4,117	4,370
Equity	1,896	1,794
Net debt	2,221	2,576
Capital employed	4,117	4,370

We discuss the more important components below.

Property, plant and equipment

We have 19 mills in eight countries capable of producing 4.1 million tons of pulp and 6.6 million tons of paper products. For more information on our mills, their production capacities and products, please refer to page 23, for our Fine Paper mills and page 27 for Sappi Southern African mills.

The cost, depreciation and impairments related to our property, plant and equipment are set out in the table below:

US\$ million	2010	2009
Cost	10,111	10,344
Accumulated depreciation and impairments	6,451	6,410
Net book value	3,660	3,934

During 2010, we depreciated our fixed assets by a further US\$411 million, booked additions of US\$206 million and reversed previous impairments of US\$20 million. Currency translation difference was a negative US\$86 million.

The capacity replacement value of the property, plant and equipment for insurance purposes has been assessed at approximately US\$25 billion.

For more information on property, plant and equipment – please see note 9 to our financial statements.

Plantations

We own plantations in Southern Africa on approximately 385,000 hectares of plantable and have access to a further approximately 170,000 hectares of land leased by us or available to us under contract.

We regard our plantations as a vital strategic resource of low cost fibre to feed our pulp production in southern Africa and we intend to invest further in this resource in the future. Our plantations currently provide approximately 70% of the wood requirements of our Southern African Mills. In 2010 we, as a group, purchased an additional US\$706 million of wood to feed our pulp mills, mainly in Europe and North America.

In terms of the relevant accounting standard, we are required to carry these plantations on our balance sheet at their fair value less the estimated cost of cutting, delivering and selling the timber at the harvesting stage.

In notes 2.3.6 and 10 to the group annual financial statements, we present considerable detail about how we account for our plantations.

Section 4

Sappi group review continued

Section 4

Working capital

The component parts of our working capital at financial year end for the past two years are shown in the table below:

US\$ million	2010	2009
Inventories	836	792
Receivables	888	858
Payables	(1,271)	(1,116)
Net working capital	453	534

Optimising the levels of our working capital to minimise the cost of funding this element of our business is a key focus area.

We carefully manage the ratio of working capital to sales and regularly compare this ratio to those of our peers in the industry and believe that our working capital management compares favourably in that regard.

Managing the average level of net working capital is a large element of the management incentive scheme for all our businesses.

The quarterly average net working capital in 2010 was US\$575 million compared to US\$634 million in 2009, a decrease of 9% year-on-year. Sales increased by 22% in 2010. The decrease in average net working capital despite the substantial increase in sales, indicates that working capital was well managed in 2010.

Post-employment liabilities

The group operates various defined benefit pension, post retirement medical and other types of funds in the various countries in which we operate. The defined benefit liabilities can be summarised as follows:

US\$ million	2010	2009
Liabilities of funded defined benefit plans	(1,928)	(1,765)
Assets of funded defined benefit plans	1,808	1,695
Net deficit on funded plans	(120)	(70)
Liabilities of unfunded plans	(326)	(365)
Net balance sheet liability	(446)	(435)
Cash contributions to defined benefit plans	77	64
Income statement charge for defined benefit plans	29	31

We carry a net liability of US\$446 million in respect of our defined benefit obligations.

Of the US\$77 million of cash contributions to defined benefit schemes in 2010, US\$26 million (US\$25 million in 2009) was by way of "catch-up" contributions towards the deficits in our funded plans. We expect to make similar additional contributions towards these deficits next year.

Equity

Year-on-year, equity increased by US\$102 million to US\$1,896 million as detailed below:

US\$ million	2010
Equity at September 2009	1,794
Profit for the year	66
Actuarial losses on pension funds	(71)
Exchange rate differences on translation of non-dollar operations	52
Shares issued in connection with the Broad-based Black Economic Empowerment transaction	20
Movement in hedging reserves	14
Share-based payments	17
Other	4
Equity at September 2010	1,896

More detail on the movement in equity can be found in the statement of changes in equity in our group annual financial statements.

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 and cash equivalents.

Structure of net debt and liquidity

The structure of our net debt as at end September 2010 and 2009 is summarised below:

Structure of net debt	2010	2009
US\$ million		
Long-term debt	2,317	2,726
Secured debt	1,208	1,520
Unsecured debt	1,353	1,407
Less short-term portion	(244)	(201)
Net short-term debt	(96)	(150)
Securitisation funding	447	400
Overdrafts	5	19
Short-term portion of long-term debt	244	201
Less cash	(792)	(770)
Net debt	2,221	2,576

In 2010, we used cash resources to early repay US\$240 million of long-term debt. After these early repayments and US\$75 million of other scheduled debt repayments, our liquidity position remains very strong with our cash holdings exceeding short-term debt by US\$96 million. This is more so because our securitised borrowings of US\$447 million which, although classified as short-term debt, roll forward monthly and are not expected to be repayable in the short-term. In addition, our committed Revolving Credit Facility of EUR209 million (US\$282 million) remains unutilised.

Section 4

Sappi group review continued

Section 4

Movement in net debt

The movement in net debt from September 2009 to 2010 is explained in the table below:

US\$ million	2010
Net debt at September 2009	2,576
Net cash generated in 2010	(341)
Fair value adjustment	(7)
Currency translation	(7)
Net debt at September 2010	2,221

Debt profile and maturity

We show the major components and maturities of our net debt as at end September 2010 below. These are split between debt raised in South Africa and debt raised outside of South Africa.

US\$ millions	Amount	Local int rate weighted	Fixed/ variable	Maturity (Sappi fiscal years)					
				Short- term	2011	2012	2013	2014	There- after
South Africa									
Bank debt	181	10.22%	Fixed	-	68	14	63	29	8
Bonds	356	10.42%	Fixed	-	-	213	142	-	-
Gross debt	537								
less cash	(129)			(129)	-	-	-	-	-
Net SA debt	408			(129)	68	227	205	29	8
Non-South African									
Securitisation	447	2.81%	Variable	447*	-	-	-	-	-
OeKB Loan ⁽¹⁾	432	8.60%	Fixed	-	62	124	124	122	-
Other bank debt	171	4.26%	Variable	122*	24	22	1	2	-
Revolving credit facility ⁽¹⁾	0	2.03%#	Variable	-	-	-	-	-	-
2012 Bonds (US\$)	500	6.75%	Fixed	-	-	500	-	-	-
2014 Bonds (US\$) ⁽¹⁾	300	12.00%	Fixed	-	-	-	-	300	-
2014 Bonds (EUR) ⁽¹⁾	472	11.75%	Fixed	-	-	-	-	472	-
2032 Bonds (US\$)	221	7.50%	Fixed	-	-	-	-	-	221
IFRS adjustments	(67)								
Gross debt	2,476								
less cash	(663)			(663)	-	-	-	-	-
Net non-SA debt	1,813			(94)	86	646	125	896	221
Net group debt	2,221			(223)	154	873	330	925	229

* Securitisation debt and US\$122 million of the other bank debt is expected to roll over.

Commitment fees payable on undrawn amounts of the facility of EUR209 million.

(1) These debt components are secured by a security package consisting of claims over certain of our non-South African fixed assets, inventories in North America and cross guarantees from, and the pledge of shares by, our major non-South African subsidiaries. The majority of our non-South African long-term debt is guaranteed by Sappi Limited, the group holding company.

Covenants

Non-South African covenants

Financial covenants apply to approximately US\$430 million of our non-South African bank debt, the EUR209 million Revolving Credit Facility and our securitised borrowings.

These financial covenants are calculated on a last-four-quarter basis and require that at the end of each quarter:

- the ratio of group net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) be not greater than 5:1 at the end of September 2010, reducing over the term of the facility to 4:1 by September 2012; and
- the ratio of group EBITDA to net interest expense be not less than 2:1 at the end of September 2010, increasing over the term of the facility to 2.5:1 by June 2012.

The table below shows that as at September 2010 we were in compliance of these covenants:

Non-South African covenants	2010	Covenant
Net debt to EBITDA	2.7	<5.0
EBITDA to net interest	2.99	>2.0

In addition to the financial covenants referred to above, our 2014 Bonds and certain of our bank facilities contain customary affirmative and negative covenants restricting, among other things, the granting of security, incurrence of debt, the provision of loans and guarantees, mergers and disposals and certain restricted payments, including the payment of dividends. As regards dividend payments, the group is restricted from paying cash dividends in certain circumstances, for example if the net debt to EBITDA ratio exceeds 4:1 or if the EBITDA to net interest is less than 2:1. In addition, any cash dividends paid may not exceed 50% of net profit excluding special items.

South African covenants

Separate covenants also apply to certain of the debt of our Southern African business.

These covenants require that, with regard to Sappi Southern Africa (Pty) Limited and its subsidiaries:

- the ratio of net debt to equity is not at the end of any quarter greater than 65%; and
- at the year-end, the ratio of EBITDA to net interest paid for the year is not less than 3:1.

Below we show that for the year ended September 2010, the South African financial covenants were comfortably met:

South African covenants	2010	Covenant
Net debt to equity	37%	<65%
EBITDA to net interest	4.2	>3.0

Section 4

Sappi group review continued

Section 5

Credit rating

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

Fitch South African national rating

Sappi Southern Africa (Pty) Limited	A/F1/Stable (March 2010)
-------------------------------------	--------------------------

Moody's international rating

Sappi Corporate Credit Rating	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)

The ratings by Moody's and Standard & Poor's were updated in September 2009 in the context of the refinancing transactions that were finalised in August 2009, including the new US\$300 million and EUR350 million bonds, the renewal of the EUR209 Revolving Credit Facility and the extension of the EUR400 million OeKB syndicated bank facility. These ratings were confirmed in updated reports as published in August 2010 by both rating agencies.

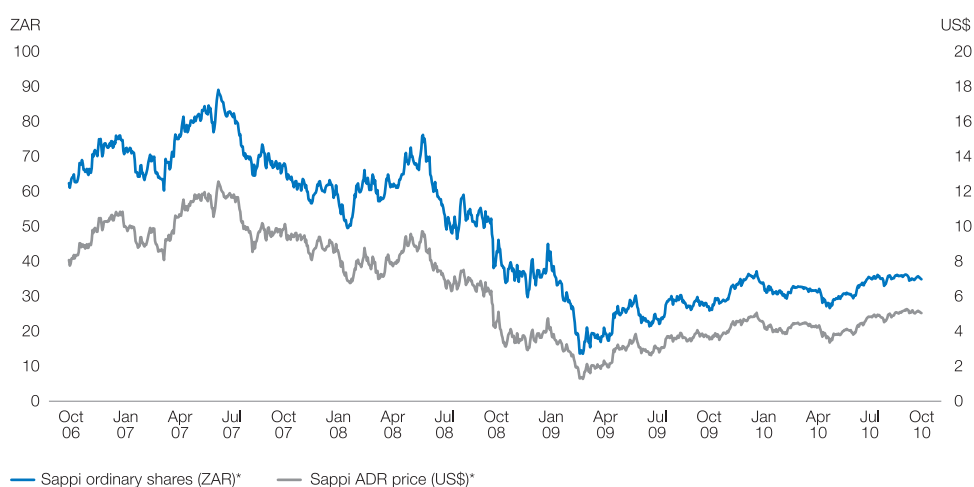
Fitch updated the Sappi Southern Africa (Pty) Ltd rating in March 2010 and changed the outlook from negative to stable in response to more favourable market conditions and performance.

Share listing and share performance

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. Information regarding our shares, share price, the value of shares traded, main shareholders and other related information is contained on pages 58 and 59 of the group annual financial statements.

Our share price performance, adjusted for the new shares issued in the first quarter of fiscal 2009 when we issued 287 million shares in terms of the rights offer and 11 million shares to M-real in part payment for the acquisition of its coated paper business, is shown in the graph below:

Sappi share price – October 2006 to October 2010



* Historic share prices revised to reflect rights offer.

Conclusion

Overall our operating performance in 2010 was much improved but still well short of the levels we believe the group is capable of performing at.

Our North American business did very well to earn operating profit excluding special items of US\$124 million. We expect better operating results, particularly from the European and southern African regions in 2011, and our results in the last quarter of fiscal 2010 give cause for optimism in that regard.

We were pleased with the US\$341 million of net cash we generated in 2010 and expect to generate substantial cash next year and to make good progress towards achieving our goal to reduce net debt to below US\$2.0 billion.

M R Thompson

Chief financial officer

03 December 2010

Five-year review

for the year ended September 2010

US\$ million	September 2010	September 2009	September 2008	September 2007	September 2006
Income statement					
Sales	6,572	5,369	5,863	5,304	4,941
Operating profit excluding special items	339	33	366	313	91
Special items – (gains) losses	(2)	106	52	(70)	(34)
Operating profit (loss)	341	(73)	314	383	125
Net finance costs	255	145	126	134	130
Profit (loss) before taxation	86	(218)	188	249	(5)
Taxation charge (benefit)	20	(41)	86	47	(1)
Profit (loss) for the year	66	(177)	102	202	(4)
Balance sheet					
Total assets	7,184	7,297	6,109	6,344	5,517
Non-current assets	4,653	4,867	4,408	4,608	3,997
Current assets	2,531	2,430	1,701	1,736	1,520
Current liabilities	2,039	1,841	1,926	1,916	1,666
Shareholders' equity	1,896	1,794	1,605	1,816	1,386
Net debt	2,221	2,576	2,405	2,257	2,113
Gross interest-bearing debt	3,013	3,346	2,679	2,621	2,337
Cash	792	770	274	364	224
Capital employed	4,117	4,370	4,010	4,073	3,499
Cash flow					
Cash generated from operations	737	432	623	585	396
Decrease (increase) in working capital	(5)	152	1	60	(17)
Finance costs paid	(206)	(107)	(139)	(183)	(164)
Finance revenue received	12	26	13	21	26
Taxation paid	(9)	(5)	(70)	(27)	(13)
Dividends paid	–	(37)	(73)	(68)	(68)
Cash retained from operating activities	529	461	355	388	160
Net cash generated (utilised) excluding Acquisitions	341	289	(139)	24	(127)
Cash effects of financing activities	(257)	707	49	98	(21)
Capital expenditure (gross)	211	175	505	458	303
EBITDA excluding special items	752	431	740	688	483

US\$ million	September 2010	September 2009	September 2008	September 2007	September 2006
Statistics					
Number of ordinary shares (millions)					
In issue at year-end ⁽¹⁾	519.5	515.7	229.2	228.5	227.0
Basic weighted average number of shares in issue during the year ^(1,3)	516.7	482.6	362.2	360.6	358.0
Per share information (US cents per share)					
Basic earnings (loss) ⁽³⁾	13	(37)	28	56	(1)
Diluted earnings (loss) ⁽³⁾	13	(37)	28	55	(1)
Headline earnings (loss) ⁽³⁾	10	(21)	60	52	(7)
Diluted headline earnings (loss) ⁽³⁾	10	(21)	59	51	(7)
Ordinary dividend declared ⁽²⁾	–	–	16	32	30
Net asset value	365	348	700	795	611
Profitability ratios (%)					
Operating profit (loss) to sales	5.2	(1.4)	5.4	7.2	2.5
Operating profit excluding special items to sales	5.2	0.6	6.2	5.9	1.8
EBITDA excluding special items to sales	11.4	8.0	12.6	13.0	9.8
Operating profit excluding special items to capital employed (ROCE)	8.0	0.8	9.1	8.3	2.6
Profit (loss) to average ordinary shareholders' equity (ROE)	3.6	(10.4)	6.0	12.6	(0.3)
Debt ratios (%)					
Net debt to total capitalisation	53.9	58.9	60.0	55.4	60.4
Efficiency ratios					
Asset turnover (times)	0.9	0.7	1.0	0.8	0.9
Inventory turnover ratio	6.9	6.3	6.9	6.4	6.3
Liquidity ratios					
Current asset ratio	1.2	1.3	0.9	0.9	0.9
Trade accounts receivable days outstanding (including receivables securitised)	54	58	48	49	44
Cash interest cover (times)	2.5	3.2	4.4	3.8	2.9
Number of employees	15,586	16,427	15,156	15,081	15,200
Exchange rates					
US\$ per one Euro exchange rate – closing	1.3491	1.4688	1.4615	1.4272	1.2672
US\$ per one Euro exchange rate – average (12 month)	1.3658	1.3657	1.5064	1.3336	1.2315
ZAR to one US\$ exchange rate – closing	7.0190	7.4112	8.0751	6.8713	7.7738
ZAR to one US\$ exchange rate – average (12 month)	7.4917	9.0135	7.4294	7.1741	6.6039

Definitions for various terms and ratios used above are included in the Glossary on pages 189 to 191.

(1) Net of treasury shares (refer to note 17).

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

(3) The years ending September 2006 to September 2008 have been restated for the bonus element of the rights issue (refer to note 7).

Share statistics

at September 2010

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares*	% of shares in issue
1 – 5 000	5,585	83.6	3,557,888	0.7
5 001 – 10 000	210	3.1	1,545,862	0.3
10 001 – 50 000	322	4.8	7,691,532	1.5
50 001 – 100 000	137	2.0	10,121,098	1.9
100 001 – 1 000 000	352	5.3	115,572,140	22.2
Over 1 000 000	81	1.2	381,022,584	73.4
	6,687	100.0	519,511,104	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 2010 was 6,681)	99.98
	100.00

*The number of shares excludes 21,935,119 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. These investigations revealed as of September 2010 the following beneficial holder of more than 5% of the issued share capital of Sappi Limited:

	Shares	%
Public Investment Commissioner (SA)	61,609,689	11.9

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 2010, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

	Shares	%
Allan Gray Limited	116,798,521	22.5
Investec Asset Management	66,968,541	12.9
Capital Group Companies Inc.	43,837,075	8.4
Old Mutual Investment Group South Africa	40,244,164	7.7

Share statistics	September 2010	September 2009	September 2008	September 2007	September 2006
Ordinary shares in issue (millions)**	519.5	515.7	229.2	228.5	227.0
Net asset value per share (US cents)	365	348	700	795	611
Number of shares traded (millions)					
JSE	467.00	443.40	241.58	246.95	252.60
New York	11.27	66.28	51.04	49.81	57.60
Value of shares traded					
JSE (ZAR million)	14,859.9	12,989.4	22,623.4	27,983.7	20,946.0
New York (US\$ million)	46.4	259.1	634.3	770.8	715.0
Percentage of issued shares traded	92.1	98.8	127.7	129.9	136.7
Market price per share					
– year end					
JSE (South African cents)	3,565	2,855	5,054	6,602	6,336
New York (US\$)	5.14	3.76	6.32	9.67	8.04
– highest					
JSE (South African cents)	3,792	5,403	7,661	8,824	6,389
New York (US\$)	5.14	6.41	9.98	12.24	9.62
– lowest					
JSE (South African cents)	2,539	1,290	4,700	6,263	3,948
New York (US\$)	3.27	1.24	5.72	7.88	5.98
Earnings yield (%)*	2	negative	9.58	5.41	negative
Dividend yield (%)*	–	–	2.56	3.33	3.68
Price/earnings ratio (times)*	50	negative	10.43	18.48	negative
Total market capitalisation (US\$ million)*	2,639	1,985	1,435	2,196	1,850

* 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 21,935,119 treasury shares held by the group.

Note: Definitions for various terms and ratios used above are included in the Glossary on pages 189 to 191.



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 give management risk management information to enable them to make informed risk-based decisions. The risks are ranked according to management's assessment of the likelihood of the 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.

Top risks

Risk	Risk description and mitigation
<p>1. We operate in a cyclical industry. Global economic conditions may cause substantial fluctuations in our results</p>	<p>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, turmoil in the world economy in 2009 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 and Kangas Mill. We took actions to improve efficiencies and reduce costs in all aspects of our business. 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 continue to match our output to market demand.</p>
<p>2. The markets for pulp and paper products are highly competitive</p>	<p>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 and our acquisition of M-real's coated graphic paper business in 2009 enhanced our position in the woodfree coated paper market. We also continue to drive good customer service, innovation and efficient manufacturing and logistics. We are focused on improving the performance and competitiveness of our European business in particular of coated mechanical paper. We are also taking steps to improve the performance of our Southern African paper and paper packaging business.</p>
<p>3. We require significant amounts of finance to fund our business and our ability to generate cash or borrow depend on many factors some of which are beyond our control</p>	<p>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 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 controlled working capital.</p>
<p>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</p>	<p>Sappi is exposed to economic, transaction and translation currency risks. The objective of the group in managing transactional currency risks is to ensure that foreign exchange exposures are identified as early as possible and actively managed. In managing transactional currency risks, 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).</p>
<p>5. The inability to obtain energy or raw materials at favourable prices could adversely affect our operations</p>	<p>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.</p>
<p>6. The cost of complying with environmental, health and safety laws may be significant to our business</p>	<p>We are subject to a wide range of environmental, health and safety laws and regulations in the various jurisdictions in which we operate. We invest to maintain compliance with applicable laws and co-operate across regions to apply best practices in a sustainable manner. The principles of 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, including GHG emissions requirements, and take action with respect to our operations accordingly. The health and safety of our own employees and contractors remain a top priority.</p>

Risk philosophy

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 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 cost, liability or loss, including 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.

Insurance

Sappi follows a practice of insuring its assets against loss arising from catastrophic events. These events include fire, flood, explosion, earthquake and machinery breakdown. Specific environmental risks are also insured. External risk engineers conduct both underwriting surveys as well as risk control surveys of all the Sappi facilities. The risk control surveys report, rate and rank the identified risks and make recommendations to address the probability and/or severity of these risks. This process is focussed primarily on the risk exposures associated with insurable risks. Insurance also covers business interruption events which may result from these

events. 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 the previous three years.

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

Sappi has 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, as has the 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 a portion of Sappi's North American, European and Southern African domestic trade receivables subject to a US\$5 million group aggregate first loss.

Corporate Governance

We are committed to high standards of corporate governance and continue to seek areas of improvement by measuring ourselves against international best practice. The group endorses the Corporate Governance code contained in the South African King III Report issued in 2009, and applies the principles incorporated therein or is developing and implementing governance processes in line with the recommendations. We make use of independent assessment tools to give us confirmation of the extent to which we apply the principles of King III. The group maintains its primary listing on the JSE Limited as well as a listing on the New York Stock Exchange. The group complies in all material aspects with the regulations and codes of these exchanges as they apply to Sappi. The group delisted from the London Stock Exchange, effective 2 November 2009.

The board of directors

The basis for good governance at Sappi is laid out in the charter for the board of directors, which sets out the division of responsibilities between the board and executive management. The board collectively determine major policies and strategies and are responsible for managing risk. For further information about the board and the board charter, please refer to the company website, (www.sappi.com). The composition of the board and the attendance at board meetings and board committee meetings are set out in the following table:

Name	Status	Board	Board committees									
			Audit		Nomination and Governance		Compensation		Human resources and transformation		Sustainability	
R J Boëttger	Chief Executive Officer	5/5	B	6/7	B	3/3	B	5/5	B	2/2	✓	2/2
M R Thompson	Chief Financial Officer	5/5	B	7/7								
D C Cronjé	Independent non-executive, chairman	5/5	E	5/7	✓C	3/3	E	5/5	✓C	2/2		
D C Brink ⁽¹⁾	Senior independent non-executive	1/1	✓	3/3			✓C	2/2				
M Feldberg ⁽²⁾	Lead independent director	5/5			✓	2/2	✓C	5/5				
J E Healey	Independent non-executive	5/5	✓	7/7					✓	2/2		
D Konar ⁽⁴⁾⁽⁶⁾	Independent non-executive	5/5	✓C	7/7	✓	2/2			✓	1/1		
H C Mamsch	Independent non-executive	3/5	✓	6/7			✓	3/5				
J D McKenzie	Independent non-executive	5/5					✓	5/5			✓C	2/2
K R Osar	Independent non-executive	5/5	✓	6/7								
B Radebe	Independent non-executive	5/5							✓	2/2		
A N R Rudd	Independent non-executive	5/5				✓	3/3	✓	4/5			
F A Sonn ⁽¹⁾	Independent non-executive	1/1										
N P Mageza ⁽³⁾⁽⁵⁾	Independent non-executive	4/4	✓	3/3					✓	1/1		
R Thummer ⁽³⁾	Non-executive	3/3									✓	2/2
M V Moosa ⁽³⁾	Non-executive	1/1										

1) Retired from the board on 31 December 2009.

2) Professor M Feldberg became the lead independent director from 6 May 2010.

3) During the year, Mr N P Mageza, Dr R Thummer and Mr V Moosa were appointed to the board with effect from 1 January 2010, 1 February 2010 and 1 August 2010 respectively.

4) Member of the human resources and transformation committee until February 2010.

5) Appointed as a member of the human resources and transformation committee, with effect from February 2010.

6) Appointed as a member of the nomination and governance committee, with effect from February 2010.

✓ 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

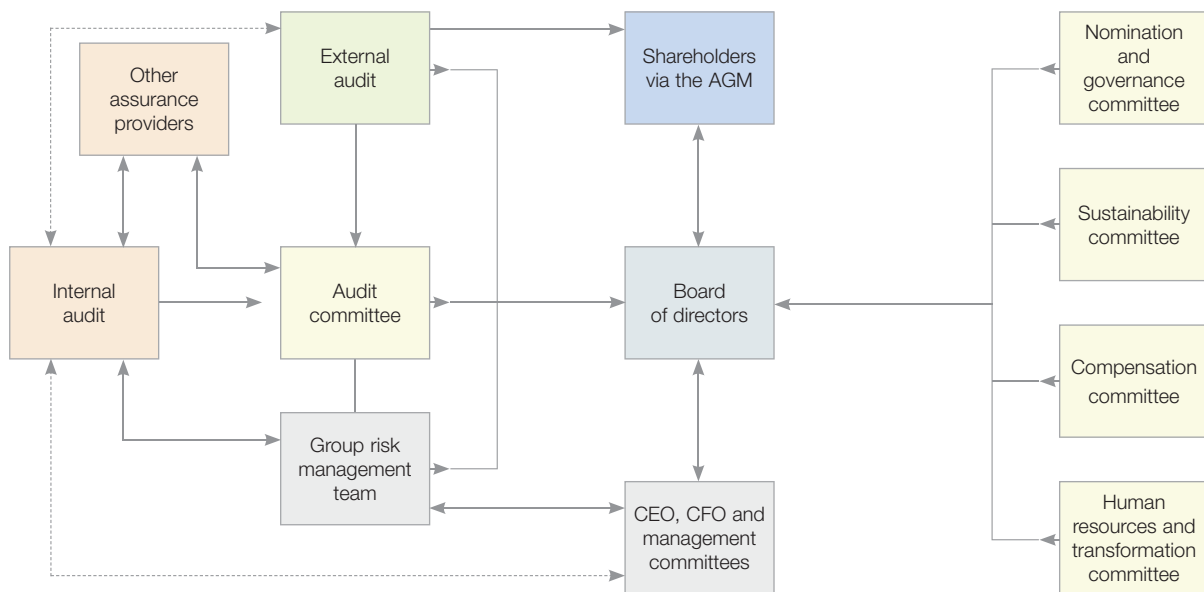
Induction and training of directors

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

Board committees

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

Governance structure: Sappi board committees



Audit committee

The audit committee consists of five independent, non-executive directors and assists the board in discharging its duties relating to the:

- safeguarding and efficient use of assets;
- oversight role for the risk management function;
- operation of adequate systems, and control processes;
- reviewing of financial information and the preparation of accurate financial reporting in compliance with applicable regulations and accounting standards as well as sustainability information in the integrated report;
- reviews compliance with the group's code of ethics and external regulatory requirements;
- oversight of the external auditors' qualifications, experience and performance;
- oversight of the performance of the internal audit function; and
- oversight of non-financial risks and controls, as well as information technology ("IT") governance matters, through a combined assurance model which is in the process of being developed.

The audit committee can confirm that it:

- is satisfied with the independence of the external auditor for the 2010 financial year;
- has considered and approved 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);
- has satisfied its responsibilities in terms of the charter, which is updated periodically;

- has met with senior management, which includes the CEO and the chief financial officer (CFO), at least four times during 2010, and with the management disclosure committee;
- has considered and satisfied itself of the appropriateness of the expertise and experience of the CFO, who is an executive director;
- has considered and recommended the internal audit mandate for approval to the board;
- has requested an annual review of sustainability information reported in the integrated report;
- has reviewed the disclosure of sustainability issues in the integrated report, and
- has received assurance from management, as well as from internal and external assurance providers addressing significant risks facing the company.

The external and internal auditors attended audit committee meetings and had unrestricted access to the committee and its chairman. The external and internal auditors met privately with the audit committee on a regular basis during 2010.

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 which they report on a regular basis and they each met four times during 2010.

Dr D Konar has been designated as the audit committee financial expert as required by the Sarbanes-Oxley Act of 2002, and attended the annual general meeting in 2010.

Nomination and governance committee

The nomination and governance committee consists of four independent non-executive directors which complies with the JSE Limited Listings requirement. The committee considers the leadership requirements of the company including oversight of a succession plan for the board. The committee identifies and nominates suitable candidates for appointment to the board, on the basis of required attributes set out in the board charter, for board and shareholders approval. The committee makes recommendations on corporate governance practices and disclosures for Sappi and reviews compliance with corporate governance requirements. The committee has oversight of the appraisal process of the board and its committees which consists of a self assessment process, with the results and recommended actions for improvement being communicated to the chairman of each committee and the board. The results of the 2010 self assessments of the board, audit committee, compensation committee, human resources and transformation committee, as well as of the nomination and governance committee revealed that

all functioned well and that there were no major shortcomings. The sustainability committee was only established after the 2010 self assessment evaluation process.

Compensation committee

The compensation committee consists of four independent non-executive directors. The committee ensures that the compensation philosophy and practices of the group are aligned to the strategy and performance goals. It reviews and agrees the various compensation programmes and in particular the 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.

Human resources and transformation committee

The human resources and transformation committee consists of four independent non-executive directors. The responsibilities of the 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 CEO as well as employment equity and transformation in South Africa.

Sustainability committee and councils

The structure of the sustainability executive management committee, constituted during 2009, changed during 2010 and the committee is now a board committee comprising one independent non-executive director who chairs the committee, a non-executive director, as well as the CEO. The sustainability committee has a charter from the board. Its mandate is essentially to oversee the group's sustainability strategies and platform.

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

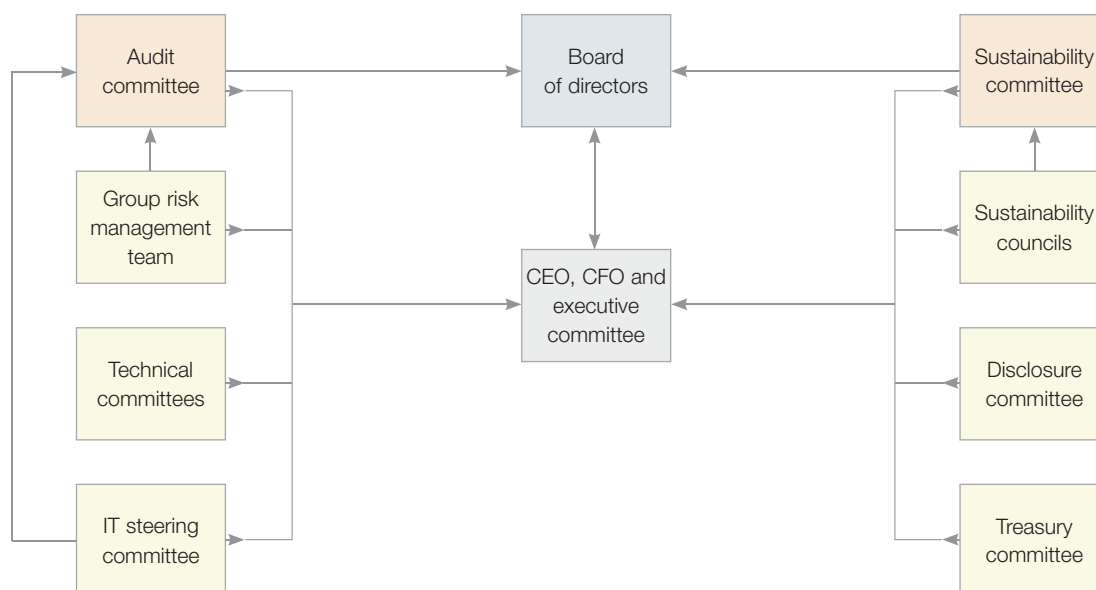
An initial independent review of sustainability information was undertaken by internal audit during 2010. This review process will be developed further during 2011.

For more information on sustainability at Sappi, refer to the www.sappi.com website as well as to the 2010 integrated report, where a summary can be found on pages 10 to 13.

Management committees

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

Governance structure: Sappi management committees



Executive committee

This committee comprises executive directors and senior management from Sappi Limited and the CEOs of the three main regional business operations of the group. The CEO 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, sustainability, social and risk processes. The executive committee meets monthly.

Disclosure committee

This committee comprises some members of the executive committee and senior management from various disciplines whose objective is to review and discuss financial information prepared for public release. Membership of the disclosure committee was expanded in 2009 to include the regional CFOs. The head of internal audit is invited to attend meetings.

Treasury committee

The treasury committee meets every second week to assess risk and advise as to best course of action on treasury related matters.

Technical committees

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

Group risk management team

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 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. The main focus in 2010, was the review and updating of a "corporate risk assessment" as well as a King III report gap analysis regarding the risk management processes at Sappi, which highlighted the need for some amendments to the group's risk policy. A full report on Sappi's risk management can be found on pages 61 to 62.

IT Steering committee

An IT Steering committee was established during 2010 to promote IT governance throughout the group. The Steering committee has a charter that was considered and approved by the audit committee and the board. An IT governance framework has been

developed and IT reports have been presented to the audit committee and the board. A King III report gap analysis was undertaken in 2010. This highlighted the need to revise certain IT policies and procedures.

Financial statements

The directors are responsible for overseeing the preparation and final approval of the group annual financial statements which are based on International Financial Reporting Standards as issued by the International Accounting Standards Board. The group's results are reviewed prior to submission to the board as follows:

- All four quarters – by the disclosure committee and audit committee; and
- interim and final quarters – by external audit.

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 and operational management information, that assets are adequately safeguarded against material loss and that transactions are properly authorised and recorded. Internal controls also provide assurance that the group's resources are utilised efficiently and that the activities of the group are in compliance with applicable laws and regulations.

As part of an ongoing comprehensive evaluation process, control self assessments by management and independent reviews by internal audit and other assurance providers were undertaken across the group of the effectiveness of various elements of the group's financial, disclosure and other internal controls, procedures and systems. Where potential improvements have been identified, they are being addressed. The reviews enabled management to strengthen the group's controls further. The results of the reviews did not indicate any material breakdown in the functioning of these controls, procedures and systems during the year under review. The internal controls in place, including the financial controls, are considered to be effective. A Section 404 report in its Form 20-F is to be filed with the United States Securities and Exchange Commission.

Internal audit

The group's internal audit department has a current complement of 18 persons. It has a specific mandate from the audit committee and, independently appraises the adequacy and effectiveness of the group's systems, internal controls and accounting records. It reports its findings to local and divisional management, the external auditors as well as the respective audit committees. Internal audit also provides a consulting service on risks, controls and governance developments.

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

During 2010, internal audit increased its focus on reviewing significant non-financial risk areas as well as sustainability and legal compliance activities. This coincided with activities to advise the business on development of a combined assurance model and other recommendations made in the King III report on corporate governance. The forensic activity was streamlined to increase effectiveness. An external quality assurance review of internal audit was conducted by the Institute of Internal Auditors (IIA) in 2010 and a "generally complies" rating was received.

Company secretary

All directors have access to the advice and services of the company secretary and are entitled 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 excellence, integrity and respect in all transactions and with all stakeholders, with whom they interact, as reflected in the group's code of ethics that commits the company and employees to sound business practices and compliance with legislation. The code of ethics is available on the company website.

Legal compliance programme

A legal compliance programme designed to increase awareness of, and enhance compliance with, applicable legislation is in place. The group compliance officer reports quarterly to the group audit committee.

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 with Sappi in order 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 group annual 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 and follows the JSE Listings requirements in this regard. For further information please refer to the www.sappi.com website.

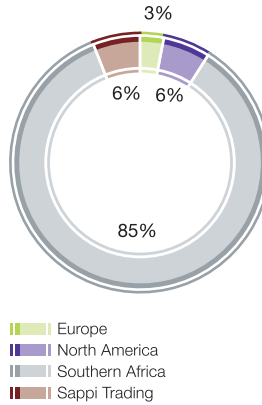
Hotlines and follow up of tip-offs

“Hotlines” have been implemented for all the regions in which the group operates. This service, operated by various independent companies, enables all stakeholders to anonymously report environmental, safety, ethics, accounting, auditing, control issues or other concerns. The follow-up of all reported matters is co-ordinated by group internal audit and reported to the audit committee.

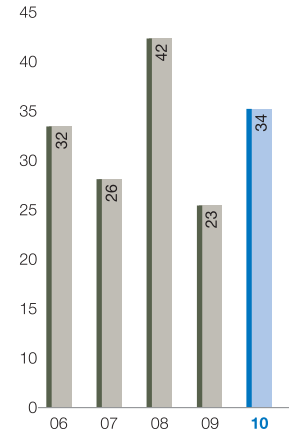
Stakeholder communication

The board is responsible for presenting a balanced and understandable assessment of the company’s position in reporting to stakeholders. A stakeholder engagement policy was developed in 2010. The reporting addresses material matters of significant interest and is based on principles of openness and substance over form.

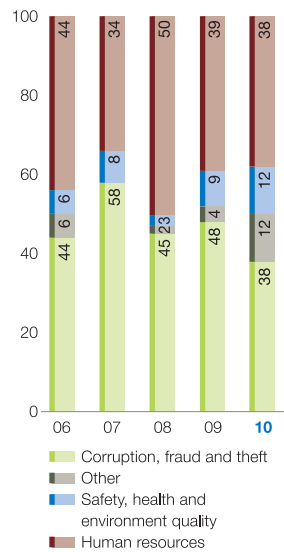
Hotline reports per region
2010: 34



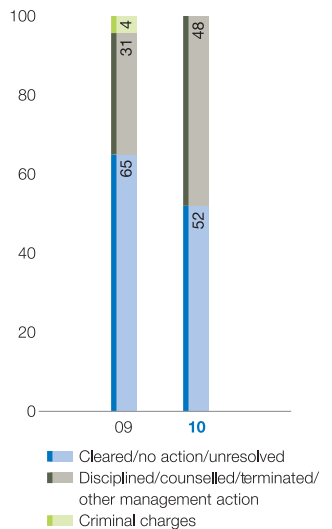
Number of hotline reports



Analysis of hotline reports by category (%)



Analysis of hotline report case outcomes (%)



Compensation report

This report sets out the group's compensation philosophy and practices in general and provides detail compensation information for the executive directors, Mr R J Boëttger and Mr M R Thompson, and non-executive directors for the year ending September 2010.

Against the back drop of 2009 which was a very challenging financial year for the group and the industry and considering the group's financial performance in 2010, the committee reviewed and approved the compensation programmes and awards to employees.

The committee gave due consideration to ensuring an appropriate balance is maintained between the need for compensation that is competitive and would attract and retain key talent, while ensuring that compensation practices are aligned to good corporate governance, risk taking and shareholder interest.

Governance

The compensation committee for 2010 consisted of:

Prof M Feldberg (chairman of the committee)

Mr H C Mamsch

Mr J D Mckenzie

Sir A N R Rudd

Mr D C Brink (retired on 31 December 2009)

Mr D C Brink retired from the board of directors on 31 December 2009. Mr Brink had also been the chairman of the compensation committee as a separate committee from the human resources committee since 2005.

He was succeeded by Professor M Feldberg, who was appointed chairman of the compensation committee in January 2010.

At the invitation of the committee, Dr D C Cronjé (group chairman), Mr R J Boëttger (group chief executive officer) and Ms L A Swartz (group head human resources) attended meetings but recused themselves when items 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 financial year-end except for Mr D C Brink. No current committee member has any personal financial interest or 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 four times and conducted two further meetings by telephone conference.

The committee reviewed and approved:

- the management incentive plan rules for 2010;
- the annual incentive plan awards for 2009;
- the share grants made for 2010; and
- the salary increases effective 01 January 2010.

The committee reviewed and recommended the fees for non-executive directors for approval by shareholders effective October 2010.

The compensation committee is responsible for:

- ensuring that the compensation philosophy and practices of the group are aligned to the strategy and performance goals;
- reviewing the compensation of executive directors and other senior key management;
- satisfying shareholders that the senior executive compensation is set by a committee of independent directors; and
- reviewing and approving proposals (submitted by the group executive committee) on the fees and benefits of non-executive directors.

In exceptional circumstances, in order to appropriately compensate for shifting business goals or major unplanned events, the committee has the right to exercise discretion in authorising adjustments on both financial and individual performance targets, which it deems appropriate when evaluating performance against the targets at financial year end.

During the year, the compensation committee undertook a self-evaluation of its effectiveness and concluded that the committee was acting effectively.

Advice

During the course of the year, management and the committee sought advice from the following external advisers:

The HayGroup presented their findings on the benchmark analysis of Sappi's compensation practices for executive directors and other senior key managers to the compensation committee. The report included a review of South African, European and North American compensation practices.

Kepler and Associates provided adhoc advice to management on remuneration practices and trends to assist with background information and related support in formulating recommendations.

Verification of Sappi's performance and that of the peer group for the Performance Share Incentive Plan was conducted by Kepler and Associates for total shareholder return and, by KPMG for cash flow return on net assets.

In addition, the group companies participate in national and/or industry surveys to benchmark compensation practices.

Compensation philosophy

Sappi's compensation programs are designed to achieve the company's goals of attracting, motivating and retaining employees who can drive the achievement of financial and strategic objectives that are intended to build long-term shareholder value.

The philosophy statement underpins all Sappi group company compensation policies across all geographies and functions.

The design and components of our compensation programs gives due consideration to the nature of the paper and pulp industry which is characterised by its mature profile, cyclical nature and slow growth.

The primary components of pay include base salary and benefits such as medical and retirement, annual incentive awards and long-term incentives.

Compensation levels are set to reflect:

- competitive market practices;
- internal equity;
- company performance; and
- individual performance.

Sappi's benchmarking philosophy is to pay at the median of the market for all components of pay except for short-term incentives which are targeted at the 75th percentile. Total compensation is between the 50th and 75th percentile of the market.

Guiding principles

We strive to reward employees in the group fairly and equitably in relation to job levels; experience and the employment market.

- Job size – all jobs are sized using a consistent methodology to define pay structures and reward levels.
- Performance – relevant components of compensation are linked to the performance of individuals and that of his/her specific business unit or function and/or company.

Consideration is also given to how the results were achieved and whether the decisions and actions taken were consistent with our values.

The annual management incentive scheme aims to reward the delivery of short-term financial and individual performance goals.

Long-term incentive plans aim to reward long-term sustained performance and create alignment with the delivery of value to the shareholder.

Incentives are capped in order that inappropriate business risk-taking is neither encouraged nor rewarded.

- Market conditions – all components of pay are set competitively with due consideration to market pay practices of companies of similar size and complexity in regional markets.
- Risks – the compensation committee considers the management of risk to be important to the process of designing and implementing sustainable compensation structures. Therefore, the balance in terms of the pay mix components encourages prudent risk taking. Executive compensation is balanced in terms of the pay mix components to ensure that policies encourage behaviour consistent with the group's risk reward strategy.

Compensation structure

The compensation of executive directors and other key senior management comprises fixed and variable components. The following table summarises the major components of our compensation programmes.

Component	Purpose	Characteristics
Base salary	<ul style="list-style-type: none"> ■ Attract and retain qualified talent ■ Reinforce the guiding principle of being competitive ■ Recognise individual work experience and level of responsibility ■ Recognise individual performance and maintain internal parity among those performing like jobs 	<ul style="list-style-type: none"> ■ Fixed compensation ■ Reviewed annually ■ Target median of the market ■ Individual increases are granted based on performance (merit), and influenced by internal and external equity and budget constraints ■ Used as a base for calculating other components of compensation
Retirement benefits	<ul style="list-style-type: none"> ■ To provide income for an individual after they have stopped working 	<ul style="list-style-type: none"> ■ Defined benefit and defined contribution plans ■ Majority of defined benefit plans closed to new hires ■ Employees in defined benefit legacy plans continue to accrue benefits in such plans for both past and future service ■ Contributory and non-contributory plans ■ Company contributions vary based on local market practice
Death and disability benefits	<ul style="list-style-type: none"> ■ To provide assurance to employees' family in the event of disability and/or death 	<ul style="list-style-type: none"> ■ Based on local market practice ■ Disability benefit – is a percentage of base salary for a defined period ■ Death benefit – is a multiple of base salary
Medical benefits	<ul style="list-style-type: none"> ■ To provide medical insurance to employees and their families in the event of ill-health ■ Appropriate in light of position 	<ul style="list-style-type: none"> ■ Non-pensionable ■ Market related
Other benefits		<ul style="list-style-type: none"> ■ Dependent on conditions, seniority/ grade and regional policy eg car benefits, education assistance, meal allowances, service awards etc.

Short-term incentive

Annual incentive	<ul style="list-style-type: none"> ■ Focus participants on key annual metrics ■ Motivate the attainment of short-term goals for the applicable period ■ Provide a competitive target compensation opportunity 	<ul style="list-style-type: none"> ■ Variable compensation provided to reward performance over the short-term ■ Short-term incentive targets are determined annually ■ Specific performance goals supporting both the company's overall goals for the year and the contributions of individuals in his/her own area of responsibility are established ■ Is linked to the next higher business unit level ■ Paid out annually, provided the threshold is achieved ■ On-target cash award for executive directors is 85% of salary and ranges from 30% to 70% for other key senior managers based on seniority and location. ■ Includes the management incentive scheme (MIS) and other performance or bonus schemes – for employees who do not participate in the MIS
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Component	Purpose	Characteristics
Long-term incentive		
Share options	<ul style="list-style-type: none"> ■ Motivate the attainment of long-term goals ■ Reinforce the guiding principle of alignment to shareholder interests ■ Provide an opportunity for eligible employees to acquire an interest in the equity of the company 	<ul style="list-style-type: none"> ■ Variable compensation provided to reward performance over the long-term ■ Vests 25% each year over four years ■ Expires eight years from date of grant ■ No dividend earned ■ Number of shares granted is benchmarked at levels of seniority ■ Awarded annually
Performance plan shares	<ul style="list-style-type: none"> ■ Reinforce the guiding principle for long-term performance and shareholder interests ■ Align executive interests with the long-term operational growth of the company ■ Encourage long-term commitment to the company ■ Is a wealth creation mechanism for executive directors and other key senior managers if the company outperforms the peer group 	<ul style="list-style-type: none"> ■ Conditional grants awarded annually to executive directors and other key senior managers of the company ■ Cliff vesting after four years if performance hurdles are met ■ Performance is measured relative to a peer group of 14 other industry related companies ■ The number of shares allocated is benchmarked externally and is performance based
Broad-based Black Economic Empowerment		
Management share ownership plan	<ul style="list-style-type: none"> ■ Provide black managers with the opportunity to acquire equity in the company ■ Attract, motivate and retain black managers 	<ul style="list-style-type: none"> ■ Established to meet the requirements of the Forestry Sector Charter ■ Eligible employees receive an allocation based on seniority of "A" ordinary shares ■ Shares vest 40% after three years and thereafter 10% each year ■ Shares can only be taken-up after September 2019 ■ Managers receive the net value in shares or cash at the end of the lock-in period
Employee share ownership plan	<ul style="list-style-type: none"> ■ Provide employees who do not currently participate in either the share option scheme or performance share plan to acquire equity in the company ■ Provide historically disadvantaged employees an opportunity to participate in equity based compensation 	<ul style="list-style-type: none"> ■ Established to meet the requirements of the Forestry Sector Charter ■ Eligible employees receive an allocation based on seniority of "A" ordinary shares and ordinary shares ■ Shares vest 40% after three years and thereafter 10% each year ■ The shares can only be taken-up after September 2019 ■ Employees receive the net value in shares or cash at the end of the lock-in period

Balance between fixed and variable pay:

The balance between fixed and variable pay components will change each year based on performance. Each executive director's total compensation consists of salary and benefits, annual incentives, and long-term incentives.

Assuming an on-target performance we would generally expect the compensation mix for executive directors to be in the region of:

- 40% base pay plus benefits (fixed)
- 30% short-term (variable)
- 30% long-term (variable)

Base salary

Base salaries are benchmarked against the median of the relevant market for each role and takes account of level, experience, performance and market pricing.

The committee also pays attention to internal equity.

Salary increases for executive directors and key senior managers is consistent with the overall increase in salaries granted to other levels of employees in the company based upon the geography in which they live and work.

Retirement benefits

Across the group and based on 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 social security systems. The design of both the defined benefit and defined 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 contributing or non-contributing plans. Where defined benefit plans 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.

Mr Boëttger is a member of the Sappi Provident fund (defined contribution plan) and Mr Thompson is a member of the Sappi Pension Fund (defined benefit plan).

Both Mr Boëttger and Mr Thompson are members of Sappi retirement funds.

Other benefits

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

Short-term incentives

Executive directors and other senior managers participate in an annual management incentive scheme. The scheme aims to reward the delivery of short-term financial targets which comprises of company/business unit and/or function performance as well as the performance of individuals. Specific to the management incentive scheme, financial and operational performance criteria account for 80% of the bonus award and individual performance accounts for 20% of the bonus award. During financial year 2010, the business performance criteria included operating profit, working capital and capital expenditure.

Examples of other variable pay programs within the group include, but are not limited to:

- Production bonuses
- Gain sharing programmes
- Performance bonuses for staff who do not participate in the management incentive scheme
- Sales incentive plans

For the financial period covered by this annual report, no bonus awards were paid to executive directors or any participants of the management incentive scheme as the performance threshold had not been met.

A bonus incentive award based on the groups financial performance of 116% of target will be included in the calculation for payment to executives and other key senior managers in December 2010 (which payment falls within the 2011 financial year), based on the performance achieved for the year ending September 2010.

Long-term incentives

The company operates two long-term-incentive plans: the Sappi Share Incentive Scheme and the Sappi Performance Share Plan. Under these plans executive directors and other eligible employees receive an annual grant.

Performance plan shares are conditionally granted to executive directors and other key senior managers (approximately 40 employees). Vesting of the conditional grants take place after four years based on the relative performance of the company compared to 14 other industry related companies. The performance criteria for the four year performance period ending September 2010 include Total Shareholder Return (TSR) and Cash flow Return on Net assets (CFRONA).

The peer group consisted of the following companies:

Abitibi Bowater; Holmen AB; Mondi Plc; Fibria Celulose SA; International Paper; M-real OYJ; UPM-Kymmene OYJ; Stora Enso OYJ; Domtar; MeadWestvaco; Nippon Paper Group; Weyerhaeuser; Norkse Skogindustria; Oji Paper.

For the four year performance period ending September 2009 and a vesting date of December 2009, Sappi's performance relative to the peer group measured on TSR was ranked in tenth place which resulted in none of the conditional share awards vesting.

Other participants receive an annual grant of share options which vests 25% each year over 4 years and expires after 8 years.

Executive compensation 2010:

R J Boöttger

Mr Boöttger's total compensation for the year of US\$923,997 is 13.6% lower than that for 2009 of US\$1,070,283.

Mr Boöttger received a salary increase of 7% on the South African portion of his salary which accounts for 70% and no salary increase on the offshore portion of his salary which accounts for 30% of his total annual salary. In US\$ terms, Mr Boöttger's salary increased by 28.84% from US\$551,185 to US\$710,148 per annum. This year-on-year differential is a result of Mr Boöttger receiving only eleven months pay instead of twelve months in 2009. He voluntarily forfeited one month's salary in support of employees who experienced hardships as a result of a difficult 2009 financial year. Exchange rate currency fluctuations year-on-year also impacted his 2010 compensation.

Mr Boöttger did not receive a bonus in 2009 as the group did not meet the performance threshold. Such a bonus would have been paid out in the 2010 financial year. Based on the rules of the management incentive scheme which rewards performance targets based on operating profit, working capital and capital expenditure, a bonus of US\$347,548 was paid for the 2008 financial year and is included in the 2009 total compensation number.

Mr Boöttger did not sell any shares during the 2010 financial year.

Through the Sappi Performance Share Incentive Plan, Mr Boöttger was awarded 195,000 conditional shares in December 2009. The share price at the date of issue was R33.85.

M R Thompson

Mr Thompson's, total compensation for the year of US\$466,915 is 9.7% lower than that for 2009 of US\$517,090.

Mr Thompson received a salary increase of 7% on the South African portion of his salary which accounts for 70% and no salary increase on the offshore portion of his salary which accounts for 30% of his total annual salary. In US\$ terms, Mr Thompson's salary increased by 29.7% from US\$261,921 to US\$339,708. This year-on-year differential is a result of Mr Thompson receiving only eleven months pay instead of twelve months in 2009. He voluntarily forfeited one month's salary in support of employees who experienced hardships as a result of a difficult 2009 financial year. Exchange rate currency fluctuations year-on-year also impacted his 2010 compensation.

Mr Thompson did not receive a bonus in 2009 as the group did not meet the performance threshold. Such a bonus would have been paid out in the 2010 financial year. Based on the rules of the management incentive scheme which rewards performance targets based on operating profit, working capital and capital expenditure, a bonus of US\$102,582 was paid for the 2008 financial year and is included in the 2009 total compensation number.

Mr Thompson did not sell any shares during the 2010 financial year.

Through the Sappi Performance Share Incentive Plan, Mr Thompson was awarded 120,000 conditional shares in December 2009. The share price at the date of issue was R33.85.

Top three executive's salaries

KING III recommends that the salaries of the top three executives, excluding executive directors should be disclosed. As the executive management team is made up of a group of international employees and to retain the confidentiality of salaries across the different geographies, the board decided not to disclose this information for each of the individuals but has instead disclosed the total salaries of the three employees concerned.

In the 2010 financial year, the amount of the combined salaries (comprising base pay and benefits) of the top three executive directors was US\$1,793,560 (2009: US\$1,723,787).

Directors' participation in the Sappi Limited Share Incentive Trust (Scheme) and The Sappi Limited Performance Incentive Trust (Plan)

	R J Boöttger		M R Thompson		Total 2010	Total 2009
	Allocated price	No of shares	Allocated price	No of shares	No of shares	No of shares
Executive directors						
Outstanding at beginning of year						
Number of shares held		484,000		484,000	968,000	339,000
Issue 26			R77.97	33,000		
Issue 27			R62.34	33,000		
Issue 28a			R47.08	39,600		
Issue 29			R46.51	39,600		
Performance Shares 30*			R11.06	52,800		
Performance shares 30a*			R11.06	110,000		
Performance shares 31a*	R11.06	220,000				
Performance shares 32	R11.06	110,000	R11.06	88,000		
Performance shares 34		154,000		88,000		
Offered and accepted during the year						
Performance shares 35		195,000		120,000	315,000	648,800
Paid for during the year						
Number of shares		–		–	–	(16,500)
Returned, lapsed and forfeited during the year						
Number of shares				(195,800)	(195,800)	(3,300)
Outstanding at year end						
Number of shares held		679,000		408,200	1,087,200	968,000
Issue 27			R62.34	33,000		
Issue 28a			R47.08	39,600		
Issue 29			R46.51	39,600		
Performance shares 31a*	R11.06	220,000				
Performance shares 32*	R11.06	110,000	R11.06	88,000		
Performance shares 34		154,000		88,000		
Performance shares 35		195,000		120,000		
Expiry dates						
Issue 27						13 February 2011
Issue 28a						30 December 2011
Issue 29						13 December 2012
Performance shares 31a*						02 July 2011
Performance shares 32*						12 December 2011
Performance shares 34						22 December 2012
Performance shares 35						09 December 2013

Changes in executive directors' share options, allocations shares and performance shares after year-end

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

Dealings in the Scheme and the Plan for the year ended September 2010:

None

Dealings in the Scheme and the Plan for the year ended September 2009:

Director		Date paid for	No of shares paid for	Allocation price	Market value at date of payment
Executive directors					
M R Thompson	Deferred Sale	17 December 2008	3,000	R49.00	R33.00
	Deferred Rights Sale	17 December 2008	3,600	R20.27	R33.00
	Performance Plan	22 December 2008	4,500	R0.00	R36.70
	Performance Plan Rights	22 December 2008	5,400	R20.27	R36.70
Total			16,500		

Employment and separation agreements

Employment agreements typically stipulate notice periods required by the employee and employer in the event of termination of employment except for our North American operations where employment is "at will". Based on seniority these notice periods vary from one to eighteen months.

Separation agreements, when appropriate, are negotiated with an affected employee with prior approval having been obtained in terms of our governance structures.

Employment contracts do not make any commitment to payment in the event of a termination for cause or in the event of change-in-control. In cases in which there is a significantly increased likelihood of a transaction involving a business unit, limited change-in-control protections may be agreed and implemented if it is deemed necessary for retention purposes.

Non-executive director fees

Directors are normally remunerated in the currency of the country in which they live or work from. The remuneration is converted into US Dollars (the group's reporting currency) at the average exchange rate prevailing during the reporting years. 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. Non-executive directors do not earn attendance fees; however, additional fees are paid for attendance at board meetings in excess of the five scheduled meetings per annum.

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

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

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

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

The schedule below details the earnings of individual non-executive directors during 2010 and during 2009.

Although the shareholders approved an increase of 7% for the South African based non-executive directors with effect from 1 October 2009, the difference in US Dollar terms between 2010 and 2009 is a result of the exchange rate currency fluctuations.

2010

Director	Board fees	Committee fees	Travel allowance	Total
US\$				
D C Brink ⁽⁵⁾	12,711	12,250	2,800	27,761
M Feldberg	66,600	49,183	14,000	129,783
J E Healey	55,100	75,000	14,000	144,100
D Konar	33,918	62,056	5,600	101,574
H C Mamsch	56,818	81,949	2,800	141,567
B Radebe	33,918	10,999	5,600	50,517
A N R Rudd	56,818	48,077	5,600	110,495
F A Sonn ⁽⁵⁾	8,479	2,750	2,800	14,029
K R Osar	55,100	27,500	11,200	93,800
J D McKenzie	33,918	27,860	5,600	67,378
D C Cronje ⁽¹⁾	235,662	–	2,800	238,462
N P Mageza ⁽²⁾	25,438	18,572	2,800	46,810
R Thummer ⁽³⁾	37,879	11,206	2,800	51,885
M V Moosa ⁽⁴⁾	5,653	–	–	5,653
	718,012	427,402	78,400	1,223,814

2009

Director	Board fees	Committee fees	Travel allowance	Total
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 D McKenzie	26,350	23,215	5,400	54,965
D C Cronje ⁽¹⁾	183,059	–	5,400	188,459
	601,185	409,484	89,100	1,099,769

(1) Appointed in January 2008

(2) Appointed in January 2010

(3) Appointed in February 2010

(4) Appointed in August 2010

(5) Retired in December 2009

The background of the entire page is a photograph of a forest. The upper portion shows bright green leaves in sharp focus, while the lower portion is a soft-focus bokeh of a forest floor with many light-colored, round objects, possibly mushrooms or tree stumps, creating a pattern of light and dark spots.

sappi

Annual financial
statements

Annual financial statements

for the year ended September 2010

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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 group balance sheets as at September 2010, and the group income statements, group statements of comprehensive income, group statements of changes in equity and group cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 84 to 91; pages 95 to 181 and 74 to 77.

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 International Financial Reporting Standards 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of Sappi Limited as at September 2010, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

Deloitte & Touche

Per M J Comber
Partner

03 December 2010

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 M J Comber 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 Listings 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 judgements 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 U.S. 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 84 to 188 and were approved by the board of directors on 03 December 2010 and signed on its behalf by:

R J Boëttger
Chief executive officer
Sappi Limited

M R Thompson
Chief financial officer

Secretary's certificate

In terms of section 268G(d) of the Companies Act, 61 of 1973 (as amended) 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 2010, 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 Southern Africa (Pty) Limited

Secretaries
per D J O'Connor
Group secretary

03 December 2010

Audit committee report

for the year ended September 2010

The legal responsibilities of the Sappi Limited group audit committee (the committee) are set out in the South African 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)	(appointed in January 2004, chairman from January 2007)
Mr J E Healey	(appointed in August 2004)
Mrs K R Osar	(appointed in November 2007)
Mr P N Mageza	(appointed in February 2010)
Mr H C Mamsch	(retiring 31 December 2010)
Mr D C Brink	(retired 31 December 2009)

Biographical details of the current members of the committee are set out on pages 18 to 20.

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 chairman of the board is entitled to attend meetings *ex officio*. 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.

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; and
- 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; and
- 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; and
- 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; and

- 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; and
- performing such other functions as are prescribed in the regulations relating to the South African Companies 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 re-appointment in 2011.

Appropriateness of the expertise and experience of the chief financial officer

In terms of the JSE Listings Requirements, the audit committee at its meeting held on 04 November 2010, 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

03 December 2010

Directors' report

for the year ended September 2010

Your directors submit their report for the year ended September 2010.

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

The group manufactures and sells a wide range of pulp, paper, chemical cellulose and wood products for use in almost every sphere of economic activity. The group is comprised of Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa which are its reportable segments.

Sappi Fine Paper which comprises Sappi Fine Paper Europe and Sappi Fine Paper North America, has manufacturing and marketing facilities in North America, Europe 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 Southern Africa (Sappi Paper and Paper Packaging, Sappi Forests and Sappi Chemical Cellulose) based in southern Africa, produces commodity paper products, pulp, chemical cellulose, uncoated fine paper 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. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

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 International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, the AC 500 standards issued by the Accounting Practices Board, and the requirements of the South African Companies Act of 1973.

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 statements, balance sheets and cash flow statements of the group have been translated into South African Rands on pages 92 to 94.

Share capital

As at September 2010 the authorised and issued share capital of Sappi were as follows:

Authorised:	
725,000,000 ordinary shares of	ZAR1 each ZAR725 million
19,961,476 "A" ordinary shares of	ZAR1 each ZAR20 million
Issued:	
541,446,223 ordinary shares of	ZAR1 each ZAR541 million
19,961,476 "A" ordinary shares of	ZAR1 each ZAR20 million
Share premium	US\$1,564 million

During the year, the following share issues occurred:

- 19,961,476 "A" ordinary shares were created and issued as part of Sappi's 2010 Broad-based Black Economic Empowerment transaction. These are eliminated at a consolidated group level as they are treated as treasury shares.
- 4,328,359 ordinary shares were issued as part of the unwinding of the 2006 Black Economic Empowerment transaction.
- Included in the 541,446,233 ordinary shares are 41,896,595 treasury shares. See note 17 of the annual financial statements for further information relating to the share capital of Sappi Limited.

Purchase of shares by a subsidiary

Through a wholly-owned subsidiary, the Sappi group has in previous fiscal years acquired approximately 21.4 million Sappi Limited ordinary shares (treasury shares) on the open market of the JSE Limited. No shares were acquired during fiscals 2010 and 2009, other than the take up of the rights issue in December 2008. Some of these 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.

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 and events during the year under review and subsequent to year end

During the 2010 financial year, the following significant announcements/events took place:

- We completed a share-based Broad-based Black Economic Empowerment transaction in June 2010 following shareholder approval in April 2010. In one leg of the transaction Lereko Investments, our strategic empowerment partner, exchanged its interest in Sappi's plantation land for Sappi Limited shares. The major part of the transaction, which is fully described on our website, is primarily for the benefit of our employees in southern Africa. See also notes 17 and 28 of our annual financial statements for further details relating to this transaction.

- The total potential value of the transaction amounts to ZAR814 million, with a total potential shareholding of 4.5% of the issued share capital of Sappi Limited. This share-based Broad-based Black Economic Empowerment transaction translates into the empowerment of approximately 30% of Sappi's South African business, and increased its overall scorecard empowerment performance, from an independent empowerment rating agency, of BB last year to AA this year.
- On 20 April 2010, Sappi announced that it had extended its plantation holdings in South Africa with the purchase of the Sjonajona plantation (14,500 ha in extent) from Mondi.
- On 15 July 2010, Sappi announced the consolidation of its Southern African paper and paper packaging businesses in order to strengthen its ability to meet customer requirements and develop new business opportunities.

Financing

During the year, in which there was no new significant debt acquired, the group repaid the following borrowings:

- In March 2010, the North American Municipal Bonds of US\$106 million were repaid at par value;
- An amount of US\$29 million of our 7.5% Guaranteed Notes due 2032 was repurchased in the open market early in the third fiscal quarter for US\$24 million; and
- In June 2010, Sappi made an early repayment of the first instalment on a syndicated loan with Österreichische Kontrollbank of EUR80 million (US\$99 million) due in December 2010.

The group is in a strong liquidity position with large cash resources of US\$792 million as at September 2010 with cash exceeding the amount of short term interest-bearing debt of US\$696 million, access to an undrawn committed revolving credit facility of EUR209 million, and a much improved long term debt maturity profile with the average time to maturity of 4.1 years. Substantially all non-South African long-term debt is supported by a Sappi Limited guarantee. Net cash generated for the year was US\$341 million.

Covenants on certain international term debt are similar and are detailed in the chief financial officer's report.

Borrowing and financing

The group's net debt at September 2010 amounted to US\$2.2 billion (September 2009: US\$2.6 billion). The company's Articles of Association allow net borrowings of up to US\$5.6 billion. Details of the non-current borrowings are set out in note 20 of the group annual financial statements.

Dividends

In accordance with the group's stated primary target of reducing debt to below US\$2.0 billion, the board has decided not to declare a dividend for the financial year ended September 2010. Refer to the chief financial officer's report for details on the restrictions limiting the payment of cash dividends.

The Sappi Limited Share Incentive Trust (the Scheme) and The Sappi Limited Performance Share Incentive Trust (the Plan)

Sappi has two share incentive schemes in place, namely the Scheme and the Plan for the purpose of enabling Sappi Limited to allot shares and grant options in respect of ordinary shares to present employees, including executive directors, employees of its subsidiaries and employees seconded to joint ventures. The maximum number of shares which may be acquired by participants under both the Scheme and the Plan is 42,700,870 shares. Of the 42,700,870 shares, 23,371,122 shares have been offered and are outstanding at the end of fiscal 2010 leaving the remainder of 19,329,748 shares that can still be allocated to participants. The group has 21,935,119 treasury shares at year end, some of which have been and will continue to be utilised to meet the requirements of the Scheme and the Plan from time to time.

During the year, 999,200 credit sale and combined option/deferred sale allocations under the Sappi Limited Share Incentive Scheme were cancelled in terms of the rules of the Scheme. The allocations were made in March 2002 (in respect of 470,000 shares at a price of ZAR147.20 per share) and in December 2008 (in respect of 529,200 shares, arising from the 2008 rights offer at a price of ZAR20.27). The allocations would have expired on 28 March 2010 and the average price payable by participants for the allocations at that time (ZAR77.97 per share) would have been well above the market price. The board considered that it would not have been in the best interests of the company to enforce payment by the participants concerned. The purpose of the Share Scheme is to offer participants an incentive and to have insisted that participants pay for the allocations concerned, would have imposed a hardship on the participants and would have served as a disincentive.

Note 28 of the group annual financial statements provides further details regarding the Scheme and the Plan.

Insurance

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

Fixed assets

During the year, both the Kangas and Usutu mills were closed following their announced potential closures in October 2009.

There have been no major changes to the nature and use of the group's fixed assets. Note 9 of the group annual financial statements provides further details regarding the fixed assets of Sappi Limited.

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 of the group annual financial statements).

Directors and secretaries

The composition of the board of directors is provided on pages 18 to 20. During the year, Mr D C Brink and Dr F A Sonn retired as directors. Messrs N P Mageza and M V Moosa and Dr R Thummer were appointed to the board during the year. In terms of the company's Articles of Association, the appointments of Mr Mageza and Dr Thummer were confirmed at the annual general meeting on 01 March 2010, and they were re-appointed as directors on that date. It will be necessary to confirm the appointment of Mr Moosa at the forthcoming annual general meeting. He will, in terms of the Articles of Association, retire from the board at that meeting, and being eligible, has offered himself for re-election.

Professor M Feldberg was appointed Lead Independent director in May 2010.

At the year end there were 14 directors, two of whom were executive directors. Ten of the 12 non-executive directors were independent. The independence of those directors who are designated as independent, was reviewed and confirmed during the year by the nomination and governance committee.

It was announced earlier in the year that Mr H C Mamsch will be retiring as a director on 31 December 2010.

In terms of the company's Articles of Association, Dr D C Cronjé, Professor M Feldberg, Mrs K R Osar and Mrs B Radebe will retire by rotation from the board at the forthcoming annual general meeting and all being eligible, have offered themselves for re-election. Having assessed the individual performances of the directors concerned, the board recommends each of them for re-appointment.

Personal details of Mr M V Moosa, Dr D C Cronjé, Professor M Feldberg, Mrs K R Osar and Mrs B Radebe are set out in the Notice of Annual General Meeting on pages 192 to 196 of this report.

The remuneration and fees of the directors of Sappi Limited are set out in the Compensation report on pages 69 to 77.

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 set out below:

Director	2010			2009		
	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 directors						
D C Brink	-	-	-	-	-	22,000
R Thummer	7,542	-	-	7,542	-	-
M V Moosa ⁽¹⁾	-	-	626,998	-	-	-
Executive directors						
R J Boëttger	85,000	-	-	85,000	-	-
M R Thompson	20,517	72,600	-	20,517	89,100	-
Total	113,059	72,600	626,998	113,059	89,100	22,000

(1) M V Moosa holds 31.8% share of Lereko Investment (Pty) Limited which holds a total of 1,971,693 Sappi Limited shares as part of the BBBEE transaction described in note 28 and note 30 of the group annual financial statements.

There have not been any changes in the direct or indirect beneficial interest of the directors and their associates between September 2010 and the date of this report.

Other than Mr M V Moosa's interest in the BEE transaction described above and in notes 28 and 30 of the group annual financial statements, the directors have certified that they did not have any material interest in any significant transaction with either the company or any of its subsidiaries.

Mr M V Moosa was appointed a director of the company after the conclusion of the latest BEE transaction. Other than his interest in the BEE transaction there are no other directors' interests in contracts.

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

Subsequent to year end, Sappi Southern Africa (Pty) Limited was appointed secretaries to Sappi Limited in place of Sappi Management Services (Pty) Limited. Details of the secretaries and their business and postal addresses are set out on page 198.

Special resolutions

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

- Sappi Limited – increase in authorised share capital by the creation of “A” ordinary shares, amendment to the Articles of Association to set out rights and conditions attaching to the “A” ordinary shares, authority for specific repurchase of “A” ordinary shares and authority for financial assistance in connection with “A” ordinary shares.
- Sappi Management Services (Pty) Limited – transfer of all assets and liabilities of the company to Sappi Manufacturing (Pty) Limited, now Sappi Southern Africa (Pty) Limited.
- Sappi Manufacturing (Pty) Limited – regarding entitlement to voluntarily redeem Class “A”, Class “B”, Class “C” and Class “D” preference shares and change of name to Sappi Southern Africa (Pty) Limited.
- Sappi Waste Paper (Pty) Limited – change of name to Sappi Refibre (Pty) Limited and change of main business and main object of the company.

Subsidiary companies

Details of the company's significant subsidiaries are set out in Annexure A on page 188.

Group income statements

for the year ended September 2010

US\$ million	Note	2010	2009	2008
Sales		6,572	5,369	5,863
Cost of sales	4	5,786	5,029	5,016
Gross profit		786	340	847
Selling, general and administrative expenses	4	448	385	385
Other operating expenses	4	10	39	165
Share of profit from associates and joint ventures	13	(13)	(11)	(17)
Operating profit (loss)	4	341	(73)	314
Net finance costs	5	255	145	126
Finance costs		309	198	181
Finance revenue		(16)	(61)	(38)
Finance cost capitalised		-	-	(16)
Net foreign exchange gains		(17)	(17)	(8)
Net fair value (gain) loss on financial instruments		(21)	25	7
Profit (loss) before taxation		86	(218)	188
Taxation charge (benefit)	6	20	(41)	86
Profit (loss) for the year		66	(177)	102
Basic weighted average number of ordinary shares in issue (millions)		516.7	482.6	362.2
Basic earnings (loss) per share (US cents)	7	13	(37)	28
Diluted earnings (loss) per share (US cents)	7	13	(37)	28

Group statements of comprehensive income

for the year ended September 2010

US\$ million	Note	2010	2009	2008
Profit (loss) for the year		66	(177)	102
Other comprehensive income (loss), net of tax	18	8	(197)	(256)
Exchange differences on translation of foreign operations		52	14	(262)
Actuarial (losses) gains on pension funds		(71)	(229)	7
Movement on available-for-sale financial assets		2	-	-
Movement in hedging reserves		14	(14)	-
Deferred tax on other comprehensive income (loss)		11	32	(1)
Total comprehensive income (loss) for the year		74	(374)	(154)

Group balance sheets

at September 2010

US\$ million	Note	2010	2009
Assets			
Non-current assets		4,653	4,867
Property, plant and equipment	9	3,660	3,934
Plantations	10	687	611
Deferred tax assets	11	53	56
Goodwill and intangible assets	12	27	32
Joint ventures and associates	13	125	123
Other non-current assets	14	82	101
Financial instruments	29	19	10
Current assets		2,531	2,430
Inventories	15	836	792
Trade and other receivables	16	888	858
Financial instruments	29	15	10
Cash and cash equivalents		792	770
Total assets		7,184	7,297
Equity and liabilities			
Shareholders' equity		1,896	1,794
Ordinary share capital and share premium	17	1,638	1,541
Non-distributable reserves	19	161	143
Foreign currency translation reserve		(385)	(354)
Hedging reserves		1	(14)
Retained earnings		481	478
Non-current liabilities		3,249	3,662
Interest-bearing borrowings	20	2,317	2,726
Deferred tax liabilities	11	386	355
Financial instruments	29	–	24
Other non-current liabilities	21	546	557
Current liabilities		2,039	1,841
Interest-bearing borrowings	20	691	601
Overdraft		5	19
Financial instruments	29	3	14
Trade and other payables		1,271	1,116
Taxation payable		36	56
Provisions	22	33	35
Total equity and liabilities		7,184	7,297

Group cash flow statements

for the year ended September 2010

US\$ million	Note	2010	2009	2008
Cash retained from operating activities		529	461	355
Cash generated from operations	23.1	737	432	623
– (Increase) decrease in working capital	23.2	(5)	152	1
Cash generated from operating activities		732	584	624
– Finance costs paid	23.3	(206)	(107)	(139)
– Finance revenue received		12	26	13
– Taxation paid	23.4	(9)	(5)	(70)
Cash available from operating activities		529	498	428
– Dividends paid		–	(37)	(73)
Cash utilised in investing activities		(188)	(762)	(494)
Investment to maintain operations		(150)	(143)	(239)
– Replacement of non-current assets	23.5	(173)	(147)	(250)
– Proceeds on disposal of non-current assets	23.6	21	2	7
– Decrease in other non-current assets		2	2	4
Investment to expand operations		(38)	(619)	(255)
– Additions of non-current assets		(38)	(29)	(255)
– Acquisition	33	–	(590)	–
Cash effects of financing activities		(256)	707	49
Proceeds from interest-bearing borrowings*		204	3,469	2,077
Repayment of interest-bearing borrowings*		(444)	(3,222)	(2,032)
Rights issue proceeds		–	575	–
Share issue costs		(3)	(31)	–
Costs directly attributable to the bond offerings		–	(78)	–
(Decrease) increase in bank overdrafts		(13)	(6)	4
Net movement in cash and cash equivalents		85	406	(90)
Cash and cash equivalents at beginning of year		770	274	364
Translation effects		(63)	90	–
Cash and cash equivalents at end of year	23.7	792	770	274

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

Group statements of changes in equity

for the year ended September 2010

US\$ million	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and share premium	Non-distributable reserves	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total equity
Balance – September 2007	228.5	34	791	825	114	9	–	868	1,816
Transfer from retained earnings	–	–	–	–	8	–	–	(8)	–
Share-based payments	–	–	–	–	10	–	–	–	10
Transfers to Sappi Limited Share Incentive Trust	0.7	–	6	6	–	–	–	–	6
Total comprehensive loss	–	(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 loss	–	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
Transfer from retained earnings	–	–	–	–	2	–	–	(2)	–
Share-based payments	–	–	–	–	17	–	–	–	17
Transfers from Sappi Limited Share Incentive Trust	(0.5)	–	(6)	(6)	–	–	–	–	(6)
Broad-based Black Economic Empowerment (BBBEE) transaction	4.3	1	19	20	–	–	–	–	20
Costs directly attributable to the BBBEE transaction	–	–	(3)	(3)	–	–	–	–	(3)
Total comprehensive income	–	3	83	86	(1)	(31)	15	5	74
Balance – September 2010	519.5	74	1,564	1,638	161	(385)	1	481	1,896
Note reference:				17	19				

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

Group income statements in Rands convenience translation

for the year ended September 2010

ZAR million	Unaudited		
	2010	2009	2008
Sales	49,235	48,393	43,559
Cost of sales	43,347	45,329	37,266
Gross profit	5,888	3,064	6,293
Selling, general and administrative expenses	3,356	3,470	2,860
Other operating expenses	74	351	1,226
Share of profit from associates and joint ventures	(97)	(99)	(126)
Operating profit (loss)	2,555	(658)	2,333
Net finance costs	1,911	1,307	937
Finance costs	2,315	1,785	1,345
Finance revenue	(120)	(550)	(282)
Finance cost capitalised	–	–	(119)
Net foreign exchange gains	(127)	(153)	(59)
Net fair value (gain) loss on financial instruments	(157)	225	52
Profit (loss) before taxation	644	(1,965)	1,396
Taxation charge (benefit)	150	(370)	638
Profit (loss) for the year	494	(1,595)	758
Basic weighted average number of ordinary shares in issue (millions)	516.7	482.6	362.2
Basic earnings (loss) per share (SA cents)	97	(333)	208
Diluted earnings (loss) per share (SA cents)	97	(333)	208

Group statements of comprehensive income in Rands convenience translation

for the year ended September 2010

ZAR million	Unaudited		
	2010	2009	2008
Profit (loss) for the year	494	(1,595)	758
Other comprehensive income (loss), net of tax	60	(1,776)	(1,902)
Exchange differences on translation of foreign operations	390	126	(1,947)
Actuarial (losses) gains on pension funds	(532)	(2,064)	52
Movement on available-for-sale financial assets	15	–	–
Movement in hedging reserves	105	(126)	–
Deferred tax on other comprehensive income (loss)	82	288	(7)
Total comprehensive income (loss) for the year	554	(3,371)	(1,144)

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 sheets in Rands convenience translation

at September 2010

ZAR million	Unaudited	
	2010	2009
Assets		
Non-current assets	32,659	36,070
Property, plant and equipment	25,690	29,156
Plantations	4,822	4,528
Deferred tax assets	372	415
Goodwill and intangible assets	190	237
Joint ventures and associates	877	912
Other non-current assets	575	748
Financial instruments	133	74
Current assets	17,765	18,010
Inventories	5,868	5,870
Trade and other receivables	6,233	6,359
Financial instruments	105	74
Cash and cash equivalents	5,559	5,707
Total assets	50,424	54,080
Equity and liabilities		
Shareholders' equity	13,308	13,296
Non-current liabilities	22,804	27,140
Interest-bearing borrowings	16,263	20,203
Deferred tax liabilities	2,709	2,631
Financial instruments	–	178
Other non-current liabilities	3,832	4,128
Current liabilities	14,312	13,644
Interest-bearing borrowings	4,850	4,454
Overdraft	35	141
Financial instruments	21	104
Trade and other payables	8,921	8,271
Taxation payable	253	415
Provisions	232	259
Total equity and liabilities	50,424	54,080

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 statements in Rands convenience translation

for the year ended September 2010

ZAR million	Unaudited		
	2010	2009	2008
Cash retained from operating activities	3,964	4,156	2,638
Cash generated from operations	5,521	3,935	4,586
– (Increase) decrease in working capital	(37)	1,370	7
Cash generated from operating activities	5,484	5,305	4,593
– Finance costs paid	(1,543)	(964)	(1,033)
– Finance revenue received	90	234	97
– Taxation paid	(67)	(45)	(520)
Cash available from operating activities	3,964	4,530	3,137
– Dividends paid	–	(374)	(499)
Cash utilised in investing activities	(1,409)	(6,868)	(3,669)
Investment to maintain operations	(1,124)	(1,289)	(1,775)
– Replacement of non-current assets	(1,296)	(1,325)	(1,857)
– Proceeds on disposal of non-current assets	157	18	52
– Decrease in other non-current assets	15	18	30
Investment to expand operations	(285)	(5,579)	(1,894)
– Additions of non-current assets	(285)	(261)	(1,894)
– Acquisition	–	(5,318)	–
Cash effects of financing activities	(1,917)	6,374	364
Proceeds from interest-bearing borrowings*	1,528	31,268	15,431
Repayment of interest-bearing borrowings*	(3,326)	(29,041)	(15,097)
Rights issue proceeds	–	5,183	–
Share issue costs	(22)	(279)	–
Costs directly attributable to the bond offerings	–	(703)	–
(Decrease) increase in bank overdrafts	(97)	(54)	30
Net movement in cash and cash equivalents	638	3,662	(667)
Cash and cash equivalents at beginning of year	5,707	2,213	2,501
Translation effects	(786)	(168)	379
Cash and cash equivalents at end of year	5,559	5,707	2,213

* 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 2010

1. Business

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

The group is comprised of Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Southern Africa reportable segments. Sappi Fine Paper which comprises Sappi Fine Paper Europe and Sappi Fine Paper North America, has manufacturing and marketing facilities in North America, Europe 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 Southern Africa (Sappi Paper and Paper Packaging, Sappi Forests and Sappi Chemical Cellulose) based in southern Africa, produces commodity paper products, pulp, chemical cellulose, uncoated fine paper 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. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

2. Accounting policies

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

2.1 Basis of preparation

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

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB);
- Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB;
- the AC 500 Standards issued by the Accounting Practices Board in South Africa; 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 as set out in the accounting policies below. Certain items, including derivatives are stated at their fair value while plantations and non-current assets held for sale are stated at fair value less cost to sell.

(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:

- 28 September 2009 to 26 September 2010 (52 weeks)
- 29 September 2008 to 27 September 2009 (52 weeks)
- 01 October 2007 to 28 September 2008 (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 IFRS.

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

2.2 Summary of accounting policies

2.2.1 Foreign currencies

(i) Foreign currency transactions

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

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 group used the following exchange rates for financial reporting purposes:

Rate at	Sep 10	Sep 09	Sep 08
ZAR to one US\$	7.0190	7.4112	8.0751
GBP to one US\$	0.6321	0.6268	0.5421
EUR to one US\$	0.7412	0.6809	0.6843

Average annual rate	Sep 10	Sep 09	Sep 08
ZAR to one US\$	7.4917	9.0135	7.4294
GBP to one US\$	0.6406	0.6419	0.5049
EUR to one US\$	0.7322	0.7322	0.6638

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 statements from the date of acquisition or up to the date of disposal or cessation of control.

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

(ii) Associates and joint ventures

The results 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 associate's or joint venture's retained income, which is the profit after tax, is determined from their latest financial statements. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

2.2.3 Financial instruments

(i) Initial recognition

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

(ii) Initial measurement

All financial instruments are initially recognised at fair value 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' where the transaction costs are recognised immediately in profit and loss.

(iii) Subsequent measurement

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

Financial instruments at fair value through profit or loss consist of items classified as held for trading. 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.

Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised.

(vii) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method.

2.2.4 Government grants

Government grants related to income are recognised in sundry income under Selling, general and administrative expenses.

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

2.2.5 Intangible assets

(i) Research activities

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

(ii) Development activities

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

(iii) Patents

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

2.2.6 Inventories

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

Cost is determined on the following basis:

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

2.2.7 Leases

(i) The group as lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of

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

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

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

(ii) Recognition of lease of land

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

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

2.2.8 Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying value will be recovered principally through sale 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.

2.2.9 Segment reporting

Sappi reports and discloses segment information on the basis of information that is reviewed by the chief operating decision maker to make decisions when allocating resources and to assess performance of the group's operating segments. The operating segments of Sappi are; Sappi Fine Paper which is made up of operations in Europe and North America, and Sappi Southern Africa.

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

2.2.10 Share-based payments

(i) Equity-settled share-based payment transactions

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

If the equity instruments granted vest immediately and the beneficiary is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the benefit

received is recognised in profit or loss for the period in full on grant date with a corresponding increase in equity.

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

(ii) Measurement of fair value of equity instruments granted

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

(iii) Broad-based Black Economic Empowerment transaction

The group accounts for the transaction in accordance with IFRS 2 and the fair value of the services rendered by employees in profit or loss as they are rendered during the service period.

2.2.11 Borrowing costs

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

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

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

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

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

2.2.13 Emission trading

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

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

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

2.2.14 Alternative fuel mixture credits

Up until 31 December 2009, the U.S. Internal Revenue Code allowed 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 group qualified for the alternative fuel mixtures tax credit through its North American operations because it used 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.

The company considers the tax credits earned in fiscal 2010 and fiscal 2009 as fully taxable and have treated them as such in the calculation of its tax provision in the consolidated financial statements.

2.3 Critical accounting policies and estimates

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

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

2.3.1 Impairment of assets other than goodwill and financial instruments

The group assesses all assets (other than goodwill and intangible assets not yet available for use) at each balance sheet date

for indications of an impairment or the reversal of a previously recognised impairment.

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

In assessing assets for impairment, the group estimates the asset's useful life, discounted future cash flows, including appropriate bases for future product pricing in the appropriate markets, raw material and energy costs, volumes of product sold, the planned use of machinery or equipment or closing of facilities. The pre-tax discount rate (impairment discount factor) is another sensitive input to the calculation.

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

Refer to note 9 for the assumptions and inputs used in assessing assets for impairment or impairment reversals.

2.3.2 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. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date.

Goodwill arising at acquisition is subsequently held at cost less any accumulated impairment losses. Goodwill is 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 CGUs in which the synergies from the business combinations are expected.

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

2.3.3 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes

the estimated cost of dismantling and removing the assets, where specifically required in terms of legislative requirements or a constructive obligation exists, professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy.

Expenditure incurred to replace a component of an item of owner-occupied property or equipment is capitalised to the cost of the item of owner-occupied property and equipment and the part replaced is derecognised.

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

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

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

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

2.3.4 Taxation

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

(i) Current taxation

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

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

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. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred 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 other comprehensive income, or a business combination that is an acquisition.

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

2.3.5 Derivatives and hedge accounting

■ **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 profit or loss.

■ **Cash flow hedges**

In relation to cash flow hedges that 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 other comprehensive income 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 effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and is only reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

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 hedging instrument is sold, terminated or exercised and 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.

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

Refer to note 29 for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

2.3.6 Plantations

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

The impact of changes in estimate prices, discount rates and, volume and growth assumptions may have on the calculated fair value and other key financial information on plantations are disclosed in note 10.

■ **Estimated prices less cost of delivery**

In periods prior to the third quarter of fiscal 2010 the group used unadjusted current market prices to estimate the fair value of timber.

In the third quarter of fiscal 2010, the group revised this methodology for all immature timber and mature timber that is to be felled in more than 12 months from the reporting period to consider a 12 quarter rolling historical average price. This is considered a reasonable period of time taking into consideration the length of the growth cycle of the plantations. The new methodology also takes into consideration expected future price trends and recent market transactions involving comparable plantations.

The group considers the new methodology to be preferable. Current market prices for timber are highly volatile for timber that is expected to be felled in more than 12 months from the reporting period. Therefore, the group considers the use of a rolling historical average price coupled with consideration of expected future price trends and recent market transactions involving comparable plantations to be a preferable methodology.

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

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

■ Discount rate

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

■ Volume and growth estimations and cost assumptions

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

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

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

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

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

costs for managing the plantations are recognised as silviculture costs in cost of sales (see note 4.1).

2.3.7 Pension plans and other post-retirement benefits

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

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

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

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

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

Refer to note 27 for the key estimates, assumptions and other information on post-employment benefits applicable as at the end of September 2010.

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

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

2.4 Adoption of accounting standards in the current year

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

IFRS 8 Operating Segments

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are components of an entity for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assessing performance.

The adoption of IFRS 8 "Operating Segments" did not have an impact on the group's reported results or financial position.

Amendment to IFRS 7 Financial Instruments: Disclosures

IFRS 7 was amended to require enhanced disclosures about fair value measurements. The group has in note 29, disclosed the level in the fair value hierarchy into which the fair value measurements are categorised for financial instruments that are measured at fair value in the statement of financial position.

The adoption of this amendment did not have an impact on the group's reported results or financial position.

Other amendments to IFRS

The group adopted IFRIC 15, IFRIC 17, IFRIC 18, revision to IFRS 3, amendments to IAS 27, IAS 28, IAS 31, IFRS 2, IAS 39, IFRIC 9 and various improvements to IFRSs in fiscal 2010.

The adoption of these new or revised standards, interpretations, amendments and improvements to standards did not have a material impact on the group's reported results or financial position.

Presentation of comparative information on adoption of IFRS on a retrospective basis

With the adoption of IFRS 8 and the group's change in its internal organisation structure, the group made retrospective adjustments to segment reporting per note 3 to the financial statements. The group also had other adjustments to notes 20, 24 and 25 to the financial statements. These adjustments only impacted the notes to the financial statements and therefore the group has disclosed

two comparative periods for the affected notes. Due to the fact that no changes were made to the fiscal 2008 and 2009 balance sheets, only one comparative period has been disclosed for the balance sheet.

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

The group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for our accounting periods beginning on or after October 2010 or later periods. These new standards, and their effective dates for the group's annual accounting periods are listed below:

■ IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for classifying and measuring financial assets. The group is currently evaluating the impact that the adoption of this IFRS will have on its consolidated financial statements.

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

■ IFRS 2 Share-based Payment

Amendments relating to group cash-settled share-based payment transactions (September 2011)

■ IFRS 7 Financial Instruments: Disclosures.

Transfers of financial assets (September 2012)

■ IAS 24 Related Party Disclosures

Revised definition of related parties (September 2012)

■ IAS 32 Financial Instruments: Presentation

Amendments relating to classification of rights issues (September 2011)

■ IFRIC 19 Extinguishing Financial Liabilities

with Equity Instruments (September 2011)

■ Various improvements to IFRSs

3. Segment information

Sappi adopted IFRS 8 "Operating Segments" in fiscal 2010. The adoption of this standard did not have an impact on the group's reported results, financial position or cash flows.

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. The group's reportable segments are North America, Europe and Sappi Southern Africa. Reportable segments are components of an entity for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. Prior year segment disclosure has been revised as reflected below.

Sappi reports and discloses segment information on the basis of information that is reviewed by the chief operating decision maker to make decisions when allocating resources and to assess performance of the group's reportable segments. Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance is focused on a geographical region. The group accounts for intra-group sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

The group 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. The financial results and position associated with Sappi Trading are allocated to our reportable segments.

Revised segmental reporting disclosure

Prior to the adoption of IFRS 8, the Sappi Fine Paper segment included the group's fine paper operations in Southern Africa. Sappi has since changed the structure of its internal organisation in a manner that has caused the composition of its reportable segments to change such that Sappi Fine Paper South Africa is now reported as part of the Sappi Southern African segment in accordance with the geographical management of our business. The table below shows the effect of this change for the financial years ended September 2009 and 2008 respectively:

Sappi Southern Africa*

US\$ million	As previously reported		Adjustment		Revised segmental reporting	
	2009	2008	2009	2008	2009	2008
Income statement						
External sales ⁽¹⁾	861	1,099	318	380	1,179	1,479
Inter-segment sales	532	657	32	41	564	698
Total sales	1,393	1,756	350	421	1,743	2,177
Segment operating (loss) profit	(52)	273	(3)	6	(55)	279
Other non-cash items (including fair value adjustment on plantations)	2	(150)	2	3	4	(147)
Balance sheet						
Capital expenditures	60	290	11	9	71	299
Total assets	2,002	2,049	260	168	2,262	2,217
Segment assets ⁽²⁾	1,686	1,721	205	110	1,891	1,831
Property, plant and equipment	1,078	1,008	118	111	1,196	1,119

* Sappi Forest Products has been renamed to Sappi Southern Africa.

3. Segment information (continued)

The information below is presented in the way that it is reviewed by the chief operating decision maker as required by IFRS 8 "Operating Segments":

US\$ million	Sappi Fine Paper					
	North America			Europe		
	2010	2009	2008	2010	2009	2008
Income statement						
External sales ⁽¹⁾	1,373	1,295	1,664	3,638	2,895	2,720
Inter-segment sales	252	179	244	476	267	392
Total sales	1,625	1,474	1,908	4,114	3,162	3,112
Operating profit excluding special items	124	(2)	95	76	12	55
Special items – (gains) losses ⁽²⁾	(56)	(55)	3	4	79	119
Segment operating profit (loss)	180	53	92	72	(67)	(64)
EBITDA excluding special items ⁽²⁾	201	98	201	310	226	235
Share of profit of equity investments	–	–	1	1	3	1
Depreciation and amortisation	77	100	106	234	214	180
Asset (impairment reversals) impairments	(2)	–	4	(10)	74	78
Other non-cash items (including fair value adjustment on plantations)	8	48	17	8	86	131
Balance sheet						
Capital expenditures	42	31	125	100	82	82
Segment assets ⁽²⁾	935	981	1,087	2,109	2,340	1,758
Total assets	1,100	1,160	1,290	2,917	3,080	2,266
Property, plant and equipment	777	810	879	1,663	1,928	1,363

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

US\$ million	Sappi Fine Paper					
	North America			Europe		
	2010	2009	2008	2010	2009	2008
Operating profit (loss) excluding special items	124	(2)	95	76	12	55
Special items – (gains) losses ⁽²⁾	(56)	(55)	3	4	79	119
Segment operating profit (loss)	180	53	92	72	(67)	(64)

Sappi Southern Africa			Unallocated and eliminations ⁽³⁾			Group		
2010	2009	2008	2010	2009	2008	2010	2009	2008
1,561	1,179	1,479	-	-	-	6,572	5,369	5,863
714	564	698	(1,442)	(1,010)	(1,334)	-	-	-
2,275	1,743	2,177	(1,442)	(1,010)	(1,334)	6,572	5,369	5,863
134	18	209	5	5	7	339	33	366
22	72	(70)	28	10	-	(2)	106	52
112	(54)	279	(23)	(5)	7	341	(73)	314
236	101	296	5	6	8	752	431	740
4	4	5	8	4	10	13	11	17
102	83	87	-	1	1	413	398	374
2	5	37	-	-	-	(10)	79	119
(39)	4	(147)	8	(38)	(58)	(15)	100	(57)
64	71	299	-	-	1	206	184	507
1,887	1,891	1,831	65	38	39	4,996	5,250	4,715
2,376	2,262	2,217	791	795	336	7,184	7,297	6,109
1,220	1,196	1,119	-	-	-	3,660	3,934	3,361

Sappi Southern Africa			Unallocated and eliminations ⁽³⁾			Group		
2010	2009	2008	2010	2009	2008	2010	2009	2008
134	18	209	5	5	7	339	33	366
22	72	(70)	28	10	-	(2)	106	52
112	(54)	279	(23)	(5)	7	341	(73)	314

3. Segment information (continued)

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

US\$ million	Sappi Fine Paper					
	North America			Europe		
	2010	2009	2008	2010	2009	2008
EBITDA excluding special items ⁽²⁾	201	98	201	310	226	235
Depreciation and amortisation	77	100	106	234	214	180
Operating profit (loss) excluding special items	124	(2)	95	76	12	55
Special items – (gains) losses	(56)	(55)	3	4	79	119
Segment operating profit (loss)	180	53	92	72	(67)	(64)
Net finance costs						
Profit (loss) before taxation						

Reconciliation of segment assets to total assets:

US\$ million	Sappi Fine Paper					
	North America			Europe		
	2010	2009	2008	2010	2009	2008
Segment assets ⁽²⁾⁽³⁾	935	981	1,087	2,109	2,340	1,758
Deferred taxation asset	–	–	–	53	56	39
Cash and cash equivalents	7	14	5	8	16	1
Derivative financial instruments	–	–	–	–	–	–
Trade and other payables	155	151	198	722	633	411
Provisions	1	14	–	15	19	42
Taxation payable	2	–	–	10	16	15
Total assets	1,100	1,160	1,290	2,917	3,080	2,266

(1) Sales where the product is manufactured.

(2) Refer to pages 189 to 191, Glossary for the definition of the terms.

(3) Includes the group's treasury operations, the self-insurance captive and the investment in the Jiangxi Chenming joint venture.

Sappi Southern Africa			Unallocated and eliminations ⁽³⁾			Group		
2010	2009	2008	2010	2009	2008	2010	2009	2008
236	101	296	5	6	8	752	431	740
102	83	87	-	1	1	413	398	374
134	18	209	5	5	7	339	33	366
22	72	(70)	28	10	-	(2)	106	52
112	(54)	279	(23)	(5)	7	341	(73)	314
						255	145	126
						86	(218)	188

Sappi Southern Africa			Unallocated and eliminations ⁽³⁾			Group		
2010	2009	2008	2010	2009	2008	2010	2009	2008
1,887	1,891	1,831	65	38	39	4,996	5,250	4,715
-	-	-	-	-	2	53	56	41
129	86	78	648	654	190	792	770	274
1	-	-	2	14	24	3	14	24
339	275	297	55	57	53	1,271	1,116	959
14	2	-	3	-	-	33	35	42
6	8	11	18	32	28	36	56	54
2,376	2,262	2,217	791	795	336	7,184	7,297	6,109

US\$ million	2010		2009		2008	
	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	3,570	–	2,868	–	3,073	–
Wood (includes felling adjustment ⁽¹⁾)	706	–	663	–	722	–
Energy	626	–	584	–	558	–
Chemicals	1,050	–	868	–	935	–
Pulp	929	–	543	–	702	–
Other variable costs	259	–	210	–	156	–
Fair value adjustment on plantations ⁽¹⁾						
Growth	(67)	–	(73)	–	(70)	–
Price	(31)	–	67	–	(120)	–
Employment costs	968	208	882	164	864	153
Depreciation	388	23	376	20	350	24
Delivery charges	547	–	454	–	509	–
Maintenance	275	–	250	–	252	–
Other overheads	136	–	205	–	158	–
Marketing and selling expenses	–	112	–	102	–	105
Administrative and general expenses	–	105	–	99	–	103
	5,786	448	5,029	385	5,016	385

US\$ million	2010	2009	2008
Fair value adjustment on plantations ⁽¹⁾			
Changes in volumes			
Fellings	71	69	80
Growth	(67)	(73)	(70)
	4	(4)	10
Plantation price fair value adjustment	(31)	67	(120)
	(27)	63	(110)

US\$ million	2010	2009	2008
4.1 Operating profit (continued)			
Silviculture costs (included within cost of sales)	67	50	50
Leasing charges for premises	14	16	16
Leasing charges for plant and equipment	48	15	32
Remuneration paid other than to employees of the company in respect of:	31	27	33
– technical services	12	11	15
– administration services	19	16	18
Auditors' remuneration:	8	8	10
– audit and related services	7	6	6
– tax planning and tax advice	1	1	1
– acquisition and refinancing related services*	–	1	3
Government grants towards environmental expenditure	–	(2)	(1)
Research and development costs	25	31	34
Amortisation	3	2	–
Cost on derecognition of loans and receivables**	14	16	22
Directors' remuneration			
– executive directors – salaries and benefits	1	2	2
– non-executive directors – fees	1	1	1
4.2 Employment costs			
Wages and salaries	1,054	936	921
Defined-contribution plan expense (refer to note 27)	42	33	23
Pension costs (refer to note 27)	15	21	9
Post-employment benefits other than pension expense (refer to note 27)	14	10	14
Share-based payment expense	13	9	10
Other	38	37	40
	1,176	1,046	1,017
4.3 Other operating expenses (income)			
Included in other operating expenses are the following:			
Asset (impairment reversals) impairments	(10)	79	119
Profit on sale and write-off of property, plant and equipment	(5)	(1)	(5)
Restructuring provisions raised (released) and closure costs	46	34	41
Alternative fuel mixture credits	(51)	(87)	–
Broad-based Black Economic Empowerment transaction charge (refer to note 28)	23	–	–
– Unwinding of the 2006 Black Economic Empowerment transaction	19	–	–
– IFRS 2 costs on management and employee share option plans	4	–	–

* 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.

US\$ million	2010	2009	2008
5. Net finance costs			
Gross interest and other finance costs on liabilities carried at amortised cost	309	198	181
– Interest on bank overdrafts	1	6	4
– Interest on redeemable bonds and other loans	303	190	174
– Interest cost on finance lease obligations	5	2	3
Finance revenue received on assets carried at amortised cost	(16)	(61)	(38)
– Interest on bank accounts	(6)	(16)	(22)
– Discount on early redemption of redeemable bonds and other loans	(5)	(41)	–
– Interest revenue on other loans and investments	(5)	(4)	(16)
Interest capitalised to property, plant and equipment	–	–	(16)
Net foreign exchange gains	(17)	(17)	(8)
Net fair value (gain) loss on financial instruments	(21)	25	7
– Realised loss on termination of interest rate swaps	–	18	–
– (Gain) loss on non-hedged swaps and loans	–	(2)	2
– Amortisation of (gain) cost of de-designated hedges	(21)	–	5
– Hedge ineffectiveness			
• gain on hedging instrument (derivative)	–	(41)	(30)
• loss on hedged item	–	50	30
	255	145	126

US\$ million	2010	2009	2008
6. Taxation charge (benefit)			
Current taxation:			
– Current year	10	6	23
– Prior year over provision	(20)	(7)	(19)
– Other company taxes*	4	4	2
Deferred taxation: (refer to note 11)			
– Current year	26	(44)	89
– Prior year under provision	–	3	–
– Attributable to tax rate changes	–	(3)	(9)
	20	(41)	86
* Includes Secondary Tax on Companies (STC) ⁽¹⁾	–	4	7

(1) The imposition of Secondary Tax on Companies (STC) effectively means that a dual corporate taxation system exists in South Africa comprising of normal income taxation and STC. Liability for STC is determined independently from normal income taxation and is paid by South African companies at the flat rate of 10% in respect of the amount of dividends declared less all dividends which accrued to them (but subject to certain exclusions) during its relevant "dividend cycle". "Dividend cycle" means the period commencing on the day following the date of accrual to a company's shareholders of the last dividend declared by that company and ending on the date on which the dividend in question accrues to the shareholder concerned. An excess of dividends accruing to a company over dividends paid may be carried forward to subsequent dividend cycles as an STC credit.

In addition to income taxation charges (benefits) to profit and loss, deferred tax relief of US\$11 million (2009: US\$32 million relief; 2008: US\$1 million charge) has been recognised directly in other comprehensive income (refer to note 11).

US\$ million	2010	2009	2008
6. Taxation charge (benefit) (continued)			
Reconciliation of the tax rate			
Profit (loss) before taxation	86	(218)	188
Profit-making regions	307	133	560
Loss-making regions	(221)	(351)	(372)
Taxation at the average statutory tax rate	35	(60)	72
Profit-making regions at 30% (2009: 28%; 2008: 30%)	92	38	167
Loss-making regions at 26% (2009: 28%; 2008: 26%)	(57)	(98)	(95)
Net exempt income and non-tax deductible expenditure	(10)	(32)	(51)
Effect of tax rate changes	–	(3)	(9)
Deferred tax asset not recognised	65	72	103
Utilisation of previously unrecognised tax assets	(54)	(22)	(19)
Secondary Tax on Companies (STC)	–	4	7
Prior year adjustments	(20)	(4)	(19)
Other taxes	4	4	2
Taxation charge (benefit)	20	(41)	86
Effective tax rate for the year	23%	19%	46%

Our effective tax rate reflects the benefits from reduced tax rates in South Africa (2010: nil; 2009: nil; 2008: US\$9 million) and Germany (2010: nil; 2009: US\$3 million; 2008: nil). The corporate tax rate in South Africa was reduced from 29% to 28% in 2008. The corporate tax rate (including trade tax) in Germany was reduced from 30% to 28.6% in 2009.

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

Basic earnings (loss) per share (EPS)

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

	2010			2009 ⁽¹⁾			2008		
	Profit US\$ million	Shares millions	Earnings per share US cents	Loss US\$ million	Shares millions	Loss per share US cents	Profit US\$ million	Shares millions	Earnings per share US cents
Basic EPS calculation	66	516.7	13	(177)	482.6	(37)	102	362.2	28
Share options and performance shares under Sappi Limited Share Trust	–	3.9	–	–	–	–	–	3.6	–
Share options granted under the Broad-based Black Economic Empowerment transaction	–	0.2	–	–	–	–	–	–	–
Diluted EPS calculation	66	520.8	13	(177)	482.6	(37)	102	365.8	28

(1) In the 2009 financial year, Sappi conducted a renounceable rights offer of 286,886,270 new ordinary shares of ZAR1.00 each to qualifying Sappi shareholders. In accordance with IAS 33, the fiscal 2008 basic, headline and diluted earnings per share have been restated to take into account the bonus element of the rights offer. As such, the 2008 weighted average number of shares has been adjusted by a factor of 1.58 (the adjustment factor). The adjustment factor was 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).

The diluted EPS calculations are based on Sappi Limited's daily average share price of ZAR31.86 (2009: ZAR30.12; 2008: ZAR94.08) and exclude the effect of certain share options granted under the Sappi Share Incentive Scheme as well as share options granted under the Broad-based Black Economic Empowerment transaction as they would be anti-dilutive.

There are 10.6 million (September 2009: 15.6 million; September 2008: 2.3 million) share options that could potentially dilute EPS in the future that are not included in the diluted weighted average number of shares calculation as they are anti-dilutive.

7. Earnings (loss) per share and headline earnings (loss) per share (continued)

Headline earnings per share⁽¹⁾

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 listings required measure.

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

	2010			2009			2008		
	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net
Attributable earnings (loss) to ordinary shareholders	86	20	66	(218)	(41)	(177)	188	86	102
Profit on sale and write-off of property, plant and equipment (Impairment reversals)	(4)	–	(4)	(1)	–	(1)	(5)	–	(5)
impairment of plant and equipment	(10)	–	(10)	79	–	79	119	–	119
Headline earnings (loss)	72	20	52	(140)	(41)	(99)	302	86	216
Basic weighted average number of ordinary shares in issue (millions)			516.7			482.6			362.2
Headline earnings (loss) per share (US cents)			10			(21)			60
Diluted weighted average number of shares (millions)			520.8			482.6			365.8
Diluted headline earnings (loss) per share (US cents)			10			(21)			59

(1) 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.

US\$ million	2010	2009	2008
8. Dividends			
Dividend paid: (2009: 16 US cents per share; 2008: 32 US cents per share), net of dividends attributable to treasury shares	–	(37)	(73)

The board decided not to declare a dividend in respect of the 2010 financial year.

US\$ million	2010	2009
9. Property, plant and equipment		
Land and buildings		
At cost	1,628	1,686
Accumulated depreciation and impairments	875	887
	753	799
Plant and equipment*		
At cost	7,742	7,863
Accumulated depreciation and impairments	4,992	4,914
	2,750	2,949
Capitalised leased assets**		
At cost	741	795
Accumulated depreciation and impairments	584	609
	157	186
Aggregate cost	10,111	10,344
Aggregate accumulated depreciation and impairments	6,451	6,410
Aggregate book value	3,660	3,934

* Plant and equipment includes vehicles and furniture, the book value of which does not warrant disclosure as 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 2008	612	2,608	141	3,361
Additions	33	150	1	184
Acquisition	169	508	73	750
Disposals	(3)	–	(1)	(4)
Transfers	–	11	(11)	–
Depreciation	(37)	(339)	(20)	(396)
Impairments	–	(79)	–	(79)
Translation differences	25	90	3	118
Net book value at September 2009	799	2,949	186	3,934
Additions	23	183	–	206
Acquisition	8	5	–	13
Disposals	(13)	(3)	–	(16)
Transfers	–	5	(5)	–
Depreciation	(41)	(350)	(20)	(411)
Impairment reversals	–	20	–	20
Translation differences	(23)	(59)	(4)	(86)
Net book value at September 2010	753	2,750	157	3,660

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

9. Property, plant and equipment (continued)

Asset impairments

September 2010

Asset impairments and impairment reversals mainly comprise of:

European mechanical coated cash-generating unit: Kangas Mill

The coated mechanical cash-generating unit was previously impaired in September 2009 for US\$74 million. On 12 January 2010, Sappi ceased operations at Kangas Mill which formed part of the mechanical coated cash-generating unit. Following the closure of the mill, the recoverable amount of the remaining assets in the coated mechanical CGU were reassessed resulting in an impairment reversal of US\$18 million.

Usutu Mill – Closure and transfers from assets held for sale

At the end of January 2010, Usutu Mill ceased operations. The property, plant and equipment related to the mill had been substantially impaired in previous years and was impaired by a further US\$2 million in the current fiscal year.

The Usutu pulp mill was permanently closed at the end of January 2010. The future of the site and plantations was discussed with potential investors and the government of Swaziland. The disposal group consisting mainly of plantations had been classified as held for sale since December 2009. The Sappi board subsequently took a decision to continue with its forestry operations in Swaziland, and is investigating the establishment of various timber processing operations at the Usutu Mill site. As a result, the assets are no longer classified as held for sale.

Adamas Mill

There were indicators of potential impairment to the Adamas Mill cash-generating unit. The group assessed this CGU for impairment and concluded that no impairment existed at September 2010. The recoverable amount was determined on the basis of value in use. The headroom in this calculation was calculated to be US\$2 million using a pre-tax real discount rate of 9.48%. The calculation of the recoverable amount is sensitive to general market conditions, particularly the foreign currency exchange rate. The carrying amount of the CGU at the end of fiscal 2010 was US\$23 million.

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 Sappi 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%.

US\$ million	2010	2009
10. Plantations		
Fair value of plantations at beginning of year	611	631
Gains arising from growth	67	73
Fire, hazardous weather and other damages	–	(2)
Additions	9	1
Gain (loss) arising from fair value price changes*	31	(67)
Harvesting – agriculture produce (fellings)	(71)	(69)
Translation difference	40	44
Fair value of plantations at end of year	687	611

* In the third quarter of fiscal 2010, the group changed the accounting estimate used to derive the estimated price of timber that is used to calculate the fair value of its plantations. The change is explained in more detail in section 2.3 – Critical accounting policies and estimates on valuing plantations. The impact of the change as at the third quarter of fiscal 2010 was an increase in the fair value of plantations of US\$28 million.

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

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

We own plantations on land that we own, as well as on land that we lease. We disclose both of these as directly managed plantations. With regard to indirectly managed plantations, Sappi has several different types of agreements with many independent farmers. The 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.

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.

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

US\$ million	2010	2009	2008
Market price changes			
1% increase in market prices	2	12	17
1% decrease in market prices	(2)	(12)	(17)
Discount rate (for immature timber)			
1% increase in rate	(5)	(3)	(4)
1% decrease in rate	5	3	4
Volume assumption			
1% increase in estimate of volume	9	6	6
1% decrease in estimate of volume	(9)	(6)	(6)
Costs to sell			
1% increase in costs to sell	(1)	(9)	(10)
1% decrease in costs to sell	1	9	10
Growth assumptions			
1% increase in rate of growth	2	1	1
1% decrease in rate of growth	(2)	(1)	(1)

US\$ million	2010		2009	
	Assets	Liabilities	Assets	Liabilities
11. Deferred tax				
Other liabilities, accruals and prepayments	(100)	8	(111)	8
Inventory	5	(3)	5	(4)
USA alternative minimum taxation credit carry forward	14	–	11	–
Tax loss carry forward	313	63	360	69
Property, plant and equipment	(113)	(302)	(141)	(292)
Plantations	(26)	(160)	(20)	(145)
Other non-current assets	27	–	26	–
Other non-current liabilities	(67)	8	(74)	9
	53	(386)	56	(355)

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	2010	2009
Unrecognised deferred tax assets relate to the following:		
Other non-current liabilities	74	66
Tax losses	630	634
	704	700
Attributable to the following tax jurisdictions:		
Belgium	63	49
The Netherlands	8	10
Finland	47	39
United Kingdom	64	65
United States of America	198	222
Swaziland	32	28
South Africa	3	2
Austria	289	285
	704	700
Expiry between two and five years	2	–
Expiry after five years	205	152
Indefinite life	497	548
	704	700

US\$ million	2010	2009
11. Deferred tax (continued)		
The following table shows the movement in the unrecognised deferred tax assets for the year		
Balance at beginning of year	700	591
Unrecognised deferred tax assets originating during the current year	86	129
Utilisation of previously unrecognised tax assets	(54)	(22)
Prior year adjustments	–	1
Rate adjustments	3	2
Movement in foreign exchange rates	(31)	(1)
Balance at end of year	704	700
Reconciliation of deferred tax		
Deferred tax balances at beginning of year		
Deferred tax assets	56	41
Deferred tax liabilities	(355)	(399)
	(299)	(358)
Deferred taxation (charge) benefit for the year (refer note 6)	(26)	41
Other liabilities, accruals and prepayments	5	(6)
Inventory	–	5
Utilisation of Secondary Tax on Companies (STC) credits	–	(2)
USA alternative minimum taxation credit	2	–
Tax loss carry forward	(14)	30
Property, plant and equipment	15	(10)
Plantations	(9)	18
Other non-current liabilities	(25)	6
Amounts recorded directly in other comprehensive income	11	32
Rate adjustments	–	3
Translation differences	(19)	(17)
Deferred tax balances at end of year	(333)	(299)
Deferred tax assets	53	56
Deferred tax liabilities	(386)	(355)
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	484	465
Tax effect if distributed	44	42

12. Goodwill and intangible assets

US\$ million	2010					2009				
	Goodwill	Licence fees	Patents	Brands	Total	Goodwill	Licence fees	Patents	Brands	Total
Net carrying amount at beginning of year	4	3	-	25	32	4	3	-	-	7
Acquisition	-	-	-	-	-	-	-	-	25	25
Amortisation	-	-	-	(2)	(2)	-	-	-	(2)	(2)
Translation difference	-	-	-	(3)	(3)	-	-	-	2	2
Net carrying amount	4	3	-	20	27	4	3	-	25	32
Cost (gross carrying amount)	4	3	20	24	51	4	3	21	27	55
Accumulated amortisation and impairment	-	-	(20)	(4)	(24)	-	-	(21)	(2)	(23)
Net carrying amount	4	3	-	20	27	4	3	-	25	32

US\$ million	2010	2009
13. Joint ventures and associates*		
Cost of equity investments	96	99
Share of post-acquisition profit, net of distributions received	8	24
Foreign currency translation effect	21	-
	125	123
Summarised financial information in respect of the group's equity investments is set out below:		
Total assets	640	638
Total liabilities	298	312
Net assets	342	326
Group's share of equity investments' net assets	125	123

US\$ million	2010	2009	2008
Sales	691	756	902
Profit for the period	35	28	46
Group's share of equity investments' profit for the period	13	11	17

13. Joint ventures and associates* (continued)**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 2009.

Umkomaas Lignin (Pty) Limited

A 50% 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) Limited are to 31 December of each year which is the year end of Borregaard. The last audited financials were to 31 December 2009.

Sapin SA

A 50% 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 2009.

Papierholz Austria GmbH

A 43% 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 2009.

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 2010 (2009: US\$6 million). The financial statements of Timber IV are to 30 September of each year. The results are unaudited.

Energie Biberist AG

A 10% investment in associate Energie Biberist AG (EBAG) in which Sappi exercises significant influence by virtue of the fact that Sappi has the power to appoint one of the five directors. EBAG is an energy company supplying Sappi Biberist with 100% of electricity requirements. The financial statements of EBAG are to 31 December each year which is the year end of EBAG. The last audited financials of EBAG were 31 December 2009.

VOF Warmtekracht

During the year, Sappi purchased the remaining 50% of VOF Warmtekracht from Essent. VOF Warmtekracht was previously a 50% owned joint venture in The Netherlands between Sappi and Essent for co-generation of electricity and steam. Sappi no longer accounts for VOF Warmtekracht as a joint venture, but now consolidates this entity as part of the Sappi group financial statements.

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	2010	2009
14. Other non-current assets		
Loans to the Sappi Limited Share Incentive Trust participants	1	6
Financial assets*	32	33
Post-employment benefits – pension asset (refer note 27)	37	52
Other loans	12	10
	82	101

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

US\$ million	2010	2009
15. Inventories		
Raw materials	185	155
Work in progress	86	83
Finished goods	376	347
Consumable stores and spares	189	207
	836	792

The charge to the group income statement relating to the write down of inventories to net realisable value amounted to US\$17 million (2009: US\$10 million and 2008: US\$11 million).

The cost of inventories recognised as an expense and included in cost of sales amounted to US\$5,197 million (September 2009: US\$4,467 million and September 2008: US\$4,552 million).

Refer to note 24 for inventory pledged as security.

16. Trade and other receivables		
Trade accounts receivable, gross	754	682
Allowance for credit losses	(14)	(15)
Trade accounts receivable, net	740	667
Prepayments and other receivables	148	191
	888	858

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\$888 million (2009: US\$858 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 (%)	15%	16%
16.1 Reconciliation of the allowance for credit losses		
Balance at beginning of year	15	5
Raised during the year	9	16
Released during the year	(9)	(6)
Foreign exchange currency translation effect	(1)	-
Balance at end of year	14	15

An allowance has been made for estimated irrecoverable amounts from the sale of goods of US\$14 million (2009: US\$15 million). This allowance has been determined by reference to specific customer delinquencies.

16. Trade and other receivables (continued)

16.2 Analysis of amounts past due

September 2010

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

US\$ million	Not impaired	Impaired	Total
Less than 7 days overdue	18	–	18
Between 7 and 30 days overdue	18	–	18
Between 30 and 60 days overdue	3	1	4
More than 60 days overdue	15	13	28
	54	14	68

September 2009

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

US\$ million	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

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

The group has a provision of US\$14 million (2009: US\$15 million) against trade receivables that are past due.

The group holds collateral of US\$17 million (2009: 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:

US\$ million	2010	2009
Less than US\$0.5 million	331	332
Less than US\$1 million but equal to or greater than US\$0.5 million	276	275
Less than US\$3 million but equal to or greater than US\$1 million	557	495
Less than US\$5 million but equal to or greater than US\$3 million	225	212
Equal to or greater than US\$5 million	965	951
	2,354	2,265

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\$486 million (2009: US\$460 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\$447 million (2009: US\$400 million). The group is restricted from selling and repledging the trade receivables that have been pledged as collateral for the liability.

16. Trade and other receivables (continued)

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 the end of each financial month 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\$29 million (2009: US\$25 million) has been disclosed in this respect.

Trade receivables securitisation

To improve our cash flows in a cost-effective manner, Sappi Trading, Sappi Fine Paper Europe and Sappi Fine Paper North America 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 Southern Africa securitisation facility

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

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

The total amount of trade receivables sold at the end of September 2010 amounted to US\$215 million (September 2009: US\$171 million). Details of the securitisation programme at the end of fiscal 2010 and 2009 are disclosed in the tables below:

Bank	Currency	Value	Facility	Discount charges
2010				
Rand Merchant Bank Limited	ZAR	ZAR1,510 million	Unlimited*	Linked to 3 month JIBAR
2009				
Rand Merchant Bank Limited	ZAR	ZAR1,268 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.

16. Trade and other receivables (continued)**16.5 Off balance sheet structures (continued)**

Details of the on balance sheet securitisation facilities are described in note 20.

16.6 Analysis of customers

A significant portion of the group's sales and accounts receivable are from major groups of customers. None of the group's major customers represented more than 10% of our sales during the years ended September 2010 and September 2009. 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 world-wide.

The group has the following amounts due from single customers:

	2010			2009		
	Number of customers	US\$ million	Percentage	Number of customers	US\$ million	Percentage
Greater than US\$10 million	7	131	18%	6	82	12%
Between US\$5 million and US\$10 million	13	81	11%	9	55	8%
Less than US\$5 million	2,176	528	71%	2,519	530	80%
	2,196	740	100%	2,534	667	100%

None of the trade receivables, with balances of equal to or greater than US\$5 million as at year end have breached their contractual maturity terms. No impairment charges have been recognised in respect of customers who owe the group more than US\$5 million.

Refer note 29 for further details on credit risk.

	2010		2009	
	Number of shares	US\$ million	Number of shares	US\$ million
17. Ordinary share capital and share premium				
Authorised share capital:				
Ordinary shares of ZAR1 each	725,000,000		725,000,000	
"A" ordinary shares of ZAR1 each*	19,961,476		–	
Issued share capital:				
Ordinary shares of ZAR1 each	541,446,223	77	537,117,864	73
"A" ordinary shares of ZAR1 each*	19,961,476	3	–	–
Treasury shares**	(41,896,595)	(6)	(21,384,559)	(3)
Share premium		1,564		1,471
	519,511,104	1,638	515,733,305	1,541

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

** Includes 21,935,119 (September 2009: 21,384,559) ordinary shares as well as 19,961,476 (2009: nil) "A" ordinary shares that are held by group entities, including The Sappi Limited Share Incentive Trust (the Scheme) and the trusts set up to house the Broad-based Black Economic Empowerment transaction. These may be utilised to meet the requirements of the trusts.

The authorised share capital was increased during the year with 19,961,476 "A" ordinary shares with a par value of ZAR1.00 per share as part of Sappi's 2010 Broad-based Black Economic Empowerment transaction (refer to note 28 for further details). The issued ordinary share capital increased during the year from ZAR537,117,864 to ZAR541,446,223 with the issue of 4,328,359 ordinary shares as part of the unwinding of the 2006 Broad-based Black Economic Empowerment transaction and 19,961,476 "A" ordinary shares as part of Sappi's 2010 Broad-based Black Economic Empowerment transaction. Costs related to the Broad-based Black Economic Empowerment transaction of US\$3 million were charged to share premium in the current year.

Number of shares	2010	2009
17. Ordinary share capital and share premium (continued)		
The movement in the number of treasury shares is set out in the table below:		
Ordinary treasury shares:		
Ordinary treasury shares at beginning of year (including Scheme shares)	21,384,559	9,906,661
Rights issue shares subscribed	–	11,860,873
Treasury shares issued to participants of the Scheme	550,560	(382,975)
– Share options (per note 28)	–	(206,140)
– Share plan options (per note 28)	–	(165,491)
– Allocation shares (per note 28)	–	(214,660)
– Restricted shares (per note 28)	–	(22,000)
– Scheme shares forfeited, released and other	550,560	225,316
Ordinary treasury shares at end of year	21,935,119	21,384,559
“A” ordinary treasury shares:		
“A” ordinary shares issued to the Broad-based Black Economic Empowerment trusts	19,961,476	–
	41,896,595	21,384,559

Included in the issued and unissued ordinary share capital of 725,000,000, is 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 7 March 2005.

Since March 1994, 2,970,582 (September 2009: 2,970,582) shares have been allocated to the Scheme participants and paid for, and 14,799,182 (September 2009: 11,910,172) shares have been allocated to the Scheme participants and not yet paid for. In terms of the Plan, 9,312,840 (September 2009: 9,736,450) shares have been allocated and remain unpaid for, and 176,491 (September 2009: 165,491) shares have been allocated and paid for by the Plan participants.

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 2010 and 2009, we were in compliance with the financial covenants relating to the loans payable.

The group's strategy with regard to capital risk management remains unchanged from 2009.

US\$ million	2010	2009	2008
18. Other comprehensive income (loss)			
Exchange differences on translation	52	14	(262)
Gross amount	52	14	(262)
Tax	-	-	-
Actuarial (losses) gains on pensions and post-employment benefits	(60)	(197)	6
Gross amount (refer note 27)	(71)	(229)	7
Tax	11	32	(1)
Fair value adjustment on available-for-sale financial instruments	2	-	-
Gross amount	2	-	-
Tax	-	-	-
Hedging reserves	14	(14)	-
Gross amount	14	(14)	-
Tax	-	-	-
Other comprehensive income (loss) recorded directly in equity	8	(197)	(256)
Profit (loss) for the year	66	(177)	102
Total comprehensive income (loss) for the year	74	(374)	(154)

US\$ million	2010	2009
19. Non-distributable reserves		
Legal reserves in subsidiaries	78	82
Share-based payment reserve	69	48
Other	14	13
Capital reduction ⁽¹⁾	1	1
Capitalisation of distributable reserves ⁽²⁾	11	12
Available-for-sale financial assets	2	-
	161	143

	2010				2009			
	Legal reserves ⁽²⁾	Share-based payment reserve	Other	Total	Legal reserves ⁽²⁾	Share-based payment reserve	Other	Total
Opening balance	82	48	13	143	75	35	14	124
Transfer from retained earnings	2	-	-	2	6	-	-	6
Share-based payment expense	-	17	-	17	-	9	-	9
Movement on available-for-sale financial assets	-	-	2	2	-	-	-	-
Translation difference	(6)	4	(1)	(3)	1	4	(1)	4
	78	69	14	161	82	48	13	143

(1) Reduction in capital arising from the transfer of share premium under a special resolution dated 14 April 1975.

(2) Represents 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	2010	2009	2008
20. Interest-bearing borrowings			
Secured borrowings			
– Mortgage and pledge over trade receivables and certain assets (refer note 24 for details of encumbered assets)	1,605	1,849	468
– Capitalised lease liabilities (refer note 24 for details of encumbered assets)	50	71	29
Total secured borrowings*	1,655	1,920	497
Unsecured borrowings*	1,353	1,407	2,156
Total borrowings (refer note 29)	3,008	3,327	2,653
Less: Current portion included in current liabilities	691	601	821
	2,317	2,726	1,832

* Our September 2009 disclosure has been amended to correctly reflect the split between secured and unsecured interest-bearing borrowings and to reflect the classification set out in the detailed list of borrowings in note 20 to the 2009 group annual financial statements.

	As previously reported	Adjustment	Adjusted
2009			
Secured borrowings**	1,350	570	1,920
Unsecured borrowings	1,977	(570)	1,407
Total	3,327	–	3,327

** Mortgage and pledge over trade receivables and certain assets of US\$1,849 million was previously disclosed as US\$1,321 million, and capitalised lease liabilities of US\$71 million was previously disclosed as US\$29 million.

The repayment profile of the interest-bearing borrowings is as follows:

	2010	2009
Payable in the year ended September:		
2010*		601
2011*	691	261
2012	892	890
2013	352	338
2014	842	895
2015 (September 2009: thereafter)	7	342
Thereafter	224	–
	3,008	3,327

* Included in the US\$691 million reflected as payable in 2010 is US\$447 million debt relating to securitisation funding (2009: US\$400 million included in US\$601 million) which has the character of a short-term revolving facility but is expected to run until 31 December 2011 under the existing contractual arrangements, and the intention is to renew this arrangement well ahead of maturity.

20. Interest-bearing borrowings (continued)

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 2010, 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:

	2010			2009		
	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:						
2010	–	–	–	23	(4)	19
2011	16	(5)	11	17	(3)	14
2012	17	(3)	14	18	(2)	16
2013	15	(2)	13	15	(2)	13
2014	6	(1)	5	6	(1)	5
2015 (September 2009: thereafter)	7	–	7	7	(1)	6
Total future minimum lease payments	61	(11)	50	86	(13)	73

20. Interest-bearing borrowings (continued)

Set out below are details of the more significant non-current interest-bearing borrowings in the group at September 2010.

	Currency	Interest rate	Principal amount outstanding	Balance sheet value	Security/Cession	Expiry	Financial covenants
Redeemable bonds							
Public bond	EUR	Fixed	EUR350 million	EUR319 million ^(2,6)	Property, plant and equipment, inter-company receivables and shares in subsidiaries	August 2014	No financial covenants
Public bond	US\$	Fixed ⁽⁷⁾	US\$300 million ⁽⁷⁾	US\$274 million ^(2,6)	Property, plant and equipment, inter-company receivables and shares in subsidiaries	August 2014	No financial covenants
Public bond	US\$	Fixed	US\$500 million	US\$513 million ^(2,3,6)	Unsecured	June 2012	No financial covenants
Public bond	US\$	Fixed	US\$221 million	US\$222 million ^(2,3,6)	Unsecured	June 2032	No financial covenants
Public bond	ZAR	Fixed	ZAR1,000 million	ZAR1,000 million	Unsecured	June 2013	No financial covenants
Public bond	ZAR	Fixed	ZAR1,000 million	ZAR1,000 million	Unsecured	October 2011	No financial covenants
Public bond	ZAR	Fixed	ZAR498 million	ZAR498 million ⁽⁶⁾	Unsecured	June 2012	No financial covenants
Private placement bond	ZAR	Fixed	ZAR134 million	ZAR134 million	Unsecured	November 2012	No financial covenants
Private placement bond	ZAR	Fixed	ZAR133 million	ZAR133 million	Unsecured	January 2013	No financial covenants
Private placement bond	ZAR	Fixed	ZAR33 million	ZAR33 million	Unsecured	March 2013	No financial covenants
Private placement bond	ZAR	Fixed	ZAR61 million	ZAR61 million ⁽⁶⁾	Unsecured	December 2013	No financial covenants
Secured loans							
State Street Bank	EUR	Variable	EUR231 million	EUR231 million	Trade receivables	Revolving facility	EBITDA to net interest and net debt to EBITDA ⁽⁵⁾
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⁾

20. Interest-bearing borrowings (continued)

	Currency	Interest rate	Principal amount outstanding	Balance sheet value	Security/Cession	Expiry	Financial covenants
Secured loans (continued)							
State Street Bank	US\$	Variable	US\$75 million	US\$75 million	Trade receivables	Revolving facility	EBITDA to net interest and net debt to EBITDA ⁽⁵⁾
Österreichische Kontrollbank	EUR	Fixed	EUR320 million	EUR310 million ^(2,6)	Property, plant and equipment, inter-company receivables and shares in subsidiaries	April 2014	EBITDA to net interest and net debt to EBITDA ⁽⁵⁾
Österreichische Kontrollbank	EUR	Variable	EUR25 million	EUR25 million ⁽¹⁾⁽²⁾	Property, plant and equipment, inter-company receivables and shares in subsidiaries	June 2013	EBITDA to net interest and net debt to EBITDA ⁽⁵⁾
Capitalised leases							
Fortum	EUR	Variable	EUR22 million	EUR22 million	Plant and equipment	November 2012	No financial covenants
Rand Merchant Bank	ZAR	Fixed	ZAR148 million	ZAR148 million ⁽¹⁾	Buildings	September 2015	No financial covenants
Unsecured bank term loans							
Österreichische Kontrollbank	EUR	Variable	EUR58 million	EUR58 million ⁽¹⁾	Unsecured	December 2010	No financial covenants
Nedbank	ZAR	Fixed	ZAR350 million	ZAR350 million ⁽¹⁾	Unsecured	January 2011	No financial covenants
Nedbank	ZAR	Fixed	ZAR397 million	ZAR397 million	Unsecured	March 2014	Gearing ratio/ interest & dividend cover ⁽⁴⁾
Peritum Trading	ZAR	Fixed	ZAR13 million	ZAR13 million ⁽¹⁾	Unsecured	June 2014	No financial covenants
Royal Bank of Scotland	EUR	Fixed	EUR12 million	EUR12 million	Unsecured	December 2010	No financial covenants

20. Interest-bearing borrowings (continued)

The analysis of the currency per debt is:

	Local currency million	US\$ million
US\$ ⁽⁶⁾	1,151	1,151
EURO	979	1,321
ZAR	3,766	536
		3,008

(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 Southern Africa (Pty) Limited, 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) USD fixed rates have been swapped into EUR fixed rates. These swaps are subject to hedge accounting in order to reduce as far as possible the foreign exchange exposure.

(8) This amount includes debt of US\$300 million that is swapped into Euro.

A detailed reconciliation of total interest-bearing borrowings has been performed in note 29.

Other restrictions

As is the norm for bank loan debt, 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 2010 and 2009, we were in compliance with the financial covenants relating to all loans payable. Regular monitoring of compliance with applicable covenants occurs. If there is a possible breach of a financial covenant in the future, negotiations would commence 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 accounted 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 securitised receivables do not qualify for de-recognition under IAS 39.

Further detail of the value of trade receivables pledged as security for these loans is included in note 16.

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 Inter-bank Offered Rate) plus a margin for receivables to customers located in Organisation for Economic Co-operation and Development (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 Inter-bank Offered Rate) plus a margin for receivables to customers located in OECD countries plus a further margin for receivables to customers located in non-OECD countries.

Unutilised facilities

The group monitors its availability of 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.

Unutilised committed facilities

US\$ million	Currency	Interest rate	2010	2009
Syndicated loan*	EUR	Variable (EURIBOR)	282	307

* Syndicated loan with a consortium of banks with JP Morgan Europe Limited as facility agent with a remaining revolving facility available of EUR209 million, which is subject to financial covenants relating to the Sappi Limited Group and is secured by the same assets as the public 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\$7 million (2009: US\$0.8 million) in respect of the syndicated loan facility.

Unutilised uncommitted facilities

US\$ million	Currency	Interest rate	2010	2009
Held by:				
Southern Africa	ZAR	Variable (JIBAR)	417	445
Group Treasury – Europe	EUR	Variable (EURIBOR)	–	54
			417	499
Total unutilised facilities (committed and uncommitted) excluding cash			699	806

Fair value

The fair value of all interest-bearing borrowings is disclosed in note 29 on financial instruments.

US\$ million	2010	2009
21. Other non-current liabilities		
Post-employment benefits – pension liability (refer note 27)	298	308
Post-employment benefits other than pension liability (refer note 27)	178	172
Long-term employee benefits	5	9
Workmen's compensation	9	8
Long service awards	26	27
Land restoration provision	19	19
Deferred income	3	3
Other	8	11
	546	557

US\$ million	2010	2009
22. Provisions		
Restructuring provisions	29	32
Other provisions	4	3
Balance at September*	33	35

* These are all included in current liabilities

	Severance, retrenchment & related costs	Lease cancellation & penalty costs	Other restructuring	Total
Restructuring provisions				
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
Increase in provisions	10	–	31	41
Utilised	(19)	–	(23)	(42)
Released during the year	–	–	(2)	(2)
Other movements	–	–	1	1
Translation effect	–	(1)	–	(1)
Balance at September 2010	9	2	18	29

September 2010 Restructuring Plans

Sappi Fine Paper Europe

Kangas Mill. On 12 January 2010, Sappi Fine Paper Europe ceased operations at its Kangas Mill. A total of 150 employees were affected by the closure of the mill. A total restructuring provision of US\$14 million was raised during the year of which US\$8 million was utilised by September 2010.

Sappi Southern Africa

Usutu Mill. In the final quarter of our 2009 fiscal year, Sappi had begun consultation with stakeholders with the intention of permanently ceasing production at Usutu mill. Adverse market conditions and the cumulative severe impact of fire damage over past years had made the mill unviable. In January 2010, Sappi Southern Africa ceased production at the mill. 491 employees were affected by the closure by fiscal year end. A provision relating to severance, retrenchment and other related closure costs of US\$24 million was raised during the year; US\$14 million of which remained at fiscal year end.

22. Provisions (continued)**September 2009 Restructuring Plans****Sappi Fine Paper Europe**

Kangas Mill. During the fiscal 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 2009 resulting in nine employees being made redundant. After the term of notice and remodelling, employment contracts ended in April 2010. A provision of approximately US\$1 million relating to retrenchment costs was 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. A provision of approximately US\$2 million was 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 was 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 affected approximately 227 employees. A total provision of approximately US\$2 million was raised.

US\$ million	2010	2009	2008
23. Notes to the cash flow statements			
23.1 Cash generated from operations			
Profit (loss) for the year	66	(177)	102
Adjustment for:			
– Depreciation	411	396	374
– Fellings	71	69	80
– Amortisation	2	2	–
– Taxation charge (benefit)	20	(41)	86
– Net finance costs	255	145	126
– Asset (impairment reversals) impairments	(20)	79	119
– Fair value adjustment gains and growth on plantations	(98)	(6)	(190)
– Post-employment benefits funding	(73)	(62)	(88)
– Broad-based Black Economic Empowerment transaction charge	23	–	–
– Other non-cash items	80	27	14
	737	432	623
23.2 (Increase) decrease in working capital			
(Increase) decrease in inventories	(72)	116	(38)
(Increase) decrease in receivables	(74)	175	(19)
Increase (decrease) in payables	141	(139)	58
	(5)	152	1

US\$ million	2010	2009	2008
23. Notes to the cash flow statements (continued)			
23.3 Finance costs paid			
Gross interest and other finance costs	(309)	(198)	(181)
Net foreign exchange gains	17	17	8
Net fair value gains (losses) on financial instruments	21	(25)	(7)
Non-cash movements included in items above	65	99	41
	(206)	(107)	(139)
23.4 Taxation paid			
Amounts unpaid at beginning of year	(54)	(54)	(125)
Translation effects	4	(2)	7
Taxation benefit (charge) to profit or loss	6	(3)	(6)
Net amounts unpaid at end of year	35	54	54
Cash amounts paid	(9)	(5)	(70)
23.5 Replacement of non-current assets			
Property, plant and equipment	(173)	(146)	(250)
Plantations	–	(1)	–
	(173)	(147)	(250)
23.6 Proceeds on disposal of non-current assets			
Book value of property, plant and equipment disposed of	16	–	2
Profit on disposal	5	2	5
	21	2	7
23.7 Cash and cash equivalents			
Cash and deposits on call	791	727	221
Money market instruments	1	43	53
	792	770	274

US\$ million	2010	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	309	322	17
Plant and equipment*	1,295	1,542	176
Inventory	186	164	–
Trade receivables	486	460	415
	2,276	2,488	608

* This has been increased by US\$157 million (2008: US\$172 million) to reflect certain assets that were also encumbered. Plant and equipment was previously disclosed as US\$1,385 million in 2009 (2008: US\$4 million).

Plant and equipment	As previously reported	Adjustment	Adjusted
2009	1,385	157	1,542
2008	4	172	176

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

The encumbered assets relate mainly to the security provided under the following facilities:

- Public High Yield Bonds of US\$300 million and EUR350 million respectively, both due 2014;
- Österreichische Kontrollbank loans of EUR400 million (current outstanding balance of EUR320 million) and EUR25 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 inter-company receivables which are not reflected in the total above.

US\$ million	2010	2009	2008
25. Commitments			
Capital commitments			
Contracted but not provided	62	62	76
Approved but not contracted	109	126	130
	171	188	206
Future forecasted cash flows of capital commitments:			
2009			154
2010		102	35
2011 (September 2008: thereafter)	104	48	17
2012 (September 2009: thereafter)	32	38	–
Thereafter	35	–	–
	171	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.

Further information on capital commitments relating to environmental matters can be found in note 32.

US\$ million	2010	2009	2008
Lease commitments			
Future minimum obligations under operating leases – undiscounted:			
Payable in the year ended September:			
2009			28
2010		31	14
2011	40	14	9
2012	23	7	4
2013	16	4	2
2014 (September 2008: thereafter)	9	2	35
2015 (September 2009: thereafter*)	5	38	–
Thereafter	37	–	–
	130	96	92

* The lease commitments for 2009 was previously disclosed as US\$60 million. This has been increased by US\$36 million to include a land lease commitment that should have been reflected.

	As previously reported	Adjustment	Adjusted
Future minimum obligations under operating leases – September 2009: thereafter	2	36	38

US\$ million	2010	2009
26. Contingent liabilities		
Guarantees and suretyships	48	44
Other contingent liabilities	8	8

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 in respect of certain group companies.

The group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these 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 and other benefits

Summary of results

US\$ million	All plans	Defined contribution plans		Defined benefit pension plans		Other defined benefit plans	
	2011	2010	2009	2010	2009	2010	2009
Post-retirement plan cost recognised in income statements		42	33	15	21	14	10
Employer contributions paid over the fiscal year		40	33	66	54	11	10
Expected employer contributions to be paid over next fiscal year							
– Defined contribution plans	42						
– Defined benefit pension plans	54						
– Other defined benefit plans	12						
Pension/benefit plan liability is presented on the balance sheets as follows:							
Pension/benefit liability (refer note 21)				298	308	178	172
Pension asset (refer note 14)				(37)	(52)	–	–
Accrued contributions*/obligations (included in other payables)		4	2	–	–	7	7
Net balance sheet liability		4	2	261	256	185	179

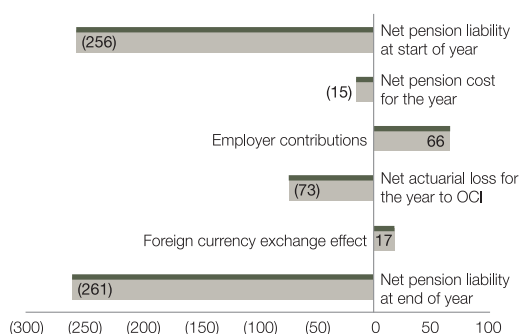
* Amounts to defined contribution plans due in respect of the current reporting period that had not yet been paid over to the plans.

27. Post-employment benefits – pensions and other benefits (continued)

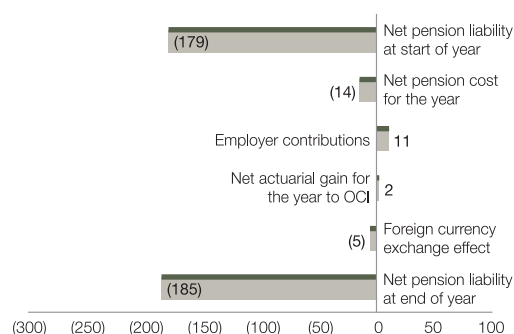
US\$ million	Defined benefit pension plans		Other defined benefit plans	
	2010	2009	2010	2009
Development in the balance sheets for the pension/benefit plans is shown in the table below and graphically following:				
Net pension/benefit liability at start of year	(256)	(27)	(179)	(148)
Net pension liability acquired during the year	–	(52)	–	–
Net pension/benefit cost for the year	(15)	(21)	(14)	(10)
Employer contributions	66	54	11	10
Net actuarial (loss) gain for the year to other comprehensive income (OCI)	(73)	(207)	2	(22)
Foreign currency gain (loss) exchange effect	17	(3)	(5)	(9)
Net pension/benefit liability at end of year	(261)	(256)	(185)	(179)

Accumulated liabilities exceeded assets in all defined benefit plans except for two plans in southern Africa and one plan in Europe.

Defined benefit pension plans – sources of credits and debits to the balance sheet liability
(US\$ million)



Other defined benefit pension plans – sources of credits and debits to the balance sheet liability
(US\$ million)



Synopsis for the year for defined pension/benefit plans

Reductions in corporate bond yields and rising long term implied inflation in some regions caused liabilities in our defined benefit plans to increase. Assets in our funded plans grew in all regions, but growth was less than the increase in liabilities, leading to increased deficits at the end of 2010.

27. Post-employment benefits – pensions and other benefits (continued)

Detailed results

Defined contribution plans

The group operates defined contribution plans of various sizes for all qualifying employees in most regions throughout the group. The assets of the plans are held separately from those of the group in funds under the control of trustees. In addition, the group participates in country-wide union/industry plans in certain locations open to eligible employees.

The total cost charged to the income statement of US\$42 million (September 2009: US\$33 million, September 2008: US\$23 million) represents contributions payable to these plans by the group based on rates specified in the rules of these plans. As at September 2010, US\$4 million (September 2009: US\$2 million, September 2008: US\$2 million) was due in respect of the current reporting period that had not yet been paid over to the plans. Part of the increase in total cost charged relates to a rearrangement in a plan in southern African whereby effective from May 2009, members no longer pay contributions and the company meets all contributions.

The effect of this change is an increase in company contributions of US\$8 million (September 2009: US\$2 million).

Defined benefit pension plans

The group operates 14 principal (gross liabilities each exceeding US\$20 million) defined benefit pension and/or lump sum plans plus a number of smaller plans. These include plans closed to new entrants and plans closed to future accrual for existing members. Plans open to new entrants or future accrual cover all qualifying employees. All plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country. Plans remain open to new members except for the following: plans in southern Africa, Austria, some in Germany and one in North America. Plans in the United Kingdom are closed to future accrual.

Benefits are generally based upon compensation and years of service, with varying definitions of compensation such as average salary near retirement or career average revalued earnings. Exceptions to these are certain plans in Germany and Austria that provide fixed benefits and certain plans in North America that provide benefits based on years of service and a '\$ multiplier'. The \$ multiplier is a nominal US Dollar amount that historically has increased from time to time. In Switzerland, the company has a defined contribution plan providing guaranteed minimum investment returns to members' funds and pays pensions out of fund proceeds and reserves (if required). The plan has a liability under IAS 19 which is disclosed with other defined benefit pension 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.

As of September 2010, the total number of active members in our defined benefit pension plans is approximately 8,400.

Actuarial valuations of the European and North American funds are performed annually. An actuarial review is performed annually for the South African and United Kingdom funds, with an actuarial valuation being performed on a tri-annual basis.

Group companies have no other significant post-employment defined benefit obligations, except for the following:

- Post-retirement healthcare benefits provided to persons in North America and in South Africa totalling US\$185 million.
- Jubilee (long service award plans) in continental Europe of US\$26 million, an early retirement benefit plan in Belgium of US\$5 million (refer to note 21).
- 'ATZ' (early retirement) benefit obligations in Germany totalling US\$7 million.
- Workmans' compensation benefit obligations in North America totalling US\$13 million.

All pension obligations were measured at the end of the financial year.

Post-employment benefits other than pensions ('other defined benefit' plans)

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

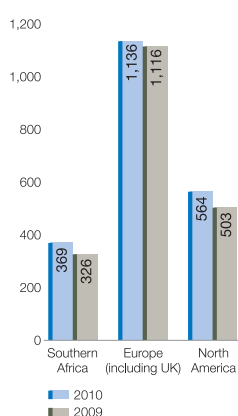
Actuarial valuations of all the plans are performed annually.

All post-employment obligations were measured at the end of the financial year.

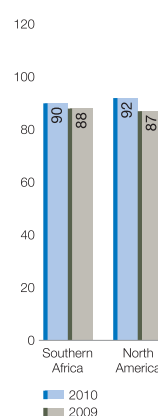
27. Post-employment benefits – pensions and other benefits (continued)

US\$ million	2010		2009	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
Change in present value of defined benefit obligations				
Defined benefit obligations at beginning of years	1,945	175	1,414	143
Current service costs	27	4	21	2
Past service costs (credits)	1	–	(4)	–
Interest costs	107	11	103	10
Plan participants' contributions	7	–	4	–
Actuarial losses (gains) experience	21	(9)	9	3
Actuarial losses assumptions	122	7	245	19
Acquisition	–	–	225	–
Gains on curtailments and settlements	–	–	(1)	(1)
Benefits paid	(128)	(11)	(106)	(10)
Translation differences	(33)	5	35	9
Defined benefit obligations at end of years	2,069 ⁽¹⁾	182 ⁽²⁾	1,945 ⁽¹⁾	175 ⁽²⁾
Present value of wholly unfunded obligations	144	182	190	175
Present value of wholly and partly funded obligations	1,925	–	1,755	–

(1) Defined benefit pension plans – regional split of liabilities (US\$ million)



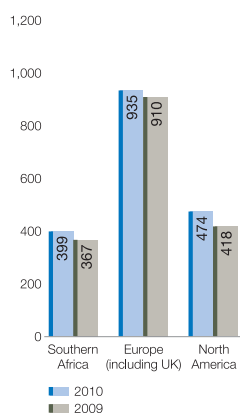
(2) Other defined benefit plans – regional split of liabilities (US\$ million)



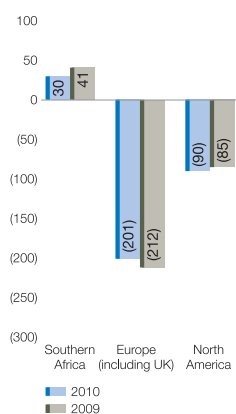
27. Post-employment benefits – pensions and other benefits (continued)

US\$ million	2010		2009	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
Change in fair value of plan assets				
Fair value of plan assets at beginning of years	1,695	–	1,387	–
Expected returns on plan assets**	114	–	104	–
Actuarial gains on plan assets	70	–	47	–
Acquisition	–	–	173	–
Employer contributions	66	11	54	10
Plan participants' contributions	7	–	5	–
Benefits paid	(128)	(11)	(106)	(10)
Losses on curtailments and settlements	–	–	(1)	–
Translation differences	(16)	–	32	–
Fair value of plan assets at end of years	1,808 ⁽¹⁾	–	1,695 ⁽¹⁾	–
** Net of administration costs.				
Deficits	(261)	(182)	(250)	(175)
Unrecognised past service credits	–	(3)	(6)	(4)
Recognised pension plan liabilities	(261) ⁽²⁾	(185) ⁽³⁾	(256) ⁽²⁾	(179) ⁽³⁾

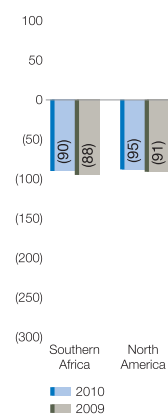
(1) Defined benefit pension plans – regional split of assets (US\$ million)



(2) Defined benefit pension plans – regional split of balance sheet (US\$ million)



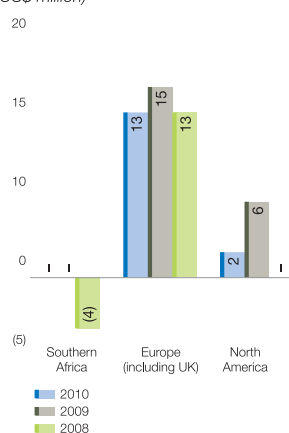
(3) Other defined benefit plans – regional split of balance sheet (US\$ million)



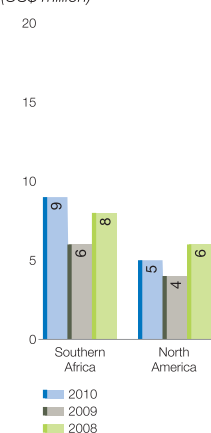
27. Post-employment benefits – pensions and other benefits (continued)

US\$ million	2010		2009		2008	
	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans	Defined benefit pension plans	Other defined benefit plans
Periodic pension/benefit costs recognised in income statements						
Current service costs	27	4	21	2	26	4
Past service costs	1	–	–	–	1	–
Interest costs	107	11	103	10	97	11
Expected returns on plan assets**	(114)	–	(104)	–	(115)	–
Amortisation of past service (credits) costs	(6)	(1)	1	(1)	1	(1)
Gains on curtailments and settlements	–	–	–	(1)	(1)	–
Net periodic pension/benefit costs charged to cost of sales and selling, general and administrative expenses	15 ⁽¹⁾	14 ⁽²⁾	21 ⁽¹⁾	10 ⁽²⁾	9 ⁽¹⁾	14 ⁽²⁾
<i>** Net of administration costs.</i>						
Actual returns on plan assets	184	–	151	–		
Actual returns on plan assets (%)	10.9% ⁽³⁾	–	9.9% ⁽³⁾	–		
Amounts recognised in the statements of other comprehensive income						
Actuarial (losses) gains	(73) ⁽⁴⁾	2 ⁽⁴⁾	(207) ⁽⁴⁾	(22) ⁽⁴⁾		
Cumulative actuarial gains and losses recognised in the statements of other comprehensive income						
Actuarial (losses) gains	(407)	(52)	(334)	(54)		

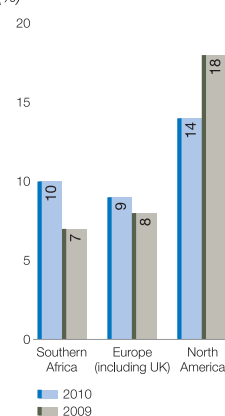
(1) Defined benefit pension plans – regional split of pension costs (US\$ million)



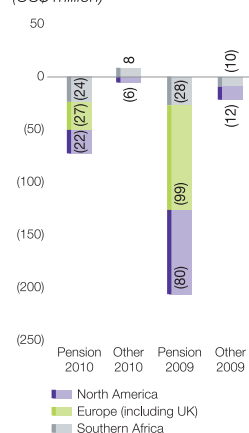
(2) Other defined benefit plans – regional split of benefit costs (US\$ million)



(3) Defined benefit pension plans – regional investment returns (%)



(4) Regional gains (losses) to other comprehensive income (US\$ million)



Assumptions

Financial assumptions are derived by reference to market financial data and established methods recommended by actuaries.

In determining the expected long-term return assumption on plan assets, Sappi considers the relative weighting of plan assets to various asset classes, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance.

Peer data and historical returns are reviewed to check for reasonableness and appropriateness. In addition, Sappi may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.

27. Post-employment benefits – pensions and other benefits (continued)

	2010			2009		
	Southern Africa	Europe	North America	Southern Africa	Europe	North America
Weighted average actuarial assumptions at balance sheet date						
Discount rates (pensions) (%)	8.25	4.05	4.90	9.00	4.90	5.50
Compensation increases (%)*	6.20	2.40	3.50	6.70	2.60	3.50
Expected long-term returns on assets (%)	9.15	4.20	8.00	9.90	5.30	8.00
Discount rates (other benefits) (%)	8.25	–	4.40	9.00	–	5.20
Initial healthcare costs trend rates (%)	6.50	–	7.00	7.25	–	8.00
...which gradually reduce to an ultimate rate of (%)	6.50	–	5.00	7.25	–	5.00
...over a period of (years)	–	–	7	–	–	5

	2010			2009		
	Southern Africa	Europe	North America	Southern Africa	Europe	North America
Weighted average actuarial assumptions used to determine pension benefit cost						
Discount rates (pensions) (%)	9.00	4.90	5.50	9.00	6.90	7.60
Compensation increases (%)*	6.70	2.60	3.50	6.45	3.10	3.50
Expected long-term returns on assets (%)	9.90	5.30	8.00	9.40	6.75	8.25
Discount rates (other benefits) (%)	9.00	–	5.20	9.00	–	7.60
Initial healthcare costs trend rates (%)	7.25	–	8.00	7.00	–	9.00
...which gradually reduce to an ultimate rate of (%)	7.25	–	5.00	7.00	–	5.00
...over a period of (years)	–	–	5	–	–	4

* Weighted average of plans that use a compensation assumption.

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

Illustrating life expectancy

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

	2010							
	Southern Africa	Belgium*	Netherlands	Germany	Austria	Switzerland	United Kingdom	North America
Life expectancy of male aged 60 at fiscal 2010	18.6	21.5	24.7	23.3	24.3	21.8	25.0	22.1
Life expectancy of male aged 60 at fiscal 2030	19.5	21.5	26.6	26.2	27.2	21.8	27.0	22.1

* The plan provides a lump sum only on retirement. Life expectancy in retirement is not relevant, but has been included here for illustrative purposes.

27. Post-employment benefits – pensions and other benefits (continued)

Illustrating sensitivity

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

US\$ million	2010					
	1% increase in discount rate	1% decrease in discount rate	1% increase in salary increase rate	1% decrease in salary increase rate	1% increase in health- care cost trend rate	1% decrease in health- care cost trend rate
(Decrease) increase in defined benefit pension obligation	(234)	284	52	(30)		
Increase in aggregate of current service cost and interest cost	–	4	–	–		
(Decrease) increase in defined other benefit obligation	(19)	21			17	(14)
Increase (decrease) in aggregate of current service cost and interest cost	–	1			2	(1)

Investment management and strategy

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

	2010			2009		
	Southern Africa	Europe (incl UK)	North America	Southern Africa	Europe (incl UK)	North America
	%	%	%	%	%	%
Weighted average target asset allocation by region						
Equity securities	26	21	38	21	25	38
Debt securities*	47	60	44	57	60	49
Real estate	5	5	–	–	6	–
Other**	22	14	18	22	9	13
Weighted average actual asset allocation by region						
Equity securities	27	20	38	25	20	41
Government debt securities	27	45	6	40	25	6
Debt securities	23	19	38	17	42	40
Real estate	5	5	–	–	5	–
Other**	18	11	18	18	8	13

* Target asset allocations do not routinely split between corporate and government bonds.

** Investments that can transcend several asset classes, equity overlay on bond strategy, cash and near cash, funds heavily influenced by currency.

27. Post-employment benefits – pensions and other benefits (continued)

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

US\$ million	Defined benefit pension plans	Other defined benefit plans
Payable in the year ending September:		
2011	100	12
2012	99	13
2013	103	12
2014	105	12
2015	108	12
Years 2016 – 2020	605	63

The four tables below show summary data for the current annual period and the previous four annual periods:

Aggregate total of present value of the defined benefit obligations, fair value of assets and derived balance sheet liabilities in the defined benefit pension plans

US\$ million	2010	2009	2008	2007	2006
Defined benefit obligations	2,069	1,945	1,414	1,607	1,513
Fair value of assets	1,808	1,695	1,387	1,545	1,285
Deficits	(261)	(250)	(27)	(62)	(228)
Unrecognised past service (credits) costs	–	(6)	–	1	2
Pension asset surplus restrictions	–	–	–	–	(41)
Balance sheet liabilities	(261)	(256)	(27)	(61)	(267)

Aggregate total of present value of the defined benefit obligations and derived balance sheet liabilities in the other benefit plans

Defined benefit obligations – deficits	(182)	(175)	(143)	(173)	(164)
Unrecognised past service credits	(3)	(4)	(5)	(6)	(6)
Balance sheet liabilities	(185)	(179)	(148)	(179)	(170)

Actuarial gains and losses arising in the defined benefit pension plan liabilities and plan assets

Plan liabilities gains (losses)	(143)	(254)	173	60	73
Plan assets (losses) gains	70	47	(189)	41	27
Net (losses) gains	(73)	(207)	(16)	101	100

Actuarial gains and losses arising in the other benefit plan liabilities and plan assets

Plan liabilities gains (losses)	2	(22)	23	–	(1)
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Reconciliation of gains and losses recognised in other comprehensive income

Net (losses) gains from pensions	(73)	(207)	(16)	101	100
Net gains (losses) from other defined benefits	2	(22)	23	–	(1)
Net (losses) gains in group statement of comprehensive income	(71)	(229)	7	101	99

28. Share-based payments

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

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

The Sappi Limited Share Incentive Trust (Scheme)

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

Under the rules of the Scheme:

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

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

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

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

The Sappi Limited Performance Share Incentive Trust (Plan)

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

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

28. Share-based payments (continued)

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

The Plan rules also provide that if:

- (a) the company undergoes a change in control after an allocation date other than a change in control initiated by the board itself; or
- (b) the persons who have control of the company as at an allocation date, take any decision, pass any resolution or take any action the effect of which is to delist the company from the JSE Limited and the company becomes aware of such decision, resolution, or action;

then the company is obligated to notify every Participant thereof on the basis that such Participant may within a period of one month (or such longer period as the board may permit) take delivery of those shares which they would have been entitled to had the Performance Criteria been achieved.

Rights offer

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

	2010	2009	2009	2009
Number of shares	Total	Rights offer	Annual	Total
Allocations				
During the year, the following offers were made to employees:				
Share options	2,889,010	2,192,410	3,847,680	6,040,090
Allocation shares	–	–	1,345,500	1,345,500
Conditional share awards	2,565,300	1,815,000	4,725,240	6,540,240
Scheme shares	–	–	1,577,834	1,577,834
Restricted shares	–	–	12,000	12,000
Share options and conditional share awards declined	(65,900)	(62,080)	(63,840)	(125,920)
	5,388,410	3,945,330	11,444,414	15,389,744

28. Share-based payments (continued)

Scheme shares, Share options, Restricted shares, Performance shares and Allocation shares activities were as follows during the financial years ended September 2010 and 2009:

	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 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)
Outstanding at September 2009	2,860,372	–	8,244,380	9,965,560	29.33	1,845,950	65.24	22,916,262
– Offered and accepted	–	–	2,889,010	2,565,300	17.93	–	–	5,454,310
– Paid for/released	–	–	–	(11,000)	11.06	–	–	(11,000)
– Returned, lapsed and forfeited	–	–	(974,630)	(3,207,020)	14.48	(806,800)	77.61	(4,988,450)
Outstanding at September 2010	2,860,372	–	10,158,760	9,312,840	27.91	1,039,150	56.15	23,371,122
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
Exercisable at September 2010	202,040	–	5,184,568	–	49.33	1,039,150	56.15	6,425,758

* The options are valued 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 2,658,332 (2009: 2,107,772), includes 1,026,794 rights offer Scheme shares taken up at ZAR20.27 per share, included in offered and accepted in the 2009 year.

(1) Issued in terms of the Scheme

(2) Issued in terms of the Plan

28. Share-based payments (continued)

The fair value of Scheme shares held at September 2010 was US\$13.5 million (September 2009: US\$8.1 million).

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

	2010	2009	Vesting conditions	Vesting date	Expiry date	Exercise price (ZAR)
Share options:						
28 March 2002 (ii)	–	1,128,700	Time	(i)	28 March 2010	77.97
13 February 2003 (ii)	1,274,980	1,383,000	Time	(i)	13 February 2011	62.34
30 December 2003 (ii)	267,190	267,190	Time	(i)	30 December 2011	47.08
14 January 2004 (ii)	1,208,280	1,311,680	Time	(i)	14 January 2012	47.08
25 March 2004 (ii)	2,200	2,200	Time	(i)	25 March 2012	50.42
13 December 2004 (ii)	1,993,900	2,115,560	Time	(i)	13 December 2012	46.51
12 December 2007 (ii)	1,168,560	1,233,680	Time	(i)	12 December 2015	52.57
19 March 2008 (ii)	531,740	555,060	Time	(i)	19 March 2016	55.97
22 December 2008	1,990,850	2,093,260	Time	(i)	22 December 2016	35.50
09 December 2009	2,760,210	–	Time	(i)	09 December 2017	33.85
Performance shares:						
13 December 2005 (ii)	–	3,030,060	Performance	13 December 2009	N/A	N/A
08 August 2006 (ii)	–	110,000	Performance	08 August 2010	N/A	N/A
15 January 2007 (ii)	–	11,000	Performance	31 December 2009	N/A	N/A
29 January 2007 (ii)	110,000	110,000	Performance	29 January 2011	N/A	N/A
31 May 2007 (ii)	2,960,540	3,008,500	Performance	31 May 2011	N/A	N/A
02 July 2007 (ii)	220,000	220,000	Performance	02 July 2011	N/A	N/A
10 September 2007 (ii)	55,000	55,000	Performance	10 September 2011	N/A	N/A
12 December 2007 (ii)	1,155,000	1,155,000	Performance	12 December 2011	N/A	N/A
19 March 2008 (ii)	451,000	451,000	Performance	12 March 2012	N/A	N/A
23 December 2008	1,815,000	1,815,000	Performance	22 December 2012	N/A	N/A
09 December 2009	2,546,300	–	Performance	09 December 2013	N/A	N/A
	20,510,750	20,055,890				

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

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

28. Share-based payments (continued)

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

	Issue 35	Issue 35	Issue 35
Date of grant	09 Dec 09	09 Dec 09	09 Dec 09
Type of award	Normal Option	Performance	Performance
Share price at grant date	ZAR32.85	US\$4.34	US\$4.34
Strike price of share	ZAR33.85	–	–
Vesting period	4 years	4 years	4 years
Vesting conditions	Proportionately over time	Market related – relative to peers	Cash Flow Return on Net Assets relative to peers
Life of options	8 years	N/A	N/A
Market related vesting conditions	N/A	Yes	No
Percentage expected to vest	N/A	41.0%	100%
Number of shares offered	2,889,010	1,282,650	1,282,650
Volatility	44.1%	54.9%	N/A
Risk free discount rate	7.3%	2.1% (US yield)	N/A
Expected dividend yield	2.5%	1.7%	1.7%
Expected percentage of issuance	95%	95%	95%
Model used to value	Modified binomial	Monte-carlo	Market price
Fair value of option	ZAR13.51	ZAR22.25	ZAR24.64

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:

	2010	2009
	Number of options/ shares	Number of options/ shares
At beginning of year	968,000	339,000
Share options, Restricted shares and Performance shares granted for rights issue	–	406,800
Share options, Restricted shares and Performance shares granted	315,000	242,000
Share options and Allocation shares exercised or declined	–	(16,500)
Shares removed on resignation, retirement of directors or forfeited	(195,800)	(3,300)
At end of year	1,087,200	968,000

28. Share-based payments (continued)

The following table sets forth certain information with respect to the 1,087,200 Share options and Performance shares granted by Sappi to executive directors:

Issue date	Number of options/shares**	Expiry date	Exercise price (ZAR)**
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
02 July 2007*	220,000	02 July 2011	–
12 December 2007*	198,000	12 December 2011	–
22 December 2008*	242,000	13 December 2012	–
09 December 2009*	315,000	09 December 2013	–
	1,087,200		

* 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.

Broad-based Black Economic Empowerment transaction (BBBEE Transaction)

In June 2010, Sappi completed a Broad-based Black Economic Empowerment (“BBBEE”) transaction (the “BBBEE Transaction”). The South African government has through the years promulgated various pieces of legislation to increase the participation of Historically Disadvantaged South Africans (“HDSAs”) in the South African economy and, through BEE legislation, formalised the country’s approach in this regard.

In April 2006, Sappi announced a BEE transaction (the “Plantation BEE Transaction”) with Lereko Property Company (Proprietary) Limited (“LPC”), a BEE company set up to house a consortium consisting of Lereko Investments (Proprietary) Limited (“Lereko Investments”), AMB Capital Limited (“AMB Capital”) and Malibongwe Women Development Trust (“Malibongwe”) (collectively, the “Strategic Partners”), pursuant to which LPC acquired a 25% undivided share in Sappi’s South African plantation land, excluding the value of the plantations, owned by Sappi and/or Sappi Manufacturing, coupled with the right to develop the land not utilised for forestry operations. Sappi Manufacturing retained the right of use over all the land under the underlying arrangements. As part of the Plantation BEE Transaction, 30% of LPC was set aside for the benefit of certain categories of Sappi’s South African employees who did not participate in any Company share incentive scheme. The balance of the shareholding in LPC was to be held by Lereko Investments (46.19%), Malibongwe (10.14%) and AMB Capital (13.67%).

However, the Plantation BEE Transaction did not meet Sappi’s undertakings under the Forestry Charter gazetted in June 2009 (which sets the objectives and principles for BEE in the forestry industry and includes the BEE scorecard and targets to be applied, as well as certain undertakings by government and South African forestry companies to assist the forestry industry to achieve its BEE targets). Accordingly, Sappi decided to unwind the Plantation BEE Transaction, which resided at a South African subsidiary level and to implement the BBBEE Transaction, a new sustainable transaction of equivalent value at a holding company level using its listed securities.

28. Share-based payments (continued)

Broad-based Black Economic Empowerment transaction (BBBEE Transaction) (continued)

Sappi views BBBEE as a key requirement for sustainable growth and social development in South Africa. The BBBEE Transaction enabled Sappi to meet its BEE targets in respect of BEE equity ownership. The BBBEE Transaction comprised two distinct parts. The first part entailed the issue of ordinary shares to the Strategic Partners and the Sappi employees who were to be participants in the Plantation BEE Transaction, as part of the unwinding of the rights from that transaction. The second part consisted of the creation and issuance of a new class of unlisted equity shares referred to as "A" ordinary shares. The "A" ordinary shares were issued at their par value of ZAR1 to a trust for the benefit of certain Sappi employees including HDSAs (the "ESOP Trust"), a trust for the benefit of certain Sappi managers that are HDSAs (the "MSOP Trust") and a trust for the benefit of communities surrounding the major mills and/or plantations operated by Sappi in South Africa (the "Sappi Foundation Trust", and together with the ESOP Trust and the MSOP Trust, the "BBBEE Trusts"). The issuance of the "A" ordinary shares was financed through notional non-interest bearing loans extended by Sappi to the BBBEE Trusts. The BBBEE Transaction resulted in the BBBEE Trusts and the Strategic Partners holding, collectively, ordinary and "A" ordinary shares equivalent to 4.5% of the share capital of Sappi Limited, which corresponds to an effective 30% interest in Sappi's South African business under the Forestry Charter and BEE legislation in general.

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

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

The total value of the transaction, based on the 30 day volume weighted average share price (VWAP) of Sappi as at Friday, 5 February 2010 of ZAR33.50, amounted to ZAR814 million and required the issue of 24.3 million shares, made up of 4.3 million ordinary shares and 20.0 million of a new class of equity shares, "A" ordinary shares.

Ordinary shares

The strategic partners agreed to transfer the value created through their shareholding in LPC in the Plantation BEE Transaction into fully paid up ordinary shares. The value created through the entitlement of 30% of LPC which was set aside for the benefit of certain categories of Sappi's South African Employees was converted into fully paid up ordinary shares and are held in the ESOP Trust.

After the completion of the above transactions, Sappi became the sole shareholder of LPC and regained 100% ownership of Sappi's South African plantation land.

The fair value attributable to the strategic partners and certain categories of South African employees on the unwinding of the Plantation BEE Transaction was determined by reference to the fair value of LPC's 25% undivided share in Sappi South Africa's plantation land. The value attributable to the strategic partners for their shareholding in LPC was ZAR102 million and the portion attributable to certain categories of South African employees, which is held through the ESOP Trust, for their 30% entitlement of LPC was ZAR43 million.

These values resulted in the issue of the following number of ordinary shares to the Strategic Partners and the ESOP Trust based on Sappi's 30 day VWAP as at Friday, 5 February 2010 (being ZAR33.50):

Entity	Ordinary share allocation	Value of shares issued ZAR million	Value of shares* issued US\$ million
Strategic partners:			
Lereko Investments	1,971,693	66	9
Malibongwe	432,842	15	2
AMB	643,221	21	3
	3,047,756	102	14
Employees (through the ESOP Trust)	1,280,597	43	5
Total	4,328,353	145	19

* The group has recognised the issue of ordinary shares as payment to the Strategic Partners and certain categories of South African employees on the unwinding of the Plantation BEE Transaction as a share-based payment expense.

28. Share-based payments (continued)

“A” Ordinary shares

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

Entity	Number of “A” Ordinary Shares	Value of shares issued ZAR million	Value of shares* issued US\$ million
ESOP	13,889,195	465	66
MSOP	3,642,969	122	17
Sappi Foundation	2,429,312	82	12
Total	19,961,476	669	95

* The group recognised a share-based payment expense of US\$4 million that related to the “A” Ordinary shares that were awarded to the Sappi Foundation, MSOP and ESOP trusts.

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

Base price for hurdle rate price	32.50
Share price hurdle rate	9.1%
Hurdle rate price	75.34
Dividend yield (unadjusted)	3.0%
Volatility	40.0%
Dividend payout	Straight-line vesting
Straight-line dividend payout rate	50.0%
Employee turnover (annual)	7.8%
Management turnover (annual)	11.3%
Model used to value	Black Scholes Model

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

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

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

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

29. 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 (insofar as it relates to deposits of cash, cash equivalents and financial investments).

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

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

a) Market risk

Interest rate risk

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

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

Interest-bearing borrowings

The following table provides information about Sappi's current and non-current borrowings that are sensitive to changes in interest rates. The table presents cash flows by expected maturity dates and the estimated fair value of borrowings. The average fixed effective interest rates presented are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward looking average variable effective interest rates for the financial years ended September 2010 and thereafter are based on the yield curves for each respective currency as published by Reuters on 26 September 2010. The information is presented in US\$, which is the group's reporting currency.

29. Financial instruments (continued)

(US\$ equivalent in millions)	Expected maturity date						Total carrying value	2010 Fair value	2009 Carrying value	2009 Fair value
	2011	2012	2013	2014	2015	2016+				
US Dollar										
Fixed rate debt	-	513	-	280	-	222	1,015	1,133	1,214	1,281
Average interest rate (%)	-	6.58	-	12.85	-	7.47	8.50		8.12	
Variable rate debt ⁽¹⁾	136	-	-	-	-	-	136	136	128	128
Average interest rate (%)	2.31	-	-	-	-	-	2.31		2.08	
Euro										
Fixed rate debt	80	126	126	533	-	3	868	1,066	1,048	1,290
Average interest rate (%)	7.79	8.52	8.53	12.37	2.17	2.04	10.80		11.09	
Variable rate debt ⁽²⁾	411	22	20	-	-	-	453	453	400	399
Average interest rate (%)	2.61	4.00	4.00	-	-	-	2.74		2.89	
Rand										
Fixed rate debt	64	231	205	29	7	-	536	556	536	524
Average interest rate (%)	9.19	11.11	9.76	11.00	11.67	-	10.36		10.30	
Variable rate debt ⁽³⁾	-	-	-	-	-	-	-	-	1	1
Average interest rate (%)	-	-	-	-	-	-	-		10.55	
Total										
Fixed rate debt	144	870	331	842	7	225	2,419	2,755	2,798	3,095
Average interest rate (%)	8.41	8.06	9.29	12.48	11.17	7.40	9.74		9.65	
Variable rate debt	547	22	20	-	-	-	589	589	529	528
Average interest rate (%)	2.53	4.00	-	-	-	-	2.64		2.72	
Fixed and variable	691	892	351	842	7	225	3,008	3,344	3,327	3,623
Current portion							691	732	601	602
Long term portion							2,317	2,612	2,726	3,021
Total interest-bearing borrowings (refer note 20)							3,008	3,344	3,327	3,623

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

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

(3) The Rand floating interest rates are predominately based on the Johannesburg Inter-bank Agreed rate (JIBAR).

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.

The range of interest rates in respect of all non-current borrowings comprising both fixed and floating rate obligations, is between 4% and 12.48% (depending on currency).

At September 2010, 80% of Sappi's borrowings were at fixed rates of interest, and 20% were at floating rates. Fixed rates of interest are based on contract rates.

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

29. 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 other comprehensive income, depending on certain hedge designations carried out by the group in a documented hedging strategy.

In August 2009, Sappi entered into a new fixed for fixed interest and currency swap, which has been designated as a cash flow hedge of future cash flows linked to fixed rate debt denominated in foreign currency. The swap corresponds to the underlying US\$300 million Senior Secured Notes due 2014. The swap converts all future US\$ cash flows to EUR.

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

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 2010 the effectiveness tests for the above mentioned hedges showed a 100% hedge effectiveness. The swaps showed a total positive fair value of US\$19 million, the positive fair value of the currency leg of the swap of US\$16 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 positive fair value of the interest leg of the swap of US\$3 million was deferred in equity.

The interest rate and currency swap contract converting US\$ cash flows into GBP and fixed US\$ interest rates into fixed GBP interest rates matured on 31 December 2009. This derivative was not designated as a hedge in a documented hedge strategy.

See details of the swap instruments in the table below:

US\$ million	Interest rate	Maturity date	2010		2009	
			Nominal value	Fair value* favourable	Nominal value	Fair value* favourable (unfavourable)
IRCS	US Dollar 6.30% into GBP 6.66%	December 2009	–	–	117	10
IRCS	US Dollar 12.00% into EUR 12.19%	August 2014	300	19	300	(24)
				19		(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.

29. 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\$ million of a change in fair value of interest rate derivative instruments due to changes in the interest rate basis points (bps). The sensitivity analysis of floating rate debt, is carried out separately (see below).

IRCS converting fixed US\$ rates into EUR fixed rates:

Scenario name	Base value	Scenario value	Change	% Change
- 50bps EURIBOR-6M	(403.6)	(410.3)	(6.7)	(1.7)
+ 50 bps EURIBOR-6M	(403.6)	(397.0)	6.6	1.6
Total			(0.1)	

Scenario name	Base value	Scenario value	Change	% Change
- 50 bps USD-LIBOR-3M	422.3	429.4	7.1	1.7
+ 50 bps USD-LIBOR-3M	422.3	415.4	(6.9)	(1.6)
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 the end of fiscal 2010, the net fair value of the derivative amounted to a positive amount of US\$18.7 million (Gross "Base Values" in the table above: negative US\$403.6 million for the EUR leg and US\$422.3 million for the US\$ leg) of which a positive amount of US\$15.4 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 amounts to a positive value of US\$3.3 million and has been recorded in other comprehensive income. This value will reduce to zero at maturity.

For the period outstanding, the table above shows the impact that a shift of 50 bps on the LIBOR/EURIBOR curve would have on the fair value. A decrease in the US\$ 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\$13.6 million for a shift of 50 bps.

The largest shift experienced over the last twelve-month period was a negative net shift of 0.84%, due to a decrease in US\$ rates of 0.81% and a decrease in the EUR rates of 1.65%. Applied to the fair value as at the end of fiscal 2010, this would have resulted in a negative change in fair value of US\$11.1 million.

Scenario name	Base value	Scenario value	Change	% Change
- 81 bps USD-LIBOR-3M	422.3	433.8	11.5	2.7
- 165 bps EURIBOR-6M	(403.6)	(426.2)	(22.6)	(5.6)
Total			(11.1)	

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.

29. Financial instruments (continued)

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

The following table shows the sensitivity of securitisation debt to changes in the group's own credit rating. The 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:

Securitisation in Europe and Hong Kong

US\$ million	Notional	Impact on income statement of a one notch downgrade below BB-credit rating
Europe	311	5
Hong Kong	75	1
Sub-total	386	6
Impact calculated on total portfolio amounts to	1.55%	

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.

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.

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

US\$ million	Notional	Impact on income statement of downgrade below BB "secured" credit rating
Commitment fee on unused revolving credit facility	282	1
Interest on utilised bank syndicated loan	432	3
Interest on utilised bank loan	34	–
Sub-total	748	4
Impact calculated on total portfolio amounts to	0.53%	

Sensitivity analysis: interest rate risk of floating rate debt

US\$ million	Total	Fixed rate	Floating rate	Impact on income statement of 50 bps interest
Total debt	3,008	2,419	589	3
Ratio fixed/floating to total debt		80%	20%	

The floating rate debt represents 20% of total debt. If interest rates were to increase (decrease) by 50 bps the finance cost on floating rate debt would increase (decrease) by US\$3 million.

29. 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 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.

2010

US\$ million	Total	Total in scope*	USD	EUR	ZAR	GBP	Other
Financial assets							
Other non-current assets	105	38	2	13	22	–	1
Non-current derivative financial assets**	19	19	422	(403)	–	–	–
Trade and other receivables	889	777	296	366	24	56	35
Current derivative financial assets**	15	15	15	–	–	–	–
Cash and cash equivalents	792	792	337	320	128	1	6
		1,641	1,072	296	174	57	42
Financial liabilities							
Non-current interest-bearing borrowings	2,317	2,317	1,015	830	472	–	–
Current interest-bearing borrowings	691	691	136	490	65	–	–
Overdraft	5	5	4	1	–	–	–
Current derivative financial liabilities**	3	3	(2)	(1)	6	–	–
Trade and other payables	1,270	991	221	436	286	18	30
		4,007	1,374	1,756	829	18	30
Foreign exchange gap		(2,366)	(302)	(1,460)	(655)	39	12

29. Financial instruments (continued)

Currency risk analysis (continued)

2009

US\$ million	Total	Total in scope*	USD	EUR	ZAR	GBP	Other
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

* This refers to items that are within the scope of IAS 39.

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

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

The group's foreign currency forward exchange contracts at September 2010 are detailed below:

US\$ million		2010		2009	
		Contract amount (Notional amount)	Fair value (unfavourable) favourable	Contract amount (Notional amount)	Fair value (unfavourable) favourable
Foreign currency					
Bought:	US Dollar	7	–	473	(13)
	Euro	43	–	213	(1)
	ZAR	–	–	–	–
Sold:	US Dollar	(232)	15	(132)	9
	Euro	(98)	(2)	(16)	–
	ZAR	(5)	–	(1)	–
		(285)	13	537	(5)

29. Financial instruments (continued)

The fair value of foreign currency contracts has been computed by the group based upon the market data valid at the end of fiscal 2010.

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 January 2011.

As at the year end there was an open exposure of US\$14.4 million which has since been hedged.

Sensitivity analysis – (loss) gain

Base currency (US\$ million)	Exposure	+10 %	-10 %
EUR	(15.8)	(1.4)	1.8
GBP	5.8	0.5	(0.6)
CHF	11.6	1.1	(1.3)
SEK	0.8	0.1	(0.1)
JPY	0.2	–	–
ZAR	(2.5)	(0.3)	0.3
Other currencies	(14.5)	(1.3)	1.5
Total	(14.4)	(1.3)	1.6

Based on the exposure as at the end of fiscal 2010, 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\$1.3 million (increase of 10%) or a gain of US\$1.6 million (decrease of 10%).

During 2010, we have contracted non-deliverable average rate foreign exchange transactions for a total notional value of US\$65 million which were used as an overlay hedge of export sales. Since these contracts have all matured before the end of fiscal 2010, these constitute non-representative positions. The total impact on profit or loss amounts to a gain of US\$2.4 million.

Commodity price risk

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

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

During 2010, we have contracted two pulp swaps in Europe for a limited volume of pulp (6,000 tons for each swap). Sappi Fine Paper Europe ("SFPE") buys pulp from external suppliers at a variable price consisting of a reference price linked to the Pix Pulp index which is adjusted with a premium depending on the pulp market conditions. As SFPE expected pulp prices to increase, it was decided to fix the pulp price for one year by entering into a pulp swap whereby the variable price was swapped for an annual fixed price.

29. Financial instruments (continued)

The group's pulp swap contracts at the end of fiscal 2010 are detailed below:

US\$ million	Base currency	2010		2009	
		Contract amount (notional amount)	Fair value favourable (unfavourable)	Contract amount (notional amount)	Fair value (unfavourable) favourable
Bleached Hardwood Kraft Pulp (BHKP) bought	US Dollar	1	0.2	–	–
Northern Bleached Softwood Kraft (NBSK) bought	Euro	2	(0.1)	–	–
		3	0.1	–	–

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.

On average 60% of our trade receivables are credit insured.

29. Financial instruments (continued)

Hedge accounting

1. Fair value hedges

Until June 2009, the group had fair value hedges which qualified for hedge accounting. As the hedging instrument was sold in 2009 hedge accounting was ceased.

The result of the sale of the hedging instrument was booked to the income statement in 2009.

The final life-to-date fair value adjustment of the underlying bonds on the date of the sale of the swaps is amortised over the life of the initial hedge designation period and amounted to US\$46 million. In the course of 2010, US\$136 million of the underlying bonds have been early redeemed and the corresponding amortisation has been booked immediately into the income statement.

In consequence the impact on the profit and loss account will be as follows:

Fiscal period	US\$ million
4th quarter 2009	1
2010	21
2011	12
2012	12
Total	46

As at September 2010, 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:

	2010	2009
	at average rate US\$ million	at average rate US\$ million
Favourable (unfavourable)		
Fair value hedges		
Net profit or loss 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	21	–
Residual ineffectiveness	–	(9)
– gain on hedging instruments	–	41
– loss on hedged item	–	(50)
Total	21	(27)

29. Financial instruments (continued)

2. Cash flow hedges

In August 2009, Sappi entered into a fixed for fixed interest and currency swap, which has been designated as a cash flow hedge of future cash flows linked to fixed rate debt denominated in foreign currency. The swap corresponds to the underlying US\$300 million Senior Secured Notes due 2014. The swap converts all future US\$ cash flows into EUR.

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

Sappi uses 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 within the range of 80% to 125%. If however, both changes in fair value are less than 1% of the notional amount of the IRCS, these changes in fair value are considered to be both immaterial and the hedge effectiveness test is met.

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

3. Net investment hedges

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

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

29. Financial instruments (continued)

3. Net investment hedges (continued)

Ineffectiveness can only occur if the net investment carrying value of the foreign operation would fall below the designated amount of the hedging instruments. The net investment value of the foreign operation is validated each quarter. Ineffective gains and losses are booked directly to the income statement. As at the end of fiscal 2010, the hedge was 100% effective.

	2010		2009	
	Hedged notional	Foreign Exchange result deferred in other comprehensive income	Hedged notional	Foreign Exchange result deferred in other comprehensive income
US\$ million – favourable				
Bond 2012	227	2	–	–
Bond 2032	30	–	–	–
	257	2	–	–
Net investment value of Sappi Fine Paper North America	310			

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.

29. Financial instruments (continued)

Liquidity risk management

2010

US\$ million	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	38	38	13	1	1	6	17	38
Non-current derivative financial assets	19	19	–	1	1	17	–	19
Receive leg			18	18	36	372	–	444
Pay leg			(18)	(17)	(35)	(355)	–	(425)
Trade and other receivables	777	777	776	–	1	–	–	777
Current derivative financial assets	15	15	17	–	–	–	–	17
Receive leg			267	–	–	–	–	267
Pay leg			(250)	–	–	–	–	(250)
Cash and cash equivalents	792	792	792	–	–	–	–	792
Financial liabilities			1,598	2	3	23	17	1,643
Interest-bearing borrowings	2,317	2,612	71	71	1,084	1,571	507	3,304
Non-current derivative financial liabilities	–	–	–	–	–	–	–	–
Pay leg			3	3	–	–	–	6
Receive leg			(3)	(3)	–	–	–	(6)
Interest-bearing borrowings	691	732	571	211	–	–	–	782
Overdraft	5	5	5	–	–	–	–	5
Current derivative financial liabilities	3	3	2	1	–	–	–	3
Pay leg			130	5	–	–	–	135
Receive leg			(128)	(4)	–	–	–	(132)
Trade and other payables	991	991	951	1	–	–	–	952
			1,600	284	1,084	1,571	507	5,046
Liquidity gap			(2)	(282)	(1,081)	(1,548)	(490)	(3,403)

29. Financial instruments (continued)

Liquidity risk management

2009

US\$ million	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	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)

29. Financial instruments (continued)

Derivative financial instruments with maturity profile

The following tables indicate the different types of derivative financial instruments for 2010 and 2009, included within the various categories on the face of the balance sheet.

Classes of derivative financial instruments	Total	Fair value hedge	Cash flow hedge	Maturity analysis*				
				Undiscounted cash flows				
				<6M	>6M <1Y	>1Y <2Y	>2Y <5Y	>5Y
September 2010								
ASSETS								
Fair value of derivatives by risk factor								
Interest rate risk								
Interest rate swaps	19	-	19	-	1	1	17	-
receiving leg	422	-	422	18	18	36	372	-
paying leg	(403)	-	(403)	(18)	(17)	(35)	(355)	-
Foreign exchange risk								
FX forward contracts	15	-	-	17	-	-	-	-
receiving leg	265	-	-	267	-	-	-	-
paying leg	(250)	-	-	(250)	-	-	-	-
LIABILITIES								
Fair value of derivatives by risk factor								
Interest rate risk								
Interest rate swaps	-	-	-	-	-	-	-	-
paying leg	6	-	-	3	3	-	-	-
receiving leg	(6)	-	-	(3)	(3)	-	-	-
Foreign exchange risk								
FX forward contracts	3	-	-	2	1	-	-	-
paying leg	135	-	-	130	5	-	-	-
receiving leg	(132)	-	-	(128)	(4)	-	-	-

* The reported maturity analysis is calculated on an undiscounted basis.

29. Financial instruments (continued)

Classes of derivative 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)	-	-	-	-

* The reported maturity analysis is calculated on an undiscounted basis.

29. Financial instruments (continued)

Fair values

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

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

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

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

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

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

29. Financial instruments (continued)

Classes of financial instruments	Total balance	Out of scope IAS 39*	Categories according to IAS 39				Total in scope	Fair value
			Held for trading	Loans and receivables	Held to maturity	Available-for-sale		
September 2010								
NON-CURRENT ASSETS								
Other non-current assets	105	67	–	15	–	23	38	38
Loans to associates (minority interests)		–	–	4	–	–	4	4
AFS – Club debentures		–	–	–	–	2	2	2
AFS – Investment funds		–	–	2	–	19	21	21
Other assets		67	–	9	–	2	11	11
Derivative financial instruments	19	–	19	–	–	–	19	19
CURRENT ASSETS								
Trade and other receivables	888	111	–	773	–	4	777	777
Trade receivables		–	–	740	–	–	740	740
Other accounts receivable – current		111	–	33	–	4	37	37
Derivative financial instruments	15	–	15	–	–	–	15	15
Cash (and cash equivalents)	792	–	–	792	–	–	792	792
Overnight deposits and current accounts (including petty cash)		–	–	115	–	–	115	115
Time deposits (<3 months)		–	–	676	–	–	676	676
Money market funds		–	–	1	–	–	1	1

* This refers to items that are outside the scope of IAS 39.

29. Financial instruments (continued)

Classes of financial instruments	Total balance	Out of scope IAS 39*	Categories according to IAS 39		Total in scope	Fair value
			Held for trading	Other financial liabilities		
September 2010						
NON-CURRENT LIABILITIES						
Interest-bearing borrowings	2,317	–	–	2,317	2,317	2,612
Bank loans payable (>1 year) – including syndicated loans		–	–	103	103	107
Bonds		–	–	1,796	1,796	2,052
Financial leasing liabilities		–	–	39	39	34
Secured loans		–	–	379	379	419
CURRENT LIABILITIES						
Interest-bearing borrowings	691	–	–	691	691	732
Bank loans payable (<1 year) – including syndicated loans		–	–	96	96	96
Current portion of other non-current loans payable		–	–	62	62	62
Financial leasing liabilities		–	–	13	13	13
Secured loans (<1 year)		–	–	148	148	182
Securitisation debt		–	–	372	372	379
Overdraft						
Bank overdrafts (<3 months)	5	–	–	5	5	5
Derivative financial instruments						
	3	–	3	–	3	3
Trade and other payables						
	1,271	280	–	991	991	991
Accruals		278	–	249	249	249
Accounts payable to associates		–	–	1	1	1
Other accounts payable – current		2	–	741	741	741

* This refers to items that are outside the scope of IAS 39.

29. Financial instruments (continued)

Classes of financial instruments	Total balance	Out of scope IAS 39*	Categories according to IAS 39				Total in scope	Fair value
			Held for trading	Loans and receivables	Held to maturity	Available-for-sale		
September 2009								
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 (including petty cash)		–	–	99	–	–	99	99
Time deposits (<3 months)		–	–	628	–	–	628	628
Money market funds		–	–	43	–	–	43	43

* This refers to items that are outside the scope of IAS 39.

29. Financial instruments (continued)

Classes of financial instruments	Total balance	Out of scope IAS 39*	Categories according to IAS 39		Total in scope	Fair value
			Held for trading	Other financial liabilities		
September 2009						
NON-CURRENT LIABILITIES						
Interest-bearing borrowings	2,726	–	–	2,726	2,726	3,021
Bank loans payable (>1 year) – including 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) – including 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

* This refers to items that are outside the scope of IAS 39.

29. Financial instruments (continued)

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

US\$ million	2010				2009			
	Total fair value	Fair value hierarchy			Total fair value	Fair value hierarchy		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
NON-CURRENT ASSETS								
Other non-current assets								
AFS – Club debentures	2	2	–	–	2	2	–	–
AFS – Investment funds	19	19	–	–	19	19	–	–
Derivative financial instruments	19	–	19	–	10	–	10	–
CURRENT ASSETS								
Derivative financial instruments	15	–	15	–	10	–	10	–
	55	21	34	–	41	21	20	–
NON-CURRENT LIABILITIES								
Derivative financial instruments	–	–	–	–	24	–	24	–
CURRENT LIABILITIES								
Derivative financial instruments	3	–	3	–	14	–	14	–
	3	–	3	–	38	–	38	–

30. Related party transactions

Transactions between Sappi Limited company and its subsidiaries, which are related parties of the company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below:

US\$ million	Sale of goods			Purchases of goods			Amounts owed by related parties		Amounts owed to related parties	
	2010	2009	2008	2010	2009	2008	2010	2009	2010	2009
Joint ventures:										
– Jiangxi Chenming Paper Company Limited	1.1	2.0	4.0	0.6	1.5	2.6	–	–	0.9	3.7
– Sapin S.A.	0.5	0.4	0.3	22.1	21.3	30.9	0.1	–	0.6	0.9
– VOF Warmtekracht	10.8	38.1	44.2	7.1	25.0	32.8	–	–	–	–
– Umkomaas Lignin (Pty) Limited	5.6	0.9	1.1	0.3	–	–	1.8	0.9	–	–
– Papierholz Austria GmbH	–	–	–	90.5	68.5	92.7	–	–	8.1	6.1
– Energie Biberist AG	–	–	–	38.6	–	–	–	–	3.8	–
	18.0	41.4	49.6	159.2	116.3	159.0	1.9	0.9	13.4	10.7

A description concerning the joint venture, Timber IV, is discussed in note 13.

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

Shareholders

The company's shares are widely held by shareholders across the world. The principal shareholders of the company are disclosed in this annual report on pages 58 and 59.

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

30. Related party transactions (continued)

Broad-based Black Economic Empowerment (BBBEE) Transaction

Refer to notes 17 and 28 for details of our BBBEE transaction.

Key management personnel

Compensation for key management was as follows:

US\$ million	Total excluding directors			Total including directors		
	2010	2009	2008	2010	2009	2008
Short-term benefits	2.8	2.9	2.9	3.9	4.3	4.3
Post-employment benefits	0.5	0.7	0.4	0.8	0.9	0.7
Other long-term benefits	–	–	–	–	–	–
Share-based payments	–	–	–	–	–	–
	3.3	3.6	3.3	4.7	5.2	5.0

The number of key management personnel included above for 2010 was nine (2009: nine; 2008: ten).

31. Events after balance sheet date

No significant changes have occurred in our financial position since September 26, 2010.

32. 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 such as carbon dioxide (CO₂) 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.

North America

Sappi Fine Paper North America is subject to stringent environmental laws in the United States. These laws include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and their respective state counterparts and implementing regulations. On 29 June 2009, the Commissioner of the Department of Inland Fisheries and Wildlife, State of Maine (the "Commissioner"), issued a decision requiring Sappi Fine Paper North America to install a fish passage at the Cumberland Mills dam associated with the Westbrook Mill, the most downriver dam on the Presumpscot River. On 12 May 2010, the Commissioner accepted a conceptual design for the fish passage jointly proposed by the state, several non-governmental organisations and Sappi Fine Paper North America, and final detailed design drawings were submitted to the Commissioner on 24 September 2010. A final order approving the design was issued to Sappi Fine Paper North America on 05 October 2010. Pursuant to the order, construction of the fish passage must be completed by 01 May 2013. Costs associated with construction and relating engineering of this fish passage are estimated to be approximately US\$4 million to US\$5 million. Fish passage at the next dam upstream, the Saccarappa dam, must be operational two years after the Cumberland Mills dam fishway is completed, or during the spring of 2015. Installation of the Cumberland Mills dam fishway may also trigger, over a period of approximately ten years, the obligation to install fishways for at least some of Sappi Fine Paper North America's other four upstream dams as well, to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of all fishways associated with Sappi's dams along the Presumpscot River is estimated to be in the range of approximately US\$18 million to US\$28 million, which includes costs expected to be incurred in the next several years for the fish passage on the Cumberland Mills and Saccarappa dams as well as estimated costs for upstream fishways which may be incurred in the future. Because construction of additional fishways depends on several future contingencies, including the results of data gathering on fish populations in the river, we do not know the precise timing for incurring related future costs, assuming such obligations are triggered.

32. Environmental matters (continued)

We closely monitor state, regional and Federal GHG initiatives and other regulatory developments in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol, and has not yet adopted a Federal programme for regulating GHG emissions, Congress is considering comprehensive Federal legislation regarding climate change, and various regional initiatives regarding emissions associated with climate change are in effect or proposed. In addition, the U.S. Environmental Protection Agency has finalised or proposed several rules relating to emissions reporting and emissions reductions, including a proposed rule known as the "Boiler MACT" which would establish new standards for emissions of hazardous air pollutants from commercial and industrial boilers. Significant capital expenditures could be required for emissions control equipment at our mills in order to comply with the Boiler MACT and/or other proposed rules regulating GHGs. The nature, scope and timing of any proposed legislation, including climate change legislation, is highly uncertain and, currently, we do not know what precise effect, if any, such legislation will have on our financial condition and operations.

Europe

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 (IPPC) regulates air emissions, water discharges and defines permit requirements and best available techniques (BAT) for pollution control. The revised BAT reference documents (BREFs) are expected to be finalised in 2011.
- The national European laws regulate the waste disposal framework and place restrictions on land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, reuse and recycling (material or thermal) are the preferred waste management methods. In Austria, Germany, Switzerland 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, however, apply to a number of raw materials that we source. We will also register some intermediate substances in our pulp production processes. We expect this registration to be finalised by November 2010.
- 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.

South Africa

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

The Minister of Water and Environmental Affairs considered it necessary to strengthen enforcement of legislation by the Environmental Management Inspectors (EMIs) in her department. The EMIs prioritised various sectors of industry and inspected those sectors in the course of the past four years. In 2008, 2009 and 2010, the EMIs focused attention on the pulp and paper sector, signalling more stringent enforcement for Sappi mills.

In August 2008, the EMIs conducted a comprehensive inspection at our Ngodwana Mill. No major findings were raised. The EMIs inspected our Enstra mill during October 2009 and carried out a subsequent follow up visit in August 2010. Following that visit there has been correspondence with the Department of Environmental Affairs regarding some aspects of Enstra's compliance with standards for atmospheric emissions; that communication is ongoing. The EMIs inspected our Tugela mill in October 2010. No oral findings were raised during the visit; a written report is expected within the next two months.

The primary South African environmental laws affecting our operations are:

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

32. Environmental matters (continued)

- The National Environmental Management Act. This law provides for the integration of environmental considerations into all stages of any development process. The Act includes a number of significant principles, such as private prosecution of companies in the interest of the protection of the environment and the establishment of aggressive waste reduction goals.
- The National Environmental Management Act: Air Quality Act was promulgated in the beginning of 2005 and has now replaced the 1965 Atmospheric Pollution Prevention Act. The new Act will impose more stringent compliance standards on our operations over a period of five to ten years.
- The National Environmental Management Act: Waste Act was enacted on 01 July 2009. The Waste Act regulates the use, re-use, recycling and disposal of waste and regulates waste management by way of a licensing system.
- The Kyoto Protocol. South Africa has also ratified the Kyoto Protocol. We are investigating Clean Development Mechanism projects, as defined in the Kyoto Protocol, at South African mills.

The requirements under these statutes, predominantly with respect to air emissions from our mills, will result in additional capital and operating expenditures, some of which may be significant. Our mills are in the process to receive air registration certificates from the authorities which will clarify the impact this will have on our business. Legislation is, however, making provision to phase in new standards; the impact on our mills is therefore expected to be distributed over the next five to ten years. We are in frequent contact with regulatory authorities during the phasing in of these requirements, in an attempt to manage the transition period.

33. Acquisition

On 31 December 2008, Sappi acquired M-real's coated graphic paper business for an enterprise value of EUR750 million (approximately US\$1.1 billion). The final purchase consideration was reduced by assumed debt and other adjustments (including working capital) amounting to EUR102 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.

During fiscal 2009, 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 fiscal year end. Included in the net profit of the acquired business for the fiscal 2009 year, is the US\$41 million discount received on the settlement of the vendor loan notes.

Details of net assets acquired and goodwill are as follows:

	EURO 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
Fair value of net identifiable assets acquired (see below)	648	911
Goodwill	-	-

* 11 159 702 Sappi shares were issued to M-real as partial payment of the acquisition price. The fair value of US\$45 million (EUR32 million) was determined using Sappi's published market price at the date of exchange.

33. Acquisition (continued)

The assets and liabilities arising from the acquisition are as follows:

	EURO million	EURO million	US\$ million	US\$ million
	Acquiree's carrying amount	Fair value	Acquiree's carrying amount	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:

	EURO 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

The Sappi logo is displayed in a bold, blue, lowercase sans-serif font. It is positioned in the upper left corner of the page, within a white rectangular area. The background of the entire page is a close-up, low-angle photograph of a large industrial machine, likely a paper mill, featuring polished metal rollers and complex machinery. The lighting is dramatic, with strong highlights and deep shadows, creating a sense of depth and industrial scale.

sappi

Condensed
company financial
statements

Company auditor's report

for the year ended September 2010

Independent auditor's report to the members of Sappi limited

The condensed annual financial statements of Sappi Limited set out on pages 184 to 188 have been derived from the annual financial statements of the company for the year ended September 2010. We have audited the annual financial statements in accordance with International Standards on Auditing. In our report dated 03 December 2010, we expressed an unqualified opinion on the annual financial statements from which the condensed financial statements were derived.

Opinion

In our opinion, the accompanying condensed financial statements are consistent, in all material respects, with the annual financial statements from which they were derived.

For a better understanding of the scope of our audit and the company's financial position, the results of its operations and cash flows for the period, the condensed financial statements should be read in conjunction with our audit report and the annual financial statements from which they were derived.

Deloitte & Touche

Per M J Comber

Partner

03 December 2010

Deloitte & Touche – Registered Auditors
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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 M J Comber Deputy Chairman of the Board.

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

Condensed Sappi Limited company income statements

for the year ended September 2010

ZAR million	Note	2010	2009
Operating loss	1	(34)	(38)
Income from subsidiaries	2	22	–
Net finance income	3	7	21
Loss before taxation		(5)	(17)
Taxation – Current		(3)	25
– Deferred		(2)	19
Loss for the year		–	(61)

Condensed Sappi Limited company statements of comprehensive income

for the year ended September 2010

ZAR million	2010	2009
Loss for the year	–	(61)
Other comprehensive income, net of tax	–	–
Total comprehensive income (loss) for the year	–	(61)

Condensed Sappi Limited company balance sheets

at September 2010

ZAR million		2010	2009
Assets			
Non-current assets			
		20,697	20,424
Property, plant and equipment		1	2
Investments in subsidiaries	(Annexure A)	18,177	18,142
Inter-company receivables	(Annexure A)	2,453	2,199
Loan to Executive Share Purchase Trust		64	81
Deferred tax asset		2	–
Current assets			
		46	42
Trade and other receivables		2	8
Inter-company receivables	(Annexure A)	36	34
Taxation receivable		8	–
Total assets			
		20,743	20,466
Equity and liabilities			
Shareholders' equity			
		20,578	20,334
Ordinary share capital		561	537
Share premium		12,183	12,062
Non-distributable reserves		432	333
Retained earnings		7,402	7,402
Non-current liabilities			
Inter-company payables	(Annexure A)	66	31
Current liabilities			
		99	101
Trade and other payables		51	44
Inter-company payables	(Annexure A)	48	42
Taxation payable		–	15
Total equity and liabilities			
		20,743	20,466

Condensed Sappi Limited company statements of changes in equity for the year ended September 2010

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 2008	239.1	239	6,427	6,666	247	7,837	14,750
Share-based payment	–	–	–	–	86	–	86
Total comprehensive loss 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
Share-based payment	–	–	–	–	99	–	99
Total comprehensive income (loss) for the year	–	–	–	–	–	–	–
Share issue – BBBEE transaction	24.3	24	122	146	–	–	146
Balance – September 2010	561.4	561	12,184	12,745	432	7,402	20,579

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

Condensed Sappi Limited company cash flow statements for the year ended September 2010

ZAR million	2010	2009
Loss before interest and taxation	(34)	(38)
Adjustments:		
Dividends received pre-acquisition	–	82
Subsidiary transactions	(28)	306
Other	25	13
Cash generated from (utilised in) operations	(37)	363
Movement in working capital	13	(82)
Net finance income	7	21
Taxation paid	(20)	(23)
Dividends paid	–	(374)
Cash utilised in operating activities	(37)	(95)
Decrease in non-current assets	16	–
Increase in investments	–	(5,493)
Increase in equity and reserves	21	5,513
Proceeds from share option deliveries	–	75
Net movement in cash and cash equivalents	–	–
Cash and cash equivalents at beginning of year	–	–
Cash and cash equivalents at end of year	–	–

Notes to the condensed Sappi Limited company financial statements

for the year ended September 2010

ZAR million	2010	2009
1. Operating loss		
The operating loss is arrived at after taking into account the items detailed below:		
Depreciation	1	2
Technical and administrative services paid other than to bona fide employees of the company	5	10
Auditors' remuneration	13	12
– fees for audit and related services	9	8
– fees for other services	4	4
– fees for Acquisition and related services	–	–
Directors remuneration	21	19
Staff costs	119	96
Management fees received from subsidiaries	227	211
Impairment of investment	–	–
2. Income from subsidiaries		
Dividends received from subsidiaries	22	82
Loss: Pre-acquisition portion	–	(82)
	22	–
3. Net finance income		
Interest paid	–	–
Interest received	4	35
Net foreign exchange gains (losses)	3	(14)
	7	21
4. Commitments		
Operating leases and rentals		
Payable within one year	1	1
Payable within two to five years	–	1
	1	2
5. Contingent liabilities		
Guarantees and suretyships	13,747	20,581

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 2010

Set out below are the more significant subsidiaries and joint ventures or those that have a loan with Sappi Limited:

	Share capital	Effective holding		Book value of investment		Loan to subsidiary		Loan from subsidiary		
		2010 %	2009 %	2010 ZAR million	2009 ZAR million	2010 ZAR million	2009 ZAR million	2010 ZAR million	2009 ZAR million	
Annexure A										
Investments in subsidiaries and joint venture										
Southern Africa										
Sappi Southern Africa (Pty) Ltd ⁽¹⁾	O	ZAR12,026,250	100	100	1,885	1,851	1,644	1,410	-	-
Sappi Share Facilitation Company (Pty) Ltd	O	ZAR1,000	100	100	-	-	789	789	-	-
Usutu Pulp Company Ltd	O	SZL10,000,000	100	100	-	-	-	-	-	-
Lereko Property Company (Pty) Ltd	P	ZAR7,000	100	100	-	-	-	-	-	-
America										
SD Warren Company	O	USD1,000	100	100	-	-	-	-	(14)	(7)
Sappi Cloquet LLC	O	- ⁽²⁾	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	-	-	-	-	(15)	(22)
Sappi Finland Oy	O	EUR2,500	100	-	-	-	-	-	-	-
Sappi Fine Paper plc	D	GBP50,000	100	100	1	1	-	-	-	-
Sappi Holding GmbH	H	EUR72,700	100	100	16,288	16,288	-	-	-	-
Sappi International SA	F	EUR1,200,603,930	100	100	-	-	35	34	-	-
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	O	EUR72,700	100	100	-	-	-	-	(8)	(1)
Sappi Trading Pulp AG	O	CHF100,000	100	100	-	-	-	-	(7)	(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 ⁽³⁾	F	US\$656,000	100	100	3	2	-	-	-	-
Employee share participation Trusts					-	-	20	-	(66)	(31)
Various other companies					-	-	1	-	(4)	(3)
					18,177	18,142	2,489	2,233	(114)	(73)
Write down of investment in subsidiaries					-	-	-	-	-	-
					18,177	18,142	2,489	2,233	(144)	(73)
Holding companies	H	Management companies		M	Dormant		D			
Operating companies	O	Joint venture		JV	Property Holding		P			
Finance companies	F									

(1) Sappi Manufacturing (Pty) Limited's name changed to Sappi Southern Africa (Pty) Limited on 12 October 2010.

(2) No issued share capital, only additional paid in capital of US\$488 million.

(3) Declared a dividend out of pre-acquisition reserves.

Glossary

General definitions

bleached pulp – pulp that has been bleached by means of chemical additives to make it suitable for fine paper production

chemical cellulose – highly purified chemical pulp intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose staple fibre, solvent spin fibre and filament

chemical pulp – a generic term for pulp made from wood fibre that has been produced in a chemical process

coated 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, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride

ISO – developed by the International Standardisation Organisation (ISO), ISO 9000 is a series of standards focused on quality

management systems, while the ISO 14001 series is focused on environmental performance and management

JSE Limited – the main securities exchange in South Africa, previously known as the Johannesburg Stock Exchange

kraft paper – packaging paper (bleached or unbleached) made from kraft pulp

kraft pulp – chemical wood pulp produced by digesting wood by means of the sulphate pulping process

Kyoto Protocol – a document signed by over 160 countries at Kyoto, Japan in December 1997 which commits signatories to reducing their emission of greenhouse gases relative to levels emitted in 1990

Lost-Time Injury Frequency Rate (LTIFR) =
$$\frac{\text{number of lost time injuries} \times 200\,000}{\text{man hours}}$$

linerboard – the grade of paperboard used for the exterior facings of corrugated board. Linerboard is combined with corrugating medium by converters to produce corrugated board used in boxes

market pulp – pulp produced for sale on the open market, as opposed to that produced for own consumption in an integrated mill

mechanical pulp – pulp produced by means of the mechanical grinding or refining of wood or wood chips

NBSK – Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, 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 intergovernmental 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 1,000 kg

uncoated woodfree paper – printing and writing paper made from bleached chemical pulp used for general printing, photocopying and stationery, etc. Referred to as uncoated as it does not contain a layer of pigment to give it a coated surface

woodfree paper – paper made from chemical pulp

General financial definitions

acquisition – 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 – this is the pre-tax interest rate that reflects the current market assessment of the time value of money for the purposes of determining discounted cash flows. 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

segment assets – total assets (excluding deferred taxation and cash) less current liabilities (excluding interest-bearing borrowings and overdraft)

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 certain 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

BBBEE charge – Represents the IFRS 2 non-cash charge associated with the Broad-based Black Economic Empowerment (BBBEE) transaction implemented as envisaged in the BEE legislation in South Africa

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), taxation, 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 re-measurements. 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 and cash equivalents) 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

ROCE – return on average capital employed. Operating profit excluding special items divided by average capital employed

ROE – return on average equity. Profit for the period divided by average shareholders' equity

RONOA – return on average net operating assets. Operating profit excluding special items divided by average net operating assets

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-fourth annual general meeting of Sappi will be held in the Auditorium, Ground Floor, 48 Ameshoff Street, Braamfontein, Johannesburg on Wednesday, 09 February 2011, at 14:30. 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 2010.
2. **Ordinary resolution number 1:** 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.

"Resolved that the appointment of Mr Mohammed Valli Moosa with effect from 01 August 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."

For Mr Moosa's personal details, refer to note 1 under Notes on page 195.

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. 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. For personal details on those directors, refer to note 2 under Notes on pages 195 to 196.

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 Daniël Christiaan Cronjé is re-elected as a director of Sappi Limited."

Ordinary resolution number 2.2

"Resolved that Professor Meyer Feldberg is re-elected as a director of Sappi Limited."

Ordinary resolution number 2.3

"Resolved that Mrs Karen Rohn Osar is re-elected as a director of Sappi Limited."

Ordinary resolution number 2.4

"Resolved that Mrs Bridgette Radebe 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 being Mr R Campbell) as the auditors of Sappi Limited for the year ending September 2011".
5. **Ordinary resolutions number 4.1 to 4.3:** The Sappi Limited Performance Share Plan and the Sappi Limited Share Incentive Scheme.

Ordinary resolution number 4.1

"Resolved as an ordinary resolution that all the ordinary shares required for the purpose of carrying out the terms of The Sappi Limited Performance Share Incentive Plan (the Plan), other than those which have specifically been appropriated for the Plan in terms of ordinary resolutions duly passed at previous general meetings of Sappi Limited, be and are hereby specifically placed under the control of the directors who be and are hereby authorised to allot and issue those shares in terms of the Plan."

Ordinary resolution number 4.2

"Resolved as an ordinary resolution that all the ordinary shares required for the purpose of carrying out the terms of The Sappi Limited Share Incentive Scheme (the Scheme), other than those which have specifically been appropriated for the Scheme in terms of ordinary resolutions duly passed at previous general meetings of Sappi Limited, be and are hereby specifically placed under the control of the directors who be and are hereby authorised to allot and issue those shares in terms of the Scheme."

Ordinary resolution number 4.3

"Resolved as an ordinary resolution that any subsidiary of Sappi Limited (Subsidiary) be and is hereby authorised in terms of the Listings Requirements of the JSE Limited to sell at the price at which a participant is allowed to acquire the Company's shares and to transfer to The Sappi Limited Share Incentive Scheme and/or The Sappi Limited Performance Share Incentive Plan (collectively "the Schemes") those number of Sappi Limited's shares acquired by that Subsidiary from time to time but not exceeding the maximum number of Sappi Limited's shares available to the Schemes as may be required by the Schemes when a participant to whom Sappi Limited's shares will be allocated has been identified."

The passing of resolutions 4.1 and 4.2 will enable the directors to continue to meet the share requirements of the Sappi Limited Share Incentive Scheme and the Sappi Limited Performance Share Incentive Plan (collectively the Schemes), both of which Schemes are already in place and subject to the Listings Requirements of the JSE Limited. The passing of resolution 4.3 will provide directors with the flexibility to utilise shares repurchased from time to time by a wholly-owned subsidiary of Sappi Limited and held in treasury by the subsidiary company, for the purposes of satisfying the share requirements of the Schemes, at times when the directors consider that to be more efficient than issuing new shares in the capital of Sappi.

At present there is a combined maximum number of 42,700,870 shares for allocation to the Schemes (7.95% of the ordinary issued share capital) of which 12,325,960 shares have already been issued to, or transferred to the Schemes, leaving a balance of up to 30,374,910 shares which could still need to be issued or transferred to the Schemes.

6. **Ordinary resolution number 5: Remuneration policy**

“Resolved as an ordinary resolution, (non-binding) that the company’s remuneration policy as contained in the Compensation report on pages 69 to 77 of the annual report, be approved.”

This non-binding resolution is being proposed in accordance with the recommendations of King III.

7. **Ordinary resolution number 6: Non-executive directors’ fees**

“Resolved that, with effect from 01 October 2010 and until otherwise determined by Sappi Limited (Sappi) in general meeting, the remuneration per annum, unless stated otherwise, of the non-executive directors for their services shall be increased as follows:

	from	to
1. Sappi board fees		
Chairperson	ZAR1,765,500*	ZAR2,000,000*
* Inclusive of all committee fees.		
Lead independent director		
If South African resident	ZAR380,900	ZAR410,000
If European resident	GBP54,600	GBP56,500
If USA resident	US\$82,700	US\$84,750
Other directors		
If South African resident	ZAR254,100	ZAR274,400
If European resident	GBP36,400	GBP37,650
If USA resident	US\$55,100	US\$56,450

	from	to
2. Audit committees		
Group committee		
Chairperson		
If South African resident	ZAR254,100	ZAR284,500
If European resident	GBP36,400	GBP38,200
If USA resident	US\$55,100	US\$58,500
Other members		
If South African resident	ZAR126,300	ZAR142,250
If European resident	GBP18,300	GBP19,200
If USA resident	US\$27,500	US\$28,500
Regional audit committees		
Chairperson		
If South African resident	ZAR32,100 per meeting	ZAR35,900 per meeting
If European resident	GBP4,700 per meeting	GBP4,900 per meeting
If USA resident	US\$6,900 per meeting	US\$7,160 per meeting
3. Human resources and transformation committee, compensation committee, nomination and governance committee, sustainability committee and any additional committees		
Chairperson		
If South African resident	ZAR158,400	ZAR171,000
If European resident	GBP21,900	GBP22,700
If USA resident	US\$32,600	US\$33,400
Other members		
If South African resident	ZAR82,400	ZAR89,000
If European resident	GBP15,400	GBP15,900
If USA resident	US\$19,900	US\$20,400
4. Additional meeting fees for board meetings in excess of five meetings per annum (whether attended in person or by teleconference/videoconference)		
If South African resident	ZAR25,400 per meeting	ZAR27,450 per meeting
If European resident	GBP3,600 per meeting	GBP3,720 per meeting
If USA resident	US\$5,500 per meeting	US\$5,640 per meeting
5. Travel compensation (increase of 3.6%)		
For more than 10 flight hours return	US\$2,800 per meeting	US\$2,900 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 6 increases the remuneration currently paid to non-executive directors and board committee members by between approximately 2.5% and 13.3% per annum depending generally on the domicile of the directors and the currency in which they are paid, with effect from 01 October 2010. The fees were last increased with effect from 01 October 2009 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. More and more responsibility is being placed on company chairmen and company audit committees and in recognition of this, it is considered appropriate to increase their fees by a higher percentage than the other fees. 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.

8. **Ordinary resolution number 7:** 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 09 February 2011 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 (i.e. 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 09 February 2011 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 encourages shareholders to attend and 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 Monday, 07 February 2011 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 Southern Africa (Pty) Limited

Secretaries: per D J O'Connor
48 Ameshoff Street
Braamfontein, Johannesburg 2001

15 December 2010

Notes

1. *Confirmation of appointment of director appointed since the last annual general meeting and subsequent to the year end, and the re-election of that director:*

Mohammed Valli Moosa

Age: 53

Qualifications: BSc (Mathematics)

Nationality: South African

Appointed: August 2010

Non-executive

Other board and organisation memberships

Auditor General's Advisory Committee (South Africa)
Anglo Platinum Limited (deputy chairperson and lead independent director)
Imperial Holdings Limited
Lereko Investment (Pty) Limited and various other associate companies of Lereko Investment (Pty) Limited
Real Africa Holdings Limited (chairman)
Sanlam Limited
Sun International Limited (chairman)

Skills, expertise and experience

Mr Moosa is currently the Deputy Chairman of Lereko Investments (Pty) Limited, Sappi's Strategic Black Economic Empowerment partner. He has held numerous leadership positions across business, government, politics and civil society in South Africa. To name but a few, he was South African Minister of Environmental Affairs and Tourism, the President of the IUCN (International Union for the Conservation of Nature); Chairman of the UN Commission for Sustainable Development, and he was a long serving National Executive Committee member of the African National Congress (ANC).

2. *Directors retiring by rotation who are seeking re-election:*

Dr Daniël Christiaan Cronjé

Chairman

Age: 64

Qualifications: BCom (Hons), MCom, DCom

Nationality: South African

Appointed: January 2008

Independent

Sappi board committee memberships

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

Other board and organisation memberships

Die Dagbreek Trust (chairman)
Eqstra Holdings Limited (chairman)

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.

Professor Meyer Feldberg

Age: 68

Qualifications: BA, MBA, PhD

Nationality: American

Appointed: March 2002

Lead independent director

Sappi board committee memberships

- Compensation committee (chairman)
- Nomination and governance committee

Other board and organisation memberships include

British American Business Council (advisory board member)
Columbia University Business School
Macy's, Inc
Morgan Stanley (senior adviser)
New York City Ballet
New York City Global Partners (president)
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.

Karen Rohn Osar

Age: 61

Qualifications: MBA, Finance

Nationality: American

Appointed: May 2007

Independent

Sappi board committee memberships

- Audit committee

Other board and organisation memberships

Innophos Holdings, Inc. (also chairperson of audit committee)
Reader's Digest Association
Webster Financial Corporation

Skills, expertise and experience

Ms Osar was executive vice president and chief financial officer of specialty chemicals company Chemtura Corporation until her retirement in March 2007. Prior to that, she held various senior management and board positions in her career. She was vice president and treasurer for Tenneco, Inc and also served as chief financial officer of Westvaco Corporation and as senior vice president and chief financial officer of the merged MeadWestvaco Corporation. Prior to those appointments she spent 19 years at JP Morgan and Company, becoming a managing director of the Investment Banking Group. She has chaired several board audit committees.

Bridgette Radebe

Age: 50

Qualifications: BA (Pol Sc and Socio)

Nationality: South African

Appointed: May 2004

Independent

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)
Mineral and Mining Development Board (former vice chairman)
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.

Shareholders' diary

Annual general meeting	09 February 2011
First quarter results released	February 2011
Second quarter and half-year results released	May 2011
Third quarter results released	August 2011
Financial year end	September 2011
Preliminary fourth quarter and year results including dividend announcement released	November 2011
Annual report posted to shareholders	December 2011

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 Southern Africa (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

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Investor relations

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 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 (i.e. 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 (i.e. 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-fourth annual general meeting of the members to be held at 14:30 on Wednesday, 09 February 2011 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 14:30 South African time on Monday, 07 February 2011, 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 14:30 on Wednesday, 09 February 2011 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* – Mr Mohammed Valli Moosa			
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 Daniël Christiaan Cronjé as a director of Sappi			
Ordinary resolution number 2.2 – Re-election of Professor Meyer Feldberg as a director of Sappi			
Ordinary resolution number 2.3 – Re-election of Mrs Karen Rohn Osar as a director of Sappi			
Ordinary resolution number 2.4 – Re-election of Mrs Bridgette Radebe as a director of Sappi			
Ordinary resolution number 3 – Re-appointment of Deloitte & Touche as auditors of Sappi for the year ending September 2011			
Ordinary resolution number 4.1 – The placing of all ordinary shares required for the purpose of carrying out the terms of the Sappi Limited Performance Share Incentive Plan ("the Plan") under the control of the directors to allot and issue in terms of the Plan			
Ordinary resolution number 4.2 – The placing of all ordinary shares required for the purpose of carrying out the terms of the Sappi Limited Share Incentive Scheme ("the Scheme") under the control of the directors to allot and issue in terms of the Scheme			
Ordinary resolution number 4.3 – The authority for any subsidiary of Sappi to sell and to transfer to the Sappi Limited Share Incentive Scheme and the Sappi Limited Performance Share Incentive Plan (collectively "the Schemes") such shares as may be required for the purposes of the Schemes			
Ordinary resolution number 5 – Non-binding approval of remuneration policy			
Ordinary resolution number 6 – Increase in non-executive directors' fees			
Ordinary resolution number 7 – 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 192.

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 Sappi’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 14:30 on Monday, 07 February 2011.
- 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 report that are neither reported financial results nor other historical information, are forward-looking statements, including but not limited to statements that are predictions of or indicate future earnings, savings, synergies, events, trends, plans or objectives.

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 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);
- the impact on our business of the global economic downturn;
- unanticipated production disruptions (including as a result of planned or unexpected power outages);
- changes in environmental, tax and other laws and regulations;
- 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;
- adverse changes in the political situation and economy in the countries in which we operate or the effect of governmental efforts to address present or future economic or social problems;
- the impact of investments, acquisitions and dispositions (including related financing), any delays, unexpected costs or other problems experienced in connection with dispositions or 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.

www.sappi.com

Inspired by life

"Look deep into nature, and then you will understand everything better" – Albert Einstein

This inspiration and the insights we gain informs our technical excellence, our innovations, our relationships and the use of our resources. It is the spark that ignites the passion in our people and makes the end solutions relevant and successful.



SAPP