

SAPPI LTD
Form 20-F
January 26, 2009

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As filed with the Securities and Exchange Commission on January 26, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

- o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR
- ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2008
OR
- o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR
- o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report.....[]

For the transition period from to

Commission file number 1-14872

SAPPI LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Republic of South Africa

(Jurisdiction of incorporation or organization)

**48 Ameshoff Street
Braamfontein
Johannesburg 2001**

Republic of South Africa
(Telephone: +27-11-407-8111)

(Address and telephone number of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

**American Depositary Shares, evidenced by
American Depositary Receipts, each representing
1 Ordinary Share**
(Title of each class)

**New York Stock Exchange
Ordinary Shares, par value R1.00 per Share***
(Name of each exchange on which registered)

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

239,071,892 Ordinary Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

YES NO

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which financial statements item the registrant has elected to follow.

ITEM 17 **ITEM 18**

Indicate by checkmark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP **International Financial Reporting Standards as issued by the International Accounting Standards Board** **Other**

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES **NO**

*

Not for trading but only in connection with the registration of the American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

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OUR USE OF TERMS AND CONVENTIONS IN THIS ANNUAL REPORT

Unless otherwise specified or the context requires otherwise in this Annual Report on Form 20-F ("Annual Report"):

references to "Sappi", "Sappi Group", "Group", "we", "us" and "our" are to Sappi Limited together with its subsidiaries excluding, unless otherwise indicated, the Acquired Business (as defined below);

references to the "Acquired Business" are to the coated graphic paper business and certain related uncoated graphic paper business activities of M-real Corporation acquired by us on December 31, 2008;

references to the "Acquisition" are to the acquisition of the Acquired Business by us;

references to "IFRS" are to the International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB");

references to "southern Africa" are to the Republic of South Africa, the Kingdom of Swaziland, the Kingdom of Lesotho, the Republic of Namibia and the Republic of Botswana;

references to "North America" are to the United States, Canada and the Caribbean;

references to "Latin America" are to the countries located on the continent of South America and Mexico;

references to "Rand", "ZAR" and "R" are to South African Rand and references to "SA cents" are to South African cents, the currency of South Africa;

references to "US dollar(s)", "dollar(s)", "US\$", "\$" and "US cents" are to United States dollars and cents, the currency of the United States;

references to "euro", "EUR" and "€" are to the currency of those countries in the European Union that form part of the common currency of the euro;

references to "UK pounds sterling" and "GBP" are to United Kingdom pounds sterling, the currency of the United Kingdom;

references to "m²" are to square metres and references to "hectares" or "ha" are to a land area of 10,000 square metres or approximately 2.47 acres;

references to "tonnes" are to metric tonnes (approximately 2,204.6 pounds or 1.1 short tonnes);

references to "market share" are based upon sales volumes in a specified geographic region during the fiscal year ended September 30, 2008;

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references to "NBSK" are to northern bleached softwood kraft pulp frequently used as a pricing benchmark for pulp;

references to "groundwood" or to "mechanical" are to pulp manufactured using a mechanical process, or where applicable to paper, made using a high proportion of such pulp;

references to "woodfree paper" are to paper made from chemical pulp, which is pulp made from wood fiber that has been produced in a chemical process; and

references to "PM" are to individual paper machines.

Except as otherwise indicated, in this Annual Report the amounts of "capacity" or "production capacity" of our facilities or machines are based upon our best estimates of production capacity at the date of filing of this Annual Report. Actual production by machines may differ from production capacity as a result of products produced, variations in product mix and other factors.

Certain market share information and other statements presented herein regarding our position relative to our competitors with respect to the manufacture or distribution of particular products are not based on published statistical data or information obtained from independent third parties, but reflect our best estimates. We have based these estimates upon information obtained from our customers, trade and business organizations and associations and other contacts in our industries.

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Except as otherwise indicated in this Annual Report any reference to capacity, production capacity, market share information and data of a similar nature exclude the impact of the Acquired Business, which was acquired on December 31, 2008.

Unless otherwise provided in this Annual Report, trademarks identified by ® are registered trademarks of Sappi Limited or our subsidiaries.

ACCOUNTING PERIODS AND PRINCIPLES

Unless otherwise specified, all references in this Annual Report to a "fiscal year" and "year ended" of Sappi Limited refer to a twelve-month financial period. All references in this Annual Report to fiscal 2008, 2007 and fiscal 2006, or the years ended September 2008, 2007 or 2006 refer to Sappi Limited's twelve-month financial periods ended on September 28, 2008, September 30, 2007 and October 1, 2006, respectively; references in this Annual Report to fiscal 2009 refer to the period beginning September 29, 2008 and ending September 27, 2009. Our Group annual financial statements included elsewhere in this Annual Report have been prepared in conformity with IFRS.

CURRENCY OF PRESENTATION AND EXCHANGE RATES

We publish our Group annual financial statements and all financial data presented in this Annual Report in US dollars on a nominal (non-inflation adjusted) basis. For information regarding the conversion to US dollars in fiscals 2008, 2007 and 2006, see note 2 to our Group annual financial statements included elsewhere in this Annual Report.

FORWARD-LOOKING STATEMENTS

In order to utilize the "Safe Harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 (the "Reform Act"), we are providing the following cautionary statement. Except for historical information contained herein, statements contained in this Annual Report may constitute "forward-looking statements" within the meaning of the Reform Act.

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. In addition, this document includes forward-looking statements relating to our potential exposure to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity price risk. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are in some cases beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements (and from past results, performance or achievements). Certain factors that may cause such differences include but are not limited to:

the highly cyclical nature of the pulp and paper industry;

the impact on our business of the global economic downturn;

pulp and paper production, production capacity, input costs (including raw materials, energy and employee costs) and pricing levels in North America, Europe, Asia and southern Africa;

any major disruption in production at our key facilities;

changes in environmental, tax and other laws and regulations;

adverse changes in the markets for our products;

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any delays, unexpected costs or other problems experienced with any business acquired or to be acquired and achieving expected savings and synergies;

consequences of our leverage, including as a result of adverse changes in credit markets that affect our ability to raise capital when needed;

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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 future investments, acquisitions and dispositions (including the financing of investments and acquisitions) and any delays, unexpected costs or other problems experienced in connection with dispositions; and

the risk that the Acquisition will not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; that expected revenue synergies and cost savings from the Acquisition may not be fully realized or realized within the expected time frame; that revenues following the Acquisition may be lower than expected; or that any anticipated benefits from the consolidation of the business may not be achieved.

These factors are fully discussed in this Annual Report. For further discussion on these factors, see "Item 3 Key Information Selected Financial Data", "Item 3 Key Information Risk Factors", "Item 4 Information on the Company", "Item 5 Operating and Financial Review and Prospects Financial Condition and Results of Operations", "Item 10 Additional Information Exchange Controls" and note 30 to our Group annual financial statements included elsewhere in this Annual Report. You are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of the filing of this Annual Report and are not intended to give any assurance as to future results. 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.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

The selected financial data set forth below has been derived from our Group annual financial statements and is qualified by reference to, and should be read in conjunction with, our Group annual financial statements and the notes thereto, which are included elsewhere in this Annual Report, and "Item 5 Operating and Financial Review and Prospects".

We implemented International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") for the first time in fiscal 2006 and restated comparative amounts for fiscal 2005. Our selected financial data is as reported in accordance with IFRS for fiscals 2005 to 2008. Financial data for fiscal 2004 cannot be provided in accordance with IFRS without unreasonable effort and expense.

	Year Ended September			
	2008	2007	2006	2005
	US\$ million, except			
	per share data			
Group Income Statement Data:				
Sales ⁽¹⁾	5,863	5,304	4,941	5,018
Operating profit (loss)	314	383	125	(109)
Net profit (loss)	102	202	(4)	(184)
Basic earnings (loss) per share (US cents)	45	89	(2)	(81)
Diluted earnings (loss) per share (US cents)	44	88	(2)	(81)
Dividends per share (US cents) ⁽²⁾	16	32	30	30

	Year Ended September			
	2008	2007	2006	2005
	US\$ million			
Group Balance Sheet Data:				
Total assets	6,109	6,344	5,517	5,889
Net assets	1,605	1,816	1,386	1,589
Operating assets ⁽³⁾	5,794	5,919	5,219	5,452
Total long-term borrowings	1,832	1,828	1,634	1,600
Shareholders' equity	1,605	1,816	1,386	1,589

Other Information:

	Year Ended September			
	2008	2007	2006	2005
	US\$ million, except			
	number of shares data			

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EBITDA ⁽⁴⁾	688	758	517	315
Weighted average number of ordinary shares in issue (in million) ⁽⁵⁾	228.8	227.8	226.2	225.8
number of ordinary shares in issue at fiscal year end (in million) ⁽⁵⁾	229.2	228.5	227.0	225.9

- (1) Sales are defined in note 2.2.21 to our Group annual financial statements included elsewhere in this Annual Report.

(2)

The dividends per share were, in each case, declared after the end of the year indicated. The dividend for fiscal 2008 is payable on all ordinary shares in issue on November 28, 2008, which does not include ordinary shares issued in the Rights Offering. For further information on our dividend policy, see "Item 8 Financial Information Dividend Policy".

(3)

Operating assets are defined in note 3 to our Group annual financial statements included elsewhere in this Annual Report.

(4)

In compliance with the U.S. Securities Exchange Commission ("SEC") rules relating to "Conditions for Use of Non-GAAP Financial Measures", we have reconciled EBITDA to net profit rather than operating profit. As a result, our definition retains non-trading profit / loss and minority interest as part of EBITDA. EBITDA represents earnings before interest (net finance costs), taxation, depreciation and amortization. Net finance costs include: gross interest paid; interest received; interest capitalized; net foreign exchange gains; and net fair value adjustments on interest rate financial instruments. See the Group income statement for an explanation of the computation of net finance costs. We use EBITDA as an internal measure of performance to benchmark and compare performance, both between our own operations and as against other companies. EBITDA is a measure used by the Group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We believe EBITDA is a useful and commonly used measure of financial performance in addition to net profit, operating profit and other profitability measures under IFRS because it facilitates operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBITDA can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe EBITDA and similar measures are regularly used by the investment community as a means of comparison of companies in our industry. Different companies and analysts may calculate EBITDA differently, so making comparisons among companies on this basis should be done very carefully. EBITDA is not a measure of performance under IFRS and should not be considered in isolation or construed as a substitute for operating profit or net profit as an indicator of the company's operations in accordance with IFRS.

The following table reconciles net profit (loss) to EBITDA.

	Year Ended September			
	2008	2007	2006	2005
	US\$ in million			
Net profit (loss)	102	202	(4)	(184)
Add back:				
Depreciation and amortization	374	375	392	424
Net finance costs	126	134	130	80
Taxation	86	47	(1)	(5)
EBITDA	688	758	517	315

(5)

Net of Treasury shares as explained in note 17 to our Group annual financial statements included elsewhere in this Annual Report.

Risk Factors

In addition to other information contained in this Annual Report, you should carefully consider the following factors before deciding to invest in our ordinary shares and American Depositary Shares ("ADSs"). There may be additional risks that we do not currently know of or that we currently deem immaterial based on the information available to us. Our business, financial condition or results of operations could be materially adversely affected by any of these risks, resulting in a decline in the trading price of our ordinary shares and ADSs.

Risks Related to Our Industry

We operate in a cyclical industry, which has in the past resulted in substantial fluctuations in our results.

The markets for our pulp and paper products are significantly affected by changes in industry capacity and output levels and by cyclical changes in the world economy. As a result of periodic supply / demand imbalances in the pulp and paper industry, these markets historically have been highly cyclical, with volatile pulp and paper prices. In addition, recent turmoil in the capital and credit markets has led to decreased availability of credit, which is having an adverse effect on the world economy and consequently has already affected, and may continue to adversely affect the markets for our products. The timing and magnitude of price increases or decreases in the pulp and paper market have generally varied by region and by type of pulp and paper.

Despite a relatively high level of pulp integration on a Group-wide basis, a significant increase in the prices for pulp or pulpwood could adversely affect our non-integrated and partially integrated operations if they are unable to raise paper prices sufficiently to offset the effects of increased costs. Other input cost increases including energy and chemicals may affect our operations if we are unable to raise paper prices sufficiently.

The majority of our fine paper sales consist of sales to merchants. However, the pricing of products for merchant sales can generally be changed between 30 to 90 days' advance notice to the merchant. Sales to converters may be subject to longer notice periods for price changes. Such notice periods generally would not exceed 6 to 12 months. In southern Africa, we have entered into longer-term fixed-price agreements of between 6 to 12 months duration for primarily packaging paper and newsprint sales with domestic customers. Such agreements accounted for approximately 5% of consolidated sales during fiscal 2008.

Most of our chemical cellulose sales contracts are multi-year contracts. However, the pricing is generally based on a formula linked to the NBSK price and reset on a quarterly basis.

As a result of the short-term duration of paper and chemical cellulose pricing arrangements, we are subject to cyclical decreases in market prices for these products. A downturn in paper or chemical cellulose prices could have a material adverse effect on our business, results of operations and financial condition.

For further information, see "Item 4 Information on the Company The Pulp and Paper Industry".

Global economic conditions could adversely affect our business, results of operations and financial condition.

Worldwide economic conditions have recently experienced a significant downturn due to credit conditions impacted by the subprime mortgage crisis and other factors, including slower economic activity, inflation and deflation concerns, reduced corporate profits, reduced or canceled capital spending, adverse business conditions and liquidity concerns, resulting in significant recessionary pressures and lower business and consumer confidence. Global demand for coated fine paper started to decline in the second half of fiscal 2008 and into fiscal 2009, and pulp demand and pulp prices decreased in the latter part of fiscal 2008 and into fiscal 2009. We may continue to experience a slowing in demand in all our major markets and downward pressure on pricing in many markets, which could adversely affect our business, results of operations and financial condition, including difficulties in maintaining previous operating performance. In anticipation of slowing demand, we took production down time in December 2008 and we will consider taking further down time in fiscal 2009 to balance supply and demand. While the full impact of the downturn may not occur until 2009 or beyond, we cannot predict the timing or the duration of this or any other downturn in the economy.

The markets for pulp and paper products are highly competitive, and many of our competitors have advantages that may adversely affect our ability to compete with them.

We compete against a large number of pulp and paper producers located around the world. A recent trend towards consolidation in the pulp and paper industry has created larger, more focused pulp and paper companies. Some of these companies benefit from greater financial resources or operate mills that are lower cost producers of pulp and paper products than our mills. We cannot assure you that each of our mills will be competitive. Furthermore, we cannot assure you that we will be able to take advantage of consolidation opportunities which may arise, or that any failure to exploit opportunities for growth would not make us less competitive. Increased competition, including a decrease in import duties in accordance with the terms of free trade agreements, could cause us to lose market share, increase expenditures or reduce pricing, any of which could have a material adverse effect on the results of our operations. In addition, competition may result in our being unable to increase selling prices of our products sufficiently or in time to offset the effects of increased costs without losing market share.

The cost of complying with environmental regulation may be significant to our business.

Our operations are subject to a wide range of environmental requirements in the various jurisdictions in which we operate. Although we strive to ensure that our facilities comply with all applicable environmental laws, we have in the past been and may in the future be subject to governmental enforcement action for failure to comply with environmental requirements. We expect to continue to incur significant expenditures and may face operational constraints to maintain compliance with applicable environmental laws, to upgrade equipment at our mills and to meet new regulatory requirements, including those in the United States, South Africa and Europe. Impacts from historical operations, including the land disposal of waste materials, may require further investigation and cleanup. In addition, we could become subject to environmental liabilities resulting from personal injury, property damage or natural resources damage. Expenditures to comply with future environmental requirements and the cost related to any potential environmental liabilities and claims could have a material adverse effect on our business and financial condition.

For further information, see "Item 4 Information on the Company Environmental and Safety Matters".

The availability and cost of insurance cover can vary considerably from year to year as a result of events beyond our control, and this can result in our paying higher premiums and periodically being unable to maintain the levels or types of insurance carried.

Although the insurance market has been stable for the last three to four years, it remains cyclical and catastrophic events can change the state of the insurance market, leading to sudden and unexpected increases in premiums and deductibles and unavailability of coverage due to reasons totally unconnected with our business. In addition, recent turmoil and volatility in the global financial markets may adversely affect the insurance market. This may result in some of the insurers in our insurance portfolio failing and being unable to pay their share of claims.

Although we have successfully negotiated the renewal of our 2009 insurance cover at rates similar to those of 2008 and self-insured deductibles for any one property damage occurrence have remained at \$25 million, with an unchanged aggregate limit of \$40 million, we are unable to predict whether past or future events will result in less favorable terms. For property damage and business interruption, there generally does not seem to be cost effective cover available to full value; however, we believe that the loss limit cover of \$1 billion should be adequate for what we have determined as the reasonably foreseeable loss for any single claim.

While we believe our insurance programs provide adequate coverage for reasonably foreseeable losses, we continue working on improved risk management to lower the risk of incurring losses from uncontrolled incidents. We are unable to assure you that actual losses will not exceed our insurance coverage or that such excess will not be material.

New technologies or changes in consumer preferences may affect our ability to compete successfully.

We believe that new technologies or novel processes may emerge and that existing technologies may be further developed in the fields in which we operate. These technologies or processes could have an impact on

production methods or on product quality in these fields. Unexpected rapid changes in employed technologies or the development of novel processes that affect our operations and product range could render the technologies we utilize or the products we produce obsolete or less competitive in the future. Difficulties in assessing new technologies may impede us from implementing them and competitive pressures may force us to implement these new technologies at a substantial cost. Any such development could materially and adversely impact our revenues or net profits or both.

Consumer preferences may change as a result of the availability of alternative products or of services such as electronic media or the internet, which could negatively impact consumption of our products.

Risks Related to Our Business

Our indebtedness may impair our financial and operating flexibility.

Our level of indebtedness and the terms of our indebtedness could negatively impact our business and liquidity. As of September 2008, our interest bearing debt (long-term and short-term interest bearing debt plus overdraft, less cash on hand) was US\$ 2,405 million. While reduction of our indebtedness is one of our priorities, opportunities to grow within our businesses will continue to be evaluated, and the financing of any future acquisition or capital investment may include the incurrence of additional indebtedness.

The level of our debt has important consequences, including:

our ability to obtain additional financing may be limited, which could limit, among other things, our ability to exploit growth opportunities;

a substantial portion of our cash flow from operations may be required to make debt service payments;

we are exposed to increases in interest rates because a portion of our debt bears interest at variable rates;

we may be more leveraged than certain of our competitors;

we may be more vulnerable to economic downturns and adverse changes in our business;

our ability to withstand competitive pressure may be more limited; and

certain of our financing arrangements contain covenants and conditions that may restrict the activities of certain Group companies.

During fiscal 2009, we have approximately US\$ 827 million outstanding under renewable facilities that mature. We expect to be able to continue to refinance these rolling facilities under our existing longer-term funding arrangements and bilateral banking facilities. Other than rolling facilities, the first significant scheduled debt repayment is a € 400 million facility maturing in December 2010. We will seek to refinance such indebtedness when it becomes due through the issuance of new debt in the global capital markets.

Our ability to refinance our debt, incur additional debt, the terms of our existing and additional debt and our liquidity could be affected by a number of adverse developments. In the third quarter of fiscal 2008, the global debt markets were subject to significant pressure triggered by the collapse of the sub-prime mortgage market in the U.S. This liquidity crunch continued through and worsened in calendar 2008, leading to unprecedented volatility in the financial markets, an acute contraction in the availability of credit, including in interbank lending, and the failure of a number of leading financial institutions. Changes in investment markets, including changes in interest rates, exchange rates and returns from equity, property and other investments, have resulted in worsening general economic conditions. As a result, certain government bodies and central banks worldwide have undertaken unprecedented intervention programs, the effects of which remain uncertain. In addition, since 2006

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the Group's credit ratings have been downgraded to sub-investment grade by Standard & Poor's (S&P) (currently BB / Stable) and Moody's (currently Ba2 / Stable). These adverse developments in the credit markets and in our credit rating, as well as other future adverse developments, such as further deterioration in the financial markets and a worsening of general economic conditions, may negatively impact our ability to issue additional debt as well as the amount and terms of the debt we are able to issue. Our liquidity will be adversely affected if we must repay all or a portion of our maturing debt from available cash or through use of our existing liquidity facilities. In addition, our results of operations will be

adversely impacted to the extent the terms of the debt we are able to issue are less favorable than the terms of the debt being refinanced. It is also possible that we will need to agree to covenants that place additional restrictions on our business.

We are subject to South African exchange controls, which may restrict the transfer of funds directly or indirectly between our subsidiaries or between the parent company and our subsidiaries and can restrict activities of our subsidiaries. We may also incur tax costs in connection with these transfers of funds. These exchange controls have affected the geographic distribution of our debt. As a result, acquisitions in the United States and Europe were financed with indebtedness incurred by companies in those regions. As a consequence, our ability or the ability of any of our subsidiaries to make scheduled payments on its debt will depend on its financial and operating performance, which will depend on various factors beyond our control, such as prevailing economic and competitive conditions. If we or any of our subsidiaries are unable to achieve operating results or otherwise obtain access to funds sufficient to enable us to meet our debt service obligations, we could face substantial liquidity problems. As a result, we might need to delay investments or dispose of material assets or operations. The timing of and the proceeds to be realized from any such disposition would depend upon circumstances at the time.

The current global liquidity and credit crises could have a negative impact on our major customers which in turn could materially adversely affect our results of operations and financial position.

The current global liquidity and credit crises are having a significant negative impact on businesses around the world; the impact of these crises on our major customers cannot be predicted and may be quite severe. A disruption in the ability of our significant customers to access sources of liquidity could cause serious disruptions or an overall deterioration of their businesses which could lead to a significant reduction in their future orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and financial position.

We require a significant amount of cash to fund our business and our ability to generate sufficient cash depends on many factors, some of which are beyond our control.

Our ability to fund our working capital, capital expenditure and research and development requirements, to engage in future acquisitions, to make payments on our debt, to fund post-retirement benefit programs and to pay dividends will depend upon our future operating performance and our ability to generate sufficient cash. Our principal sources of liquidity are cash generated from operations and availability under our credit facilities and other debt arrangements. Our ability to generate cash depends, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. Our cash flow from operations may be adversely impacted by the downturn in worldwide economic conditions, which has resulted in a decline in global demand for our products and a softening of prices. The availability of debt financing has also been negatively impacted by the global credit crisis.

Our business may not generate sufficient cash flow from operations and additional debt and equity financing may not be available to us in a sufficient amount to enable us to meet our liquidity needs. If our future cash flows from operations and other capital resources are insufficient to fund our liquidity needs, we may be required to obtain additional debt or equity financing, refinance our indebtedness, reduce or delay our capital expenditures and research and development or to decrease the amount of the annual dividend. We may not be able to accomplish these alternatives on a timely basis or our satisfactory terms. The failure to do so could have an adverse effect on our business, results of operations and financial condition.

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.

Exchange rate fluctuations have in the past, and may in the future, affect the competitiveness of our products in relation to the products of pulp and paper companies based in other countries.

Fluctuations in the exchange rate between currencies, particularly the Rand and euro, in relation to the US dollar have in the past significantly affected and could in the future significantly affect our earnings.

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Since the adoption of the euro by the European Union on January 1, 1999 (when the euro was trading at approximately \$1.18 per euro), it has fluctuated against the US dollar, reaching a low of approximately \$0.83 per euro in October 2000 before trading at approximately \$1.46, \$1.42, \$1.27 and \$1.20 per euro at the end of fiscal 2008, 2007, 2006 and 2005, respectively, and rising to a high of \$1.60 per euro in April 2008. On January 12, 2009, it was trading at approximately \$1.34 per euro. A significant weakening of the US dollar in comparison to the euro could redirect a significant amount of imports from Europe.

In recent years, the value of the Rand against the US dollar has fluctuated considerably. It has moved against the US dollar from a low of approximately R13.90 per US dollar in December 2001 to approximately R8.07, R6.87, R7.77 and R6.37 per US dollar at the end of fiscal 2008, 2007, 2006 and 2005, respectively. More recently, the Rand has been declining against US dollar and was trading at approximately R10.14 per US dollar on January 12, 2009.

For further information, see notes 2 and 30 to our Group Annual Financial Statements included elsewhere in this Annual Report and "*Item 5 Operating and Financial Review and Prospects Currency Fluctuations*".

There are risks relating to the countries in which we operate that could impact our earnings or affect your investment in our Company.

We own manufacturing operations in five countries in Europe, four states in the United States, South Africa and Swaziland, and have an investment in a joint venture in China. These risks arise from being subject to various economic, fiscal, monetary, regulatory, operational and political factors that affect companies generally and which may change as economic, social or political circumstances change. See "*Operating and Financial Review and Prospects South African Economic and Political Environment*" and "*South African Exchange Controls*".

Our southern African operations have in recent years accounted for a disproportionate percentage of our operating profits. In fiscal 2008 our sales originating from Europe were US\$ 2,720 million, from North America US\$ 1,664 million and from southern Africa US\$ 1,479 million; our operating assets were located US\$ 2,226 million in Europe, US\$ 1,285 million in North America and US\$ 2,139 million in southern Africa (excluding Corporate and other). However, in fiscal 2008 our operating profits and losses were a loss of US\$ 64 million in Europe, a profit of US\$ 92 million in North America and a profit of US\$ 279 million in southern Africa (excluding Corporate and other). Adverse developments in the economic, fiscal, monetary, regulatory or political circumstances in southern Africa could negatively affect our operations.

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

There is a serious problem with HIV / AIDS infection among our southern African workforce, as there is in southern Africa generally. The HIV / AIDS infection rate of our southern African workforce is expected to increase over the next decade. The costs and lost workers' time associated with HIV / AIDS may adversely affect our southern African operations.

For further information, see "*Item 5 Operating and Financial Review and Prospects South African Economic and Political Environment*".

The inability to recover increasing input costs through increased prices of our products has had, and may continue to have, an adverse impact on our profitability.

The selling prices of the majority of the products manufactured and the purchase prices of many of the raw materials we use generally fluctuate in correlation with global commodity cycles. In addition, we have been experiencing increasing costs of a number of raw materials due to global trends beyond our control. The global warming and carbon footprint imperatives are causing the increased use of sustainable, non-fossil fuel, sources for electricity generation. Electricity generation companies are competing for the same raw material, namely wood and wood chips, in the same markets as us, driving prices upwards, especially during winter in the Northern hemisphere. In addition, the price of crude oil recently reached historically high levels. Although oil prices have since decreased, they are could return to high levels in the foreseeable future because of, among other things, political instability in the oil producing regions of the world. This impacts the oil-based commodities required by our business in the areas of energy (including electricity), transport and chemicals.

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As occurred during the 2006, 2007 and 2008 fiscal years, a major potential consequence of the increase in the price of input commodities is our inability to counter this effect through increased selling prices. This results in reduced operating profit, and has a negative impact on business planning.

While we are in the process of implementing steps to reduce our cost of commodity inputs, other than maintaining a high level of pulp integration, the hedging techniques we apply on our raw materials and products are on a small scale and short term in nature. Moreover, in the event of significant increases in the prices of pulp, our non-integrated and partially integrated operations could be adversely affected if they are unable to raise paper prices by amounts sufficient to maintain margins.

Increased energy prices could adversely affect our operations.

We require substantial amounts of oil based chemicals, fuels and other resources for our production activities and transport of our timber products. We rely partly upon third parties for our supply of the energy resources consumed in our operations. The prices for and availability of energy resources may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, worldwide price levels and market conditions. The prices of various sources of energy may increase significantly from current levels. An increase in energy prices could materially adversely affect our results of operations, plantation valuation and financial condition.

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

We sell a significant portion of our products to several major customers, including PaperlinX, Igepa, xpedx and Antalis. For Sappi Fine Paper products, PaperlinX and Igepa represented individually more than 10% of our total sales during both fiscal 2008 and fiscal 2007. Any adverse development affecting our principal customers or our relationships with our principal customers could have an adverse effect on our business and results of operations. See "Item 4 Information on the Company Sappi Fine Paper Marketing and Distribution Customers" and "Item 4 Information on the Company Sappi Forest Products Marketing and Distribution Customers".

Because of the nature of our business and workforce, we are facing challenges in the retention of management and the employment of skilled people that could adversely affect our business.

We are facing an aging demographic work profile among our management due to the mature nature of our industry and the rural and often remote location of our mills, together with generally long tenure of employees at the mills. As a result, we are likely to experience groups of employees leaving the company within a relatively short space of time of one another and may have difficulty attracting qualified replacements. The potential risks we face are a loss of institutional memory, skills, experience and management capabilities. We may be unable to attract and retain sufficient qualified replacements when and where necessary to avoid an adverse impact on our business.

Continued volatility in equity markets and declining yields in the bond markets could adversely affect the funded status and funding needs of our post employment benefit funds.

The general outlook for the forthcoming financial years is that bond and equity markets could move in very uncertain and unusual ways, which in turn could result in significant swings in yields on corporate bonds and government bonds as well as continued volatile within the equity markets. The risk exists that equity and property markets will not recover to the level of recent highs for many years as the global economic climate could further worsen. Consequently it is very difficult for us to predict which key factors, and how the interaction of these key factors, will change the post employment benefit funds' balance sheet funding status. As a result of the recent and continued risk of negative movements in the global equity and bond markets the funded status of our post employment benefit arrangements might have worsened subsequent to the fiscal year end.

Existing and potential changes in statutory minimum funding requirements may also affect the amount and timing of funding to be paid by us. Most funding requirements consider yields on assets such as government bonds or interbank interest rate swap curves, depending on the basis. If these yields remain at the current low

level experienced in the latter part of calendar 2008, we might need to pay additional contributions to meet minimum funding targets.

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

The southern African landscape is prone to, and ecologically adapted to, frequent fires. The risk of uncontrolled fires entering and burning significant areas of plantation is high, but under normal weather conditions this risk is managed through comprehensive fire prevention and protection plans. In 2007 and 2008, southern Africa experienced a number of abnormal weather events (hot, dry conditions fanned by extremely strong winds), which resulted in disastrous plantation fires across vast areas of eastern South Africa and Swaziland affecting 14,000 hectares and 26,000 hectares, respectively, of our plantations. There is some cause for concern that these abnormal weather conditions may be occurring more frequently as a result of the potential impact of climate change. In addition, because the transformation of land ownership and management in southern Africa has been moving ownership and management of plantations to independent growers, we have less ability to directly manage fire risk, as well as risks of other catastrophic events, such as pathogen and pest infestations. As a consequence, the risk of plantation fires or other catastrophic events remains high and may be increasing. Continued or increased losses of our wood source could jeopardize our ability to supply our mills with timber from the region.

The effects of climate change may have an impact on our business.

The global warming and carbon footprint imperatives are causing the increased use of sustainable, non-fossil fuel, sources for electricity generation. Electricity generation companies are competing for the same raw material, namely wood and wood chips, in the same markets as us, driving prices upwards, especially during winter in the Northern hemisphere.

The increased emphasis on water footprint in Southern Africa is causing increased focus on the sustainable use of water by our plants, on ensuring the quality of water released back into the water systems and on the control of effluent.

Climate change is also causing the spread of disease and pestilence into our plantations and fiber sources, way beyond their traditional geographic spreads.

Risks Related to the Acquisition of the Coated Graphic Paper Business acquired from M-real Corporation.

The risks associated with the Acquisition and the integration of the Acquired Business could have a material adverse effect on our business, financial condition and results of operations. We may not be able to successfully integrate the Acquired Business into our business.

We may experience unforeseen operating difficulties as we integrate the Acquired Business into our existing operations. These difficulties may disrupt our operations and require significant management attention and financial resources that would otherwise be available for day-to-day operations or the ongoing development or expansion of existing operations. The Acquisition involves risks, including:

unexpected losses of customers or suppliers of the Acquired Business;

challenges in integrating IT systems and administrative services;

difficulties in retaining management and key personnel and in working cooperatively with the employees of the Acquired Business;

difficulties in integrating the financial, technological and management standards, processes, procedures and controls of the Acquired Business with those of our existing operations;

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the performance by M-real Corporation and its parent company of their obligations under various agreements they will enter with us, including supply agreements;

any inability of our management to cause our best practices to be applied to the Acquired Business;

challenges in managing the increased scope, geographic diversity and complexity of our operations; and

difficulties in mitigating contingent and assumed liabilities.

If we are unable to successfully meet the challenges associated with the Acquisition, this could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to realize some or all of the anticipated benefits of the Acquisition or there may be delays and unexpected difficulties in realizing such benefits or higher costs.

Our estimates regarding the earnings, operating cash flow, capital expenditures and liabilities of the Acquired Business are based on information currently available to us and may prove to be incorrect. Since we were not involved in the management of the Acquired Business until the Acquisition closed on December 31, 2008, our assessment of the risks and opportunities may not be accurate. In addition, we may not realize any anticipated benefits of the Acquisition and may not be successful in integrating the Acquired Business into our existing business.

Achieving the anticipated benefits of the Acquisition will depend in part upon whether we integrate the Acquired Business in an efficient and effective manner. We may not be able to accomplish this integration process smoothly or successfully.

An inability to realize the full extent of the anticipated benefits of the Acquisition, as well as any delays encountered in the integration process, could have an adverse effect upon our business, results of operations and financial condition.

Risks Related to Our Shares

Your ability to sell a substantial number of ordinary shares may be restricted by the limited liquidity of shares traded on the JSE Limited.

The principal trading market for our ordinary shares is on the exchange operated by the JSE Limited ("JSE") (formerly known as the Johannesburg Stock Exchange). Historically, trading volumes and liquidity of shares listed on the JSE have been low in comparison with other major international markets. In fiscal 2008, 241 million of our ordinary shares were traded on the JSE and 51 million ADSs were traded on the New York Stock Exchange. The relatively low liquidity of shares traded on JSE Limited could affect your ability to sell ordinary shares. See "Significant shareholders may be able to influence the affairs of our Company", "Item 7 Major Shareholders and Related Party Transactions Major Shareholders", "Item 9 The Offer and Listing Offer and Listing Details" and "Item 9 The Offer and Listing Market Information".

Significant shareholders may be able to influence the affairs of our Company.

Although our investigation of beneficial ownership of our shares identified only two beneficial owners of more than 5% of our ordinary shares, holding approximately 17.7%, as shown in our shareholders' register at November 30, 2008, the five largest shareholders of record, four of which are nominees that hold shares for a multitude of beneficial owners, owned approximately 96% of our ordinary shares as of that date. See "Item 7 Major Shareholders and Related Party Transactions Major Shareholders".

The proposal by the South African Government to replace Secondary Tax on Companies with withholding tax on dividends and other distributions may impact the amount of dividends or other distributions received by our shareholders.

In October 2008, the South African Government tabled a bill containing proposed legislation to replace Secondary Tax on Companies with a 10% withholding tax on dividends and other distributions payable to shareholders for implementation in late 2009, following amendments to some of the existing double tax treaties. This is the second phase in a process that started in October 2007. Although this may reduce the tax payable by our South African operations, thereby increasing distributable earnings, the withholding tax will generally reduce the amount of dividends or other distributions received by our shareholders.

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

Sappi Limited is a public company incorporated in the Republic of South Africa. Our principal executive offices are located at 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, Republic of South Africa and our telephone number is +27-11-407-8111. We currently have our primary listing on the JSE Limited (formerly the Johannesburg Stock Exchange) and have secondary listings on the New York and London Stock Exchanges.

Sappi Limited was founded and incorporated in 1936 in South Africa and is a corporation organized under the Companies Act 61 of 1973 of the Republic of South Africa.

Until 1990, we primarily expanded our operations within southern Africa. Since 1990, we have grown through acquisitions outside of southern Africa. In the mid 1990's we acquired S.D. Warren Company, a market leader in the United States in coated fine paper and a major producer of other speciality paper products. It now conducts business as Sappi Fine Paper North America. In the late 1990's we acquired KNP Leykam, a leading European producer of coated fine paper. KNP Leykam now conducts business as Sappi Fine Paper Europe. In 2002 we acquired Potlatch Corporation's coated fine paper business and have integrated it in Sappi Fine Paper North America.

In 2004 we acquired 34% of Jiangxi Chenming Paper Company, a joint venture which commissioned in mid-2005 a coated mechanical paper machine, mechanical pulp mill and de-inked pulp mill in China.

In August 2006, we announced the expansion of the existing capacity at Sappi Saiccor in South Africa, where Chemical Cellulose products are produced. The capacity of the mill was increased from approximately 600,000 metric tonnes per annum to 800,000 metric tonnes per annum. Production using the increased capacity commenced in September 2008. The plant is expected to be fully operational by mid February 2009.

In April 2006, Sappi announced a black economic empowerment transaction involving the sale of identified forestry land to a South African empowerment partner. We have received the final approval from the Minister of Land Affairs with regard to our Black Economic Empowerment transaction with Lereko Investments. In respect of this transaction, we recognized an immaterial charge to the income statement during fiscal 2008.

On December 31, 2008, we acquired the coated graphic paper business of M-real Corporation, including the brands, know-how, intellectual property, order books, and four mills. We also entered into agreements to sell the coated paper output of two mills, which will continue to be owned and operated by M-real Corporation, and contracts to purchase pulp, wood and energy from M-real Corporation and its associates. For information on this acquisition, see "Business Overview The Acquisition of M-real Corporation's Coated Graphic Paper Business".

After the close of fiscal 2008 Sappi Fine Paper Europe closed our Blackburn Mill in the United Kingdom and ceased production from PM 5 at our Maastricht mill in the Netherlands. Profitable products produced at these mills have been moved to our other facilities in Europe.

For information on our principal investments and capital expenditures, see the description of our business in "Business Overview" and "Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources".

BUSINESS OVERVIEW

Our Business

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

Business strategy

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

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

Investment Highlights

Ongoing industry rationalization in Europe

Increases in new production capacity in the past have resulted in significant overcapacity in the pulp and paper industry, particularly in the European fine paper market. This overcapacity has contributed to downward pressure on product prices, despite heightened demand levels and high production operating rates. We believe that a combination of industry consolidation and capacity reductions should encourage a rationalization of the European pulp and paper industry similar to recent developments in the North American market, which should contribute to improved profitability.

A number of producers, including our European business, have announced capacity reductions in Europe amounting to approximately 1.2 million tonnes of coated woodfree paper which we expect to be completed before mid-2009 and representing approximately 11% of the total European capacity for fine paper. We are actively participating in this process through the closure of our Blackburn mill (which has recently stopped production) and cessation of production from PM 5 at our Maastricht mill.

Efficient asset base

We own and operate what we believe are some of the lowest cost and most efficient assets in the coated fine paper sector in the world. A significant portion of our capital expenditures are designed to increase production capacity at efficient facilities, reduce costs and improve product quality. We continually evaluate the performance of our assets by maintaining a focus on profitability and we actively manage our asset base, including by divesting or closing non-performing assets and by pursuing an investment policy that is focused on high-return projects.

As part of this strategy, we have closed 16 paper machines since 1995, including the closure of our Blackburn mill (which has recently stopped production) and ceased production from PM 5 at our Maastricht mill, shifting production volumes to more efficient facilities and optimizing capacity utilization. We believe that the expected rationalization of manufacturing and synergies resulting from the integration of the Acquired Business from M-real Corporation will further enhance the efficiency of our operations.

High level of economic pulp integration and expansion of pulpwood operations

Including the Acquired Business, our Group is approximately 92% integrated on a net basis in terms of pulp usage, meaning that, while some of our facilities are market buyers of pulp and others market sellers, in the aggregate we produce almost as much pulp as we use, making us less dependent on market supplies. In the chemical cellulose segment we have recently completed an expansion project that has significantly increased production capacity at Sappi Saiccor, the world's largest single producer of chemical cellulose. We also intend to expand our pulpwood operations and further increase our pulp and chemical cellulose capacity. We expect to maintain a high level of economic pulp integration, which helps reduce the impact of pulp price volatility on our earnings. Two of the mills we acquired from M-real Corporation, Kirkniemi and Stockstadt, are also integrated pulp mills.

Leading market positions

We have achieved leading positions in our core products, in particular in the coated woodfree paper segment, by building a portfolio of premium international operating brands, and we are currently the largest producer of coated woodfree paper in the world (as measured by capacity). Our leading market positions place us in an advantageous position to benefit from the expected future growth of the coated woodfree paper segment, historically one of the fastest growing segments of the global paper industry. The Acquisition of the coated graphic paper business from M-real Corporation, will strengthen our position in the coated woodfree market and significantly increase our presence in the coated magazine paper market.

Global presence

We believe that our existing 18 pulp and paper mills across Europe, North America and southern Africa enable us to take greater advantage of opportunities where markets are strong and reduce risk where they are weak. Our geographic diversity assists us in offsetting the effects of volatile movements of major currencies as we can benefit from imbalances in demand and relative strengths of currencies by shifting production between regions. We believe that these benefits of our geographic diversity will be increased by our expansion into Finland and Switzerland and our increased presence in Germany as a result of the Acquisition of the coated graphic paper business from M-real Corporation.

Focus on product innovation and customer service

One of our main strategic objectives is the further integration of our international marketing and distribution efforts, with an emphasis on meeting our customers' requirements and expectations. We intend to enhance client relationships by continually improving service and reliability, and we will continue to focus on increasing service and efficiency, including through business-to-business interaction. We expect to continue to maintain a focus on innovation, transferring knowledge throughout our Group and implementing best-practice policies. We believe that our three research and development centers in Europe, North America and South Africa, enhance our ability to design and improve value-added products and services and to bring them to market with increased efficiency.

The Acquisition of M-real Corporation's Coated Graphic Paper Business

Overview

On December 31, 2008, we acquired four graphic paper mills: the Kirkniemi mill and the Kangas mill in Finland, the Stockstadt mill in Germany and the Biberist mill in Switzerland; and other specified assets; as well as all of the know-how, brands, order books, customer lists, intellectual property and goodwill of the coated graphic paper business of M-Real Corporation. The four acquired mills have now become part of Sappi Fine paper Europe. The Acquired Business has a total annual production capacity of approximately 1.9 million tonnes of graphic paper and in 2007 generated total sales of € 1.3 billion.

As part of the Acquisition, we entered into long term supply agreements under which M-Real Corporation and its parent company will supply wood, energy and pulp to us. In addition, we entered into transitional marketing agreements under which M-Real Corporation will produce products at certain graphic paper machines at the Husum mill (Sweden) and the Äänekoski mill (Finland) and we will market and distribute those products. At the time the Acquisition was announced, M-Real Corporation announced plans to discontinue production of coated woodfree paper at its Hallein and Gohrsmühle mills, resulting in a capacity reduction of about 600,000 tones of coated woodfree paper in Europe.

The total consideration for the Acquisition was € 750 million and was subject to a deduction based on the amount of net debt of the Acquired Business at completion and an adjustment for the difference between the target working capital and the actual working capital at completion. The Acquisition consideration represents a price of approximately € 400 per tonne of annual paper production capacity acquired.

We funded the consideration for the Acquisition as follows:

€ 450 million was funded in cash with the gross proceeds of a rights offering to shareholders conducted in November and December 2008;

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€ 50 million equivalent was funded through the issue of ordinary shares of Sappi Limited to M-Real Corporation (the "Consideration Shares"), with the actual number of such Consideration Shares having been determined based on the average weighted closing price of the shares and certain adjustments in respect of the rights offering and other anti-dilutive protections; and

€ 220 million was funded through the issuance by Sappi Papier Holding GmbH to M-Real Corporation of vendor loan notes ("Vendor Loan Notes"). Following the completion of the Acquisition, we are in the process of determining any purchase price adjustments and performing an allocation of the purchase price.

Acquired Business

The Acquired Business was previously operated by M-Real Corporation as part of its broader graphic paper business. We acquired the Acquired Business in the form of specific assets and as the shares of certain of M-Real Corporation's subsidiaries that own relevant assets.

Mills

We acquired, either by acquiring the relevant assets or shares of a holding company, the following four mills as part of the Acquired Business.

Kirkniemi. We acquired the assets comprising Kirkniemi mill, located 70 kilometers west of Helsinki, Finland. The mill was built in 1966 and has an annual production capacity of approximately 740,000 tonnes of paper and 338,000 tonnes of mechanical pulp. The mill has approximately 639 employees. The products of the Kirkniemi mill are:

Galerie Lite coated ultra-lightweight paper with high bulk and opacity;

Galerie Brite coated lightweight paper with high bulk, soft gloss and improved brightness; and

Galerie Fine coated magazine paper with high brightness, smoothness and improved opacity.

Kangas. We acquired the assets comprising Kangas mill except its PM 2. The mill is located 270 kilometers north of Helsinki in Jyväskylä, Finland. The mill was established in 1872 and has an annual production capacity of approximately 210,000 tonnes of paper after the closure of a paper machine in 2008. The mill has approximately 225 employees and produces Galerie Silk, a coated magazine paper with a silk finish.

Stockstadt. We acquired the shares of M-Real Stockstadt GmbH, which holds Stockstadt mill located in Stockstadt, Germany. The mill was established in 1898 and has an annual production capacity of approximately 420,000 tonnes of paper and 160,000 tonnes of pulp. The mill has approximately 720 employees. Its products are:

EuroArt Plus coated woodfree paper;

Tauro uncoated woodfree paper; and

hardwood pulp.

Biberist. We acquired the shares of M-Real Biberist, which holds Biberist mill, located in Biberist, Switzerland. The mill was established in 1862 and has an annual production capacity of approximately 505,000 tonnes. The mill has approximately 538 employees and produces woodfree coated fine paper for the graphic arts industry and offset printing, as well as woodfree uncoated pre-printed paper for office, pre-printed and offset applications. The products of the Biberist mill are:

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Cento uncoated woodfree multi-purpose printing paper;

Allegro coated woodfree paper; and

Furioso coated woodfree paper.

Coaters

We acquired the paper coating machines from M-Real Corporation as part of the Acquisition. We expect to complete the reallocation of products by the end of June 2009.

Marketing and Distribution Rights

Under distribution agreements entered into as part of the Acquisition, M-Real Corporation granted us the exclusive right to market and sell the products of certain graphic paper machines at M-Real Corporation's Husum mill and Äänekoski mill for a period of five years, with a minimum duration of 27 months or, if earlier, until M-Real Corporation sells the relevant mill. We will be entitled to a commission on sales while the agreements are in effect. The graphic paper machines subject to the distribution agreements are described below.

Husum PM 8. We entered into a distribution agreement in respect of PM 8 at M-Real Corporation's Husum mill in Sweden. PM 8 is the only asset producing coated graphic paper at Husum mill and has an annual production capacity of 285,000 tonnes of Galerie Fine paper, a coated fine paper with high brightness, smoothness and improved opacity.

Äänekoski PM 2. We entered into a distribution agreement in respect of PM 2 at M-Real Corporation's Äänekoski mill in Finland. Äänekoski's PM 2 produces triple blade coated wood-free art paper on one paper machine that is marketed under the brand name Galerie Art. The machine has an annual production capacity of 200,000 tonnes.

Supply Agreements

In addition to the Acquisition Agreement, we entered into various ancillary agreements with M-Real Corporation and its parent company as part of the Acquisition. Under a wood supply agreement M-Real Corporation's parent company will supply up to 704,000 cubic meters of wood, substantially all of which will be sourced in Southern Finland, to the Kirkniemi mill annually for a minimum period of 12 years at market rates. This new wood supply agreement comes in addition to existing arrangements for the Stockstadt mill under which a subsidiary of M-Real Corporation's parent company will continue to supply wood. Pursuant to two pulp supply agreements, M-Real Corporation and its parent company will supply up to 667,000 tonnes of pulp per year for minimum periods of between 3 and 8 years to the mills acquired in the Acquisition. We also entered into two electricity supply agreements pursuant to which M-Real Corporation will supply part of the electricity for Kirkniemi and Kangas mills for up to 5 years.

Ancillary Assets of the Acquired Business

We also acquired from M-Real Corporation the business assets relating to the coated graphic paper business of the Gohrsmühle and Hallein mills, from which we acquired coaters, and the Husum and Äänekoski mills, for which we entered into marketing and distribution agreements. These business assets include goodwill, intellectual property, brands, know-how, business contracts, order books and customer lists in respect of these mills.

We did not acquire these additional assets to the extent that they relate to M-Real Corporation's South African coated graphic paper business. However, M-Real Corporation granted us an option to acquire the business assets relating to its South African coated graphic paper for an agreed sum. We also granted M-Real Corporation an option requiring us to acquire these business assets relating to South Africa for the same price when the option is exercised. Either option may be exercised any time after January 31, 2009.

Transferred Employees

Approximately 2,100 employees associated with the Acquired Business have transferred to our Group. M-Real Corporation is liable for any costs of terminating any other employees.

The Pulp and Paper Industry

Overview

The paper industry is generally divided into the printing and writing paper segment, consisting of newsprint, groundwood paper and fine paper, and the packaging segment, consisting of containerboard, boxboard and sackkraft.

Long-term, paper and board consumption has grown in line with overall economic growth, but consumption patterns are also influenced by short-term economic developments. Pricing largely is influenced by the supply / demand balance for individual products, which is partially dependent on capacity and inventory levels in the industry. The ability to adapt capacity changes in response to shorter-term fluctuations in demand is limited, as large amounts of capital are required for the construction or upgrade of production facilities and as lead times are long between the planning and completion of new facilities. Industry-wide over-investment in new production capacity has in the past led to situations of significant oversupply, which have caused product prices to decrease. This has been exacerbated by inventory speculation, as purchasers have sought to benefit from the price trend. As a result, financial performance has deteriorated during periods of significant oversupply and improved when demand has increased to levels that support the implementation of price increases.

In recent years, the industry has experienced significant strategic changes. The high costs associated with building new paper mills and establishing and growing market share have led to companies focusing on acquisition, rather than construction, of new capacity. In China, however, rapid economic growth and government incentives have spurred massive investment in the pulp and paper industry. In recent years, China's paper and board as well as fine paper capacity increased considerably allowing China to change from a net importer to a net exporter of coated fine paper. Another result of this trend has been a greater concentration of production capacity among fewer producers. Many leading industry producers now focus on fewer core grades and have divested non-core assets that are not part of the industry or which have been considered not consistent with long-term strategies. The regional and global market shares of leading producers have increased significantly over the past decade.

The following table shows a breakdown and description of the major product categories we participate in, the products in these categories and the typical uses for such products. We have produced and sold each of these products in each of our last three fiscal years.

Major Product Categories	Description and Typical Uses
<i>Fine Paper:</i>	
Coated paper	Higher level of smoothness than uncoated paper achieved by applying a coating (typically clay based) on the surface of the paper. As a result, higher reprographic quality and printability is achieved. Uses include brochures, catalogues, corporate communications materials, direct mail promotions, educational textbooks, luxury advertising, magazine covers and upscale magazines.
Uncoated paper	Uses include business forms, business stationery, general printing paper, tissue and photocopy paper.
Speciality paper	Can be either coated or uncoated. Uses include bags, labels, packaging and release paper for casting textured finishes (e.g., artificial leather).

Major Product Categories	Description and Typical Uses
Packaging products:	
Packaging paper	Heavy and lightweight grades of paper and board primarily 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 (grocer's bags). Can be coated to enhance barrier and aesthetics properties.
Groundwood products:	
Newsprint	Manufactured from groundwood and bleached chemical pulp. Uses include advertising inserts and newspapers. Demand is highly dependent on newspaper circulation and retail advertising.
Coated groundwood / magazine paper	A coated groundwood fiber based paper, primarily used for magazines, catalogues and advertising material. Manufactured from mechanical pulp.
Pulp:	
Paper pulp	Main raw material used in production of printing, writing and packaging paper. Pulp is the generic term that describes the cellulose fiber derived from wood. These cellulose fibers may be separated by mechanical, thermo-mechanical or chemical processes. The chemical processes involve removing the glues (lignins) which bind the wood fibers to leave cellulose fibers. Paper made from chemical pulp is generally termed "woodfree". Uses include paper, paperboard and tissue.
Chemical cellulose	Manufactured by similar processes to paper pulp, but purified further to leave virtually pure cellulose fibers. Chemical cellulose is used in the manufacture of a variety of cellulose textile and non-woven fiber products, including viscose staple fiber (rayon), solvent spun fiber (lyocell) and filament. It is also used in various other cellulose-based applications in the food, cigarette, chemical and pharmaceutical industries. These include the manufacture of acetate flake, microcrystalline cellulose, cellophane, ethers and molding 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.
Timber products:	
	Sawn timber for construction and furniture manufacturing purposes.

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The following tables set forth selected pulp and paper prices in certain markets for the periods presented.

	Year ended September									
	2008		2007		2006		2005			
	Low	High	Low	High	Low	High	Low	High	Low	High
Coated Fine Paper										
100 gsm delivered Germany (euro per tonne) ⁽¹⁾	750	820	760	830	790	825	845	845	845	845
60 lb. delivered US (US\$ per short ton) ⁽²⁾	960	1,095	890	965	900	960	870	920	920	920
Uncoated Fine Paper										
50 lb. delivered US (US\$ per short ton) ⁽³⁾	830	970	790	855	700	850	700	770	770	770
Paper Pulp										
NBSK (US\$ per tonne) ⁽⁴⁾	850	890	720	830	595	715	585	655	655	655
Chemical cellulose										
92 alpha (US\$ per tonne) ⁽⁵⁾	820	1,200	715	870	650	775	600	780	780	780

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- (1) 100 gsm sheets, RISI.
- (2) 60 lb. Coated Web, RISI.
- (3) 50 lb. Offset, RISI.
- (4) Northern Bleached Softwood Kraft Pulp CIF Northern Europe, RISI.
- (5) Selected indicative prices, Sappi.

Fine Paper

Our fine paper activities are divided into coated and uncoated fine paper and speciality paper grades.

Coated Fine Paper. Major end uses of coated fine paper include high-end magazines, catalogues, brochures, annual reports and commercial printing. Coated fine paper is made from chemical pulp and is coated on one or both sides for use where high reprographic quality is required. The majority of coated fine paper production is coated on two sides, permitting quality printing on both sides of the paper. Paper that is coated on one side is used in special applications such as consumer product and mailing label applications.

Our North American coated fine paper sales volume for fiscal 2007 was 31% in sheet form and 69% in reel form, and for fiscal 2008 was 24% in sheet form and 76% in reel form. The sheet volume is largely influenced by brochure and general commercial printing activities and printers using mainly sheet-fed offset lithographic printing processes, which are not particularly seasonal, and corporate annual reports, which result in heaviest demand during the first calendar quarter. Reels volume is heavily influenced by catalogue activity, which is strongest in the third and fourth calendar quarters, text book activity, which is strongest in the second and third calendar quarters, and publication printer activity, which is not particularly seasonal. These printers principally use heatset web offset printing processes.

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Our European coated fine paper sales volume for fiscal 2007 and 2008 year, was 61% in sheet form and 39% in reel form. Due to the diversity in languages in the European market, the print editions of brochure and general commercial printing activities are considerably smaller than in the US market. This translates into a significantly higher volume in sheets. The seasonal patterns of both sheets and reels are mostly influenced by the catalogue business. This segment has its highest seasonal activity in the spring, when the fashion catalogues come out, and the autumn, when the Christmas catalogues and holiday brochures are printed. Commercial print and publishing business provide a more steady demand in this market.

Uncoated Paper. Uncoated fine paper represents the largest industry fine paper grade in terms of both global capacity and consumption. Uncoated fine paper is used for bond / writing and offset printing papers, photocopy papers, writing tablets (e.g., legal pads), speciality lightweight printing paper (e.g., bibles) and thin paper.

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The market for uncoated paper products generally follows cyclical trends, which do not necessarily coincide with cycles for coated paper but are impacted by capacity changes in uncoated fine paper output levels.

Speciality Paper. The high value-added speciality paper markets in which Sappi Fine Paper operates generally follow trends in the respective end use sectors in addition to changes in production capacity, output levels and cyclical changes in the world economy. Largely due to the highly specialized nature of speciality paper, price fluctuations have historically tended to lag and be less precipitous than price changes in the uncoated fine paper market.

Groundwood Products

Coated Magazine Paper. Coated magazine paper has similar end-uses as coated fine paper and is used mainly for magazines and, among other things, for brochures, catalogues, advertising materials and promotional products. Depending on quality requirements and price levels, substitution between coated fine paper and coated magazine paper is possible. Coated magazine paper is made mainly from mechanical pulp and typically has glossy finishes on both sides. European demand for coated magazine paper grew by 1.6% in fiscal 2008 with eastern Europe experiencing a higher growth rate than western Europe. Worldwide demand for coated magazine paper contracted by 2.1% in fiscal 2008 and continued to contract post our fiscal 2008 year end due to a worldwide economic slowdown and a contraction in magazine advertising expenditure. Including the Acquired Business, we expect to be a major producer of coated magazine paper in Europe, as measured by capacity.

Newsprint. The Ngodwana mill produces newsprint. The worldwide market for newsprint is a low growth sector in the paper industry and was adversely affected during the early 1990s by substantial increased capacity and stagnating demand from, and cost-cutting measures imposed by, major newsprint end-users. In South Africa, newsprint demand has increased due to increased consumption based on new titles and a greater penetration of freesheets.

Packaging Products

Our range of forest products comprises a variety of packaging papers produced in southern Africa at the Tugela, Cape Kraft and Ngodwana mills. We are one of the two major suppliers of packaging papers in South Africa.

Packaging Paper. As with fine paper, the market for packaging papers is affected by cyclical changes in the world economy, local economic growth, retail sales and by changes in production capacity and output levels. The southern African containerboard market was positively affected by strong gross domestic product growth and corresponding growth in retail sales during fiscal 2007. During fiscal 2008 the southern African containerboard market was further positively affected by a good citrus crop and corresponding demand from export markets, as well as strong demand from the industrial sector. Demand for sack kraft is largely driven by the demand for cement, potatoes, sugar and milling products. Our sack kraft market share was negatively affected by lower priced imported products and production constraints in fiscal 2005 and fiscal 2006 but in fiscal 2007 fiscal 2008 has increased due to higher priced and therefore less attractive imports and significant improvements in production output.

Pulp

We produce chemical cellulose, as well as a wide range of paper pulp grades, including groundwood pulp used in newsprint, unbleached kraft pulp, bleached kraft pulp and bleached sulphite pulp.

Paper Pulp. The market pulp industry is highly competitive and is sensitive to changes in industry capacity, producer inventories, demand for paper and cyclical changes in the world economy. The market price per tonne of NBSK pulp, a pulp principally used for the manufacture of fine paper, is a benchmark widely used in the industry for comparative purposes.

NBSK prices hit a cyclical low of \$380 per metric tonne in 2002. The pulp market improved towards the end of 2005 and remained firm during fiscal 2006, 2007 and 2008. As a result, NBSK prices averaged

US\$ 695 per metric tonne during 2006 and continued to increase to US\$ 770 in October 2006, US\$ 830 in October 2007 and US\$ 858, in September 2008. Since September 2008 pulp markets have weakened considerably due to the worldwide economic slowdown and the price of NBSK has declined to US\$ 615 per metric tonne in January 2009.

Market unbleached kraft pulp (UKP) is used in the production of packaging papers, including kraft linerboard and sack kraft and for certain niche products such as oil and air filters. The market price of UKP generally follows the price trends of other paper pulp grades.

Chemical cellulose. The viscose staple fiber (VSF) industry which manufactures textile and non-woven fibers is the largest market segment for chemical cellulose. Prices of VSF grade chemical cellulose generally follow those of the European NBSK. Since 1995, the price of VSF grade chemical cellulose has ranged from a high of around US\$ 1,100 per metric tonne in some instances in the third fiscal quarter of 2008 (second calendar quarter), to a low of US\$ 470 per metric tonne in the second quarter of 2002. During fiscal 2008, prices of VSF grade chemical cellulose strengthened in line with NBSK prices. Subsequently these prices have fallen sharply as a result of the weaker economic conditions and the rapid decline in demand for chemical cellulose in the latter part of the quarter ended December 2008. Prices of the higher purity chemical cellulose used in applications other than for VSF products tend to be more stable and are largely unrelated to the price of NBSK. The manufacture of cellulose acetate flake (used in the manufacture of acetate tow for cigarette filter tips) is the second largest application for chemical cellulose after VSF. The market price for chemical cellulose used for cellulose acetate flake production is set by competitive forces within this specific market and has increased to levels above US\$ 1,000 per metric tonne. The weakness in the paper pulp markets and chemical cellulose markets has put pressure on chemical cellulose prices since October 2008.

Timber Products

Our timber products operations are concentrated in South Africa and consist of sawn timber for the building industry and components for the furniture and packaging industry.

Business Review

Sappi Fine Paper is our largest operating segment, accounting for approximately 65% of our sales volume for fiscal 2008 and approximately 63% of our sales volume in fiscal 2007. It has an aggregate annual paper production capacity of 4.4 million tonnes at 14 paper and related paper pulp mills in North America, Europe and South Africa.

Sappi Forest Products is an integrated pulp, packaging paper and timber products producer. In fiscal 2007 and fiscal 2008, Sappi Forest Products accounted for approximately 37% and 35%, respectively, of our sales volumes.

We also operate a trading network for the international marketing and distribution of our products outside our core operating regions of North America, Europe and southern Africa. Our trading operation, which we refer to as Sappi Trading, co-ordinates our shipping and other logistical functions for exports from southern Africa, Europe and North America. All sales and costs associated with Sappi Trading are allocated to the two business segments.

The markets for our pulp and paper products are significantly affected by changes in industry capacity and output levels and by cyclical changes in the world economy. For further information, see "Operating and Financial Review and Prospects Principal Factors Impacting on Group Results Markets" and "The Pulp and Paper Industry".

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The chart below represents our operational rather than the legal or ownership structure as of September 2008. Units shown are not necessarily legal entities.

The following tables set forth certain information with respect to our operations for, or as of the end of, the year ended September 2008.

	Sappi Fine Paper			Sappi Corporate		
	North	South	Forest	and		
	America	Europe	Africa	Products	Other	Total
	US\$ million (tonnes '000)					
Sales volume (tonnes)	1,553	2,546	339	2,413		6,851
Sales	1,664	2,720	380	1,099		5,863
Operating profit	92	(64)	6	273	7	314
Operating assets ⁽¹⁾	1,285	2,224	167	1,972	44	5,792

(1)

Operating assets as defined in note 3 to our Group Annual Financial Statements included elsewhere in this Annual Report.

On December 31, 2008, we acquired specific assets of M-real Corporation's coated graphic paper business, including four of M-real Corporation's graphic paper mills in Finland, Germany and Switzerland, with an aggregate annual production capacity of 1.9 million tonnes, and three coaters from other M-real Corporation mills in Germany and Austria. See "The Acquisition of M-real Corporation's Coated Graphic Paper Business".

SAPPI FINE PAPER

Overview

Sappi Fine Paper is our largest operating segment and contributed approximately 63% and 65%, respectively, of our sales volume in fiscal 2007 and fiscal 2008. It has the capacity to produce 4.4 million tonnes of paper per annum at its 14 paper and related paper pulp mills located on three continents. Sappi

Fine Paper operates in three principal regions: Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Fine Paper South Africa.

The following chart sets forth certain information with respect to the mills and principal products of Sappi Fine Paper as of September 2008.

(1) We ceased production of PM 5 at the Maastricht mill in December 2008.

The following table sets out the approximate annual production capacity of Sappi Fine Paper's products.

	Annual Production Capacity			
	North	South		
	America	Europe	Africa	Total
Production capacity ('000s tonnes):				
Fine paper				
Coated ⁽¹⁾⁽⁵⁾	1,290	2,710	80	4,080
Uncoated ⁽²⁾			270	270
Total ⁽³⁾	1,290	2,710	350	4,350
Paper pulp	900	695	165	1,760
Percentage paper pulp integration ⁽⁴⁾	114%	48%	59% ⁽⁶⁾	65%

(1) Includes coated fine paper, coated groundwood paper and speciality papers.

- (2) Includes 30,000 tonnes of tissue manufactured at the Stanger mill in South Africa and 14,000 tonnes of kraft manufactured at the Enstra and Adamas mills in South Africa.
- (3) Excludes Chinese joint venture tonnes.
- (4) Includes pulp used internally and pulp sold.
- (5) Includes 120,000 tonnes for the Blackburn mill which ceased production in October 2008 and 60,000 tonnes for the PM5 at Maastricht which ceased production in December 2008.
- (6) Sappi Forest Products provides most of the additional pulp requirements of our South African fine paper operations.

Facilities and Operations

Sappi Fine Paper North America

Sappi Fine Paper North America is a leading producer and supplier of coated fine paper in the United States. Sappi Fine Paper North America also produces coated speciality papers and, from time to time, uncoated fine papers.

Sappi Fine Paper North America is headquartered in Boston, Massachusetts, and operates four paper mills in the United States in Somerset, Maine; Muskegon, Michigan; Westbrook, Maine; and Cloquet, Minnesota. These four mills have a total annual production capacity of approximately 1.3 million tonnes of paper and a capacity of approximately 0.9 million tonnes of paper pulp, which represents approximately 112% of Sappi Fine Paper North American pulp requirements. This significantly reduces Sappi Fine Paper North America's exposure to fluctuations in the price of market pulp that are not driven by fluctuations in wood or other major raw material prices. As part of our strategy to maintain an efficient asset base, we announced in July 2005 the closure of PM 4 and the mothballing of the pulp mill at Muskegon, which had an annual production capacity of 105,000 tonnes of paper and 110,000 tonnes of pulp, respectively.

Coated paper accounted for approximately 75% and 76% of Sappi Fine Paper North America's sales in fiscal 2007 and fiscal 2008, respectively. Speciality paper and pulp accounted for 25% and 24% for fiscal 2007 and 2008, respectively.

The following table sets forth sales by product for our North American operations.

	Year ended September		
	2008	2007	2006
Sales (US\$ million)			
Coated fine paper	1,273	1,136	1,094
Speciality paper and other ⁽²⁾	391	375	345
Total	1,664	1,511	1,439

- (1) Includes sales for PM 4 at Muskegon mill during the 2005 fiscal year, which contributed US\$ 83 million of sales (68,300 tonnes).
- (2) Other consists primarily of market pulp.

For the year ended September 2008, Sappi Fine Paper North America sold approximately 1,553,000 tonnes of paper and pulp products. The following table sets forth the annual production capacity, number of paper machines, products, pulp integration, and for fiscal 2006 to fiscal 2008 capital expenditures, at each of our continuing mills in North America.

Production capacity ('000s tonnes)	Mill Locations			
	Cloquet	Somerset	Muskegon	Westbrook
Paper	330	760	170	30
Number of paper machines	2	3	1	1
Products				
Paper	Coated fine paper	Coated fine paper	Coated fine paper	Casting release paper
Market pulp	Bleached kraft pulp	Bleached kraft pulp		
Percentage pulp integration ⁽¹⁾	232%	94%	None	None

Capital expenditures (October 2005-September 2008) (US\$ million)	37	141	10	20
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(1)

Includes pulp sold to third parties.

Cloquet. The Cloquet mill has two paper machines and an offline coater, producing premium coated paper. The newest machine and coater were installed in 1988 and 1989, respectively. The pulp mill started up by the previous owner in 2000 at a total cost of US\$ 525 million. The Cloquet paper machines have an annual

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production capacity of 330,000 tonnes of coated paper, and the state-of-the-art pulp mill has an annual production capacity of 410,000 tonnes.

Somerset. The Somerset mill is a low-cost producer and has an annual production capacity of approximately 760,000 tonnes of paper and approximately 490,000 tonnes of pulp. The pulp mill was built in 1976, and Somerset became an integrated facility with the completion of PM 1 in 1982. Each of the three paper machines at the Somerset facility employs Sappi Fine Paper North America's patented on-line finishing technology. This technology combines the three steps (paper making, coating and finishing) in the manufacture of coated paper into one continuous process. It is well suited for the lighter weight coated free sheet papers produced at Somerset, because it allows the production of high gloss, consistent quality products at high speeds.

Muskegon. The Muskegon mill consists of one paper machine with an annual winder capacity of approximately 170,000 tonnes of text and cover weight coated paper using Sappi Fine Paper North America's on-line finishing technology. On July 28, 2005, we announced the closure of PM 4 and the mothballing of the pulp mill at Muskegon, which had an annual production capacity of 105,000 tonnes of paper and 110,000 tonnes of pulp, respectively.

Westbrook. Westbrook is Sappi Fine Paper North America's original mill, with origins dating back to 1854. The mill is primarily a speciality paper production facility with an annual capacity of 30,000 tonnes of coated fine and casting release paper. Its paper machine primarily produces base paper, which is coated off-line. Westbrook also has six speciality coaters, including four employing Sappi Fine Paper North America's patented Ultracast® process. This process uses an electron beam to cure coating against a finely engraved steel roll, resulting in a virtually exact replication of the roll pattern. Sappi Fine Paper North America also has a research and development facility at Westbrook.

Sappi Fine Paper North America also operates a coated paper sheeting and distribution facility in Allentown, Pennsylvania, which was completed in 1994 and has an annual sheeting capacity of approximately 100,000 tonnes.

Sappi Fine Paper Europe

Sappi Fine Paper is a leading producer of coated fine paper in Europe and a producer of commercial printing paper, coated groundwood paper and speciality paper used in packaging, labeling and laminating. Sappi Fine Paper Europe's operations consist of seven mills with an aggregate annual production capacity of approximately 2.7 million tonnes of paper and 695,000 tonnes of related paper pulp. Sappi Fine Paper Europe's headquarters are located in Brussels, Belgium.

The following table sets forth sales by product for our Sappi Fine Paper Europe operations:

	Year ended September		
	2008	2007	2006
Sales (US\$ million):			
Coated fine paper ⁽¹⁾	2,407	2,101	1,917
Uncoated fine paper	27	51	38
Speciality coated paper and other	286	235	239
Total	2,720	2,387	2,194

(1)

Includes coated mechanical paper produced at Lanaken mill.

For the year ended September 2008, Sappi Fine Paper Europe sold approximately 2,545,941 tonnes, of paper and pulp products. The following table sets forth the annual production capacity, number of paper

machines, products, pulp integration, and, for fiscal 2006 to fiscal 2008, capital expenditures, at each of Sappi Fine Paper Europe's mills in Europe.

	Mill Location						
	Germany		Austria	Netherlands		Belgium	United Kingdom
	Alfeld	Ehingen	Gratkorn	Maastricht	(Nijmegen)	Lanaken	Blackburn(1)
Paper capacity ('000s tonnes)	370	250	900	330	240	500	120
Number of paper machines	5	1	2	2	1	2	1
Products	Coated and uncoated fine paper, coated specialties paper	Coated fine paper and uncoated fine paper	Coated fine paper and uncoated fine paper	Coated fine paper and coated speciality paper	Coated fine paper	Coated groundwood paper and coated fine paper	Coated fine paper
Percentage pulp integration(2)	52%	96%	55%	None	None	63%	None
Capital expenditures (October 2005 to September 2008) (US\$ million)	33	106	114	23	12	29	4

- (1) Production at our Blackburn mill ceased in October 2008 and the mill was closed in November 2008. We also ceased production of PM 5 (with a capacity of 60,000 tonnes per annum included in the table above) at our Maastricht mill, as described under " Blackburn" and " Maastricht" below.
- (2) Includes pulp sold to third parties.

Alfeld. The Alfeld mill is located to the south of Hannover, Germany, and its origins date back to 1706. It has a paper production capacity of approximately 370,000 tonnes and a pulp production capacity of approximately 125,000 tonnes per annum. It produces coated fine and speciality paper products, which are mainly coated and have a variety of finishes. In 1995 a major rebuild of Alfeld's PM 3 was completed, enhancing the production of low substance flexible packaging papers. Alfeld's PM 3 employs a fully integrated concept of in-line coating and calendaring. The Alfeld mill produces totally chlorine-free ("TCF") bleached sulphite pulp for its own use. In early 2002, a rebuild of Alfeld's PM 2 was completed. Alfeld spent approximately € 50 million on the rebuild of its PM 2.

Ehingen. The Ehingen mill is located to the southeast of Stuttgart, Germany and was acquired by Hannover Papier, predecessor entity to Sappi Alfeld, in 1987. A paper machine with a capacity of 180,000 tonnes per annum of coated fine paper was commissioned in July 1991, expanding Ehingen from a market pulp mill into an integrated pulp and paper mill. During 1994, the construction of a high-rack warehouse was completed. As a result of upgrades during 1994 and 1996, Ehingen's total paper capacity was increased to 235,000 tonnes per annum. During June and July 2006 the paper machine was rebuilt and started up together with a new coater allowing a significant quality upgrade from single coated to triple coated fine paper with capacity of approximately 250,000 tonnes per annum. The pulp mill's capacity is currently 135,000 tonnes

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per annum of TCF bleached sulphite pulp. The pulp is produced mainly for internal use, but is also sold to third party customers.

Gratkorn. Paper has been produced at the Gratkorn, Austria site for more than four centuries. Following a major expansion and renovation project the Gratkorn mill has been transformed from a five-machine mill into a two-machine mill. As a result of this project, Gratkorn currently has an annual capacity of 900,000 tonnes of triple-coated fine paper on just two paper machines and 255,000 tonnes of TCF chemical pulp. The machines at Gratkorn are among the largest and most efficient paper machines in the world. After extension of Gratkorn's sheeting plant, it also has an annual sheet finishing capacity of 800,000 tonnes.

Maastricht. The Maastricht, Netherlands mill at January 2009 has the capacity to produce over 270,000 tonnes per annum of coated fine paper and board and one-side coated paper used primarily for printing labels. Paper was first produced in Maastricht in 1852. PM 6, which was installed at Maastricht in 1962, was first rebuilt in 1977. In 1996, PM 6 underwent an extensive NLG224 million (€ 102 million) rebuild.
Maastricht

specializes in high basis-weight triple-coated fine paper and board for graphics applications. PM 6's production complements that of the Gratkorn mill, which produces lower weight coated fine paper. We ceased production at Maastricht's PM 5 in December 2008, having reached an agreement with the Mill's Works Council in respect of such action. Production ceased at PM5 which has reduced the mill's total capacity by 60,000 tonnes per annum. See "Operating and Financial Review and Prospects Liquidity and Capital Resources Mill Closures, Acquisitions, Dispositions, Impairment and Joint Ventures".

Lanaken. The Lanaken, Belgium mill began commercial operations in 1966. It produces coated groundwood paper and lower weight wood-containing coated paper for offset printing. Coated groundwood paper for web offset presses is used primarily in the production of advertising materials and magazines. Lanaken's two paper machines have a total annual capacity of 500,000 tonnes. One machine principally produces coated groundwood paper. It was completely overhauled in 1992, and an additional off-line coater was installed to provide triple coating capability. The other paper machine produces lower-weight wood-containing paper. Its capacity was increased to 305,000 tonnes per annum as a result of an optimization process during the mid-1990s. Lanaken produces chemi-thermo-mechanical pulp (CTMP) in an integrated plant which has been extended to an annual capacity of 180,000 tonnes. This enables the mill to supply approximately 63% of its fiber requirements for paper production.

During fiscal 2007 the administration of the Maastricht and Lanaken mills was combined to reduce costs.

Nijmegen. The Nijmegen, Netherlands mill began operations in 1955 and operates one paper machine. The mill specializes in the production of reels of coated fine paper for web offset printing. It also produces special coated fine paper for use in digital printing. The Nijmegen mill was upgraded in 2001. The upgrade increased its capacity by 40,000 tonnes per annum. With an annual production capacity of 240,000 tonnes, the Nijmegen mill is one of Europe's largest suppliers of coated fine web offset paper. Rotary, or web, offset paper is used for commercial printing and publishing.

Blackburn. The Blackburn, England mill was established in 1875, and has been a major producer of cast coated paper. The Blackburn mill was rebuilt completely in 1996. In May 2000, we sold our Astralux brand of cast coated papers produced at the mill to the Favini Group in Italy. The production of cast-coated papers at the Blackburn mill ceased at the end of May 2000. The annual capacity of the mill is 120,000 tonnes.

On September 22, 2008, we reached an agreement with labor representatives at the Blackburn mill pursuant to which the mill has been closed on November 12, 2008. See "Operating and Financial Review and Prospects Liquidity and Capital Resources Mill Closures, Acquisitions, Dispositions, Impairment and Joint Ventures".

Nash. The Nash mill in Hemel Hempstead, England operated as a paper mill since the 1800s and manufactured a variety of different grades of paper and board. During May 2006, production at the Nash mill was terminated and the plant and equipment were sold locally with some being transferred elsewhere in our Group. During the second quarter of fiscal 2007, the Nash site was sold for US\$ 46 million and a pre-tax profit of US\$ 26 million was recognized in our results in that quarter. Most of the products previously manufactured at the mill are now produced at the Adamas mill in South Africa.

Acquisition of coated graphic paper business from M-real Corporation. As part of the Acquisition, we acquired four of M-real Corporation's graphic paper mills: Kangas mill in Finland, with an annual production capacity of approximately 210,000 tonnes; Kirkniemi mill, also in Finland, with an annual production capacity of approximately 740,000 tonnes; Stockstadt mill in Germany, with an annual production capacity of approximately 420,000 tonnes and Biberist mill in Switzerland, with an annual production capacity of approximately 505,000 tonnes. These mills produce a range of coated and uncoated paper, including coated magazine paper. The Acquisition also includes the coaters from M-real Corporation's Gohrsmühle mill in Germany and Hallein mill in Austria. See "The Acquisition of M-real Corporation's Coated Graphic Paper Business".

Sappi Fine Paper South Africa

Sappi Fine Paper, through Sappi Fine Paper South Africa, produces and markets a wide range of coated, uncoated and speciality papers as well as crêped tissue and fiberboard in South Africa. Sappi Fine Paper

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South Africa is headquartered in Johannesburg. In the uncoated fine paper sector, Sappi Fine Paper operates one integrated pulp and uncoated paper mill, Enstra (located near Johannesburg). Stanger (located north of Durban) uses bagasse (the fibrous residue of sugar cane) to produce coated fine paper and tissue. A smaller paper mill, Adamas (located in Port Elizabeth) utilizes pulp from our pulp mills and waste paper to produce speciality paper and some kraft products. Adamas now also produces branded printing paper and board, previously produced at the Nash mill in the United Kingdom. Sappi Fine Paper South Africa is the only producer of coated fine paper in South Africa.

For the years ended September 2007 and 2008, Sappi Fine Paper South Africa sold approximately 350,000 tonnes and 339,000 tonnes, respectively, of paper and pulp products. The following table sets forth sales by product for our Sappi Fine Paper South Africa operations.

	Year ended		
	September		
	2008	2007	2006
Sales (US\$ million):			
Coated fine paper	67	70	61
Uncoated fine paper	229	208	191
Speciality paper and other	84	80	73
Total	380	358	325

The following table sets forth the annual paper production capacity, number of machines, products and pulp integration, and, for fiscal 2006 to fiscal 2008, capital expenditures at each of the mills of Sappi Fine Paper South Africa.

	Mill Locations		
	Enstra	Stanger	Adamas
Paper capacity ('000s tonnes)	200	110	40
Number of paper machines	3	2	2
Products			Prestige stationery, branded printing paper and board, envelope
	Uncoated fine paper	Coated fine paper, coated label paper and tissue	paper and corrugated medium
Percentage pulp integration	53%	54%	None
Capital expenditures (October 2005-September 2008) (US\$ million)	18	13	9

Enstra. The Enstra mill is the largest mill of Sappi Fine Paper South Africa, with a capacity of approximately 200,000 tonnes of elemental chlorine-free uncoated fine paper products per annum. In 1996, the Enstra mill completed a US\$ 96 million capital expenditure program. This program increased capacity by 50,000 tonnes per annum and has resulted in improved production efficiency and product quality. The product range at the Enstra mill caters to the business forms, scholastic, office, envelope and general printing industries. The mill has a capacity of 105,000 tonnes per annum of bleached hardwood pulp. The mill uses an oxygen bleaching process, which is a process that was developed at the mill in the 1970s and has since become the industry standard.

Stanger. The Stanger mill commenced operations in 1976. It is unique in South Africa in that it uses bagasse as its basic raw material to produce high quality matte and gloss coated art papers and tissue. Art paper is used for high quality books and magazines, brochures, annual reports and labels. A US\$ 26 million upgrade of the mill's paper machine was completed in August 2001, increasing the coated paper capacity to 80,000 tonnes per annum. The mill also produces 30,000 tonnes of tissue per annum and has a capacity of 60,000 tonnes of bleached bagasse pulp per annum. A US\$ 11 million upgrade on the bleach plant in 2006 converted the mill to an elemental chlorine free bleaching process.

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Adamas. The Adamas mill is a small speciality mill. It produces high quality, uncoated prestige papers and boards in a variety of colors and embossing patterns. It also produces branded printing paper and board, previously produced at the Nash mill in the United Kingdom. The Adamas mill also produces packaging and industrial grades from waste paper. The mill has a capacity of 40,000 tonnes of paper per annum. This mill purchases waste paper and bleached pulp from our other mills.

Marketing and Distribution

Overview

The further integration of our international marketing and distribution efforts is one of our main strategic objectives. In order to attain this objective, we have adopted a system whereby the marketing and distribution of our fine paper products is performed by our operating business in the respective region, supplemented by a trading network outside these core regions.

Our trading network, Sappi Trading, coordinates the international marketing and distribution of our fine paper products outside our core regions. Sappi Trading operates in Hong Kong (China), Sydney (Australia), Sao Paulo (Brazil), Shanghai (China), Konstanz (Germany), Nairobi (Kenya), Mexico City (Mexico), Singapore, Johannesburg and Durban (South Africa), Zurich (Switzerland), Taipei (Taiwan) and New York (United States). It manages a network of agents around the world handling exports to over 70 countries. Sappi Trading also manages the export logistics of the southern African and United States operations.

We sell the vast majority of our coated and uncoated fine paper through merchants. We also sell paper directly to converters. We generally deliver products sold to converters from the mill or via a distribution warehouse. Electronic business-to-business interaction has become more important to us, and we will continue to focus on increasing service and efficiency through business-to-business interaction. The systems and structures have been put in place to actively continue these efforts.

Merchants are authorized to distribute Sappi Fine Paper's products by geographic area and to carry competitors' product lines to cover all segments of the market. Merchants perform numerous functions, including holding inventory, sales promotion and marketing, taking credit risk on sales and delivery, and distribution of the products. Merchants buy paper from Sappi Fine Paper and resell it, placing a mark-up on their purchase price. A merchant may either deliver to the customer from its own stock or arrange for delivery directly from the mill or one of the Sappi Fine Paper distribution warehouses.

Sappi Fine Paper North America

Sappi Fine Paper North America's coated paper sales structure is organized in six regions with sales representatives located in all major market areas, and six technical representatives located in different regions in North America supporting the sales effort.

Approximately 8% of Sappi Fine Paper North America's sales for fiscal 2007 and 2008 were outside North America. Sappi Fine Paper North America's sales outside North America are handled in southern Africa by Sappi Fine Paper South Africa, in Europe by Sappi Fine Paper Europe and outside those regions by Sappi Trading.

In 2007 and 2008, the Sappi Fine Paper North America sales force sold coated graphic paper to approximately 338 and 340 merchant distribution locations, respectively. By selling exclusively through merchant channels, Sappi Fine Paper North America believes it has created a loyal group of merchant customers. Rather than competing with merchant distributors, the Sappi Fine Paper North America sales force focuses on generating demand with key printers, publishers and end users, which are then serviced by the merchant distributors.

Sappi Fine Paper North America's coated speciality papers are sold in North America through a dedicated speciality paper sales team directly to customers and outside of North America through a direct sales force, agents and distributors. The special end-use requirements often require a paper made to fit the customer's specific application.

Sappi Fine Paper Europe

As part of the formation of Sappi Fine Paper in 1998, the sales and marketing operations of Sappi Fine Paper Europe were reorganized into graphic paper, comprising printing and writing paper, and speciality paper, comprising paper for labeling, packaging and other speciality uses.

The sales division of the graphic paper unit is responsible for all sales of coated fine and groundwood papers in Europe. This includes European sales on behalf of Sappi Fine Paper North America and Sappi Fine Paper South Africa. It is also responsible for export sales to markets outside Europe. Sappi Fine Paper Europe's graphic products are distributed primarily by merchants. The export sales office manages exports to markets outside Europe through Sappi Trading, Sappi Fine Paper North America and Sappi Fine Paper South Africa.

Sappi Fine Paper Europe's centralized logistics department was formed in early 1998. It is responsible for the development and optimization of the logistics of the graphic and speciality papers business units and the re-engineering of the supply chain.

Sappi Fine Paper South Africa

Sappi Fine Paper South Africa has a marketing and sales and technical support team based in four major centers in South Africa and one in the United Kingdom (Nash). Approximately 14% of the sales of Sappi Fine Paper South Africa in fiscal 2008 were outside of southern Africa to markets in Europe, Africa, Asia and North and Latin America. The products of Sappi Fine Paper South Africa are distributed in southern Africa primarily through merchants. In addition, some large volume orders are sold directly to printers and converters.

Customers

Sappi Fine Paper sells its products to a large number of customers, many of whom have long-standing relationships with us. These customers include merchants, converters and other direct consumers.

The most significant merchant customers, based on sales during fiscal 2008 include:

North America: xpedx (a division of International Paper Company), Lindenmeyr Paper Company (owned by Central National Gottesman Inc.), Unisource Worldwide, Inc. (a majority interest of which is owned by Bain Capital Corporation), Domtar Distribution and a select number of regionally strong merchants.

Europe: PaperlinX, Antalis (owned by Sequana Capital), IGEPA Group, Lozano and Papyrus.

Southern Africa: Antalis SA (Pty) Limited, Peters Papers and Finwood Papers (a division of Buhmann Paper Merchant Division).

Two of these merchants, PaperlinX and IGEPA, represented individually more than 10% of our total sales during fiscal 2008.

Sappi Fine Paper's converter customers include both multinational and regional converters. The most significant converter customers, based on sales during fiscal 2008 include: Amcor Flexibles, Novelis, Alcan, VAW Flexible Packaging, Avery, Mactac, American Packaging, Orcal and Unigraphics. These customers use our products in the production of pressure-sensitive and other types of labels as well as flexible packaging. Nampak, the CTP Group of companies, Paarl Media Lithotech, Merpak and Freedom Stationery and Silveray are also significant converter customers. These companies use our products in the production of packaging products. No converter customer, however, represented more than 10% of our total sales during fiscal 2008.

Merchant sales constitute the majority of our fine paper sales. Pricing of fine paper products is generally subject to change upon notice of 30 days with longer notice periods (typically 3 to 6 months) for some large end-use customers. Sales to converters may be subject to longer notice periods, which would generally not exceed 12 months. We have long-standing relationships with most of our customers, with volume and pricing generally agreed on a quarterly basis.

Competition

Overview

Although the markets for pulp and paper have regional characteristics, they are highly competitive international markets involving a large number of producers located around the world.

Historically pulp and paper are subject to relatively low tariff protection in major markets, with existing tariff protections being further reduced under the World Trade Organization ("WTO"). In South Africa, no tariffs are imposed on imports of pulp and newsprint as well as most uncoated and coated woodfree products, with the exception of A4 office paper.

Competition in markets for our products is primarily based on price, quality, service, breadth of product line, product innovation and sales and distribution support. The speciality paper market puts greater emphasis on product innovation and quality as well as technical considerations. The packaging paper and newsprint markets place more emphasis on price.

In Western Europe and North America, industry production capacity closures of approximately 800,000 tonnes of coated fine paper and 1,300,000 tonnes of mechanical coated paper have been implemented between 2006 and 2007, with further production capacity closures of approximately 700,000 tonnes of coated fine paper and approximately 900,000 tonnes of coated mechanical paper having occurred up to September 2008.

North America

The major domestic coated fine paper producers which compete with Sappi Fine Paper in North America are NewPage (formerly part of MeadWestvaco and currently owned by Cerberus) and Verso Paper (formerly part of International Paper Company and currently owned by an affiliate of Apollo Management L.P.). In addition, approximately 19% of US consumption is supplied by foreign producers, primarily Asian and European.

Europe

The market leaders in coated fine paper production in Europe are Sappi, Stora Enso, Burgo-Marchi Group, UPM-Kymmene and Lecta (which is owned by an affiliate of CVC Partners).

Southern Africa

Mondi Paper Company Limited is a significant competitor of Sappi Fine Paper in southern Africa in the uncoated fine paper sector. Coated fine paper imports, primarily from Europe and Asia, have gained an increased share of the southern African fine paper market and as a result of declining import duties, which were removed in 2006. A substantial part of the imports originate from Sappi Fine Paper's European mills.

SAPPI FOREST PRODUCTS

Overview

Sappi Forest Products, headquartered in Johannesburg, South Africa, is an integrated pulp, packaging paper and timber products producer. Sappi Forest Products operates five pulp and paper mills and one sawmill and is managed in three operating divisions: Sappi Saiccor, Sappi Kraft and Sappi Forests.

Sappi Forest Products is a major pulp and paper producer in Africa with a production capacity of 830,000 tonnes of paper, 800,000 tonnes of chemical cellulose and 1,050,000 tonnes of paper pulp per annum. It is also a major timber grower and manages directly and indirectly approximately 535,000 hectares of forestland, of which, approximately 389,000 hectares is planted with primarily pine and eucalyptus. Approximately 72% of our southern African pulpwood and sawlog requirements are from our own plantations. The term "directly manages" relates to plantations in southern Africa established on land that we either own or lease from a third party. The term "indirectly manages" relates to plantations in southern Africa established on land held by independent commercial farmers, where we provide technical assistance in the form

of advice on the growing and tending of trees.

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The following chart sets forth certain information with respect to the mills and principal products of Sappi Forest Products as of September 2008.

The following table sets forth sales by product for Sappi Forest Products' operations:

	Year ended September		
	2008	2007	2006
Sales (US\$ million):			
Commodity paper products ⁽¹⁾	474	429	410
Chemical cellulose	461	432	384
Paper pulp ⁽²⁾	93	118	102
Timber and timber products	71	69	87
Total	1,099	1,048	983

(1) Includes newsprint and packaging products.

(2) Excludes sales related to paper pulp produced by Sappi Fine Paper facilities.

For the years ended September 2007 and 2008, Sappi Forest Products sold approximately 2,514,000 tonnes and 2,413,000 tonnes, respectively, of paper, pulp and forest products.

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The following table sets forth annual production capacity with respect to Sappi Forest Products' products:

Production capacity ('000s tonnes):	
Paper products	
Packaging paper	690
Newsprint	140
Total	830
Pulp	
Chemical cellulose ⁽¹⁾	800
Paper pulp ⁽²⁾	1,050
Total	1,850
Timber products	41 ⁽³⁾
Percentage paper pulp integration	134% ⁽⁴⁾

- (1) Includes Sappi Saiccor capacity increase, which came on-line in September 2008.
- (2) Excludes production capacity related to paper pulp produced by Sappi Fine Paper facilities.
- (3) Represents 78,000 cubic meters.
- (4) Excludes pulp produced by Sappi Saiccor. Our southern African operations are net sellers of pulp.

Facilities and Operations

Sappi Saiccor

Saiccor was established in 1951 and acquired by us in 1988. It is a low-cost producer and the world's largest single producer of chemical cellulose. In 1995, we completed an approximately US\$ 221 million expansion project to increase capacity by one third to approximately 600,000 tonnes per annum. Capital expenditures during the period from October 2005 to the end of September 2008 were approximately US\$ 531 million. Included in this period were a modernization project to de-bottleneck production at Saiccor at a cost of US\$ 40 million and an amount of \$470 million spent on an expansion project to increase Saiccor's chemical cellulose capacity to approximately 800,000 tonnes per annum. Construction on the expansion project commenced in August 2006. Originally scheduled for completion in the first half of 2008, the project was subject to delays and cost increases. Production from the additional capacity commenced in September 2008 and should be fully operational in February 2009. As a result of the rapid decline in demand for chemical cellulose experienced since November 2008, we are not utilizing all of the additional capacity at present and are curtailing production in certain elements of the old plant while utilizing the new plant to improve efficiencies.

Almost all of Saiccor's chemical cellulose production is exported from South Africa and marketed and distributed internationally by Sappi Trading. The pulp principally produced is the type used in the manufacture of a variety of cellulose products, including viscose staple fibers or rayon and solvent spun fibers (lyocell). Both viscose and lyocell fibers are used in the manufacture of fashion and decorating textiles which have a soft, natural feel and excellent breathing properties. Given their particularly high absorbency properties, these fibers are also used in non-woven applications in the healthcare, industrial and disposable product markets. Chemical cellulose is also used in the manufacture of acetate flake, which is used in products such as filter tow for cigarette filters, and high quality yarns and fabrics. It is also used to manufacture microcrystalline cellulose, which is used as a rheological modifier in the food industry, as excipients for pharmaceuticals, and in various ethers for the chemical industry. It is also used to manufacture cellophane film for use in a variety of packaging applications.

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The mill's timber consumption is comprised primarily of eucalyptus hardwoods. These fast growing trees are grown in relatively close proximity to the mill, which contributes to Saiccor's position as a low cost producer of chemical cellulose.

Sappi Kraft

Based upon volume sold in fiscal 2007 and fiscal 2008, Sappi Kraft supplied approximately 57% and 59%, respectively, of South Africa's packaging paper requirements, other than cartonboard, from its Ngodwana, Tugela and Cape Kraft mills.

The following chart sets forth the annual paper production capacity, number of machines, products, pulp integration, and, for fiscal 2006 to fiscal 2008, capital expenditures at each of Sappi Kraft's mills in South Africa.

	Mill Locations in South Africa		
	Ngodwana	Tugela	Cape Kraft
Paper capacity ('000s tonnes)	380	390	60
Number of paper machines	2	4	1
Products	Newsprint, kraft linerboard, white top linerboard, plasterboard and bleached and unbleached market pulp	Kraft linerboard, corrugating medium, sackkraft and machine glazed kraft	Linerboard corrugating medium and coated products
Percentage pulp integration ⁽¹⁾	134%	100%	None ⁽²⁾
Capital expenditures (October 2005-September 2008) (US\$ million)	31	25	2

(1) Excludes "pulp" produced from recycled paper by the respective plants at the mills.

(2) Cape Kraft's raw material requirements are met from waste fiber supplied by Sappi Waste Paper.

Ngodwana. Ngodwana was expanded between 1981 and 1985 from an unbleached kraft mill with a capacity of 100,000 tonnes per annum to a modernized mill with a capacity of approximately 240,000 tonnes of linerboard and 140,000 tonnes of newsprint per annum. The linerboard machine also produces White Top Liner (included in total linerboard capacity). The mill produces nearly 410,000 tonnes of bleached and unbleached pulp and 100,000 tonnes of groundwood pulp annually. The mill markets paper and excess pulp locally and in the export market. The mill is a large consumer of waste paper, which is used in the production of packaging paper. In 1995, the mill commissioned the world's first ozone bleaching plant, thus eliminating the use of elemental chlorine and significantly reducing mill effluent.

Tugela. Tugela is Sappi Kraft's largest integrated unbleached kraft mill, with a capacity of approximately 390,000 tonnes of packaging paper per annum. The mill supplies kraft linerboard and corrugating medium and most of South Africa's requirements for sackkraft, used in the production of multiwall sacks. Machine glazed packaging papers are also produced at the mill. The Kraft Linerboard machine was upgraded in 1996 at a cost of approximately US\$ 81 million and the Sack Kraft machine and components of the pulp plant were upgraded in 2003 and 2004 at a cost of approximately US\$ 50 million. It is the only mill in South Africa to offer high performance containerboard packaging and extensible Sack Kraft.

Cape Kraft. The Cape Kraft mill was built during 1980, commissioned in 1981 and upgraded in 1995. The mill presently has a capacity of 60,000 tonnes of linerboard and corrugating medium per annum, which it sells principally to the corrugating industry in the Western Cape. The mill uses approximately 67,000 tonnes per annum of waste paper to produce 60,000 tonnes per annum of paper. The fact that the mill's product is produced from 100% recycled paper can provide a competitive advantage in our markets, which are becoming increasingly environmentally aware.

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Usutu Pulp. Usutu Pulp began production in 1961 and has been managed by us since 1989. The mill was upgraded during 1995 and 1996 at a cost of approximately US\$ 69 million. During the period from

October 2002 to September 2007, an additional US\$ 27 million was invested. The mill has a capacity of 190,000 tonnes of unbleached kraft pulp. The mill is situated in Swaziland and is surrounded by 66,000 hectares of forestlands, which it leases from the Swazi nation under a long-term lease extendable to 2089. The location of these forestlands, combined with the very compact areas the trees are planted on, provides for low wood delivery costs. See " Supply Requirements Southern Africa Wood" for more information.

In August 2008, forest fires caused by severe weather conditions resulted in the loss of approximately 28% of the mill's fiber supply. The volume of trees lost by Usutu reduced the value of the mill, which has therefore been impaired. An impairment loss of US\$ 37 million has been recognized in fiscal 2008.

Sappi Kraft also manages Sappi Waste Paper. Sappi Waste Paper collected approximately 201,000 tonnes, of waste paper in fiscal 2008 and approximately 183,000 tonnes during fiscal 2007. Most of the waste paper collected was supplied to our mills. Waste represents approximately 30% of the fiber requirements of our packaging grades.

Sappi Forests

Sappi Forests, together with Usutu Forests, supplies or procures all of Sappi Forest Products' and Sappi Fine Paper South Africa's domestic pulpwood requirements of approximately 6 million tonnes per annum. 99% of the pulpwood comes from owned or contracted sources. Together they directly or indirectly manage or control, about 535,000 hectares of land situated in: Mpumalanga (44%), KwaZulu-Natal (44%) and Swaziland (12%).

	Hectares
Owned by us in South Africa	369,000
Leased by us or managed directly in South Africa	10,000
Projects in South Africa (owned and managed by farmers that we indirectly manage through technical advice and support)	90,000
Leased by us in Swaziland	66,000
Total	535,000

Securing raw material for the future is a vital element in the long-term planning of Sappi Forest Products' business. Sappi Forests has an extensive research operation which concentrates on programs to improve the yield per hectare of forestland used. Significant progress has been made in developing faster-growing trees with enhanced fiber yields. Sophisticated nurseries have been developed to accommodate the seedling requirements of Sappi Forest Products' operations. Approximately 50 million seedlings are grown annually at Sappi Forests' and Usutu Forests nurseries.

Sappi Forests and Usutu Forests have spent approximately US\$ 135 million in maintaining, acquiring and expanding plantations and other capital expenditure projects in the period from October 2005 to September 2008.

The sawmill division operates one mill with a total production capacity of 78,000 cubic meters per annum of structural timber for the building industry and components for the furniture and packaging industry.

Marketing and Distribution

Overview

Each of Sappi Forest Products' divisions with major South African markets has its own marketing and sales team. Sappi Trading manages the exports of the Sappi Forest Products' divisions, in particular the marketing and distribution of the market pulp produced at Saiccor and Usutu.

Customers

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Sappi Forest Products sells its products to a large number of customers, including merchants, converters, printers and other direct customers, many of whom have long-standing relations with us.

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The most significant printing customers, based on sales in fiscal 2007 and fiscal 2008, include: The CTP Group and Media 24, which uses Sappi Forest Products' newsprint; while the most significant converter customers, based on sales in fiscal 2007 and fiscal 2008, include: Nampak Limited; Mondipak; APL (Pty) Ltd and Houers Co-operative. A significant number of the viscose staple fiber manufacturers around the world purchase chemical cellulose from Sappi Forest Products, including large groups such as the Aditya Birla Group and the Lenzing Group. Most of our chemical cellulose sales contracts are multi-year contracts with pricing generally based on a formula linked to the NBSK price and reset on a quarterly basis.

Approximately 49% of the total sales of Sappi Forest Products during fiscal 2008 consisted of export sales.

Competition

Mondi Paper Company Limited is a significant competitor in most of the markets in which Sappi Forest Products operates in southern Africa. In recent years the regional recycled containerboard capacity has increased by approximately 100,000 tonnes. Due to exchange rate fluctuations a number of offshore containerboard suppliers have also entered the southern African packaging markets. In respect of chemical cellulose, competitors include Borregaard ChemCell Atisholz, Tembec Inc., Western Pulp Inc., Buckeye Technologies Inc. and Rayonier Inc.

SUPPLY REQUIREMENTS

Overview

The principal supply requirements for the manufacture of our products are wood, pulp, energy and chemicals. Large amounts of water are also required for the manufacture of pulp and paper products. See "Environmental and Safety Matters Environmental Matters South Africa". We believe that we have adequate sources of these and other raw materials and supplies necessary for the manufacture of pulp and paper for the foreseeable future. However, the global warming and carbon footprint imperatives are causing increased use of sustainable, non-fossil fuel, sources for electricity generation. Consequently, electricity generating companies are competing for the same raw materials, namely, wood and chips, in the same markets as us, thereby driving prices upwards.

North America

Wood

In connection with the 1998 sale of our US timberlands to Plum Creek Timber Company L.P., Sappi Fine Paper North America and Plum Creek are parties to a fiber supply agreement with an initial term expiring in December 2023 and with three five-year renewal options. Under the supply agreement, Sappi Fine Paper North America is required to purchase from Plum Creek and Plum Creek is required to sell to Sappi Fine Paper North America a guaranteed annual minimum of 318,000 tonnes of hardwood pulpwood, or approximately 11% of Sappi Fine Paper North America's annual requirements, at prices calculated based on a formula tied to market prices. Sappi Fine Paper North America has the option to purchase additional quantities of hardwood pulpwood harvested from these timberlands at prices generally higher than the ones paid for the guaranteed quantities. The remainder of Sappi Fine Paper North America's wood requirements is met through market purchases.

Pulp

Sappi Fine Paper North America's mills, taken together, are fully integrated on an economic basis with respect to hardwood pulp usage. Mills that are not fully integrated make market purchases, and mills that produce more pulp than they utilize make market sales.

Sappi Fine Paper North America's coated fine paper mills have achieved certification according to the chain of custody standards of the Forest Stewardship Council (FSC), The Sustainable Forestry Initiative (SFI) and the Programme for the Endorsement of Forest Certification (PEFC) and our wood procurement group is certified to SFI's Fiber Sourcing standard. The mills also use post consumer waste and offer products containing up to 30% recycled content in addition to using reprocessed fiber recovered from its existing operations.

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Sappi Fine Paper North America manufactures, in aggregate, pulp and fiber equivalent to approximately 112% of its own pulp requirements. This vertical integration reduces its exposure to fluctuations in the market price for pulp.

Energy Requirements

Sappi Fine Paper North America's energy requirements are satisfied through wood and by-products derived from the pulping process, coal, fuel oils, purchased electricity, steam, natural gas and other sources.

A substantial majority of Sappi Fine Paper North America's electricity requirements are satisfied through its own electricity generation or co-generation agreements. During June and July 2002, Sappi Fine Paper North America entered a series of contracts with Central Maine Power ("CMP") and a third party energy provider. The contracts provide that Somerset mill is to produce power at its maximum generation capacity, sell all of its excess generated power to CMP and purchase all of its power needs beyond its generation capacity from a third party provider. However, Sappi Fine Paper North America has entered into a short term amendment to these contracts pursuant to which Sappi Fine Paper North America may, at its election, produce power at less than its maximum generation capacity for non-operational or economic reasons and purchase additional power from the third party provider. This amendment expired on December 31, 2008 and the parties are in the process of negotiating an extension to this amendment. The rates for part of the purchases were pre-set in 2002 for the duration of the agreements and the remaining purchases are at market rates. The price we receive for any sales is equal to the average price of our monthly purchases. The agreements expire in 2012. Sappi Fine Paper North America also sells excess electricity it co-generates at the Westbrook mill.

The Cloquet mill is supplied partly with internally generated electricity. The Cloquet mill includes a hydroelectric facility that is licensed by the Federal Energy Regulatory Commission. In addition to generating a portion of its own power, the Cloquet mill has entered into a take-or-pay agreement to purchase a portion of its power from Minnesota Power. We may terminate this agreement at any time after December 31, 2008, subject to a four-year notice period.

Chemicals

Major chemicals used by Sappi Fine Paper North America include clays, carbonates, latexes and plastic pigments, titanium dioxide, caustic soda, other pulping and bleaching chemicals and chemicals for the speciality business. Sappi Fine Paper North America purchases these chemicals from a variety of suppliers. Chemical supplies have tightened due to the rationalization of capacity over the last several years. Most of these chemicals are subject to price fluctuations based upon a number of factors, including energy and crude oil prices and transportation costs, and the relationship between commodity demand and supply balances.

Europe

Wood

Sappi Fine Paper Europe purchases approximately 2,500,000 cubic meters of pulpwood per annum for its pulp mills. The wood is purchased both on contract and in the open market. Wood supply contracts are fixed for one year in terms of volumes. Price agreements range from three months for wood chips to one year for logwood.

The wood logs and wood chips used in the Gratkorn TCF pulp mill are purchased through the Papierholz Austria GmbH joint venture arrangement amongst Sappi, the Norske Skog Bruck mill *Zellstoff Pöls*, and the Frantschach Group. We hold a 42.5% ownership interest in Papierholz.

The wood chips used in the Lanaken CTMP plant are purchased through Sapin S.A. ("Sapin"), a 50%-50% joint venture company operated together with Norske Skog. Sapin was initially formed on November 25, 1986, pursuant to a joint venture agreement between the predecessors of Sappi Lanaken and Norske Skog. Under the agreement, as amended in September 2003, the parties agree to utilize Sapin exclusively to furnish the entire wood requirements of the joint venture partners' affiliated mills.

Pulp

Sappi Fine Paper Europe produces approximately 46% of its pulp requirements. The remainder is supplied through open market purchases.

Energy Requirements

Sappi Fine Paper Europe's energy requirements are generally met by internal generation and external purchases of electricity, gas and, to a lesser extent, hard coal and oil. The delivery of natural gas, oil and coal is covered by various mid-term supply agreements.

Since July 2007 Gratkorn has operated a Combined Heat and Power Plant ("CHP") on site and has become an exporter of about 10 megawatts of electricity.

Substantially all of the electricity requirements of the Maastricht mill are satisfied by a 60 megawatt combined heat / power plant operated through a joint venture with Essent. All surplus electrical energy is supplied to the public electricity grid. We hold an ownership interest of 50% in the VOF Warmte / Kracht Maastricht mill, the joint venture, which was formed in 1992, and are obligated to purchase all of the steam and electricity requirements of the Maastricht mill from the joint venture facility under a long-term supply agreement. Essent purchases the surplus electrical energy of the plant. The Maastricht mill also purchases natural gas pursuant to a contract with a natural gas supplier.

The Nijmegen mill's electricity requirements are largely satisfied by its co-generation power plant. The Nijmegen mill purchases natural gas from a local supplier and a small amount of electricity from the public grid.

The Lanaken mill's energy requirements are generally met by purchases of natural gas and electricity. Certain of the energy requirements of the Lanaken mill are furnished by a combined heat and power unit constructed and operated pursuant to the Albertcentrale N.V. joint venture arrangement between Sappi, the Belgian power company Electrabel and Rabo Energie. We hold a 49% ownership interest in the Albertcentrale facility and are obligated to purchase the steam from the joint venture facility under a long-term supply agreement. The facility commenced operations in April 1997. Lanaken mill's electricity requirements are satisfied by a supply contract with the national utility company Electrabel.

Alfeld and Ehingen generate about 50% of their power needs from renewable resources and the remainder is purchased from a German power company EnBW.

Chemicals

Major chemicals used by Sappi Fine Paper Europe include clays, carbonates, latexes and starches and chemicals for the speciality business. Sappi Fine Paper Europe purchases most of these chemicals from a portfolio of suppliers, and in only one case is Sappi Fine Paper Europe dependent on a sole source of supply. There are generally adequate sources of supply in the market. Most of these chemicals are subject to price fluctuations based upon a number of factors, including energy and crude oil prices and transportation costs, and the relationship between commodity demand and supply imbalances.

Acquisition of coated graphic paper business from M-real Corporation

As part of the Acquisition we entered into various agreements pursuant to which M-real Corporation and its parent company will supply wood, pulp and electricity to the mills acquired for certain minimum periods. See "The Acquisition of M-real Corporation's Coated Graphic Paper Business".

Southern Africa

Wood

Sappi Forest Products manages directly or indirectly approximately 535,000 hectares of forestland in southern Africa, of which approximately 389,000 hectares are forested, which produces approximately 72% of the timber required for its operations. Sappi Forests owns approximately 369,000 hectares and manages the majority of the remainder. Usutu Pulp cultivates 52,000 hectares of pine on 66,000 hectares of land that is

leased from the Swazi nation on a long-term lease, which we have the option to extend until 2089. Sappi Forests presently has supply contracts for the timber from approximately 90,000 hectares of plantations planted by small growers with our technical and financial support. The remaining timber requirements are met through a number of significant medium-term contracts and open market purchases. During the traditional fire seasons in the winter of 2007 and 2008, which were exacerbated by severe weather conditions, approximately 14,000 hectares and 26,000 hectares, respectively, were affected by fire. We expect that the lost timber will have fully re-grown over three years.

Pulp

Sappi Forest Products and Sappi Fine Paper South Africa in aggregate manufacture all of the pulp required in their respective papermaking operations, except minimal quantities of specialized pulps, and together are a net seller of bleached and unbleached paper pulp. This vertical integration substantially reduces our exposure to fluctuations in the market price for pulp.

Energy Requirements

Our energy requirements in southern Africa are met principally by purchases of coal and electricity supplemented by purchases of fuel oil and gas. Much of the energy demand is met by internally generated biomass and spent liquors from the pulping process. Electricity is supplied by Eskom, the state-owned electricity company, or generated internally. The electricity generated by our plants in southern Africa is equivalent to approximately 43% of our total electricity requirements. Coal, both for steam raising and gas production, and oil are purchased on contract. The power disruptions experienced in South Africa in early calendar 2008 had a negative but limited effect on our production and profits. In the event of power outages, certain of our mills have the capacity to continue production but the recourse to replacement energy sources results in increased production cost. Power disruptions tend to affect our mills that are dependent on the national grid, while our mills that receive power from municipalities rather than the national grid are generally less affected by power outages. We also from time to time enter into agreements with Eskom to supply our excess power to the national grid in exchange for continued supply of power to those of our mills that do not have the capacity to generate all of their electricity requirements.

Chemicals

Major chemicals used by Sappi Forest Products and Sappi Fine Paper South Africa include caustic soda, calcium carbonates, latexes and starches and sulphur and sulphuric acid. Sappi Forest Products and Sappi Fine Paper South Africa purchase these chemicals from a variety of South African and overseas suppliers. There are generally adequate sources of supply, and in only one case is Sappi Fine Paper South Africa dependent upon a sole source of supply. Most of these chemicals are subject to price fluctuations based upon a number of factors, including energy and crude oil prices and transportation costs, and the relationship between commodity demand and supply imbalances.

ENVIRONMENTAL AND SAFETY MATTERS

Environmental Matters

We are subject to a wide range of environmental laws and regulations in the various jurisdictions in which we operate, and these laws and regulations have tended to become more stringent over time. Violations of environmental laws could lead to substantial costs and liabilities, including civil and criminal fines and penalties. Environmental compliance is an increasingly important consideration in our businesses, and we expect to continue to incur significant capital expenditures and operational and maintenance costs for environmental compliance, including costs related to reductions in air emissions including carbon dioxide ("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. See note 33 to our Group Annual Financial Statements included elsewhere in this Annual Report for more information.

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. The State of Maine had its first hearing in December 2008 to determine whether it will require Sappi Fine Paper North America to install a fishway at its Cumberland mills dam on the Presumpscot River. A fishway on the Cumberland mills dam would trigger the obligation to install fishways at Sappi Fine Paper North America's dams upstream of the Cumberland mills dam, to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of these projects, if required, is estimated to be approximately US\$ 18 million. Previous settlement discussions with government agencies and environmental groups regarding the removal of the Cumberland mills dam were not successful. It is expected that a decision will be made by the State by June 2009.

Although the United States has not ratified the Kyoto Protocol, and has not yet adopted a federal program for controlling GHG emissions, there are various state and regional initiatives regarding GHG regulation and Congress is considering a number of legislative proposals regarding climate change. Accordingly, we closely monitor state, regional and Federal GHG initiatives in anticipation of any potential effects on our operations.

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 national European laws regulate the waste disposal framework and place restrictions on landfilling 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 and The Netherlands only inert ash or slag from thermal recycling and incineration processes may be placed in landfills.

In the Netherlands we, together with other paper manufacturers, have signed an agreement with the national government to improve environmental management and further limit emissions.

The countries within which we operate in Europe have all ratified the Kyoto Protocol and we have developed a GHG strategy to comply with applicable GHG restrictions and to manage emission reductions cost effectively. Our expenditures related to GHG compliance in Europe are not expected to be material.

South Africa

In Southern Africa, the environmental regulatory legal framework is still evolving. We work with legislators in striving to find a balance between economic, social and environmental uses of natural resources.

The Minister of Environment Affairs and Tourism considered it necessary to strengthen enforcement of legislation by the Environmental Management Inspectors (EMI's) in his department. The EMI's prioritized various sectors of industry and inspected those sectors in the course of the past two years. In 2008, the EMI's focused attention on the pulp and paper sector, signaling more stringent enforcement for Sappi mills.

In August 2008 the EMI's conducted a comprehensive inspection at our Ngodwana Mill. No findings will be disclosed before the draft report is handed to us. By mid January 2009 the draft report had not yet been received. We will be requested to respond within three weeks thereafter to the findings in the draft report. At this time we do not expect major or disruptive legislative action.

The primary South African environmental laws affecting our operations are:

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The National Water Act. This law addresses the water shortages in South Africa in a manner that we believe will not significantly impact our manufacturing and forestry operations. Abstraction of water, discharge of effluent and management of forests are all regulated under a license system in which first allocations go to, among other things, human consumption, before allocations are made to agriculture,

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industry and forestry. All water use is subject to a charge. We expect to incur additional costs over the next decade to comply with the National Water Act, but are unable to quantify these at this time.

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. We expect to incur additional costs to comply with the National Environmental Management Act, which we believe will not be material.

The National Environmental Management Act ("Air Quality Act") was promulgated in the beginning of 2005. The Air Quality Act will eventually replace the 1965 Atmospheric Pollution Prevention Act and will impose stringent compliance standards on our operations when implemented, including those related to carbon dioxide and sulphur dioxide air emissions. Limited sections of the Act were implemented in September 2005. We expect to incur additional costs to comply with the Air Quality Act, which we believe will not be material.

The Kyoto Protocol. South Africa has also ratified the Kyoto Protocol. We are identifying and initiating Clean Development Mechanism projects, as defined in the Kyoto Protocol, at a number of our South African mills.

The requirements under these statutes will result in additional expenditures and may cause operational constraints. Although we are in frequent contact with regulatory authorities during the phasing in of the legislation, we are uncertain as to the ultimate effect on our operations. Our current assessment of the legislation is that any compliance expenditures or operational constraints will in the aggregate, not be material to our financial condition.

Safety Matters

The forestry, timber and pulp and paper industries involve inherently hazardous activities including, among other things, the operation of heavy machinery. Nearly all countries in which we have significant manufacturing operations, including South Africa, the United States and European countries, regulate health and safety in the workplace. We actively seek to reduce the frequency of accidents in our workplaces and to improve health and safety conditions by extensive training and educational programs.

Our global safety improvement initiative, Project Zero, sets out the goal of no injuries. It involves implementing behavior-based safety programs throughout our Group and focusing on those activities which have in the past resulted in injuries or fatalities.

In the United States, Sappi Fine Paper North America must comply with a number of Federal and state laws regarding health and safety in the workplace. The most important of these laws is the Federal Occupational Safety and Health Act.

In Europe, we participate in various governmental worker accident and occupational health insurance programs. In Belgium and The Netherlands, these programs are funded by mandatory contributions by employers and employees. In Germany, we participate in a similar mandatory contribution scheme controlled by the German government, which permits employer and employee participation in its administration. In Austria and the United Kingdom, employee liability insurance is funded by the employer. The safety and health issues are integrated into the management systems and all mills of Sappi Fine Paper Europe comply with health and safety legislation and are OHSAS 18001 certified.

In South Africa, we must comply with a number of laws regulating workers' compensation for injuries and health and safety within the workplace, the most important of which is the Occupational Health and Safety Act and related regulations. Our South African businesses have instituted measurement for evaluating compliance with this legislation. Seven of the eight mills, as well as Sappi Forests, are both OHSAS 18001:1999 and ISO 14001:2004 certified for health and safety management systems and environmental management systems, respectively.

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ORGANIZATIONAL STRUCTURE

Sappi Limited is the ultimate holding company of the Sappi Group. The following table sets forth significant subsidiaries and joint ventures owned directly or indirectly by Sappi Limited at September 2008.

Name	Trading Name	% Held	Country of Incorporation	Nature of Business
<i>Southern Africa</i>				
Sappi Management Services (Pty) Ltd	Sappi Management Services.	100	South Africa	Management services
Sappi Manufacturing (Pty) Ltd	Sappi Manufacturing or Sappi Forest Products or Sappi Fine Paper or Sappi Saiccor or Sappi Kraft or Sappi Forests or Sappi Waste Paper	100	South Africa	Pulp and paper manufacturer and forestry operations
Usutu Pulp Company Ltd	Sappi Usutu	100	Swaziland	Pulp manufacturer and forestry operations
<i>America</i>				
S.D. Warren Company	Sappi Fine Paper	100	United States	Pulp and paper manufacturer
Sappi Cloquet LLC	Sappi Fine Paper	100	United States	Pulp and paper manufacturer
<i>Europe</i>				
Sappi Alfeld GmbH	Sappi Fine Paper	100	Germany	Pulp and paper manufacturer
Sappi Austria Produktions GmbH and Co KG	Sappi Fine Paper	100	Austria	Pulp and paper manufacturer
Sappi Deutschland GmbH	Sappi Fine Paper	100	Germany	Sales and marketing
Sappi Ehingen GmbH	Sappi Fine Paper	100	Germany	Pulp and paper manufacturer
Sappi Esus Beteiligungsverwaltungs GmbH	Sappi Fine Paper	100	Austria	Holding company
Sappi Europe SA	Sappi Fine Paper	100	Belgium	European head office
Sappi Holding GmbH	Sappi Holding	100	Austria	Holding company
Sappi International SA	Sappi International	100	Belgium	Treasury
Sappi Lanaken NV	Sappi Fine Paper	100	Belgium	Paper manufacturer
Sappi Lanaken Press Paper NV	Sappi Fine Paper	100	Belgium	Pulp and paper manufacturer
Sappi Maastricht BV	Sappi Fine Paper	100	Netherlands	Paper manufacturer
Sappi Nijmegen BV	Sappi Fine Paper	100	Netherlands	Paper manufacturer
Sappi Papier Holding GmbH	Sappi Papier Holding or Sappi Fine Paper	100	Austria	Pulp and paper manufacturer Treasury and holding company
Sappi Trading Pulp AG	Sappi Trading	100	Switzerland	Sales and marketing
Sappisure Försäkrings AB	Sappisure	100	Sweden	Captive Insurance company
<i>Asia</i>				
Jiangxi Chenming Paper Co Ltd	Jiangxi Chenming	34	China	

PROPERTY, PLANT AND EQUIPMENT

For a description of the production capacity of our mills, see "Sappi Fine Paper Facilities and Operations" and "Sappi Forest Products Facilities and Operations".

For a description of the plantations we own or have recently sold, "Sappi Forest Products Facilities and Operations Sappi Forests" and "Supply Requirements".

For a description of our capital expenditures, see "Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources".

The following table sets forth the location and use of our principal headquarters, manufacturing and distribution facilities. These facilities are owned unless otherwise indicated.

Location	Use	Approximate Size(1)
<i>Sappi Limited</i>		
Johannesburg, South Africa	Sappi Headquarters ⁽²⁾	15,078 m ²
<i>Sappi Fine Paper</i>		
Sappi Fine Paper North America		
Boston, Massachusetts	Headquarters ⁽³⁾	34,928 sq ft
Skowhegan, Maine (Somerset mill)	Manufacturing facility: coated paper, softwood and hardwood pulp ⁽⁴⁾	2,659 acres
Muskegon, Michigan	Manufacturing facility: coated paper and a warehouse	123 acres
Westbrook, Maine	Manufacturing facility: speciality and release paper and research and development facility ⁽⁴⁾ Storage and shredding facility	305 acres
Cloquet, Minnesota	Manufacturing facility: coated paper and pulp ⁽⁴⁾	1,038 acres
Allentown, Pennsylvania	Coated paper sheeting facility	30 acres
Dayton, New Jersey	Distribution center ⁽⁵⁾	14 acres
South Portland, Maine	Shared financial and customer service office ⁽²⁾	48,433 sq ft
Sappi Fine Paper Europe		
Brussels, Belgium	Headquarters ⁽⁶⁾	3,836 m ²
Gratkorn, Austria	Manufacturing facility: coated paper and pulp	98.8 ha
Maastricht, Netherlands	Manufacturing facility: coated paper and research and development facility	12.8 ha
Nijmegen, Netherlands	Manufacturing facility: coated paper	10.7 ha
Lanaken, Belgium	Manufacturing facility: coated paper and pulp	32.6 ha
Alfeld, Germany	Manufacturing facility: coated paper, uncoated paper and pulp	33.3 ha
Ehingen, Germany	Manufacturing facility: coated paper and pulp	35.7 ha
Blackburn, England	Manufacturing facility: coated paper	36.0 ha
Wesel, Germany	Distribution center ⁽⁷⁾	62.1 ha
Sappi Fine Paper South Africa		
Enstra, South Africa	Manufacturing facility: uncoated paper and hardwood pulp ⁽⁸⁾	582.7 ha
Stanger, South Africa	Manufacturing facility: coated paper, tissue and bagasse pulp ⁽⁸⁾	55.4 ha
Adamas, South Africa	Manufacturing facility: uncoated paper and recycled packaging paper	7.2 ha
<i>Sappi Forest Products</i>		
Johannesburg, South Africa	Headquarters ⁽⁹⁾	
Sappi Saiccor		
Umkomaas, South Africa	Manufacturing facility: chemical cellulose ⁽⁸⁾	159.4 ha

Location	Use	Approximate Size(1)
Sappi Kraft		
Ngodwana, South Africa	Manufacturing facility: linerboard, newsprint and kraft pulp	1,282.9 ha
Tugela, South Africa	Manufacturing facility: linerboard, corrugating medium, sackkraft and industrial kraft	914.4 ha
Cape Kraft, South Africa	Manufacturing facility: linerboard and corrugating medium	9.5 ha
Bunya, Swaziland (Usutu Pulp mill)	Manufacturing facility: kraft pulp	45.0 ha
Sappi Forests		
Barberton, South Africa (Lomati Sawmill)	Sawmill	24.6 ha

- (1) The approximate size measurement relates to, in the case of manufacturing and distribution facilities, the perimeter of the property on which the principal manufacturing or distribution facilities are situated and, in the case of offices, the interior office space owned or leased.
- (2) Subject to a lease expiring in 2015.
- (3) Subject to a lease expiring in 2011.
- (4) A portion of the equipment is subject to lease agreements.
- (5) Subject to a lease expiring in 2010.
- (6) Subject to leases expiring in 2016.
- (7) Of the total 62,140 m², 8,800 m² is subject to a lease that operates on a year-to-year basis. The remainder of the property is subject to a heritable building right ("Erbbaurecht").
- (8) Substantial assets are leased pursuant to capital lease agreements.
- (9) Included under Sappi Limited headquarters.

Sappi Plantations

	Hectares
Owned by us in South Africa	369,000
Leased by us or managed directly in South Africa	10,000

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Projects in South Africa (owned and managed by farmers that we indirectly manage through technical advice and support)	90,000
Leased by us in Swaziland	66,000
Total	535,000

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis together with our Group Annual Financial Statements, including the notes, included elsewhere in this Annual Report. Certain information contained in the discussion and analysis set forth below and elsewhere in this Annual Report includes forward-looking statements that involve risk and uncertainties. See "Forward Looking Statements", "Item 3 Key Information Selected Financial Data", "Item 3 Key Information Risk Factors", "Item 4 Information on the Company", "Item 10 Additional Information Exchange Controls" and the notes to our Group Annual Financial Statements included elsewhere in this Annual Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in this Annual Report.

The consolidated financial statements of the Sappi Group including the applicable notes thereto, contained in Item 18 "Financial Statements" of this Annual Report and the consolidated financial information of the Sappi Group contained herein have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

Our fiscal years operate on a 52 accounting week cycle, except every 6th fiscal year which includes an additional accounting week. Fiscal 2008, 2007 and 2006 operated on a 52 accounting week cycle.

Company and Business Overview

We are a global company which through acquisitions in the 1990s has been transformed into one of the global market leaders in coated fine paper. Two acquisitions were pivotal in establishing us as a global company, namely the acquisition in 1994 of S.D. Warren Company, now known as Sappi Fine Paper North America, and the acquisition in 1997 of KNP Leykam, now integrated into Sappi Fine Paper Europe. The fine paper acquisitions have been integrated into a single fine paper business, which operates under the name Sappi Fine Paper. On December 31, 2008 we acquired the coated graphic paper business of M-real Corporation. See "Item 4 Information on the Company Business Overview The Acquisition of M-real Corporation's Coated Graphic Paper Business". Further opportunities to grow within our core businesses will continue to be evaluated.

Our group is organized into two operating segments: Sappi Fine Paper and Sappi Forest Products. We also operate a trading network, called Sappi Trading, for the international marketing and distribution of chemical cellulose and market pulp throughout the world and of our other products in areas outside the core operating regions of North America, Europe and southern Africa.

Sales by source and destination for fiscal 2008, fiscal 2007 and fiscal 2006 were as follows:

	Sales by Source			Sales by destination		
	2008	2007	2006	2008	2007	2006
North America	28%	28%	29%	29%	29%	30%
Europe	46%	45%	44%	40%	39%	40%
Southern Africa	26%	27%	27%	15%	15%	15%
Far East and others				16%	17%	15%
Total	100%	100%	100%	100%	100%	100%

Sappi Fine Paper has a total paper production capacity of 4.4 million tonnes per annum. Our group is one of the global market leaders in the coated fine paper business with a capacity of 3.4 million tonnes of coated fine paper per annum.

On a historical basis our group was approximately 103% integrated for net pulp usage, and after the Acquired Business our group is 92% integrated on a net pulp basis. This means that while some facilities are market buyers of pulp and others are market sellers, in the aggregate we produce less pulp than we use. By region, the South African operations are net sellers of pulp, Sappi Fine Paper North America produces slightly more pulp than it uses and the European operations are approximately 46% integrated. The expansion of our Saiccor mill in South Africa when fully commissioned will increase pulp production by circa 200,000 tonnes. Approximately 72% of the wood requirements of the South African businesses are from sources either owned

or managed by us. Both the North American and European operations are dependent on outside suppliers of wood for their pulp production requirements.

Beneficial Shareholding by Region

On November 5, 1998, our American Depositary Receipts commenced trading on the New York Stock Exchange. Based on available information, as of September 30, 2008 we believe beneficial shareholding by region is as follows:

	November 2008	September 2008	2007	2006
North America	17%	17%	21%	30%
Europe & elsewhere	15%	14%	8%	10%
Southern Africa	68%	69%	71%	60%
	100%	100%	100%	100%

Source: Registered addresses and disclosure by nominee companies, excluding the shares owned by a subsidiary of Sappi.

Principal Factors Impacting on Group Results

Our results of operations are affected by numerous factors. Given the high fixed cost base of pulp and paper manufacturers, industry profitability is highly sensitive to changes in sales prices. Prices are significantly affected by changes in industry capacity and output levels, customer inventory levels and cyclical changes in the world economy. Profitability in the industry is, however, also influenced by factors such as sales volume, the level of raw material, energy, chemicals and other input costs, exchange rates, and operational efficiency.

The principal factors that have impacted the business during the financial periods presented in the following discussion and analysis and that are likely to continue to impact the business are:

- (a) New acquisitions, expansions, restructuring, cost-reduction initiatives, our ability to maintain and continuously improve operational efficiencies and performance, and other significant factors impacting costs;
- (b) Cyclical nature of the industry and its impact on sales volume;
- (c) Movement in market prices for products and for raw materials and other input costs of manufacturing; and
- (d) Sensitivity to currency movements and inflation rates.

Because many of these factors are beyond our control and certain of these factors have historically been volatile, past performance will not necessarily be indicative of future performance and it is difficult to predict future performance with any degree of certainty.

Acquisitions, Expansions, Restructurings and Cost-reduction Initiatives

We continually evaluate the performance of our assets by maintaining a focus on profitability and we actively manage our asset base on a regional basis, including by directing or closing non-performing assets and by pursuing an investment policy that is focused on high-return projects. Some of these recent investments include the following:

Completion of the Sappi Saiccor expansion project

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In August 2006, we announced the expansion of the capacity at our Saiccor mill in South Africa, where chemical cellulose products are produced. The capacity of the mill was approximately 600,000 tonnes per annum. The expansion has increased capacity to approximately 800,000 tonnes per annum. Originally scheduled for completion in the first half of calendar 2008, the project has been subject to delays and cost increases. The increased capacity came on-line in September 2008 and the plant is expected to be fully operational by mid February 2009. As a result of the rapid decline in demand for chemical cellulose

experienced since November 2008, we are not utilizing all of the additional capacity at present and are curtailing production in certain elements of the old plant while utilizing the new plant to improve efficiencies.

Blackburn mill closure and cessation of production from PM 5 at Maastricht mill

In August 2008 we announced that we had undertaken a review of our European production activities in response to overcapacity and significant input cost pressure, and in accordance with our strategy of maintaining an efficient asset base. In that context, we reached an agreement with labor representatives at our Blackburn mill on September 22, 2008, pursuant to which the mill closed on November 12, 2008 as no buyer could be found before that date. Production at the Blackburn mill stopped on October 17, 2008. On December 19, 2008 we also ceased production from PM 5 at our Maastricht mill. As a result of the closure of our Blackburn mill and upon cessation of production from PM 5 at our Maastricht mill, our coated graphic fine paper capacity will be reduced by 190,000 tonnes. Profitable products will be moved to other facilities in Europe. See " Mill Closures, Acquisitions, Dispositions, Impairment and Joint Venture".

Acquisition of M-real Corporation's coated graphic paper business

On December 31, 2008, we acquired the coated graphic paper business from M-real Corporation. See "Item 4 Information on the Company Business Overview The Acquisition of M-real Corporation's Coated Graphic Paper Business" and "Item 3 Key Information Risk Factors Risks Related to the Acquisition of the Coated Graphic Paper Business Acquired from M-real Corporation".

Markets

The markets for pulp and paper products are cyclical, with sales prices significantly affected by factors such as changes in industry capacity and output levels, customer inventory levels and changes in the world economy. The pulp and paper industry has often been characterized by periods of imbalances between supply and demand, causing prices to be volatile. Prices also vary significantly by geographic region and product. Coated fine paper, our core product used for many types of publications, is susceptible to the highly cyclical advertising market, a major driver in our business.

Worldwide economic conditions have recently experienced a significant downturn, resulting in significant recessionary pressures and lower business and consumer confidence. As a result, although the full impact of the downturn may not occur until later in the year, we may experience a slowing in demand in all our major markets and downward pressure on pricing in many markets, which could adversely affect our business and financial condition.

In anticipation of slowing demand, during December 2008 we took production downtime and we will consider taking further downtime in fiscal 2009 to balance supply and demand.

Coated Fine Paper

Coated fine paper demand from fiscal 2006 to fiscal 2008 increased due to the upswing in world economic growth and resultant increase in advertising activities. The increase in coated fine paper demand continued during the first half of fiscal 2008, but global demand started to decline during the remainder of fiscal 2008 due to a slowdown in the global economy. Coated fine paper demand declined rapidly in our major markets during our first fiscal quarter of 2009 as major economies continued to slow down.

Global Coated Fine Paper Market Balance

Source: EMGE.

The global demand to capacity ratio for coated fine paper increased to approximately 95% in fiscal 2007 and further increased to approximately 98% during fiscal 2008. No increases in industry capacity in Europe and North America were discernible during this period, with companies reluctant to undertake major new capital projects in these regions due to the poor returns being achieved. Despite global overcapacity, high Asian demand growth rates and availability of funding led to significant coated fine paper capacity additions between fiscal 2000 and fiscal 2008 in Asia, particularly in China. Announced closures of coated fine paper production capacity of approximately 1.2 million tonnes in Europe are expected to positively affect the supply / demand balance in Europe during 2009, which balance will also be impacted by the economic slowdown.

In North America the tight supply / demand conditions existed in fiscal 2006 as inventory throughout the supply chain dropped, giving rise to price increases. In total, North American apparent consumption grew by 8.6% in fiscal 2006 but declined by 7.2% in fiscal 2007. Apparent consumption further declined by 11% during fiscal 2008, as compared to the corresponding period in 2007. The decreases in apparent consumption during fiscal 2007 and fiscal 2008 were due to a decrease in advertising activities and printer consumption; the decreases being partly offset by a significant reduction in imports. Imports of coated fine paper into the United States decreased by approximately 22% during fiscal 2007 compared to fiscal 2006 mainly due to a reduction in Chinese imports of coated fine paper following the imposition of countervailing import duties placed on certain Asian producers by the US Department of Commerce. The relative weakness of the US\$ also made imports less attractive, supporting demand for local products. These significant decreases in coated fine paper imports were largely due to Chinese coated fine paper imports being reclassified as coated groundwood paper in late calendar 2007. As a result, such imports are accounted for statistically as coated groundwood paper rather than coated fine paper. These countervailing import duties were abolished during 2008, but the classification of Chinese coated paper imports as coated groundwood paper continued. Coated fine paper prices in North America increased during fiscal 2008 compared to fiscal 2007, with the largest increase of approximately 12% being in the grade that represents the largest end use of coated fine paper, Number 3 60lb rolls. The decline in coated fine paper demand in North America post our fiscal year end, has been and is expected to continue to put pressure on sales volumes and selling prices.

In Europe, demand for coated fine paper was flat in fiscal 2008 as compared to fiscal 2007. Demand grew by 1.4% in fiscal 2007 and 2.3% in fiscal 2006. Capacity utilization, including exports, was high in fiscal 2007 and fiscal 2008. Despite relatively flat demand year-on-year and sharp increases in input costs, attempts to increase prices in the European market in fiscal 2007 and in fiscal 2008 were unsuccessful due to intense

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competition and persisting over-capacity. However, a small increase in coated fine paper prices of approximately 1% occurred during September 2008. Although the relative weakness of the US\$ versus the Euro made exports less attractive compared to regional sales, exports from Europe grew by 3.7% in fiscal 2008 compared to fiscal 2007. Demand for coated fine paper showed a decline post our fiscal year end compared to fiscal 2008 due to continued weakness in European economies.

The graph below reflects apparent consumption for the United States and Europe. Apparent consumption is consumption as indicated by mill sales volumes, which ignores the impact of customer inventory and the reclassification of imports. The sales volume to customers is used as the indicator of demand, with the difference between apparent and real demand being the movement in inventories.

US and European Apparent Consumption of Coated Paper

Source: AF&PA & Cepifine.

US short tonnes converted to tones.

The price history for benchmark coated woodfree grades in North America and Europe is shown in the following chart:

US and European Apparent Consumption of Coated Paper

Source: RISI (Resource Information System Inc).

Prices are list prices. Actual transaction prices could differ.

Coated Fine Paper North America

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Sappi Fine Paper North America's average price realized in fiscal 2008 increased by US\$ 68 per short ton, to US\$ 1,071, as compared to fiscal 2007. These increases were due to a weaker US dollar, reduced supply

and a sales and marketing strategy that was more focused on price levels. Sappi Fine Paper North America's average price realized decreased by US\$ 6 per short ton to US\$ 1,003 per short ton in fiscal 2007 compared to fiscal 2006, mainly due to competitive import price pressure and changes in product mix. In fiscal 2006, prices in North America decreased to US\$ 1,009 per short ton from US\$ 1,017 per short ton in fiscal 2005.

Coated Woodfree Paper Europe

Prices in Europe, in the local currency, decreased in fiscal 2008 (€ 709 per tonne) compared to fiscal 2007 (€ 722 per tonne), mainly due to increased competition in the market. Despite sharp input cost increases and capacity closures during fiscal 2007, prices in Europe, in the local currency, were relatively flat in fiscal 2007 (€ 722 per tonne) compared to fiscal 2006 (€ 724 per tonne), but significantly lower than fiscal 2005 (€ 732 per tonne). Sales prices in Europe are impacted by the movement in the US\$ / Euro exchange rate as explained in more detail in the analysis of sales development by region contained in "Operating and Financial Results Sales".

Coated Magazine Paper Europe

European deliveries of coated magazine paper increased by 1.5% in fiscal 2008 compared to fiscal 2007, while average market prices for coated magazine paper in Europe increased by 4.4%. In fiscal 2007, deliveries by producers of coated magazine paper increased approximately 2.3%. The price development in Europe was unfavorable for coated magazine paper, decreasing by 3.2% compared to fiscal 2006. In fiscal 2006, deliveries by European producers increased by approximately 0.8%, compared to fiscal 2005, primarily due to increased exports to markets outside Europe. Average market prices in Europe increased by approximately 0.7%. The strengthening of the euro against the US dollar depressed the euro-equivalent selling prices for exports.

Pulp

The average NBSK prices for fiscal 2008, fiscal 2007 and fiscal 2006 were US\$ 876, US\$ 764 and US\$ 643 per tonne, respectively. High pulp demand during fiscal 2007 resulted in the continued increase of pulp prices. The pulp demand during the latter part of fiscal 2007 and for most of fiscal 2008 remained high as none of the usual seasonal decreases occurred. Pulp demand and prices started decreasing during the latter part of fiscal 2008. Both pulp demand and prices continued to decline post our fiscal year end.

Since we sell roughly as much pulp as we purchase, fluctuations in market pulp prices have a marginal direct impact on our overall profitability. At a divisional level, pulp prices do, however, affect profitability since Sappi Fine Paper Europe is a net buyer of hardwood pulp and Sappi Forest Products is a net seller of hardwood pulp.

The price of NBSK and Bleached Hardwood Kraft pulp (BHKP) is depicted in the following chart:

PIX Benchmark Pulp Prices

Source: PIX (Index from Foex Indexes Ltd).

Chemical cellulose accounts for the majority of our third-party pulp sales. The chemical cellulose produced at our Saiccor mill in South Africa is used principally as an input in the production of various textiles and acetate flake used in the manufacturing of acetate tow for cigarette filter tips. The movement in price of certain chemical cellulose grades is linked to the price of NBSK. Higher technical specifications allow chemical cellulose to typically trade at a premium to NBSK. BHKP generally sells at a lower price than NBSK. We maintained volumes during fiscal 2006 and fiscal 2007. While demand for chemical cellulose remained strong during the fiscal 2008, sales during that period were at a lower level as compared to the prior year, primarily as a result of a shortfall in production volumes. Since November 2008 we have experienced a rapid decline in demand for chemical cellulose. Prices in US\$ have steadily increased year on year from fiscal 2006 to fiscal 2008. NBSK prices have declined from US\$ 858 per metric tonne at the end of our 2008 fiscal year to US\$ 615 per metric tonne in January 2009. Significant competitive sources of chemical cellulose supply were recently removed from the industry when Weyerhaeuser closed its 140,000 tonnes per annum Cosmopolis plant in September 2006 and the RGM mill in Indonesia (P.T. Toba) converted production from chemical cellulose to paper grade pulp in May 2008. The capacity of the RGM mill is 180,000 tonnes per annum. In addition the Baikalsk mill in Russia (90,000 tonnes per annum) switched to producing unbleached kraft pulp during 2008 and the Borregaard mill in Switzerland (120,000 tonnes per annum) announced that it would close in December of 2008. These closures are balanced by the start-up of an additional 250,000 tonnes per annum by the Bahia pulp mill in Brazil, the conversion of the AV Nackawic mill in Canada (180,000 to 200,000 tonnes per annum) to chemical cellulose and the increase in capacity at our Saiccor mill by 200,000 tonnes per annum.

Currency Fluctuations

The principal currencies in which our subsidiaries conduct business are the US dollar (US\$), Euro and South African Rand (ZAR). Although the reporting currency is the US\$, a significant portion of the Group's sales and purchases are made in currencies other than the US\$. In Europe and North America, sales and expenses are generally denominated in Euro and US\$, respectively; however, pulp purchases in Europe are primarily denominated in US\$. In South Africa, costs incurred are generally denominated in ZAR, as are local sales. Exports from the South African businesses to other regions, which in local currency represented approximately 43% of net sales in fiscal 2008 (fiscal 2007: 47%), are denominated primarily in US\$.

The appreciation of the ZAR or the Euro against the US\$ tends to diminish the value of exports from South Africa and Europe in local currencies, while depreciation of these currencies against the US\$ has the opposite impact. Since expenses are generally denominated in local currencies, the depreciation of the US\$ has a negative effect on gross margins on exports and such domestic sales which are priced relative to international US\$ prices. The appreciation of the US\$ has the opposite impact. The Group's consolidated

financial position, results of operations and cash flows may be materially affected by movements in the exchange rate between the US\$ and the respective local currencies to which subsidiaries are exposed. The principal currencies in which subsidiaries conduct business that are subject to the risks described in this paragraph are the Euro and ZAR. The following table depicts the average and year end exchange rates for the ZAR and Euro against the US\$ used in the preparation of our financial statements in fiscal 2008, fiscal 2007 and fiscal 2006:

Exchange rates	Average rates			Closing rates		
	2008	2007	2006	2008	2007	2006
US\$ / ZAR	7.4294	7.1741	6.6039	8.0751	6.8713	7.7738
US\$ / EUR	1.5064	1.3336	1.2315	1.4615	1.4272	1.2672

Source: St. Louis Federal Reserve Bank.
US\$ 1 = ZAR, US\$ 1 = EUR.

The profitability of certain of our South African operations are directly dependent on the ZAR proceeds of their US\$ exports. Prices in the local South African market are also influenced by pricing of foreign currency imports.

The translation of our annual results into the presentation currency (US\$) from local currencies tends to distort comparisons between financial periods when currencies are volatile. The Euro strengthened substantially against the US\$ to an average of US\$ 1.51 / Euro in fiscal 2008, (from an average US\$ 1.33 / Euro in fiscal 2007 and US\$ 1.23 / Euro in fiscal 2006) while the ZAR weakened on average against the US\$ to ZAR 7.43 / US\$ in fiscal 2008 (from an average of ZAR 7.17 / US\$ in fiscal 2007 and an average of ZAR 6.60 / US\$ in fiscal 2006). The net impact of these currency movements increased reported sales in US\$ by US\$ 259 million in fiscal 2008 and US\$ 61 million in fiscal 2007. This impacts the currency translation effects on our historic results of operations and are described in "Operating Results Sales" and "Operating expenses".

Inflation and Interest Rates

The graph below summarizes the South African inflation and interest rates, as well as the South African Reserve Bank lending rate (repo rate).

South African Inflation and Interest Rates

Source: Standard Bank South Africa.

In the US and Europe inflation rates were relatively stable in recent years, and accordingly had a lesser impact on our North American and European businesses. Please see table below depicting the fiscal period average United States 3 month Libor.

United States 3 Month Average Libor

The fiscal period average three-month Euribor interest rate in Europe is depicted below. The relatively low interest rates in the United States and Europe continue to represent a significant interest rate differential when compared to South Africa's 11% repurchase rate as determined by the SARB, and could result in further short-term strengthening of the ZAR.

With regard to interest rate swaps, hedge accounting is permitted when the hedging relationship between the hedging instrument and the underlying debt meets the relevant requirements of IFRS. For example, the Group has entered into hedging relationships to swap the fixed rate on its public bonds to a variable rate.

European 3 Month Euribor

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 utilize 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 minimized by means of hedge accounting, fair value accounting or other means.

The group has a current policy of not hedging translation risks. The South African and European operations use the ZAR and the Euro as their respective functional currencies. Any translation of the value of these operations into US\$ results in foreign exchange translation differences as the ZAR and the Euro exchange rates move against the US\$. These changes are booked to the foreign currency translation reserve account. Borrowings taken up in a currency other than the functional currency of the borrowing entity are specifically hedged with financial instruments, such as currency swaps and forward exchange contracts.

For further information, see note 30 to our Group Annual Financial Statements included elsewhere in this Annual Report for a detailed explanation.

South African Economic and Political Environment

Sappi Limited is a public company incorporated in South Africa. We have significant operations in South Africa, which accounted for 27% of our net sales in fiscal 2007 and 25% of our net sales in fiscal 2008. See "Operating Results Overview Operating Profit / (Loss)" for the proportion of South African operating profit to total profit.

South Africa features a highly developed, sophisticated "first world" infrastructure at the core of its economy. Econometrix, a provider of economic analysis and forecasting for the South African economy, forecasts the South African GDP to grow by 3.4% and 2.4%, respectively, in calendar 2008 and calendar 2009. South Africa's long-term foreign currency investment ratings have remained constant over the last year with a BBB+ (investment grade) from Standard & Poor's Rating Service (S&P) and Fitch. On November 12, 2008 Fitch changed its outlook on the country's creditworthiness from stable to negative. Exchange controls regulations have not been amended during fiscal 2008 South African companies remain subject to restrictions on their ability to raise and deploy capital outside of the southern African Common Monetary Area. (See "Item 10 Additional Information Exchange Controls").

South Africa completed 14 years of democracy in calendar 2008; however, the country continues to face challenges in overcoming substantial differences in levels of economic and social development among its people. Access to land, poverty, unemployment, crime and a growing prevalence of HIV / AIDS are some of the social and economic factors that affect businesses operating in this country.

The Restitution of Land Rights Act (Act 22 of 1994), as amended, provides for the restoration of rights in land or other equitable redress to persons or communities dispossessed of their land rights after June 19, 1913 as a result of old laws or practices discriminating on the basis of race. The legislation empowers the Minister of Land Affairs to expropriate land in order to restore it to a successful claimant provided that there is just and equitable compensation to the owner of the land. Claims under the Act were required to be filed on or

before December 31, 1998 and are presently being processed by the Commission on Restitution of Land Rights and adjudicated upon by the Land Court. This process is expected to continue for many years. As one of the largest land owners in South Africa, we anticipate that a substantial number of claims may affect land we own. The process of determining the extent of claims filed in respect of our land and the potential impact of these claims on our South African operations continues. The total number of land claims against us is 64, of which 27 are in Mpumalanga and 37 are in KwaZulu-Natal. Four of these claims are in the process of being settled in KwaZulu-Natal. The remaining claims have not been finalized and are still under investigation by the Regional Land Claims Commissioner.

The southern African region has one of the highest infection rates of HIV / AIDS in the world. In 1992, we started a program to address the effects of HIV / AIDS and its impact on our employees and our business. Our aim is to ensure that our program prevents new infections and to treat the HIV / AIDS positive employees. Each operating unit has an elected HIV / AIDS committee and a workplace HIV / AIDS prevention program which are adapted to suit the needs of each particular business unit and to ensure that they are active owners and managers of their programs. Each Sappi operation in southern Africa has also identified the relevant role players in their geographical area and is working with them on the implementation of a comprehensive HIV / AIDS program, eliminating duplication and making optimum use of relevant resources through private-public partnerships. To ensure that our program remains current, we are members of the Global Business Coalition on HIV / AIDS (GBC) and of the South African Business Coalition against HIV / AIDS (SABCOHA). The GBC is a global partnership and SABCOHA is a national partnership focused on developing an integrated strategy for dealing with HIV / AIDS.

Following two previous anonymous, voluntary prevalence tests, a third comprehensive voluntary study was initiated in 2007 in all of our southern African operations. Based on a participation rate of greater than 80%, at the locations tested, we estimate that the overall infection rate in our southern African operations is approximately 14%, which is well below the national average. Similar studies conducted in 2008 confirmed an infection rate of approximately 14%.

Our HIV / AIDS response strategy places special emphasis on testing and counseling to ensure that staff is informed with regard to their HIV / AIDS status to enable them to make informed decisions as to their life choices. Since August 2002, our medical care for employees has included treatment to prevent mother to child transmission. Anti-retroviral treatment has been offered to HIV-infected permanent employees from the beginning of 2003. More recently, special focus has been given to the identification of the environmental risks that could lead to an increase in the prevalence of HIV in the company. We have also extended our voluntary counseling and testing (VCT) programs, and are offering an HIV test to every employee who visits the clinics for a medical examination. We estimate that approximately 50% of our employees that are HIV / AIDS positive participate in our HIV / AIDS management program, which is an improvement on the prior year's participation rate.

The government and organized business have taken a number of steps in recent years to increase the participation of Black people in the South African economy. To this end, the Employment Equity Act (No. 55 of 1998), the Skills Development Act (No. 97 of 1998) and the Preferential Procurement Policy Framework Act (No. 5 of 2000) were promulgated. The Broad-Based Black Economic Empowerment Act (No. 53 of 2003) has formalized the country's approach to distributing skills, employment and wealth more equitably between races and genders. Broad-Based Black Economic Empowerment (BBBEE) focuses on increasing equity in ownership, management and control of businesses, and improving Black representation in all levels of employment. It also promotes the development of skills within a business, the nurturing of Black entrepreneurship through preferential procurement and enterprise development, and the uplifting of communities through social investment.

More recently, our South African businesses have actively participated in the drafting of a transformation charter for the South African forestry industry. This charter sets the objectives and principles for BBBEE, and includes the scorecard and targets to be applied within the industry, as well as certain undertakings by government and private sector (or South African Forestry Companies) to assist the forestry industry to achieve its BBBEE targets. This Forestry Charter has been signed in May 2008 but has not been gazetted (although the draft forestry sector code was issued for public comment within a period of 60 days under section 9(5) of the Broad-Based Black Economic Empowerment Act on December 5, 2008). Until such time as it is formally gazetted as a Transformation Charter and Sector Code in terms of sections 10 and 12 of the Broad-Based

Black Economic Empowerment Act (No. 53 of 2003), the South African business will continue to be evaluated against the generic BBBEE scorecard, based on guidelines set out in the Codes of Good Practice published by the Department of Trade and Industry.

In 2006, we achieved an overall BBBEE rating of BBB as verified by Empowerdex, a leading external BBBEE rating agent. In February 2007, the BBBEE scorecard as set out in the Codes of Good Practice published by the Department of Trade and Industry was streamlined and simplified without affecting their intended objectives. The South African businesses' BBBEE scorecard was evaluated in December 2007. Based on this revised generic BBBEE scorecard, we achieved an overall BBBEE status of a "level seven contributor" (B rating) with preferential procurement recognition level of 50%. As a result, 50% of the value of all purchases from our South African businesses qualify as preferential procurement spend in a customer's BBBEE scorecard. New BBBEE targets have been set for 2010 and 2013. In addition to the generic scorecard, the Forestry Charter will set out further qualifying criteria for companies associated with the forestry industry.

We will consider and are pursuing empowerment transactions where our empowerment partners add to the value of our business and meet our empowerment criteria.

The representation of Black people, particularly Black women, in management and all levels of employment within the company is a focus within the organization, driven by employment equity targets set in each occupational category. Skills development initiatives, particularly programs aimed at improving management and leadership skills, are geared to meet these targets. Where practical, we purchase goods and services from Black-owned businesses and seek opportunities to develop future Black vendors. We are committed to the support of our Project Grow, which is an initiative with local communities using their land for plantations while training them in the core principles of forestry management. This is achieved through financial and technical input, as well as by providing a secure market during the start-up phase of these small tree farming enterprises. This initiative has been extended to encourage aspirant tree farmers who wish to undertake forestry activities on a larger scale. We have a number of enterprise development initiatives and have established programs to train new entrepreneurs. These initiatives involve the transfer of business skills, technical assistance, financial support and preferential payment terms to assist new enterprises to enter the market. We have a history of investment in the communities in which we operate. Initiatives to promote education, health and welfare, arts and culture, and rural and community development, amongst others, are regularly undertaken.

The South African constitution guarantees ownership rights of assets, and it is the stated intent of the constitution that transfer of ownership will occur at market prices. It should be noted that BBBEE equity participation need not necessarily occur at the corporate level, and can be effected at divisional, business unit or lower levels. Because the BBBEE Act sets forth a framework for plans rather than specific requirements or goals, it is not possible to predict whether or how our business or assets may be impacted.

For further information, see "Item 4 Information on the Company History and Development of the Company" and "Item 3 Key Information Risk Factors Risks Related to Our Industry The cost of complying with environmental regulation may be significant to our business".

Environmental Matters

We operate in an industry subject to extensive environmental regulations. Typically, we do not separately account for environmental operating expenses but do not anticipate any material expenditures related to such matters. We do separately account for environmental capital expenditures. See note 33 to our Group Annual Financial Statements included elsewhere in this Annual Report for a discussion of these matters.

For further information, see "Item 4 Information on the Company Environmental and Safety Matters".

Operating Results

Financial Condition and Results of Operations

The operations of Sappi (The Group) are organized into two main business segments and Corporate:

- I. Sappi Fine Paper, which consists of Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Fine Paper South Africa; and
- II. Sappi Forest Products consists of Sappi Kraft (Kraft), Sappi Saiccor (Saiccor) and Sappi Forests (Forests). Kraft and Saiccor are jointly referred to as the Pulp and Paper business of Sappi Forest Products and Forests comprises the forests business for purposes of this discussion and analysis. The volume, revenue and cost relationship within the Forests business is substantially different to that of the pulp and paper business.
- III. Corporate includes all other non manufacturing and trading sectors of the business not included above.

The analysis and discussion which follows should be read in conjunction with our Annual Financial Statements included elsewhere in this Annual Report.

Overview

This is an overview of the Group's operating which is intended to provide context to the discussion and analysis which follow. General trends are being highlighted with detailed discussion and analysis to be dealt with in separate sections below. The key indicators of the group's operating performance are:

	2008	2007	2006
	US\$ million (except for share amounts)		
Key figures			
Sales	5,863	5,304	4,941
Operating profit	314	383	125
Basic EPS (US cents)	45	89	(2)

The factors impacting operating profit, which will be dealt with in greater detail later in this discussion, are as follows:

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Segment contributions to operating profit are as follows:

	2008			2007			2006
	US\$ million	Variance Value	%	US\$ million	Variance Value	%	US\$ million
Operating Profit / (Loss)							
Fine Paper							
North America	92	70	318	22	38		(16)
Europe	(64)	(152)	(173)	88	115		(27)
South Africa	6	(3)	(33)	9	15		(6)
Total Fine Paper	34	(85)	(71)	119	168		(49)
Forest Products	273	9	3	264	89	51	175
Corporate	7	7			1		(1)
Total	314	(69)	(18)	383	258	206	125

Operating profit in fiscal 2008 has been adversely affected by impairment charges (US\$119 million) and restructuring charges (US\$ 41 million), partly offset by a favorable plantation fair value price adjustment (US\$ 120 million). The impairment and restructuring charges relate to closure of the Sappi Fine Paper Europe Blackburn mill and Maastricht PM5, as well as the impairment of the Usutu mill in southern Africa. Excluding the impact of these items operating profit showed a significant improvement year on year. The improvement came from improved sales (US\$ 559 million), partly offset by increased operating costs excluding impairments and restructuring (US\$ 501 million).

Operating profit in fiscal 2007 was favorably impacted by the significantly improved performances in all segments of the business. The major contributor to the improved performance was the improvement in sales, partly offset by some cost escalations. Variable costs have been adversely impacted by escalating commodity prices, particularly, energy and the impact of the exchange rate on the translation into US\$. Fiscal 2007 was also impacted by the profit on sale of the Nash property (US\$ 26 million).

Fiscal 2006 was favorably affected by the reversal of impairment (US\$ 31 million) at Forest Products and post employment restructuring credits (US\$ 28 million), partly offset by a provision for restructuring (US\$ 40 million) at Sappi Fine Paper Europe relating to the restructuring of post-employment benefit funds.

Movements in the sales, variable cost and fixed cost components of operating profit are explained below. Items not dealt with in separate sections are as follows:

Plantation fair value: This relates to the fair value adjustment of the timber assets of the Forestry operation of Forest Products. The movement on this item is mainly impacted by timber selling prices, cost associated with standing timber values and harvesting and delivery, the estimated growth rate or annual volume changes and discount rates applied. The parameters applied are all market related. The impact was positive US\$ 120 million in fiscal 2008, positive US\$ 54 million in fiscal 2007 and positive US \$ 34 million in fiscal 2006.

Impairment: In fiscal 2008 operating profit has been adversely impacted by the restructuring of the Sappi Fine Paper Europe operations with the closure of Blackburn mill (US\$62 million) and Maastricht PM5 (US\$16 million), and impairment of the Forest Products Usutu mill (US\$37 million). In total, the impairment charges were US\$ 119 million and restructuring charges were US\$ 41 million. During fiscal 2006, Forest Products, due to the improved performance of the Usutu mill, reversed the impairment of the mill resulting in a credit to profit of US\$ 40 million.

Sale of Nash: The Sappi Fine Paper Europe Nash mill was closed in May 2006 and the operations were transferred to other operations in the Group. The mill property was sold during fiscal 2007, and a profit of US\$ 26 million was realized.

Fire and flood damage: During fiscal 2008 and fiscal 2007 Forest Products experienced devastating fires across a wide area of afforested land and some flooding at the Saiccor mill. The cost of damages was US\$ 11 million and US\$ 17 million in fiscal 2008 and in fiscal 2007, respectively.

*Sales**Group*

Sales improvement has been a major contributor to the improved profitability from fiscal 2006 to 2008. Sales have increased from US\$ 4,941 million in fiscal 2006 to US\$ 5,304 million in fiscal 2007 and US\$ 5,863 million in fiscal 2008. The three factors impacting sales are volume, price and exchange rate. The South African and European businesses transact in ZAR and Euro respectively, but the results of their operations are translated into US\$ for reporting purposes. The movement in the exchange rate from local currency to US\$ during periods of high volatility significantly impacts reported results from one period to the next. Movements in exchange rates impacted sales positively by US\$ 259 million and US\$ 61 million in fiscal 2008 and fiscal 2007, respectively. An analysis of the drivers of sales movements may be presented as follows:

Sales Volume	2008			2007			2006
	Variance			Variance			Volume
	Volume	%	Metric	Volume	%	Tonnes ('000)	
Fine Paper							
North America	1,553	47	3	1,506	80	6	1,426
Europe	2,546	53	2	2,493	43	2	2,450
South Africa	339	(11)	(3)	350	22	7	328
Total Fine Paper	4,438	89	2	4,349	145	3	4,204
Forest Products							
Pulp & Paper	1,419	(65)	(4)	1,484	14	1	1,470
Forestry	994	(36)	(3)	1,030	(495)	(32)	1,525
Total Forest Products	2,413	(101)	(4)	2,514	(481)	(16)	2,995
Total	6,851	(12)		6,863	(336)	(5)	7,199

Sales Value	2008			2007			2006
	Variance			Variance			US\$
	US\$ million	Value	%	US\$ million	Value	%	
Fine Paper							
North America	1,664	153	10	1,511	72	5	1,439
Europe	2,720	333	14	2,387	193	9	2,194
South Africa	380	22	6	358	33	10	325
Total Fine Paper	4,764	508	12	4,256	298	8	3,958
Forest Products							
Pulp & Paper	1,023	44	4	979	83	9	896
Forestry	76	7	10	69	(18)	(21)	87
Total Forest Products	1,099	51	5	1,048	65	7	983
Total	5,863	559	11	5,304	363	7	4,941

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After market share declines in fiscal 2006 Sappi Fine Paper Europe and Sappi Fine Paper North America experienced volume increases as market conditions improved slightly and market share was regained in fiscal 2007 and fiscal 2008. Forest Products experienced declines in pulp and paper volumes in fiscal 2006 resulting from import substitution on the back of a much stronger local currency. In fiscal 2007, import substitution was less evident as the local currency had weakened against the US\$, making import substitution less attractive. Sappi Fine Paper South Africa experienced local market dynamics similar to Forest Products with import substitution being a major threat. Production output difficulties at Kraft and the Saiccor expansion impacted Forest Products sales volumes adversely in fiscal 2007 and fiscal 2008. The 2007 decline in external timber sales volumes reflects efforts to reduce these sales in order to protect timber stocks in anticipation of the increased internal demand that will occur when the Saiccor upgrade is at full capacity.

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In fiscal 2008 sales in US\$ increased (US\$ 559 million) mainly due to price increases (US\$ 258 million) at Sappi Fine Paper North America and in South Africa and the impact of the exchange rate movements on the translation (US\$ 259 million) of the Sappi Fine Paper Europe sales into US\$, partly offset by the impact of the declining ZAR against the US\$ on the translation of the South African sales into US\$. Forest Products sales benefited from the increased international pulp price. The positive volume growth (US\$ 42 million) in Europe and North America was partly offset by volume declines in South Africa for the reasons explained above. In fiscal 2007, sales increased by US\$ 363 million compared to fiscal 2006. This increase was due to a combination of increases in volume (US\$ 123 million), at Fine Paper and Forest Products pulp and paper, price (US\$ 179 million) and the currency translation (US\$ 61 million) effect of sales in Euro and ZAR into US\$, which is the presentation currency. The translation of the South African sales was adversely affected by the weakening of the ZAR against the US\$ and the Euro sales of Sappi Fine Paper Europe were positively impacted by the weakening of the US\$ against the Euro. The table below shows the impact of volume, price and exchange rates on the Group's sales in fiscal 2008 and fiscal 2007 when compared to the previous year:

Sales Variance Analysis vs. Previous Year	2008			2007			2006			
	Exchange			Exchange			Exchange			
	Volume	Price	Rate	Volume	Price	Rate	Volume	Price	Rate	
	US\$ million									
Fine Paper										
North America	47	106		153	81	(9)		72	(7)	(12)
Europe	51	(30)	312	333	39	(28)	183	194	21	(5)
South Africa	(11)	47	(14)	22	22	41	(31)	32	11	10
Total	87	123	298	508	142	4	152	298	25	(7)
Forest Products										
Pulp & Paper	(43)	123	(36)	44	9	159	(85)	83	(55)	95
Forestry	(2)	12	(3)	7	(28)	16	(6)	(18)	(11)	13
Total	(45)	135	(39)	51	(19)	175	(91)	65	(66)	108
Total	42	258	259	559	123	179	61	363	(41)	101

Sappi Fine Paper North America

Improving market conditions, particularly the reduced threat of imports from Asia, have allowed Sappi Fine Paper North America to improve its market share thereby increasing volumes and achieving price increases in fiscal 2008. The average price realized in fiscal 2008 increased to US\$ 1,071 / tonne after decreasing to US\$ 1,003 per tonne in fiscal 2007 from US\$ 1,009 per tonne in fiscal 2006 due to continued market pricing pressure. The major contributor to improved sales is volume resulting from market share gain in fiscal 2008 and fiscal 2007. Volumes in fiscal 2006 were adversely affected by declines in market share due to increased competition and import substitution. There is no exchange rate impact as the transactional currency is the same as the presentation currency (US\$).

Sappi Fine Paper Europe

In fiscal 2008, Sappi Fine Paper Europe experienced improved volumes (US\$ 51 million) as it continued to regain market share which, together with the impact of the strengthening of the Euro against the US\$ (US\$ 312 million) on the translation of sales into US\$, partly offset by a reduction in prices (US\$ 30 million), resulting in increased sales of US\$ 333 million. Average prices realized in US\$ terms in fiscal 2008 were US\$ 1,068 per tonne compared to US\$ 957 per tonne in fiscal 2007, and US\$ 896 per tonne in fiscal 2006. Pricing at Sappi Fine Paper Europe has been under pressure since fiscal 2005 due to strong competition for market share largely due to the weakening of the US\$ against the Euro

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and overcapacity in the market. The US\$ on average weakened to US\$ 1.51 / Euro in fiscal 2008 from US\$ 1.33 / Euro in fiscal 2007 and US\$ 1.23 / Euro in fiscal 2006. Volumes declined in fiscal 2006 due to loss of market share resulting from attempts to improve pricing. Recently announced industry consolidation initiatives in Europe, as was the case for similar initiatives implemented in North America, may contribute to addressing the capacity imbalances which are adversely impacting the sustainability of the industry.

Sappi Fine Paper South Africa

Sales increased 6% in fiscal 2008, as compared to a 10% increase in fiscal 2007, due mainly to price increases (US\$ 47 million), which were partly offset by a decrease in volumes (US\$ 11 million) and an adverse exchange rate impact (US\$ 14 million). The average price realized at Sappi Fine Paper South Africa in US\$ terms in fiscal 2008 increased to US\$ 1,121 / tonne from US\$ 1,023 per tonne in fiscal 2007, as compared to US\$ 991 per tonne in fiscal 2006. In fiscal 2008 the average price in ZAR increased 13% compared to fiscal 2007. During 2006 the region experienced pricing pressure due to import substitution as a result of the strength of the ZAR against the US\$. In 2007 the ZAR weakened, lessening the threat of import substitution and creating a favorable climate for price increases. The ZAR weakened to an average of ZAR 7.43 / US\$ in fiscal 2008 from ZAR 7.17 / US\$ in fiscal 2007 and ZAR 6.60 / US\$ in fiscal 2006. The region experienced an adverse impact on the translation of its results into the presentation currency (US\$) due to the impact of the exchange rate movements. Volumes declined by 3% in fiscal 2008.

Forest Products

Timber volumes at Forest Products declined as the business was reducing external sales in order to conserve and build timber supply inventories in anticipation of the completion of the Saiccor upgrade. A major determinant of pricing in the Forest Products businesses is the NBSK price. The NBSK prices of US\$ 863 per tonne and US\$ 858 per tonne at the close of fiscal 2008 and fiscal 2007, respectively, were at historical highs which had a positive effect on sales pricing. NBSK prices have declined from US\$ 858 per metric tonne at the end of our 2008 fiscal year to US\$ 615 per metric tonne in January 2009. This decline had a negative effect on sales pricing. Hardwood Pulp sales which form a major portion of Kraft sales, are also experiencing favorable pricing, reaching US\$ 817 per tonne and US\$ 720 per tonne at the end of fiscal 2008 and 2007 respectively. The local sales are also benefiting from the weaker ZAR to the US\$ which is reducing import substitution and improving both local pricing and volumes. The commercial benefit achieved as a result of the relatively weaker ZAR was slightly offset by an adverse impact on the translation of its financial results into the presentation currency (US\$) due to the impact of exchange rate movements.

Operating expenses

In the analysis which follows cost per tonne has been based on sales tonnes. An analysis of the Group operating expenses is as follows:

	2008				2007				2006			
	Costs		Variance		Costs		Variance		Costs		Variance	
	US\$	US\$ /	US\$	%	US\$	US\$ /	US\$	%	US\$	US\$ /	US\$	%
Operating Costs	million	tonne	Value	%	million	tonne	Value	%	million	tonne	Value	%
Variable Costs												
Delivery	509	74	56	12	453	66	12	3	441	61		
Manufacturing	3,073	449	388	14	2,685	391	169	7	2,516	349		
Total Variable	3,582	523	444	14	3,138	457	181	6	2,957	410		
Fixed Costs	1,919	280	111	6	1,808	263	9	1	1,799	250		
Fair value plantation	(120)	(18)	(66)	122	(54)	(8)	(20)	(59)	(34)	(5)		
Impairment	119	17	119		2		31		(31)	(4)		
Restructuring	41	6	48		(7)	(1)	(57)		50	7		
Profit on sale of Nash			26	(100)	(26)	(4)	(26)					
Fire / flood damage	11	2			17	2	8	89	9	1		
Sundry income / (loss)	(6)	(1)	(29)	(126)	23	3	1	5	22	3		
Other	3		(25)	(114)	20	3	(22)	(93)	44	6		
Total	5,549	810	628	13	4,921	716	105	2	4,816	669		

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See " Overview" for the line items plantation fair value pricing adjustment, impairment, restructuring, profit on sale of the Nash mill and fire and flood damage. Variable and fixed costs are analyzed in more detail below.

Variable manufacturing costs

Group

The table below sets out the major components of the Group's variable manufacturing costs.

	2008				2007				2006			
	Costs		Variance		Costs		Variance		Costs		Variance	
	US\$ million	US\$/Tonne	US\$ million	%	US\$ million	US\$/Tonne	US\$ million	%	US\$ million	US\$/Tonne	US\$ million	%
Wood	722	105	87	14	635	93	4	1	631	88		
Energy	558	81	120	27	438	64	5	1	433	60		
Pulp	702	102	79	13	623	91	60	11	563	78		
Other	1,091	159	102	10	989	143	100	11	889	124		
Total	3,073	449	388	14	2,685	391	169	7	2,516	350		

Variable manufacturing costs relate to costs of inputs which vary directly with output. Other costs relate to inputs such as water, fillers, bought-in pulp (other than fully bleached hardwood and softwood) and consumables. The Group's variable costs are impacted by sales volume, exchange rate impacts on translation of European and South African businesses into US\$, and the underlying costs of inputs. In the analysis and discussion of variable costs, usage reflects the changes in cost attributable to volume changes and usage, price refers to changes in input costs and exchange rate relates to the impact of the movement in exchange rate on the translation from local currency to US\$ for reporting purposes at Fine Paper Europe and South Africa. The major contributors to variable cost increases at a Group level have been the impact of the exchange rate on translation of the European and South African operations into the US\$ presentation currency and actual input cost escalations. See "Principal Factors Impacting on the Group Results Currency Fluctuations" for a discussion of exchange rate movements. Cost increases are being driven by international commodity price increases.

	2008				2007			
	Exchange		Price		Exchange		Price	
	Usage	Total	Usage	Total	Usage	Total	Usage	Total
Wood	41	18	28	87	(43)	5	42	4
Energy	5	28	87	120	(7)	7	5	5
Pulp	(12)	52	39	79	(15)	25	50	60
Other	(19)	67	54	102	71	26	3	100
Total	15	165	208	388	6	63	100	169

An analysis of variable cost developments by region is as follows:

	2008				2007				2006			
	Costs		Variance		Costs		Variance		Costs		Variance	
	US\$ million	US\$/Tonne	US\$ million	%	US\$ million	US\$/Tonne	US\$ million	%	US\$ million	US\$/Tonne	US\$ million	%
Sappi Fine Paper North America	925	596	56	6	869	577	44	5	825	579		
Sappi Fine Paper Europe	1,608	632	238	17	1,370	550	139	11	1,231	502		
Sappi Fine Paper South Africa	229	676	19	9	210	600	7	3	203	619		
Forest Products	542	225	80	17	462	184	(22)	(5)	484	162		

*
Note: Regional variable manufacturing costs are pre-consolidation adjustments.

Sappi Fine Paper North America

Costs have increased in fiscal 2008 and fiscal 2007 due to increases in international commodity prices, in particular crude oil. Cost management has been a major focus area, and the region has been engaged in a number of cost reduction initiatives aimed at offsetting the impact of increases in input costs. These initiatives are aimed at improved procurement strategies and product reengineering initiatives to reduce raw material input costs through substitution. Product design and raw material inputs are constantly reviewed to ensure product attributes and quality meet market specifications. Lower timber costs favorably impacted fiscal 2007 compared to fiscal 2006.

Sappi Fine Paper Europe

Sappi Fine Paper Europe continued to experience cost pressure due to increases in international commodity prices during fiscal 2008 and fiscal 2007. Wood costs are being driven by specific supply and demand issues as well as increased demand for alternative renewable fuels in Europe. International crude oil prices are driving energy costs. During the period under review the region has undertaken specific cost reduction projects which have contributed to cost reductions through process as well as product re-engineering initiatives. Rising international pulp prices have led to increases in cost of non-integrated pulp. The region has been protected to some extent, on the cost side, by the relative strength of the Euro against the US\$ for US\$ based inputs, such as pulp and certain chemicals. However, when reported in US\$, costs increase due to the impact of the US\$ weakening relative to the Euro on the translation into the US\$ presentation currency, although this effect may be partly offset by the positive impact of translation on the revenue line.

Sappi Fine Paper South Africa

In ZAR the region's costs have increased 17% in fiscal 2008 as compared to fiscal 2007. This increase is largely attributable to the impact of the weakening of the ZAR against the US\$ on US\$ based inputs. The major contributors have been energy, bought-in pulp and chemical input costs, all of which are being driven by international commodity price pressures and the impact of the exchange rate movements.

Forest Products

The cost of non-integrated timber increased due to the increased demand from both major local paper producers and exporters. The pool of non-integrated timber in South Africa is relatively small and currently very costly due to the increasing demand. Movements in pulp costs do not impact the business as significantly as Europe and North America as the region only purchases pulp in a situation when own production capacity issues limits supply. Chemical and other costs are being driven by a combination of escalating international commodity prices and the impact of the weakening ZAR relative to US\$ on US\$ based variable inputs.

Fixed costs

Group

A summary of the Group's major fixed cost components is as follows:

	2008				2007				2006			
	Costs		Variance		Costs		Variance		Costs		Variance	
Fixed Costs	US\$ million	US\$ / Tonne	Value	%	US\$ million	US\$ / Tonne	Value	%	US\$ million	US\$ / Tonne	Value	%
Personnel	1,016	148	90	10	926	135	48	5	878	122		
Maintenance	253	37	17	7	236	34	7	3	229	32		
Depreciation	370	54	(2)	(1)	372	54	(15)	(4)	387	54		
Other	280	41	6	2	274	40	(31)	(10)	305	42		
Total	1,919	280	111	6	1,808	263	9	1	1,799	250		

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The regional analysis which follows excludes corporate fixed costs and consolidation adjustments which are not material.

Regional Fixed Costs	2008				2007				2006			
	Costs		Variance		Costs		Variance		Costs		Variance	
	US\$ million	US\$ / tonne	US\$ / tonne	%	US\$ million	US\$ / tonne	US\$ / tonne	%	US\$ million	US\$ / tonne	US\$ / tonne	%
Sappi Fine Paper North America	543	350	1		542	360	(19)	(3)	561	393		
Sappi Fine Paper Europe	863	339	85	11	778	312	8	1	770	314		
Sappi Fine Paper South Africa	111	327	4	4	107	306	3	3	104	317		
Forest Products	403	167	29	8	374	149	(3)	(1)	377	126		

Sappi Fine Paper North America

The region has engaged in restructuring and cost reduction processes in recent years and the benefits of these initiatives contributed to the real fixed cost reduction in fiscal 2007 as compared to fiscal 2006, and to keeping fixed costs essentially flat in fiscal 2008 as compared to fiscal 2007.

Sappi Fine Paper Europe

During 2006 the region embarked on a major restructuring project aimed at reducing costs and improving efficiencies, which has been the major contributor to the cost reductions in 2006. Included in the program was a significant headcount reduction. This focus on fixed expenses has continued during fiscal 2007 and fiscal 2008. In Euros fixed costs have declined from € 625 million in fiscal 2006 to € 583 million in fiscal 2007 and € 573 million in fiscal 2008. The increase in fiscal 2008 and fiscal 2007 in US\$ is attributable to the impact of the weakening of the US\$ against the Euro on the translation into the US\$ presentation currency. In fiscal 2006 personnel costs were also impacted by a post employment benefit credit of US\$ 11 million.

Sappi Fine Paper South Africa

The major contributors to fixed cost increases in recent years are personnel and maintenance cost. Personnel costs are under pressure from labor rate increases due to cost of living adjustments and the impact of the skills shortage on labor rates, particularly in the skilled technical functions. Given the inflationary environment in South Africa inflation is also a contributing factor to cost increase. These cost increases have, in US\$, been offset by the impact of the exchange rate on translation of the costs into the US\$ presentation currency. In ZAR costs have increased from ZAR 689 million in fiscal 2006 to ZAR 768 million in fiscal 2007 and ZAR 822 million in fiscal 2008. See " Currency Fluctuations" for a discussion of exchange rate movements.

Forest Products

The major contributors to fixed cost increases in recent years are personnel and maintenance cost. Personnel costs are under pressure from labor rate increases due to cost of living adjustments and the impact of the skills shortage on labor rates, particularly in the skilled technical functions. Given the inflationary environment in South Africa inflation is also a contributing factor to cost increase. These cost increases have, in US\$, been offset by the impact of the exchange rate on translation of the costs into the US\$ presentation currency. In ZAR costs have increased from ZAR 2,492 million in fiscal 2006 to ZAR 2,686 million in fiscal 2007 and ZAR 2,991 million in fiscal 2008. See " Currency Fluctuations" for a discussion of exchange rate movements.

Net Finance Costs

Annual finance costs may be analyzed as follows:

Finance Costs	2008	2007	2006
	US\$ million		
Interest expense	181	173	162
Interest earned	(38)	(21)	(26)
Finance costs capitalized	(16)	(14)	(2)
Net foreign exchange gains	(8)	(13)	(7)
Net fair value loss on financial instruments	7	9	3
Net finance costs	126	134	130

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

The higher finance costs capitalized in fiscal 2008 and fiscal 2007 as compared to fiscal 2006 relate to the Saiccor expansion project in South Africa. After the plant was commissioned during fiscal 2008, capitalization of finance costs for the project has ceased.

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

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

Taxation

	2008	2007	2006
	US\$ million		
Profit / (loss) before taxation	188	249	(5)
Taxation at the average statutory tax rate	72	68	(13)
Net exempt income and non-tax deductible expenditure	(51)	(34)	(24)
Effect on tax rate changes	(9)	(19)	(1)
Deferred tax asset not recognized	103	49	54
Utilization of previously unrecognized tax assets	(19)	(11)	(24)
Secondary Tax on Companies	7	8	9
Prior year adjustments	(19)	(15)	(2)
Other taxes	2	1	
Taxation charge / (benefit)	86	47	(1)
Effective tax rate	46%	19%	15%

With a profit before taxation of US\$ 188 million, the total taxation charge to the income statement of US\$ 86 million results in an effective tax rate of 46% for fiscal 2008. The expected charge of US\$ 72 million was favorably impacted by tax rate reductions in South Africa. Tax relief was not taken on the taxation losses of certain loss-making entities due to management's judgment that these losses may not be recoverable in the near future and certain of the Group's profits are not taxed as a result of losses carried forward of favorable permanent differences. The Secondary Tax on Companies of US\$ 7 million relates to South African tax on

Group dividends paid during the year at a rate of 10%. For further information see "Item 10 Additional Information Taxation".

Net Profit

Net profit for fiscal 2008 decreased to US\$ 102 million from US\$ 202 million in fiscal 2007 as compared to a loss of US\$ 4 million in fiscal 2006. The impact of the improved performance in fiscal 2008 was offset by impairment and restructuring charges. The improved profitability in fiscal 2007 was mainly due to improved sales. The weakening of the US\$ against the Euro resulted in an increase in sales, which was partly offset by a decline in sales, due to the impact of the weakening of the ZAR against the US\$ on translation of the South African businesses. Restructuring charges in Europe were partly offset, in fiscal 2006, by the reversal of impairment on Usutu Mill.

Basic earnings per share development is illustrated in the table below:

Earnings Per Share (US cents)

In fiscal 2008 earnings per share was adversely impacted by certain major items including asset impairments (US\$ 119 million), restructuring provisions (US\$ 41 million) and fire and flood related events (US\$ 11 million). These negative impacts were partly offset by a favorable fair value price adjustment (US\$ 87 million).

Liquidity and Capital Resources

Our principal sources of liquidity are cash generated from operations and availability under our credit facilities. Our liquidity requirements arise primarily from the need to fund capital expenditures in order to maintain our assets, to expand our business whether organically or through acquisitions, to fund our working capital requirements and to make dividend payments. Based on our current level of operations, we believe our cash flow from operations, available borrowings under our credit facilities and cash and cash equivalents will be adequate to meet our liquidity needs for at least the next twelve months.

Our liquidity resources are subject to change as market and general economic conditions evolve. Decreases in liquidity could result from a lower than expected cash flow from operations, including decreases caused by lower demand, weaker prices for our products or higher input costs. In addition, any potential acquisitions in which all or a portion of the consideration would be payable in cash, could have a significant effect on our liquidity resources. Our liquidity could also be impacted by any limitations on the availability of our existing debt and our ability to refinance existing debt, raise additional debt and the associated terms of such debt.

One of our liquidity requirements is the payment of annual dividends to shareholders. Taking into account various factors including the rights offer to shareholders and the macro economic and global financial market conditions the Board of Directors decided to rebase the 2008 dividend. As a result of this, Sappi Limited

declared a dividend in respect of ordinary shares of 16 US cents per share (2007: 32 US cents per share) on November 6, 2008 which was paid on December 2, 2008.

Cash Flow Operations

Cash Flow	2008	2007	2006
	US\$ million		
Cash generated by operations	623	585	396
Movement in working capital	1	60	(17)
Net finance costs paid	(126)	(162)	(138)
Taxation	(70)	(27)	(13)
Capital expenditure	(505)	(442)	(303)
Cash (utilized) / generated	(139)	24	(127)

During fiscal 2008 we generated cash from operations of US\$ 623 million compared to US\$ 585 million in fiscal 2007 and US\$ 396 million in fiscal 2006. Improved operating profit has been one of the major contributors to improved cash flows in fiscal 2008 and fiscal 2007. Significant capital expenditures to expand operations especially related to the Saiccor mill upgrade, have been a major use of cash. Working capital management has become an increasing focus of the Group and forms an integral part of the management incentive schemes, and has contributed to the improvement in cash flow. The slow down in the global economy in recent months has led to a decline in demand and softening of selling prices, thereby placing an even greater emphasis on managing working capital, particularly in relation to inventory levels and receivables. The slow down in the global economy and the decline and softening of selling prices could adversely affect our cash flow generated from operations in fiscal 2009, with a result that focusing on cash generation is a priority.

Total non-cash items in fiscal 2008 amounted to US\$ 309 million, compared to US\$ 201 million in fiscal 2007 and US\$ 269 million in fiscal 2006, and included:

Non-cash Items	2008	2007	2006
	US\$ million		
Depreciation	374	374	390
Fellings	80	70	74
Asset Impairments & closures	119	2	(14)
Plantation fair value price	(120)	(54)	(34)
Plantation fair value volume	(70)	(76)	(70)
Post employment benefits	(88)	(101)	(68)
Other non-cash items	14	(14)	(9)
	309	201	269

The movement in components of net working capital is as shown in the graph below.

Working Capital Movement US\$ million

Optimizing the levels of our working capital is a key management focus area, particularly in the environment of worsening world financial markets and macro-economic conditions. The aim is to minimize the investment in working capital to the point where that does not negatively impact profitability by more than the savings in finance costs from the lower investment in working capital. We regularly compare our ratio of working capital to annual sales to those of our peers, and we believe that our working capital management compares favorably in that regard, although we have identified opportunities to improve this further. Managing the average monthly level of net working capital is a large element of the management incentive scheme for all businesses. Our working capital is anticipated to be adequate for our present requirements.

Investing

Cash utilized in investing activities is as set out in the table below:

Investing Activities	2008	2007	2006
	US\$ million		
Capital expenditure	505	442	303
Proceeds on disposals	(7)	(50)	(4)
Investments and loans	(4)	(28)	(12)
	494	364	287

Capital Expenditure by region is as follows:

Capital Expenditure by Region	2008	2007	2006
	US\$ million		
Sappi Fine Paper North America	130	42	48
Sappi Fine Paper Europe	91	102	136
Sappi Fine Paper South Africa	9	12	19
Forest Products	274	285	99
Other	1	1	1
Total	505	442	303

Capital expenditure excludes capitalized interest.

Cash capital expenditure to expand operations by region is as follows:

Capital Expenditure to Expand Operations by Region	2008	2007	2006
	US\$ million		
Sappi Fine Paper North America		1	
Sappi Fine Paper Europe	12	59	81
Sappi Fine Paper South Africa	2	1	1
Forest Products	241	265	61
Other			
Total	255	326	143

In fiscal 2007 and fiscal 2008 cash spent to maintain assets and expand operations was higher than usual due to the Saiccor expansion project (US\$ 236 million in fiscal 2008 and US\$ 247 million in fiscal 2007) and to the acquisition of Paper machine 3 at Somerset (US\$ 75 million in fiscal 2008) after the termination of the lease over that paper machine and of the Westbrook biomass boiler (US\$ 10 million) in North America. Due largely to the higher than usual capital expenditure, we utilized net cash of US\$ 139 million in fiscal 2008. Over the past 5 years the relationship between capital expenditure and depreciation is as follows:

Investment in fixed assets versus depreciation

Capital Expenditure to Expand Operations

Set out below is a summary of the group's capital expenditure to expand operations for fiscal 2006 to 2008.

	2008	2007	2006	Rationale
	US\$ million	US\$ million	US\$ million	
Sappi Fine Paper North America		1		
Sappi Fine Paper Europe				Relates mainly to energy supply project at Gratkorn mill and the upgrade of a paper machine at Ehingen.
	12	59	81	
Sappi Forest Products Saiccor				Relating to the capacity increase project at Saiccor.
	236	247	32	
Sappi Forest Products Other				Relating mainly to process improvement.
	5	18	29	
Sappi Fine Paper South Africa		1	1	
	2			
Total	255	326	143	

Our capital expenditure program varies from year to year, and expenditure in one year is not necessarily indicative of future capital expenditure. Capital expenditure to expand operations in fiscal 2008 and fiscal 2007 primarily consisted of investments at Saiccor mill. In August 2006, we announced the expansion of the existing capacity at Saiccor mill in South Africa, where Chemical Cellulose products are produced. The current capacity of the mill is approximately 600,000 metric tonnes per annum. The expansion will increase capacity to 800,000 tonnes per annum. The investments at Sappi Fine Paper Europe related mainly to a major project at our European Gratkorn mill for a new energy supply (fiscal 2007 € 30 million and fiscal 2006 € 19 million) and the upgrade of the paper machine at Ehingen (fiscal 2007 € 13 million and fiscal 2006 € 52 million). Capital spending is expected to be funded primarily through internally generated funds. For further details about our capital commitments, see note 25 to our Group Annual Financial Statements included elsewhere in this Annual Report.

We operate in an industry that requires high capital expenditures and, as a result, we need to devote a significant part of our cash flow to capital expenditure programs, including investments relating to maintaining operations. Capital spending for investment relating to maintaining operations during fiscal 2008, fiscal 2007 and fiscal 2006 amounted to approximately US\$ 250 million, US\$ 116 million and US\$ 160 million, respectively. The capital expenditure program for these fiscal years was funded primarily through internally generated funds.

After the completion of our Saiccor expansion project we expect our capital expenditure requirements for fiscal 2009 to be less than fiscal 2008. We plan to reduce the level of our capital expenditures in fiscal 2009 as compared to fiscal 2008, in order to conserve cash resources.

Financing**General**

Debt is a major source of funding for the group.

Gross Debt	2008	2007	2006
	US\$ million		
Long term interest bearing liabilities	1,832	1,828	1,634
Short term interest bearing liabilities	821	771	694
Bank overdraft	26	22	9
Gross interest bearing liabilities	2,679	2,621	2,337

Cash Position	2008	2007	2006
	US\$ million		
Cash and cash equivalents	274	364	224
Cash position	274	364	224

Approximately 46% of total assets are funded by gross debt as is shown in the table below:

Total Assets Excluding Cash Equivalents	2008	2007	2006
	US\$ million		
Gross interest bearing liabilities	2,679	2,621	2,337
Shareholder's equity	1,605	1,816	1,386
Other liabilities	1,825	1,907	1,794
Cash equivalents	(274)	(364)	(224)
Total assets excluding cash equivalents	5,835	5,980	5,293

	%		
Gross interest bearing liabilities	46	44	44
Shareholder's equity	28	30	26
Other liabilities	31	32	34
Cash equivalents	(5)	(6)	(4)
Total assets excluding cash equivalents	100	100	100

The movement in gross debt from the end of fiscal 2006 to the end of fiscal 2008 is explained below:

Gross Debt Movement Analysis	2008	2007	2006
	US\$ million		
Gross debt beginning of period	2,621	2,337	2,375
Cash utilized / (generated) during period	138	(24)	127
Currency & fair value impact	10	168	(22)
(Decline) / increase in cash equivalents	(90)	140	(143)
Gross debt end of period	2,679	2,621	2,337

We have increased our focus on managing the level of our debt. Since the beginning of fiscal 2006, gross debt has increased by US\$ 342 million. US\$ 156 million of this increase was due to the impact of translating our European and South African debt into the weakening US\$ and other fair value adjustments. Over the last three years we utilized US\$ 515 million on the Saiccor expansion project.

Debt profile

Our debt is comprised of a variety of arrangements, including committed credit facilities, uncommitted debt facilities, including local bank overdraft facilities and lines of credit, debt securities issued in the global and South African capital markets, commercial paper programs, receivables securitization programs, vendor financing arrangements and finance leases. See "Note 20 to the Group Annual Financial Statements" contained elsewhere in this Annual Report.

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

Debt Profile	2008	2007	2006
	US\$ million		
Long-term debt	1,832	1,828	1,634
Short-term debt	821	771	694
Bank overdraft	26	22	9
Gross interest bearing liabilities	2,679	2,621	2,337

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The short-term debt of US\$ 821 million in fiscal 2008 includes an amount of US\$ 360 million (fiscal 2007: US\$ 354 million and US\$ 347 million in fiscal 2006) of securitized receivables funding under various revolving securitization programs.

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

2008 Debt Maturity Profile

We believe we follow a prudent approach in regard to liquidity risk. As at the fiscal 2008 year end short-term debt and overdraft funding was US\$ 847 million and cash and cash equivalents were, US\$ 274 million. US\$ 360 million (at the fiscal year end) was in the form of various revolving securitized trade receivables funding which in the normal course we expect to continue to be available. For further information on group borrowing facilities secured by trade receivables, refer to Note 20 to the Financial Statements.

At September 2008 the Group had unutilized committed and uncommitted borrowing facilities of US\$ 605 million and approximately US\$ 600 million (including available cash) respectively. At December 2008 this was US\$ 478 million and approximately US\$ 530 million (including available cash) respectively. The committed facilities are largely the undrawn portion of our € 600 million Revolving Credit Facility.

We drew an additional € 50 million on the Revolving Credit Facility in December 2008 for general working capital requirements to cover any potential shortfall in liquidity over the holiday season. In 2009, our financing activities will concentrate on arranging longer term debt to refinance some existing short-term debt. The key factor for being successful in this area will be the availability of liquidity and pricing conditions in the banking, capital and bond markets.

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

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

Interest on Borrowings

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

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

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

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

Interest rate risk

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

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

Summary of Certain Debt Arrangements

Set forth below is a summary of certain key terms of some of significant debt arrangements. Reference should also be made to those debt arrangements which are filed as, or incorporated by reference as, exhibits to this Annual Report, See "Note 20 to the Group Annual Financial Statements" and " Off-Balance Sheet Arrangements".

Vendor Loan Notes

As part of the consideration for the Acquired Business, Sappi Papier Holding GmbH issued to M-real Corporation the Vendor Loan Notes of € 220 million. The Vendor Loan Notes are unsecured and are guaranteed as to the payment of the principal and interest by Sappi Limited, Sappi International S.A. and Sappi Trading Pulp AG. The Vendor Loan Notes have a maturity of up to 48 months and rank *pari passu* with our existing long-term debt. Certain terms of our existing Revolving Credit Facility, including certain financial covenants, are incorporated by reference in the terms and conditions of the Vendor Loan Notes. Interest on the Vendor Loan Notes is payable semi-annually in arrears at an initial interest rate of 9% per annum for the first interest period, increasing to 12% per annum for the second interest period, 14% per annum for the third interest period and 15% per annum thereafter. We can repay the Vendor Loan Notes at any time in tranches of € 10 million.

Revolving Credit Facility

In June 2005, we entered into a revolving credit facility (as amended in September 2006, the "Revolving Credit Facility") with a group of lenders, which provides, among other things, for up to € 600 million of borrowing availability in Euros, US dollars or other currencies as determined under the agreement, and terminates on May 31, 2010. The annual interest rate on borrowings is calculated based on LIBOR or, for borrowings in Euro, EURIBOR, plus a margin varying between 0.25% and 0.60% depending on the credit rating assigned to Sappi Limited, and certain costs. Borrowings may be made by certain subsidiaries of Sappi Limited and are guaranteed by Sappi Limited and certain of its subsidiaries, subject to applicable statutory limitations.

Availability of amounts under the Revolving Credit Facility is subject to compliance with financial covenants, which require that (i) at the end of each quarter the mean average of the ratios of EBITDA to consolidated net interest expense for that quarter and each of the three preceding quarters be not less than 3.00:1; (ii) at the end of each quarter the mean average of the ratios of EBITDA to consolidated net interest expense for that quarter and each of the seven preceding quarters be not less than 3.50:1; (iii) the ratio of net debt to capitalization be not, at the end of any quarter, greater than 0.65:1; and (iv) with regard to Sappi Manufacturing (Pty) Ltd. and its subsidiaries only, the ratio of net debt to capitalization be not, at the end of any quarter, greater than 0.65:1, in each case as such terms are defined in the Revolving Credit Facility.

The Revolving Credit Facility contains customary events of default, such as failure to make payment of amounts due, defaults under other agreements evidencing indebtedness, certain bankruptcy events and a cessation of business (as defined in the Revolving Credit Facility). The agreement also contains customary affirmative and negative covenants restricting, among other things, the granting of security, incurrence of indebtedness, the provision of loans and guarantees, mergers and dispositions. Failure to comply with a covenant or the occurrence of an event of default could result in the acceleration of payment obligations under the Revolving Credit Facility. As of September 2008, we were in compliance with these covenants.

2002 Guaranteed Notes

In June 2002, Sappi Papier Holding GmbH (then organized as an AG) issued US\$ 500 million 6.75% guaranteed notes due 2012 and US\$ 250 million 7.50% guaranteed notes due 2032 (together, the "2002

Notes"), guaranteed by Sappi Limited and Sappi International S.A. Interest under the Notes is payable semi-annually. The indentures governing the 2002 Notes provide for an optional redemption of the 2002 Notes, in whole or in part, at any time at a redemption price of the greater of (i) the principal amount of the notes to be redeemed and (ii) the sum of the present values of the applicable remaining scheduled payments discounted at a rate as determined under the indentures, together with, in each case, accrued interest.

The indentures governing the 2002 Notes contain events of default customary for investment grade debt, including failure to pay principal or interest, a default in any other indebtedness, certain enforcement actions against our property and certain bankruptcy events. The indentures also contain certain customary covenants, which restrict our ability to create liens, to enter into sale and leaseback transactions and to undertake mergers or consolidations.

Domestic Medium-Term Notes

On June 27, 2006, Sappi Manufacturing (Pty) Ltd. ("Sappi Manufacturing") issued ZAR 1 billion (US\$ 146 million) Senior Unsecured Fixed Rate Notes (the "First Tranche") under its ZAR 3 billion (US\$ 437 million) Domestic Medium-Term Note Program (the "Program") at a fixed interest rate of 9.34% payable semi-annually on December 27, and June 27, of each year, commencing on June 27, 2006. The securities issued under the First Tranche mature on June 27, 2013. On September 25, 2007, Sappi Manufacturing issued a second tranche of ZAR 1 billion (US\$ 146 million) Senior Unsecured Fixed Rate Notes (the "Second Tranche") under the Program at a fixed interest rate of 10.64%. The interest on the securities issued under the Second Tranche is payable semi-annually on April 14 and October 14 of each year, commencing on April 14, 2008. The securities issued under the Second Tranche mature on October 14, 2011. Sappi Manufacturing has also agreed to observe certain undertakings with respect to the securities including limitations on encumbrances (other than permitted encumbrances) over its assets. With regard to the Second Tranche only, should a change of control event (more than 50% of the voting rights of Sappi Manufacturing be acquired by any party other than a subsidiary of Sappi Limited) and a negative rating event (a downgrade of Sappi Manufacturing's national credit rating, currently at AA-, of below A-) occur, then the holders of the securities may within 60 days after the public announcement of the change of control having occurred, they can by way of an extraordinary resolution require the redemption of the notes.

Covenants

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

Our financial covenants require that:

- (i) At the end of each quarter the mean average of the ratios of EBITDA to consolidated net interest expense for that quarter and each of the three preceding quarters be not less than 3.00:1;
- (ii) At the end of each quarter the mean average of the ratios of EBITDA to consolidated net interest expense for that quarter and each of the seven preceding quarters be not less than 3.50:1;
- (iii) The ratio of net debt to capitalization be not, at the end of any quarter, greater than 0.65:1; and
- (iv) With regard to Sappi Manufacturing (Pty) Ltd. and its subsidiaries only, the ratio of net debt to capitalization be not, at the end of any quarter, greater than 0.65:1, in each case as such terms are defined in the Revolving Credit Facility.

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

	Fiscal 2008 Covenant US\$ million	
<i>Group Covenants</i>		
Net Debt to Total Capitalization	55.9%	< 65%
EBITDA to Net Interest	4 Quarters	5.91 > 3.0
	8 Quarters	5.57 > 3.5
<i>Sappi Manufacturing Covenant</i>		
Net Debt to Total Capitalization	21.4%	< 65%

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

Credit ratings

At the date of this Annual Report, our credit ratings were as follows:

<i>Fitch South African national rating</i>	
Sappi Manufacturing (Pty) Limited	AA- / F1+ / Stable (June 2008)
<i>Moody's international rating</i>	
Sappi Papier Holding GmbH (Supported by Sappi Limited guarantee)	Ba2 / NP / Stable (September 2008)
<i>Standard & Poor's international rating</i>	
Corporate Credit Rating	BB / B / Stable (September 2008)

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

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

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

Leverage

Gross debt to capitalization for each of the past three years as set out below:

	2008	2007	2006
	US\$ million		
Gross debt	2,679	2,621	2,337
Gross debt & equity	4,284	4,437	3,723
Gross debt to capitalization ratio	63%	59%	63%

In December 2008, the Group issued a vendor loan note of € 220 million (approximately US\$ 310 million) and had a rights issue to shareholders raising ZAR 5.8 billion (approximately US\$ 597 million) which resulted in our gross debt to total capitalization ratio improving.

Management monitors the Group's indebtedness in the context of the complex trade-offs associated with determining an appropriate level of debt finance, namely financial risk, credit rating, the cost of debt and the

expected return that can be earned on that debt. In regard to our debt level we also monitor cash flow to net interest cover. We recognize that we operate in a mature industry that normally generates substantial and reasonably reliable cash flows and that management has significant flexibility to delay or minimize capital expenditure (which is a major use of cash) in difficult times to reduce financial risk. As previously described in this "Liquidity and Capital Resources", in view of the worsening of the world financial markets and macro-economic conditions, focusing on cash generation remains a priority. We plan to reduce the level of capital expenditures to conserve cash and reduce our indebtedness using internally generated cash flow. We are also aware that with uncertainty in financial markets, refinancing existing or raising additional debt and the associated terms are likely to be more challenging.

Research and Development, Patents and Licenses, etc.

Our research and development efforts focus on the improvement of product quality and production processes as well as the development of new products and processes. Research and development is managed at a number of regional technology centers. These "centers of excellence" provide the basis to leverage unique sets of skills and provide customer focused product development. We have spent approximately US\$ 34 million annually on research and development in the last three fiscal years.

North America

Sappi Fine Paper North America's research and development activities are centered at Westbrook. This centre has a proud history of product innovation; for example, it developed both one- and two-sided coated paper.

In addition, Sappi Fine Paper North America has a number of proprietary technologies, including the on-line finishing technology and its Ultracast® electron-beam technology. Sappi Fine Paper North America on-line finishing technology is used in its production of coated paper at Somerset and Muskegon. Our Ultracast® technology is utilized in speciality papers such as release papers used in the production of high fidelity imitation leather and other surfaces.

Research and development efforts are focused on next generation product design for margin improvement and customer features and benefits. We have recently developed new release products, as well as innovative products in both the web and sheet business. The technology platform centers on innovative materials research with a renewed emphasis on process development.

Europe

Sappi Fine Paper Europe maintains research and development centers at its Maastricht and Gratkorn sites. These facilities work closely with the research facilities in North America and South Africa in order to achieve efficiencies and ensure rapid implementation of improvements.

Sappi Fine Paper Europe's research and development centers have concentrated on developing new paper qualities. Our research and development effort has developed coated fine paper of outstanding quality. The paper which was developed satisfies the demands of modern high performance printing machines, while maintaining a consistent quality between the paper produced at the various Sappi mills. Tempo is an outstanding example of the differentiated products that are being developed in our technology centers.

The Maastricht research and development centre also has overseen the introduction of triple coating through the use of its triple blade coating concept. More recently, the research and development centers have concentrated on optimizing product characteristics in relation to various types of paper machines at each mill, in order to improve efficiencies and quality of production. In 1990, the Alfeld mill became the first mill to produce coated fine paper using 100% totally chlorine-free (TCF) pulp. We continue to focus on ways to produce differentiated products that reflect our corporate commitment to sustainable development while minimizing our carbon footprint.

Southern Africa

Sappi Forest Products focuses upon developing technology related to plantation forestry, pulping, bleaching and related environmental technology and chemical cellulose technology. In the 1970s, we patented the Sapoxal oxygen bleaching process and licensed the technology in major pulp and paper manufacturing countries. This process facilitates the reduction or elimination of elemental chlorine in pulp bleaching. Oxygen

bleaching has subsequently become an industry standard. At our Technology Centre in Pretoria, we continue our research and development related to bleaching, refining and are currently involved in biotechnology research. The research is conducted in order to continually improve the performance and environmental profile of our pulping, bleaching and refining processes. We are also a leader in technology aimed at reducing water consumption in pulp and paper mills. At our forest research centre in Tweedie, we focus upon the genetic improvement of plantation forests so as to maximize the yield of high quality pulp. Research on the modification of fibers to enhance characteristics for end products is also currently being conducted.

We are also active in chemical cellulose research for Saiccor. The focus is largely on product development to provide more product options and expand the value added product range from Saiccor.

Off-Balance Sheet Arrangements

Letters of credit discounting. To improve the Group working capital, the group discounts certain Letters of Credit to ABN AMRO Hong Kong and DBS bank (London) every month end at a discount on a non recourse basis.

'Scheck-Wechsel'. In Germany, certain banks provide a means for our customers to obtain short-term loans for the purpose of permitting early payment of trade debts owed to us in order to obtain early payment discounts. In order for one of our customers to obtain such a loan, Sappi must sign a "Scheck-Wechsel", which is a financial guarantee supplied by Sappi to the bank in respect of the customer loan. By signing the Scheck-Wechsel, Sappi provides a financial guarantee to the bank of the customer. Because of the short-term nature of these loans, our credit exposure to our customer is essentially the same as for the trade receivables but we are able to accelerate collection and improve our cash flows. This financial guarantee contract falls under the scope of IAS 39 'Financial Instruments'.

This financial guarantee contract is initially recognized at fair value. 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 at inception is immaterial. Subsequently, the financial guarantee contract shall be 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 recognized less any cumulative amortization.

As no default event has occurred, no provision is set up and the fair value at year-end remains immaterial. However, according to IAS 37 a contingent liability of US\$ 20 million (2007: US\$ 20 million) has been disclosed in this respect.

Trade receivables securitization. To improve our cash flows in a cost-effective manner, we sell all eligible trade receivables on a non-recourse basis to special purpose entities (SPEs) that are owned and controlled by third party financial institutions. Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Trading sell their trade receivables on a recourse basis whilst Sappi Forest Products sell their trade receivables on a non-recourse basis. These SPEs are funded in the commercial paper market and are not limited to transactions with us but securitize assets on behalf of their sponsors for a diverse range of unrelated parties. We have a servicing agreement with the entities acquiring our receivables, acting as servicers for the collection of cash and administration of the trade receivables sold.

Sappi Forest Products securitization facility. Sappi sells the majority of its ZAR receivables to a securitization vehicle managed by Rand Merchant Bank that issues commercial paper to finance the purchase of the receivables. Sappi retains a small proportion of the credit risk attached to each underlying receivable. Sappi administers the collection of all amounts processed on behalf of the bank that are due from the customer. The purchase price of these receivables is adjusted dependent on the timing of the payment received from the client. The rate of discounting that is charged on the receivables is JIBAR (Johannesburg Inter Bank Agreed Rate) plus a spread. This structure is currently treated as an off balance sheet arrangement.

We have no obligation to repurchase any receivables which may default and do not guarantee the recoverability of any amounts apart from a small portion on a proportionate basis over and above the first tier loss provisions. The total amount of trade receivables sold at the end of September 2008 amounted to

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US\$ 194 million (September 2007: US\$ 144 million). Details of the securitization program at the end of fiscal 2008 and 2007 are disclosed in the tables below.

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

Details of the securitization facility at September are set out below:

Bank	Currency	Value	Facility	Discount charges
2008				
Rand Merchant Bank	ZAR	ZAR 1,568 million	Unlimited*	Linked to 3 month JIBAR
2007				
Rand Merchant Bank	ZAR	ZAR 993 million	Unlimited*	Linked to 3 month JIBAR

*

The facility in respect of the securitization facility is unlimited, but subject to the sale of qualifying receivables to the securitization vehicle.

Details of the on-balance sheet securitization facilities that are applicable to Sappi Fine Paper are described in note 20 of our Annual Financial Statements contained elsewhere in this report.

Contractual Obligations

We have various obligations and commitments to make future cash payments under contracts, such as debt instruments, lease arrangements, supply agreements and other contracts. The following table includes information contained within the Group Annual Financial Statements included elsewhere in this Annual Report, as well as information regarding purchase obligations. The tables reflect those contractual obligations at the end of fiscal 2008 that can be quantified.

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	US\$ millions				
Long-Term Debt Obligations ⁽¹⁾	3,519	945	182	1,642	750
Capital Lease Obligations ⁽¹⁾	40	10	8	10	12
Operating Lease Obligations ⁽²⁾	92	28	23	6	35
Purchase Obligations ⁽³⁾	51	26	22	3	
Other Long-term Liabilities Reflected on Balance Sheet ⁽⁴⁾	346				
Capital Commitments ⁽⁵⁾	76	68	8		
Group Total	4,124	1,077	243	1,661	797

(1)

Includes interest obligations to maturity to service the debt. The principal debt is US\$ 2,653 million.

(2)

Operating leases are future minimum obligations under operating leases. Refer to note 25 of our Group Annual Financial Statements included elsewhere in this Annual Report.

(3)

Unconditional Purchase Obligations are obligations to transfer funds in the future for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices (for example, as in take-or-pay contracts or throughput contracts, relating to among others, timber and power).

(4)

The Other Long-Term Liabilities of US\$ 346 million (fiscal 2006 US\$ 384 million) on balance sheet, relate mainly to post-employment benefits, post-retirement benefits other than pensions obligations, workmen's compensation, and other items which do not have a payment profile. Refer to note 21 of our Group Annual Financial Statements included elsewhere in this Annual Report.

(5)

Capital commitments are commitments for which contracts have been entered into. Refer to note 25 of our Group Annual Financial Statements included elsewhere in this Annual Report.

Share Buy Back

Following an initial approval of our shareholders, on December 15, 2000, of purchases by our subsidiaries of our ordinary shares, further approval to purchase was obtained at the annual general meeting of shareholders held on March 5, 2007. A special resolution granting authority to us or our subsidiaries to buy back up to 10% of our issued ordinary shares in any one year was approved. Pursuant to this approval, which was renewed at the annual general meeting of shareholders held on March 3, 2008, we or our subsidiaries may buy back ordinary shares from time to time. This authority is valid until the next annual general meeting.

We held approximately 9.9 million treasury shares (or approximately 4.4% of our issued shares) as of September 2008. On January 14, 2009, the closing price for our shares on the JSE was 3,726 SA cents per share and the closing price of the ADSs on the NYSE was US\$ 3.60 per ADS. These prices reflect the dilution effects of the rights issue to shareholders. See "Item 9 The Offer and Listing" for an explanation of share prices.

In terms of the listing requirements of the JSE a company may not repurchase its shares during a closed period, which is defined as the period between the end of a financial reporting period and the publication of the results for that period and any period during which the company is trading under a cautionary announcement.

Dividends

Our policy is to consider dividends on an annual basis and to declare cash dividends in US Dollars. We aim to declare annual dividends, which, over time, incorporate real growth for shareholders. To this end, dividend cover in each year will vary in line with changes in the business cycle. Our current intention is to maintain a long-term average of three times dividend cover (earnings divided by dividends). Notwithstanding Sappi's inability to meet this target in recent years, we remain committed to this policy in the longer term.

Taking into account various factors including the rights offer to shareholders and the macro economic and global financial market conditions the Board of Directors decided to rebase the 2008 dividend. As a result of this, Sappi Limited declared a dividend in respect of ordinary shares of 16 US cents per share (2007: 32 US cents per share) on November 6, 2008 which was paid on December 2, 2008.

Mill Closures, Acquisitions, Dispositions and Impairment; and Joint Venture

Usutu impairment. During the first quarter of 2005 we impaired our Usutu mill. The Usutu mill is an unbleached kraft pulp mill and forms part of the Sappi Forest Products reporting segment. Due to continued losses an impairment review was conducted which led to the recognition of an impairment charge of US\$ 50 million in 2005. During the fourth quarter of 2006 the impairment of Usutu mill was reversed, in terms of IAS 36, because, as a result of improved pulp prices, weakening of the ZAR against the US\$, improved economic conditions and improved operational performance, profitability had improved. Demand for the mill's product improved as international pulp prices improved and as the differential between bleached and unbleached pulp prices widened, resulting in unbleached capacity reverting back to bleached pulp production. The improved international pricing and improved product quality resulted in improved pricing and the weakening of the local currency against the US Dollar improved margins in local currency as costs are mainly local currency denominated. The impairment reversal for 2006 was US\$ 40 million. The mill operated normally during 2007. In August 2008, forest fires caused by severe weather conditions resulted in the loss of approximately 28% of the mill's fiber supply. The volume of trees lost by Usutu reduced the value of the mill, which has therefore been impaired. An impairment loss of US\$ 37 million has been recognized in fiscal 2008. 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 discount rate of 3.6%

Nash Mill closure. In May 2006 paper production at our Nash mill was stopped. The mill had been suffering from escalating costs, especially energy, which made it uncompetitive. The plant and equipment has been scrapped or transferred within the Group. The product previously manufactured at the mill is now produced elsewhere in the Group. The land and buildings were sold in 2007 and realized US\$ 26 million pre-tax profit on disposal. The closure resulted in an impairment charge of US\$ 2 million in fiscal 2006. An initial impairment charge of US\$ 3 million was taken during fiscal 2005.

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Restructuring. During fiscal 2006, Sappi Fine Paper Europe undertook a major cost reduction and productivity improvement project which resulted in a significant headcount reduction of employees mainly throughout fiscal 2007. This project resulted in a restructuring charge of US\$ 47 million in fiscal 2006. This phase of the European restructuring was completed in fiscal 2007 and has resulted in a credit to the income statement of US\$ 7 million as certain details of the plan were refined. The credit to the income statement in fiscal 2008 was US\$ 3 million.

Blackburn mill closure and cessation of production from PM 5 at Maastricht mill. In August 2008, we announced that we had undertaken a review of our European production activities in response to overcapacity and significant input cost pressure.

On September 22, 2008 we reached an agreement with labor representatives at our Blackburn mill, pursuant to which the mill was closed on November 12, 2008. On October 17, 2008, production had ceased at the mill. We have informed customers of the mill about the closure of the production facility in order to find alternatives within our Group to meet the needs of these customers. The sales office for Coated Fine Paper in the UK will continue operations, as will the specialties sales and marketing organization.

As a result of our review, we also ceased production at PM 5 at our Maastricht mill on December 19, 2008, having reached an agreement with the mill's works council regarding such action.

We offer customers comparable products and services from our other sites in Europe and do not anticipate any supply interruption. Blackburn had an annual capacity of 120,000 tonnes of coated graphic fine paper. PM 5 at Maastricht had an annual capacity of 60,000 tonnes of speciality paper. Following the closure of our Blackburn mill and cessation of production from PM 5 at our Maastricht mill, our coated graphic fine paper capacity has been reduced by 190,000 tonnes after giving effect to a reallocation of our products.

Muskegon impairment. During the third quarter of fiscal 2005 we announced the impairment of our North American Muskegon mill, and recorded impairment charges of US\$ 183 million in fiscal 2005. During fiscal 2008 and fiscal 2007 impairment charges of US\$ 4 million and US\$ 2 million, respectively, were incurred.

Joint Venture with Shandong Chenming Paper Holdings Limited. During 2004 the Group acquired 34% of Jiangxi Chenming Paper Company Limited (Jiangxi Chenming) in a joint venture with Shandong Chenming Paper Holdings Limited (Shandong Chenming) (51%), Moorim Paper Manufacturing Company Limited of South Korea (7.5%), and the International Finance Corporation (IFC) (7.5%). Our equity contribution was approximately US\$ 60 million.

The mill has an annual capacity of 350,000 tonnes per annum light-weight coated paper machine together with a bleached thermo mechanical pulp (BCTMP) mill, de-inked pulp plant, and power plant. The mill is located in Nanchang, the capital of Jiangxi Province which is in southeast China. The mill was commissioned in August 2005. The total cost of the project is approximately US\$ 440 million. Jiangxi Chenming's debt is financed without recourse to Sappi.

Implementation of Lereko Property Consortium (Lereko) deal. In April 2006, Sappi announced a black economic empowerment transaction involving the sale of identified forestry land to a South African empowerment partner. We have received the final approval from the Minister of Land Affairs with regard to our Black Economic Empowerment transaction with Lereko Investments. In respect of this transaction, we recognized a charge to the income statement of ZAR 4 million in fiscal 2008. While Sappi will continue to use the productive forestry land for its timber requirements, Lereko will undertake property development projects to unlock value from the unplanted and unproductive forestry land, for the benefit of the Lereko Property Consortium, the local communities and Sappi.

Impairment of assets. The Group has reviewed the carrying value of all its non current assets in the fiscal 2008 and has determined that no impairment provision, other than as provided in the Group Annual Financial Statements, was required against any of the carrying value of these non-current assets.

Acquisition of coated graphic paper business of M-real Corporation. On December 31, 2008 we acquired the coated graphic paper business of M-real Corporation for EUR 750 million. See "Item 4 Information on the Company Business Overview The Acquisition of M-real Corporation's Coated Graphic Paper Business".

Pensions and Post-retirement Benefits Other than Pensions

The Group provides various post-retirement benefits to its active and retired employees worldwide, including: pension, post-retirement health and other life benefits.

Our funded pension schemes generally hold a broad range of assets including a significant portion of bonds in line with an investment strategy to preserve funded status and balance risk and return.

Over fiscal 2009 and 2010, we expect markets to move in very uncertain and unusual ways, such as significant swings in yields on corporate bonds and government bonds and a volatile equity market. We will not expect to see equity and property markets recover to recent highs for many years as the global recession is expected to worsen. However it is the interaction of key factors that will determine the extent to which the pension schemes' balance sheets will change. The impacts for us are likely to be as follows:

Falls in markets coupled with corresponding rising bond yields will most likely have a broadly neutral effect.

If equity and property markets recover and bond yields remain favourable we expect to see pension scheme balance sheets improve.

If inflation remains low, then we expect benefits linked to inflation (such as pension increases or salary growth) to also remain lower.

Statutory minimum funding requirements also affect the pace of funding. Most take account of yields on assets such as government bonds or interbank interest rate swap curves, depending on the basis. If these remain at current levels, we expect to pay additional contributions to meet onerous minimum funding targets.

We have not completed valuations of our pension plans' investments subsequent to September 2008 and, given the turmoil in the financial markets in the latter part of 2008, the funded status of our pension plans might have worsened subsequent to September 2008.

The underfunded status of the company's pension plans decreased by US\$ 35 million from the deficit of US\$ 62 million as of September 2007 to a deficit of US\$ 27 million as of September 2008. Post-retirement benefit liabilities (other than pensions) decreased by US\$ 30 million from the deficit of US\$ 173 million as of September 2007 to a deficit of US\$ 143 million as at September 2008.

Benefit obligations and fair value of plan assets across the regions are as follows:

	September 2008		September 2007		September 2006	
	Fair value of Benefit plan Obligation		Fair value of Benefit plan Obligation		Fair value of Benefit plan Obligation	
	Assets		Assets		Assets	
	US\$ million					
Pensions	1,414	1,387	1,607	1,545	1,513	1,285
The South African Surplus Recognition Restriction					(41)	
Post-retirement Benefits other than pensions	143		173		164	

Actual investment returns from the assets of the various regional funded pension plans during 2008 were lower than actuarial projections, which contributed to reduced asset levels as of September 2008. Overall, investment returns showed a loss of 5% or US\$ 74 million over the financial year and contributing to a total actuarial loss of US\$ 189 million.

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Discount rates increased in all regions reflecting higher interest rates on long term bonds. For the pension plans this contributed to a reduction in liabilities as actuarial gains of US\$ 189 million. Experience adjustments (i.e. changes in membership or benefits) were unfavorable, contributing to an actuarial loss of US\$ 16 million.

The main factor in the reduction of the combined pension deficit was employer contributions of US\$ 76 million in fiscal 2008.

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A weakening Rand by the year end reduced the effect of the surplus in the South African pension fund in US\$ terms, whilst a slightly strengthened Euro enhanced the net effects of European schemes. Combined, these funds are in deficit mainly due to the unfunded schemes of Germany and Austria. Overall, currency effects contributed to a loss of US\$ 17 million in the pension funds.

Several factors evenly contributed to a reduction in liabilities in the post-retirement benefits (other than pensions): A rise in discount rates reduced liabilities by US\$ 12 million and favorable demographic corrections of our pension fund members e.g. membership movements reduced liabilities by US\$ 11 million. The weakening Rand reduced the liabilities of the post retirement medical plan in South Africa by US\$ 12 million.

The South African pension fund has been closed to new employees since 2005.

For further information see notes 27 and 28 to our Group Annual Financial Statements.

Insurance

The Group has an active program of risk management in each of its geographical operating regions to address and to reduce exposure to property damage and business interruption. All production and distribution units are subjected to regular risk assessments, the results of which receive the attention of senior management. The risk assessment and mitigation programs are coordinated at Group level in order to achieve a harmonization of methodology and standardization of approach.

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

Sappi has a global insurance structure and the bulk of its insurance is placed with its own captive insurance company, Sappisure Försäkrings AB, domiciled in Stockholm, Sweden.

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

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

Sappi places the insurance for its plantations on a stand-alone basis through the local South African insurance markets. The widespread fires that occurred during the second half of 2008 in its plantations in South Africa exhausted the plantation insurance cover and no reinstatement cover was purchased for the remaining part of fiscal 2008.

Critical Accounting Policies and Estimates

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

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

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

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

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

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

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

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

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

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

Assets held under finance leases are depreciated over their expected useful lives or the term of the relevant lease, where shorter. The useful lives and residual values of property, plant and equipment are reviewed on an annual basis and are revised when the current estimate is different from the existing estimate. For material items of property, plant and equipment an internal engineer is used to assist in determining the remaining useful lives and residual values. Management believes that the assigned values and useful lives,

including the underlying assumptions have been adequately considered and consistently applied. Different assumptions and assigned useful lives could have an impact on the reported amounts.

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

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

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

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

Refer to note 30 of the Group Annual Financial Statements contained elsewhere in this Annual Report for details of the fair value hedging relationships as well as the impact of the hedge on the pre-tax profit or loss for the period.

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

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

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

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

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

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

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

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

For further information see note 10 of our Group Annual Financial Statements contained elsewhere in this report.

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

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

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

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

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

The establishment and review of the provisions requires significant judgment by management as to whether or not there is a probable obligation and as to whether or not a reliable estimate can be made of the amount of the obligation. All provisions are reviewed at each balance sheet date. Various uncertainties can result in obligations not being considered probable or estimable for significant periods of time. As a consequence, potentially material obligations may have no provisions and a change in facts or circumstances that results in an obligation becoming probable or estimable can lead to a need for the establishment of material provisions. In addition, where estimated amounts vary from initial estimates the provisions may be revised materially, up or down, based on the facts.

Adoption of Accounting Standards in the Current Year

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

IFRS 7 Financial Instruments: Disclosures

The group has adopted IFRS 7 Financial Instruments: Disclosures. This has resulted in the financial instrument disclosures previously required by IAS 32 Financial Instruments: Presentation and Disclosure being replaced by those required under IFRS 7.

Adoption of this standard had no impact on the reported profits or financial position of the group.

IFRIC 10 Interim Financial Reporting

The interpretation addresses an apparent conflict between the requirements of IAS 34 interim financial reporting and those in other standards on the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets. The interpretation concludes that an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill, or an investment in either an equity instrument or a financial asset carried at cost.

The implementation of this interpretation did not have a material impact on the group's reported results or financial position.

IFRIC 11 Group and Treasury Share Transactions

This interpretation addresses two issues. The first is whether the transactions should be accounted for as equity-settled or as cash-settled share-based payment arrangements, and the second where a share-based payment transaction involves two or more entities within the same group.

The implementation of this interpretation did not have a material impact on the group's reported results or financial position.

IAS 1 Amendment to International Accounting Standard 1 Presentation of Financial Statements: Capital Disclosures

The amendment requires the group to disclose information that will enable users of its financial statements to evaluate the group's objectives, policies and processes of managing capital.

Adoption of this standard had no impact on the reported profits or financial position of the group.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures Reclassification of Financial Instruments

This amendment permits an entity to reclassify some financial instruments out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables, if the entity has the intention and ability to hold that financial asset

for the foreseeable future.

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The implementation of this amendment did not have a material impact on the group's reported results or financial position.

Potential Impact of Future Changes in Accounting Policies

The following standards, interpretations and significant amendments or revisions to standards which have been issued but which are not yet effective and which are applicable to Sappi, have not been applied in these financial statements:

Revised IAS 1 Presentation of Financial Statements

The main changes from the previous standard require that an entity must present:

All non-owner changes in equity (that is, 'comprehensive income') either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income);

a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy; retrospectively or makes a retrospective restatement;

Income tax relating to each component of other comprehensive income; and

Reclassification adjustments relating to components of other comprehensive income.

This revised standard is effective for our September 2010 year end.

IFRS 8 Operating Segments

This standard introduces the concept of an operating segment; it expands the identification criteria for segments of an entity and the measurement of segment results. The standard will allow an entity to align its operating segment reporting with the internal identification and reporting structure.

The standard first becomes applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

IFRIC 12 Service Concession Arrangements

The interpretation serves to clarify the treatment of arrangements whereby a government or other body grants contracts for the supply of public services such as roads, energy distribution, prisons or hospitals to private operators. The objective of this IFRIC is to clarify aspects of accounting for service concession arrangements.

The interpretation first becomes applicable to the group for the financial year ending September 2009, and we are currently assessing the impact of this on the group.

IFRIC 13 Customer Loyalty Programs

This interpretation addresses accounting by entities that grant loyalty awards to customers who buy other goods or services. The interpretation deals with the accounting treatment of the obligations to provide free or discounted goods or services granted under such a program.

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The interpretation first becomes applicable to the group for the financial year ending September 2009, and we are currently assessing the impact of this on the group.

IFRIC 15 Agreements for the Construction of Real Estate

The Interpretation provides guidance on when and how to apply IAS 11 Construction Contracts and IAS 18 Revenue to real estate construction agreements before construction is complete.

The interpretation first becomes applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The Interpretation clarifies the accounting for net investment hedges and it provides guidance on the following issues:

Which foreign currency risks qualify for hedge accounting, and what amount can be designated;

Where within the group the hedging instrument can be held; and

What amount should be reclassified to profit or loss when the foreign operation is disposed of.

The interpretation first becomes applicable to the group for the financial year ending September 2009, and we are currently assessing the impact of this on the group.

Revision to IFRS 3: Business Combinations

The standard introduces a comprehensive revision of some of the aspects of business combination accounting by restricting options or allowable methods. The revised standard aims to achieve greater consistency in business combination accounting among entities applying IFRS.

The revised standard will only be applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

Amendments to IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Investments in Joint Ventures

As part of the IASB's revision to IFRS 3 Business Combinations, IAS 27, IAS 28 and IAS 31 were also amended.

The amendments first become applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of these on the group.

Amendment to IFRS 2 Vesting Conditions and Cancellations

The amendment clarifies the definition of vesting conditions and provides guidance on the accounting treatment of cancellations by other parties.

The amendment will only be applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement on Eligible Hedged Items

The amendment clarifies that:

Inflation can only be designated as a hedged risk or portion, if it is a contractually-specified portion of the cash flows of a recognized financial instrument;

The time value of a purchased option used as a hedging instrument is not a risk or a portion of a risk present in a hedged item, and would cause ineffectiveness if the entire option is designated as a hedging instrument; and

A risk-free or benchmark interest rate portion of the fair value of a fixed rate financial instrument will normally be separately identifiable and reliably measurable, and hence may be hedged.

The amendment first becomes applicable to the group for the financial year ending September 2010, and we are currently assessing the impact of this on the group.

Various improvements to IFRSs

A number of standards have been amended as part of the IASB's improvement project. We are assessing the impact of these amendments on the group.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The Articles of Association of Sappi Limited provide that the Board of Directors (the "Board") must consist of not less than four nor more than twenty Directors at any time. The Board currently consists of thirteen Directors.

The business address for all of the Directors is 48 Ameshoff Street, Braamfontein, Johannesburg 2001, Republic of South Africa. The Directors are South African citizens except for Prof. Meyer Feldberg, James Healey and Karen Osar (United States citizens), Helmut Mamsch (a German citizen) and Sir Nigel Rudd (a British citizen).

Non-executive directors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Group Ltd, RGA Reinsurance Co of SA Ltd, Metropolitan Holdings Ltd, Macsteel Service Centres (Pty) Ltd and Xinergistix Ltd.

Executive directors

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

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

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

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

Senior Management

Mark Gardner (53) BSc, Chief Executive Officer of Sappi Fine Paper North America

Mr Gardner joined Sappi in 1981. Prior to accepting the position of President and Chief Executive Officer, Mr Gardner held the roles of Vice President Manufacturing and Vice President, Supply Chain. He has also worked in a variety of production management roles, including Production Manager at the Westbrook mill, Paper mill Manager at the Somerset mill, Managing Director at the Muskegon mill and Director of Engineering and Manufacturing Technology position at the regional head office in Boston. He holds a B.Sc. degree in Industrial Technology from the University of Southern Maine.

Robert Darsie Hope (56), BA (Hons) Economics, MRICS, Group Head Strategic Development

Since joining Sappi in 1976, Mr Hope has held a number of management roles including General Manager of Sappi Sawmills, Managing Director of Sappi Trading and is currently Group Head Strategic Development.

Jan Harm Labuschagne (48) B.Com (Hons), CA (SA), Chief Executive Officer of Sappi Southern Africa

Mr Labuschagne joined Sappi in 1992 as Divisional Financial Controller. In 1996, he was appointed as Financial Director of the Timber Industries Division. Subsequent to Sappi's acquisition of the KNP Leykam in Europe, he was seconded to the newly formed European head office in Brussels as Director Accounting. In 2002 he was appointed as Financial Director of Sappi Forest Products operations. He was appointed to his current position in January 2007. Mr Labuschagne was appointed a Board member of the South African Institute of Chartered Accountants in 2006, and is Chairman of their Commerce and Industry Committee and a member of their Audit Committee and the Enterprise and Socio Economic Development Committee.

Andrea Rossi (54) BSc Eng. (Hons), C.Eng, Group Head Technology

Mr Rossi joined Sappi in 1989. Prior to accepting the position of Group Head Technology, Andrea held the roles of Project Director of the Sappi Saiccor Amakhulu Expansion project, Strategic Projects Director of Sappi Forest Products, Sappi Kraft Manufacturing Director, Managing Director Sappi Forests, General Manager Enstra mill, Project Director Enstra mill expansion, Project Manager for the Sappi Saiccor Mkomazi Expansion and Engineering Services for Sappi Management Services.

Lucia Adele Swartz (51) BA, Dip HR., Group Head Human Resources

Ms Swartz joined Sappi in May 2002. Prior to joining Sappi she worked for the Seagram Spirits and Wine Group as Human Resources Director, Global Functions based in New York. She holds a BA in Psychology and Geography from the University of the Western Cape and a

Diploma in Human Resources from the Peninsula Technikon.

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Alexander van Coller Thiel (47) BSc, Mech Eng, MBA, Integration Executive

Mr Thiel joined Sappi in December 1989 as the Executive Assistant to the Executive Chairman in Johannesburg. In April 1993, as part of Sappi's expansion into Europe, he moved to Brussels as the Administration Manager reporting to the Managing Director of Sappi Europe. With the creation of Sappi Fine Paper Europe he was appointed in February 1998 as Manager Marketing Intelligence, reporting to the Sales and Marketing Director. In January 2003 he became the Director Logistics for Sappi Fine Paper Europe, reporting to the Chief Executive Officer of Sappi Fine Paper Europe. He was appointed as Group Head Procurement at Sappi Limited in January 2008.

Berend (Berry) John Wiersum (53) MA, Chief Executive Officer of Sappi Fine Paper Europe

Mr Wiersum joined Sappi in January 2007 as Chief Executive Officer Sappi Fine Paper Europe. Prior to joining Sappi, Berry was a freelance mergers and acquisitions consultant for one year. He previously was Managing Director Kappa Packaging and member of the management board in Eindhoven (The Netherlands). He holds a masters degree in medieval & modern history from St. Andrews University Scotland.

Executive Officers

The Executive Directors and the people listed as senior management above are the Executive Officers of Sappi.

Board Practices

At every annual general meeting, as near as possible to, but not less than, one third of the directors are required to retire from office but are eligible for re-election. The directors to retire are those who have been longest in office since their last election, or as between directors who have been in office for an equal length of time since their last election, in the absence of agreement, determined by lot. In addition, the appointment of any director appointed since the last annual general meeting will be required to be confirmed. Any director so appointed will also retire at the meeting and be eligible for re-election.

Following the Board's decision to split the roles of Chairman and Chief Executive Officer, Jonathan Leslie was appointed as director and Chief Executive of Sappi Limited effective from April 2003 and Eugene van As was appointed as Non-Executive Chairman. However, subsequent to Mr Leslie's resignation in March 2006, at the request of the Board, Mr van As agreed to assume executive responsibilities for the Group until the appointment of a new chief executive. At the same time, Mr D.C. Brink was appointed senior independent director by the Board. Following Roeloff (Ralph) Boëttger's appointment as Chief Executive Officer from July 2007, Mr van As handed over his executive responsibilities to Mr Boëttger in August 2007.

The following table sets forth the terms of office of the Directors.

Name	Start of term	Latest date of end of term
Roeloff Jacobus Boëttger	2008	2013
David Charles Brink	2007	2009
Daniël Christiaan Cronjé	2008	2011
Meyer Feldberg	2007	2009
James Edward Healey	2007	2009
Deenadayalen Konar	2008	2011
Helmut Claus-Jürgen Mamsch	2007	2009
John David McKenzie	2008	2011
Karen Rohn Osar	2008	2011
Bridgette Radebe	2008	2011
Sir Nigel Anthony Russell Rudd	2007	2010
Franklin Abraham Sonn	2008	2009
Mark Richard Thompson	2007	2010

No retirement or other benefits arise from the retirement of Directors by rotation or on termination for any other reason.

Compensation

The non-executive directors fees are proposed by the Executive Committee and agreed by the Compensation Committee and approved by the Board, subject to final approval by shareholders. In addition to these non-executive directors fees, in fiscal 2008 Sappi compensated Mr E van As for consultation through the payment of US\$ 16,825 (ZAR 125,000). For fiscal 2007 Mr van As received compensation of US\$ 696,953 (ZAR 5 million).

See notes 34 to 36 to our Group annual financial statements contained elsewhere in this Annual Report for details, by director, on Directors' remuneration, Directors' service contracts, Directors' interests and Directors' participation in the Sappi Limited Share Incentive Trust and Sappi Limited Performance Share Incentive Plan.

See note 31 to our Group annual financial statements for details of payments to senior management which is reflected under related party interests.

Audit Committee

An Audit Committee of the Board was established in 1984 and assists the Board in discharging its responsibilities to safeguard the Group's assets, maintain adequate accounting records and develop and maintain effective systems of internal financial control. It also oversees the financial reporting process and is concerned with compliance with accounting policies, Group policies, legal requirements and internal controls within the Group. It interacts with and evaluates the effectiveness of the external and internal audit process and reviews compliance with the Group's code of ethics.

The Audit Committee consists of five independent non-executive directors of the Board (David Charles Brink, James Edward Healey, Deenadayalen Konar (Chairman), Helmut Claus Jürgen Mamsch and Karen Rohn Osar) and is directed by a specific mandate from the Board. The adequacy of the mandate is reviewed and reassessed annually. The Audit Committee meets with senior management, which includes the Chief Executive Officer and the Chief Financial Officer, at least four times a year. The external and internal auditors attend these meetings and have unrestricted access to the Committee and its Chairman. The Audit Committee also meets at least once per year with the management Disclosure Committee. The external and internal auditors meet privately with the Audit Committee Chairman on a regular basis. The Audit Committee Chairman attends the annual general meeting. Deenadayalen Konar has been designated as the Audit Committee's financial expert.

Regional audit committees exist in the three major regions and are chaired by independent non-executive directors. These committees have a mandate from the Group's audit committee, to whom they report on a regular basis, and they meet at least four times per year.

Nomination and Governance Committee

The Nomination and Governance Committee of the Board consists of five independent non-executive directors (Daniël Christiaan Cronjé, the chairman of the Group, David Charles Brink, Meyer Feldberg (Chairman), Sir Anthony Nigel Russell Rudd and Franklin Abraham Sonn). The Committee considers the composition of the Board, retirements and appointments of additional and replacement non-executive directors and makes appropriate recommendations to the Board. The Chief Executive Officer attends meetings by invitation.

Human Resources Committee

The Human Resources Committee of the Board consists of three independent non-executive directors (Daniël Christiaan Cronjé, the chairman of the Group, and of the Human Resources Committee, James Edward Healey, Deenadayalen Konar and Bridgette Radebe). The responsibilities of the Committee are, among other things, to determine human resource policy and strategy. Human Resources Committees exist for all the company's major operating subsidiaries outside of southern Africa.

Compensation Committee

The Compensation Committee of the Board consists of five independent non-executive directors (David Charles Brink (Chairman), Meyer Feldberg, Helmut Claus-Jürgen Mamsch, John "Jock" David McKenzie and Sir Nigel Rudd). The responsibilities of the Committee are mainly to determine the remuneration and incentives in respect of the Chief Executive Officer and those executives reporting directly to the Chief Executive Officer.

Employees

The following table sets forth the number of employees as at the close of each fiscal year ended September.

	2008	2007	2006
Sappi Fine Paper			
North America	2,571	2,639	2,630
Europe	4,896	4,944	5,163
Southern Africa	1,870	1,896	1,910
Sappi Forest Products	5,575	5,358	5,251
Sappi Trading	153	154	154
Corporate Office	91	90	91
Total	15,156	15,081	15,199

North America

Approximately 61% of employees are represented by twelve collective bargaining agreements with seven different unions. The majority of Sappi North America's hourly employees are represented by the United Steelworkers (USW) union. The labor contracts with the USW expire in May 2009, November 2009, August 2010 and August 2011 respectively for the Cloquet, Muskegon, Somerset and Westbrook mills.

Sappi Fine Paper North America has experienced no work stoppage in the past seventeen years and believes that its relationship with its employees is satisfactory. While we hope to reach agreements with our unions when the contracts expire, in the event that agreements cannot be reached and a prolonged work stoppage that results in a curtailment of output ensues at any of these sites, our business could be negatively affected.

Europe