SAPPI LTD
Form 20-F
December 11, 2009

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As filed with the Securities and Exchange Commission on December 11, 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 27, 2009

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(b) of the Act.
None

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.

537,117,864 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 ý NO o

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 o NO ý

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 ý NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

YES o NO ý

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 ý **Accelerated filer o**
Non-accelerated filer o

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

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

If "Other" has been checked in response to the previous question, Indicate by check mark which financial statements item the registrant has elected to follow.

ITEM 17 o **ITEM 18 ý**

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

YES o **NO ý**

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

YES o **NO o**

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

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

References to the "Refinancing" are to the issuance of our € 350 million and US$ 300 million senior secured notes due 2014 (the "2014 Bond") and the use of the proceeds therefrom, together with a portion of available cash, to repay drawings under our existing € 600 million revolving credit facility, transaction costs and other indebtedness, the establishment of a new € 209 million revolving credit facility (the "Revolving Credit Facility") and the replacement of our existing € 400 million Österreichische Kontrollbank Aktiengesellschaft ("OeKB") term loan facility by an amended and restated € 400 million OeKB term loan facility (the "OeKB Term Loan Facility");

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 "m^2" are to square meters and references to "hectares" or "ha" are to a land area of 10,000 square meters 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 27, 2009;

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 reflects 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.

Except as otherwise indicated in this Annual Report any reference to capacity, production capacity, market share information and data of a similar nature include 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 fiscal period. All references in this Annual Report to fiscal 2009, 2008, and 2007, or the years ended September 2009, 2008 or 2007 refer to Sappi Limited's twelve-month fiscal periods ended on September 27, 2009, September 28, 2008 and September 30, 2007, respectively; references in this Annual Report to fiscal 2010 refer to the period beginning September 28, 2009 and ending September 26, 2010. Our Group Annual Financial Statements included elsewhere in this Annual Report have been prepared in conformity with IFRS as issued by the IASB.

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 of certain financial information to US dollars in fiscals 2009, 2008 and 2007, 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;
- 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;
- 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", "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 as issued by the IASB for fiscals 2005 to 2009.

	Year Ended September				
	2009	2008	2007	2006	2005
	(US$ million, except per share data)				
Group Income Statement Data:					
Sales[1]	5,369	5,863	5,304	4,941	5,018
Operating (loss) profit	(73)	314	383	125	(109)
Net (loss) profit	(177)	102	202	(4)	(184)
Basic (loss) earnings per share (US cents)	(37)	28	56	(1)	(51)
Diluted (loss) earnings per share (US cents)	(37)	28	55	(1)	(51)
Dividends per share (US cents)[2]		16	32	30	30

	Year Ended September				
	2009	2008	2007	2006	2005
	(US$ million)				
Group Balance Sheet Data:					
Total assets	7,297	6,109	6,344	5,517	5,889
Net assets	1,794	1,605	1,816	1,386	1,589
Operating assets[3]	6,471	5,794	5,919	5,219	5,452
Total long-term borrowings	2,726	1,832	1,828	1,634	1,600
Shareholders' equity	1,794	1,605	1,816	1,386	1,589

	Year Ended September				
	2009	2008	2007	2006	2005
	(US$ million, except number of shares data)				
Other Information:					
EBITDA[4]	325	688	758	517	315
Weighted average number of ordinary shares in issue (in million)[5]	482.6	362.2	360.6	358.0	357.4
number of ordinary shares in issue at fiscal year end (in million)[5]	515.8	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 was paid on all ordinary shares in issue on November 28, 2008, which did not include ordinary shares issued in the Rights Offering. For further information on our dividend policy, see "Item 8 Financial Information Dividends".

(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 (including discounts on early redemption of loans); 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 (loss) profit to EBITDA.

	Year Ended September				
	2009	2008	2007	2006	2005
	(US$ in million)				
Net (loss) profit	**(177)**	**102**	**202**	**(4)**	**(184)**
Add back:					
Depreciation and amortization	398	374	375	392	424
Net finance costs	145	126	134	130	80
Taxation	(41)	86	47	(1)	(5)
EBITDA	**325**	**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 Depository 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 commodity markets to a significant extent and 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 woodfree paper sales consist of sales to merchants. However, the pricing of products for merchant sales can generally be changed with 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 2009.

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 Business Overview".

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

A global recession is currently underway. This could be the deepest and longest recession in over a generation. Despite the aggressive measures taken by governments and central banks thus far, there is still a significant risk that these measures may not prevent the global economy from falling into an even deeper and longer lasting recession, and even a depression. This recession is 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, increased unemployment and lower business and consumer confidence. These factors have led global demand for coated woodfree paper to decline in the second half of fiscal 2008 and during fiscal 2009, and pulp demand and pulp prices to decrease in the latter part of fiscal 2008 and during most of fiscal 2009. These trends have negatively impacted our results of operations during fiscal 2009. We cannot predict the timing or duration of any other downturn in the economy that may occur in the future.

The markets for pulp and paper products are highly competitive, and some 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, or are government subsidized. Some of our competitors have advantages over us, including lower raw material, energy and labor costs and fewer environmental and governmental regulations to comply with. As a result, we cannot assure you that each of our mills will remain 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 inability to increase selling prices of our products sufficiently or in time to offset the effects of increased costs without losing market share and aggressive pricing by competitors may force us to decrease prices in an attempt to maintain market share.

The cost of complying with environmental, health and safety laws may be significant to our business.

Our operations are subject to a wide range of environmental, health and safety laws in the various jurisdictions in which we operate. Such laws govern, among other things, the control of emissions, the management and disposal of hazardous substances and wastes, the cleanup of contamination, the purchase and use of safety equipment, workplace safety training and the monitoring of workplace hazards.

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 actions for failure to comply with environmental requirements. Impacts from historical operations, including the land disposal of waste materials, or our own activities may require costly 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 costs related to any potential environmental liabilities and claims could have a material adverse effect on our business and financial condition.

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.

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

The alternative fuel mixture tax credit provided by the U.S. Internal Revenue Code may expire at the end of calendar 2009, may be repealed with an earlier effective date, or may be amended, in a manner that would eliminate or reduce its benefits for pulp and paper companies.

The U.S. Internal Revenue Code allows an excise tax credit to taxpayers for the use of alternative fuel mixtures. In 2009 we began to use an alternative fuel mixture containing diesel fuel and "black liquor", a by-product of pulp production, at our Somerset and Cloquet mills. During the second calendar quarter of 2009, we were approved by the IRS as an alternative fuel producer. During the fiscal year, the Company has filed claims for alternative fuel mixture credits covering eligible periods subsequent to February 2009 totaling US$ 87 million, net of fees and expenses and has received US$ 65 million in cash. The tax credit related to this type of fuel mixture is scheduled to expire on December 31, 2009. Legislators have introduced various proposals which, if enacted, could repeal or otherwise reduce the benefit of this tax credit for pulp and paper companies, which legislation could be in effect at any time prior to December 31, 2009. Because of these uncertainties, there can be no assurance that we will receive tax credits for additional refund filings, and any amendment of the tax credit that eliminates or reduces its benefits for pulp and paper companies could have an adverse effect on our financial condition and results of operations.

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.

The insurance market 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 2010 insurance cover at rates similar to those of 2009 and self-insured deductibles for any one property damage occurrence have remained at US$ 25 million, with an unchanged aggregate limit of US$40 million, we are unable to predict whether past or future events will result in less favorable terms. For property damage and business interruption, there generally does not seem to be cost effective cover available to full value; however, we believe that the loss limit cover of US$ 1 billion should be adequate for what we have determined as the reasonably foreseeable loss for any single claim.

Sappi places the insurance for its plantations on a stand-alone basis into international insurance markets. While the impact of widespread fires on our plantations in fiscal 2009 was substantially less than fiscals 2007 and 2008, we are unable to assure you that this will remain so for the foreseeable future.

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 results of operations.

Consumer preferences may change as a result of the availability of alternative products or of services including less expensive product grades, electronic media or the internet, or as a result of environmental pressure from consumers, all of which could negatively impact consumption of our products.

Risks Related to Our Business

Our significant indebtedness may impair our financial and operating flexibility.

Our significant level of indebtedness and the terms of our indebtedness could negatively impact our business and liquidity. As of September 2009, our interest bearing debt (long-term and short-term interest bearing debt plus overdraft, less cash on hand) was US$ 2,576 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.

As a result of the Refinancing the average time to maturity of our debt was extended. We also expect to continue refinancing other renewable facilities that mature under our funding arrangements and bilateral banking facilities.

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 the remainder of calendar 2008 and in calendar 2009, 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 the Group's credit ratings have been downgraded to sub-investment grade by Standard & Poor's (S&P) and Moody's. 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. See "Item 10 Exchange Controls". 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 their 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. 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 for some of our products. 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.

Since the adoption of the euro by the European Union on January 1, 1999 (when the euro was trading at approximately US$1.18 per euro), it has fluctuated against the US dollar, reaching a low of approximately US$0.83 per euro in October 2000 before trading at approximately US$1.47, US$1.46 and US$1.42 per euro at the end of fiscal 2009, 2008 and 2007, respectively. On September 27, 2009, it was trading at approximately US$1.47 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 R7.41, R8.08 and R6.87 per US dollar at the end of fiscal 2009, 2008 and 2007, respectively.

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 six countries in Europe, three 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 "Item 5 Operating and Financial Review and Prospects South African Economic and Political Environment" and "Item 10 Exchange Controls".

Our southern African operations have in recent years accounted for a disproportionate percentage of our operating profits. In fiscal 2009,54% of our sales originated from Europe, 24% from North America and 22% from southern Africa. As of September 2009, 45% of our net operating assets were located in Europe, 19% in North America and 36% in southern Africa (excluding Corporate and other), but in fiscal 2009 our operations in Europe and southern Africa had an operating loss of US$ 67 million and US$ 55 million, respectively, whereas our operations in North America had an operating profit of US$ 53 million (excluding Corporate and other). In fiscal 2008, 46% of our sales originated from Europe, 28% from North America and 26% from southern Africa, and as of September 2008, 37% of our net operating assets were located in Europe, 23% in North America and 40% in southern Africa. However, in fiscal 2008, our operations in Europe had an operating loss of US$ 64 million and our operations in North America and southern Africa had an operating profit of US$ 92 million and US$ 279 million, respectively. Adverse developments in the economic, fiscal, monetary, regulatory or political circumstances in southern Africa could in the future again negatively affect our results of operations and the value of an investment in our Company.

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, although certain input costs have recently been decreasing, we have in the past experienced, and may in the future experience, increasing costs of a number of raw materials due to global trends beyond our control, concerns about global warming and carbon footprints, as well as legal and financial incentives favoring alternative fuels, which 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. Although oil prices have decreased from the historical highs of 2008, they 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.

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.

If we are unable to obtain energy or raw materials at favorable prices, or at all, it could adversely affect our operations.

We require substantial amounts of oil-based chemicals, fuels and other raw materials for our production activities and transport of our timber products. We rely partly upon third parties for our supply of the energy resources and, to a certain extent, timber, which are consumed in our operations. The prices for and availability of these energy supplies and raw materials 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.

Environmental litigation aimed at protecting forests and species habitats and regulatory restrictions may cause in the future significant reductions in the amount of timber available for commercial harvest. In addition, future claims and regulations concerning the promotion of forest health and the response to and prevention of wildfires could affect timber supplies in the jurisdictions in which we operate. The availability of harvested timber may further be limited by factors such as fire, insect infestation, disease, ice and wind storms, droughts, floods and other nature and man-made causes, thereby reducing supply and increasing prices.

The prices of various sources of energy supplies and raw materials may increase significantly from current levels. An increase in energy and raw material 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 fiscal 2008 whilst in fiscal 2009, this concentration reduced to below 10%. 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 Sappi Fine Paper Marketing and Distribution Customers" and "Item 4 Sappi Forest Products Marketing and Distribution Customers".

Because of the nature of our business and workforce, we may face challenges in the retention of staff and the employment of skilled people that could adversely affect our business.

We are facing an aging demographic work profile among our staff due to the mature nature of our industry and the rural and often remote location of our mills, together with 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 fiscal 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 volatility within the equity markets. The risk exists that equity and bond 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 during fiscal 2009.

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 low levels experienced in fiscal 2009, 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 impacts 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.

A large percentage of our employees are unionized and wage increases or work stoppages by our unionized employees may have a material adverse effect on our business.

A large percentage of our employees are represented by labor unions under collective bargaining agreements, which need to be renewed from time to time. In addition, we have in the past and may in the future seek, or be obligated to seek, agreements with our employees regarding workforce reductions, closures and other restructurings. We may not be able to negotiate acceptable new collective bargaining agreements or future restructuring agreements, which could result in labor disputes. Also, we may become subject to material cost increases or additional work rules imposed by agreements with labor unions. This could increase expenses in absolute terms and/or as a percentage of net sales. Although we believe we have good relations with our employees, work stoppages or other labor disturbances may occur in the future which could adversely impact our business.

Concerns about the effects of climate change may have an impact on our business.

Concerns about the global warming and carbon footprints, as well as legal and financial incentives favoring alternative fuels, 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 fibre sources, far beyond their traditional geographic spreads.

Our ability to utilize our net operating tax loss carry forwards generated by our United States operations could be substantially limited if we experience a Company ownership change as defined under the United States Internal Revenue Code, which may adversely affect our results of operations and financial condition.

As a result of Sappi Fine Paper North America's past financial performance, we have net operating tax loss carry forwards generated by our United States operations. Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), contains rules that limit the ability of a company that undergoes an ownership change, at the Sappi Limited company level, to utilize its net operating tax loss carry forwards in years after the ownership change. An "ownership change" for purposes of Section 382 of the Code generally refers to any change in ownership of more than 50% of the company's shares over a three-year period. These rules generally operate by focusing on ownership changes among shareholders owning, directly or indirectly, 5% or more of the share capital of a company or any change in ownership arising from a new issuance of the company's shares.

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our share capital, including purchases or sales of shares between our greater than 5%

shareholders, our ability to use our net operating tax loss carry forwards generated by our United States operations would be subject to the limitations of Section 382. Depending on the resulting limitations, a portion of our United States net operating tax loss carry forwards could expire before we would be able to use them. Our inability to utilize our United States net operating tax loss carry forwards could have an adverse effect on our financial condition and results of operations.

Risks Related to the Acquisition

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;
- the performance by M-real Corporation and its parent company of their obligations under various agreements they have entered into with us, including supply agreements, and potential claims and liabilities among the parties under such 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 of the anticipated benefits of the Acquisition or there may be delays and unexpected difficulties in realizing such benefits or higher costs.

Estimates of synergies from the Acquisition and the integration of the Acquired Business into our existing business are based on assumptions which in the view of our management were prepared on a reasonable basis, reflect the best available estimates and judgments, and present, to the best of our management's knowledge and belief, the expected course of action and the expected future financial impact on our performance due to the Acquisition. The assumptions about these expected synergies are inherently uncertain and, though considered reasonable by management as of the date of preparation, are subject to a wide variety of significant business, economic, and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the estimate of synergies. There can be no assurance that we will be able to successfully implement all of the strategic or operational initiatives that are intended, or realize all of the estimated synergies. The synergy estimates are not a profit forecast or a profit estimate and should not be treated as such nor relied on by prospective investors to calculate the likely level of profits or losses for Sappi.

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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.

Measuring the synergy benefits requires management to apply judgments as it involves management to make an allocation of synergy benefits between existing and the acquired operations as this is not defined in the accounting standards applied. The actual measurement of these benefits may vary from company to company and may not be comparable.

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 2009, 443 million of our ordinary shares were traded on the JSE and 66 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 "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 one beneficial owner of more than 5% of our ordinary shares, holding approximately 8.4%, as shown in our shareholders' register on September 25, 2009, the five largest shareholders of record, four of which are nominees that hold shares for a multitude of beneficial owners, owned approximately 98.4% of our ordinary shares as of that date. These significant potential voting blocks of nominee registered shareholders may have the power to influence voting decisions for the shares they hold. See "Item 7 Major Shareholders and Related Party Transactions Major Shareholders".

Risks Related to Our Indebtedness

To service our other indebtedness, we will require a significant amount of cash, and our ability to generate cash will depend on many factors beyond our control.

Our ability to make payments on our indebtedness, and to refinance our indebtedness, and to fund planned capital expenditures and working capital requirements will partly depend on our ability to generate cash in the future. This ability is, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. See " Risks Related to Our Industry" and " Risks Related to Our Business".

We cannot assure you that we will generate sufficient cash flow from operations, that we will realize operating improvements on schedule or that future borrowings will be available to us in an amount sufficient to enable us to service and repay our indebtedness or to fund our other liquidity needs. If we are unable to satisfy our debt obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our indebtedness, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We cannot assure you that any refinancing or debt restructuring would be possible, that any assets could be sold or that, if sold, the timing of the sales and the amount of proceeds realized from those sales, or that additional financing could be obtained on acceptable terms.

Some of our credit facilities contain covenants that restrict some of our corporate activities, including our ability to:

- make acquisitions or investments;
- make loans or otherwise extend credit to others;
- incur indebtedness or issue guarantees;
- create security;
- sell, lease, transfer or dispose of assets;
- merge or consolidate with other companies; and
- make substantial changes to the general nature of our business.

In addition, certain of our credit facilities require us to comply with certain covenants and specified financial covenants and ratios. Our ability to comply with these covenants and restrictions may be affected by events beyond our control. These include prevailing economic, financial and industry conditions. If we breach any of these covenants or restrictions, we could be in default under the credit facilities and other indebtedness. This would permit the lending banks under our credit facilities to take certain actions, including declaring all amounts that we have borrowed to be due and payable, together with accrued and unpaid interest. The lending banks could also refuse to extend further credit under their facilities. If we are unable to repay our debt to the lending banks, they could proceed against any collateral that secures the debt under the credit facilities. If we are unable to make payments on or refinance our indebtedness, or if our debt or any other material financing arrangement that we enter into is accelerated, this could have a material adverse effect on our business and financial condition.

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 ("JSE"), formerly the Johannesburg Stock Exchange, and have a secondary listing on the New York Stock Exchange.

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 woodfree paper and a major producer of other specialty 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 woodfree paper. KNP Leykam now conducts business as Sappi Fine Paper Europe. In 2002 we acquired Potlatch Corporation's coated woodfree 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 April 2006, Sappi announced a black economic empowerment transaction involving the sale of identified forestry land to a South African empowerment partner. In respect of this transaction, we recognized an immaterial charge to the income statement during fiscal 2008.

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 ramp up of production was delayed as a result of the global economic downturn; however, by the month of September 2009 the output was close to full capacity.

On December 31, 2008, we acquired the coated graphic paper business of M-real Corporation, including brands, know-how, intellectual property, order books, and four mills. We also entered into agreements to purchase pulp, wood and energy from M-real Corporation and its associates and to sell the coated paper output of two mills owned and operated and subsequently closed by the M-real Corporation. The enterprise value of the Acquisition was € 750 million (approximately US$ 1.1 billion). The purchase consideration was reduced by € 102 million (US$ 189 million) for assumed debt and other adjustments like, to working capital. The Acquisition was mainly financed through a combination of: the issuance to M-real Corporation of € 32 million (US$ 45 million) Sappi Limited shares; vendor loan notes of € 220 million (US$ 307 million); and a cash consideration of € 401 million (US$ 565 million) obtained mainly from a ZAR 5.8 billion (US$ 575 million) rights offering of Sappi Limited shares. See "Item 5 Operating and Financial Review and Prospects Mill Closures, Acquisitions, Dispositions, Impairment and Joint Venture" for further information on the Acquisition.

In November 2008, we closed our Blackburn mill in the United Kingdom and in December 2008, we ceased production from PM 5 at our Maastricht mill in the Netherlands. Profitable products produced at these mills were moved to our other facilities in Europe.

In March 2009 we suspended operations at Muskegon mill in the United States and in August 2009 we permanently ceased operations. Customers will be served from our other North American operations.

On October 22, 2009, we announced that we would enter into a consultation process with employee representatives at the Kangas mill in Finland. On December 10, 2009, we announced the closure of the Kangas mill. The permanent closure is expected to take place no later than the end of March 2010. Our products produced at the Kangas mill will be moved to and supplied from our Lanaken mill in Belgium and our Kirkniemi mill in Finland.

On October 30, 2009, Sappi announced the intended closure of Sappi Usutu Pulp mill and the restructuring of the forestry business in Swaziland in response to market conditions and forest fire damage. With the closure of the Sappi Usutu Pulp mill we would be exiting the unbleached kraft pulp market.

In October 2009 we undertook certain actions to improve our business including the reduction of approximately 300 positions across the southern African operations, partly as a result of the mothballing of a 60,000 ton containerboard machine at Tugela mill and of parts of the Ngodwana pulp mill which will result in a small net reduction in their pulp output.

On November 2, 2009 we delisted from the London Stock Exchange (LSE). The London share register was closed on November 23, 2009 with all remaining shareholders on the United Kingdom share register being transferred to the South African share register.

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 woodfree and coated mechanical 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 specialty papers and a range of paper grade pulp.

Business strategy

We intend to maintain and further strengthen our leading positions in our core product and geographical markets through competitive positioning and by focusing on our core strengths, including efficient manufacturing and distribution, customer service, innovation and reliability. We have been a leader in the coated woodfree paper and chemical cellulose markets for over a decade, and we believe that our strengths position us well to further increase our customer base, expand our market share and achieve higher levels of service and reliability.

We are focusing on profitability and cash flow generation through tightly managing our working capital levels without compromising on customer service, and through carefully reviewing all non-essential capital expenditures. We also continue to implement variable and fixed cost reduction plans throughout the Group.

In particular, we are striving to improve efficiencies at our facilities and to optimize our cash generation by implementing production curtailments in each of our operating businesses to minimize the impact of current weak market conditions. We will continue to curtail production as may be required.

We undertook major Refinancing during fiscal 2009 to improve our debt maturity profile. Following the completion of the Refinancing, we believe that our good liquidity and strengthened balance sheet positions us to meet the challenges of the uncertain market conditions and to ensure that we are able to take advantage of our leading market positions when markets start to recover.

One of our main 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 interaction and end-use customers such as publishers and printers. We expect to continue to maintain a focus on innovation through our research and development centers in Europe, North America and South Africa, transferring knowledge throughout our Group and implementing best-practice policies.

While our main focus is the integration of the Acquired Business, we will continue to carefully evaluate opportunities that may arise from time to time. We intend to remain at the forefront of consolidation in the pulp and paper industry, aiming to further strengthen our position. We intend to focus on investments and acquisition opportunities that fit our strategies and that can be conservatively financed while offering a potential return that exceeds our cost of capital in the medium term.

Investment Highlights

Leading market positions

We are currently one of the largest producers of coated woodfree paper in the world and in Europe and a leading producer in North America with an estimated market share of 13%, 27.2% and 24.5%, respectively (as measured by production capacity). We are also a global leader in the chemical cellulose market through Sappi Saiccor, the world's largest single producer of chemical cellulose. We have achieved leading positions in our core products, in particular in the coated woodfree paper segment, by building a portfolio of premium international brands. Our leading market positions place us in an advantageous position to benefit from the expected turnaround in demand for coated woodfree paper when global economic conditions begin to improve. We believe that the Acquisition has strengthened our position in the coated woodfree market and has significantly increased our presence in the coated mechanical paper market, making us one of the largest producers in Europe in that market (as measured by production capacity). The recent expansion of our chemical cellulose production capacity positions us well to benefit from the expected continued growth in this market.

High level of economic pulp integration and expansion of pulpwood operations

Our Group is approximately 93% 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 expect to maintain a high level of economic pulp integration.

Efficient asset base

We own and operate what we believe are some of the lowest cost and most efficient assets in the coated woodfree paper, coated mechanical paper and chemical cellulose sectors in the world. A significant portion of our past capital expenditures were 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. We have very strict criteria for the profitability and cash flow generation of our assets, and we constantly review our portfolio. Since 1995, we have closed 16 paper machines, including the closure of our Blackburn mill in the United Kingdom (which permanently closed in

November 2008) and the closure of our Muskegon mill in North America in August 2009, ceased production from PM 5 at our Maastricht mill in The Netherlands in December 2008, and have shifted production volumes to more efficient facilities, optimizing capacity utilization. We believe that the expected rationalization of manufacturing and synergies resulting from the integration of the Acquired Business and our expansion of chemical cellulose production capacity will further enhance the efficiency of our operations.

Global presence

We believe that our 21 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. In 2009, our operations in North America, Europe and southern Africa accounted for 24%, 54% and 22% of our sales, respectively. 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.

Long-standing customer relationships supported by product innovation and customer service

We sell our products to a large number of customers, including merchants such as PaperlinX, IGEPA and xpedx, a division of International Paper Company, converters such as Amcor Flexibles and Novelis, and other direct consumers such as The CTP Group and Media 24, many of whom have long-standing relationships with us. We support these customer relationships through our portfolio of premium international operating brands, including several well-known brands acquired in the Acquisition, under which we produce and market our products, as well as through the quality of our products, our customer service and our reliability. We are continually improving service and reliability through innovation, and 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.

Experienced management team and strong track record of integrating acquisitions

Our management team has significant experience and a record of success in the global paper industry. In addition, we have been a key player in the consolidation process of the coated paper market, with a strong track record of successfully executing and integrating acquisitions, including the acquisition of S.D. Warren Company, a market leader in the United States in coated woodfree paper and a major producer of other specialty paper products that is now Sappi Fine Paper North America, KNP Leykam, a leading European producer of coated woodfree paper that is now Sappi Fine Paper Europe, Potlatch Corporation's coated woodfree paper business that is now part of Sappi Fine Paper North America and, most recently, the Acquired Business that is now part of Sappi Fine Paper Europe.

The Pulp and Paper Industry

Overview

The paper industry is generally divided into the printing and writing paper segment, consisting of newsprint, mechanical paper and woodfree paper, and the packaging segment, consisting of label papers, containerboard, boxboard and sackkraft.

Over the 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 acquisitions, rather than construction of new capacity. In particular, the cost of building a new paper mill ranges between approximately US$ 1,300 and US$ 1,600 per tonne of annual paper production capacity, as compared to approximately US$ 580 per tonne of capacity, which Sappi paid for the Acquired Business. As a result, the regional market shares of leading producers have increased significantly over the past decade. Another important trend has been for leading industry producers to focus on fewer paper grades as a result of divesting non-core assets that are not part of the industry or which have been considered not consistent with long-term strategies. Increased grade focus is most advanced in the North American paper industry. In Europe, the two largest producers, Stora Enso and UPM Kymmene still retain extensive operations across a broad range of grades.

Significant developments have also taken place in China, where rapid economic growth and government incentives have spurred investment in the pulp and paper industry. In recent years, China's paper and board as well as woodfree paper capacity increased considerably, allowing China to change from a net importer to a net exporter of coated woodfree paper, mainly to Asian markets and to the United States. Exports from Asia to Europe were approximately 5% of coated woodfree paper demand in Europe during the first eight months of calendar 2009.

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**
Woodfree paper:	
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.
Specialty 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.
Mechanical paper:	
Newsprint	Manufactured from groundwood and bleached chemical pulp. Uses include advertising inserts and newspapers. Demand is highly dependent on newspaper circulation and retail advertising.
Uncoated mechanical paper	An uncoated groundwood fiber based paper (super-calendared), primarily used for magazines, catalogues and advertising material.
Coated mechanical / 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 specialty segments.
Timber products:	Sawn timber for construction and furniture manufacturing purposes.

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

	Year ended September					
	2009		2008		2007	
	Low	High	Low	High	Low	High
Coated Woodfree Paper						
100 gsm delivered Germany (euro per tonne)(1)	740	850	750	820	760	830
60 lb. delivered US (US$ per short ton)(2)	905	1,105	960	1,095	890	965
Uncoated Woodfree Paper						
50 lb. delivered US (US$ per short ton)(3)	805	975	830	970	790	855
Paper Pulp						
NBSK (US$ per tonne)(4)	570	840	830	920	720	830
Chemical cellulose						
92 alpha (US$ per tonne)(5)	590	860	820	1,200	715	870

(1) 100 gsm sheets, RISI.

(2) 60 lb. Coated Web, RISI.

(3) 50 lb. Offset, RISI.

(4) Northern Bleached Softwood Kraft Pulp CIF Western Europe, RISI.

(5) Selected indicative prices, Sappi.

Woodfree Paper

Our woodfree paper activities are divided into coated and uncoated woodfree paper and specialty paper grades.

Coated Woodfree Paper. Major end uses of coated woodfree paper include high-end magazines, catalogues, brochures, annual reports and commercial printing. Coated woodfree 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 woodfree 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 woodfree paper sales volume for fiscal 2009 was 20% in sheet form and 80% in reel form. The sheet volume is largely influenced by brochure and general commercial printing activities using mainly sheet-fed offset lithographic printing processes, which are not particularly seasonal. Reels volume is heavily influenced by catalogue and magazine 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.

Our European coated woodfree paper sales volume for fiscal 2009 was 74% in sheet form and 26% 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 woodfree paper represents the largest industry woodfree paper grade in terms of both global capacity and consumption. Uncoated woodfree paper is used for bond / writing and offset printing papers, photocopy papers, writing tablets (e.g., legal pads), specialty lightweight printing paper (e.g., bibles) and thin paper.

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 woodfree paper output levels.

Specialty Paper. The high value-added specialty 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 specialty paper, price fluctuations have historically tended to lag and be less precipitous than price changes in the uncoated woodfree paper market.

Mechanical Products

Coated Mechanical Paper. Coated mechanical paper has similar end-uses as coated woodfree 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 woodfree paper and coated mechanical paper is possible. Coated mechanical paper is made mainly from mechanical pulp and typically has glossy finishes on both sides. European demand for coated mechanical paper grew by 1.8% in fiscal 2008 with eastern Europe experiencing a higher growth rate than western Europe but demand declined by 23% in fiscal 2009. Worldwide demand for coated mechanical paper contracted by 5.8% in fiscal 2008 and continued to contract by a further 21% in fiscal 2009 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 mechanical 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 woodfree 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. During fiscal 2009, demand in the South African market for containerboard contracted due to the general economic downturn and high inventory levels throughout the supply chain. Export markets were under pressure due to declining prices. Demand for packaging paper is largely driven by the demand for cement, potatoes, sugar and milling products. Our packaging paper market share increased in fiscal 2007 and fiscal 2008 due to higher priced and therefore less attractive imports and significant improvements in production output. During fiscal 2009 global demand for packaging paper declined sharply as a result of the economic slowdown and in particular the resulting negative impact on demand for cement and other building products. This resulted in significant downward pressure on pricing both in the South African and export markets.

Pulp

We produce chemical cellulose, as well as a wide range of paper pulp grades, including mechanical 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, exchange rates and cyclical changes in the world economy. The market price per tonne of NBSK pulp, a pulp principally used for the manufacture of woodfree paper, is a benchmark widely used in the industry for comparative purposes.

NBSK prices hit a cyclical low of US$ 433 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$ 643 per metric tonne during 2006 and continued to increase to US$ 725 in October 2006, US$ 830 in October 2007 and US$ 877, in September 2008. In fiscal 2009 pulp markets initially weakened considerably due to the worldwide economic slowdown and the price of NBSK declined to a low of US$ 577 per metric tonne in March 2009. NBSK prices subsequently recovered due to increased demand and tight supply dynamics and reached a high of US$ 721 per metric tonne in September 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 European NBSK. Since 1995, the price of VSF grade chemical cellulose has ranged from a high of approximately 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. During fiscal 2009, these prices have fallen sharply as a result of the weaker economic conditions and the rapid decline in demand for chemical cellulose, declining to a low of US$ 590 per metric tonne in March 2009. Demand subsequently improved and prices increased during the remainder of fiscal 2009, reaching a high of US$ 860 per metric tonne. 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.

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 and, after giving effect to the Acquisition, accounted for approximately 84% of our sales volume in fiscal 2009 and approximately 65% of our sales volume in fiscal 2008. It has an aggregate annual paper production capacity of 6.0 million tonnes at 16 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 2009 and fiscal 2008, Sappi Forest Products accounted for approximately 16% and 35% respectively, of our sales volume. It has an aggregate annual production capacity of 0.8 million tonnes of paper and 1.8 million tonnes of pulp in southern Africa.

As of fiscal 2010, Sappi Fine Paper South Africa will be incorporated into the Sappi Forests Products division so as to operate our business on a geographical basis. We believe that this will not materially affect the operation of our business.

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 "Item 5 Operating and Financial Review and Prospects Principal Factors Impacting on Group Results", "Item 5 Operating and Financial Review and Prospects Markets" and "Item 4 Business Overview".

The chart below represents our operational rather than the legal or ownership structure as of September 2009. 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, fiscal 2009.

	Sappi Fine Paper					
	North America	Europe(2)	South Africa	Sappi Forest Products	Corporate and Other	Total
		(US$ million) (tonnes '000)				
Sales volume (tonnes)	1,274	2,956	305	2,172		6,707
Sales	1,295	2,895	318	861		5,369
Operating profit	53	(67)	(3)	(52)	(4)	(73)
Operating assets(1)	1,145	3,008	260	1,916	142	6,471

(1)
Operating assets as defined in note 3 to our Group Annual Financial Statements included elsewhere in this Annual Report.

(2)
Includes 9 months information relating to the Acquired Business.

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; three coaters from other M-real Corporation mills in Germany and Austria; 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.

SAPPI FINE PAPER

Overview

Sappi Fine Paper is our largest operating segment and contributed approximately 65% and 84%, respectively, of our sales in fiscal 2008 and fiscal 2009. It has the capacity to produce approximately 6.0 million tonnes of paper per annum at its 16 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. In fiscal 2010, Sappi Fine Paper South Africa will be incorporated into the Sappi Forests Products division so as to operate our business on a geographical basis. We believe that this will not materially affect the operation of our business.

The following chart sets forth certain information with respect to the mills and principal products of Sappi Fine Paper as of September 2009.

(1)

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

(2)

On December 10, 2009 we announced the closure of the Kangas mill, with the permanent closure expected to take place no later than the end of March 2010.

(3)

On March 12, 2009 we ceased production at our Muskegon mill.

The following table sets out the approximate annual production capacity of Sappi Fine Paper's products as of September 2009.

	Annual Production Capacity			
	North America	Europe	South Africa	Total
Production capacity: (000s tonnes)				
Woodfree paper				
Coated(1)(4)	1,160	4,135	80	5,375
Uncoated(2)		285	270	555
Total(3)	1,160	4,420	350	5,930
Paper pulp	945	1,175	165	2,285

(1) Includes coated woodfree paper, coated mechanical paper and specialty 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) Excludes 120,000 tonnes for the Blackburn mill which ceased production in October 2008, 60,000 tonnes for the PM5 at Maastricht mill which ceased production in December 2008 and 170,000 tonnes for the Muskegon mill which ceased production on March 12, 2009.

Facilities and Operations

Sappi Fine Paper North America

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

Sappi Fine Paper North America is headquartered in Boston, Massachusetts, and operates three paper mills in the United States in Somerset, Maine; Westbrook, Maine; and Cloquet, Minnesota. These three mills have a total annual production capacity of approximately 1.2 million tonnes of paper and a capacity of approximately 0.9 million tonnes of paper pulp, which represents approximately 117% of Sappi Fine Paper North America's 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. Coated paper accounted for approximately 76% and 79% of Sappi Fine Paper North America's sales in fiscal 2008 and fiscal 2009, respectively. Specialty paper and pulp accounted for 24% and 21% of our sales in fiscal 2008 and 2009, respectively.

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

	Year ended September		
	2009	2008	2007
Sales: (US$ million)			
Coated woodfree paper	1,021	1,273	1,136
Specialty paper and other(1)	274	391	375

Total	**1,295**	**1,664**	**1,511**

(1) Other consists primarily of market pulp.

For fiscal 2009, Sappi Fine Paper North America sold approximately 1,274,000 tonnes of paper and pulp products. The following table sets forth the annual production capacity, number of paper machines and products at each of our mills in North America.

Mill	Production capacity ('000s tonnes) Paper	Number of paper machines	Products Paper	Market pulp
Cloquet	330	2	Coated woodfree paper	Bleached kraft pulp
Somerset	795	3	Coated woodfree paper	Bleached kraft pulp
Muskegon[(1)]				
Westbrook	35	1	Casting release paper	

(1) Production at our Muskegon mill ceased on March 12, 2009.

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 was started up by the previous owner in 2000 at a total cost of US$ 525 million. The Cloquet paper machines have an annual production capacity of 330,000 tonnes of coated paper, and the state-of-the-art pulp mill has an annual production capacity of 455,000 tonnes.

Somerset. The Somerset mill is a low-cost producer and has an annual production capacity of approximately 795,000 tonnes of paper and approximately 490,000 tonnes of pulp. 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 woodfree papers produced at Somerset, because it allows the production of high gloss, consistent quality products at high speeds.

Muskegon. The Muskegon mill housed 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. Production at Muskegon mill ceased on March 12, 2009.

Westbrook. Westbrook is Sappi Fine Paper North America's original mill, with origins dating back to 1854. The mill is primarily a specialty paper production facility with an annual capacity of 35,000 tonnes of coated woodfree and casting release paper. Its paper machine primarily produces base paper, which is coated off-line. Westbrook also has six specialty 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 woodfree paper in Europe and a producer of commercial printing paper, coated mechanical paper and specialty paper used in packaging, labeling and laminating. Sappi Fine Paper Europe's operations consist of ten mills with an aggregate annual production capacity of approximately 4.4 million tonnes of paper and 1.2 million 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 2009(2)	2008	2007
Sales: (US$ million)			
Coated woodfree paper[1]	2,527	2,407	2,101
Uncoated woodfree paper	160	27	51
Specialty coated paper and other	208	286	235
Total	**2,895**	**2,720**	**2,387**

(1) Includes coated mechanical paper produced at Lanaken, Kirkniemi and Kangas mill.

(2) Includes 9 months of sales relating to the Acquired Business.

For fiscal 2009, Sappi Fine Paper Europe sold approximately 3 million tonnes of paper and pulp products. The following table sets forth the annual production capacity, number of paper machines and products for fiscal 2007 to fiscal 2009 at each of Sappi Fine Paper Europe's mills in Europe.

Mill	Mill Locations	Production capacity ('000s tonnes) Paper	Number of paper machines	Products
Alfeld	Germany	330	5	Coated and Uncoated woodfree paper, coated specialty paper
Ehingen	Germany	250	1	Coated woodfree paper and uncoated woodfree paper
Stockstadt[1]	Germany	430	2	Coated woodfree paper and uncoated woodfree paper
Gratkorn	Austria	950	2	Coated woodfree paper and uncoated woodfree paper
Maastricht[2]	Netherlands	280	1	Coated woodfree paper
Nijmegen	Netherlands	240	1	Coated woodfree paper
Lanaken	Belgium	500	2	Coated mechanical paper and coated woodfree paper
Blackburn[2]	United Kingdom			
Kangas[1][3]	Finland	210	1	Coated mechanical paper
Kirkniemi[1]	Finland	730	3	Coated mechanical paper
Biberist[1]	Switzerland	500	3	Coated woodfree paper and uncoated woodfree paper

(1) Mills purchased as part of the Acquisition.

(2) 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 excluded from the table above) at our Maastricht mill, as described under " Blackburn" and " Maastricht" below.

(3)

On December 10, 2009 we announced the closure of the Kangas mill, with the permanent closure expected to take place no later than the end of March 2010.

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 330,000 tonnes and a pulp production capacity of approximately 125,000 tonnes per annum. It produces coated woodfree and specialty 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 woodfree 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 woodfree paper with capacity of approximately 250,000 tonnes per annum. The pulp mill's capacity is currently 135,000 tonnes 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 950,000 tonnes of triple-coated woodfree 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 September 2009 has the capacity to produce over 280,000 tonnes per annum of coated woodfree paper and board. 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 woodfree paper and board for graphics applications. PM 6's production complements that of the Gratkorn mill, which produces lower weight coated woodfree 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 PM 5, which has reduced the mill's total capacity by 60,000 tonnes per annum. See "Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources" and "Item 5 Operating and Financial Review and Prospects Mill Closures, Acquisitions, Dispositions, Impairment and Joint Ventures".

Lanaken. The Lanaken, Belgium mill began commercial operations in 1966. It produces coated mechanical paper and lower weight wood-containing coated paper for offset printing. Coated mechanical 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 mechanical 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 woodfree paper for web offset printing. It also produces special coated woodfree 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 woodfree web offset paper. Rotary, or web, offset paper is used for commercial printing and publishing.

Blackburn. On November 12, 2008 we closed the Blackburn mill. The annual capacity of the mill was 120,000 tonnes. See "Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources" and "Item 5 Operating and Financial Review and Prospects Mill Closures, Acquisitions, Dispositions, Impairment and Joint Ventures".

Nash. In May 2006, we closed the Nash mill. In 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.

Kirkniemi. As part of the Acquisition, we acquired the assets comprising the Kirkniemi mill, located 70 kilometers west of Helsinki, Finland. The mill was built in 1966 and has an annual production capacity of approximately 730,000 tonnes of paper and 330,000 tonnes of mechanical pulp. 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 mechanical paper with high brightness, smoothness and improved opacity).

Kangas. As part of the Acquisition, 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 coated mechanical paper after the closure of a paper machine in 2008. The mill produces Galerie Silk, a coated magazine paper with a silk finish. In October 2009, consultations with labor representatives started regarding the potential closure of the mill. On December 10, 2009 we announced the closure of the Kangas mill, with the permanent closure expected to take place by the end of March 2010

Stockstadt. As part of the Acquisition 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 430,000 tonnes of coated woodfree and uncoated woodfree paper and 150,000 tonnes of hardwood pulp. Its products are EuroArt Plus (coated woodfree paper), Tauro (uncoated woodfree paper) and hardwood pulp.

Biberist. As part of the Acquisition we acquired the shares of M-real Biberist GmbH, which holds Biberist mill, located in Biberist, Switzerland. The mill was established in 1862 and has an annual production capacity of approximately 500,000 tonnes. The mill produces coated woodfree 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 Cento (uncoated woodfree multi-purpose printing paper), Allegro (coated woodfree paper) and Furioso (coated woodfree paper).

Sappi Fine Paper South Africa

Sappi Fine Paper, through Sappi Fine Paper South Africa, produces and markets a wide range of coated, uncoated and specialty papers as well as crêped tissue and fiberboard in South Africa. Sappi Fine Paper South Africa is headquartered in Johannesburg. In the uncoated woodfree 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 woodfree paper and tissue. A smaller paper mill, Adamas (located in Port Elizabeth) utilizes pulp from our pulp mills and waste paper to produce specialty 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 woodfree paper in South Africa.

For the years ended September 2008 and 2009, Sappi Fine Paper South Africa sold approximately 339,000 tonnes and 305,000 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		
	2009	**2008**	**2007**
Sales: (US$ million)			
Coated woodfree paper	45	67	70
Uncoated woodfree paper	206	229	208
Specialty paper and other	67	84	80
Total	318	380	358

The following table sets forth the annual paper production capacity, number of machines, and products at each of the mills of Sappi Fine Paper South Africa.

Mill	**Production capacity ('000s tonnes) Paper**	**Number of paper machines**	**Products**
Enstra	200	3	Uncoated woodfree paper
Stanger	110	2	Coated woodfree paper, coated label paper and tissue
Adamas	40	2	Prestige stationery, branded printing paper and board, envelope paper and corrugated medium

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 woodfree 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 matt 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.

Adamas. The Adamas mill is a small specialty 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 woodfree and mechanical 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 woodfree and mechanical 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 woodfree and mechanical 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 five 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% and 7%, respectively, of Sappi Fine Paper North America's sales for fiscal 2008 and 2009 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 fiscal 2008 and 2009, the Sappi Fine Paper North America sales force sold coated woodfree paper to approximately 340 and 364 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 specialty papers are sold in North America through a dedicated specialty 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

The sales and marketing operations of Sappi Fine Paper Europe are organized into graphic papers, comprising printing and writing paper, and specialty papers, comprising paper for labeling, packaging and other specialty uses.

The sales and marketing operations of Sappi Fine Paper Europe are responsible for all sales of coated and uncoated woodfree and mechanical papers as well as specialty papers in Europe. An 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 specialty papers business units and the re-engineering of the supply chain.

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 coated 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 coated 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 woodfree paper at Husum mill and has an annual production capacity of 285,000 tonnes of Galerie Fine paper, a coated woodfree 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.

Sappi Fine Paper South Africa

Sappi Fine Paper South Africa has a marketing and sales and technical support team based in three 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 2009 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 2009 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: Igepa Group, PaperlinX, Papyrus, Antalis (owned by Sequana Capital), Inapa, Berberich and Lozano.

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

Two of these merchants, PaperlinX and IGEPA, represented individually approximately 9% of our total sales during fiscal 2009.

Sappi Fine Paper's converter customers include both multinational and regional converters. The most significant converter customers, based on sales during fiscal 2009 include: Amcor Flexibles, Novelis, Alcan, VAW Flexible Packaging, Avery, Mactac, American Packaging, Oracal 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 2009.

Merchant sales constitute the majority of our woodfree and mechanical paper sales. Pricing of coated 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 specialty paper market puts greater emphasis on product innovation and quality as well as technical considerations.

In Western Europe and North America, annual industry production capacity closures of more than 800,000 tonnes of coated woodfree paper and 500,000 tonnes of coated mechanical paper have been implemented between 2005 and 2007, with further annual production capacity closures of approximately 2,000,000 tonnes of coated woodfree paper and approximately 1,645,000 tonnes of coated mechanical paper having occurred by the end of April 2009.

North America

The major domestic coated woodfree paper producers which compete with Sappi Fine Paper in North America are NewPage (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 18% of United States consumption is supplied by foreign producers, primarily Asian and European.

Europe

The market leaders in coated woodfree 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 woodfree paper sector. Coated woodfree paper imports, primarily from Europe and Asia, have gained an increased share of the southern African woodfree 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 527,000 hectares of forestland, of which, approximately 380,000 hectares is planted with primarily pine and eucalyptus. Approximately 70% 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.

The following chart sets forth certain information with respect to the mills and principal products of Sappi Forest Products as of September 2009.

(1) In October 2009 Sappi announced the mothballing of a 60,000 ton containerboard machine at Tugela mill and of parts of the Ngodwana pulp mill which will result in a small net reduction in their pulp output.

(2) In October 2009 Sappi announced the intended closure of Usutu Pulp mill in January 2010.

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

	Year ended September		
	2009	**2008**	**2007**
Sales (US$ million):			
Commodity paper products[(1)]	352	474	429
Chemical cellulose	383	461	432
Paper pulp[(2)(3)]	80	93	118
Timber and timber products	46	71	69
Total	**861**	**1,099**	**1,048**

(1) Includes newsprint and packaging products.

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

(3) On October 30, 2009, Sappi announced the intended closure of the Usutu Pulp mill, with a possible closure date in January 2010.

For the years ended September 2008 and 2009, Sappi Forest Products sold approximately 2,413,000 tonnes and 2,166,000 tonnes, respectively, of paper, pulp and forest products.

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	800
Paper pulp[(1)(3)]	1,050
Total	**1,850**
Timber products	43[(2)]

(1) Excludes production capacity related to paper pulp produced by Sappi Fine Paper facilities.

(2) Represents 85,000 cubic meters.

(3)

On October 30, 2009, Sappi announced the intended closure of the Usutu Pulp mill, with a possible closure date in January 2010. This will result in a capacity reduction of 190,000 tonnes of paper 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 2009 were approximately US$ 608 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 US$ 547 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 calendar 2008, the project has been subject to delays and cost increases.

The increased capacity came on-line in September 2008 and became fully operational in April 2009. As a result of the rapid decline in demand for chemical cellulose experienced since November 2008, we did not utilize all of the additional capacity initially and curtailed production in certain elements of the old plant while utilizing the new plant to improve efficiencies. Demand came back strongly in the latter half of the fiscal year, and the plant was operating at close to full capacity by the end of September 2009.

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.

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 2008 and fiscal 2009, Sappi Kraft supplied approximately 59% and 48%, 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, and products at each of Sappi Kraft's mills in South Africa.

Mill Locations in South Africa	Production capacity ('000s tonnes) Paper	Number of paper machines	Products
Ngodwana	380	2	Newsprint, kraft linerboard, white top linerboard, plasterboard and bleached and unbleached market pulp
Tugela	390	4	Kraft linerboard, corrugating medium, sackkraft and machine glazed kraft
Cape Kraft	60	1	Linerboard, corrugating medium and coated products

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 mechanical 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. In October 2009 Sappi announced the mothballing of parts of the Ngodwana pulp mill which will result in a small net reduction in its pulp output.

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 sack kraft, 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. In October 2009 Sappi announced the mothballing of a 60,000 ton containerboard machine at Tugela mill.

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.

Usutu Pulp. Usutu Pulp began production in 1961 and has been managed by us since 1989. 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 and 40% of the plantations. The volume of trees lost by Usutu reduced the value of the mill, which was therefore impaired. An impairment loss of US$ 37 million was recognized in fiscal 2008.

On October 30, 2009 Sappi announced that, due to the cumulative severe impact of fire damage to the Usutu forestlands over the past few years as well as the adverse market conditions, it has become apparent that the Usutu Pulp mill was no longer sustainable, and that it was possible that the Usutu Pulp mill could be closed in January 2010. With the closure of the mill Sappi would also exit the unbleached kraft pulp market.

Sappi Kraft also manages Sappi Waste Paper. Sappi Waste Paper collected approximately 185,000 tonnes of waste paper in fiscal 2009 and approximately 201,000 tonnes during fiscal 2008. 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 5.2 million tonnes per annum. 92% of the pulpwood comes from owned or contracted sources. Together they directly or indirectly manage or control, about 527,000 hectares of land situated in: Mpumalanga (46%), KwaZulu-Natal (42%) and Swaziland (12%).

	Hectares
Owned by us in South Africa	371,000
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)	80,000
Leased by us in Swaziland	66,000
Total	**527,000**

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$ 153 million in maintaining, acquiring and expanding plantations and other capital expenditure projects in the period from October 2006 to September 2009.

The sawmill division operates one mill with a total production capacity of 85,000 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

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.

The most significant printing customers, based on sales in fiscal 2008 and fiscal 2009, include: The CTP Group and Media 24, which uses Sappi Forest Products' newsprint; while the most significant converter customers, based on sales in fiscal 2008 and fiscal 2009, 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 53% of the total sales of Sappi Forest Products during fiscal 2009 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 120,000 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, Bahia Pulp, 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.

Sappi Fine Paper North America manufactures, in aggregate, pulp and fiber equivalent to approximately 117% 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 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 the 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 expires in May, 2010. 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 of generated power is equal to the average price of our monthly purchases of power. The agreements expire in 2012.

The Westbrook mill sells excess electricity it co-generates.

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.

Alternative Fuel Credits Black Liquor

The U.S. Internal Revenue Code provides a tax credit to taxpayers for the use of alternative fuel mixtures. In order to benefit from this tax provision, in 2009 we began to use an alternative fuel mixture containing diesel fuel and "black liquor," a byproduct of pulp production at our Somerset and Cloquet mills. The credit, equal to 50 US cents per gallon of alternative fuel contained in the mixture, is refundable to the taxpayer. During the second calendar quarter of 2009, we were approved by the IRS as an alternative fuel producer. During the fiscal year, the Company has filed claims for alternative fuel mixture credits covering eligible periods subsequent to February 2009 totaling US$ 87 million, net of fees and expenses and has received US$ 65 million in cash. We will continue to gather information to file for refunds for eligible periods subsequent to our fiscal year end. The tax credit related to this type of fuel mixture will likely expire on December 31, 2009. However, legislators have introduced various proposals which, if enacted, could repeal or otherwise reduce the benefit of this tax credit for pulp and paper companies, which legislation could be in effect at any time prior to December 31, 2009.

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 specialty 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

Historically Sappi Fine Paper Europe purchased approximately 2,500,000 cubic meters of pulpwood per annum for its pulp mills. Including the Acquired Business, we expect Sappi Fine Paper Europe to purchase approximately 3,650,000 cubic meters of pulpwood per annum. 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 logwood 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.

Under a wood supply agreement, M-real Corporation's parent company (Metsaliitto Group) 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.

Pulp

Sappi Fine Paper Europe produces approximately 44% of its pulp requirements. The remainder is mostly supplied through open market purchases. 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.

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 electricity, natural gas, oil, coal and biomass 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 joint venture agreement expires on December 31, 2009, and negotiations are in progress to purchase Essent's interest in the joint venture. Options are also available to continue with the current agreement with modified pricing mechanisms.

The Nijmegen mill's electricity requirements are largely satisfied by its co-generation power plant. The Nijmegen mill purchases natural gas from a major European gas 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 an Austrian power company.

About half of the electricity and steam requirements of the Biberist mill is satisfied by a medium size on site CHP owned and operated through a co-operation of Swiss utility companies and Sappi. The balance of their power requirements are purchased externally.

Substantially all of the steam requirements of the Kangas mill are satisfied by a long-term steam supply agreement with Jyvaskyla Energia, a local utility company, at competitive conditions and with high flexibility in terms of early termination of contract.

To a great extent the electricity and steam requirements of the Kirkniemi mill are covered under a long-term supply agreement and are based upon an on-site installation of a 100 MW CHP owned by Fortum Heat & Power a large Finnish utility company. The large amount of natural gas for the operation of the CHP and for the process is delivered by Gasum, the national gas supplier. The balance of the power requirements is delivered from the public grid by Fortum. Biomass and natural gas are purchased for the generation of addition steam demand.

Stockstadt generates about 50% of their power needs from renewable resources and the remainder is purchased from a German power company. The steam requirements are met by the usage of biomass and mineral coal as fuels.

Chemicals

Major chemicals used by Sappi Fine Paper Europe include clays, carbonates, latexes, starches and chemicals for the specialty 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.

Southern Africa

Wood

Sappi Forest Products manages directly or indirectly approximately 527,000 hectares of forestland in southern Africa, of which approximately 380,000 hectares are forested, which produces approximately 70% of the timber required for its operations. Sappi Forests owns approximately 371,000 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 80,000 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.

A feasibility study for the establishment of plantations in Mozambique is at an advanced stage.

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. During the course of 2009, we have commissioned a new turbine electricity generating set at our Saiccor mill. Once this is in full production, we anticipate generating in excess of 50% of our total electricity requirements. This electricity is generated from bio-fuel and represents an increase of 30% in internal generation capacity. Coal, both for steam raising and gas production, and oil are purchased on contract.

There is a risk of substantial tariff increases for electricity in South Africa in coming years. In fiscal 2009 electricity purchased from Eskom amounted to approximately 5% of the variable costs in the southern African operations.

Chemicals

Major chemicals used by Sappi Forest Products and Sappi Fine Paper South Africa include caustic soda, calcium carbonates, latexes, 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 and foreign currency 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 ("CO_2") 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. On June 29, 2009, the State of Maine, Department of Inland Fisheries and Wildlife, issued a decision requiring Sappi Fine Paper North America to install a fish passage at the Cumberland mills dam associated with the Westbrook mill, the most downriver dam on the Presumpscot River. A second hearing that began on November 18, 2009 to determine further fishway requirements, including design and operation, has been continued until January, 2010, and a decision is expected during the second quarter of 2010. The installation of a fishway on the Cumberland mills dam will trigger the obligation to install fishways at Sappi Fine Paper North America's dams upstream of the Cumberland mills dam as well, to allow natural fish migration and thus promote the restoration of native species to the river. The total cost of all fishways associated with Sappi's dams along the Presumpscot River is estimated to be in the range of approximately US$ 18 million to US$ 28 million, part of which is expected to be incurred in the near future and part of which will be incurred over a number of years. Because the proceedings regarding fishway design and operation are still pending, we do not know when the construction phase at the Cumberland mills dam will begin, or the precise timing for incurring related costs.

We closely monitor state, regional and Federal GHG initiatives in anticipation of any potential effects on our operations. Although the United States has not ratified the Kyoto Protocol, and has not yet adopted a Federal program for controlling GHG emissions, Congress is considering comprehensive Federal legislation regarding climate change. In addition, the U.S. Environmental Protection Agency has proposed several rules relating to emissions reporting and reductions, and various regional initiatives regarding climate change are in effect or proposed. The nature, scope and timing of such climate change legislation is highly uncertain and, currently, we do not know what effect, if any, such legislation will have on our financial condition and operations.

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 land filling materials in order to reduce contaminated leachate and methane emissions. Prevention, reuse and recycling (material or thermal) are the preferred waste management methods. In Austria, Germany, Switzerland and The Netherlands only inert ash or slag from thermal recycling and incineration processes may be placed in landfills.

- The EU Chemicals Regulation REACH (1907/2006/EC) intended to harmonize existing European and national regulations to provide a better protection of human health and our environment is not directly applicable to pulp and paper. It does however apply to a number of raw materials that we source. We will also register some intermediate substances in our pulp production processes. Registration requirements for intermediates are rather limited so that the registration costs are not expected to be material.

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

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

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 Water and Environment Affairs considered it necessary to strengthen enforcement of legislation by the Environmental Management Inspectors (EMI's) in her department. The EMI's prioritized various sectors of industry and inspected those sectors in the course of the past three 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 September 30, 2009 the draft report had not yet been received. We will be requested to respond within three weeks to the findings in the draft report. We have been notified that the EMI's will inspect the Enstra mill during October 2009. At this time we do not expect major or disruptive legislative action.

The primary South African environmental laws affecting our operations are:

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, 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 National Environmental Management Act: Waste Act was enacted on July 1, 2009. The Waste Act regulates the use, re-use, recycling and disposal of waste. Implementation of the various aspects of the Waste Act is under development. We expect to incur additional costs to comply with the Waste 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. We are involved in drafting the South African position statement for the Copenhagen meeting on Climate Change.

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. In Finland, employment accidents insurance is funded by the employer while occupational health insurance is also funded partly by employees. In Switzerland, employee insurances of non-work accidents, work accidents and occupational diseases are funded by mandatory contributions by the employer. The administrative board of the assigned insurance consists of representatives of government, employers and employees. 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 are audited every two years to evaluate compliance with this legislation. Seven of the eight mills, as well as Sappi Forests, are both OHSAS 18001:2007 and ISO 14001:2004 certified for health and safety management systems and environmental management systems, respectively.

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 2009.

Name	**Trading Name**	**% Held**	**Country of Incorporation**	**Nature of Business**
Southern Africa				
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
America				
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
Europe				
PE Paper Escrow GmbH	PE Paper Escrow	100	Austria	Finance
Sappi Alfeld GmbH	Sappi Fine Paper	100	Germany	Pulp and paper manufacturer

Sappi Austria Produktions-GmbH & 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

Name	Trading Name	% Held	Country of Incorporation	Nature of Business
Sappi Esus Beteiligungsverwaltungs GmbH	Sappi Fine Paper	100	Austria	Holding company
Sappi Europe S.A	Sappi Fine Paper	100	Belgium	European head office
Sappi Finland l Oy	Sappi Fine Paper	100	Finland	Pulp and paper manufacturer
Sappisure Försäkrings AB	Sappisure	100	Sweden	Captive Insurance company
Sappi Gratkorn GmbH	Sappi Fine Paper	100	Austria	Property company
Sappi Holding GmbH	Sappi Holding	100	Austria	Holding company
Sappi International S.A	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 B.V	Sappi Fine Paper	100	The Netherlands	Paper manufacturer
Sappi MagnoStar GmbH	Sappi Fine Paper	100	Austria	Property company
Sappi Nijmegen B.V.	Sappi Fine Paper	100	The 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 Schweiz AG	Sappi Fine Paper	100	Switzerland	Pulp and paper manufacturer
Sappi Stockstadt GmbH	Sappi Fine Paper	100	Germany	Pulp and paper manufacturer
Sappi Trading Pulp AG	Sappi Trading	100	Switzerland	Sales and marketing
Asia				
Jiangxi Chenming Paper Co Ltd	Jiangxi Chenming	34	China	Operating Joint Venture

PROPERTY, PLANT AND EQUIPMENT

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

For a description of the plantations we own or have recently sold, see "Sappi Forest Products" 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)	Secured / Leased
	Sappi Limited		
Johannesburg, South Africa	Sappi Headquarters(2)	15,058 m2	Leased
	Sappi Fine Paper		
Sappi Fine Paper North America			
Boston, Massachusetts	Headquarters(3)	3,245 m2	Leased
Skowhegan, Maine (Somerset mill)	Manufacturing facility: coated paper, softwood and hardwood pulp	1,076 ha	2014 Bond Collateral
Muskegon, Michigan	Manufacturing facility: coated paper and a warehouse	49.8 ha	
Westbrook, Maine	Manufacturing facility: specialty and release paper and research and development facility Storage and shredding facility	123.4 ha	

Location	Use	Approximate Size(1)	Secured / Leased
Cloquet, Minnesota	Manufacturing facility: coated paper and pulp(4)	433.8 ha	2014 Bond Collateral Partly Leased
Allentown, Pennsylvania	Coated paper sheeting facility	12.1 ha	
Dayton, New Jersey	Distribution center(5)	5.7 ha	Leased
South Portland, Maine	Financial and customer service office(2)	4,500 m2	Leased
Sappi Fine Paper Europe			
Brussels, Belgium	Headquarters(6)	0.4 ha	Leased
Gratkorn, Austria	Manufacturing facility: coated paper and pulp(10)	99.9 ha	2014 Bond Collateral Partly Leased
Maastricht, Netherlands	Manufacturing facility: coated paper and research and development facility	12.8 ha	2014 Bond Collateral
Nijmegen, Netherlands	Manufacturing facility: coated paper	10.7 ha	2014 Bond Collateral
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	Partly Leased
Stockstadt, Germany	Manufacturing facility: coated paper, uncoated paper and pulp	60.2 ha	
Biberist, Switzerland	Manufacturing facility: coated paper and uncoated paper	78.7 ha	
Kangas, Finland	Manufacturing facility: coated paper	25.6 ha	
Kirkniemi, Finland	Manufacturing facility: coated paper and pulp	186.9 ha	2014 Bond Collateral
Sappi Fine Paper South Africa			
Enstra, South Africa	Manufacturing facility: uncoated paper and hardwood pulp(8)	582.7 ha	Partly Leased
Stanger, South Africa	Manufacturing facility: coated paper, tissue and bagasse pulp(8)	55.4 ha	Partly Leased
Adamas, South Africa	Manufacturing facility: uncoated paper and recycled packaging paper	7.2 ha	
	Sappi Forest Products		

Johannesburg, South Africa	Headquarters(9)		
Sappi Saiccor			
Umkomaas, South Africa	Manufacturing facility: chemical cellulose(8)	159.4 ha	Partly Leased
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.

(10) Part of the Gratkorn mill is built on land leased from the Gratkorn municipality.

Sappi Plantations

	Hectares
Owned by us in South Africa	371,000
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)	80,000
Leased by us in Swaziland	66,000
Total	527,000

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 2009, 2008 and 2007 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 woodfree 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 woodfree paper acquisitions have been integrated into a single woodfree paper business, which operates under the name Sappi Fine Paper. On December 31, 2008 we acquired the coated paper business of M-real Corporation now integrated in Sappi Fine Paper Europe. 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 our core operating regions of North America, Europe and southern Africa.

Sales by source and destination for fiscal 2009, fiscal 2008 and fiscal 2007 were as follows:

	Sales by Source			Sales by destination		
	2009	2008	2007	2009	2008	2007
			%			
North America	24	28	28	24	29	29
Europe	54	46	45	48	40	39
Southern Africa	22	26	27	13	15	15
Far East and others				15	16	17
Total	**100**	**100**	**100**	**100**	**100**	**100**

Sappi Fine Paper has a total paper production capacity of approximately 6 million tonnes per annum. Our group is one of the global market leaders in the coated paper business with a capacity of approximately 5.3 million tonnes of coated woodfree paper and coated mechanical paper per annum.

On a historical basis our group was approximately 103% integrated for net pulp usage, and after including the Acquired Business our group is approximately 93% 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 44% integrated. The expansion of our Saiccor mill in South Africa increased pulp production by approximately 200,000 tonnes. Approximately 70% 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 25, 2009 we believe beneficial shareholding by region is as follows:

	September		
	2009	**2008**	**2007**
		%	
North America	12	17	21
Europe & elsewhere	13	14	8
Southern Africa	75	69	71
	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 fiscal 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 is not necessarily 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 closing non-performing assets and by pursuing an investment policy that is focused on high-return projects. Some of these recent developments include the following:

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

On December 31, 2008, we acquired the coated woodfree and coated mechanical paper business from M-real Corporation. See "Item 3 Key Information Risk Factors Risks Related to the Acquisition" and " Mill Closures, Acquisitions, Dispositions, Impairment and Joint Venture".

Completion of the Sappi Saiccor expansion project

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 was subject to delays and cost increases. The increased capacity came on-line in September 2008 and became fully operational in April 2009. As a result of the rapid decline in demand for chemical cellulose experienced since November 2008, we did not utilize all of the additional capacity initially and curtailed production in certain elements of the old plant while utilizing the new plant to improve efficiencies. Demand came back strongly in the latter half of the fiscal year, and the plant was operating at close to full capacity by the end of September 2009.

Blackburn and Muskegon 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 the cessation of production from PM 5 at our Maastricht mill, our coated woodfree paper capacity has been reduced by 180,000 tonnes. Profitable products have been moved to other facilities in Europe. In light of significantly lower global demand for coated woodfree paper products, we permanently ceased operations at the Muskegon mill on April 1, 2009, and announced the closure of the Muskegon mill on August 26, 2009. See " Mill Closures, Acquisitions, Dispositions, Impairment and Joint Venture".

Cyclical Nature of the Industry and Movement in Market Prices, Raw Materials and Input Costs

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 woodfree paper, our core product used for many types of publications, is susceptible to the highly cyclical advertising market, a major driver in our business. See " Markets" for a further discussion of the cyclical nature of the pulp and paper industry and movements in market prices. In addition, the purchase prices of many of the raw materials we use generally fluctuate in correlation with global commodity cycles. Other input costs, such as energy and fuel costs, vary depending on various factors, including local and global demand and seasonality. Worldwide economic conditions experienced a significant downturn during fiscal 2009, resulting in significant recessionary pressures and lower business and consumer confidence. As a result we experienced a slowing in demand in all our major markets and downward pressure on pricing in many markets, which has adversely affected our business, results of operations and financial condition.

Production curtailments and suspensions to address challenging market conditions

During fiscal 2009, our business was adversely impacted by difficult global market conditions, resulting in a weak operating result. In light of these challenging market conditions and the continued lack of visibility about future market conditions, each of our operating businesses implemented production curtailments to minimize the impact of weak market conditions.

Sensitivity to Currency Movements

The principal currencies in which our subsidiaries conduct business are the US dollar (US$), euro (€) and South African Rand (ZAR). See " Currency Fluctuations".

Sensitivity to Inflation Rates

Movements in inflation rates in the various regions in which we operate can affect our results. See " Inflation and Interest Rates".

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 woodfree paper, our core product used for many types of publications, is susceptible to the highly cyclical advertising market, a major driver in our business.

Coated Woodfree Paper

Coated woodfree 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 woodfree 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 woodfree paper demand declined rapidly in our major markets during the first 8 months of fiscal 2009 as major economies continued to slow down. Thereafter demand increased in line with normal seasonal trends. Demand however, remains below 2008 levels in both Europe and North America.

Global Coated Woodfree Paper Market Balance

Source: EMGE

The global demand to capacity ratio for coated woodfree paper increased to approximately 95% in fiscal 2007 and fiscal 2008, and subsequently declined to 82% in fiscal 2009. 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 woodfree paper capacity additions between fiscal 2000 and fiscal 2008 in Asia, particularly in China. Announced closures of coated woodfree paper production capacity of approximately 1.7 million tonnes in Europe positively affected the supply / demand balance in Europe during 2009, which balance was also adversely impacted by the economic slowdown.

In total, North American apparent consumption declined by 7.2% in fiscal 2007. Apparent consumption further declined by 9% during fiscal 2008. Demand has declined by a further 25.8% in fiscal 2009 compared to fiscal 2008 largely as a result of the global economic recession. Coated woodfree paper prices in North America decreased during fiscal 2009 compared to fiscal 2008, with a decrease of approximately 4% in the grade that represents the largest end use of coated woodfree paper, Number 3 60lb rolls.

In Europe, demand for coated woodfree paper was down by 16.9% in fiscal 2009 as compared to fiscal 2008. Demand grew by 1.4% in fiscal 2007 and was flat in fiscal 2008. Capacity utilization, including exports, was high in fiscal 2007 and fiscal 2008, but was substantially lower in 2009 despite capacity reductions announced and implemented in 2008 and 2009 as a result of the lower demand. Exports from Europe declined by 33% in fiscal 2009 compared to fiscal 2008 as a result of the global economic recession and the relative strength of the euro versus the US dollar.

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 Woodfree Paper

Source: AF&PA & Cepifine
United States short tons converted to tonnes

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

Benchmark Coated Woodfree Paper Prices for North America and Europe

Source: RISI (Resource Information System Inc).

Prices are list prices. Actual transaction prices could differ.

Coated Woodfree Paper North America

Sappi Fine Paper North America's average price realized in fiscal 2009 decreased by US$ 55 per tonne, to US$ 1,016, as compared to fiscal 2008. These decreases were due to greatly reduced demand levels as a result of the global economic recession. Sappi Fine Paper North America's average price realized increased by US$ 68 per tonne to US$ 1,071 per tonne in fiscal 2008 compared to fiscal 2007 mainly due to a weaker US dollar, decreased supply and a sales and marketing strategy that was more focused on price levels.

In September 2009, Sappi, together with NewPage Corporation, Appleton Coated LLC and the United Steelworkers of America (USW) filed antidumping and countervailing duty petitions covering imports of certain coated papers from the People's Republic of China and Indonesia. Sappi and the other petitioners seek to have the U.S. Department of Commerce ("Commerce") and the U.S. International Trade Commission (the "ITC"), the agencies responsible for investigating unfair trade practices, impose duties to offset Chinese and Indonesian government subsidization and dumping. The paper products covered by the petition include coated paper used in high quality writing, printing and other graphic applications using sheet-fed presses in finished sheet form, with a GE brightness rating of 80 or higher. On November 6, 2009, the ITC made a preliminary determination that imports from China and Indonesia caused injury to United States paper producers. Commerce is expected to issue preliminary determinations in the countervailing duty and antidumping duty cases in February 2010 and March 2010 respectively, although these timeframes can be extended.

Coated Woodfree Paper Europe

Prices in Europe, in the local currency, increased in fiscal 2009 (€ 717 per tonne) compared to fiscal 2008 (€ 709 per tonne), mainly due to capacity closures and consolidation in the market. Prices in Europe, in the local currency, decreased in fiscal 2008 (€ 709 per tonne) compared to fiscal 2007 (€ 722 per tonne), mainly due to competitive import price pressure and changes in product mix. 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 Mechanical Paper Europe

European deliveries of coated magazine paper decreased by 25% in fiscal 2009 compared to fiscal 2008, while average market prices for coated magazine paper in Europe remained flat year on year. In fiscal 2008, deliveries by producers of coated magazine paper increased by approximately 1.5% compared to fiscal 2007. The price development in Europe was favorable for coated magazine paper, increasing by 4.4% compared to fiscal 2007.

Pulp

The average NBSK prices for fiscal 2009, fiscal 2008 and fiscal 2007 were US$ 650, US$ 876 and US$ 764 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 and continued decreasing until March 2009, when demand started to increase along with pulp prices.

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 and Sappi North America are net sellers 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 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. Starting in November 2008 we experienced a rapid decline in demand for chemical cellulose which reversed in March 2009 and by the end of fiscal 2009 the Saiccor mill was operating at close to full capacity. Prices in US dollar steadily increased year on year from fiscal 2006 to fiscal 2008. NBSK prices have declined from US$ 863 per metric tonne at the end of fiscal 2008 to US$ 577 per metric tonne in March 2009, and have subsequently increased to US$ 753 per metric tonne by the end of October 2009.

Significant competitive sources of chemical cellulose supply were recently removed from the industry when Weyerhauser closed its 140,000 tonnes per annum Cosmopolis plant in September 2006 and the RGM mill (180,000 tonnes per annum) in Indonesia (P.T. Toba) converted production from chemical cellulose to paper grade pulp in May 2008. 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) closed 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 to chemical cellulose (180,000 to 200,000 tonnes per annum) 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$. In South Africa, costs incurred are generally denominated in ZAR, as are local sales. Exports from the South African businesses to other regions, which in local currency represented approximately 44% of net sales in fiscal 2009 (fiscal 2008: 43%; fiscal 2007: 47%), are denominated primarily in US$.

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. In North America, the depreciation of the US$ against the euro or Asian currencies has a positive effect on sales volumes and margins, due to high levels of imports of coated woodfree paper in the market, which are adversely affected by such depreciation, and the favorable impact on exports of coated woodfree paper and release paper. 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 2009, fiscal 2008 and fiscal 2007:

	Average rates			Closing rates		
Exchange rates	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
ZAR / US$	9.0135	7.4294	7.1741	7.4112	8.0751	6.8713
US$ / EUR	1.3657	1.5064	1.3336	1.4688	1.4615	1.4272

Exchange Rate Trends

Source: Thomson Reuters
US$ 1 = ZAR, EUR 1 = US$.

The profitability of certain of our South African operations is 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 reporting currency (US$) from local currencies tends to distort comparisons between fiscal periods due to the volatility of currency exchange rates. The euro weakened somewhat against the US$ to an average of US$ 1.37 / euro in fiscal 2009 (from an average of US$ 1.51 / euro in fiscal 2008 and an average of US$ 1.33 / euro in fiscal 2007). The ZAR weakened against the US$ to an average of ZAR 9.01 / US$ in fiscal 2009 (from an average of ZAR 7.43 / US$ in fiscal 2008 and an average of ZAR 7.17 / US$ in fiscal 2007). The impact of these currency movements reduced reported sales in US$ by US$ 547 million for fiscal 2009 compared to fiscal 2008 and increased reported sales by US$ 259 million in fiscal 2008 and US$ 61 million in fiscal 2007. The impact of currency translation effects on our results of operations 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: Nedbank

In the United States and Europe inflation rates were relatively stable until 2008, and accordingly had a lesser impact on our North American and European businesses. In view of the global financial and economic crisis inflation rates declined sharply starting in late calendar 2008 and continued declining in calendar 2009. At the same time short term interest rates declined, as central banks reacted to the sharp decline in economic activity. The table below depicts the fiscal period average United States three month Libor.

United States 3 Month Average Libor

The fiscal period average three-month Euribor interest rate in Europe is depicted below. The low short-term interest rates in the United States and Europe continue to represent a significant interest rate differential when compared to South Africa's 7% repurchase rate as determined by the South African Reserve Bank, and could result in further short-term strengthening of the ZAR.

With regard to interest rate and currency 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 a hedging relationship to swap the fixed rate on one of its US$ public bonds to a euro fixed rate, and to swap the US$ portion of the bonds to euro.

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. As at September 2009 no fixed to floating interest rate swaps were in place.

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 via other comprehensive income. 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 22% of our net sales in fiscal 2009, 26% of our net sales in fiscal 2008 and 27% of our net sales in fiscal 2007. See "Operating Results Overview" 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 contract by 2.2% in calendar 2009 and grow by 2.1% in calendar 2010. South Africa's long-term foreign currency investment ratings have remained constant over the last year at Baa1 from Moody's Investor Services, Inc. and at BBB+ from Standard & Poor's Rating Service (S&P). In October 2009, exchange control regulations were relaxed by increasing the offshore investment allowance for individuals from ZAR 2 million to ZAR 4 million and for businesses from ZAR 50 million to ZAR 500 million per company per annum. From November 2009, the limit on advance payments for committed imports was abolished and the 180 day rule regarding the compulsory conversion of foreign currency held in CFC (customer foreign currency) accounts into the local currency by businesses was abolished. See "Item 10 Additional Information Exchange Controls".

South Africa completed 15 years of democracy in calendar 2009; 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. To date we have been notified of 67 formal land claims against us, of which 30 are in Mpumalanga and 37 are in KwaZulu-Natal. Three 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.

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. 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 56% of our employees that are HIV / AIDS positive participate in our HIV / AIDS management programs, which is an improvement on the prior year's participation rate (50%).

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.

The Forest Sector Charter was gazetted in June 2009 as the "Forest Sector Code". This Charter applies to all enterprises involved with commercial forestry and the first level processing of wood products. Our southern African businesses are signatories to this charter via their membership of both Forestry South Africa (FSA) and the Paper Making Association of South Africa (PAMSA). 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 the private sector (or South African forestry companies) to assist the forestry industry to achieve its BBBEE targets. With effect from calendar 2010, our South African business will be evaluated against the Forest Sector's BBBEE scorecard. Until then, it will continue to be evaluated against the generic BBBEE scorecard published by the Department of Trade and Industry.

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. Our South African businesses' BBBEE scorecard was evaluated in December 2007, and achieved a score of 41 points with an overall BBBEE status of a "level seven contributor" (B rating) and a preferential procurement recognition level of 50%. In July 2009 Empowerdex, an independent BBBEE certification agency, undertook the annual verification of the South African businesses' BBBEE scorecard, and we achieved a score of 54 points and an overall BBBEE status of a "level six contributor" (BB rating) and a preferential procurement recognition level of 60%. As a result, 60% of the value of all purchases from our South African businesses qualify as preferential procurement spend in a customer's BBBEE scorecard. Revised BBBEE targets have been set for 2010 and 2013.

We will consider and are exploring empowerment transactions that may involve the sale of shares in Sappi Limited or subsidiaries to empowerment partners that meet our empowerment criteria. Such transactions could require vendor funding or guarantees or other support to be given by Sappi in respect of third party funding to the empowerment partners and could result in an accounting charge under IFRS.

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 consistent with the government's strategy of promoting forestry as a means of sustainable livelihood in rural areas. 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".

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 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 attributable profit from our Chinese joint venture plus 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.

The key indicators of the Group's operating performance include sales and operating profit. Operating profit represents sales after operating expenses, which are comprised of cost of sales, selling, general and administrative expenses, other operating expenses (income) and share of (profit) loss from associates and joint ventures. As described in more detail in the discussion and analysis which follows, the key components of the Group's operating expenses can be characterized as variable costs (primarily variable manufacturing costs) or fixed costs (the fixed cost components of cost of sales and selling, general and administrative expenses).

Cost of sales is comprised of:

- variable costs, which include raw materials, energy and other direct input costs, including:
  - wood;
  - energy;
  - chemicals;
  - pulp;
  - delivery charges; and
  - other variable costs;
- fixed costs, which include:

employment costs allocated to cost of sales;

depreciation expense allocated to cost of sales; and

maintenance;

fair value adjustment on plantations, representing an accounting fair value adjustment of the timber assets of the Forestry operation of Forest Products, which is mainly impacted by timber selling prices, costs associated with standing timber values, costs of harvesting and delivery, the estimated growth rate or annual volume changes in the plantations and discount rates applied; and

other overheads.

Selling, general and administrative expenses are comprised of:

employment costs not allocated to cost of sales;

- depreciation expense not allocated to cost of sales;
- marketing and selling expenses;
- administrative and general expenses; and

Other operating expenses (income) are comprised of:

- net asset impairment (reversal);
- (profit) loss on sale and write-off of property, plant and equipment;
- restructuring provisions raised (released) and closure costs; and
- alternative fuel tax credits in the United States.

Overview

This overview of the Group's operating results is intended to provide context to the discussion and analysis which follow. General trends are being highlighted here, with a detailed discussion and analysis in separate sections below. The Group's results reflect the Acquired Business from December 31, 2008, the date of the closing of the Acquisition, as further specified in note 34 to our Group Annual Financial Statements for fiscal 2009, included elsewhere in this Annual Report. The Acquired Business contributed sales of US$ 890 million, a net operating profit of US$ 33 million and a net profit of US$ 38 million (including US$ 41 million discount on the early repayment of the M-real vendor loan notes) to the Group for the period from the Acquisition to the end of fiscal 2009.

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

Key figures	**2009**	**2008**	**2007**
	US$ million (except for share amounts)		
Sales	5,369	5,863	5,304
Operating (loss) / profit	(73)	314	383
Basic (loss) / earnings per share (US cents)	(37)	28	56

The factors impacting operating profit and which are discussed in greater detail below, are as follows:

Operating Profit Analysis (US$ million)

Segment contributions to operating profit were as follows:

Operating (Loss) / Profit	2009	2009 vs. 2008	2008	2008 vs. 2007	2007
			(US$ million)		
Fine Paper					
North America	53	(39)	92	70	22
Europe	(67)	(3)	(64)	(152)	88
South Africa	(3)	(9)	6	(3)	9
Total Fine Paper	**(17)**	**(51)**	**34**	**(85)**	**119**
Forest Products	**(52)**	**(325)**	**273**	**9**	**264**
Corporate	**(4)**	**(11)**	**7**	**7**	
Total	**(73)**	**(387)**	**314**	**(69)**	**383**

Comparing fiscal 2009 with fiscal 2008

Operating profit declined from US$ 314 million in fiscal 2008 to a loss of US$ 73 million for fiscal 2009. This significant decline was mainly due to declines in sales volumes and selling prices in the Group's major markets, which were driven by decreased demand for all major products.

Operating profit in fiscal 2009 was adversely affected by a plantation fair value price adjustment (US$ 67 million), restructuring charges (US$ 34 million), and impairment charges (US$ 79 million), which were partly offset by alternative fuel tax credits earned in North America (US$ 87 million). The restructuring charges relate to the closure of the Muskegon mill while the impairment charges represent the impairment of the coated mechanical paper business unit in Europe reflecting weak market conditions. We believe that highlighting these individual items benefits the investor in the further understanding our financial operating performance.

Comparing fiscal 2008 with fiscal 2007

Our operating profit declined from US$ 383 million in fiscal 2007 to US$ 314 million in fiscal 2008. The operating profit in fiscal 2008 was adversely affected by impairment charges (US$ 119 million) and restructuring charges (US$ 41 million), which were partly offset by a favorable plantation fair value price adjustment (US$ 120 million). The impairment and restructuring charges relate to the closure of the Blackburn mill and PM 5 at Maastricht, as well as the impairment of the Usutu mill in southern Africa. We believe that highlighting these individual items benefits the investor in the further understanding our financial operating performance.

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 price fair value: This relates to an accounting fair value adjustment of the timber assets of the Forestry operation of Forest Products. This fair value adjustment is mainly impacted by timber selling prices, cost associated with standing timber values and harvesting and delivery, and discount rates applied. The parameters applied are all market related. The impact was negative US$ 67 million in fiscal 2009, positive US$ 120 million in fiscal 2008 and positive US$ 54 million in fiscal 2007.

Impairment and restructuring charges: In fiscal 2009 operating profit was negatively impacted by the impairment of the coated mechanical paper business unit in Europe (US$ 74 million) and the impairment of the Forest Products Usutu mill (US$ 5 million). The restructuring charges of US$ 34 million relate mostly to the closure of the Muskegon mill in the United States. In fiscal 2008 operating profit was negatively impacted by the restructuring of the Sappi Fine Paper Europe operations with the closure of Blackburn mill (US$ 62 million) and PM 5 at Maastricht (US$ 16 million), and the impairment of the Forest Products Usutu mill (US$ 37 million). In total, the impairment charges in fiscal 2008 were US$ 119 million and restructuring charges were US$ 41 million.

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 Saiccor mill. The cost of these damages was US$ 11 million, US$ 11 million and US$ 17 million in fiscal 2009, fiscal 2008 and fiscal 2007 respectively.

Alternative fuel mixture tax credits: The U.S. Internal Revenue Code provides a tax credit to taxpayers for the use of alternative fuel mixtures. In order to benefit from this tax provision, in 2009 we began to use an alternative fuel mixture containing diesel fuel and "black liquor", a by-product of pulp production, at our Somerset and Cloquet mills. The credit, equal to 50 US cents per gallon of alternative fuel contained in the mixture, is refundable to the taxpayer. During the second calendar quarter of 2009, we were approved by the IRS as an alternative fuel producer. During the fiscal year, the Company has filed claims for alternative fuel mixture credits covering eligible periods subsequent to February 2009 totaling US$ 87million, net of fees and expenses and has received US$ 65 million in cash. The tax credit related to this type of fuel mixture is scheduled to expire on December 31, 2009.

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.

Sales

Group

An analysis of sales movements in fiscal 2008 and 2009 is presented below:

Sales Volume	**2009**	**Change 2009 vs. 2008**	**2008**	**Change 2008 vs. 2007**	**2007**
		Metric Tonnes ('000)			
Fine Paper					
North America	1,274	(279)	1,553	47	1,506
Europe*	2,956	410	2,546	53	2,493
South Africa	305	(34)	339	(11)	350
Total Fine Paper	**4,535**	**97**	**4,438**	**89**	**4,349**
Forest Products					
Pulp & Paper	1,355	(64)	1,419	(65)	1,484
Forestry	817	(177)	994	(36)	1,030
Total Forest Products	**2,172**	**(241)**	**2,413**	**(101)**	**2,514**
Total	**6,707**	**(144)**	**6,851**	**(12)**	**6,863**

Sales Value	2009	Change 2009 vs. 2008	2008	Change 2008 vs. 2007	2007
			(US$ million)		
Fine Paper					
North America	1,295	(369)	1,664	153	1,511
Europe*	2,895	175	2,720	333	2,387
South Africa	318	(62)	380	22	358
Total Fine Paper	**4,508**	**(256)**	**4,764**	**508**	**4,256**
Forest Products					
Pulp & Paper	806	(217)	1,023	44	979
Forestry	55	(21)	76	7	69
Total Forest Products	**861**	**(238)**	**1,099**	**51**	**1,048**
Total	**5,369**	**(494)**	**5,863**	**559**	**5,304**

* Includes 9 months contribution of the Acquired Business.

The main factors impacting sales are volume, price, product mix and currency exchange rate changes. 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 dollars during the periods of high volatility significantly impacts reported results from one period to the next. Movements in exchange rates impacted sales negatively by US$ 547 million in fiscal 2009 and positively in fiscal 2008 by US$ 259 million. An analysis of the drivers of sales movements is presented below:

Sales Variance Analysis	2009 vs. 2008	2008 vs. 2007
	(US$ million)	
Exchange rate effect	(547)	259
Volume change effect	(123)	(9)
Price and product mix effect	176	309
Total	**(494)**	**559**

Comparing fiscal 2009 with fiscal 2008

The decrease of 8% in sales from US$ 5,863 million in fiscal 2008 to US$ 5,369 million in fiscal 2009 was the result of the large negative currency translation effect on translation of the sales of our European and South African businesses into US dollars and a decline in sales volume, offset to some extent by a relatively higher priced product mix for the group after the Acquisition.

The average exchange rate of the US dollar was stronger versus the euro in 2009 than in 2008 (euro / USD 1.37 compared to euro/USD 1.51 in 2008). This difference in translating the sales of our European business had a US$ 298 million negative impact on the group's sales in US dollars. The stronger US dollar versus the South African Rand (ZAR / USD 9.01 in 2009 compared to ZAR / USD 7.43 in 2008) had the effect of reducing the Sales of the South African divisions in US dollars compared to fiscal 2008 by US$ 249 million.

Average selling prices realized by the Group in fiscal 2009 were 6% lower in US dollar terms than the average selling prices realized in fiscal 2008, mainly as a result of a sharp decline in pulp prices. The average NBSK price in fiscal 2009 decreased by 26% relative to the prior year. Selling prices for paper products in local currency terms were lower than fiscal 2008 for some of our major product groups as discussed in "Item 5 Business Overview Markets" and further on in this section where we discuss our sales by region.

In fiscal 2009, sales volume for the Group declined by approximately 16% (excluding the sales volume of the Acquired Business of approximately 926,000 tonnes) compared to fiscal 2008, as a result of a decline in demand for coated paper and pulp in the Group's major markets. Actual sales volumes, including the Acquired Business, were approximately 98% of volumes for fiscal 2008.

Comparing fiscal 2008 with fiscal 2007

Sales for fiscal 2008 were US$ 5,863 million, an increase of 11% from fiscal 2007. This increase was driven by increased selling prices in our North American and southern African businesses and a large positive currency translation impact.

Average selling prices realized by the Group in fiscal 2008 were 11% higher in US dollar terms than the average selling prices realized in fiscal 2007, mainly as a result of an increase in pulp prices and US coated paper prices. The average NBSK price increased by 15% in fiscal 2008 compared to fiscal 2007.

In fiscal 2008, sales volume for the Group was approximately at the same level when compared to fiscal 2007.

Sappi Fine Paper North America

Comparing fiscal 2009 with fiscal 2008

Sales volume in fiscal 2009 declined by 18% compared to fiscal 2008 due to a significant weakening in demand for coated paper and pulp. The decline in demand was the result of a severe reduction in economic activity and a resulting decline in demand for advertising (a major driver for coated woodfree paper consumption). Average selling prices decreased from US$ 1,071 / tonne in fiscal 2008 to US$ 1,016 / tonne in fiscal 2009.

Comparing fiscal 2008 with fiscal 2007

Improving market conditions, particularly the reduction of imports from Asia, 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 from US$ 1,003 per tonne in fiscal 2007.

Sappi Fine Paper Europe

Comparing fiscal 2009 with fiscal 2008

Market conditions were exceptionally weak during fiscal 2009 compared to the fiscal 2008 year. In fiscal 2009, sales volumes, including the Acquired Business, were approximately 116% of the sales volume for fiscal 2008. Volumes excluding the Acquired Business declined by approximately 20% compared to the 2008 fiscal year, as a result of a decline in demand for coated paper in the region's major markets.

Average selling prices realized in US dollar terms in fiscal 2009 were US$ 979 per tonne compared to US$ 1,068 per tonne for fiscal 2008. This reduction in US dollar price realization was due to the strengthening of the US dollar against the euro from an average of US$1.51 / euro for fiscal 2008 to US$1.37 / euro for fiscal 2009. Average realized prices in euro terms increased from € 709 per tonne in 2008 to € 717 per tonne in fiscal 2009.

Comparing fiscal 2008 with fiscal 2007

Demand for coated paper products was at a similar level during fiscal 2008 compared to the fiscal 2007 year, although market conditions did start worsening towards the end of the fiscal year, in line with worsening economic conditions. In fiscal 2008, sales volume improved by approximately 2% compared to fiscal 2007.

Average selling prices realized in US dollar terms for fiscal 2008 were US$ 1,068 per tonne compared to US$ 957 per tonne for fiscal 2007. This increase in US dollar price realization was due to the weakening of the US dollar against the euro from an average of US$1.33 / euro for fiscal 2007 to US$1.51 / euro for fiscal 2008. Average realized prices in euro terms decreased from € 718 per tonne in fiscal 2007 to € 709 per tonne in fiscal 2008. Coated selling prices in Europe have been under pressure since fiscal 2005 due to strong competition for market share, excess production capacity in the market and the weakening of the US$ against the euro. The US$ on average weakened to US$ 1.51 / euro in fiscal 2008 from US$ 1.33 / euro in fiscal 2007. Restructuring and industry consolidation actions during 2008 in Europe contributed to addressing the capacity imbalance which is adversely impacting the pricing power of the industry.

Sappi Fine Paper South Africa

Comparing fiscal 2009 with fiscal 2008

Sales decreased in US dollar terms by 16% in fiscal 2009 compared to fiscal 2008 mainly due to the weakening of the Rand against the US dollar from an average of ZAR7.43 / US$ in fiscal 2008 to ZAR9.01 / US$ in fiscal 2009. Sales in local currency terms increased by 2%, despite a 10% decline in sales volume. Average selling prices increased by 13% in ZAR terms compared to fiscal 2008. Selling prices were under pressure towards the end of the year due to increased import competition as the Rand started strengthening against the US dollar.

Comparing fiscal 2008 with fiscal 2007

Sales increased in US dollar terms by 6% in fiscal 2008 compared to fiscal 2007 mainly due to increased average selling prices of 13% in ZAR terms and 10% in US dollar terms compared to fiscal 2008, despite a 3% decline in sales volume. Sales in fiscal 2008 in local currency terms increased by 2% compared to fiscal 2007.

Forest Products

Comparing fiscal 2009 with fiscal 2008

Sales, in US dollar terms, from our pulp and paper products division declined by 21% in fiscal 2009 compared to fiscal 2008 due to a 5% reduction in sales volume and a significant reduction in chemical cellulose export selling prices which are labeled in US dollars. We experienced a strong decline in demand for chemical cellulose products as market conditions were significantly worse than during fiscal 2008, due to the global economic slow down. A major determinant of sales and sales pricing in the Forest Products businesses is the NBSK market price. The average NBSK price declined by 26% from US$ 876 per metric tonne for fiscal 2008 to an average of US$ 650 per metric tonne for fiscal 2009.

Local sales benefited from the weaker Rand to the US dollar during the first half of fiscal 2009, which reduced import substitution and improved local pricing. The Rand strengthened against the US dollar towards the end of the year, increasing competition from imports and placing pressure on local product prices.

Timber volumes at Forest Products declined as the business reduced external sales in order to supply the increased timber requirement of the Saiccor mill after the expansion.

Comparing fiscal 2008 with fiscal 2007

Sales from our pulp and paper products division increased by 5% in US dollar terms and 8% in Rand terms in fiscal 2008 compared to fiscal 2007 despite a 4% reduction in sales volume. This increase was due to increased selling prices for all our major products, particularly our chemical cellulose. A major determinant of sales and sales pricing in the Forest Products businesses is the NBSK market price. The average NBSK price increased by 15% from US$ 764 per metric tonne for fiscal 2007 to an average of US$ 876 per metric tonne for fiscal 2008.

Timber volumes at Forest Products declined as the business reduced external sales in order to build timber inventories in anticipation of a larger timber supply required by the Saiccor mill after its capacity expansion.

Operating expenses

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

Operating Costs	2009	Change 2009 vs. 2008	2008	Change 2008 vs. 2007	2007	US$ / Tonne
			(US$ million)			
Variable Costs						
Delivery	454	(55)	509	56	453	66
Manufacturing	2,868	(205)	3,073	388	2,685	391
Total Variable Costs	**3,322**	**(260)**	**3,582**	**444**	**3,138**	**457**
Fixed Costs	1,970	51	1,919	111	1,808	263
Price Fair value plantation	67	187	(120)	(66)	(54)	(8)
Impairment	79	(40)	119	117	2	
Restructuring	34	(7)	41	48	(7)	(1)
Fuel tax credit	(87)	(87)				
Profit on sale of Nash				26	(26)	(4)
Fire, flood, storm and related events	11		11	(6)	17	2
Sundry income / (loss)	7	13	(6)	(29)	23	3
Other	39	36	3	(17)	20	3
Total	**5,442**	**(107)**	**5,549**	**628**	**4,921**	**716**

See "Operating Results Overview" for the line items plantation fair value pricing adjustment, impairment, alternative fuel tax credit, 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.

	2009			2008			2007	
Variable Manufacturing Costs	**Costs**	**US$ / Tonne**	**Change 2009 vs. 2008**	**Costs**	**US$ / Tonne**	**Change 2008 vs. 2007**	**Costs**	**US$ / Tonne**
				(US$ million)				
Wood	663	99	(59)	722	105	87	635	93
Energy	584	87	26	558	81	120	438	64
Pulp[(1)]	543	81	(159)	702	102	79	623	91
Chemicals	868	129	(67)	935	136	259	676	98
Other	210	31	54	156	23	(157)	313	45
Total	**2,868**	**428**	**(205)**	**3,073**	**449**	**388**	**2,685**	**391**

(1) Pulp includes only bought-in fully bleached hardwood and softwood.

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 our European and South African businesses into US dollars, 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 raw material usage, "price" refers to changes in input costs and "exchange rate" relates to the impact of the movement in exchange rates on the translation from local currency to US dollars for reporting purposes at Sappi Fine Paper Europe and the South African operations. The major contributors to variable cost movements at a Group level have been the impact of the exchange rates on translation of the European and the South African operations into the US dollar presentation currency and actual input cost escalations. See "Principal Factors Impacting on the Group Results" and "Currency Fluctuations" for a discussion of exchange rate movements. Cost increases are being driven by international commodity price increases.

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

	2009			2008			2007	
Regional Variable Manufacturing Costs(1)	**Costs**	**US$ / Tonne**	**Change 2009 vs. 2008**	**Costs**	**US$ / Tonne**	**Change 2008 vs. 2007**	**Costs**	**US$ / Tonne**
				(US$ million)				
Sappi Fine Paper North America	707	543	(218)	925	578	56	869	544
Sappi Fine Paper Europe	1,601	542	(7)	1,608	630	238	1,370	550
Sappi Fine Paper South Africa	208	675	(21)	229	670	19	210	592
Forest Products	490	197	(52)	542	192	80	462	159

(1) Note: Regional variable manufacturing costs are pre-consolidation adjustments

Cost management is a major focus area for the Sappi group. The company has 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 re-engineering 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.

Sappi Fine Paper North America

Comparing fiscal 2009 with fiscal 2008

Total variable manufacturing costs decreased by approximately 24% due to the significant amount of curtailment of output during fiscal 2009 to align with reduced demand (including the suspension and closure of operations of the Muskegon mill), and due to reduced variable manufacturing costs per tonne. Variable manufacturing costs per tonne decreased by 6% in fiscal 2009 compared to fiscal 2008 largely due to decreases in the costs of purchased pulp and energy, partially offset by increases in the costs of wood and chemicals.

Comparing fiscal 2008 with fiscal 2007

Variable manufacturing costs per tonne increased by 6% in fiscal 2008 compared to fiscal 2007 due to increases in international commodity prices, in particular crude oil.

Sappi Fine Paper Europe

Comparing fiscal 2009 with fiscal 2008

During the period under review the region undertook cost reduction projects which contributed to cost reductions through process as well as product reengineering initiatives. A large part of the target synergies from the Acquisition consist of variable cost reduction initiatives. Variable costs per tonne declined by 5%, in euro terms, during fiscal 2009 compared to fiscal 2008, due to a reduction in global commodity prices, in particular market pulp, and realization of cost synergies from the Acquisition.

Comparing fiscal 2008 with fiscal 2007

Sappi Fine Paper Europe experienced significant cost pressure due to increases in international commodity prices during fiscal 2008. Increases in wood costs were driven by specific supply and demand issues as well as increased demand for alternative renewable fuels in Europe. Increases in international crude oil prices drove increases in energy costs. During fiscal 2008 the region undertook cost reduction projects which contributed to cost reductions through process as well as product re-engineering initiatives. Rising market pulp prices added to the cost pressure experienced during fiscal 2008. The region was protected to some extent by the relative strength of the euro against the US$ for US$ based inputs, such as pulp and certain chemicals, but this factor did not totally offset input cost increases.

Sappi Fine Paper South Africa

Comparing fiscal 2009 with fiscal 2008

Input costs per tonne in Rand terms increased by 20% compared to fiscal 2008 due to increases in energy costs, production problems at our Enstra mill, chemicals input costs and the fact that we had to buy in pulp at our Stanger mill due to the shortage of bagasse during the year (bagasse is waste from the sugar industry and forms the base of the feedstock for our own pulp production at Stanger).

Comparing fiscal 2008 with fiscal 2007

In Rand terms the region's variable manufacturing costs per tonne increased by 17% in fiscal 2008 compared to fiscal 2007. Price increases were experienced in energy, bought-in pulp and chemical input costs, all of which were driven by increases in international commodity prices.

Forest Products

Comparing fiscal 2009 with fiscal 2008

Variable input costs per tonnes in Rand terms increased significantly in fiscal 2009 compared to fiscal 2008. This was due to additional operating costs we incurred as a result of the interrupted ramp up of the Saiccor mill expansion and the decision to take commercial downtime as local demand weakened during the latter part of the year. Average wood costs increased significantly in fiscal 2009 compared to fiscal 2008, due to a wood shortage after severe forest fires in southern Africa that occurred in 2007 and 2008. Energy costs increased sharply due to increased electricity prices in South Africa. Sub-optimal operating conditions included the use of oil to fire the boilers, and additional chemical loads and additional people required for the new Saiccor plant.

Comparing fiscal 2008 with fiscal 2007

Variable input costs per tonne in Rand terms increased by 26% in fiscal 2008 compared to fiscal 2007. This increase was mainly due to increases in wood and chemicals costs. Wood costs increased significantly in fiscal 2008, due to a wood shortage after severe forest fires in South Africa and increased demand from local paper producers. Chemical costs increased sharply based on an increase in global demand, exacerbated by increased imported chemicals Rand pricing due to the weakening of the Rand against the US dollar.

Fixed costs

Group

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

Fixed Costs	2009	Change 2009 vs. 2008	2008	Change 2008 vs. 2007	2007	US$ / Tonne
			(US$ million)			
Personnel	1,046	29	1,017	92	925	135
Maintenance	250	(2)	252	17	235	34
Depreciation	396	22	374		374	54
Other	278	2	276	2	274	40
Total	**1,970**	**51**	**1,919**	**111**	**1,808**	**263**

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

Regional Fixed Costs	2009	Change 2009 vs. 2008	2008	Change 2008 vs. 2007	2007
			(US$ million)		
Sappi Fine Paper North America	475	(68)	543	1	542
Sappi Fine Paper Europe	1,052	189	863	85	778
Sappi Fine Paper South Africa	92	(19)	111	4	107
Forest Products	370	(33)	403	29	374

Sappi Fine Paper North America

Comparing fiscal 2009 with fiscal 2008

The impact of our restructuring actions and focus on a reduction of overheads is reflected in the reduction of US$ 68 million in fixed costs compared to fiscal 2008. In addition to permanent selling, general and administrative restructuring actions during fiscal 2009, we curtailed paper production due to weak demand and ceased operations at our Muskegon mill.

Comparing fiscal 2008 with fiscal 2007

Fixed costs were kept at the same level from fiscal 2007 through restructuring and cost reduction processes.

Sappi Fine Paper Europe

Comparing fiscal 2009 with fiscal 2008

In fiscal 2009, cost saving initiatives remained a key focus area of the region. Fixed costs in fiscal 2009 increased by € 198 million compared to fiscal 2008, due to the integration of the Acquired Business into our European business in the second quarter of 2009. Fixed costs excluding the Acquired Business was at a similar level in fiscal 2009 compared to fiscal 2008. The movement in fixed costs in US dollar terms, shown in the table above, in fiscal 2009 as compared to fiscal 2008, includes the impact of the strengthening of the US dollar against the euro.

Comparing fiscal 2008 with fiscal 2007

Projects aimed at reducing costs and improving efficiencies were a major management focus during fiscal 2008. In euro terms fixed costs declined from € 583 million in fiscal 2007 to € 573 million in fiscal 2008. The increase in fixed costs in US$ terms in fiscal 2008 is attributable to the impact of the weakening of the US$ against the euro on the translation into the US$ presentation currency.

Sappi Fine Paper South Africa

Comparing fiscal 2009 with fiscal 2008

Personnel cost is the largest component of fixed costs and remains under pressure in South Africa due to a high inflation environment and the impact of a skills shortage on labor rates, particularly in skilled technical functions. As in the case of the other regions, the South African businesses place great emphasis on management of fixed costs. In Rand terms fixed costs were 1% above the level of fiscal 2008.

Comparing fiscal 2008 with fiscal 2007

Fixed costs increased, in Rand terms, by 7% from ZAR 768 million to ZAR 822 million, in fiscal 2008 compared to fiscal 2007. This increase was mainly due to a 12% increase in personnel costs. Maintenance and services expenses increased by 6% in fiscal 2008 compared to fiscal 2007.

Forest Products

Comparing fiscal 2009 with fiscal 2008

Personnel cost is the largest component of fixed costs and remains under pressure in South Africa due to a high inflation environment and the impact of a skills shortage on labor rates, particularly in skilled technical functions.

Fixed costs increased in fiscal 2009, in Rand terms, by 12% from ZAR 2,991 million to ZAR 3,335 million, compared to fiscal 2008. This increase was mainly due to a 34% increase in depreciation as a result of the commissioning of the Saiccor mill capacity expansion, a significant increase in plantation fire prevention costs and also plantation re-establishment costs.

Comparing fiscal 2008 with fiscal 2007

Fixed costs increased in fiscal 2008, in Rand terms, by 11% from ZAR 2,686 million to ZAR 2,991 million, compared to fiscal 2007. This increase was mainly due to a 14% increase in personnel costs and a 24% increase in agricultural expenses necessary to restore plantations destroyed in severe forest fires during the year.

Net Finance Costs

Annual finance costs may be analyzed as follows:

Finance Costs	2009	2008	2007
	(US$ million)		
Finance costs	198	181	173
Finance revenue	(61)	(38)	(21)
Net Interest paid	137	143	152
Finance costs capitalized		(16)	(14)
Net foreign exchange gains	(17)	(8)	(13)
Net fair value loss on financial instruments	25	7	9
Net finance costs	**145**	**126**	**134**

Net interest paid (finance costs less finance revenue) in fiscal 2009 was US$ 137 million compared to US$ 143 million in 2008. The decrease in net interest paid was a result of higher interest paid on higher average debt during fiscal 2009, offset by finance revenue of US$ 61 million, which included a US$ 41 million gain relating to the discount received when we repaid, prior to maturity, the vendor loan notes related to the Acquisition.

The finance costs capitalized in fiscal 2008 and fiscal 2007 relate to the Saiccor expansion project in South Africa. After the plant was commissioned in the latter part of fiscal 2008, capitalization of finance costs for the project ceased.

The US$ 17 million net foreign exchange gain in fiscal 2009 was due to the timing of the netting process of foreign exchange exposure. 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.

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 fixed rate debt to floating rate and in order to manage the interest and currency exposure on cross-border intercompany loans. During fiscal 2009 certain interest rate swaps were closed early in anticipation of the Refinancing and this resulted in additional swap charges.

Following the Refinancing, our net finance costs have increased significantly and at current interest and exchange rates we expect our net finance costs for fiscal 2010 to increase to approximately US$ 250 million per annum.

Taxation

	2009	2008	2007
	(US$ million)		
(Loss) / profit before taxation	**(218)**	**188**	**249**
Taxation at the average statutory tax rates	(60)	72	68
Net exempt income and non-tax deductible expenditure	(32)	(51)	(34)
Effect on tax rate changes	(3)	(9)	(19)
Deferred tax asset not recognized	72	103	49
Utilization of previously unrecognized tax assets	(22)	(19)	(11)
Secondary Tax on Companies	4	7	8
Prior year adjustments	(4)	(19)	(15)
Other taxes	4	2	1
Taxation charge / (benefit)	**(41)**	**86**	**47**
Effective tax rate	**19%**	**46%**	**19%**

With a loss before taxation of US$ 218 million, the total taxation relief to the income statement of US$ 41 million results in an effective tax rate of 19% for fiscal 2009. The expected relief of US$ 60 million was unfavorably impacted because no tax relief was 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$ 4 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

There was a net loss for fiscal 2009 of US$ 177 million compared to a net profit of US$ 102 million for fiscal 2008. The main reason for this change was the impact on sales volume and selling prices of a significant decline in demand for all major products due to the slowdown in world economies.

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

Earnings Per Share (US cents)

In fiscal 2009 earnings per share was adversely impacted by certain significant items, including asset impairments (US$ 79 million), restructuring provisions (US$ 34 million), plantation fair value price adjustment (US$ 67 million). These adverse items were partly offset by positive impacts from alternative fuel tax credits (US$ 87 million) and a discount on the early repayment of the vendor loan notes related to the Acquisition (US$ 41 million).

Liquidity and Capital Resources

Our principal sources of liquidity are cash generated from operations and availability under our revised credit facilities and other debt arrangements. 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, to service our debt 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. However, at the end of fiscal 2009 we had substantial cash and cash equivalents of US$ 770 million.

One of our liquidity requirements is usually the payment of annual dividends to shareholders. Considering among others the macro economic and global financial market conditions and our performance in fiscal 2009, the board decided not to declare a dividend for fiscal 2009. Following the completion of the Refinancing, our ability to pay dividends to our shareholders is subject to certain restrictive covenants. See "Item 8 Financial Information Dividends".

Cash Flow

In fiscal 2009, we placed an increased emphasis on cash generation and cut our capital expenditure significantly, without compromising our current high levels of maintenance activities. Working capital management became an increasing focus of the Group. The slowdown in the global economy in fiscal 2009 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, reducing our level of working capital in line with the reduced level of trading activity.

Cash Flow Summary	**2009**	**2008**	**2007**
	(US$ million)		
Cash generated by operations(1)	432	623	585
Non-cash items(1)	505	309	201
Movement in working capital	152	1	60
Net finance costs paid	(81)	(126)	(162)
Taxation	(5)	(70)	(27)
Capital expenditure(2)	(176)	(505)	(442)
Acquisition of business	590		
Cash (utilized) / generated(3)	(301)	(139)	24
Financing cash flows	707	49	98

(1) Cash generated by operations is calculated by adding to the profit/(loss) for the period, net finance costs, taxation and various non-cash items as set out in the table below. For further information, see note 23.1 to our Group Annual Financial Statements included elsewhere in this Annual Report.

(2) Capital expenditure includes US$ 1 million of plantation expenditure for fiscal 2009, the remainder of the capital expenditure shown for all three fiscal years, relates to expenditure on property, plant and equipment.

(3) Cash (utilized) / generated is calculated by deducting cash utilized in investing activities from cash retained from operating activities. For further information, see note 23 to our Group Annual Financial Statements included elsewhere in this Annual Report.

Total non-cash items in fiscal 2009 amounted to US$ 505 million, compared to US$ 309 million in fiscal 2008 and US$ 201 million in fiscal 2007, and included:

Non-cash Items	2009	2008	2007
	(US$ million)		
Depreciation	396	374	374
Fellings	69	80	70
Asset Impairments & closures	79	119	2
Plantation fair value price	67	(120)	(54)
Plantation fair value volume	(73)	(70)	(76)
Post employment benefits	(62)	(88)	(101)
Other non-cash items	29	14	(14)
Total	**505**	**309**	**201**

Cash generated by operations

Cash generated by operations was US$ 432 million in fiscal 2009 compared to US$ 623 million in fiscal 2008. The reduction was mainly due to a reduction in profit of US$ 279 million.

During fiscal 2008 we generated cash from operations of US$ 623 million compared to US$ 585 million in fiscal 2007. Improved profit for the year was one of the major contributors to improved cash flows in fiscal 2008.

Working capital

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

Working capital movement	2009	2008	2007
	(US$ million)		
Inventories	792	725	712
% sales	*14.8%*	*12.4%*	*13.4%*
Receivables	858	698	653
% sales	*16.0%*	*11.9%*	*12.3%*
Payables	(1,151)	(1,001)	(970)
% cost of goods sold	*22.9%*	*20.0%*	*21.1%*
Net working capital	**499**	**422**	**395**
Ratio of net working capital to sales	*9.3%*	*7.2%*	*7.4%*

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. 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. As part of our measures to address current challenging market conditions we have intensified our efforts to minimize investment in working capital by setting and monitoring working capital reduction targets on a regular basis.

As part of the Acquisition we acquired € 232 million (US$ 326 million) of additional working capital, which was included in the purchase price. In the three quarters following the acquisition, great efforts were made by our European division to reduce net working capital to be more in line with the lower levels of business following the global economic crises. The US$ 152 million of cash released from working capital in fiscal 2009 relates mainly to working capital reduction in the European business following the

Acquisition. Nevertheless, net working capital as a percentage of sales was higher (9.3%) in fiscal 2009 compared to 7.2% in fiscal 2008.

Capital expenditure

Cash utilized in investing activities for the period from fiscal 2007 to fiscal 2009 is as set out in the table below:

Investing Activities	**2009**	**2008**	**2007**
	(US$ million)		
Capital expenditure	176	505	442
Proceeds on disposals	(2)	(7)	(50)
Investments and loans	(2)	(4)	(28)
Acquisition of businesses	590		
Total	**762**	**494**	**364**

Capital expenditure by region is as follows:

Capital Expenditure by Region	**2009**	**2008**	**2007**
	(US$ million)		
Sappi Fine Paper North America	28	130	42
Sappi Fine Paper Europe	83	91	102
Sappi Fine Paper South Africa	5	9	12
Forest Products	62	274	285
Other	(2)	1	1
Total	**176**	**505**	**442**

Capital expenditure excludes capitalized interest.

Our capital expenditure program varies from year to year, and expenditure in one year is not necessarily indicative of future capital expenditure.

During fiscal 2009, our capital expenditure, including US$ 1 million of plantation land purchases, was US$ 176 million, compared to US$ 505 million during fiscal 2008. As part of our efforts to address the impact of challenging market conditions and since we were not committed to any significant capital expenditures for expansion, we reduced capital expenditures significantly during fiscal 2009.

In fiscal 2007 and fiscal 2008, capital expenditure was higher than in prior years mainly due to the Saiccor mill expansion project (US$ 236 million in fiscal 2008 and US$ 262 million in fiscal 2007). Capital expenditure included in our North American business in 2008 was the acquisition of PM 3, which was previously leased, at Somerset (US$ 75 million in fiscal 2008) and the acquisition of the Westbrook biomass boiler (US$ 10 million in fiscal 2007) in North America.

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 2009, fiscal 2008 and fiscal 2007 amounted to approximately US$ 147 million, US$ 250 million and US$ 116 million, respectively. The capital expenditure program for these periods was funded primarily through internally generated funds.

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

	2009	2008	2007	Rationale
	(US$ million)			
Sappi Fine Paper North America			1	
Sappi Fine Paper Europe	1	12	59	Relates mainly to energy supply project at Gratkorn mill and the upgrade of a paper machine at Ehingen mill.
Sappi Forest Products Saiccor	18	236	262	Relating to the capacity increase project at Saiccor.
Sappi Forest Products Other	10	5	3	Relating mainly to process improvement.
Sappi Fine Paper South Africa		2	1	
Total	**29**	**255**	**326**	

Capital expenditure to expand operations in the fiscal years 2009, 2008 and 2007 primarily consisted of investments to increase the capacity of and improve our Saiccor mill in South Africa. In August 2006, we announced the expansion of the existing capacity at Saiccor mill, where Chemical Cellulose products are produced. The previous production capacity of the mill was approximately 600,000 metric tonnes per annum. The expansion has increased capacity to a maximum of 800,000 tonnes per annum. The increased capacity came on-line in September 2008 and became fully operational in April 2009. The investments at Sappi Fine Paper Europe during fiscal 2008 and fiscal 2007 were for a new energy supply at our Gratkorn mill (fiscal 2007 € 30 million) and the upgrade of the paper machine at Ehingen (fiscal 2007 € 13 million).

We are planning for capital expenditure to be less than US$ 200 million in 2010, in order to conserve cash.

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.

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

Investment in fixed asset versus depreciation

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* Excludes US$ 1 million expenditure relating to plantations.

Cash (utilized) / generated

Cash utilized in fiscal 2009 of US$ 301 million includes US$ 590 million spent on the Acquisition. The cash flow was improved by US$ 65 million which we received relating to our claim for alternative fuel tax credits in our North American business and also an amount of US$ 55 million received when we unwound fixed-to-floating interest rate swaps, which reduced our net finance costs paid.

Financing cash flows

Net financing cash inflows during fiscal 2009 of US$ 707 million were positively impacted by the December 2008 rights offer raising gross proceeds of US$ 575 million and the completed high yield bond offering in July 2009 raising US$ 300 million and € 350 million and are both due in 2014. In addition, we successfully refinanced the outstanding € 400 million OeKB loan and entered into a new Revolver Credit Facility amounting to € 209 million. Total cost related to rights offering and the Refinancing amounted to US$ 31 million and US$ 78 million respectively. See " Financing" for a more detailed discussion on the financing transactions, other cash inflows and cash outflows and the application of the funds received from these transactions.

Gross finance inflows and outflows for fiscal 2007 and fiscal 2008 represent the continuous nature of our various revolving securitization programs, revolving credit facility and other interest bearing borrowings in the respective years.

Financing

General

Debt is a major source of funding for the group.

Gross Debt	2009	2008	2007
	(US$ million)		
Long term interest bearing liabilities	2,726	1,832	1,828
Short term interest bearing liabilities	601	821	771
Bank overdraft	19	26	22
Gross interest bearing liabilities	**3,346**	**2,679**	**2,621**

Cash Position	2009	2008	2007
	(US$ million)		
Cash and cash equivalents	770	274	364
Cash position	**770**	**274**	**364**

Approximately 52% of total assets are funded by gross debt as is shown in the table below:

Total Assets Excluding Cash Equivalents	2009	2008	2007
	(US$ million)		
Gross interest bearing liabilities	3,346	2,679	2,621
Shareholder's equity	1,794	1,605	1,816
Other liabilities	2,157	1,825	1,907
Cash equivalents	(770)	(274)	(364)
Total assets excluding cash equivalents	**6,527**	**5,835**	**5,980**

	%	%	%
Gross interest bearing liabilities	52	46	44
Shareholder's equity	27	28	30
Other liabilities	33	31	32
Cash equivalents	(12)	(5)	(6)
Total assets excluding cash equivalents	**100**	**100**	**100**

The movement in gross debt from the end of fiscal 2007 to the end of fiscal 2009 is explained below:

Gross Debt Movement Analysis	2009	2008	2007
	(US$ million)		
Gross debt beginning of period	**2,679**	**2,621**	**2,337**
Cash utilized / (generated) during period	301	139	(24)
Currency & fair value impact	(130)	9	168
Increase / (decline) in cash equivalents	496	(90)	140
Gross debt end of period	**3,346**	**2,679**	**2,621**

We have increased our focus on managing the level of our debt, although since the end of fiscal 2007, gross debt has increased by US$ 725 million, mainly due to the Saiccor expansion project (approximately US$ 515 million) and the Acquisition (approximately US$ 590 million). In fiscal 2009 the Group generated positive cash flow from operations of US$ 461 million and had a rights issue to shareholders raising ZAR 5.8 billion (approximately US$ 575 million) for the purposes of partially funding the M-real transaction. US$ 48 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.

Debt profile

Our debt is comprised of a variety of funding structures, 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 and finance leases. See note 20 to our 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	**2009**	**2008**	**2007**
		(US$ million)	
Long-term debt	2,726	1,832	1,828
Short-term debt	601	821	771
Bank overdraft	19	26	22
Gross interest bearing liabilities	**3,346**	**2,679**	**2,621**

Short-term debt of US$ 601 million in fiscal 2009 includes an amount of US$ 401 million (fiscal 2008: US$ 360 million and US$ 354 million in fiscal 2007) of securitized receivables funding under various revolving securitization programs.

The average maturity of our debt as at September 2009 is 4.8 years with the profile as shown below:

Debt Maturity Profile (US$ millions)

We believe we follow a prudent approach in regard to liquidity risk. As at the fiscal 2009 year end, short-term debt and overdraft funding was US$ 620 million and cash and cash equivalents were US$ 770 million. US$ 401 million of the short-term debt at the fiscal 2009 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 our Group Annual Financial Statements.

At September 2009 the Group had unutilized uncommitted borrowing facilities of approximately US$ 463 million and available cash and cash equivalents of US$ 770 million. At September 2008 this was approximately US$ 931 million and available cash and cash equivalents of US$ 274 million. The committed facility is the entirely undrawn € 209 million Revolving Credit Facility.

In 2009, our financing activities concentrated on arranging longer term debt to refinance a portion of our existing short-term debt and repurchase the vendor loan notes issued to M-real in connection with the Acquisition. This was achieved by the issuance of US$ 300 million and € 350 million Senior Secured Notes due 2014, the refinancing of a bank syndicated loan of € 400 million and the extension of its maturity from 2010 to 2014, and the refinancing of our existing € 600 million revolving credit facility maturing in 2010 which was replaced by a € 209 million Revolving Credit Facility maturing in 2012. See "Item 10 Additional Information Material Contracts".

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

Debt by currency ratio	2009	2008	2007
USD	48.4%	41.3%	40.0%
EUR	34.1%	40.3%	42.0%
CHF	0.0%	6.3%	7.0%
ZAR	17.5%	12.1%	11.0%

Interest on Borrowings

Raising new debt and refinancing existing debt in fiscal 2009 resulted in substantially higher margins than we were previously paying, mainly because of prevailing market conditions and our credit ratings during that period.

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

At the end of fiscal 2008 approximately US$ 856 million of fixed rate debt was swapped to floating interest rates. In June 2009 these swaps were unwound and the underlying debt now carries the original fixed interest rates. Upon issuing the US$ 300 million Senior Secured Notes due in 2014, they were, in August 2009, swapped into fixed rate euro using a number of interest rate and currency swaps. The ratio of gross debt at fixed and floating interest rates was 85:15.

Summary of Certain Debt Arrangements

Set forth below is a summary of certain key terms of some of our 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 "Item 10 Additional Information Material Contracts", Note 20 to our Group Annual Financial Statements and "Off-Balance Sheet Arrangements".

Revolving Credit Facility. In June 2005, we entered into a revolving credit facility with a group of banks which provided for up to € 600 million of borrowing availability and maturing on May 31, 2010. This facility was replaced on August 27, 2009 with a new revolving credit facility providing for up to € 209 million of borrowing availability in euro, US dollars and certain other currencies (the "Revolving Credit Facility"). The commitments under the Revolving Credit Facility terminate on May 31, 2012 and the annual interest rate on borrowings is calculated based on Libor or Euribor plus a funding margin varying between 3.0% and 6.5% depending on the credit rating assigned to the senior secured debt of Sappi Limited, plus certain costs. Borrowings may be made by certain subsidiaries of Sappi Limited and the Revolving Credit Facility is jointly and severally guaranteed on a senior basis by Sappi Limited, Sappi Papier Holding GmbH ("SPH") and certain other subsidiaries of Sappi Limited, as well as secured by first-priority security interests over certain assets of Sappi Limited, SPH and the other subsidiary guarantors. The collateral consists of certain land, plant and machinery at the Gratkorn, Kirkniemi, Maastricht, Nijmegen, Cloquet and Somerset mills, shares in certain material subsidiaries, certain intercompany loan agreements or receivables under such loan agreements and certain inventory of Sappi Fine Paper North America. The Revolving Credit Facility contains an interest coverage covenant and a leverage covenant, in each case measured at the Sappi Limited consolidated level. For the quarter ended September 2009, the average of the ratio of EBITDA to consolidated net interest expense for that quarter and each of the three preceding quarters cannot be less than 2.00:1; and the ratio of net debt to EBITDA cannot be greater than 6.00:1. The covenants for future quarters have been set at various levels, in line with the long term forecast of Sappi's results. The Revolving Credit Facility contains certain customary negative covenants and restrictions, including (among others) restrictions on dividend distributions, the granting of security, incurrence of indebtedness, the provision of loans and guarantees, a change of business of the group, acquisitions or participations in joint ventures and mergers and disposals. As of September 2009, we were in compliance with these covenants. In addition, in case any person acquires more than 35% of the voting rights of Sappi Limited or in case of a sale of all or substantially all of the assets of the Group, the commitments of the lenders under the Revolving Credit Facility will be cancelled and all outstanding borrowings, together with accrued interest and all other amounts accrued, immediately become due and payable. For further information, see "Item 10 Additional Information Material Contracts", "Item 19 Exhibits", and note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

OeKB Term Loan Facility. On August 27, 2009, Sappi refinanced its existing € 500,106,406 term loan facility with Oesterreichische Kontrollbank Aktiengesellschaft ("OeKB") arranged in May 2003 and previously due in 2010 by entering into a € 400 million term loan facility maturing on April 30, 2014 (the "OeKB Term Loan Facility"). SPH remains the borrower under the OeKB Term Loan Facility. The annual interest rate on borrowings is calculated based on the OeKB financing rate plus a margin varying between 4.00% and 7.50%, depending on the credit rating assigned to the senior secured debt of Sappi Limited, plus certain costs. Initially, the margin was 6.25% per annum and at the date of filing this Annual Report it was 5.5% per annum. The OeKB Term Loan Facility is guaranteed by Sappi Limited and the same subsidiaries that are guarantors (other than SPH) under the Revolving Credit Facility. The obligations under the OeKB Term Loan Facility are secured by substantially the same collateral that secures the obligations under the Revolving Credit Facility and the 2014 Bond. The other material terms of the new OeKB term loan facility, including the financial covenants, the undertakings and the events of default are substantially the same as the terms of the Revolving Credit Facility. For further information, see "Item 10 Additional Information Material Contracts", "Item 19 Exhibits", and note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

2009 Secured Notes. On July 29, 2009, PE Paper Escrow GmbH (the "Issuer"), a special purpose limited liability company wholly owned by SPH, issued € 350 million 11.75% Senior Secured Notes due 2014 and US$ 300 million 12.00% Senior Secured Notes due 2014 (together, the "2014 Bond"). Interest on the 2014 Bond is payable semi-annually, commencing on February 1, 2010, and the 2014 Bond mature on August 1, 2014. The 2014 Bond are jointly and severally guaranteed on a senior basis by Sappi Limited, SPH and certain other subsidiaries of Sappi Limited, and are secured by substantially the same collateral that secures the obligations under the Revolving Credit Facility and the OeKB Term Loan Facility. The indenture governing the 2014 Bond provides for an optional redemption at any time of the 2014 Bond, in whole or in part, at a redemption price varying based on the period during which the redemption occurs. The Issuer has agreed to observe certain covenants with respect to the 2014 Bond including limitations on dividend distributions and other payments, indebtedness, asset sales, liens, guarantees and on mergers and consolidations. In case of a change of control, holders of the 2014 Bond have the right to require the Issuer to repurchase all or any part of their 2014 Bond in cash for a value equal to 101% of the aggregate principal amount of Notes repurchased, plus interest. For further information, see "Item 10 Additional Information Material Contracts", "Item 19 Exhibits", and note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

Domestic Medium Term Note Program. In June 2009, Sappi Manufacturing (Pty) Ltd. ("Sappi Manufacturing") combined its ZAR 3 billion (US$ 437 million) Domestic Medium Term Note Program established in June 2006 (the "Initial Program") with its commercial paper program established in November 2003 ("Initial CP Program"), into a new ZAR 5 billion Domestic Medium Term Note Program (the "DMTN Program") which supersedes and replaces the Initial Program and the Initial CP Program in their entirety without affecting any notes issued under the Initial Program and Initial CP Program. Notes issued under the DMTN Program are not subject to any minimum or maximum maturity. On June 27, 2006, Sappi Manufacturing issued ZAR 1 billion (US$ 146 million) senior unsecured fixed rate notes (the "First Tranche") under its Initial 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 Initial 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. On June 30, 2009, Sappi Manufacturing issued ZAR 325 million (US$ 41 million) and on July 13, 2009, issued ZAR 175 million (US$ 21 million) senior unsecured fixed rate notes (collectively the "Third Tranche") under the DMTN Program at a fixed interest rate of 12.13%, payable semi-annually on June 30 and December 30 of each year, commencing on June 30, 2009. The securities issued under the Third Tranche mature on June 30, 2012. Sappi Manufacturing has agreed to observe certain undertakings with respect to the securities including limitations on encumbrances (other than permitted encumbrances) over its assets. Should a change of control event (more than 50% of the voting rights of Sappi Manufacturing 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) in respect of the change of control occur, then the holders of the securities may, within 30 days after the negative rating event, require the redemption of the notes by way of an extraordinary resolution. For further information, see "Item 10 Additional Information Material Contracts", "Item 19 Exhibits", and note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

2002 Guaranteed Notes. In June 2002, Sappi Papier Holding GmbH (then organized as an AG) issued US$ 500 million 6.75% unsecured guaranteed notes due 2012 and US$ 250 million 7.50% unsecured guaranteed notes due 2032 (together, the "2002 Notes"), guaranteed by Sappi Limited and Sappi International S.A. Interest on the 2002 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. For further information, see "Item 19 Exhibits" and note 20 to our Group Annual Financial Statements included elsewhere in this Annual Report.

Covenants

Financial covenants apply to approximately US$ 1,026 million of our non-South African long-term debt and our unutilized € 209 million Revolving Credit Facility. This debt is supported by among others a Sappi Limited guarantee. For this reason the first two of the three covenants mentioned below are measured on a consolidated group level. The covenants also differ from measurement period to period, as they are set in line with the long term forecast of Group results. 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 2.00 to 1 for all quarters ending from September 2009 to July 2011, 2.25 to 1 for all quarters ending from October 2011 to April 2012 and 2.50 to 1 for the quarters ending July 2012 and September 2012;

(ii) The ratio of net debt to EBITDA be not greater than 6.00 to 1 for the quarters ending September 2009 and December 2009, 5.50 to 1 for the quarter ending March 2010, 5.25 to 1 for the quarter ending June 2010, 5.00 to 1 for all quarters ending from September 2010 to July 2011, 4.50 to 1 for the quarter ending October 2011, 4.25 to 1 for all quarters ending from January 2012 to July 2012 and 4.00 to 1 for the quarter ending September 2012, and

(iii) With regard to Sappi Manufacturing (Pty) Ltd and its subsidiaries only, at the end of any fiscal year, the ratio of net debt to equity must not exceed 0.65:1, and the ratio of EBITDA (before special items) to net interest paid must not be less than 2.00:1.

The table below shows that as at September 2009 we were in compliance with these covenants. With regards to our financial covenants, EBITDA is defined under the relevant agreements.

	Fiscal 2009 (US$ millions)	**Covenants**
Group Covenants		
Net Debt to EBITDA	4.63	<6
EBITDA to Net Interest	3.96	>2.0
Sappi Manufacturing Covenants		
Net Debt to Equity	43.1%	<65%
EBITDA to Net Interest	3.17	>2.0

The Group financial covenants also apply to our securitization programs, included in the US$ 1,026 million amount mentioned above, with outstanding balances of US$ 401 million at the end of September 2009. 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:

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

In May 2009 S&P revised its rating for the group from BB to BB-, while moving the outlook from negative to stable. This change was mainly the result of an industry-wide re-rating of the European Forest Products sector, sustained cost inflation, and an uncertain outlook for paper pricing and demand in the light of an expected softening of economic growth. One of the key requirements of this rating was the successful refinancing of material debt maturities in 2010. This refinancing took place in August 2009 and S&P subsequently confirmed the rating.

In June 2009 Moody's revised their rating from Ba2 to Ba3, with a stable outlook. The main reasons for this revision were the difficult market conditions in the European paper industry, and the slower than expected improvement in the key rating metrics. In September 2009 this rating and outlook were confirmed after the successful refinancing of material 2010 debt maturities.

In March 2009 Fitch revised their Sappi Manufacturing local South African rating from AA- / F1+ / Stable to A+ / F1 / Negative, commenting on the difficult market and trading conditions, the reduced commodity prices affecting the Saiccor business and the resulting reduction in operating margins.

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

Leverage

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