SAPPI LTD
Form 20-F
December 14, 2007

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As filed with the Securities and Exchange Commission on December 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2007

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...............................[ ]

Commission file number 1-14872

SAPPI LIMITED

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Republic of South Africa
(Jurisdiction of incorporation or organization)

48 Ameshoff Street
Braamfontein
Johannesburg 2001
Republic of South Africa
(Telephone: +27-11-407-8111)

(Address and telephone number of principal executive offices)

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

American Depositary Shares, evidenced by
American Depositary Receipts, each representing
1 Ordinary Share

(Title of each class)

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

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

None

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

None

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

239,071,892 Ordinary Shares

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

YES 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 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 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 whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO ý

* 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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PART II

PART III

OUR USE OF TERMS AND CONVENTIONS IN THIS ANNUAL REPORT

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

- references to "Sappi", "Sappi Group", "Group", "we", "us" and "our" are to Sappi Limited together with its subsidiaries;
- 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 "Guilders" and "NLG" are to Dutch Guilders, the former currency of the Netherlands;
- references to "Deutsche marks" and "DEM" are to German Deutsche marks, the former currency of Germany;
- 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 metres and references to "hectares" or "ha" are to a land area of 10,000 square metres or approximately 2.47 acres;
- references to "tonnes" are to metric tonnes (approximately 2,204.6 pounds or 1.1 short tonnes);
- references to "market share" are based upon sales volumes in a specified geographic region during the fiscal year ended September 30, 2007;
- 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; and

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.

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

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

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

ACCOUNTING PERIODS AND PRINCIPLES

Unless otherwise specified, all references in this Annual Report to a "fiscal year" and "year ended" of Sappi Limited refer to a twelve-month financial period. All references in this Annual Report to fiscal 2007, 2006 and fiscal 2005, or the years ended September 2007, 2006 or 2005 refer to Sappi Limited's twelve-month financial periods ended on September 30, 2007, October 1, 2006 and October 2, 2005, respectively; references in this Annual Report to fiscal 2008 refer to the period beginning October 1, 2007 and ending September 28, 2008. Our Group annual financial statements included elsewhere in this Annual Report have been prepared in conformity with IFRS, which differs in certain respects from United States Generally Accepted Accounting Principles ("United States GAAP" or "US GAAP"); see note 35 to our Group annual financial statements included elsewhere in this Annual Report.

CURRENCY OF PRESENTATION AND EXCHANGE RATES

We publish our Group annual financial statements and all financial data presented in this Annual Report in US dollars on a nominal (non-inflation adjusted) basis. For information regarding the conversion to US dollars in fiscals 2007, 2006 and 2005, 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;
- 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; and

- 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.

These factors are fully discussed in this Annual Report. For further discussion on these factors, see "Item 3 Key Information Selected Financial Data", "Item 3 Key Information Risk Factors", "Item 4 Information on the Company", "Item 5 Operating and Financial Review and Prospects Financial Condition and Results of Operations", "Item 10 Additional Information Exchange Controls" and note 31 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 prepare our Group annual financial statements according to International Financial Reporting Standards. There are differences between these principles and those applied in the United States. You can read about the principal differences in note 35 to our Group annual financial statements included elsewhere in this Annual Report.

We implemented IFRS for the first time in fiscal 2006 and restated comparative amounts for fiscal 2005. Our selected financial data is as reported in accordance with IFRS for fiscals 2005 to 2007. Financial data for fiscals 2003 and 2004 cannot be provided in accordance with IFRS without unreasonable effort and expense.

	Year Ended September		
	2007	2006	2005
	(US$ million, except per share data)		
Consolidated Income Statement Data:			
International Financial Reporting Standards:			
Sales[1]	5,304	4,941	5,018
Operating profit (loss)	383	125	(109)
Net profit (loss)	202	(4)	(184)
Basic earnings (loss) per share (US cents)	89	(2)	(81)
Diluted earnings (loss) per share (US cents)	88	(2)	(81)
Dividends per share (US cents)[2]	32	30	30

	Year Ended September				
	2007	2006	2005	2004	2003
	(US$ million, except per share data)				
United States GAAP:					
Sales[1]	5,304	4,941	5,018	4,728	4,299
Operating profit (loss)[3]	288	22	(235)	114	266
Net profit (loss)[3]	149	(116)	(345)	40	142
Basic earnings (loss) per share (US cents)[3]	66	(52)	(154)	18	62
Diluted earnings (loss) per share (US cents)[3]	65	(52)	(154)	18	62
Dividends per share (US cents) [2]	32	30	30	30	29

	Year Ended September		
	2007	2006	2005
	(US$ million)		
Consolidated Balance Sheet Data:			
International Financial Reporting Standards:			
Total assets	6,344	5,517	5,889
Operating assets[4]	5,920	5,219	5,452
Total long-term borrowings	1,828	1,634	1,600
Shareholders' equity	1,816	1,386	1,589

	Year Ended September				
	2007	2006	2005	2004	2003
	(US$ million)				
United States GAAP:					
Total assets	6,009	5,370	5,808	6,419	6,090
Operating assets[4]	5,581	5,066	5,369	5,889	5,465
Total long-term borrowings	1,920	1,734	1,643	1,904	1,869
Capital stock	34	29	35	32	35
Shareholders' equity[3]	1,569	1,356	1,591	1,979	1,908

Other Information:

	Year Ended September		
	2007	2006	2005
	(US$ million, except number of shares data)		
International Financial Reporting Standards:			
EBITDA[5]	758	517	315
Weighted average number of ordinary shares in issue (in million)	227.8	226.2	225.8

	Year Ended September				
	2007	2006	2005	2004	2003
	(US$ million, except number of shares data)				
United States GAAP:					
EBITDA [3] [5]	654	392	160	509	629
Weighted average number of ordinary shares in issue (in million)	227.1	225.3	224.7	225.0	227.6

(1) Sales are defined in note 2 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. For further information on our dividend policy, see "Item 8 Financial Information Dividend Policy".

(3) We adopted SFAS 123R at the beginning of fiscal 2006 year using the modified retrospective method. The 2006 Form 20-F only adjusted the 2006 and 2005 amounts. The 2004 and 2003 fiscal years have now been restated to reflect this adoption. The effect on the US GAAP operating profit was a decrease of US$6 million to US$114 million for the fiscal year of 2004 and a decrease of US$6 million to US$266 million for the fiscal 2003 year. US GAAP net profit reduced by US$5 million to US$41 million in 2004 and by US$6 million to US$142 million in the 2003 fiscal year. The EBITDA for 2004 and 2003 was also reduced by US$6 million and US$6 million respectively. The basic and diluted earnings per share for the 2004 and 2003 fiscal years also changed. There is no impact on the historical US GAAP shareholders equity as the expenses are recognized in the income statement (ultimately equity) with the corresponding credit being recognized in equity. As such, the net equity impact is zero.

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

(5)

In compliance with the U.S. Securities Exchange Commission ("SEC") rules relating to "Conditions for Use of Non-GAAP Financial Measures", we have reconciled EBITDA to net profit rather than operating profit. As a result, our definition retains non-trading profit/loss and minority interest as part of EBITDA. EBITDA represents earnings before interest (net finance costs), taxation, depreciation and amortization. Net finance costs include: gross interest paid; interest received; interest capitalized; net foreign exchange gains; and net fair value adjustments on interest rate financial instruments. See the Group income statement for an explanation of the computation of net finance costs. We use EBITDA as an internal measure of performance to benchmark and compare performance, both between our own operations and as against other companies. EBITDA is a measure used by the Group, together with measures of performance under IFRS and US GAAP, 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 or US GAAP 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 or US GAAP 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 or US GAAP.

The EBITDA calculation was amended at the beginning of the financial year to eliminate the adjustment for fellings which previously resulted in fellings being added back in the calculation as part of amortization. Given the current accounting treatment of plantations, management has concluded that eliminating such an adjustment would be more appropriate in determining the EBITDA performance measure in future both for internal and reporting purposes. Prior year figures have been recalculated for comparison purposes as follows: 2006 decreased by US$74 million; 2005 decreased by US$66 million; 2004 decreased by US$55 million; 2003 decreased by US$21 million.

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

	Year Ended September		
	2007	**2006**	**2005**
	(US$ in million)		
International Financial Reporting Standards:			
Net profit (loss)	**202**	**(4)**	**(184)**
Add back:			
Depreciation and amortization	375	392	424
Net finance costs	134	130	80
Taxation	47	(1)	(5)
EBITDA	**758**	**517**	**315**

	Year Ended September				
	2007	**2006**	**2005**	**2004**	**2003**
	(US$ in million)				
United States GAAP:					
Net profit (loss)	**149**	**(116)**	**(345)**	**40**	**142**
Add back:					
Depreciation and amortization	355	372	404	395	364
Net finance costs	88	106	55	93	90
Taxation	62	30	46	(19)	33
EBITDA	**654**	**392**	**160**	**509**	**629**

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 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. 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.

The majority of our fine paper sales consist of sales to merchants. The pricing of products for merchant sales can generally be changed between 30 to 90 days advance notice to the merchant. Sales to converters may be subject to longer notice periods for price changes. Such notice periods generally would not exceed 6 to 12 months. In southern Africa, we have entered into longer-term fixed-price agreements of between 6 to 12 months duration for primarily packaging paper and newsprint sales with domestic customers. Such agreements accounted for approximately 5% of consolidated sales during fiscal 2007.

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

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

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

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

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

Our operations are subject to a wide range of environmental requirements in the various jurisdictions in which we operate. 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. Expenditures to comply with future environmental laws and regulations could have a material adverse effect on our business and financial condition.

For further information, see "Item 4 Information on the Company Business Overview Environmental and Safety Matters Environmental Matters" and "Item 5 Operating and Financial Review and Prospects Environmental Matters".

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

Although the insurance market has been stable for the last three to four years, it remains cyclical and catastrophic events can change the state of the insurance market, leading to sudden and unexpected increases in premiums and deductibles and unavailability of coverage due to reasons totally unconnected with our business.

Although we have successfully negotiated the renewal of our 2008 insurance cover at rates similar to those of 2007 and self-insured deductibles for any one property damage occurrence have remained at $25 million, with an unchanged aggregate limit of $40 million, we are unable to predict whether past or future events will result in less favorable terms. For property damage and business interruption, there generally does not seem to be cost effective cover available to full value, however the directors believe that the loss limit cover of $1 billion should be adequate for what they have determined as the reasonably foreseeable loss for any single claim.

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

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

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

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

Risks Related to Our Business

Our indebtedness may impair our financial and operating flexibility.

Our level of indebtedness and the terms of our indebtedness could negatively impact our business and liquidity. As of September 2007, our interest bearing debt (long term and short term interest bearing debt plus overdraft) was US$ 2,621 million. While reduction of our indebtedbness 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.

We are subject to South African exchange controls, which partially inhibit the free flow of funds from South Africa and can restrict activities of subsidiaries of the Sappi Group. 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. The level of our debt has important consequences. For example, 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; and our ability to withstand competitive pressure may be more limited.

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

During fiscal 2008, we have approximately US$ 793 million of renewable facilities that mature. We will seek to refinance such indebtedness when it becomes due through the issuance of new debt in the global capital markets. In the third quarter of fiscal 2007, 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 has continued through to the end of the year. In addition, our credit rating issued by Standard & Poors was recently downgraded from BB+ to BB. These adverse developments in the credit markets and in our credit rating may negatively impact 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.

Exchange control restrictions may restrict the transfer of funds directly or indirectly between our subsidiaries or between the parent company and our subsidiaries. We may also incur tax costs in connection with these transfers of funds. As a consequence, the ability of Sappi Limited or any of our subsidiaries to make scheduled payments on its debt will depend on its financial and operating performance, which will depend on various factors beyond our control, such as prevailing economic and competitive conditions. If Sappi Limited or any of our subsidiaries is unable to achieve operating results or otherwise obtain access to funds sufficient to enable it to meet its debt service obligations, it could face substantial liquidity problems. As a result, it 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.

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 $1.18 per euro), it has fluctuated against the US dollar to approximately $1.42, $1.27 and $1.20 per euro at the end of fiscal 2007, 2006 and 2005, respectively. It reached a low of approximately $0.83 per euro on October 25, 2000 and, on December 3, 2007, was trading at approximately $1.46 per euro.

In recent years, the value of the Rand against the US dollar has fluctuated considerably. It has moved against the US dollar to approximately R6.89, R7.77 and R6.37 per US dollar at the end of fiscal 2007, 2006 and 2005, respectively. The Rand reached a low of approximately R13.90 per US dollar on December 21, 2001. Since then, it has appreciated and on December 3, 2007 was trading at approximately R6.85 per US dollar.

For further information, see notes 2, 21 and 31 to our Group annual financial statements included elsewhere in this Annual Report and "Item 5 Operating and Financial Review and Prospects Operating Results Foreign Exchange, Inflation and Interest Rates".

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

We own manufacturing operations in five countries in Europe, four states in the United States, South Africa, 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 5 Operating and Financial Review and Prospects South African Exchange Controls".

While the geographic diversity of our operations may help to mitigate these risks, our Southern African operations have in recent years accounted for a disproportionate percentage of our operating profits. In fiscal 2007, 45% of our sales originated from Europe, 28% from North America and 27% from southern Africa. 40% of our operating assets were located in Europe, 22% in North America and 38% in southern Africa. However in fiscal 2007 23% of our operating profits were from Europe, 6% in North America and 71% in southern Africa.

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. Although the HIV/AIDS infection rate of our southern African workforce is significantly lower than the national average, it is expected to increase over the next decade. While we have several programs designed to mitigate the impact of the disease on our business, the costs and lost worker's 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".

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. Any adverse development affecting our principal customers or our relationships with our principal customers could have an adverse effect on our business and results of operations. See "Item 4 Information on the Company Sappi Fine Paper Marketing and Distribution Customers" and "Item 4 Information on the Company Sappi Forest Products Marketing and Distribution Customers".

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

We are facing an aging demographic work profile among our management due to the mature nature of our industry and the rural and often remote location of our mills, together with generally long tenure of employees at the mills. As a result we are likely to experience groups of employees leaving the company within a relatively short space of time of one another and may have difficulty attracting qualified replacements. The potential risks we face are a loss of institutional memory, skills, experience and management capabilities. Although we have put in place a number of initiatives to mitigate this risk, including implementing programs to promote phased retirement and transfer of knowledge, creating flexibility in career and job design and focusing greater effort on succession planning and talent review and effective skills training and leadership development we may be unable to attract and retain sufficient qualified replacements when and where necessary to avoid an adverse impact on our business.

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 the global commodity cycles. In addition, we have been experiencing increasing costs of a number of raw materials due to global trends beyond our control. The global warming and carbon footprint imperatives are causing the increased use of sustainable, non-fossil fuel, sources for electricity generation. Electricity generation companies are competing for the same raw material, namely wood and wood chips, in the same markets as us, driving prices upwards, especially during winter in the Northern hemisphere. In addition, the price of crude oil is at historically high levels and is likely to remain at such levels for 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 and 2007 fiscal years, a major potential consequence of the increase in the price of input commodities is the Group's potential inability to counter this effect through increased selling prices. This results in reduced operating profit, and has a negative impact on business planning.

While the Group is in the process of implementing steps to reduce the Group's 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, despite our present relatively high level of pulp integration, 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.

Catastrophic events, such as fires, affecting our plantations 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, 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 the eastern South African seaboard. There is some cause for concern that these abnormal weather conditions may be occurring more frequently as a result of the potential impact of climate change. In addition, because the transformation of land ownership and management in southern Africa has been moving ownership and management of plantations to independent growers, we have less ability to directly manage fire risk, as well as risks of other catastrophic events, such as pathogen and pest infestations. As a consequence, the risk of plantation fires or other catastrophic events remains high and may be increasing. Continued or increased losses of our wood source could jeopardize our ability to supply our mills with timber from the region.

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 the ordinary shares of Sappi Limited is 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 2007, 247 million ordinary shares of Sappi Limited were traded on the JSE and 50 million ADSs were traded on the New York Stock Exchange. See "Significant shareholders may be able to influence the affairs of our Company", "Item 7 Major Shareholders and Related Party Transactions Major Shareholders", "Item 9 The Offer and Listing Offer and Listing Details" and "Item 9 The Offer and Listing Markets".

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

Although our investigation of beneficial ownership of our shares identified only two beneficial owners of more than 5% of our ordinary shares, holding approximately 19.1%, as shown in our shareholders' register at September 30, 2007, the five largest shareholders of record, four of which are nominees that hold shares for a multitude of beneficial owners, owned approximately 93% of our ordinary shares. See "Item 7 Major Shareholders and Related Party Transactions Major Shareholders".

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

Sappi Limited is a public company incorporated in the Republic of South Africa. Its principal executive offices are located at 48 Ameshoff Street, Braamfontein, Johannesburg, 2001, Republic of South Africa and its telephone number is +27-11-407-8111.

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

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

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

In August 2006, we announced the expansion of the existing capacity at Sappi Saiccor in South Africa, where Chemical Cellulose products are produced. The current capacity of the mill is approximately 600,000 metric tonnes per annum. The expansion will increase capacity by a net 225,000 metric tonnes per annum and is expected to startup in the second calendar quarter of 2008.

In April 2006, Sappi announced a black economic empowerment transaction involving the sale of identified forestry land to a South African empowerment partner. Certain conditions to the formal conclusion of the transaction have not yet been met, and therefore, no transactions under the arrangement have been effected.

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".

We currently have our primary listing on the JSE Limited (formerly the Johannesburg Stock Exchange) and have secondary listings on the New York and London Stock Exchanges.

BUSINESS OVERVIEW

Business Strategy

Our objective for the coming years is to build on our position as a global leader in the coated fine paper market, which was from the beginning of the 1990's one of the fastest growing market sectors in the paper industry, and to explore opportunities across the broad spectrum of coated paper to utilize our experience in paper coating as well as the chemical cellulose market and to support this with a high level of economic pulp integration. These represent our core products and sectors in the paper and forest products industry. We see opportunities to grow our low cost fiber base. We will continue to invest in all our businesses where we can produce acceptable returns. The key elements of our business strategy are and have been as follows:

Strengthen our leadership position in our core businesses through organic growth and selective acquisitions.

We believe that opportunities for further consolidation remain in our sector. We intend to participate in this consolidation, aiming to strengthen our position in Europe, North America, and eventually Asia. We intend to focus on investment and acquisition opportunities that fit our strategies, that offer a potential return that exceeds our expected cost of capital and that in the medium term are more advantageous than buying back our shares.

Maintain a global presence.

One of Sappi's key strengths is our geographically diverse business base. We have a significant presence in each of Europe, North America and Africa, and a modest presence in Asia. The presence in Europe and North America has been built up over the past fifteen years, largely through strategic acquisitions. We will continue to pursue a strategy of geographic diversification supported by leading market positions.

Maintain a high level of economic pulp integration.

We intend to maintain a high level of economic pulp integration, which helps reduce the impact of pulp price volatility on our earnings.

Maintain cost efficient asset base and invest to increase efficiency/productivity.

We believe our asset base has some of the lowest cost and most efficient assets in the coated fine paper sector in the world. We maintain a rigorous focus on costs, and actively manage our asset base, including divesting or closing non-performing assets. We have closed 14 paper machines since 1995, including the closure of the Nash Mill in 2006.

We maintain an investment policy that is focused on high return projects. A significant portion of our investments are designed to increase production capacity, reduce costs and improve product quality.

Drive growth through market focus and innovation.

The Sappi Group operations represent the originators of many of the major innovations in the industry in the last century. We continue to maintain a focus on innovation through our research and development centers in Europe, North America and South Africa and have established multi-regional, multi-disciplinary teams to ensure that we transfer knowledge throughout the Group and implement best practice policies and that our research and development efforts are market oriented. We intend to allocate additional resources to marketing, innovation and technology. These include the creation of multi-regional marketing teams and linking them with the relevant technology teams.

Through our partnership with a leading global software provider, we are focused on developing unique information technology solutions that satisfy our customers' requirements and production capabilities, resulting in improved service delivery and operational efficiency.

The Pulp and Paper Industry

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

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

In recent years, the industry has experienced significant strategic changes. The high costs associated with building new paper mills and establishing and growing market share have led to companies focusing on acquisition, rather than construction, of new capacity. In China, however, rapid economic growth and government incentives have spurred massive investment in the pulp and paper industry. Over the last 5 years, China's paper and board as well as fine paper capacity increased considerably allowing China to change from a net importer to a net exporter of coated fine paper. Another result of this trend has been a greater concentration of production capacity among fewer producers. Many leading industry producers now focus on fewer core grades and have divested non-core assets that are not part of the industry or which have been considered not consistent with long-term strategies. The regional and global market shares of leading producers have increased significantly over the past decade.

The following table shows a breakdown and description of the major product categories Sappi participates 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
Fine 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.
Speciality paper	Can be either coated or uncoated. Uses include bags, labels, packaging and release paper for casting textured finishes (e.g. artificial leather).

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 (grocers bags). Can be coated to enhance barrier and aesthetics properties.
Groundwood products:	
Newsprint	Manufactured from groundwood and bleached chemical pulp. Uses include advertising inserts and newspapers. Demand is highly dependent on newspaper circulation and retail advertising.
Coated groundwood 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 moulding powders. The various grades of chemical cellulose are manufactured in accordance with the specific requirements of customers in different market segments. The purity of the chemical cellulose is one of the key determinants of it's suitability for particular applications with the purer grades of chemical cellulose generally supplied into the speciality segments.
Timber products:	Sawn timber for construction and furniture manufacturing purposes.

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

	Year Ended September					
	2007		2006		2005	
	Low	High	Low	High	Low	High
Coated Fine Paper						
100 gsm delivered Germany (euro per metric tonne)(1)	790	805	790	825	845	845
60 lb. delivered US (US$ per short tonne)(2)	905	950	900	960	870	920
Uncoated Fine Paper						
50 lb. delivered US (US$ per short tonne)(3)	800	845	700	850	700	770
Paper Pulp						
NBSK (US$ per metric tonne)(4)	725	825	595	715	585	655
Chemical cellulose						
92 alpha (US$ per metric tonne)(5)	715	870	650	775	600	780

(1) 100 gsm sheets, RISI.

(2) 60 lb. Coated Web, RISI.

(3) 50 lb. Offset, RISI.

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

(5) Selected indicative prices, Sappi.

Fine Paper

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

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

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

Our 2007 European business' sales volumes of coated fine paper were 61% in sheet form and 39% in reels 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.

See "Item 5 Operating and Financial Review and Prospects Markets".

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

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

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

Packaging Products

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

Packaging Paper. As with fine paper, the market for packaging papers is affected by cyclical changes in the world economy, local economic growth, retail sales and by changes in production capacity and output levels. The southern African containerboard market has been positively affected by strong gross domestic product growth and corresponding growth in retail sales during fiscal 2007. Demand for sack kraft is largely driven by the demand for cement, potatoes, sugar and milling products. Sappi's sack kraft market share was negatively affected by lower priced imported products and production constraints in 2005 and 2006.

In the South African domestic market, we have entered into medium-term contractual commitments with converters of containers, sacks and bags. These commitments include certain volume targets and, in some cases, as is customary in the market, fixed prices for periods of 12 months.

Groundwood Products

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. Consumption in South Africa has grown on the back of new titles and greater penetration of freesheets.

Coated Groundwood. Coated groundwood paper, primarily used for magazines, catalogues and advertising materials, has been one of the fastest growing paper grades in the paper industry in recent years. The segment is also one of the most consolidated segments of the paper industry. Demand for coated magazine paper is influenced by magazine circulation and demand for advertising, and by the price difference relative to coated fine paper and to uncoated groundwood paper as substitution between these grades is possible, depending on quality requirements and price levels. Western European producers are the leading producers of coated groundwood globally. Rapid capacity expansion by leading producers in the early 1990s led to volatile pricing and the development of a significant export business from Europe, primarily to North America and Asia. Pricing development has been more stable in the past three years.

Pulp

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

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

Pulp prices have improved from a cyclical low of $380 in 2002. The pulp market improved towards the end of 2005 and remained firm during 2006 and 2007. As a result NBSK prices averaged $695 during 2006 and continued to increase to $770 in October 2006 and $830 in October 2007.

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

Chemical cellulose. The viscose staple fiber (VSF) industry which manufactures textile and non-woven fibers is the largest market segment for chemical cellulose. Prices of VSF grade chemical cellulose generally follow those of the European NBSK. Since 1995, the price of VSF grade chemical cellulose has ranged from a high of over $1,000 per metric tonne in the fourth quarter of 1995, to a low of $470 per metric tonne in the second quarter of 2002. During the past year, prices of VSF grade chemical cellulose continued to strengthen reaching a high in the fourth fiscal quarter of 2007 of $870 per metric tonne. These higher price levels are expected to continue in the short term. 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 viscose staple fiber. The market price for chemical cellulose used for cellulose acetate flake production has increased to levels above $950 per metric tonne and is set by competitive forces within this specific market.

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

We are a global leading producer of coated fine paper and chemical cellulose.

We are a geographically diverse global paper company with significant manufacturing operations on three continents and sales in over 100 countries. During fiscal 2007, we had sales of $5,304 million, operating profit of $383 million and net profit of $202 million. We currently have a paper production capacity of approximately 5.1 million metric tonnes per annum, chemical cellulose production capacity of 600,000 metric tonnes per annum and paper pulp production capacity of 2.9 million metric tonnes per annum.

Our operations are currently structured around two business units (segments):

- Sappi Fine Paper, which has fine paper and related paper pulp businesses in North America, Europe, South Africa and a 34% share in a Chinese joint venture; and

- Sappi Forest Products, which produces commodity paper products (newsprint and packaging papers), pulp (including chemical cellulose and hardwood and softwood pulp) and forest and timber products (including pulpwood, sawlogs and sawn timber) for southern Africa and export markets. Sappi Forest Products is based in South Africa.

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 units.

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".

The chart below represents the operational rather than the legal or ownership structure of Sappi as of November 2007. Units shown are not necessarily legal entities.

The following table sets forth certain information with respect to our operations for, or as at the end of, the year ended September 2007.

	Sappi Fine Paper					
	North America	Europe	South Africa	Sappi Forest Products	Corporate And Other	Total
	(US$ million, metric tonnes in thousands)					
Sales volume (metric tonnes)	1,506	2,493	350	2,514		6,863
Sales	1,511	2,387	358	1,048		5,304
Operating profit	22	88	9	264		383
Operating assets[1]	1,263	2,371	202	1,984	99	5,919

(1) Operating assets as defined in note 3 to our Group annual financial statements included elsewhere in this Annual Report.

SAPPI FINE PAPER

Overview

Sappi Fine Paper is the largest business sector of Sappi and contributed approximately 63% of our sales volumes in fiscal 2007. It has the capacity to produce 4.2 million metric tonnes of paper per annum at its 14 paper and related paper pulp mills located on three continents. Sappi Fine Paper operates in three principal regions: Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Fine Paper South Africa.

The following chart sets forth certain information with respect to the mills and principal products of Sappi Fine Paper as of November 2007.

The following table sets forth approximate annual production capacity with respect to Sappi Fine Paper's products.

	Annual Production Capacity			
	North America	**Europe**	**South Africa**	**Total**
Production capacity (000s metric tonnes):				
Fine paper				
Coated[1]	1,260	2,595	80	3,935
Uncoated[2]		45	270	315
Total[3]	1,260	2,640	350	4,250
Paper pulp	900	670	160	1,730
Percentage paper pulp integration[4]	115%	48%	59%[5]	65%

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

(2) Includes 30,000 metric tonnes of tissue manufactured at the Stanger mill in South Africa and 14,000 metric tonnes of kraft manufactured at the Enstra and Adamas mills in South Africa.

(3) Excludes Chinese joint venture tonnes.

(4) Includes pulp used internally and pulp sold.

(5) Sappi Forest Products provides most of the additional pulp requirements of our South African fine paper operations.

Facilities and Operations

Sappi Fine Paper North America

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

Sappi Fine Paper North America is headquartered in Boston, Massachusetts, and operates four paper mills in the United States in Somerset, Maine; Muskegon, Michigan; Westbrook, Maine; and Cloquet, Minnesota. These four mills have a total annual production capacity of approximately 1.3 million metric tonnes of paper and a capacity of approximately 0.9 million metric tonnes of paper pulp, which represents approximately 115% of Sappi Fine Paper North American pulp requirements. This significantly reduces Sappi Fine Paper North America's exposure to fluctuations in the price of market pulp that are not driven by fluctuations in wood or other major raw material prices. In July 2005, we announced the closure of the Number 4 paper machine and the mothballing of the pulp mill at Muskegon, which had an annual production capacity of 105,000 metric tonnes of paper and 110,000 metric tonnes of pulp, respectively.

Coated paper accounted for approximately 75% of Sappi Fine Paper North America's sales in fiscal 2007. Speciality paper and pulp accounted for the remaining 25%.

The following table sets forth sales by product for our North American operations, including contribution from the closed Muskegon assets in fiscal 2005.

	Year Ended September		
	2007	**2006**	**2005[1]**
Sales (US$ million)			
Coated fine paper	1,136	1,094	1,148
Speciality paper and other[2]	375	345	310
Total	1,511	1,439	1,458

(1) Includes sales for the Number 4 paper machine at Muskegon mill during the 2005 fiscal year, which contributed US$83 million of sales (68,300 metric tonnes).

(2) Other consists primarily of market pulp.

For the year ended September 2007, Sappi Fine Paper North America sold approximately 1,506,000 metric tonnes of paper and pulp products. The following table sets forth, as of

September 2007, the production capacity, number of paper machines, products, pulp integration and capital expenditures at each of our continuing mills in North America.

Production capacity (000s metric tonnes)	Mill Locations			
	Cloquet	**Somerset**	**Muskegon**	**Westbrook**
Paper	300	760	170	30
Market pulp	230	110		
Number of paper machines	2	3	1	1
Products:				
Paper	Coated fine paper	Coated fine paper	Coated fine paper	Casting release paper
Market pulp	Bleached kraft pulp	Bleached kraft pulp		
Percentage pulp integration[(1)]	228%	98%	None	None
Capital expenditures (October 2004-September 2007) (US$ million)	52	68	16	12

(1) Includes pulp sold to third parties.

Cloquet. The Cloquet mill has two paper machines and an offline coater, producing premium coated paper. The newest machine and coater were installed in 1988 and 1989, respectively. The pulp mill started up by the previous owner in 2000 at a total cost of US$525 million and is the newest pulp mill in the United States. The Cloquet paper machines have an annual production capacity of 300,000 metric tonnes of coated paper, and the state-of-the-art pulp mill has an annual production capacity of 410,000 metric tonnes.

Somerset. The Somerset mill is a low-cost producer and has an annual production capacity of approximately 760,000 metric tonnes of paper and approximately 490,000 metric tonnes of pulp. The pulp mill was built in 1976, and Somerset became an integrated facility with the completion of Paper Machine 1 (PM1) in 1982. Each of the three paper machines at the Somerset facility employs Sappi Fine Paper North America's patented on-line finishing technology. This technology combines the three steps (paper making, coating and finishing) in the manufacture of coated paper into one continuous process. It is well suited for the lighterweight coated free sheet papers produced at Somerset, because it allows the production of high gloss, consistent quality products at high speeds.

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

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

Sappi Fine Paper North America also operates a coated paper sheeting and distribution facility in Allentown, Pennsylvania, which was completed in 1994 and has an annual sheeting capacity of approximately 100,000 metric tonnes. The Allentown facility converts paper primarily for our North American and European mills.

Sappi Fine Paper Europe

Sappi Fine Paper is a leading producer of coated fine paper in Europe and a producer of commercial printing paper, coated groundwood paper and speciality paper used in packaging, labeling and laminating. Sappi Fine Paper Europe's operations consist of seven mills with an aggregate annual production capacity of approximately 2.7 million metric tonnes of paper and 670,000 metric 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		
	2007	2006	2005
Sales (US$ million):			
Coated fine paper[1]	2,101	1,917	1,934
Uncoated fine paper	51	38	35
Speciality coated paper and other	235	239	270
Total	2,387	2,194	2,239

(1) Includes coated mechanical paper produced at Lanaken mill.

For the year ended September 2007, Sappi Fine Paper Europe sold 2,489,255 metric tonnes of paper and pulp products. The following table sets forth the annual production capacity, number of paper machines, products, pulp integration and capital expenditures at each of Sappi Fine Paper Europe's mills in Europe.

	Mill Location						
	Germany		Austria	Netherlands		Belgium	United Kingdom
	Alfeld	Ehingen	Gratkorn	Maastricht	Nijmegen	Lanaken	Blackburn
Paper capacity (000s metric tonnes)	360	250	860	320	240	490	120
Number of paper machines	5	1	2	2	1	2	1
Products	Coated and Uncoated fine paper, coated specialities paper	Coated fine paper and uncoated fine paper	Coated fine paper and uncoated fine paper	Coated fine paper and coated speciality paper	Coated fine paper	Coated groundwood paper and coated fine paper	Coated fine paper
Percentage pulp integration[1]	54%	102%	56%	None	None	61%	None
Capital expenditures (October 2004 to September 2006) (US$ million)	26	119	120	28	11	30	4

(1) Includes pulp sold to third parties.

Alfeld. The Alfeld mill is located to the south of Hannover, Germany, and its origins date back to 1706. It has a paper production capacity of approximately 360,000 metric tonnes and a pulp production capacity of approximately 125,000 metric tonnes per annum. It produces coated fine and speciality paper products, which are mainly coated and have a variety of finishes. In 1995 a major rebuild of Alfeld's Paper Machine 3 (PM3) was completed, enhancing the production of low substance flexible packaging papers. Alfeld's PM3 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 Paper Machine 2 (PM2) was completed. Alfeld spent approximately €50 million on the rebuild of PM2.

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 metric tonnes per annum of coated fine paper was commissioned in July 1991, expanding Ehingen from a market pulp mill into an integrated pulp and paper mill. During 1994 the construction of a high-rack warehouse was completed. As a result of upgrades during 1994 and 1996, Ehingen's total paper capacity was increased to 235,000 metric tonnes per annum. During June and July 2006 the paper machine was rebuilt and started up together with a new coater allowing a significant quality upgrade from single coated to triple coated fine paper with capacity of approximately 250,000 metric tonnes per annum. The pulp mill's capacity is currently 135,000 metric 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. In course of 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 now has an annual capacity of 860,000 metric tonnes of triple-coated fine paper on just two paper machines and 255,000 metric 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 metric tonnes.

Maastricht. The Maastricht, Netherlands, mill has the capacity to produce over 320,000 metric tonnes per annum of coated fine paper and board and one-side coated paper used primarily for printing labels. Paper was first produced in Maastricht in 1852. Paper Machine 6 (PM6), which was installed at Maastricht in 1962, was first rebuilt in 1977. In 1996, PM6 underwent an extensive NLG224 million (€102 million) rebuild. Maastricht specializes in high basis-weight triple-coated fine paper and board for graphics applications. PM6's production complements that of the Gratkorn mill, which produces lower weight coated fine paper. Paper Machine 5 (PM5) at Maastricht was constructed in 1952. It underwent a rebuild in 1995, when it was reconfigured at a total cost, including the related upgrade of PM5's entire line, of US$13 million and a further upgrading in 2001. Following the reconfiguration, PM5 is utilized as a dedicated one-side coated speciality paper machine.

Lanaken. The Lanaken, Belgium mill began commercial operations in 1966. It produces coated groundwood paper and lower weight wood-containing coated paper for offset printing. Coated groundwood paper for web offset presses is used primarily in the production of advertising materials and magazines. Lanaken's two paper machines have a total annual capacity of 490,000 metric tonnes. One machine principally produces coated groundwood paper. It was completely overhauled in 1992, and an additional off-line coater was installed to provide triple coating capability. The other paper machine produces lower-weight wood-containing paper. Its capacity was increased to 305,000 metric tonnes per annum as a result of an optimization process during the mid-1990s. Lanaken produces chemo-thermo-mechanical pulp (CTMP) in an integrated plant which has been extended to an annual capacity of 170,000 metric tonnes in 2003. This enables the mill to supply approximately 52% of its fiber requirements for paper production.

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

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

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

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

Sappi Fine Paper South Africa

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

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

	Year Ended September		
	2007	**2006**	**2005**
Sales (US$ million):			
Coated fine paper	70	61	67
Uncoated fine paper	208	191	188
Speciality paper and other	80	73	68
Total	358	325	323

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

	Mill Locations		
	Enstra	**Stanger**	**Adamas**
Paper capacity (000s metric tonnes)	200	110	40
Number of paper machines	3	2	2
Products	Uncoated fine Paper	Coated fine Paper, coated label paper and tissue	Prestige stationery, branded printing paper and board, envelope paper and corrugated medium
Percentage pulp integration	63%	77%	None
Capital expenditures (October 2004-September 2007) (US$ million)	22	20	9

Enstra. The Enstra mill is the largest mill of Sappi Fine Paper South Africa, with a capacity of approximately 200,000 metric tonnes of elemental chlorine-free uncoated fine paper products per annum. In 1996, the Enstra mill completed a US$96 million capital expenditure program. This program increased capacity by 50,000 metric 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 metric tonnes per annum of bleached hardwood pulp. The mill uses an oxygen bleaching process, which is a process that was developed at the mill in the 1970s and has since become the industry standard.

Stanger. The Stanger mill commenced operations in 1976. It is unique in South Africa in that it uses bagasse as its basic raw material to produce high quality matte and gloss coated art papers and tissue. Art paper is used for high quality books and magazines, brochures, annual reports and labels. A US$26 million upgrade of the mill's paper machine was completed in August 2001, increasing the coated paper capacity to 80,000 metric tonnes per annum. The mill also produces 30,000 metric tonnes of tissue per annum and has a capacity of 60,000 metric 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 speciality mill. It produces high quality, uncoated prestige papers and boards in a variety of colors and embossing patterns. It also produces branded printing paper and board, previously produced at the Sappi 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 metric tonnes of paper per annum. This mill purchases wastepaper and bleached pulp from other mills in the Sappi Group.

Marketing and Distribution

Overview

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

Our trading network, Sappi Trading, co-ordinates the international marketing and distribution of our fine paper products outside our core regions. Sappi Trading operates in Hong Kong (China), Sydney (Australia), Sao Paulo (Brazil), Shanghai (China), Konstanz (Germany), Nairobi (Kenya), Mexico City (Mexico), Singapore, Johannesburg and Durban (South Africa), Zurich (Switzerland), Taipei (Taiwan), New York (United States). It manages a network of agents around the world handling exports to over 100 countries. Sappi Trading also manages the export logistics of the southern African and United States operations.

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

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

Sappi Fine Paper North America

Sappi Fine Paper North America's coated paper sales structure is organized in 6 regions with sales representatives located in all major market areas, and 6 technical representatives located in different regions in North America supporting the sales effort.

Approximately 8% of Sappi Fine Paper North America's sales for fiscal 2007 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 by Sappi Trading outside those regions.

In 2007, the Sappi Fine Paper North America sales force sold coated graphic paper to approximately 340 merchant distribution locations. 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

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

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

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

Sappi Fine Paper South Africa

Sappi Fine Paper South Africa has a marketing and sales and technical support team based in four major centers in South Africa and one in the United Kingdom (Nash). Approximately 17% of the sales of Sappi Fine Paper South Africa in fiscal 2007 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 2007, include:

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

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

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, represent individually more than 10% of our total sales during fiscal 2007.

Sappi Fine Paper's converter customers include both multinational and regional converters. The most significant converter customers, based on sales during fiscal 2007, 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 Silvery 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 2007.

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

Competition

Overview

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

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

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

In Western Europe and North America industry production capacity closures of more than 800,000 metric tonnes of coated fine paper and 500,000 metric tonnes of mechanical coated paper have been implemented between 2006 and 2007.

North America

The major domestic coated fine paper producers which compete with Sappi Fine Paper in North America are NewPage (formerly part of MeadWestvaco and now owned by Cerberus), Stora Enso (which announced in September of 2007 the sale of its North American business to NewPage) and Verso Paper (formerly part of International Paper Company and now owned by an affiliate of Apollo Management L.P.). In addition, approximately 24% of US consumption is supplied by foreign producers, primarily Asian and European.

Europe

The market leaders in coated fine paper production in Europe are Sappi, M-real, Stora Enso, Burgo-Marchi Group, UPM-Kymmene and Lecta (CVC Partners).

Southern Africa

Mondi Paper Company Limited is a significant competitor of Sappi Fine Paper in southern Africa in the uncoated fine paper sector. Coated fine paper imports, primarily from Europe and Asia, have gained an increased share of the southern African fine paper market, after the lifting of sanctions and boycotts against South Africa in the early 1990s 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 metric tonnes of paper, 600,000 metric tonnes of chemical cellulose and 1,090,000 metric tonnes of paper pulp per annum. It is also a major timber grower and manages directly and indirectly approximately 553,000 hectares of forestland, of which, approximately 409,000 hectares is planted with primarily pine and eucalyptus. Approximately 78% 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 the Group either owns or leases from a third party. The term "indirectly manages" relates to plantations in southern Africa established on land held by independent commercial farmers, where the Group provides 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 November 2007.

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

	Year Ended September		
	2007	**2006**	**2005**
Sales (US$ million):			
Commodity paper products[1]	429	410	430
Chemical cellulose	432	384	360
Paper pulp[2]	120	102	118
Timber and timber products	67	87	90
Total	1,048	983	998

(1) Includes newsprint and packaging products.

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

Sappi Forest Products sold approximately 2,514,000 metric tonnes of paper, pulp and forest products during the year ended September 2007.

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

Production capacity (000s metric tonnes):

Paper products	
Packaging paper	690
Newsprint	140
Total	830
Pulp	
Chemical cellulose	600
Paper pulp[1]	1,090
Total	1,690
Timber products	41[2]
Percentage paper pulp integration	142%[3]

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

(2) Represents 78,000 cubic metres.

(3) Excludes pulp produced by Sappi Saiccor. Our southern African operations are net sellers of pulp.

Facilities and Operations

Sappi Saiccor

Saiccor was established in 1951 and acquired by us in 1988. It is a low-cost producer and the world's largest single producer of chemical cellulose. In 1995, we completed an approximately US$221 million expansion project to increase capacity by one third to approximately 600,000 metric tonnes per annum. Capital expenditures during the period from October 2004 to September 2007 were approximately US$350 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$280 million spent to date on an expansion project to increase Saiccor's chemical cellulose capacity by a net 225,000 metric tonnes per annum. Construction on the expansion project commenced in August 2006 with commissioning scheduled for the first half of 2008.

Virtually all of Saiccor's chemical cellulose production is exported from South Africa and marketed and distributed internationally by Sappi Trading. The pulp we principally produce is the type used in the manufacture of a variety of cellulose products, including viscose staple fibers (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 Sappi Saiccor's position as a low cost producer of chemical cellulose.

Sappi Kraft

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

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

	Mill Locations in South Africa		
	Ngodwana	**Tugela**	**Cape Kraft**
Paper capacity (000s metric tonnes)	380	390	60
Number of paper machines	2	4	1
Products	Newsprint, kraft linerboard, white top linerboard, plasterboard and bleached and unbleached market pulp	kraft linerboard, corrugating medium, sackkraft and machine glazed kraft	Linerboard, corrugating medium and coated products
Percentage pulp integration[1]	134%	100%	None[2]
Capital expenditures (October 2004-September 2007) (US$ million)	59	42	5

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

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

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

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

Cape Kraft. The Cape Kraft mill was built during 1980, commissioned in 1981 and upgraded in 1995. The mill presently has a capacity of 60,000 metric 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 metric tonnes per annum of waste paper to produce 60,000 metric tonnes per annum of paper. The fact that the mill's product is produced from 100% recycled paper can provide a competitive edge 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 was upgraded during 1995 and 1996 at a cost of approximately US$69 million. During the period from October 2002 to September 2007, an additional US$27 million was invested. The mill has a capacity of 230,000 metric tonnes of unbleached kraft pulp and supplies approximately 5% of the world market for unbleached market kraft pulp (based upon tonnes sold in 2007). 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.

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

Sappi Forests

Sappi Forests, together with Usutu Forests, supplies or procures all of Sappi Forest Products' and Sappi Fine Paper South Africa's domestic pulpwood requirements of approximately 6 million metric tonnes per annum. 88% of the pulpwood comes from owned or contracted sources. Together they directly or indirectly manage or control, about 553,000 hectares of land situated in: Mpumalanga (44%), KwaZulu-Natal (44%) and Swaziland (12%).

	Hectares
Sappi owns in South Africa	369,000
Sappi leases or manages directly in South Africa	10,000
Projects in South Africa (owned and managed by farmers, where Sappi indirectly manages through technical advice and support)	108,000
Sappi leases in Swaziland	66,000
Total hectares	553,000

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 invested approximately US$129 million in maintaining, acquiring and expanding plantations and other capital expenditure projects in the period from October 2004 to September 2007.

The sawmill division operates one mill with a total production capacity of 78,000 cubic metres 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 2007, include: The CTP Group and Media 24, which uses Sappi Forest Products' newsprint; while the most significant converter customers, based on sales in fiscal 2007, 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 54% of the total sales of Sappi Forest Products during fiscal 2007 consisted of export sales.

Competition

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

SUPPLY REQUIREMENTS

Overview

The principal supply requirements for the manufacture of our products are wood, pulp, energy and chemicals. Large amounts of water are also required for the manufacture of pulp and paper products. See " Environmental and Safety Matters Environmental Matters South Africa". We believe that we have adequate sources of these and other raw materials and supplies necessary for the manufacture of pulp and paper for the foreseeable future. However, the global warming and carbon footprint imperatives are causing increased use of sustainable, non-fossil fuel, sources for electricity generation. Consequently, electricity generating companies are competing for the same raw material, 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 metric 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 currently offers Forest Stewardship Council ("FSC") certification and 10% post-consumer waste in addition to using reprocessed fibers recovered from its existing operations in most of our brands, except select economy brands and imports.

Sappi Fine Paper North America manufactures, in aggregate, pulp and fiber equivalent to approximately 115% of its own pulp and fiber 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. In July 2002, Sappi Fine Paper North America entered a series of contracts with Central Maine Power ("CMP") and a third party energy provider. The contracts provide that Somerset 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, each at market rates. The agreements expire in 2012. Sappi Fine Paper North America also sells excess electricity it co-generates at the Westbrook mill.

The Cloquet mill, is supplied partly with internally generated electricity. The Cloquet mill includes a hydroelectric facility that is licensed by the Federal Energy Regulatory Commission. In addition to generating a portion of its own power, the Cloquet mill has entered into a take-or-pay agreement which terminates in 2008, to purchase a portion of its power from Minnesota Power.

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 commodity demand vs. supply balances.

Europe

Wood

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

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

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

Pulp

Sappi Fine Paper Europe produces approximately 48% of its pulp requirements. The remainder is supplied through open market purchases and, to a lesser extent, supply agreements.

Energy Requirements

Sappi Fine Paper Europe's energy requirements are generally met by internally generated sources and purchases of electricity, gas and, to a lesser extent, oil. In Germany, Sappi Fine Paper Europe internally generates approximately 65% of the electricity used at its mills. Since July 2007 Gratkorn has operated a Combined Heat and Power Plant ("CHP") on site and has become an exporter of about 10 MW of electricity. The requirements for natural gas, oil, and coal are purchased in accordance with various supply agreements.

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 VOF. The Maastricht mill also purchases natural gas pursuant to a contract with a natural gas supplier.

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

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 Energy. Sappi holds a 49% ownership interest in the Albertcentrale facility and is obligated to purchase the steam from the joint venture facility under a long-term supply agreement. The facility commenced operations in April 1997. Lanaken mill's electricity requirements, are satisfied by a supply contract, with the national utility company Electrabel.

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

Blackburn mill covers its needs for steam and electricity from an on site CHP- plant owned and operated by Scottish Power, a Scottish utilities company.

Chemicals

Major chemicals used by Sappi Fine Paper Europe include clays, carbonates, latexes and 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 commodity demand vs. supply imbalances.

Southern Africa

Wood

Sappi Forest Products manages directly or indirectly approximately 553,000 hectares of forestland in southern Africa, of which approximately 409,000 hectares are forested, which produces approximately 88% of the timber required for its operations. Sappi Forests owns approximately 369,000 hectares and manages the majority of the remainder. Usutu Pulp owns 54,000 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 108,000 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.

Pulp

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

Energy Requirements

Our energy requirements in southern Africa are met principally by purchases of coal and electricity supplemented by purchases of fuel oil and gas. Much of the energy demand is met by internally generated biomass and spent liquors from the pulping process. Electricity is supplied by Eskom, the state-owned electricity company, or generated internally. The electricity generated by our plants in southern Africa is equivalent to approximately 43% of our total electricity requirements. Coal, both for steam raising and gas production, and oil are purchased on contract.

Chemicals

Major chemicals used by Sappi Forest Products and Sappi Fine Paper South Africa include caustic soda, calcium carbonates, latexes and starches and sulphur and sulphuric acid. Sappi Forest Products and Sappi Fine Paper South Africa purchase these chemicals from a variety of South African and overseas suppliers. There are generally adequate sources of supply, and in only one case is Sappi Fine Paper South Africa dependent upon a sole source of supply. Most of these chemicals are subject to price fluctuations based upon a number of factors, including energy and crude oil prices and transportation costs, and commodity demand vs. 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. 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 related to reductions in air emissions including carbon dioxide ("CO_2") and other greenhouse gases ("GHG"), wastewater discharges and waste management. We constantly monitor the potential for changes in pollution control laws and take actions with respect to our operations accordingly. See note 34 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 and their respective state counterparts. In connection with ongoing settlement discussions with government agencies and environmental groups in Maine, Sappi Fine Paper North America plans to remove a dam associated with the Westbrook mill on the Presumpscot River and over the next thirty years to install fishways at its upstream dams in order to allow natural migration of fish and promote the restoration of native fish species to the river. The total cost of these projects is estimated to be approximately US$18 million.

The US is a non-signatory of the Kyoto Protocol, but we closely monitor State and Federal GHG initiatives in anticipation of potential effects, if any, on our operations.

Europe

Our European facilities are subject to extensive environmental regulation in the various countries in which we operate. For example:

- The Integrated Pollution Prevention and Control directive (IPPC) regulates air emissions, water discharges and defines permit requirements and best available techniques (BAT) for pollution control.

- The national European laws regulate the waste disposal framework and place restrictions on landfilled materials in order to reduce contaminated leachate and methane emissions. Prevention, reuse and recycling (material or thermal) are the preferred waste management methods. In Austria, Germany and The Netherlands only inert ash or slag from thermal recycling and incineration processes may be placed in landfills.

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

The countries within which we operate in Europe are all signatories of the Kyoto Protocol and we have developed a GHG strategy in line with this protocol. During the 1st allocation period from 2005 to 2007 Sappi Fine Paper Europe covered its needs with the CO_2 credits received. We sold a surplus of 90,000 CO_2 credits in 2005 and 208,650 CO_2 credits in 2006 on the European Climate

Exchange. We expect to have a slight surplus of CO_2 credits in the second allocation period from 2008 to 2012, through our ongoing measures to reduce carbon dioxide emissions.

South Africa

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 substantial additional costs over the next decade to comply with the National Water Act, but are unable to quantify these at this time.

- The National Environmental Management Act. This law provides for the integration of environmental considerations into all stages of any development process. The Act includes a number of significant principles, such as private prosecution of companies in the interest of the protection of the environment and the establishment of aggressive waste reduction goals. We expect to incur additional costs to comply with the National Environmental Management Act, which we believe will not be material.

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

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

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

Safety Matters

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

The Sappi global safety improvement initiative, Project Zero, sets out the goal of no injuries. It involves standardizing behavior-based safety programs throughout the Sappi Group and focusing on the particular activities which have resulted in injuries or fatalities.

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

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

In South Africa, we must comply with the Occupational Health and Safety Act (Number 85 of 1993) and related regulations. Our South African businesses have instituted measurement for evaluating compliance with this legislation. Seven of the eight mills, as well as Sappi Forests are both OHSAS 18001:1999 and ISO 14001:2004 certified for health and safety management systems and environmental management systems respectively.

ORGANIZATIONAL STRUCTURE

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

Name of Company	Trading Name	Country of Incorporation	Type of Company	% Holding and Voting Power
North America				
S.D. Warren Company	Sappi Fine Paper	United States	Operating	100
Sappi Cloquet LLC	Sappi Fine Paper	United States	Operating	100
Europe				
Sappi Alfeld GmbH	Sappi Fine Paper	Germany	Operating	100
Sappi Austria Produktions GmbH & Co KG	Sappi Fine Paper	Austria	Operating	100
Sappi Deutschland GmbH	Sappi Fine Paper	Germany	Operating	100
Sappi Ehingen GmbH	Sappi Fine Paper	Germany	Operating	100
Sappi Esus Beteiligungs-verwaltungs GmbH	Sappi Fine Paper	Austria	Holding	100
Sappi Europe SA	Sappi Fine Paper	Belgium	Operating	100
Sappi Holding GmbH	Sappi Holding	Austria	Holding	100
Sappi International SA	Sappi International	Belgium	Finance	100
Sappi Lanaken NV	Sappi Fine Paper	Belgium	Operating	100
Sappi Lanaken Press Paper NV	Sappi Fine Paper	Belgium	Operating	100
Sappi Maastricht BV	Sappi Fine Paper	Netherlands	Operating	100
Sappi Nijmegen BV	Sappi Fine Paper	Netherlands	Operating	100
Sappi Papier Holding GmbH	Sappi Papier Holding or Sappi Fine Paper	Austria	Holding and Operating	100
Sappi Trading Pulp AG	Sappi Trading	Switzerland	Holding and Operating	100
Southern Africa				
Sappi Management Services (Pty) Ltd.	Sappi Management Services	South Africa	Management	100
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	South Africa	Operating	100
Usutu Pulp Co. Ltd.	Sappi Usutu	Swaziland	Operating	100
Asia				
Jiangxi Chenming Paper Co Ltd	Jiangxi Chenming	China	Operating Joint Venture	34
Guernsey and Sweden				
Lignin Insurance Co. Ltd.	Lignin Insurance	Guernsey	Finance	100
Sappisure Försäkrings AB	Sappisure	Sweden	Finance	100

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Location	Use	Approximate Size[(1)]
	Sappi Limited	
Johannesburg, South Africa	Sappi Headquarters[(2)]	15,078 m^2
	Sappi Fine Paper	
Sappi Fine Paper North America		
Boston, Massachusetts	Headquarters[(3)]	34,928 sq ft
Skowhegan, Maine (Somerset Mill)	Manufacturing facility: coated paper, softwood and hardwood pulp[(4)]	2,659 acres
Muskegon, Michigan	Manufacturing facility: coated paper and a warehouse	123 acres
Westbrook, Maine	Manufacturing facility: speciality and release paper and research and development facility.[(4)] Storage and shredding facility	305 acres
Cloquet, Minnesota	Manufacturing facility: coated paper and pulp[(4)]	1,038 acres
Allentown, Pennsylvania	Coated paper sheeting facility	30 acres
Dayton, New Jersey	Distribution centre[(5)]	14 acres
South Portland, Maine	Shared financial and customer service office[(2)]	48,433 sq ft
Sappi Fine Paper Europe		
Brussels, Belgium	Headquarters[(6)]	3,836 m^2
Gratkorn, Austria	Manufacturing facility: coated paper and pulp	99.9 ha
Maastricht, Netherlands	Manufacturing facility: coated paper and research and development facility	12.8 ha
Nijmegen, Netherlands	Manufacturing facility: coated paper	10.7 ha
Lanaken, Belgium	Manufacturing facility: coated paper and pulp	32.6 ha
Alfeld, Germany	Manufacturing facility: coated paper, uncoated paper and pulp	33.3 ha
Ehingen, Germany	Manufacturing facility: coated paper and pulp	35.7 ha
Blackburn, England	Manufacturing facility: coated paper	36.0 ha
Wesel, Germany	Distribution centre[(7)]	62.1 ha

Sappi Fine Paper South Africa		
Enstra, South Africa	Manufacturing facility: uncoated paper and hardwood pulp (8)	582.7 ha
Stanger, South Africa	Manufacturing facility: coated paper, tissue and bagasse pulp(8)	55.4 ha
Adamas, South Africa	Manufacturing facility: uncoated paper and recycled packaging paper	7.2 ha
	Sappi Forest Products	
Johannesburg, South Africa	Headquarters	Included under Sappi Limited headquarters
Sappi Saiccor		
Umkomaas, South Africa	Manufacturing facility: chemical cellulose(8)	159.4 ha
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 62,140m^2, 8,800m^2 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. During fiscal 2006, Sappi announced the expansion of the existing capacity at Saiccor mill. The current capacity of the mill is approximately 600,000 metric tonnes per annum. The result of the expansion is an expected increase in capacity of 300,000 tonnes, of which 75,000 tonnes is to replace existing higher cost capacity, while simultaneously reducing the environmental impact of the operation. The estimated cost of the project is US$500 million.

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 notes 2, 12, 15, 17, 21, 22, 23, 25, 26, 28, 29, 31, 35 and 36 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 on Form 20-F 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. IFRS was implemented for the first time in fiscal 2006 and comparative amounts for fiscal 2005 were restated. The Sappi Group has prepared its consolidated financial statements in accordance with IFRS which differs in certain respects from United States Generally Accepted Accounting Principles ("US GAAP"). For a description of the principal differences between IFRS and US GAAP relevant to the consolidated financial statements of the Sappi Group and a reconciliation to US GAAP of net income and shareholders' equity, see note 35 to the annual financial statements included elsewhere in this annual report.

Fiscal 2007 and 2006 included 52 accounting weeks, compared to 53 accounting weeks in fiscal 2005. Our fiscal years operate on a 52 accounting week cycle, except every 6th fiscal year which includes an additional accounting week ("additional accounting week").

Company and Business Overview

We are a global company which through acquisitions in the 1990s has been transformed into one of the global market leaders in coated fine paper. Two acquisitions were pivotal in establishing us as a global company, namely the acquisition in 1994 of S.D. Warren Company, now known as Sappi Fine Paper North America, and the acquisition in 1997 of KNP Leykam, now integrated into Sappi Fine Paper Europe. Opportunities to grow within core businesses will continue to be evaluated.

The fine paper acquisitions have been integrated into a single fine paper business, which operates under the name Sappi Fine Paper. The Group is organised into two operating segments; Sappi Fine Paper and Sappi Forest Products. The Group also operates a trading network, called Sappi Trading, for the international marketing and distribution of chemical cellulose and market pulp throughout the world and of the group's other products in areas outside the core operating regions of North America, Europe and southern Africa.

Sales by source and destination in fiscal 2007, 2006 and fiscal 2005 were as follows:

	Sales by Source 2007	Sales by Source 2006	Sales by Source 2005	Sales by Destination 2007	Sales by Destination 2006	Sales by Destination 2005
North America	28%	29%	29%	29%	30%	30%
Europe	45%	44%	45%	39%	40%	40%
Southern Africa	27%	27%	26%	15%	15%	15%
Far East and others				17%	15%	15%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Sappi Fine Paper has a total paper production capacity of 4.3 million metric tonnes per annum. The Group is one of the global market leader in the coated fine paper business with a capacity of 3.9 million metric tonnes of coated fine paper per annum.

The Group is 100% integrated on a net basis in terms of pulp usage, meaning that, while some facilities are market buyers of pulp, others are market sellers, in the aggregate producing slightly more pulp than utilised. By region, the southern African operations are net sellers of pulp, Sappi Fine Paper North America is fully integrated and the European operations are approximately 46% self-sufficient for pulp in Continental Europe, but entirely dependent on market pulp in the United Kingdom. Approximately 70% of the wood requirements of the South African businesses are from sources either owned or managed. Both the North American and European operations are dependent on outside suppliers of wood for their production requirements.

On November 5, 1998, its American Depository Receipts commenced trading on the New York Stock Exchange. Based on available information, we believe beneficial shareholding by region are as follows:

	2007	2006	2005
North America	21%	30%	46%
Europe & elsewhere	8%	10%	12%
Southern Africa	71%	60%	42%
	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

The results of operations of the Group business are affected by numerous factors. Given the high fixed cost base of pulp and paper manufacturers, industry profitability is highly sensitive to changes in 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 and other input costs, exchange rates, and operational efficiency.

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

a) Cyclical nature of the industry and its impact on sales volume;

b) Movement in market prices for products;

c) Sensitivity to currency movements;

d) Movement in market prices for raw materials and other input costs of manufacturing; and

e) Other significant factors impacting costs, including new acquisitions, restructuring, cost reduction initiatives and, ability to maintain and continuously improve operational efficiencies and performance.

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

Markets

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

Coated Fine Paper

Paper demand from fiscal 2005 to fiscal 2007 remained positive as the upswing in world economic growth and resultant increase in advertising activities resulted in an increase in demand for coated fine papers.

Global Coated Fine Paper Market Balance

Source: EMGE 'World Graphics Papers Reports 1999-2007. *Cepifine **RISI

The demand to capacity ratio for global coated fine paper increased to approximately 95% in fiscal 2007. Increases in industry capacity in Europe and North America were limited 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 freely available funding led to significant coated fine paper capacity additions between fiscal 2000 and fiscal 2006 in Asia, particularly in China.

Despite increased demand, operating rates were low in fiscal 2002 through the first half of fiscal 2004 due to excess capacity, causing price erosion in both Europe and North America. Despite the weakening US$ during this period, net imports into the United States continued to grow, putting further pressure on prices. Prices in North America, however, did start to improve in the latter half of fiscal 2004 due to a sharp increase in seasonal demand. These tight supply/demand conditions in North America continued into fiscal 2005, and more so in fiscal 2006 as inventory throughout the supply chain dropped, giving rise to further price increases. In total, North American apparent consumption reduced by 3.4% in fiscal 2007. This decrease came after a growth rate of 4.3% in 2006 largely due to increased advertising pages and printer consumption of coated fine papers.

In Europe, demand for coated fine paper grew by 1.4% in fiscal 2007, 2.3% in fiscal 2006 and 4.7% in fiscal 2005. Capacity utilisation, including exports, was high in fiscal 2007. Despite demand growth and sharp increases in input costs, attempts to increase prices in the European market in fiscal 2007 were unsuccessful due to intense competition for market share. The relative weakness of the US$ versus the Euro made exports less attractive relative to regional sales.

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

US and European Apparent Consumption of Coated Paper

Source: AF&PA & Cepifine
US short tons converted to metric tonnes

Average selling prices realised for the Sappi Fine Paper businesses increased by US$ 38 per tonne, from US$ 941 per tonne in fiscal 2006 to US$ 979 per tonne in fiscal 2007 compared to US$ 1,006 per tonne in fiscal 2005.

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

US and European Fine Paper Prices
January 2002 - September 2007

Prices are list prices. Actual transaction prices could differ from prices depicted in graph
Source: RISI (Resource Information System Inc)

North American coated fine paper apparent demand declined in fiscal 2007 in comparison to fiscal 2006. North American demand growth improved during fiscal 2006 reaching 4.3%. Sappi Fine Paper North America's average price realised, decreased by US$ 6 per tonne to US$ 1,003 per tonne in fiscal 2007, mainly due to competitive import price pressure and mix. In fiscal 2006 prices in North America decreased to US$ 1,009 per tonne from US$ 1,017 per tonne in fiscal 2005. In Europe, demand for coated woodfree paper grew by 0.4% in fiscal 2007, from 1.4% in fiscal 2006, compared to growth of 4.3% in fiscal 2005. Despite sharp input costs increases and capacity closures during fiscal 2007, prices in Europe, in the local currency, were relatively flat in fiscal 2007 (€722 per tonne) compared to fiscal 2006 (€724 per tonne), but significantly lower than fiscal 2005 (€732 per tonne). Sales prices in Europe are impacted by the movement in the US$/Euro exchange rate as explained in more detail in the analysis of sales development by region contained later in the document.

Pulp

Pulp prices tend to display higher volatility than paper prices. During the period 1993 to 1995 the price of the benchmark pulp grade, Northern Bleached Softwood Kraft (NBSK), ranged from a low of US$ 395 (Nov-1993) to a high of US$ 925 per tonne (Sept-1995). The average NBSK price in fiscal 2007 was US$764 per tonne, fiscal 2006 US$643 per tonne and fiscal 2005 US$611 per tonne. Throughout fiscal 2005, global demand for pulp was low in comparison to fiscal 2006 and fiscal 2007 and price fluctuations were driven primarily by currency movements, inventory movement and non-integrated paper capacity expansion. High pulp demand during fiscal 2007 resulted in the continued increase of pulp prices. The pulp demand during the latter part of fiscal 2007 remained high as none of the usual seasonal lulls were experienced.

The traditional softwood pulp price premium to hardwood was disrupted in fiscal 2005 as a result of pulp mills shifting from hardwood to softwood production, and hardwood pulp mills closing temporarily. This led to hardwood pulp prices exceeding that of softwood in the final quarter of fiscal 2005. However, during October 2005 softwood price premiums were restored as some softwood mills closed in eastern Canada, while hardwood supply increased during the latter part of fiscal 2005 as an additional 1.9 million metric tonnes came on stream with large expansions at Hainan Island in China and Veracel in Brazil. As a result, the softwood pulp price premium to hardwood increased considerably during fiscal 2006 and continued through fiscal 2007.

Since Sappi sells roughly as much pulp as is purchased, fluctuations in market pulp prices have a negligible direct impact on the Group's overall profitability. At a divisional level, pulp prices do, however, affect profitability since Sappi Fine Paper Europe is a net buyer of hardwood pulp and Sappi Forest Products is a net seller of hardwood pulp.

The price of NBSK and NBHK pulp is depicted in the following chart:

Northern Bleached Softwood and Hardwood Kraft Pulp
January 2007 - September 2007

Source: PIX (Index from Foex Indexes Ltd)

Chemical cellulose accounts for the majority of Sappi's third party pulp sales. The chemical cellulose produced, at the Group's Saiccor operation in Southern Africa (Saiccor), is used principally as an input in the production of various synthetic 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. BHK (Bleached Hardwood Kraft pulp) generally sells at a lower price than NBSK.

The Group increased chemical cellulose product sales significantly in this sector in fiscal 2005 and continued to achieve growth in volumes and prices in each of fiscal 2006 and fiscal 2007. Also, a significant competitive source of supply was recently removed from the industry when Weyerhauser closed its 140,000 tonne per annum Cosmopolis plant in September 2006, contributing further to the already tight market in 2007.

In line with the movement in the NBSK prices, Saiccor prices increased in the early part of fiscal 2005, but this trend was reversed later in the year. In fiscal 2006 and 2007 the chemical cellulose business, which is 100% export-based, continued to be fully utilized and subsequently started to achieve strong price growth in 2007. The Group maintained a strong market position in the key Viscose Staple Fibre segment but also posted record sales of higher alpha products, which are primarily sold into the acetate flake segment.

Following the successful completion of an environmental impact assessment, a project to expand the mill's annual capacity by more than 200,000 metric tonnes commenced during the latter part of fiscal 2006 and is expected to startup in the second calendar quarter of 2008.

Currency Fluctuations

The principal currencies in which 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$. In southern Africa, costs incurred are generally denominated in ZAR, as are local sales. Exports from southern African businesses to other regions, which represent approximately 53% of sales in fiscal 2007 (2006: 45%), are denominated primarily in US$.

The appreciation of the ZAR or the Euro against the US$ tends to diminish the value of exports from southern Africa and Europe in local currencies, while depreciation of these currencies against the US$ has the opposite impact. Since expenses are generally denominated in local currencies, the depreciation of the US$ has a negative effect on gross margins on exports and such domestic sales, which are priced relative to international US$ prices. The appreciation of the US$ has the opposite impact. The Group's consolidated financial position, results of operation 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 2007, fiscal 2006 and fiscal 2005:

Exchange Rates	**2007**	**2006**	**2005**
Average Exchange Rate(1)			
ZAR(2)	7.1741	6.6039	6.2418
Euro(2)	1.3336	1.2315	1.2659
Year end Exchange Rate(1)			
ZAR(2)	6.8713	7.7738	6.3656
Euro(2)	1.4272	1.2672	1.2030

(1) Source: audited Group annual financial statements of Sappi Limited.

(2) US$ 1 = ZAR, Euro 1 = US$.

Euro and ZAR Exchange Rate Movement against USD

Daily Close January 1999 to November 2007

Source: Saint Louis Federal Reserve.
US$1 = ZAR, Euro 1 = US$.

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

The translation of our annual results, from local currencies to US$ for reporting purposes, tends to distort comparisons between financial periods when currencies are volatile. The Euro strengthened substantially against the US$ in 2007, (from an average US$/Euro 1.23 in 2006 to US$/Euro 1.33 in 2007) while the Rand weakened on average against the US$ in 2007 (from on average ZAR 6.60/US$ in 2006 to on average ZAR 7.17/US$ in 2007). The net impact of these currency movements increased reported sales in US$ by US$ 68 million in 2007. During 2007 the Euro strengthened 8.5% (2006: weakened 2.7%) against the US$ and the ZAR weakened 8.6% (2006: weakened 5.8%). The impact of these changes in Europe was that a US$35 million impact of price declines in 2007 was offset by a US$ 190 million favourable impact of the exchange rate on the translation into US$ for reporting purposes. In South Africa in fiscal 2007 a US$216 million favourable price impact was partly offset by a US$122 million adverse impact of the exchange rate on the translation into US$ for reporting purposes. This is referred to as the currency translation effect in the following discussion of the financial condition and results of operations. These impacts are more fully dealt with later in the relevant sections of this document.

Inflation and Interest Rates

South African prime overdraft interest rates declined in 2005 (10.5%) and remained at those levels until April 2006. The rate then increased during the remainder of fiscal 2006 (11.5%) and fiscal 2007 (13.5%). The ZAR on average weakened against the US$ during 2007 moving from an average of ZAR 6.60/US$ in 2006 to an average of ZAR 7.17/US$ in 2007 (2005: ZAR 6.24/US$). The year-end closing rate strengthened from ZAR 7.77/US$ in fiscal 2006 to ZAR 6.87/US$ in fiscal 2007 (fiscal 2005: ZAR 6.37/US$). Partly due to the weaker ZAR during fiscal 2007 and fiscal 2006, the South African inflation rate increased from fiscal 2005 (4.4%) to 5.4% in fiscal 2006 and at the end of fiscal 2007 it was 7.2%. This increase is also largely due to the effect of the impact of higher oil prices on the South African economy. The South African Reserve Bank (SARB) increased its repurchase rate in fiscal 2006 to 8%, further increases were implemented during fiscal 2007 closing at 10% at our fiscal year-end. The repurchase rate is the rate at which the SARB lends assistance to the banking sector and therefore represents the cost of credit to the banking sector. When the repurchase rate is changed, the interest rates on overdrafts and other loans extended by the banks also change. In this way the SARB indirectly affects interest rates in the economy. Although South African interest rates impact the cost of our South African borrowings, the majority of our borrowings have been incurred by subsidiaries outside southern Africa, denominated in either US$ or Euro.

South African Inflation and Interest Rates

Source: Standard Bank South Africa

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

United States 3 Month Libor

The three-month Euribor interest rate in Europe is depicted below. The relatively low interest rates in the United States and Europe continue to represent a significant interest rate differential when compared to South Africa's 10.0% repurchase rate as determined by the SARB, and could result in further short-term strengthening of the ZAR.

European 3 Month Euribor

We borrow in the currencies of the countries in which we invest. As a result, finance costs are related to the location of activities and not domicile of the Group.

Our foreign exchange policy consists of the following principal elements:

- External borrowings are taken up in the functional currency of the operating company concerned and, if not, then the exposure is hedged. Where appropriate the Group aims, in accordance with IFRS, to apply hedge accounting treatment to avoid volatility in our results due to mark-to-market effects of such hedging instruments.

- Any debtors or creditors not in the operating currency of the mill are hedged. Sales are hedged from the time of invoicing, purchases from the time of capex approval in the case of capex, and other purchases are hedged, in most instances, at the time the order is placed.

Exposures are hedged through our central treasury, where external hedging instruments are contracted after netting the various Group exposures.

Variations in this policy are considered from time to time, but any deviations from the central treasury policy are always subject to prior board approval.

No speculative positions are permitted.

The Group has a current policy of not hedging translation risks. The South African and European operations use the ZAR and the Euro as their respective functional currencies. Any translation of the value of these operations into US$ results in foreign exchange translation differences as the ZAR and the Euro exchange rates move against the US$. These changes are booked to the foreign currency translation reserve account. The Group prefers not to hedge this exposure with financial instruments, as these result in cash settlements which impact results on a permanent basis. 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.

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

South African Economic and Political Environment

Sappi Limited is a public company incorporated in South Africa. It has significant operations in South Africa contributing 71% of the Group's operating profit in fiscal 2007.

South Africa features a highly developed sophisticated "first world" infrastructure at the core of its economy. The South African economy is expected to grow at approximately 4.3% in calendar 2008. South Africa's long-term foreign currency investment ratings have remained constant over the last year at Baa1 (with the outlook changed to positive in June 2007) from Moody's Investor Services Inc. and BBB+ from Standard & Poor's Rating Service ("S&P"). While exchange controls have been relaxed in recent years and are continuing to be relaxed, South African companies remain subject to restrictions on their ability to raise and deploy capital outside of the southern African Common Monetary Area (See "Item 10 Additional Information Exchange Controls").

South Africa achieved 13 years of democracy in calendar 2007; 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 twenty six formal Land Claims made in respect of portions of Sappi plantations in the Mpumalanga area, and thirty two others made in respect of portions of Sappi plantations in KwaZulu Natal. These 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, Sappi 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 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 though private-public partnerships. To ensure that our program remains current, we are members of the Global Business Coalition on HIV/AIDS (GBC) and of the South African Business Coalition against HIV/AIDS (SABCOHA). The GBC is a global partnership and SABCOHA is a national partnership focused on developing an integrated strategy for dealing with HIV/AIDS.

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

Our HIV/AIDS response strategy places special emphasis on testing and counseling to ensure that staff are informed with regard to their HIV/AIDS status to enable them to make informed decisions as to their life choices. Since August 2002, our medical care for employees has included treatment to prevent mother to child transmission. Anti-retroviral treatment has been offered to HIV-infected permanent employees from the beginning of 2003. More recently, special focus has been given to the identification of the environmental risks that could lead to an increase in the prevalence of HIV in the company. Sappi has also extended its VCT (voluntary counseling and testing) programs, and is offering a HIV test to every employee who visits the clinics for a medical examination. We estimate that approximately 50% of HIV positive employees participate in our HIV/AIDS management program, which is an improvement on the prior year's participation rate. The mortality rate of employees indicates the death rate has significantly reduced from 1.12% in 2005 to 0.65% as at September 2007 which is an indication that the treatment programs are working.

The government and organized business have taken a number of steps in recent years to increase the participation of Black people in the South African economy. To this end, the Employment Equity Act (No 55 of 1998), the Skills Development Act (No 97 of 1998) and the Preferential Procurement Policy Framework Act (No 5 of 2000) were promulgated. The Broad-Based

Black Economic Empowerment Act (No. 53 of 2003) has formalized the country's approach to distributing skills, employment and wealth more equitably between races and genders. Broad-Based Black Economic Empowerment (BBBEE) focuses on increasing equity in ownership, management and control of businesses, and improving Black representation in all levels of employment. It also promotes the development of skills within a business, the nurturing of Black entrepreneurship through preferential procurement and enterprise development, and the uplifting of communities through social investment.

More recently, our South African businesses have actively participated in the drafting of a transformation charter for the South African forestry industry. This charter sets the objectives and principles for BBBEE, and includes the scorecard and targets to be applied within the industry, as well as certain undertakings by government to assist the forestry industry to achieve its BBBEE targets. This Forestry Sector charter is still in draft format and has been published for public comment. Until such time as it is formally gazetted as a Transformation Charter and Sector Code in terms of sections 12 and 10 of the Broad-Based Black Economic Empowerment Act (No 53 of 2003), the South African business will continue to be evaluated against the generic BBBEE scorecard, based on guidelines set out in the Codes of Good Practice published by the Department of Trade and Industry.

In 2006, Sappi achieved an overall BBBEE rating of BBB (BB rating in 2005) as verified by Empowerdex a leading external BBBEE rating agent. In February 2007 the BBBEE scorecard as set out in the Codes of Good Practice published by the Department of Trade and Industry was streamlined and simplified without affecting their intended objectives. The South African businesses' BBBEE scorecard is next scheduled to be evaluated in December 2007 against this revised generic BBBEE scorecard.

The shares of Sappi are widely held by South African and international investors. The company does not currently intend to undertake an empowerment transaction in respect of these shares. We will consider and are pursuing empowerment transactions related to specific southern African assets or business units where they add to the value of our business and meet our empowerment criteria.

The representation of Black people, particularly Black women, in management and all levels of employment within the company is a focus within the organization, driven by employment equity targets set in each occupational category. Skills development initiatives, particularly programs aimed at improving management and leadership skills, are geared to meet these targets. Where practical, Sappi purchases goods and services from Black-owned businesses and seeks opportunities to develop future Black vendors. Sappi is committed to the support of its Project Grow initiative through financial and technical input, as well as by providing a secure market during the start-up phase of these small tree farming enterprises. This initiative has been extended to encourage aspirant tree farmers who wish to undertake forestry activities on a larger scale. We have a number of enterprise development initiatives and have established programs to train new entrepreneurs. These initiatives involve the transfer of business skills, technical assistance, financial support and preferential payment terms to assist new enterprises to enter the market. Sappi has a history of investment in the communities in which it operates. 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 Bill 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 History and Development of the Company"

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 34 to our Group annual financial statements included elsewhere in this Annual Report for a discussion of these matters.

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

Operating Results

Financial Condition and Results of Operations

The operations of Sappi Ltd (The Group) are organised into two main business units:

I. Sappi Fine Paper ("SFP"), which consists of Sappi Fine Paper North America ("SFPNA"), Sappi Fine Paper Europe ("SFPE") and Sappi Fine Paper South Africa ("SFPSA"); and

II. Sappi Forest Products ("FP") 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 FP 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. Any analysis from one year to the next of the FP business could potentially be distorted at an aggregated FP business level. Management has therefore decided to analyse the FP business further by splitting the analysis into Pulp and Paper, and Forests.

Corporate includes all other non manufacturing and trading sectors of the business not included above.

The analysis and discussion which follows should be read in conjunction with our annual financial statements included elsewhere in this report.

Overview

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

	2007	Variance	2006	Variance	2005
			US$ millions		
Key figures:					
Sales	5,304	363	4,941	(77)	5,018
Operating profit / (loss)	383	258	125	234	(109)
Net Income / (Loss)	202	206	(4)	180	(184)
Basic EPS (US cents)	89	91	(2)	79	(81)

Operating profit (US$ 383 million in fiscal 2007, US$ 125 million in fiscal 2006 and a loss of US$ 109 million in fiscal 2005) in 2007 has benefited from certain items which either by their nature or due to their magnitude relative to other periods have significantly impacted the results in fiscal 2007 and fiscal 2006 or negatively impacted in fiscal 2005. These items will be dealt with in the relevant section of this discussion and analysis.

Segment contributions to operating profit are as follows:

Group Operating Profit Trend US$ million

Operating profit in 2007 has been favourably impacted by the significantly improved performances in all segments of the business. The major contributor to the improved performance is the improvement in sales, partly offset by some cost escalations. Of the US$ 363 million improvement in sales in fiscal 2007, US$ 123 million was attributable to volume improvements, US$ 172 million to price improvement and US$ 68 million due to the impact of exchange rates on reporting in US$. The volume improvements are attributable to the Fine Paper volumes, at significantly higher selling prices, increasing from 4,204,000 tonnes in fiscal 2006 to 4,349,000 tonnes (145,000 tonnes) offsetting the 495,000 tonne decline in forestry volume at Forest Products. Forest Products pulp and paper volumes increased 14,000 tonnes to 1,484,000 tonnes in fiscal 2007 from 1,470,000 tonnes in fiscal 2005. Of the US$ 77 million decline in sales in fiscal 2006, compared to fiscal 2005, US$ 41 million was attributable to the negative impact of reduced volumes and US$ 81 million negative impact of price, partly offset by the positive impact of exchange rates (US$ 45 million) on the translation of the South African and European businesses. The price improvement relates mainly to the impact of the US$/Euro exchange rate on the translation of the European sales (US$ 190 million) into US$ for reporting. Variable costs, at a divisional level, have been adversely impacted by escalating commodity prices, particularly energy and wood. A detailed analysis of variable costs at a divisional level follows below. Fine Papers has improved from an operating loss of US$ 49 million in fiscal 2006 to an operating profit of US$ 119 million (fiscal 2005: operating loss US$186 million). Forest Products has improved from an operating profit of US$ 175 million in fiscal 2006 to an operating profit of US$ 264 million (fiscal 2005: operating profit of US$83 million). Restructuring and impairment (US$ 252 million) charges were major contributors to the significant loss (US$ 109 million) reported in fiscal 2005. Fiscal 2006 was favourably affected by the reversal of impairment (US$ 31 million) at Forest Products and post employment restructuring credits (US$ 28 million), partly offset by a provision for restructuring in Europe

(US$ 40 million) at Fine Paper Europe relating to the restructure of post employment benefit funds. Fiscal 2007 was impacted by the profit on sale of the Nash property (US$ 26 million).

	2007		2006		2005
	US$ million	**Variance**	**US$ million**	**Variance**	**US$ million**
Operating Profit					
Fine Paper					
North America	22	38	(16)	243	(259)
Europe	88	115	(27)	(111)	84
South Africa	9	15	(6)	5	(11)
Total	**119**	**168**	**(49)**	**137**	**(186)**
Forest Products					
Pulp & Paper	175	75	100	112	(12)
Forests	89	14	75	(20)	95
Total	**264**	**89**	**175**	**92**	**83**
Corporate		**1**	**(1)**	**5**	**(6)**
Total	**383**	**258**	**125**	**234**	**(109)**

Divisional contributions to Operating profit in the last three years are set out in the table above:

The underlying reasons for the movement in the group's operating profit in fiscal 2006 and fiscal 2007 can be explained as follows:

Group Operating Profit Analysis US$ million

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

Plantation fair value: This relates to the fair value adjustment of the timber assets of the Forestry operation of Forest Products. The movement on this item is mainly impacted by timber selling prices, cost associated with standing timber values and harvesting and delivery, the estimated growth rate or annual volume changes and discount rates applied. The parameters applied are all market related. The impact was US$ 60 million positive in fiscal 2005, US$ 34 million positive in fiscal 2006 and US$ 54 million positive in fiscal 2007.

Impairment: In fiscal 2005 impairment charges were US$ 182 million in SFPNA, and US$ 49 million in Forest Products for a total of US$ 231 million. In fiscal 2006 Forest Products, due to the improved performance of the mill, reversed the impairment of its Usutu mill resulting in a credit to profit of US$ 40 million. This has resulted in an improvement of reported profitability from fiscal 2005 to fiscal 2006 of US$ 271 million due to changes to impairment charges.

Sale of Nash: The SFPE 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 realised a profit of US$ 26 million.

Fire damage: During July and August 2007 the forestry operations of Forest Products experienced devastating fires across a wide area of afforested land. The cost of fighting these fires and of the forest destroyed, net of salvage, is US$ 17 million. Certain of the costs included in this amount are management's best estimates as clean-up and salvage operations continue.

Sales

Group

Sales improvement has been a major contributor to the improved profitability from fiscal 2005 to fiscal 2007. Sales have however decreased from US$ 5,018 million in fiscal 2005 to US$ 4,941 million in fiscal 2006 and increased to US$ 5,304 million in fiscal 2007. The three factors impacting sales are volume, price and exchange rate. The South African and European businesses transact in ZAR and Euro respectively, but the results of their operations are translated into the US$ for reporting purposes. The movement in the exchange rate from local currency to US$ during periods of high volatility significantly impacts reported results from one period to the next. Movements in exchange rates impacted reported results positively by US$ 68 million and US$ 45 million in fiscal 2007 and fiscal 2006 respectively. An analysis of the drivers of sales movements may be presented as follows:

Group Sales Trend Analysis
US$ million

Group Sales Volume Trend Metric Tonnes '000

Sales volume by division is shown in the table below:

	2007			2006			
		Variance			Variance		
Sales volume	**Volume**	**Tons**	**%**	**Volume**	**Tons**	**%**	**2005**
				Metric tons ('000)			
Fine Paper							
North America	1,506	80	6	1,426	(7)	(1)	1,433
Europe	2,493	43	2	2,450	23	1	2,427
South Africa	350	22	7	328	11	4	317
Total	**4,349**	**145**	**4**	**4,204**	**27**	**1**	**4,177**
Forest Products							
Pulp & Paper	1,484	14	1	1,470	(95)	(6)	1,565
Forestry	1,030	(495)	(33)	1,525	(212)	(12)	1,737
Total	**2,514**	**(481)**	**(16)**	**2,995**	**(307)**	**(9)**	**3,302**
Total	**6,863**	**(336)**	**(5)**	**7,199**	**(280)**	**(3)**	**7,479**

Volume growth at Fine Paper was not at expected levels as all regions experienced market share declines during fiscal 2005 and fiscal 2006. In fiscal 2007 volumes improved as market share was more effectively retained and in some instances increased from previous levels. However, in Europe volumes remained under pressure as the region struggled to maintain market share. Forest Products saw declines in pulp and paper volumes due to some loss of local market share in 2006 resulting from import substitution on the back of a much stronger local currency. In 2007 import substitution was less evident as the local currency had weakened against the US Dollar making import substitution less attractive. Sappi Fine Paper South Africa experienced similar local market dynamics to Forest Products in 2006 with import substitution being a major threat. Production output difficulties in fiscal 2006 and fiscal 2007 at Kraft and Saiccor expansion impacted Forest Products sales volumes adversely. The decline in external timber sales volumes reflects efforts to these sales in order to protect timber stocks in anticipation of the increased Group demand that will occur when the Saiccor upgrade is complete.

Sales revenue by division in the last three years is shown in the table below:

Sales value	2007			2006			2005
		Variance			Variance		
	Value	Value	%	Value	Value	%	Value
				US$ million			
Fine Paper							
North America	1,511	72	5	1,439	(19)	(1)	1,458
Europe	2,387	193	8	2,194	(45)	(2)	2,239
South Africa	358	33	10	325	2	1	323
Total	**4,256**	**298**	**7**	**3,958**	**(62)**	**(2)**	**4,020**
Forest Products							
Pulp & Paper	979	83	8	896	(12)	(1)	908
Forestry	69	(18)	(21)	87	(3)	(3)	90
Total	**1,048**	**65**	**7**	**983**	**(15)**	**(2)**	**998**
Total	**5,304**	**363**	**7**	**4,941**	**(77)**	**(2)**	**5,018**

In fiscal 2007, sales increased by US$ 363 million (7%) to US$ 5,304 million compared to fiscal 2006. This increase was due to a combination of increases in the volume, at Fine Paper and Forest Products pulp and paper, and price due to the currency effect of translating sales in Euro and ZAR into US$, which is the reporting currency. The translation of the South African sales was adversely affected by the weakening of the ZAR against the US$ and the Euro sales of SFPE were positively impacted by the weakening of the US$ against the Euro. The table below shows the impact of volume, price and exchange rates on the Group's sales in fiscal 2006 and fiscal 2007 when compared to the previous year:

Sales variance analysis	2007				2006			
	Volume	Price	Exchange Rate	Total	Volume	Price	Exchange Rate	Total
				US$ million				
Fine Paper								
North America	81	(9)		**72**	(7)	(12)		**(19)**
Europe	39	(35)	190	**194**	21	(187)	121	**(45)**
South Africa	22	41	(31)	**32**	11	10	(19)	**2**
Total	**142**	**(3)**	**159**	**298**	**25**	**(189)**	**102**	**(62)**
Forest Products								
Pulp & Paper	9	159	(85)	**83**	(55)	95	(52)	**(12)**
Forestry	(28)	16	(6)	**(18)**	(11)	13	(5)	**(3)**
Total	**(19)**	**175**	**(91)**	**65**	**(66)**	**108**	**(57)**	**(15)**
Total	**123**	**172**	**68**	**363**	**(41)**	**(81)**	**45**	**(77)**

Sappi Fine Paper North America

Set out below is the progression of SFPNA sales volume and value from fiscal 2005 to fiscal 2007.

SFPNA Sales Value (US$ million) and Volume (Metric tonnes '000)

SFPNA Sales Trend Analysis

The average price realised decreased to US$1,003 per tonne in fiscal 2007 from US$1,009 per tonne in fiscal 2006 and US$1,017 per tonne in fiscal 2005 due to continued market pricing pressure. The major contributor to improved sales is volume resulting from market share gain in fiscal 2007. Volumes in fiscal 2006 were adversely affected by declines in market share due to increased import substitution. There is no exchange rate impact as the translation currency is the same as the reporting currency US$.

Sappi Fine Paper Europe

Set out below is the progression of SFPE sales volume and value from fiscal 2005 to fiscal 2007.

SFPE Sales Value (US$ million) and Volume (Metric tonnes '000)

The major components affecting the development of sales at SFPE may be presented as follows:

SFPE Sales Trend Analysis

Average prices realised in US$ terms were US$ 957 per tonne in fiscal 2007, US$ 61 per tonne up from US$ 896 per tonne in fiscal 2006, US$ 27 per tonne down from the US$ 923 per tonne in fiscal 2005. Pricing at SFPE has been under pressure since fiscal 2005 due to strong competition for market position largely due to the weakening of the US$. The US$ has weakened (4.7%) US$1.27/ Euro to US$ 1.33/Euro on average from 2005 to 2007. Volumes have since fiscal 2005 been impacted by changes in market share resulting from attempts to improve pricing.

Sappi Fine Paper South Africa

Set out below is the progression of SFPSA sales volume and value from fiscal 2005 to fiscal 2007.

SFPSA Sales Value (US$ million) and Volume (Metric tonnes '000)

SFPSA Sales Trend

The average price realised at SFPSA in US$ terms increased by US$ 32 per tonne to US$ 1,023 per tonne in fiscal 2007 from US$ 991 per tonne in fiscal 2006 after declining from US$ 1,019 per tonne in fiscal 2005. During 2006 the region experienced pricing pressure due to import substitution as a result of the strength of the ZAR against the US$. In 2007 the ZAR weakened, lessening the threat and creating the climate for price increases. The weakening of the currency also reduces import substitution volumes creating increased demand for locally produced product and an opportunity to increase prices. The ZAR weakened from an average of ZAR6.24/US$ in fiscal 2005 to ZAR6.60/US$ in fiscal 2006 and ZAR7.17/US$ in fiscal 2007. The region experienced an adverse impact on the translation of its results into the reporting currency (US$) due to the impact of the exchange rate movements.

Forest Products

Set out below is the progression of Forest Products sales volume and value from fiscal 2005 to fiscal 2007.

Forest Products Sales Value (US$ million) and Volume (Metric tonnes '000)

Forest Products Sales Value

Forest Products Sales Metric Tonnes

Forest Products Sales Trend

Timber volumes at Forest Products have shown a decline as the segment is reducing external sales in order to conserve and build timber supply inventories in anticipation of the commissioning of the Saiccor upgrade. The Kraft business sells newsprint, packaging board and pulp grades. The business comprises approximately 52% of the Forest Products sales. Saiccor produces and sells various grades of chemical cellulose pulp which comprises approximately 41% of the FP sales. A major determinant of pricing in both the Kraft and Saiccor businesses is the international Northern Bleached Softwood Kraft Pulp (NBSK) price. This price as at the close of fiscal 2007 of US$ 811 per tonne, is at a record level which is affecting sales pricing positively in both the Kraft and Saiccor businesses. Hardwood Pulp sales which form a major portion of Kraft sales are also experiencing good pricing and was at US$ 720 per tonne at end of fiscal 2007. The local Kraft sales are also benefiting from the weaker ZAR to the US$ which is reducing import substitution and improving both local pricing and volumes. The ZAR weakened from an average of ZAR6.24/US$ in 2005 to ZAR6.60/US$ in 2006 and ZAR7.17/US$ in 2007. The commercial benefit achieved as a result of the relatively weaker rand was slightly offset by an adverse impact on the translation of its results into the reporting currency (US$) due to the impact of exchange rate movements.

Operating expenses

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

	2007				2006				2005	
			Variance				Variance			
Operating costs	**Costs**	**US$/Ton**	**Value**	**%**	**Costs**	**US$/Ton**	**Value**	**%**	**Costs**	**US$/Ton**
	US$ million									
Variable costs										
Delivery	453	66	12	3	441	61	(10)	(2)	451	60
Variable manufacturing	2,685	391	169	7	2,516	350	90	4	2,426	324
Total variable costs	**3,138**	**457**	**181**	**6**	**2,957**	**411**	**80**	**3**	**2,877**	**384**
Fixed costs	1,808	263	9		1,799	250	(135)	(7)	1,934	265
Impairment			31	100	(31)	(4)	(262)	(113)	231	31
Restructuring	(7)	(1)	(57)	(114)	50	7	29	138	21	3
Pension cost			1	100	(1)		(42)	(102)	41	
Profit on sale of Nash mill	(26)	(3)	(26)							
Fire damage	17	2	17							
Fair value of plantations	(54)	(8)	(20)	59	(34)	(5)	26	43	(60)	(8)
Other	45	(5)	(31)	(40)	76	11	(7)	(4)	83	10
Total	**4,921**	**717**	**105**	**2**	**4,816**	**670**	**(311)**	**(6)**	**5,127**	**685**

Details of the fair value pricing adjustment, impairment, profit on sale of Nash mill and fire damage have been dealt with above at the start of the Financial Condition and Results of Operations section. The restructuring charge in 2006 relates to a provision created at SFPE for the restructuring as a result of the cost and operational improvement project run in the region. The US$ 7 million reversal in 2007 relates to the balance of the restructuring provision not utilised. This project has now been implemented and benefits have started to flow to the region. The pension cost reversal in 2006 relates to the impact of the changes to IFRS and restructuring of certain of the post employment benefit funds of the Group. Variable and fixed costs have been analysed in more detail below.

Variable manufacturing costs

Group

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

	2007				2006				2005	
			Variance				Variance			
Variable manufacturing costs	**Costs**	**US$/Ton**	**Value**	**%**	**Costs**	**US$/Ton**	**Value**	**%**	**Costs**	**US$/Ton**
	US$ million									
Wood	635	93	4	1	631	88	(16)	(2)	647	86
Energy	438	64	5	1	433	60	68	19	365	49
Chemicals	676	98	18	3	658	91	5	1	653	87
Pulp	623	91	60	11	563	78	49	10	514	69
Other	313	45	82	35	231	33	(16)	(6)	247	33
Total	**2,685**	**391**	**169**	**7**	**2,516**	**350**	**90**	**4**	**2,426**	**324**

	2007	2006	2005

Variable manufacturing costs relate to costs of inputs which vary directly with output. Other costs relate to inputs such as electricity, water, fillers and consumables. The Group's variable costs

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are impacted by sales volume, exchange rate impacts on translation of European and South African businesses into US$, and the underlying costs of inputs. An analysis of the impact of these components at a divisional level is as follows:

	2007 versus 2006				2006 versus 2005			
Variable cost movement analysis	**Volume**	**Cost**	**Exchange Rate**	**Total**	**Volume**	**Cost**	**Exchange Rate**	**Total**
				US$ millions				
Fine Paper								
North America								