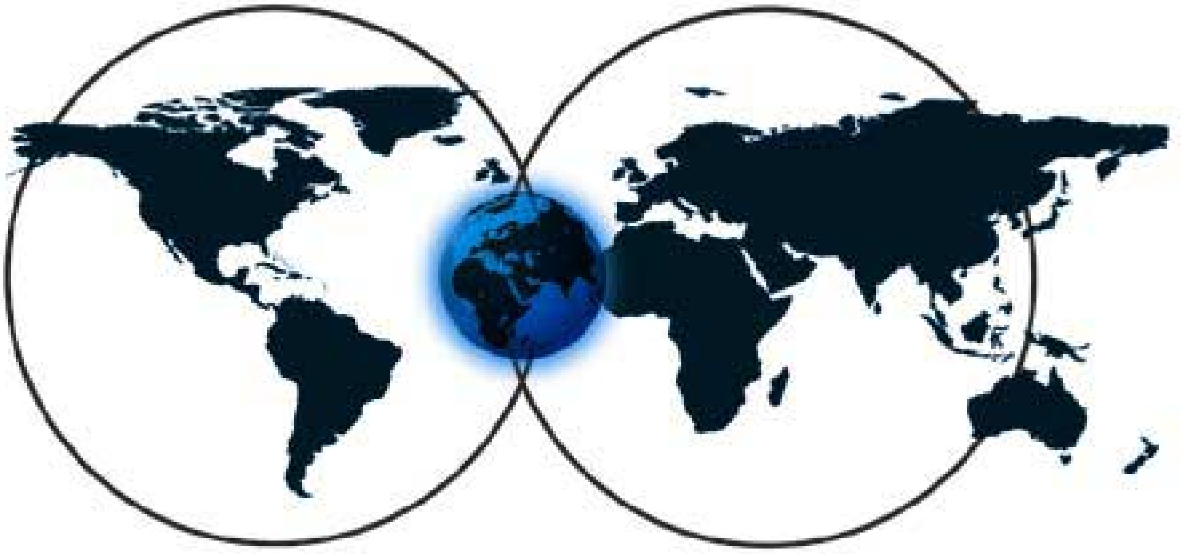


sappi

annual report 01

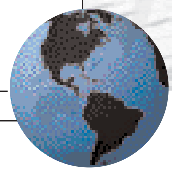
sappi

The word for fine paper

CONTENTS

financial highlights

	September 2001 US$ million	September 2000 * US$ million	**September 2001 ZAR million**
Sales	**4,184**	4,718	**33,294**
EBITDA	**797**	1,052	**6,342**
Operating profit	**446**	672	**3,549**
Net profit	**138**	363	**1,098**
EPS (cents)	**59**	153	**469**
Earnings before exceptional items	**263**	347	**2,093**
EPS before exceptional items (cents)	**113**	146	**899**
Dividend per share (cents)			
– declared after year-end **	**26**	25	**250**
Ordinary shareholders' interest per share (cents)	**655**	677	**5,854**
	Achieved September 2001	Achieved September 2000 *	
Operating profit to sales (%)	**10.7**	14.2	
Return on net assets (RONA) (%)	**13.1**	18.2	
Return on equity (ROE) (%) ***	**15.9**	23.8	
Debt-to-total-capitalisation ratio	**0.30**	0.33	
Cash interest cover	**6.2**	7.3	



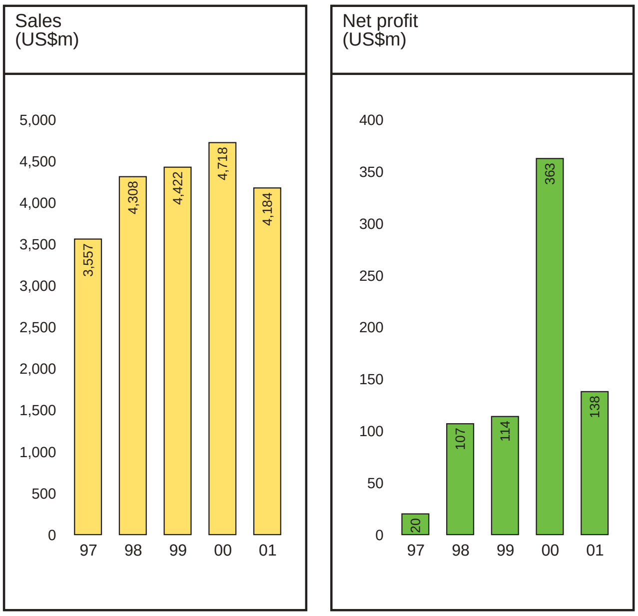
* *Comparative figures have been restated for accounting policy changes to ensure consistency.*

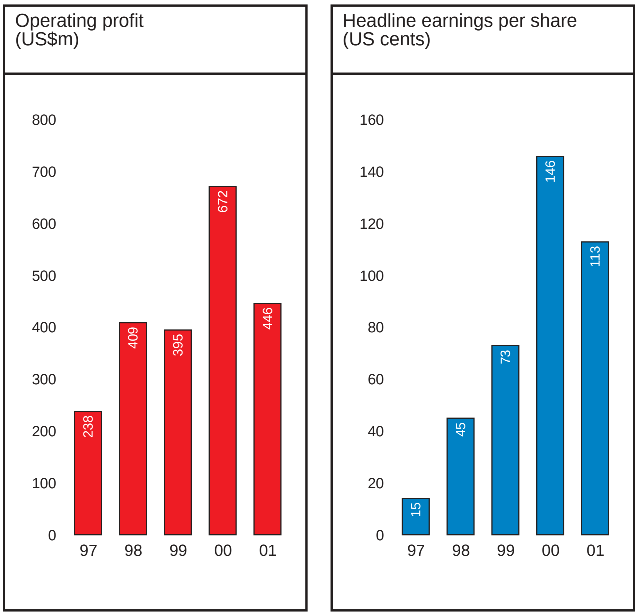
** *The dividends for both financial years were declared subsequent to year-end and, in terms of our newly adopted accounting policy, are accounted for and included in the statement of changes in equity in the following financial year.*

*** *September 2001 – ROE before Mobile mill closure costs.*

- Difficult market conditions
- Headline EPS 113 US cents
- Strong balance sheet
- Dividend increased to 26 US cents

The geographic spread of our assets is a key component of Sappi's success – it allows us to take advantage of strong markets and weak currencies and, therefore, minimise the impact of the fluctuation of currencies and demand.





sappi is the world's leading producer of coated fine paper.

We hold major market shares in Europe, North America and Africa. We have customers in over 100 countries worldwide. Our manufacturing operations span eight countries on three continents.

We are a truly global company.

Sappi's achievements are driven by:

- Concentrated focus on our core business
- A successful pulp integration strategy
- A culture of innovation in products and technology
- The development of strong, globally competitive brands
- World-class assets
- An unrelenting focus on efficiency and cost management

We strive constantly to deliver value to our shareholders, our customers and the communities in which we operate.

leading market positions

Customer focused. Market driven. Global brands.

Sappi has earned leading positions in all its markets by building premium international brands – brands backed by customer-orientated, market-facing business units that are accountable for financial performance as well as sales.

Global business	Ranking	Market share
Coated fine paper	Global #1	Europe 20%
		North America 22%
		Africa 60%
Dissolving pulp	Global #1	15%

Regional business		
Containerboard	South Africa #1	50%
Uncoated fine paper	South Africa #1	54%

idea exchange

Printing technique – printed cmyk and hi-fi orange, overall matt UV varnish and spot UV varnish.

geographic spread

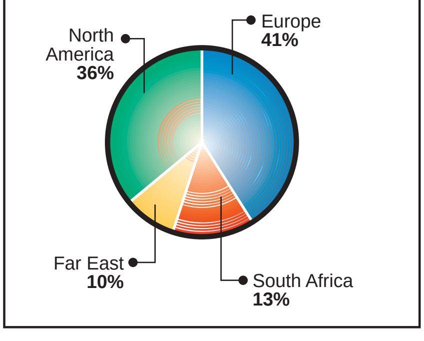
Maximising opportunities. Minimising risk. Optimising value.

Sappi's 18 pulp and paper mills across Europe, North America and Southern Africa, together with its global customer base, enable maximised opportunities where markets are strong and minimised risk where they are weak.

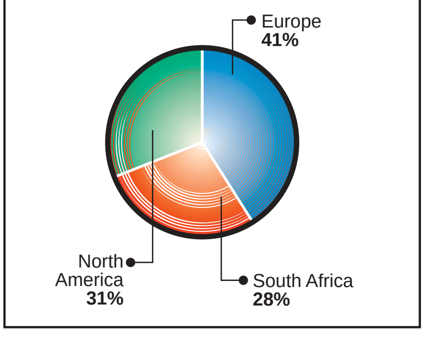
Our geographic spread helps offset the volatile movement of major currencies and provides cost benefits when currencies are weak and higher revenues when they are strong.

Sappi is listed on the Johannesburg, New York, London and Frankfurt stock exchanges.

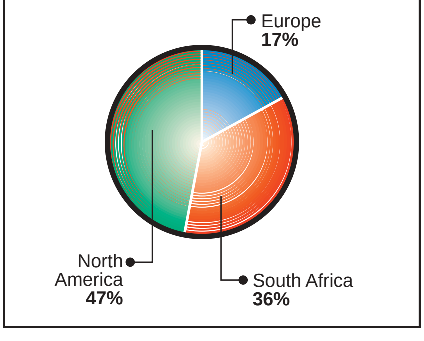
Sales by destination



Net operating assets



Shareholders



idea exchange

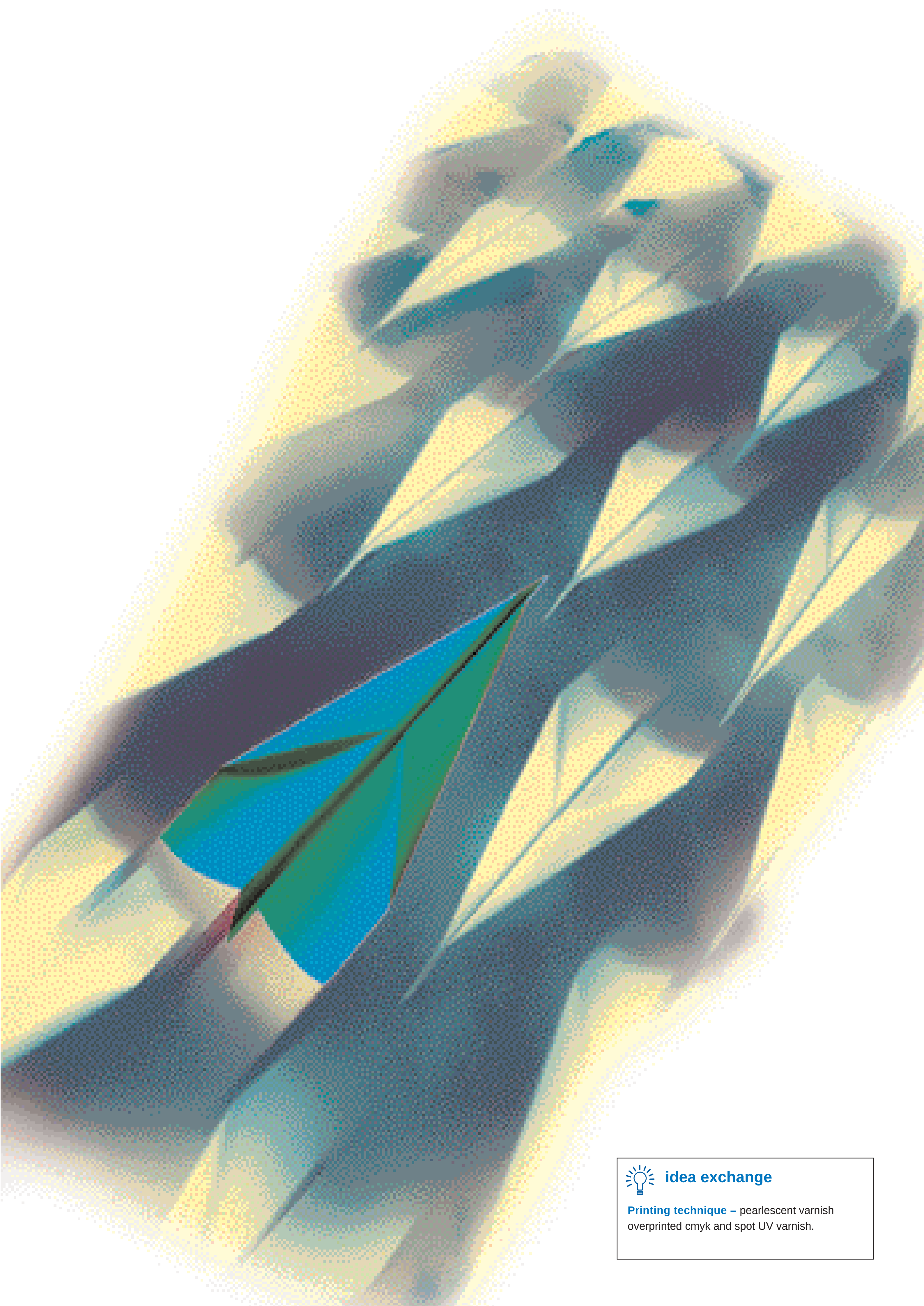
Printing technique – gloss silver foil, overprinted cmyk.

thinking innovation

Cutting-edge technology. Pioneering products. Global approach.

Dynamic technology clusters which operate across our regions drive Sappi's ability to design and enhance value-adding products and services bringing them to the market faster than ever.

The companies that make up the Sappi Group today are the originators of almost all coated fine paper product innovations in the last century. This excellence is continued by our three research and development centres in Europe, North America and South Africa.



idea exchange

Printing technique – pearlescent varnish overprinted cmyk and spot UV varnish.

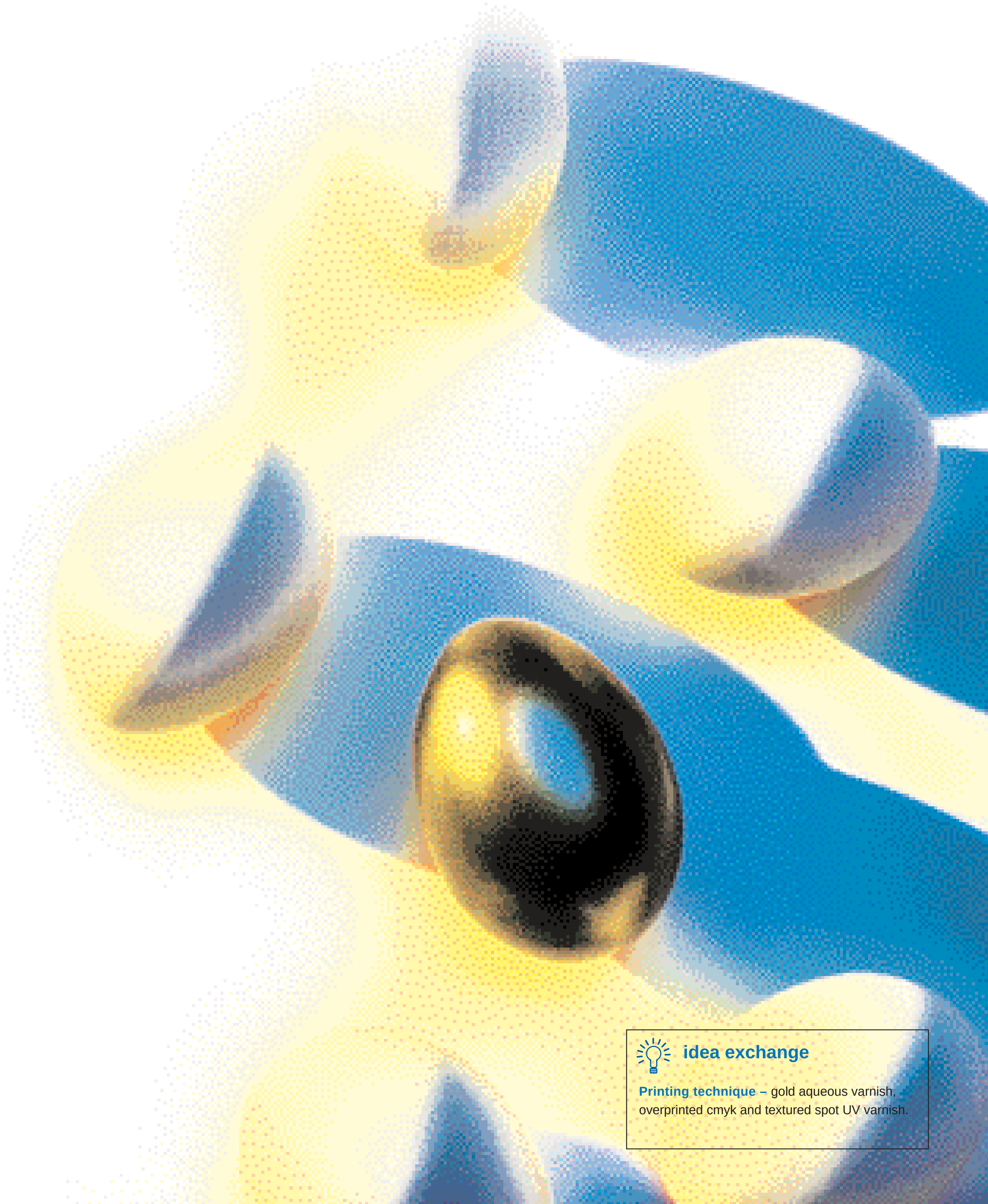
world-class assets

Strategic acquisitions. Operating scale. Optimal efficiency.

Our international acquisitions have included Hannover Papier, the market leader in Germany (acquired in 1992), SD Warren, the market leader in North America (acquired in 1994) and KNP Leykam, the market leader in Europe (acquired in 1997). Over these eight years, Sappi has added some of the lowest cost and most efficient assets in the fine paper sector to its leading Southern African asset base.

The average output per paper machine (one measure of efficiency) of our fine paper assets in Europe is 240,000 tons and in North America 175,000 tons, compared to the three largest competitors in each of these regions of 140,000 tons and 115,000 tons respectively. Our Saiccor mill is the largest and lowest cost dissolving pulp mill globally.

Sappi has clearly identified its core businesses and investment criteria and is intolerant of non-performing assets.



idea exchange

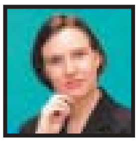
Printing technique – gold aqueous varnish, overprinted cmyk and textured spot UV varnish.

sappi people

Quality. Depth. Talent.

Our continued success is ultimately due to our people and the depth and quality of talent that comprises our organisation.

We are proud of our ability to attract and challenge people that have vision, leadership and the energy to excel.



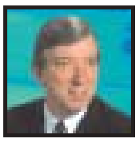
Deborah Farnaby (36), Director, Group Information and Technologies – Sappi Limited
"I thrive on challenge and in my experience Sappi provides an extraordinary working environment which encourages entrepreneurial behaviour. Developing Sappi's global technology platform has given me the opportunity to grow, develop, manage and innovate while benefiting from the experience of my colleagues."

Paul Leslie-Smith (38), Group Investor Relations Manager – Sappi Limited
"The rapid expansion of Sappi's shareholder base into the global arena has resulted in a whirlwind of interaction with financial communities spanning three continents. For me promoting Sappi in the international equity markets is an exciting experience with each day presenting its own unique challenges to be met and opportunities to be taken."

Dinga Mncube (41), Sappi Timber Industries General Manager – Sappi Forest Products
"Sappi has afforded me exciting career opportunities and strong management support. Of special note has been Sappi's Project Grow, where I have been instrumental in empowering economically disadvantaged rural communities . . . 35 small and medium micro enterprises outside of the community tree farming project now employ in excess of 1 000 people and generate a sustainable annual turnover of ZAR24 million."

Michael Spallart (39), Marketing and Sales Director Graphics Papers – Sappi Fine Paper Europe
"Every day our business provides me with challenges and scope to develop new ideas as we set about creating a competitive advantage over our competitors for our products, brands and services in such a way that merchants and specifiers (such as printers, publishers, creative agencies and the corporate customer) will insist on doing business with us."

Math Jennekens (48), Director Research and Development – Sappi Fine Paper Europe
"I am part of a team which by pooling our global resources, skills and knowledge, together with the strategic alliances we have with our suppliers, will continue to develop innovative products for our customers ahead of our competition."



Ray Parent (51), Vice-president of Technology – Sappi Fine Paper North America
"I'm a commercial technologist at heart, so it's rewarding to work for a company which is committed to innovation that drives bottom line results. Sappi recognises that being a fast second doesn't cut it. Our mission is to lead the market with profitable, innovative products faster and more frequently than anyone else. That's what drives me!"

Jennifer Miller (46), Executive Vice-president Administration – Sappi Fine Paper North America
"I'm driven – the entire Sappi team is driven – to create a blow-away competitive advantage based on a fierce customer focus. Today, our customers demand more from us. Innovative, flexible service. A keener appreciation of what drives their profitability. A commitment to execution. My goal is to channel our talent and resources to meet, and beat, customer expectations."

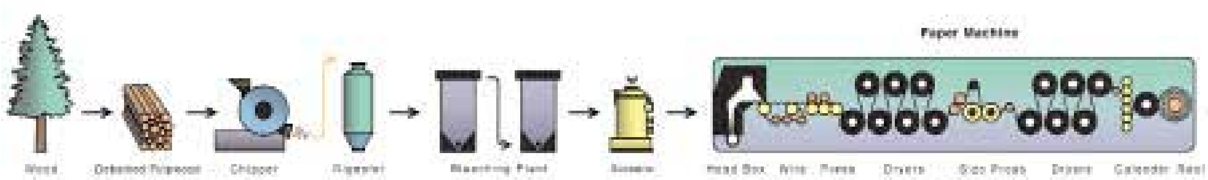
idea exchange

Printing technique – printed cmyk, hi-fi green, hi-fi blue and textured spot matt UV varnish and gloss UV varnish.

sappi at a glance

sappi limited

	operating divisions	description	share of group's sales*	share of group's operating profit* **	share of group's net operating assets* **
sappi fine paper	**Sappi Fine Paper's operations conducted from London are managed through three regional business units, Sappi Fine Paper North America, Sappi Fine Paper Europe and Sappi Fine Paper South Africa.**	Sappi Fine Paper is the leading producer of coated fine paper in North America, Europe and Africa. The Company also produces a range of uncoated graphic and business paper, coated and uncoated speciality paper and casting release paper used in the manufacture of artificial leather and textured polyurethane applications. It is approximately 55% self-sufficient in pulp.	83%	56%	75%
sappi forest products	**Sappi Forest Products, headquartered in Johannesburg, is Africa's largest forest products business. It operates three business units, Sappi Kraft, Sappi Saiccor and Sappi Forests.**	Sappi Forest Products is a pulp and commodity paper products business. It is a fully integrated business which owns and manages about 545,000 hectares of plantations and produces bleached and unbleached paper pulp for own consumption and market pulp. It is the world's largest producer of dissolving pulp. It also produces newsprint and kraft packaging paper and beneficiates wood into timber products.	17%	43%	25%



* *Sappi trading with its head office in Hong Kong, sells the Group's products internationally outside the home markets of the Company's operating divisions.*

** *Excludes corporate region.*

■■ *Pulp integration: Sappi produces unbleached and bleached paper pulp (largely for its own consumption) and dissolving pulp. The Group's total pulp demand exceeds its capacity and there are imbalances between types of pulp required, grades produced, and within regions. The Group therefore sells and buys pulp. Sappi is 90% – 95% pulp integrated post Mobile mill closure.*

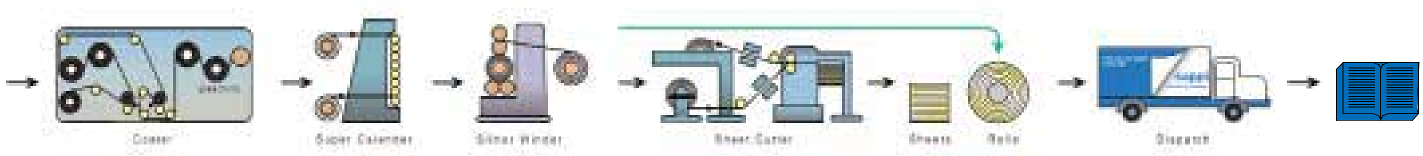
▲ *Mobile mill (capacity 290,000 tons of uncoated business etc., closed subsequent to year-end).*

• *Sappi Usutu mill manages the Usutu forests and the number of employees is included in the Sappi Usutu mill section.*

□ *Includes 213 people at Mobile mill which has since been closed.*

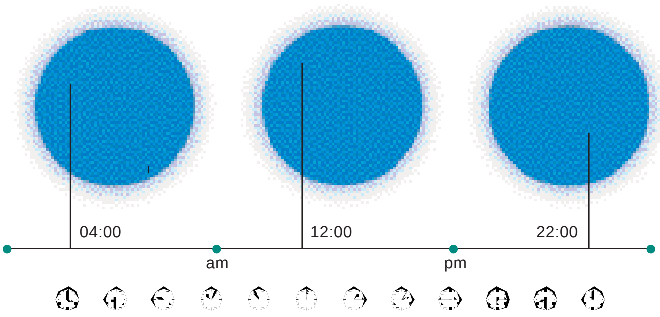
† *Including corporate, Sappi Trading and sales offices.*

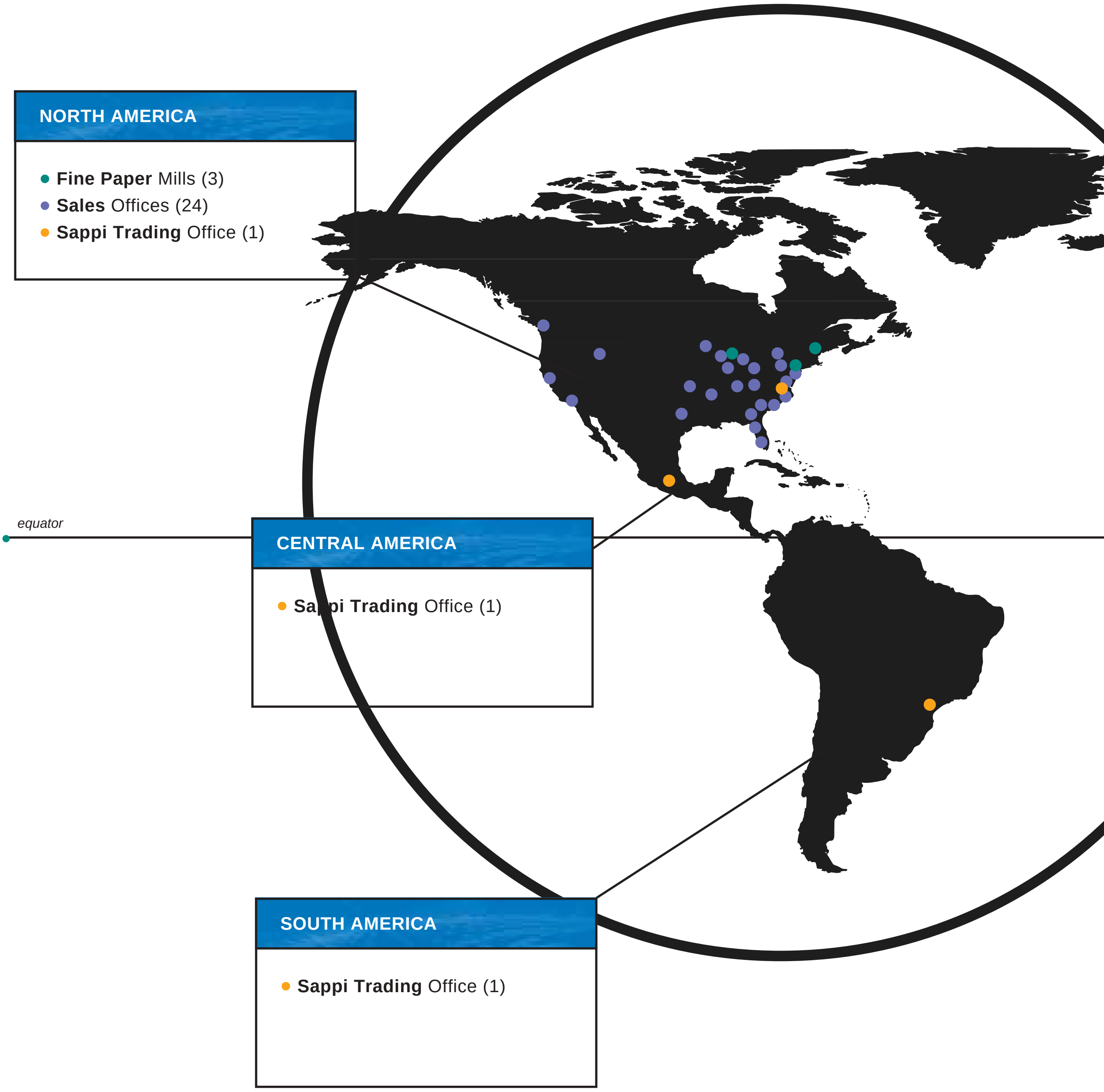
divisions	mills/factories/ plantations	products produced	capacity ('000 tons) paper	pulp■■	employees
Sappi Fine Paper North America	Mobile Mill	Uncoated business, graphic and bag paper	290▲		2,900□
	Muskegon Mill	Bleached chemical pulp for own consumption, coated woodfree graphic paper	260	110	
	Somerset Mill	Bleached chemical pulp for own consumption, coated woodfree graphic paper	730	480	
	Westbrook Mill	Coated woodfree graphic paper, coated and uncoated speciality paper	120		
Sappi Fine Paper Europe	Alfeld Mill	Bleached chemical pulp for own consumption Coated woodfree graphic paper, coated and uncoated speciality paper	350	110	5,400
	Blackburn Mill	Coated woodfree graphic paper	110		
	Ehingen Mill	Bleached chemical pulp for own consumption and market pulp Coated woodfree graphic paper	240	130	
	Gratkorn Mill	Bleached chemical pulp for own consumption Coated woodfree graphic paper	820	240	
	Lanaken Mill	Bleached chemi-thermo mechanical pulp for own consumption Coated mechanical graphic paper	470	140	
	Maastricht Mill	Coated woodfree graphic paper	320		
	Nijmegen Mill	Coated woodfree graphic paper	240		
Sappi Fine Paper South Africa	Adamas Mill	Uncoated woodfree graphic paper	40		2,000
	Enstra Mill	Bleached chemical pulp for own consumption Uncoated graphic and business paper	170	90	
	Stanger Mill	Bleached bagasse pulp for own consumption Coated woodfree graphic paper and tissue paper	110	60	



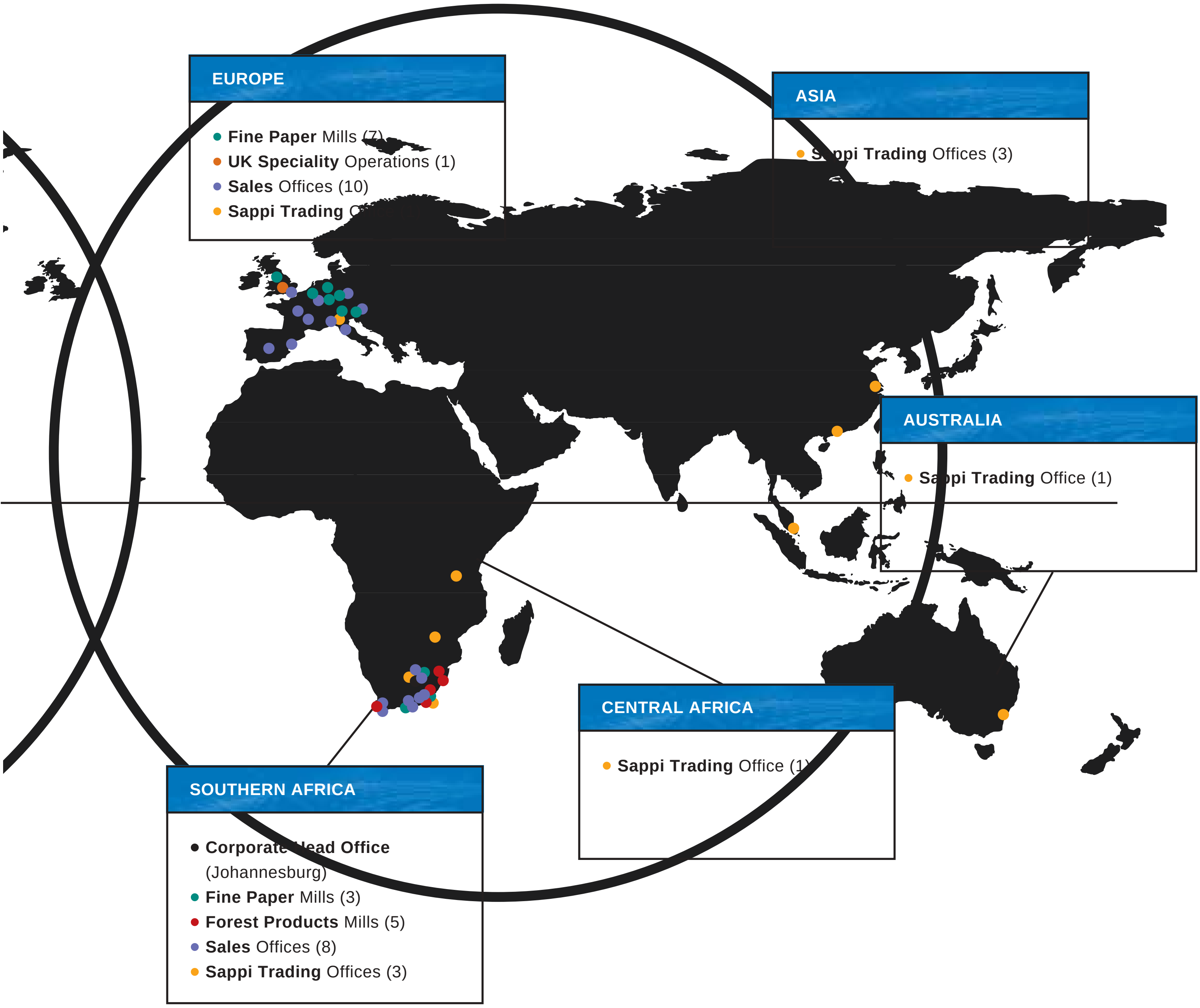
divisions	mills/factories/ plantations	products produced	capacity/hectares ('000)	paper	pulp	employees
Sappi Kraft	Cape Kraft Mill	Waste-based linerboard and corrugating medium		60		2,500
	Ngodwana Mill	Unbleached kraft pulp for own consumption, bleached chemical pulp for own consumption and market pulp Mechanical pulp for own consumption Kraft and white top linerboard Newsprint		240 140	410 100	
	Tugela Mill	Unbleached kraft and semi-chemical pulp for own consumption Kraft linerboard and corrugating medium Other kraft packaging papers		300 90	350	
Sappi Usutu•	Usutu Mill	Unbleached kraft market pulp			230	1,500
Sappi Saiccor	Saiccor Mill	Dissolving market pulp			600	1,000
Sappi Forests	KwaZulu-Natal Mpumalanga Usutu (Swaziland)	Plantations (pulpwood and sawlogs) Plantations (pulpwood and sawlogs) Forests (pulpwood)	245 ha 230 ha 70 ha			600
	Sawmills	Sawn timber	190 m^3			1,300
		Grand total		**5,100**	**3,050**	18,200†

sappi worldwide

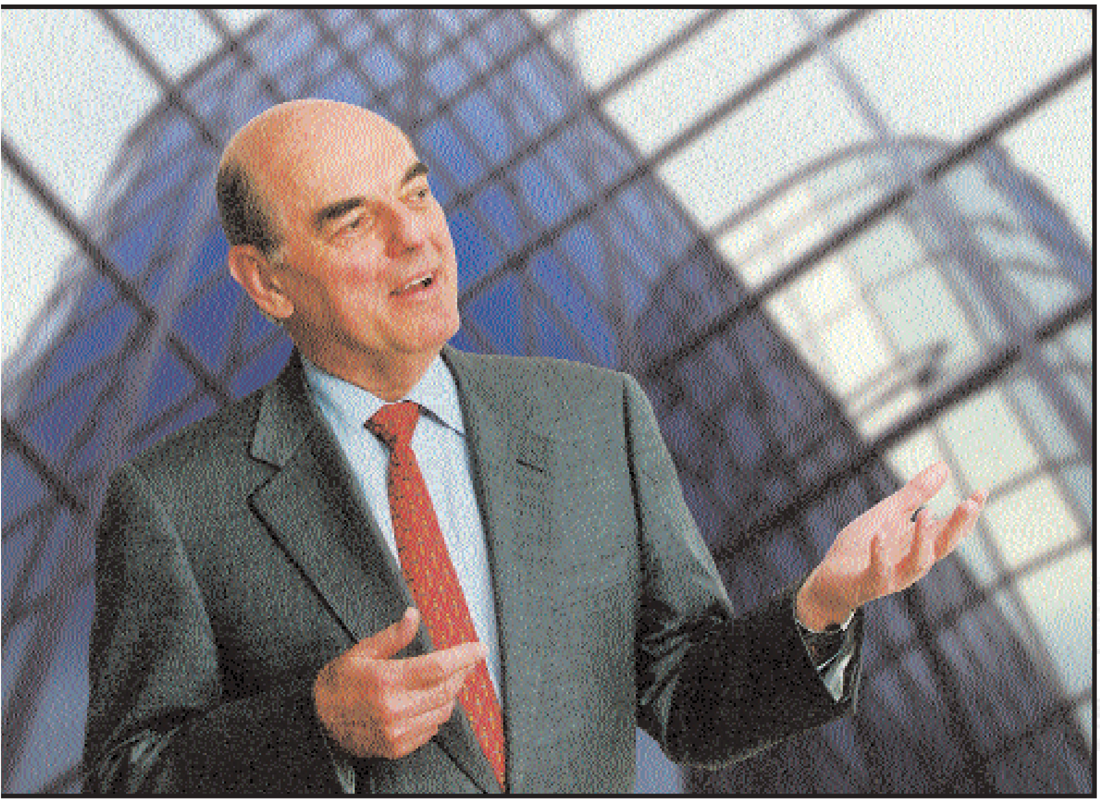




Because we have global brands and, above all, because we have a global marketing and customer service strategy, we can take advantage of changing markets.

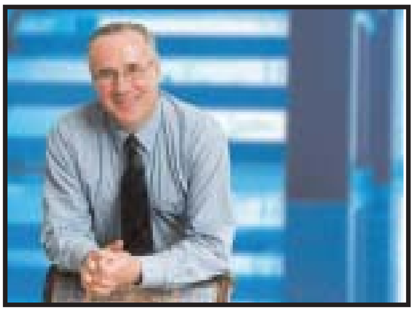


sappi executive committee



"In the year under review, which in many ways can be described as one of the most difficult in the paper industry and which may have been the bottom of the cycle, we substantially beat our cost of capital and industry norms. Our results are in large measure due to our focus and ability to shed non-performing assets when we cannot fix them."

Eugene van As (Executive Chairman)



Sappi Fine Paper – Bill Sheffield
Chief Executive Officer

"With the geographic spread of our assets we take advantage of changing markets and currencies and we have, I believe, the most productive papermaking facilities and most globally recognised brands in the world."

Sappi Forest Products – John Job
Chairman of SA Businesses

"In a tough environment both locally and internationally, Sappi Forest Products continued to generate good returns against its weighted average cost of capital. Our businesses have proved this and to South African investors, Sappi has confirmed its status as a strong Rand hedge."

Sappi Fine Paper North America – Monte Haymon
President and Chief Executive Officer

"Faced with the biggest ever decline in demand for our products in North America we focused on improving our competitiveness through rigorous cost control and increasing our range of coated fine paper for our customers."

Sappi Fine Paper Europe – Wolfgang Pfarl
Chief Executive Officer

"Our European business performed well in spite of very low demands. Inventory management and tight cost control were key contributing factors, as were our relentless endeavours to best serve our customers."

Sappi Limited – Donald Wilson
Executive Director – Finance

"The Group's debt is now well within our target range and the fine margins achieved in our Euro 900 million facility, which we raised this year, will significantly reduce our finance costs going forward."

It is a challenging environment but Sappi has the necessary strategic and operational structure in place.

Last year I discussed how the globalisation of the Group and the acquisition strategy that we followed should enable the Group to deliver a strong performance across all its markets over the cycle. Globalisation has created a Group that we believe will fare better than most of its competitors when the markets turn down as they started to do towards the end of 2000.

In a decade Sappi has transformed itself from a purely South African forest products company, exporting a modest proportion of its production, to the number one provider of coated woodfree paper in the world with the leading market shares in Europe, North America and South Africa. Some recently announced mergers and acquisitions have created potential competitors with a higher installed capacity, but in terms of real market share, we believe that Sappi still leads on both continents and is unchallenged on a global basis.

Last year some challenged the sustainability of the Group's performance. It had performed well because of a strong up-cycle, which was surely true. However, in the year under review, which in many ways can be described as one of the most difficult years in the paper industry in the last decade or two, Sappi has demonstrated for the first time since embarking on this strategy ten years ago, that the Group has the fundamentals to deliver better than average returns. I believe Sappi is now a business that can deliver more than its cost of capital through the cycle. In the past year, which may have been the bottom of the cycle, we substantially beat our cost of capital. That may not always be possible, but I am very confident that the business, as it is currently constructed, should on average meet the targets we set for it.

Following the shocking and tragic events that took place on 11 September 2001 in the United States, the world faces the spectre of global recession. The optimists may believe that it can be avoided, but the likelihood is that we face a very difficult year ahead. It is a challenging environment, but Sappi has the necessary strategic and operational structure in place to weather the storm that we face in the coming months.

One of Sappi's key strengths is its global presence. We are not focused only on Europe, North America, Africa or the East. We participate in all those markets, but our main markets are the large developed markets of Europe and North America. Even as these markets face sharp declines, which in the coated paper business may not have such a severe impact in the coming year because of the very large inventory reduction that took place in the past 12 months, their coated paper markets will continue to grow in the long term at a pace faster than all other paper products. We are, therefore, well placed to benefit from that growth when it begins to absorb excess capacity.

Sappi's acquisition of first-class assets and the rationalisation of its operations (it is seldom realised that Sappi has closed 13 paper machines since 1994) brings with it strong operating efficiencies. We have made great progress in sharing knowledge between our operations in developing best practice and having the right product in the right place at the right time. We have globally recognised brands: Magno is today the most widely distributed and recognised international paper brand in the world – both in sales and in distribution – which covers more than 100 countries. It is well supported by Somerset, HannoArt, Lustro (the world's oldest coated paper brand) and Strobe, as well as the newer brands such as Diamond.

The geographic spread of our assets is another key component to Sappi's success. In particular it allows us to take advantage of strong markets and weak currencies and, therefore, minimise the impact of the fluctuation of currencies and demand.

Because we have global brands and, above all, because we have a global marketing and customer service strategy, we can take advantage of changing markets. With the strong Dollar our European operations are able to export more products to North America. This is managed by our North American business and extends the range of our products available to the market.

The Group has followed a policy of being economically integrated into pulp and our South African forest products business is the key to the success of this strategy as it significantly reduces Sappi's exposure to the violent swings of the pulp market. Our Forest Products division is an extremely low-cost and efficient producer of pulp. It gives us a significant competitive advantage.

Perhaps one of Sappi's strongest differentiating features is its focus on developing a global information technology platform. I believe that Sappi is probably the only paper company that has one technology platform across all its businesses. This has been achieved over the last few years at great cost, but it has given us a unique capability to offer our customers an e-business facility on a global basis. Our customers order directly from us, they can visit our website, learn about our business, learn about our products and, above all, learn about the facilities which we offer them by introducing them through the Idea Exchange to the developments of their peer group around the world.

The past year saw the explosion of the **.com** phenomenon and its decline. Sappi resisted the temptation to join in many of these start-up facilities that sought to provide an instant solution to paper ordering and instant wealth to its founders. Instead we stuck to our own development platform and have also become a founding partner of the pan-European marketplace known as Expresso, which will provide the industry with specific B2B trading capacity. All of this, of course, only works when the participant has a sufficiently sophisticated front-end system for its customers. Sappi is well advanced in being able to provide that and we expect close to half the volume of our business to come in that form by the end of the next calendar year.

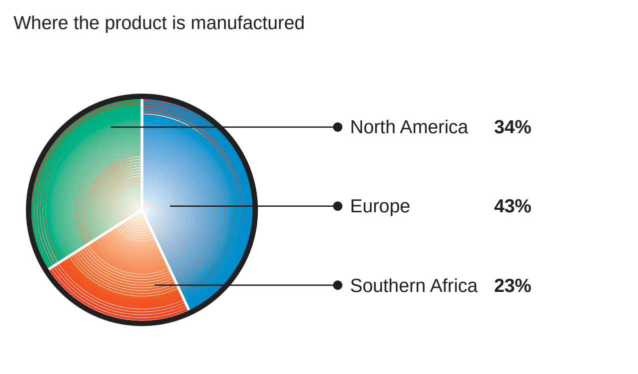
Last year the demand for coated woodfree paper, which is covered elsewhere in this document, declined sharply in the United States by 14%, the largest drop ever. There was also a very sharp decline of 8% in Europe. In both markets manufacturers curtailed output sharply to match their supply with customer demand. We controlled inventories throughout this process to our pre-determined criteria. Prices, of course, came under pressure, but the fact that there was not excessive inventory, moderated the price declines. In the USA they declined by 15% by year-end, but in Europe they held up much better declining by only 4%.

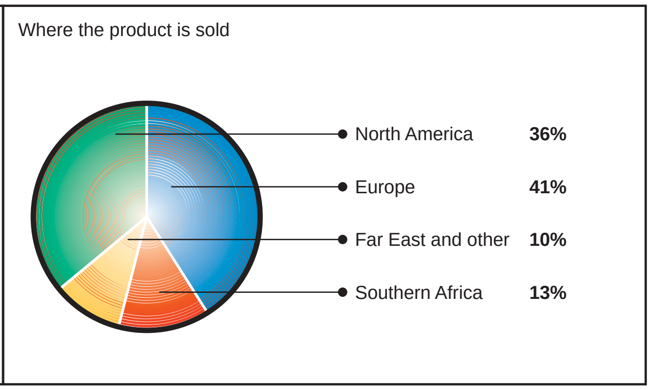
Three uncoated woodfree paper machines in Europe were converted to coated woodfree production by two major producers during the year. This added almost a million tons to capacity. In the event, this new capacity has been managed and absorbed by the industry, although a large overcapacity now exists. Logically this will in time lead to further rationalisation of uncompetitive capacity.

Sappi had a difficult year. Operating income declined by 34%, but earnings before exceptional items declined by much less because we were able to reduce our finance cost significantly and had the benefit of changed tax legislation in Germany which bolstered the Company's after-tax income. We can be pleased with Sappi's performance in these circumstances.

Geographic diversity adds strength . . .

Sales by region





Sappi's acquisition of first-class assets and the rationalisation of its operations brings with it strong operating efficiencies.

We have focused on reducing our finance costs. All the high-cost debt which we took on to buy SD Warren in 1994 will have been re-financed or repaid by December 2001, and our finance costs will drop even more rapidly in the year ahead. It was particularly encouraging when we went to the debt markets a few months ago to be able to raise €900 million on an unsecured basis at between 55 and 70 basis points above the Interbank rate. This will ensure that we have fairly low costs in the year ahead and for some time to come.

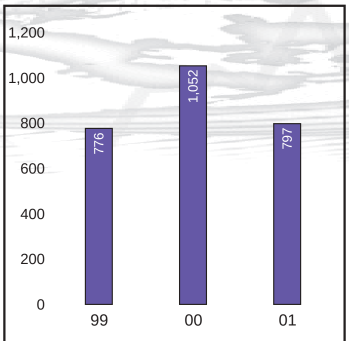
We continue to strive to get all our operating assets to optimal performance. During the year we had to close, or announce the closure of, two facilities. Our Mobile mill in Alabama, North America, which had been losing money for some time, was no longer viable and had to be closed. We took a significant cost write-off, but we should benefit by about US$35 million a year, before tax, in the years ahead. In the UK our Transcript mill, which made carbonless paper and was a non-core asset, was running at more or less break-even, but needed to invest substantially in environmental projects, and this was not viable. This mill will be closed at the end of the year.

Sappi today has a strong balance sheet. Our business continues to generate healthy cash flows and we are poised to benefit from any opportunities that arise in the market. Our share price has recovered significantly, although it is still trading at a lower multiple than most of our peer group. The Group has, however, gained recognition from investors across the world and as they get to know us better, I am hopeful that the rating will improve further.

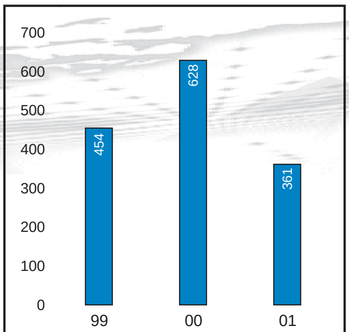
The road ahead

There continues to be a need for further consolidation in the coated paper sector, although four or five of the major producers now supply nearly 80% of the coated woodfree market in North America and Europe, it is likely that there will

EBITDA
(US$m)

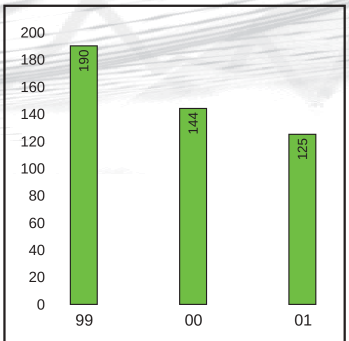


Free cash flows*
(US$m)



* Cash retained from operating activities (post net working capital movements, finance costs, taxation and dividends paid) less non-discretionary capital expenditure

Net finance costs*
(US$m)

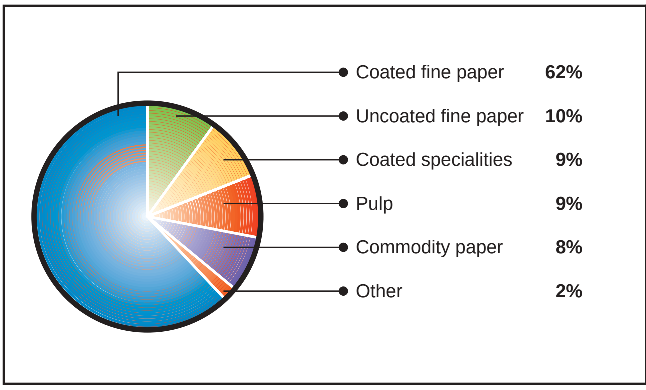


* Net finance costs before capitalised interest

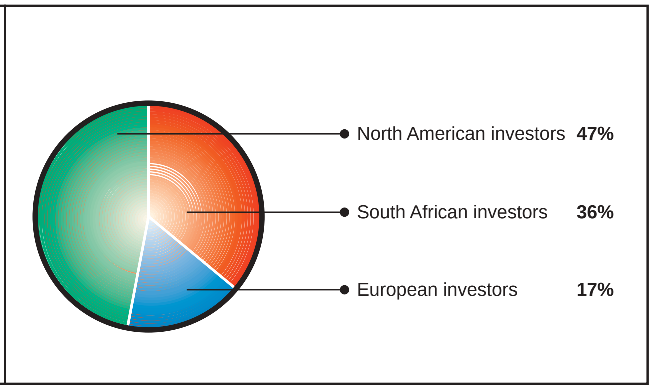
be further consolidation. Within this environment Sappi's strategy is to strengthen our leading position in this market in Europe, North America and eventually in Asia, mainly through low-cost organic growth. We also examine all acquisition opportunities and we will participate in them when they appear to be viable – when they produce a return that beats our cost of capital and are in the medium term more advantageous than buying back our own stock. We will not acquire assets simply for the sake of becoming bigger and we will continue to maintain a strong balance sheet.

In these volatile times and entering what looks like a global recession, it is very difficult to judge the year ahead. The first quarter of our fiscal year is going to be severely impacted by the effect of 11 September 2001, and further dented by two of our major profit earners, Somerset and Ngodwana, having their once-in-30-months shut in that period. In terms of the new International Accounting Standards this must now be accounted for in the period where as previously the costs were spread over 30 months. The first quarter earnings will therefore decline quite sharply from the last quarter, but we believe that earnings in the next three quarters will be similar to those in the quarters just past unless there is a further deterioration of economic conditions. There is some opportunity for them to improve if the world economy starts to recover in the middle of the year.

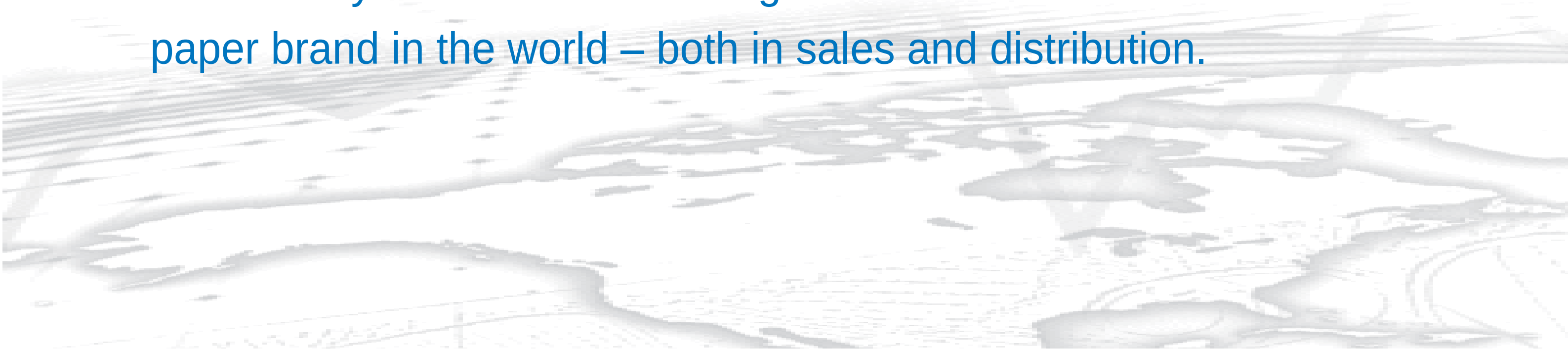
We have strong market focus . . .
Sales by product group



Our current geographic ownership . . .



We have globally recognised brands: Magno is today the most widely distributed and recognised international paper brand in the world – both in sales and distribution.



In our home market, South Africa, we have seen a further year of development and the economic outlook is positive relative to other world markets, although here too growth will be stunted. Sappi is proud of the way in which we have been able to contribute to the growth of development opportunities in the community, particularly in supporting the growth of small emerging entrepreneurs.

As we enter the new year, we also enter a period of a number of changes in Sappi's Board structure. Bill Sheffield joined us in May this year as Chief Executive of Sappi Fine Paper and joined the Board at that time. Early in the new year Monte Haymon will retire as Chief Executive of North America, although he will stay on as a Non-executive Chairman of that company to the end of 2002. At the AGM next year two of our long serving directors, Ken Lechmere-Oertel and Bill Hewitt, come up for re-election, but they have decided not to make themselves available for re-election. Both of them were executive colleagues of mine over many years and have continued to offer counsel after their retirement. On behalf of the Board I thank them both for their guidance and commitment to Sappi. These changes have caused the Board to relook at its structure. It will seek to broaden its composition and representation over the next few months.

Next year I will retire as Chief Executive and the Board announced at our results announcement last month that it is their intention to evaluate internal and external candidates during the course of the year and to make an announcement on the new Chief Executive towards the middle of 2002. They have asked me to stay on the Board as Non-executive Chairman to help effect the transition in the leadership of the Company, which I am delighted to be able to do.

In conclusion I want to thank all Sappi employees for the special efforts they made in this last year, which has been challenging. To my colleagues on the Board, thank you for your counsel and guidance.

questions and answers

Eugene van As answers some questions concerning Sappi

Question

Has the recent share performance been driven by the prospects of a bid for Sappi?

Answer

It is clearly inappropriate ever to comment on rumours of a bid. As far as the share performance is concerned we believe the improvement since January 2001 reflects our changing shareholder base and our performance relative to the peer group. It is encouraging but the gap between us and our peers remains disappointing, particularly when measured in US Dollars. Our results in a very difficult year show the relative quality of our assets and the fundamental strength of our market position. Our cost management, financial discipline and our balance sheet also reflect our strength. Further, for our South African investors Sappi's shares are a good Rand hedge.

Question

Can Sappi continue to grow in its chosen sector – coated woodfree paper?

Answer

There is still significant scope to grow our market shares and to expand into other markets. The coated woodfree sector has itself averaged a compound growth of 7% per annum over the last decade, notwithstanding the cyclical decline in 2001. We will achieve this growth through taking advantage of value-adding bolt-on acquisitions and through organic growth opportunities.

Question

Is Sappi committed to the share buy-back programme and what are Sappi's priorities for free cash flow?

Answer

Sappi has budgeted to continue the share buy-back programme in the new financial year and believes that this is the optimal way to maximise shareholder value if we don't find any other suitable investment alternatives. We are focused on the efficient deployment of capital. Our first priority is to reinvest to maintain the strength of our current business. Thereafter we will apply capital to the repurchase of shares and the repayment of debt to maintain an efficient capital structure. Acquisitions, in addition to beating our cost of capital, must be better over the medium term than buying back shares.

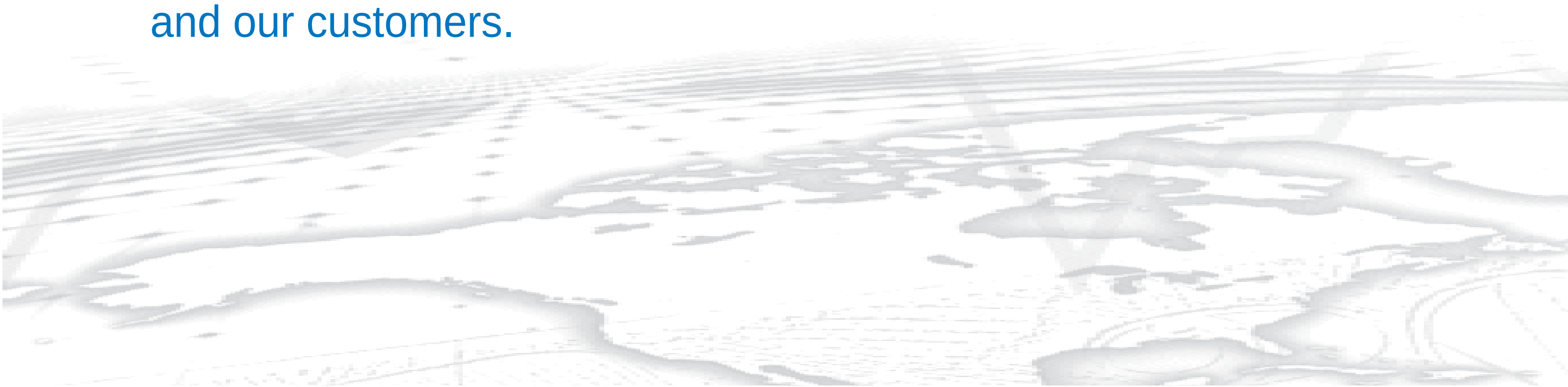
Question

Sappi's US shareholder base has grown rapidly over the last year. Is this a priority for the Company?

Answer

The US has been a priority because of the size of its capital markets and its paper sector and the relative values of companies in the paper sector.

We intend to be the foremost company in our sector in terms of creating value for our shareholders and our customers.



Sappi also believes that its shareholder base should more or less reflect the location of its operations (in terms of assets and turnover). We will continue to develop interest in our share in the UK and Europe, North America and South Africa, and to actively communicate with investors everywhere.

Question

What is Sappi's vision of its future?

Answer

We intend to be the foremost company in our sector in terms of creating value for our shareholders and our customers. We will do this by continuing to grow the value-adding parts of our business and eliminating underperforming assets, as we have shown this year.

We have chosen the fast-growing coated fine paper sector, in which we already have leading market shares, which we intend to grow. We will continue to apply technology and to innovate to develop new products for our customers, and more effective ways of manufacturing and distributing them. We will support our focus on coated woodfree paper with a high level of pulp integration with the objective of reducing the average cost of pulp to the Group and protecting us from pulp volatility.

Question

With you approaching retirement, who will lead Sappi to fulfil this vision?

Answer

The Sappi Board has announced the process through which succession will be achieved when I retire late next year. The Board is looking externally and internally for the best candidate to run this global business and expects to be able to make a further announcement towards the middle of 2002.

As Non-executive Chairman I will be available to provide some continuity and to act as a sounding board for the new Chief Executive. The new CEO will, however, take over the leadership of the Group.

sappi board

Executive Directors

Eugene van As (62), Executive Chairman. Eugene van As joined Sappi in 1977 as the Managing Director of Sappi Kraft (Pty) Limited. In 1978, he was appointed Group Managing Director and Chief Executive Officer, Sappi Limited, becoming Executive Chairman in 1991. He is also a Director of the Council for Scientific and Industrial Research, Chairman of the African Self Help Association and Chairman of Business South Africa. Mr van As was appointed to the Board of Sappi Limited on 21 January 1977.

Monte Roy Haymon (64), Bachelor of Science in Chemical Engineering, President and Chief Executive Officer of Sappi Fine Paper North America since 1 October 1995. Previously he had been President and Chief Operating Officer of Ply-Gem Industries and, for 13 years, President and Chief Executive Officer of Packaging Corporation of America, a division of Tenneco Inc. Mr Haymon was appointed to the Board of Sappi Limited on 10 October 1995.

John Leonard Job (56), BSc Hons (Rand), PhD (McGill), Executive Director and Chairman of Sappi SA businesses. Dr John Job joined Sappi in July 1999 and was appointed to the Board on 1 August 1999. He has 25 years' experience in the chemical industry and was the former Chief Executive Officer of Sentrachem, which was acquired by Dow Chemical in 1997. He is a Director of the National Research Foundation of South Africa.

Wolfgang Pfarl (56), Dipl Kfm, Chief Executive Officer of Sappi Fine Paper Europe. Wolfgang Pfarl was appointed to his present position with the completion in December 1997 of Sappi's acquisition of KNP Leykam. In 1989, Wolfgang Pfarl was appointed Chairman of the Executive Board of Leykam-Mürztaler and became Executive Chairman of KNP Leykam after the merger in 1993 of the fine paper production activities of N.V. Koninklijke KNP BT (now Buhrmann NV) and the Austrian paper producer Leykam-Mürztaler. Mr Pfarl was appointed to the Board of Sappi Limited on 31 December 1997.

William Herbert Sheffield (53), BSc (Chemistry), MBA, Chief Executive of Sappi Fine Paper. Prior to joining Sappi on 1 May 2001, Bill Sheffield spent 13 years in the newsprint business with Abitibi Consolidated, most recently managing Abitibi's international business. He was a founding board member of Pan Asia Paper, the Asian newsprint joint venture based in Singapore. Previous positions include Logistics, Marketing, Operating and a 17-year career in the North American steel sector. Mr Sheffield is a Canadian citizen, currently residing in London.

Donald Gert Wilson (44), BCom CTA, Chartered Accountant (South Africa), Executive Director – Finance of Sappi Limited. He joined Sappi in April 1999 and was appointed to the Board on 27 May 1999. He has held various executive financial positions in the Barloworld Group, a South African-based international industrial corporation, mainly within their Caterpillar earthmoving division.

Non-executive Directors

David Charles Brink (62), MSc Eng (Mining), DCom (hc). Dave Brink is currently the Executive Chairman of Murray and Roberts Holdings Limited, Deputy Chairman of ABSA Group Limited and of ABSA Bank Limited, Chairman of Unitrans Limited, a Director of BHP Billiton plc and of BHP Billiton Limited, and a Director of Sanlam Limited. Mr Brink was appointed a Non-executive Director of Sappi Limited on 8 March 1994 and is currently Chairman of the Human Resources Committee and a member of the Nomination Committee of the Board of Directors of Sappi Limited.

Thomas Louw de Beer (66), Chartered Accountant (South Africa). Tom de Beer was appointed Chief Executive, Finance, of General Mining and Finance Corporation Limited in 1978 and as Financial Director of Gencor Limited in 1983 in which capacity he remained until Gencor's unbundling in 1993. He is currently Chairman of Genbel South Africa Limited. He is also a Director of Genbel Securities Limited, Gensec Bank Limited and Iscor Limited. Mr de Beer is a member of the Audit Committee and the Human Resources Committee of the Board of Directors of Sappi Limited and Chairman of the Audit Committee of Sappi Forests Products and Sappi Fine Paper South Africa. He was appointed a Non-executive Director of Sappi Limited on 28 February 1981.

John Steele Chalsty (68), BSc Hons (Wits), MSc (Wits), MBA (Harvard). John Chalsty is Senior Adviser to Credit Suisse First Boston, the international investment bank. He previously served as the Chairman of the Board of Directors and former Chief Executive Officer of Donaldson, Lufkin and Jenrette Inc. and as Vice-chairman of the New York Stock Exchange Inc. He is a member of the Board of Directors of AXA Financial Inc., Occidental Petroleum Company and Metromedia. Mr Chalsty was appointed to the Board of Directors of Sappi Limited on 1 August 1998. Mr Chalsty is a member of the Audit Committee of the Board of directors of Sappi Limited and Chairman of the Audit Committee of Sappi Fine Paper North America.

William Edward Hewitt (66), Chartered Accountant (South Africa) A.C.M.A. Bill Hewitt qualified as a chartered accountant in 1957. He has held executive financial positions in the motor, steel, transportation and retailing sectors and was Group Financial Director, Toyota (South Africa), until 1987. He was appointed Executive Director – Finance of Sappi Limited in 1987, a position he held until his retirement on 31 May 1999, and was appointed to the Board of Sappi Limited on 1 September 1987. He continues to serve as a Non-executive Director of Sappi Limited.

Derek Nigel Anthony Hunt-Davis (65), Chartered Accountant (South Africa). Derek Hunt-Davis retired as an Executive Director of Sankorp Limited in 1994. He served as Chief Accountant and Chief Financial Officer of the Industrial Development Corporation prior to becoming Group Financial Director of the Premier Group Limited in 1982. Mr Hunt-Davis was appointed a Non-executive Director of Sappi Limited on 19 February 1990 and is currently Chairman of the Audit Committee and of the Nomination Committee of the Board of directors of Sappi Limited.

Klaas de Kluis (65). From 7 January 1998 until 27 July 1998, Klaas de Kluis acted as Chairman of the Executive Board of N.V. Koninklijke KNP BT (now Buhrmann NV). He held the position of Vice-chairman of the Executive Board of N.V. Koninklijke KNP BT from March 1993 to April 1996. Presently he is a member of the Supervisory Board of Buhrmann NV as well as a number of public and private companies in the Netherlands. Mr de Kluis is a member of the Audit Committee of the Board of Directors of Sappi Limited and Chairman of the Audit Committee of Sappi Fine Paper Europe. Mr de Kluis was appointed to the Board of Sappi Limited on 13 January 1998.

Kenneth Richard Lechmere-Oertel (61), BSc (Chemical Engineering). After having worked in various capacities with Wiggins Teape and the Lion Match Group, Kenneth Lechmere-Oertel joined Sappi as Managing Director, Sappi Fine Paper South Africa, in 1978, was appointed as an Executive Director of Sappi in 1981 and was appointed to the Board of Sappi Limited on 6 March 1981. In 1992, he was appointed Executive Director, Sappi, with particular responsibility for special projects. He retired as an Executive Director in 1996, but continues to serve as a Non-executive Director of Sappi Limited.

Franklin Abraham Sonn (62). Originally a graduate of the University of the Western Cape and Unisa, Dr Franklin Sonn subsequently received nine doctoral qualifications in law, education, humanities and philosophy from various institutions in Europe, North America and South Africa. Dr Sonn was the South African Ambassador to the United States from 1995 to 1998. Prior to this position, he was a board member of seven major South African banks and businesses and he currently serves on the boards of a number of South African companies. He was appointed to the Board of Sappi Limited on 1 July 1999.

Andries Gert Johannes Vlok (66), BSc, Hons B (B&A). André Vlok spent virtually the whole of his career with Sappi, joining as a technical assistant in 1962. He progressed through various positions within Sappi including Mill Manager and Managing Director of subsidiary companies and was appointed Technical Director in 1988. He was appointed a Director of Sappi on 15 February 1983. He retired as an Executive Director in December 1998, but continues to serve as a Non-executive Director of Sappi Limited.

leading the fine paper market

"We are in all the high-end coated paper markets that count. Being the most global coated fine paper company, we have significant production capacity in Europe, North America and South Africa and market presence throughout the rest of the world. This global positioning helps us deliver results in difficult times."

Bill Sheffield – Chief Executive Officer – Sappi Fine Paper

OVERVIEW

Sappi Fine Paper is a global business with manufacturing assets in eight countries on three continents, and customers in over 100 countries.

Total paper capacity of 4.3 million tons and total sales of US$3.4 billion.

We are the recognised global leader in coated fine paper and have significant market share in all the key international markets.

– North America	**22%**
– Europe	**20%**
– Africa	**60%**

Our fundamental strengths lie in:

- **our focus on high-end branded coated paper (with well known brands such as Magno and Somerset);**
- **our focus on driving growth through product and technological innovation;**
- **the scale and efficiency of our operating assets; and**
- **the geographic spread of our manufacturing base and distribution network.**

We are building a solid track record of profitability, with returns exceeding our cost of capital even in one of the poorest years in the industry.

Strong cash flow generation despite poor trading conditions.

An efficient and well-maintained asset park with machines largely based in the North American and European markets.

MANAGEMENT

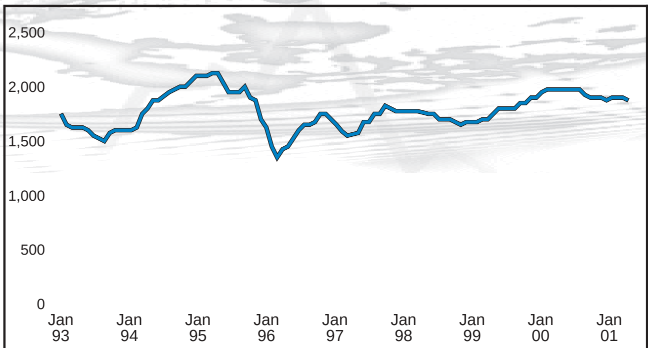
Bill Sheffield	Chief Executive Officer
Monte Haymon	President and Chief Executive Officer, North America
Wolfgang Pfarl	Chief Executive Officer, Europe
Albert Lubbe	Managing Director, South Africa
Hank Mollenhauer	Marketing and Sales Director
Doeko Bosscher	Technical Director
Mike Turner	Chief Financial Officer

MARKETS AND OPERATING PERFORMANCE

It was a difficult year in the coated fine paper markets, particularly in North America, which experienced its biggest ever decline in apparent demand. A significant portion of reduced North American shipments was due to de-stocking amongst merchants, printers and publishers. Local US producers were further impacted by increasing exports from Europe and Asia. This resulted in significant pressure on price and volume. We are very proud that in spite of the difficult conditions, we outperformed our US competitors and that our brand equity resulted in a gain in market share. Our North American business responded to this softening market with production curtailment, rigorous cost control and was assisted by the falling pulp price.

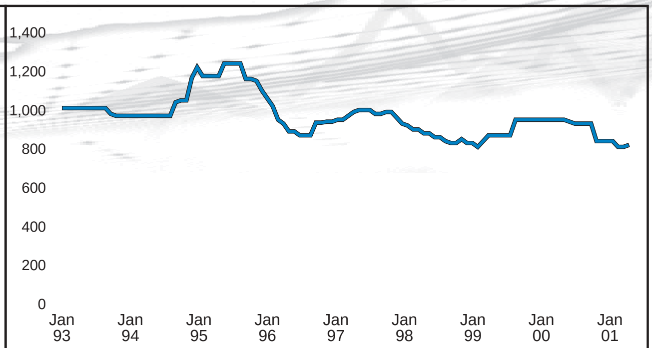
In Europe there was also a significant decline in orders throughout the coated fine sector as the inventory chain was reduced. Producers curtailed approximately 2 million tons of production in Europe to keep supply and demand in balance.

Coated woodfree prices – Germany
(DM/metric ton**)
90 gsm sheets



** *Prices are list prices. Actual transaction prices could differ from prices depicted in the graph.*
Source: Pulp and Paper Week

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



** *Prices are list prices. Actual transaction prices could differ from prices depicted in the graph.*
Source: Pulp and Paper Week

sappi fine paper (continued)

Key figures

	2001	2000
Sales volumes (metric tons '000)	**3 694**	3 970
Sales (US$ million)	**3 452**	3 828
Operating profit (US$ million)	**248**	451
Operating margin (%)	**7**	12
EBITDA (US$ million)	**513**	728
EBITDA margin (%)	**15**	19
Net operating assets (US$ million)	**2,444**	2,653
Return on net operating assets pa (%)	**10**	16

Against a background of declining demand, Sappi Fine Paper Europe performed well due to a relentless focus on managing fixed costs, curtailing production to match demand and by driving maximum efficiency from operations.

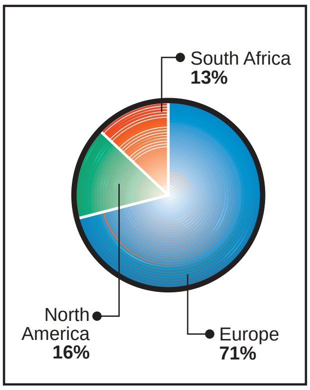
Sappi Fine Paper South Africa had an excellent year, producing record profits in Rand terms. It recovered its coated paper market position in South Africa, which had been eroded in the previous year by imports. The uncoated and tissue markets remained strong. As in the other producing regions, tight cost control and lower pulp prices assisted performance.

In general, having achieved the synergies available through acquisitions made over the last decade, management continued to focus on costs at the current asset base and making decisions on non-performing assets. Some specific actions taken during the year included the closure of the Mobile mill in North America with anticipated benefits of US$35 million before tax in a full year. In addition, the intention to close the non-core and non-performing Transcript mill in Scotland was announced on 9 October 2001.

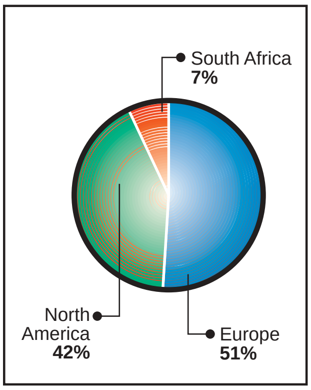
Capital expenditure

Investment for the year was US$250 million, 137% of last year and 97% of depreciation.

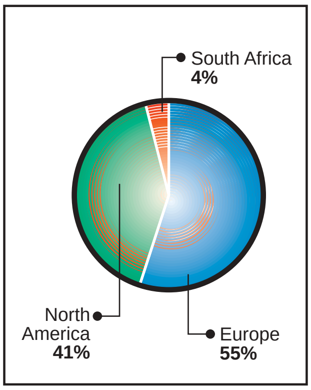
Share of division's operating profit



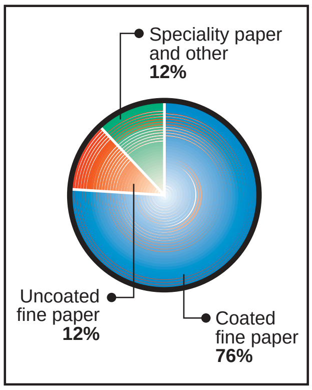
Share of division's sales



Share of division's net operating assets



Share of division's sales by product



Investment focused on high return projects. At Muskegon in North America, Gratkorn in Europe, and Stanger in South Africa, major projects were completed to upgrade operating equipment. These projects will improve product quality and reduce costs. In addition, increased capacity was created, although this will not be utilised until customer demand picks up. All our mills in North America are now in compliance with the US environmental regulations ("cluster rules").

Product and brand development

Fine Paper's strategy of focusing on brand equity continued to reap benefits. The strength of many of the Group's European products, such as HannoArt and Magno, creates meaningful opportunities for growth. For example, these products are now penetrating new markets in North America and gaining rapid acceptance. More than 80% of our products are sold under Sappi brands.

The Group's ability to use innovative coated paper technology to grow was also demonstrated by the continued strong performance from the unique Ultracast product used to transfer textured designs to artificial leather and other fashion fabrics.

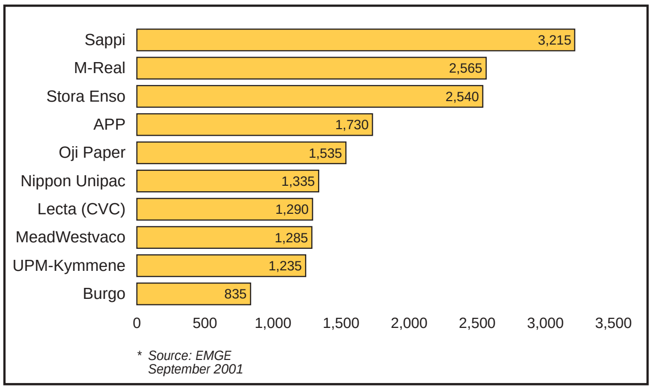
Another successful brand, Lusterprint, which is used in the production of pet food bags in North America was retained following the closure of Mobile by transferring its manufacture to other Sappi mills.

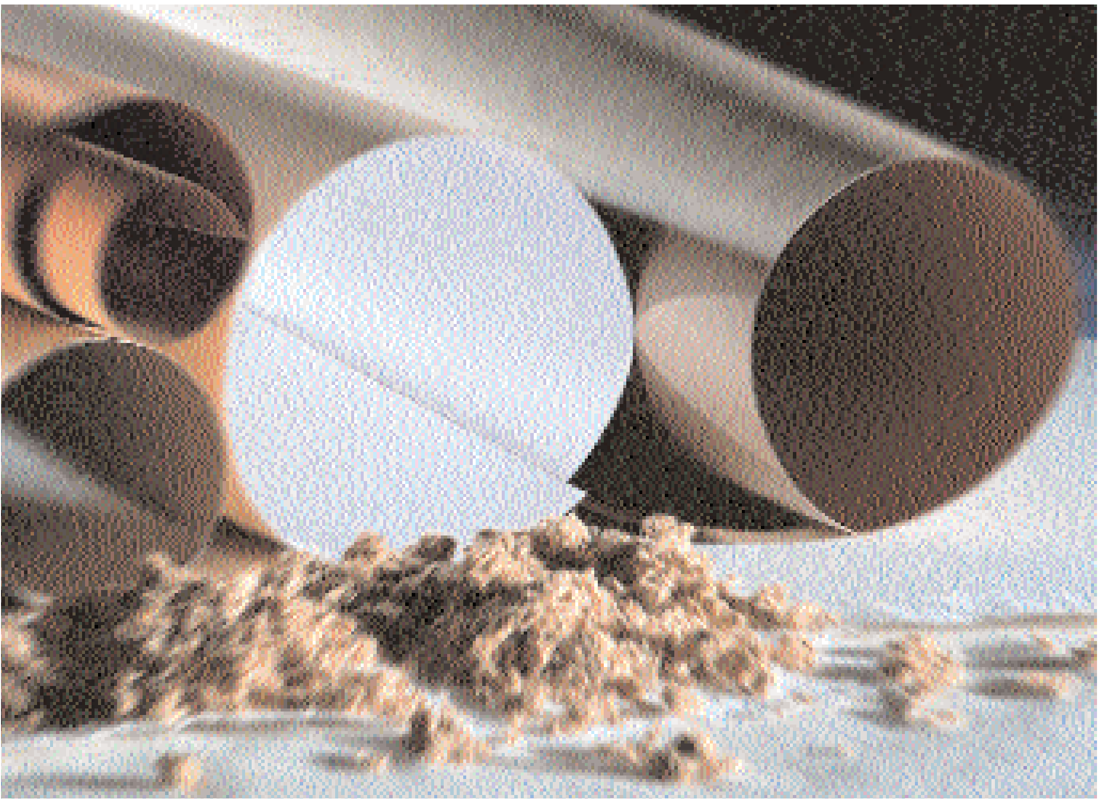
Outlook

Looking forward it is anticipated that North America will feel the brunt of a difficult first financial quarter. It is too early to predict when the world economy will turn or the extent of the impact of recent events on the pulp and paper industry.

Due to its low cost base, global brands and financial strength Sappi Fine Paper is well positioned to either withstand further difficulties should they continue in the ensuing quarters, or quickly benefit from any sudden re-bound in advertising and consumer confidence.

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





delivering good results

"Forest Products has in its portfolio the largest and most efficient mill of its kind in the world. Saiccor's delivered cost to market, anywhere in the world, is much lower than the next biggest player."

John Job – Chairman of South African Businesses

Overview

Sappi Forest Products provides the Group with a pulp revenue stream which hedges the pulp purchases of the global fine paper business. This is integral to Sappi's strategy as it reduces the Group's exposure to the swings in the global pulp price.

The fundamental strength of this business lies in its low cost of fibre production, which arises from it operating out of South Africa combined with a relentless focus on cost control.

Products include dissolving pulp (in which we have a leading market share worldwide), kraft pulp, containerboard, packaging paper and newsprint, and solid wood products. The division owns and manages about 545,000 ha of fast growing pine and eucalyptus plantations in Southern Africa.

Forest Products enjoys leading market shares in South Africa.

• Containerboard	**50%**
• Sackkraft	**90%**
• Newsprint	**40%**

Forest Products contributed 17% to Group sales and 43% to Group operating profit.

EBITDA margin of 38% reflected very strong cash flows. Return on net operating assets was 22%, far exceeding the business' cost of capital.

Management

John Job	SA Chairman and CEO Forest Products
Andrew Carr	Managing Director – Sappi Kraft
Brian Dick	Director, Human Resources
Andrea Rossi	Director, Strategic Projects
Alan Tubb	Managing Director, Sappi Saiccor
Jan Labuschagne	Finance Director
Bertus van der Merwe	Technical Director
Andre Wagenaar	Managing Director, Sappi Forests

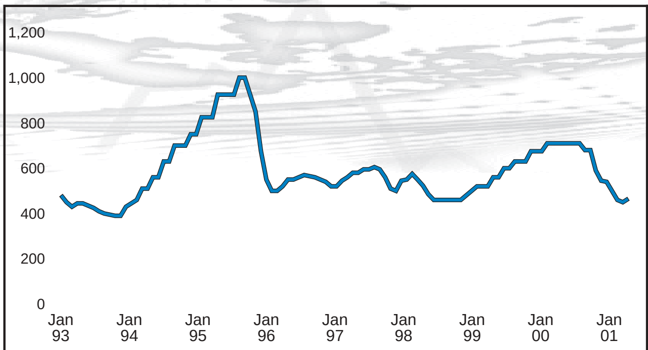
Markets

Pulp markets remained weak throughout the year with paper pulp prices starting the year at US$710 per ton and ending the year at US$450 per ton. Producers continued to curtail production and by year-end inventories of the North American and Scandinavian products had dropped to almost 1.5 million tons (26 days of supply) and price increases of US$30 per ton were announced for October.

Operational performance

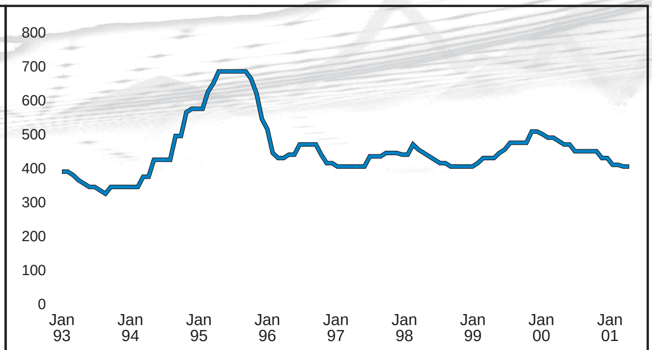
Despite the significant reduction in the pulp price the Forest Products business delivered good results, due in the main to our low input costs, our focus on the containment of fixed costs and our on-going efforts to drive greater operating efficiencies. In a tough environment both locally and internationally, we were extremely pleased that we continued to generate good returns against our cost of capital.

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



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

Kraft linerboard
(US$/metric ton**)
CIF Northern Europe



*** Prices are list prices. Actual transaction prices could differ from prices depicted in the graph.*
Source: Pulp and Paper Week

Key figures

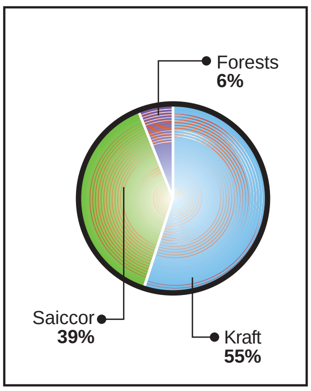
	2001	2000
Sales volumes (metric tons '000)	**2,412**	2,770
Sales (US$ million)	**732**	890
Operating profit (US$ million)	**194**	224
Operating margin (%)	**27**	25
EBITDA (US$ million)	**280**	327
EBITDA margin (%)	**38**	37
Net operating assets (US$ million)	**825**	941
Return on net operating assets pa (%)	**22**	21

The Kraft division enjoyed a record year, with the Kraft mills collectively producing more product than ever. We are very proud of this performance, which resulted from a concerted marketing and sales effort particularly into international markets where most of the growth was generated. The South African markets remained robust.

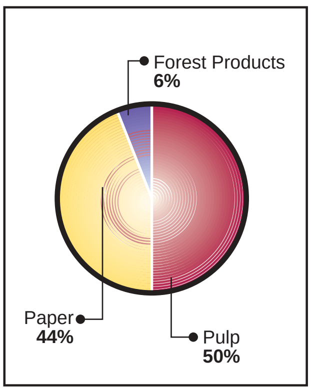
Saiccor maintained good margins, despite a decrease in both volume and price as a result of soft cellulose markets. During the year production was curtailed by 100,000 tons to match reduced world demand.

At Sappi Usutu production was stabilised at a substantially higher level than prior years. We are currently undertaking a major restructuring exercise at Usutu, particularly focusing on the infrastructure and cost base. Once this process is finished we anticipate significant benefits in the future.

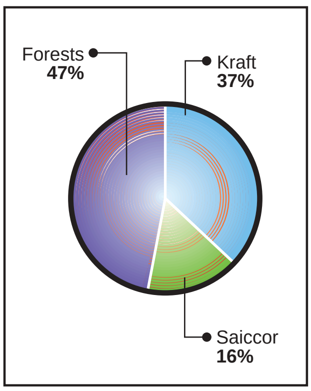
Share of division's sales



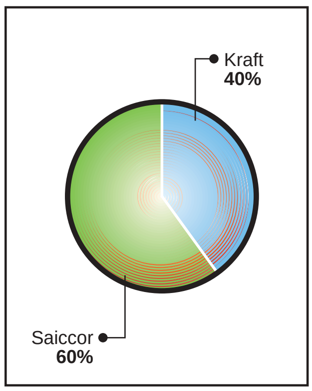
Share of division's sales by product



Share of division's net operating assets



Share of division's operating profit



Saiccor developed a higher purity pulp and a broader spectrum of products resulting in a greater range of customers' end-uses. Having made sizeable investments in R&D facilities and staff during the year, we anticipate further innovations in the areas of product and process developments.

Capital expenditure

Total investment in Forest Products for the year (excluding plantations) was US$43 million which was 22% higher than last year. Capex was focused on areas of environmental management and maintaining the existing business.

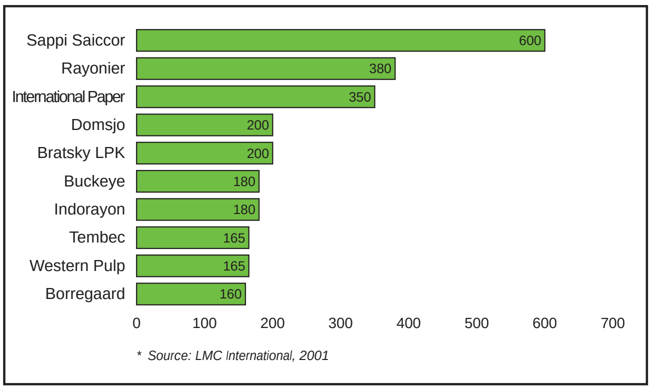
Outlook

There is some evidence that the global pulp market has reached the bottom and that production discipline has paid off with inventories well down.

However, the general environment is expected to remain tough. Demand for Saiccor's products is expected to remain under pressure mainly due to significant inter-fibre competition, however the mill's low cost structure will help it withstand better than most, what we expect to be a challenging trading environment.

It is expected that the domestic containerboard market will remain firm on the back of robust agricultural output.

Sappi's global position – capacity ('000 tons)
Dissolving pulp



sappi's people

People underpin our world-class operations. At Sappi we are committed to the health, welfare, safety and personal growth of all our staff. We are also committed to the communities in which our operations are based and from which we draw the majority of our staff.

The global nature of the Company presents particular personnel challenges and opportunities for us. We are proud of our more than 18,000 staff from diverse cultures who work in 18 mills in eight countries, and four corporate and more than 50 sales offices in 16 countries. We actively encourage our staff to fulfil their potential and offer pertinent training and development through in-house training and tertiary education. We create cross-regional cluster groups to deal with content and process issues affecting the Company and we set minimum standards for health and safety across the Group.

In November 2000, Sappi introduced the Sappi Academy to accelerate the development and growth of our management resources. Selected personnel are exposed to training and discussion topics such as Sappi as a global company, its strategic direction, organisational and management structure and its culture. It is anticipated that the outcome of the Academy will be the development of ever-improving inter-regional collaboration, global networking and action-orientated results. Based on its successful launch, the initiative is now being driven worldwide.

Our focus on safety initiatives continues to provide good results with safety incidents in Europe down a further 26% and in the USA down a further 15% from the previous year.

During the year under review Sappi closed an operation in North America and announced the closure of one in Scotland. The Company is sensitive to the effect on employees of such closures and separation benefits, including outplacement support services, have been provided to affected employees.

As a result of our focus on core businesses, Sappi also sold off the South African mining timber operation to a management consortium, allowing its employees to develop in new directions.

Sappi is responsive to the needs of the communities in which it operates. In South Africa, Sappi focuses on educational support in science, mathematics and technology for grades 10 – 12 children from previously disadvantaged communities, as well as upgrading teachers' skills in these subjects. Our American operations focus on volunteer efforts and support for the youth through local community organisations.

Sappi strongly believes that education and training, in the Company and the community, are fundamental to its long-term success.

environmental commitment

Sappi is committed to the continuous improvement of our environmental management through the principles of sustainable development. We manage the natural resources on which we depend in an inclusive manner, taking full account of the importance of being socially responsible while achieving long-term growth through sound economic performance.

To do this in a consistent way, we implement internationally recognised environmental management systems throughout all our operations. Six of our seven European mills have common ISO 14001 and ISO 9001 certificates. In the UK, Nash mill is ISO 14001 certified and Blackburn mill is expected to be ISO 14001 compliant in 2002. Three European mills also have the European-specific Eco-Management and Audit System (EMAS) certification.

All our North American operations apply the principles of ISO 14001 while complying with the environmental and health principles developed and monitored by the American Forests and Paper Association.

In South Africa, Sappi's forests are ISO 14001 certified. Three Sappi mills received their ISO 14001 certificate and the remaining five expect certification by the end of 2002.

Legislation

In each of its regions Sappi is regulated by a wide range of laws which amongst others address issues such as waste management, air and water emissions, odour, noise and energy consumption. Through industry forums Sappi is actively involved in developing new policies and regulations which affect the pulp and paper industry. This is particularly relevant in parts of Europe and in South Africa.

Regulations in all countries in which we operate require that prior to any planned expansion an environmental impact assessment of our project is conducted. Sappi proactively engages in these processes to ensure that our current and planned operations (and expansions) meet requirements.

In Germany, the European Integrated Pollution Prevention Control (IPPC) Directive requires both Alfeld and Ehingen mills to meet new requirements in the pulp mills' effluent treatment and the use of metal chelating agents by 2003.

Sappi in North America completed capital investments and equipment upgrades necessary to comply with the US Environmental Protection Agency "Cluster Rule" regulations. Both Somerset and Muskegon mills completed testing and licensing requirements prior to the April deadline. Capital investments at Muskegon mill resulted in the elimination of elemental chlorine from the pulp bleaching process.

In June 2001, all Sappi mills and forests in South Africa registered their use of water in terms of the new National Water Act. In line with future requirements of the Act and in conjunction with regional and national authorities, Sappi has instituted a process to develop integrated water and waste management plans in all its mills to reduce water use (already at very low levels compared to our international peer group), recycle water where possible and to improve on the quality of the liquid effluent.

Investment in environmental projects

Sappi considers environmental operating expenses as part of normal operating costs and therefore does not account for them separately. However, we do separately account for environmental capital expenses. In the year under review we spent €4.5 million in Europe, US$38 million in North America and ZAR52 million in South Africa on capital projects that control air and water emissions or otherwise create an environmental benefit.

Sappi continues to invest in projects to reduce solid waste requirements, improve water utilisation, reduce wastewater and air emissions.

- **Waste management and water treatment**

  – Improvements in waste management and wastewater

quality and usage were achieved in Europe at the Alfeld, Ehingen and Lanaken mills.
– Plans to expand the Lignotech plant at Saiccor in South Africa by 100,000 mtpa, further reducing the disposal of solids by way of the sea pipeline.

- **Air emissions**
  – Reductions in air and odour emissions were successful at Gratkorn, Maastricht and Nijmegen mills.
  – Significant improvements were also achieved in South Africa, particularly at Ngodwana mill.
  – Sappi's Regional Air Emission Monitoring Project in South Africa is demonstrating compliance with existing laws and preparing us for new air emission standards (expected in December 2002). The project will be completed in February 2002.

Other environmental initiatives and achievements

A Groupwide working group has been established to focus on assembling consistently measured emissions data from our mills in all regions. Once collected, progress and improvements will be monitored against current baselines and international industry standards.

Somerset mill received recognition from the Maine Fish and Wildlife Department for engineering and other assistance to the Governor's Hill State Fish Hatchery which raises all of the lake trout and splake that are stocked in Maine's lakes.

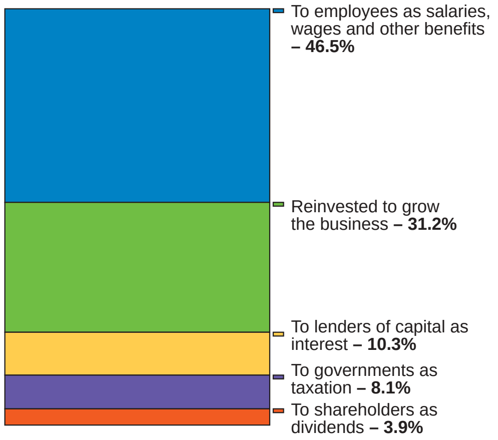
Sappi's long-standing involvement in conservation projects continues through our joint eco-tourism Forest and Wetland Venture with the World Wide Fund For Nature (WWF) and continues to explore new projects in sensitive indigenous forests and wetlands. During 2001, the second project was completed – an aerial boardwalk and observation tower in the canopy of the Dlinza Forest in the town of Eshowe, KwaZulu-Natal, designed to draw eco-tourists to the area and benefit local communities.

value added statement

for the year ended September 2001

US$ million	**2001**	2000
Sales	**4,184**	4,718
Other income not included in sales:		
Income from investments	**31**	38
Less: Paid to suppliers for materials and services	**2,695**	2,907
Total value added	**1,520**	1,849
Distributed as follows:		
To employees as salaries, wages and other benefits	**707**	769
To lenders of capital as interest	**156**	182
To shareholders as dividends	**60**	45
To minority interests	**–**	13
To governments as taxation	**123**	93
Total value added distributed	**1,046**	1,102
Portion of value added reinvested to sustain and expand the business	**474**	747
Total value added distributed and reinvested	**1,520**	1,849
Taxation		
Paid in taxes to governments (including US$88 million		
(September 2000: US$73 million) direct taxes on income)	**123**	93
Collected on behalf of, and paid over to governments:		
– Employees' taxation deducted from remuneration paid	**130**	144
– Net value added taxation (VAT)	**5**	(14)
Total	**258**	223

2001: Value added distributed amongst our stakeholders and reinvested in the business



management's discussion and analysis of results (incorporating financial director's report)

HIGHLIGHTS

- Arranged €900 million (US$770 million) finance facility at favourable interest rates
- Repurchase of 12 million (5%) of our issued shares at an average price of US$7.62 (ZAR59) per share
- Net debt reduced by a further US$142 million to US$1.1 billion
- Debt-to-total capitalisation ratio at 30%
- Cash interest cover 6.2 times

OPERATING REVIEW

The following table sets out sales and operating income by business unit (operating income percentages expressed of sales of the applicable business unit):

	September 2001 US$ million	**% of sales**	September 2000 US$ million	% of sales
SALES:				
Sappi Fine Paper				
North America	**1,442**	**34.5**	1,607	34.1
Europe	**1,781**	**42.5**	1,994	42.2
South Africa	**229**	**5.5**	227	4.8
Total				
Fine Paper	**3,452**	**82.5**	3,828	81.1
Forest Products	**732**	**17.5**	890	18.9
Consolidated sales	**4,184**	**100**	4,718	100

	September 2001 US$ million	**% of sales**	September 2000 US$ million	% of sales
OPERATING INCOME:				
Sappi Fine Paper				
North America	**40**	**2.8**	179	11.1
Europe	**177**	**9.9**	252	12.6
South Africa	**31**	**13.5**	20	8.8
Total				
Fine Paper	**248**	**7.2**	451	11.8
Forest Products	**194**	**26.5**	224	25.2
Corporate	**4**	**–**	(3)	–
Consolidated operating income	**446**	**10.7**	672	14.2

Year ended September 2001 ("2001") compared to year ended September 2000 ("2000")

SALES

The year was characterised by difficult market conditions resulting in low demand for most of our products. In 2001, total sales volumes decreased by 9.4%, from 6.7 million to 6.1 million tons with a decline in Fine Paper and Forest Products divisions of 0.3 and 0.4 million tons, respectively. In North America the industry faced the largest ever decline in demand and the strength of the Dollar led to high levels of low-priced coated woodfree paper imports. Apparent consumption for coated woodfree paper as measured by shipments from producers net of imports and exports was 14% below last year in the USA and 8% in Europe. Real consumption was probably considerably better than apparent consumption, as most customers reduced inventories throughout the period. In North America and Europe, paper production volumes were managed to meet consumption demand with production curtailment throughout the year.

Consolidated sales in 2001 decreased by 11.3% to US$4,184 million, with a decline in Fine Paper and Forest Products divisions of US$376 million and US$158 million, respectively. The results of Sappi Forest Products and Sappi Fine Paper Europe in local currency terms were, however, positively affected by the depreciation of the Rand and the Euro against the US Dollar in 2001.

Sappi Fine Paper. The volume of fine paper sold in 2001 by Sappi Fine Paper decreased by 7.0%, from 4.0 million to 3.7 million tons. Sappi Fine Paper Europe's volumes decreased by 9.0% to 2.2 million tons while Sappi Fine Paper North America's sales volume decreased by 6.1% to 1.2 million tons in 2001. Sappi Fine Paper South Africa's volumes sold increased by 7.1% to 0.3 million tons due to recovery of market position and an improved uncoated fine paper and tissue market in South Africa.

Average selling prices per ton were US$1,165, US$821 and US$795 for the North American, European and South African operations, respectively, compared to US$1,219, US$837 and US$844, respectively, in the prior year. In local currencies, European and South African selling prices increased by 7.7% and 14.5%, respectively.

Sappi Forest Products. Sales volumes of paper pulp, dissolving pulp, commodity paper products and timber products decreased by 0.4 million tons or 12.9% in 2001. This decrease is mainly attributable to the disposal of Novobord in 2000 and Mining Timber in 2001. The average prices for dissolving pulp increased by 3.5%. For commodity paper products, the average price increased by 4.5% to US$483 per ton in 2001. The average price for timber products decreased by 50.0% to US$45 per ton, following the disposal of Novobord and Mining Timber.

Operating expenses

Group operating expenses (comprising cost of goods sold and selling, general and administration expenses) decreased by 7.6% to US$3.7 billion in 2001. This decrease was mainly due to the lower volume of sales. Cost of sales per ton increased by only 2.0% compared to last year, despite reduced sales volumes, mainly due to cost containment and the effect of the appreciation of the Dollar against the Euro and the Rand. Selling, general and administrative expenses were US$363 million, a decrease of 8.3%, in line with the decrease in volume sold.

Operating income

Consolidated operating income decreased significantly by US$226 million, or 33.6%, to US$446 million, which occurred mainly at Sappi Fine Paper North America and Sappi Fine Paper Europe.

Operating margin decreased significantly to 10.7% in 2001 (14.2% in 2000). This decrease is mainly due to lower sales volumes, lower selling prices and production curtailment.

Sappi Fine Paper. Operating income decreased by 45.0% to US$248 million, and operating margin decreased to 7.2% from 11.8% in 2000.

Sappi Fine Paper Europe had a reduction in operating income of 29.8% to US$177 million in 2001. The operating margin decreased to 9.9% in 2001 from 12.6% in 2000. Improved productivity and cost reductions, as well as the decrease in input cost of pulp, contained this decrease.

For Sappi Fine Paper North America, operating income decreased significantly by 77.7%, to US$40 million, and operating margin decreased to 2.8% in 2001, from 11.1% in 2000. This decrease was mainly due to competition from low-priced imports, reduced demand, curtailment of production to manage inventories and the continued slowdown of the US economy.

Sappi Fine Paper South Africa had an increase in operating income of 55.0% to US$31 million in 2001. This increase is mainly due to increased sales volumes and the depreciation of the Rand against the US Dollar. Operating margin increased to 13.5% in 2001, from 8.8% in 2000.

Sappi Forest Products. Sappi Forest Products operating income decreased by 13.4% to US$194 million in 2001. This is mainly attributable to lower sales volumes. Operating margin increased slightly to 26.5% in 2001, from 25.2% in 2000, mainly due to cost containment, increased productivity and internal efficiencies.

Non-trading loss

Non-trading loss represents all income received from and expenses incurred on activities which do not constitute normal trading and includes profits and losses on the disposal of fixed assets. Also included are mill closure and asset impairment costs when these occur. Non-trading loss of US$207 million in 2001 (US$2 million in 2000) consisted primarily of a US$183 million pre-tax charge for the write-off of the assets and closure costs relating to the Mobile mill, and a non-recurring charge of US$9 million relating to the write-off of deferred finance cost resulting from the refinancing of the US credit facility in 2001.

Net finance costs

Net finance costs consists of interest expense, net of interest received, interest capitalised and forex gains and losses. Net finance costs decreased to US$92 million in 2001. The decrease of US$5 million in net finance costs resulted mainly from lower prevailing interest rates and lower levels of borrowings, as well as the refinancing of certain higher cost loans. Cash interest cover decreased to 6.2 times for 2001 (7.3 times in 2000).

Our policy is to capitalise the holding costs of plantations in Southern Africa and the pre-commissioning finance costs on major capital expenditure projects. Interest capitalised in 2001 and 2000 were US$33 million and US$47 million, respectively. The South African Producer Price Index is used as a limit in determining the amount of interest to be capitalised in respect of the holding cost of plantations. The reduction in interest capitalised in 2001 is due to lower interest rates and the effect of the appreciation of the US Dollar against the Rand.

Taxation

Taxation charge was US$9 million, decreasing by US$188 million from 2000. The Group tax charge for the year was reduced as a result of lower levels of profit as well as the US$73 million tax credit, relating to the Mobile mill closure charge, resulting in a 6% effective rate for the year. The effective rate for ongoing operations excluding Mobile mill was approximately 25% for the full financial year and was reduced by the geographic split of earnings, in particular the lower proportion of earnings in North America, and a reduction in the German tax rate.

Net income

Net income decreased significantly by US$225 million to US$138 million in 2001 (2000: US$363 million). Earnings per share decreased by 61.4% to US59 cents per share in 2001 from US153 cents per share in 2000. This reduction in net income and earnings per share is due to lower sales volumes and selling prices, as well as the US$110 million after-tax charge resulting from the closure of the Mobile mill in 2001. Earnings before exceptional items per share (headline) decreased by 22.6% to US113 cents per share in 2001 from US146 cents per share in 2000.

Financial reporting

Change in accounting policies

There have been a number of accounting policy changes in 2001. This is mainly due to the numerous changes to South African accounting standards to harmonise with International Accounting Standards. We changed our accounting policy with respect to Leases, Events after the balance sheet date (dividends), Employee benefits, Discontinuing operation, Impairment of assets, Intangible assets, Provisions, Contingent liabilities and contingent assets, Business combinations, Consolidated financial statements and accounting for investments in subsidiaries, Financial instruments: Recognition and measurement, Government grants, Consolidation – Special purpose entities and Share capital – Reacquired own equity instruments (treasury shares). These changes had no material effect on current year and comparable period earnings, and had the effect of decreasing equity by US$3 million at the beginning of the year.

Reconciliation of South African GAAP to United States GAAP

The Group reconciles its results annually with United States Generally Accepted Accounting Principles (GAAP) (see note 37 to the Annual Financial Statements) and incorporates this reconciliation in its Annual Report on Form 20-F filed with the Securities and Exchange Commission in the United States.

Below is an abridged version of the reconciliation:

US$ million	**2001**	2000
Net income		
Net income under South African GAAP	**138**	363
United States GAAP reconciling items	**15**	11
Net income under United States GAAP	**153**	374
Basic earnings per share under United States GAAP (US cents)	**66**	158
Shareholders' equity		
Shareholders' equity under South African GAAP	**1,503**	1,618
United States GAAP reconciling items	**88**	75
Shareholders' equity under United States GAAP	**1,591**	1,693

Liquidity and capital resources

Capital structure

At September 2001 our net debt was US$1,128 million, a reduction of US$142 million from US$1,270 million at September 2000. Despite the difficult market conditions in 2001 this reduction has been achieved mainly as a result of strong internal cash generation, working capital control as well as the depreciation of the Rand against the US Dollar.

Financing

In the third quarter of 2001 we arranged a €900 million (US$770 million) finance facility, comprising two tranches, on an unsecured basis at between 55 and 70 basis points above the Interbank rate. The first tranche is a €562.5 million five-year revolving credit facility for general corporate purposes. The second tranche of €337.5 million was partly utilised in September when we completed the refinancing of the North American term loan and revolving credit facility (US$250 million). This resulted in the write-off of US$9 million of deferred finance costs and will result in lower ongoing cash finance costs. We have subsequent to year-end also announced our intention to refinance the approximately US$140 million 14% debentures remaining in Sappi Fine Paper North America in December 2001.

The Group generally borrows in currencies of the countries in which it invests, thus securing a natural currency hedge.

All external loans raised in currencies other than the domestic operating currency of the entity to which the funds are applied are immediately and continuously protected by forward exchange contracts. The Group also has a policy of maintaining a balance between fixed rate and variable rate loans that enables us to minimise, on a cost-effective basis, the impact to reported earnings while maintaining a reasonably competitive, market-related cost of funding. The specific balance is determined separately for our European, North American and Southern African businesses to reflect more accurately the different interest rate environments in which these businesses operate. We monitor market conditions and may utilise interest rate derivatives to alter the existing balance between fixed and variable interest loans in response to changes in the interest rate environment.

Our gross debt at the end of 2001 and 2000 is detailed as follows:

By currency:

	September 2001 US$ million	**% of total**	September 2000 US$ million	% of total
US Dollar	**859**	**57.2**	737	51.2
Euro	**485**	**32.2**	491	34.1
South African Rand	**159**	**10.6**	201	14.0
UK Pound Sterling			11	0.7
Total	**1,503**	**100.0**	1,440	100.0
By maturity:				
2001	**–**	**–**	162	11.3
2002	**489**	**32.5**	426	29.6
2003	**378**	**25.2**	107	7.4
2004	**122**	**8.1**	127	8.8
2005	**82**	**5.5**	210	14.6
2006 (2000: Thereafter)	**59**	**3.9**	408	28.3
Thereafter	**373**	**24.8**	–	–
Total	**1,503**	**100.0**	1,440	100.0

Of gross debt, at September 2001, US$489 million is payable within one year. This is an increase of US$327 million over 2000, mainly as a result of the US$243 million convertible notes which mature in August 2002. The Group has adequate cash on hand and short and long-term banking facilities to meet these short-term commitments. At September 2001, Sappi's divisions had aggregate unused borrowing facilities availability of US$1,359 million (US$188 million in South Africa, US$79 million in the United States and US$1,092 million in Europe). Unused borrowing facilities at the end of 2000 were US$784 million. At September 2001 the ratio of net debt to total capitalisation was 30%, down from 33% at the end of 2000. The ratio of net borrowings to equity at September 2001 was 75% (76% in 2000.)

Foreign exchange

Sappi made sales in a range of currencies in 2001 and 2000 as follows:

	September 2001 %	September 2000 %
(Percentage of sales)		
US Dollar	**48.6**	49.5
South African Rand	**11.9**	12.9
Euro [1]	**30.2**	21.7
UK Pound Sterling	**7.1**	6.9
Other	**2.2**	9.0
	100.0	100.0

[1] *Including currencies of countries that linked their currencies to the Euro.*

The principal currencies in which our subsidiaries conduct business are the US Dollar, Euro and Rand. In Europe and North America, sales and expenses are generally denominated in Euro and US Dollars, respectively. However, pulp purchases in Europe are mainly also denominated in US Dollars.

In Southern Africa, local sales are denominated in Rands, and exports, which represent approximately 47% of sales, are denominated mainly in US Dollars. Expenses incurred are generally denominated in Rands. Exports to other regions are mainly denominated in US Dollars. The depreciation of the Rand also tends to enhance the Rand value of exports from South Africa and have a positive effect on gross margins on exports and domestic sales which are priced relative to international Dollar prices.

In 2001 and 2000, the Dollar appreciated, on average, by 8.9% and 11.9% against the Euro, and by 21.5%, and 8.9% against the Rand, respectively, compared to the average exchange rate for each respective prior year. Year on year, the Dollar depreciated by 4.2% against the Euro, whilst in 2000, the Dollar appreciated by 19.3% against the Euro. The Dollar appreciated in Rand terms by 23.6% and 20.4% in 2001 and 2000, respectively. In the last quarter of 2001 alone, the Rand depreciated by 10.8% against the Dollar.

The following table sets out the US Dollar exchange rates used in preparing our consolidated financial statements:

	2001	2000	**2001**	2000
	Income statement		Balance sheet	
Exchange rate				
US Dollar/SA Rand	**7.9574**	6.5472	**8.9386**	7.2240
Euro/US Dollar	**0.8855**	0.9720	**0.9167**	0.8777

Our foreign exchange policy consists of the following principal elements:

- All external borrowings are taken in the currency of the operating company concerned and, if not, then the exposure is fully and specifically hedged immediately.
- All major capital expenditure in foreign currencies is hedged immediately on approval of the project.
- All trade receivables/payables are hedged on a net basis from the time the transactions are consummated.
- Anticipated exposures for near-term (quarterly) trading are netted at central treasury and appropriate hedging techniques evaluated.
- Variations in this policy are from time to time considered, but are always subject to prior Board approval.

Translation risks are not hedged. Sappi manages its foreign exchange translation exposure by financing its equity investments in different currencies with similar currency ratios of equity to debt finance. This does not necessarily protect the absolute amounts of equity investment or of profit after finance costs from exchange rate movements.

Capital expenditures

Capital expenditures[(1)] in 2001 and 2000 consisted of the following:

	September 2001 US$ million	September 2000 US$ million
Sappi Fine Paper		
Sappi Fine Paper North America	**99**	96
Sappi Fine Paper Europe	**116**	78
Sappi Fine Paper South Africa	**35**	9
Total	**250**	183
Sappi Forest Products	**43**	35
Corporate	**–**	3
Consolidated total	**293**	221

(1) *Excludes investment in plantations, which amounted to approximately US$28 million and US$32 million in 2001 and 2000, respectively.*

Of the US$293 million of capital expenditure in 2001, approximately US$154 million related to investment to maintain operations. Total capital expenditure, including the investment in plantations, amounted to 91% of depreciation, amortisation and fellings. This percentage is expected to decline to approximately 70% in 2002.

Other events/factors

Share buyback

At a general meeting of shareholders held on 15 December 2000, a special resolution granting general authority for Sappi subsidiaries to purchase Sappi shares subject to the provisions of the South African Companies Act 61 of 1973, as amended, and the Listings Requirements of the JSE Securities Exchange, was approved. At the annual general meeting of members held on 1 March 2001, a special resolution granting authority to Sappi or Sappi subsidiaries to buy back up to 20% of the issued shares of Sappi Limited in any one financial year, was approved. This authority expires at the next annual general meeting, unless renewed thereat. In terms of the Companies Act subsidiaries may not hold more than 10% of the issued share capital of the parent company.

Following the approval on 15 December 2000, 12 million shares had been repurchased by subsidiaries at a total cost of approximately US$94 million at an average price of US$7.62 (ZAR59.44) at the end of 2001.

In terms of the JSE Securities Exchange regulations, companies may not repurchase its shares for periods of 40 trading days prior to the announcement of half-year and full-year results. We apply a voluntary restriction on repurchases of seven trading days prior to the announcement of first and third-quarterly results.

Shareholder base

Over the past four years, our shareholder base has changed from one of a high concentration, where two shareholders held approximately 46% of the shares, to a substantially more widespread shareholder base. According to the information currently available to us, no shareholder holds more than 10% of the share capital of the Company and, consequently, the liquidity of the Company's shares has improved considerably. At 12 November 2001, the shareholder base of Sappi Limited was split as follows: North America (47%), South Africa (36%) and UK and Continental Europe and others (17%).

Mill closures

We closed the Mobile mill in Alabama, USA, and have provided a US$110 million after-tax charge for the write-off of the assets and closure costs. Subsequent to year-end we announced the intention to close the Transcript mill in Scotland. The closure costs are expected to amount to US$10 million after tax.

Disposal of Mining Timber

Effective 1 October 2000, we disposed of our mining timber operations in South Africa.

Dividends

Sappi Limited declared dividends in respect of the ordinary shares of US26 cents and US25 cents per share for 2001 and

2000 respectively. In May 1998 we announced that future dividends would be considered only on an annual basis. The Group aims to declare regular dividends which incorporate, over time, real growth for shareholders. To this end dividend cover in each year will vary in line with changes in the business cycle, but will be maintained at a long-term average of three times. Our dividends were covered 2.3 and 6.1 times in 2001 and 2000 respectively.

Performance against financial objectives

Group objectives for operating performances shown on page 49 are Dollar-based and are expressed as returns in percentages which recognise the current economic factors of the countries in which we operate and the expectations of our investors. These percentages are reviewed from time to time in the light of changing circumstances, in particular with regard to risk-free interest rates, market risk premiums, inflation and the cost of debt.

Insurance

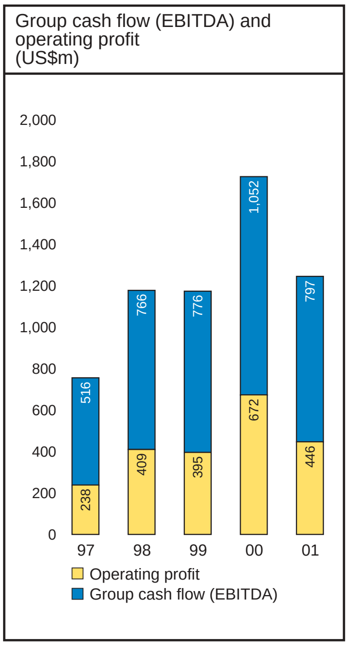
The Group has an active programme of risk management in each of our geographical operating regions to address and to reduce exposure to risk and business interruption. All production and distribution units are audited regularly and are subject to risk assessments, which receive the attention of senior management. The risk programmes are co-ordinated at Group level in order to achieve a harmonisation of methods.

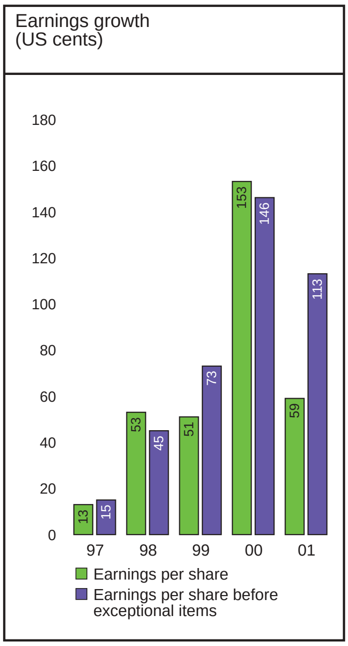
Furthermore we follow a practice of insuring our assets against unavoidable loss arising from catastrophic events. These include fire, flood, explosion, earthquake and machinery breakdown as well as the business interruption, which may result from these events. Specific environmental risks are also insured.

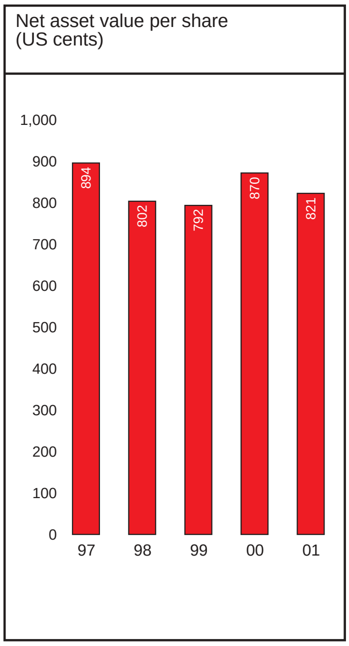
We accept internal insurance deductibles which vary, depending on the magnitude and nature of risk, and insure a further layer through a captive insurance company, thereafter accessing the world insurance markets. Our insurance structure has both regional and global layers, and the majority of insurance is placed with our own captive insurance company which in turn reinsures the vast majority of the risk with third-party insurance companies.

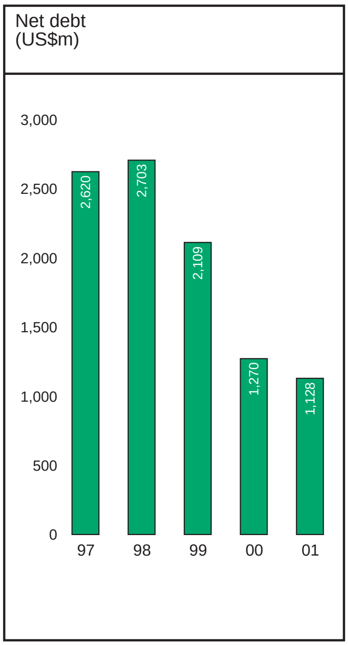
The Group renews its insurance cover annually on 1 November. Due to a substantial hardening of the insurance market and following the events on 11 September, placement of Property Damage insurance cover has become considerably more difficult this year. Self-insured deductibles for any one occurrence have increased to US$12.5 million in the South African and European regions and to US$19.8 million in North America. There are no aggregate limits. Contrary to previous years, Property Damage is no longer covered to Full Value, although Maximum Foreseeable losses are exceeded comfortably. Furthermore, Property Damage cover now generally excludes losses from acts of terrorism. We have covered these separately to a value of US$250 million.

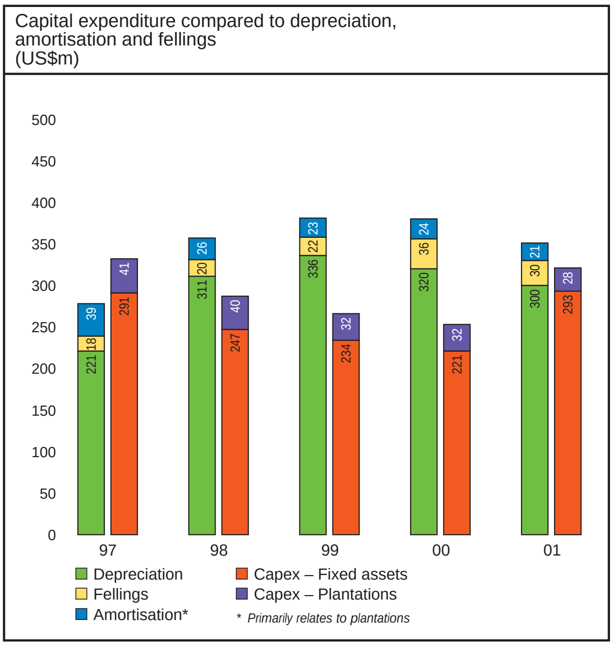
financial performance





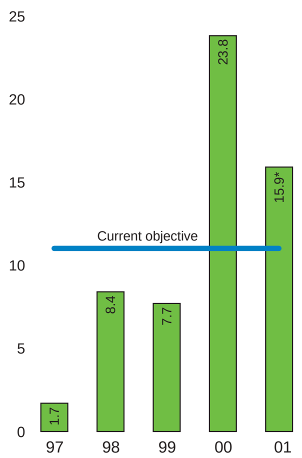






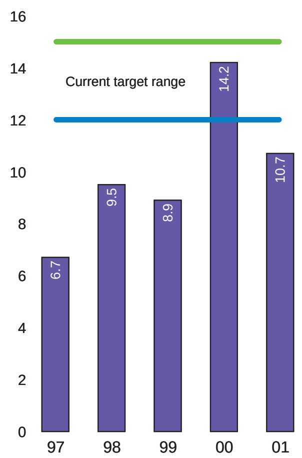
performance against financial objectives

Return on equity (ROE) (%)



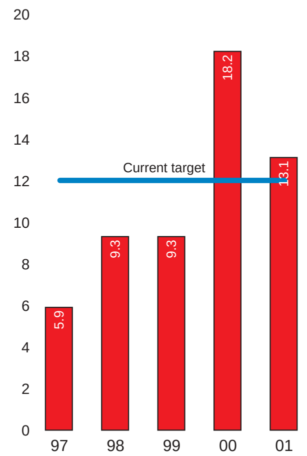
Objective – To provide shareholders with an after tax return in Dollar earnings that, on average, exceeds the American risk-free rate by at least 5 percentage points. (Current objective > 11%)
** ROE before Mobile mill closure costs*

Operating profit to sales (%)



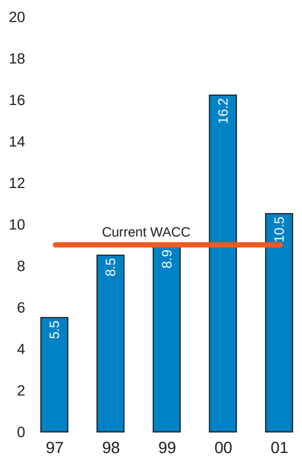
Objective – To achieve an average operating profit to sales margin of 12 – 15%

Operating profit to average net assets (RONA) (%)



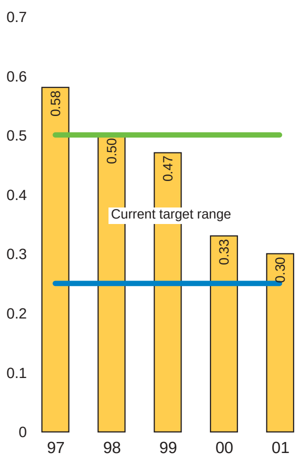
Objective – To achieve a Group average return of operating profit to average net assets of 5 percentage points above LIBOR (or its equivalent) in the currencies in which we are invested. (Current objective > 12%)

Net operating profit after current tax to average net assets (NOPAT) (%)



Objective – To achieve a NOPAT return on net assets that on average exceeds the weighted average cost of capital (WACC). (Current objective > 9%)

Debt/total capitalisation



Objective – To operate within a target range of 0.25:1 and 0.50:1, exceeding this only when large capital projects or acquisitions are undertaken.

five-year review

	Annual compound growth	**September 2001 US$ million**	September 2000 US$ million	September 1999 US$ million	September 1998 US$ million	September 1997 US$ million
Income statement and cash flow						
Sales	4.1%	**4,184**	4,718	4,422	4,308	3,557
Operating profit	17.0%	**446**	672	395	409	238
Net finance costs (before capitalised interest)	(15.8%)	**125**	144	190	263	249
Depreciation, amortisation and fellings		**351**	380	381	357	278
Profit before tax	14.5%	**147**	573	176	205	86
Net taxation		**9**	197	46	81	35
Income attributable to minority interests		**–**	13	16	17	31
Net profit	62.1%	**138**	363	114	107	20
Earnings before exceptional items (headline)	81.9%	**263**	347	163	90	24
Cash generated by operations	10.5%	**771**	1,048	781	886	517
EBITDA	11.5%	**797**	1,052	776	766	516
Balance sheet						
Non-current assets		**3,346**	3,600	4,170	4,758	3,945
Current assets		**1,160**	1,168	1,164	1,578	1,221
Total assets	(3.4%)	**4,506**	4,768	5,334	6,336	5,166
Current liabilities		**1,360**	1,101	1,655	1,513	1,212
Total capital employed	(5.6%)	**3,146**	3,667	3,679	4,823	3,954
Net debt *	(19.0%)	**1,128**	1,270	2,109	2,703	2,620
Statistics						
Number of ordinary shares (millions)						
In issue at year-end *****	9.6%	**229.5**	239.1	224.6	223.8	159.2
Weighted average number of shares in issue during the year *****	10.0%	**232.8**	236.9	223.8	200.5	159.2
Share performance: per share (in US cents)						
Basic earnings after exceptional items	47.2%	**59**	153	51	53	13
Diluted earnings after exceptional items	50.3%	**59**	151	51	52	12
Earnings before exceptional items (headline)	65.4%	**113**	146	73	45	15
Diluted earnings before exceptional items (headline)	65.1%	**112**	144	71	45	15
Ordinary dividend declared **		**26**	25	19	18	–
Net asset value ***	(2.1%)	**821**	870	792	802	894
Ordinary dividend cover (times) **		**2.3**	6.1	2.7	2.7	–

	September 2001 US$ million	September 2000 US$ million	September 1999 US$ million	September 1998 US$ million	September 1997 US$ million
Returns (%)					
Operating profit to sales	**10.7**	14.2	8.9	9.5	6.7
Operating profit to average net assets (RONA)	**13.1**	18.2	9.3	9.3	5.9
Net profit to average ordinary shareholders' equity (ROE) #	**15.9**	23.8	7.7	8.4	1.7
Ratios					
Debt/total capitalisation *	**0.30**	0.33	0.47	0.50	0.58
Debt/equity ratio *	**0.75**	0.76	1.33	1.69	1.87
Current asset ratio	**0.85**	1.06	0.70	1.04	1.01
Cash interest cover	**6.2**	7.3	4.1	3.4	2.1
Number of employees	**18,231**	19,276	20,245	23,640	21,055
Exchange rates					
US$ per one Euro exchange rate – closing ****	**0.9167**	0.8777	1.0470	1.1747	1.1050
US$ per one Euro exchange rate – average (12 month) ****	**0.8855**	0.9720	1.1027	1.1116	1.1381
ZAR to one US$ exchange rate – closing	**8.9386**	7.2240	6.0000	5.8150	4.6655
ZAR to one US$ exchange rate – average (12 month)	**7.9574**	6.5472	6.0122	5.2714	4.5591

Comparative figures have been restated for accounting policy changes to ensure consistency.

September 2001 – ROE before Mobile mill closure costs.

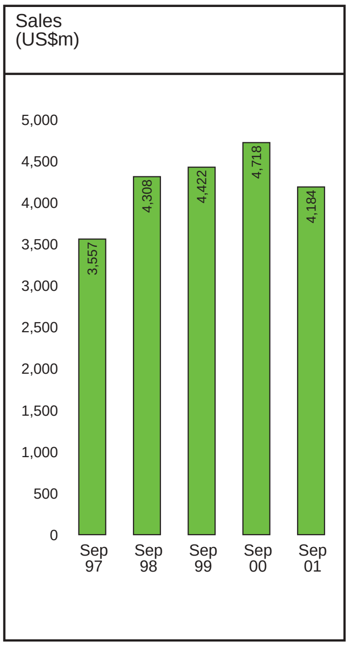
* *Comparative net debt figures and ratios restated to reflect minority interest in debt.*

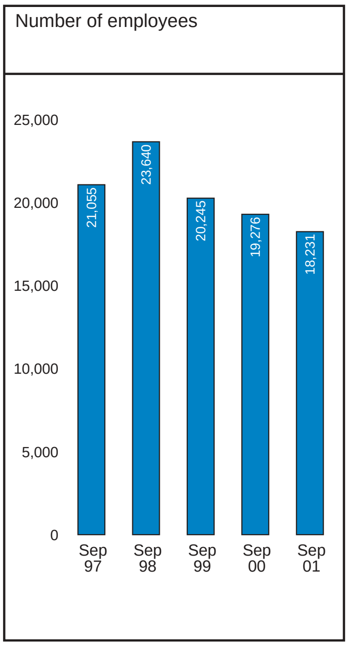
** *The dividends for all the financial years were declared subsequent to year-end and, in terms of our newly adopted accounting policy, are accounted for and included in the statement of changes in equity in the following financial year.*

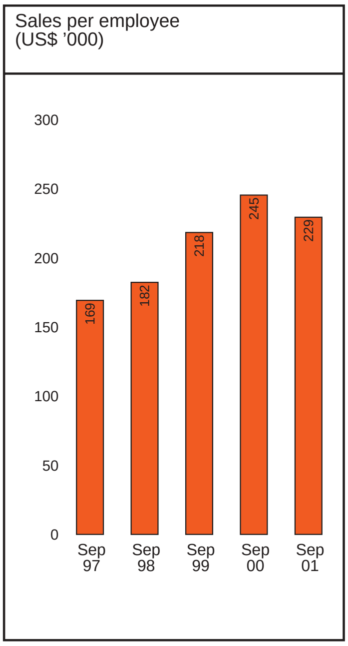
*** *Net asset value includes net deferred tax.*

**** *Prior to 1/1/99 the US$/ECU rate is reflected above.*

***** *Net of Treasury shares (refer note 14).*







share statistics

at September 2001

Shareholding – ordinary shares in issue	Number of shareholders	%	Number of shares	% of shares in issue
1 – 5 000	3,574	97.70	1,038,530	0.45
5 001 – 10 000	33	0.90	221,965	0.10
10 001 – 50 000	29	0.79	676,473	0.29
50 001 – 100 000	7	0.19	542,686	0.24
100 001 – 1 000 000	7	0.19	4,887,803	2.13
Over 1 000 000	8	0.23	222,118,311	96.79
	3,658	100.00	229,485,768	100.00
Analysis of holdings				
Standard Bank Nominees				
(Transvaal) (Pty) Limited *	1	0.03	141,810,118	61.79
CSD Dematerialised Control Account *	1	0.03	32,345,598	14.09
Industrial Development Corporation of SA Limited	1	0.03	19,804,620	8.63
Nedcor Bank Nominees Limited *	1	0.03	18,037,819	7.86
CMB Nominees (Pty) Limited *	1	0.03	7,158,944	3.12
ABSA Nominees (Pty) Limited *	1	0.03	1,955,975	0.85
First National Nominees (Pty) Limited *	1	0.03	1,005,237	0.44
Mercantile Custodial Nominees (Pty) Limited *	1	0.03	896,832	0.39
Old Mutual Nominees (Pty) Limited *	1	0.03	831,291	0.36
Other companies	224	6.10	2,504,608	1.09
Other trust funds and investment companies	117	3.20	138,569	0.06
Other insurance companies and pension funds	4	0.11	44,527	0.02
Individuals	3,304	90.32	2,951,630	1.30
	3,658	100.00	229,485,768	100.00

**** Nominee holdings***

These holdings include nominee companies as beneficial shareholders. Pursuant to Section 140A of the South African Companies Act, 1973, as amended, the directors have investigated the beneficial ownership of shares in Sappi Limited which are registered in the nominee holdings and these investigations have to date revealed the following beneficial holder of more than 5% of the issued share capital of Sappi Limited:

	Shares	%
Public Investment Commissioner	15,460,361	6.74

Further, as a result of these investigations, the directors have ascertained that some of the shares registered in the names of the nominee holders are managed by various fund managers and that, as of September 2001, the following fund managers were responsible for managing 5% or more of the share capital of Sappi Limited:

	Shares	%
Capital Group	17,251,800	7.52
RMB Asset Management	14,293,257	6.23
Highfields Capital	12,374,417	5.39

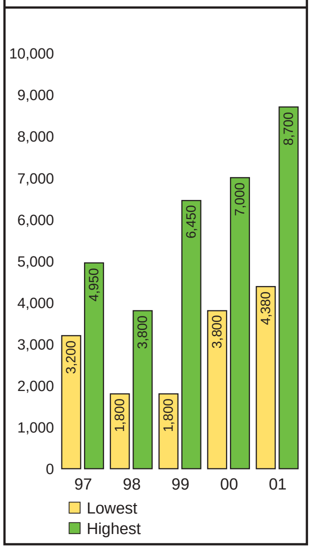
Share statistics	**September 2001**	September 2000	September 1999	September 1998	September 1997
Ordinary shares in issue (millions)	**229.5**	239.1	224.6	223.8	159.2
Net asset value per share (US cents) ^	**821**	870	792	802	894
Number of shares traded (millions)					
JSE	**240.10**	160.30	134.50	84.20	53.08
New York	**51.64**	34.43	2.87*		
Value of shares traded					
JSE (ZAR million)	**14,806.1**	8,922.5	5,193.7	2,300.4	2,157.1
New York (US$ million)	**456.9**	296.8	19.4*		
Percentage of issued shares traded	**147.3**	91.1	65.3	45.1	35.9
Market price per share					
– year-end JSE (South African cents)	**7,760**	5,350	5,850	1,880	3,710
New York (US$)	**8.80**	7.31	9.30		
– highest JSE (South African cents)	**8,700**	7,000	6,450	3,800	4,950
New York (US$)	**10.37**	11.75	10.42		
– lowest JSE (South African cents)	**4,380**	3,800	1,800	1,800	3,200
New York (US$)	**5.75**	6.06	3.22		
Earnings yield (%) **	**13.02**	19.70	7.49	13.93	1.90
Dividend yield (%) **	**3.00**	3.37	1.95	5.57	–
Price/earnings ratio **	**7.68**	5.08	13.36	7.18	52.68
Total market capitalisation (US$ million) **	**1,992**	1,772	2,190	723	1,266

^ *Including net deferred tax liability.*

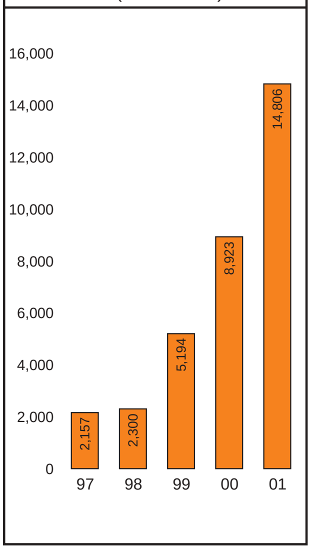
* *From 5 November 1998, the date of listing on the New York Stock Exchange.*

** *Based on financial year-end closing prices on the JSE Securities Exchange South Africa.*

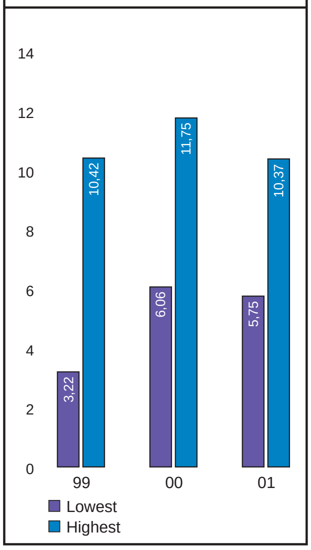
Sappi share price (SA cents per share)



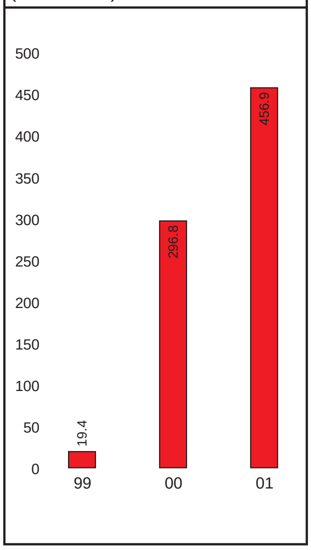
Value of Sappi shares traded on the JSE Securities Exchange South Africa (ZAR million)



Sappi ADR price (US cents per share)



Value of Sappi ADRs traded on the New York Stock Exchange (US$ million)



corporate governance

Statement on corporate governance

The Group endorses the Code of Corporate Practices and Conduct as contained in the King Report and complies in all material respects with the principles incorporated in that report.

Financial statements

The directors are responsible for the preparation and for the final approval of the annual financial statements. The auditors are responsible for auditing the annual financial statements and expressing an opinion thereon in the course of executing their statutory duties.

Suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the annual financial statements, which fairly present the state of affairs of the Group. In this process, appropriate accounting standards have been applied and adequate accounting records have been maintained.

The going concern basis has been adopted in preparing the annual financial statements. The Directors see no reason to believe that the Group will not continue to be a going concern in the foreseeable future.

The quarterly results were reviewed by the Group's external auditors and the audit committee prior to their submission to the Board.

Internal controls

The Board is responsible for the Group's systems of internal financial and operational control. The Group's internal controls and systems are designed to provide reasonable, but not absolute, assurance as to the integrity and reliability of the annual financial statements, that assets are adequately safeguarded against material loss and that transactions are properly authorised and recorded. Such controls are based on established written policies and procedures which are monitored throughout the Group and are applied by trained, skilled personnel with an appropriate segregation of duties through clearly defined lines of accountability and delegation of authority. The control system includes comprehensive reporting and analysis of actual results against approved standards and budgets. All employees are required to maintain the highest ethical standards in ensuring that the Company's business practices are conducted in a manner which in all reasonable circumstances is above reproach. During the year under review, nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred. A material breakdown is defined as a critical weakness in process or financial systems which would result in a material loss, contingency or uncertainty requiring disclosure in the published annual financial statements.

Risk management

The Company has adopted a continuous, systematic, enterprise-wide risk management process which aims to ensure that all material risks are identified, evaluated and addressed. Ownership of the process is at a regional management level, with support being provided by functional teams. This risk assessment process aims to maximise long-term shareholder value, to protect our people, our assets and the environment, and to protect the reputation and the Sappi brand name.

The Group Risk Management Team reviews the effectiveness of the risk management process and reports back to both the Executive Committee and the Board on an annual basis.

United States of America Foreign Corrupt Practices Act ("FCPA")

As the Company is listed on the New York Stock Exchange and has securities registered under the USA Securities Exchange Act of 1934, it is subject to the FCPA. A Compliance Committee has been instituted and meets on a regular basis. The Company has reviewed and amended its policies to ensure that all aspects of the FCPA have been addressed.

The Board of Directors

The Board is constituted with six executive and nine Non-executive Directors who collectively determine major policies and strategies. The number and calibre of Non-executive Directors carry sufficient weight in the Board's deliberations and resolutions, thus acting as a balance to the Executive Directors. Non-executive Directors are independent of management and free from any relationship that could materially interfere with the execution of their independent judgement. Their business experience enables them to evaluate strategy and act in the Group's best interest. The Board meets regularly, at least every quarter, to carry out its functions. Its main functions include: to establish a strategy and direct the Group accordingly, to take decisions of a material nature reserved for the Board's deliberation, to monitor the activities and performance of executive management, to provide for Board and management succession, and to provide information on the business of the Company to shareholders and stakeholders. The chairman meets routinely with the Non-executive Directors to discuss his performance and any other issues.

Directors have to notify the Group Secretary of any intention to buy or sell shares in the Group whether directly or indirectly. Directors and any employees who become aware of sensitive financial information cannot directly or indirectly deal in the Group's shares until the information is in the public arena.

All the Directors may seek independent professional advice if necessary and have access to the services of the Company Secretary who is responsible to ensure both the effective functioning of the Board and the proper administration of Board proceedings.

The nomination committee

The nomination committee is constituted as a sub-committee of the Board and consists of three Non-executive Directors (one of whom serves as chairman) and the Executive Chairman of the Group. The committee considers the composition of the Board, retirements and appointments of additional and replacement Non-executive Directors and makes appropriate recommendations to the Board.

Communication

The Group acknowledges that it operates within a community and values a good working relationship with its stakeholders. The Group consistently strives to strengthen links through regular communication with all stakeholders which conforms with the criterion of timeous, objective, relevant and transparent communication.

Audit committee

An audit committee of the Board was established in 1984 and assists the Board in discharging its responsibilities to safeguard the Group's assets, maintain adequate accounting records and develop and maintain effective systems of internal financial control. It also oversees the financial reporting process and is concerned with compliance with accounting policies, Group policies, legal requirements and internal controls within the Group. It interacts with and evaluates the effectiveness of the external and internal audit process and reviews compliance with the Group's code of ethics.

The audit committee consists of five independent Non-executive Directors of the Board and is regulated by a specific mandate from the Board. The adequacy of the mandate is reviewed and reassessed annually. The audit committee meets with senior management, which includes the Executive Chairman of the Board and the Executive Director – Finance, at least four times a year. The external and internal auditors attend these meetings and have unrestricted access to the committee and its chairman.

Subsidiary company audit committees exist in all major regions. These committees have a mandate from the Group's audit committee, to whom they report on a regular basis.

Internal audit

The Group's internal audit department has a current complement of fifteen senior qualified persons. It has a specific mandate from the audit committee and independently appraises the adequacy and effectiveness of the Group's systems, financial internal controls and accounting records, reporting its findings to local and divisional management, the external auditors as well as the respective audit committees. The Group Internal Audit Manager, as head of the department, reports to the Executive Director – Finance on a functional basis and has direct access to the chairman of the audit committee and the chairman of the Board.

The internal audit coverage plan is based on a risk assessment performed at each operating unit. The coverage plan is updated annually based on the risk assessment and results of the audit work performed. This ensures that the audit coverage is focused on identified areas of high risk.

Human resources committee

The human resources committee, which consists of two Non-executive Directors (one of whom serves as chairman) and the Executive Chairman of the Group, is constituted as a subcommittee of the Board and operates within the terms of reference set by the Board. The responsibilities of the committee are, inter alia, to determine human resource policy and strategy as well as the remuneration and incentives in respect of those Executives reporting directly to the Executive Chairman. The remuneration of the Executive Chairman is determined by the Non-executive Directors of the committee. Human resources committees exist for all the Company's major operating subsidiaries outside of Southern Africa. Aggregate Directors' emoluments are disclosed in the financial statements.

Worker participation and affirmative action

The Group promotes the empowerment of its employees through participative structures on employee related matters, training, development and information sharing. The Group's employment policies are designed to provide equal opportunities, without discrimination, to all employees.

The Group complies with the South African Employment Equity Act.

Code of ethics

The Group's code of ethics requires all employees within the Group to act with the utmost good faith and integrity in all transactions and with all stakeholders with whom they interact. It commits the Company and employees to sound business practices and compliance with legislation.

An Ethicsline has been implemented for all the regions in which the Group operates. This service, operated by an independent company, enables employees to report environmental, safety, ethics or other concerns. All reported matters are followed up by Group Internal Audit.

auditors' report

Report of the independent auditors to the members of Sappi Limited Group

We have audited the annual financial statements and Group annual financial statements of Sappi Limited set out on pages 57 to 63 and pages 66 to 111 for the year ended 30 September 2001. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Company and the Group at 30 September 2001 and the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.

Deloitte & Touche
Chartered Accountants (SA)
Registered Accountants and Auditors

Johannesburg
14 December 2001

directors' approval

The Directors and officers of the Company are responsible to the extent respectively indicated for the annual financial statements which are submitted to shareholders in general meeting.

The Directors are principally responsible for the overall co-ordination of the preparation and for the final approval of such submission. The initial preparation is the responsibility of the Company's officers. The auditors are responsible for auditing the annual financial statements in the course of executing their statutory duties.

The report and annual financial statements of the Group and the Company appear on the following pages:

The above statements were approved by the Board of Directors on 14 December 2001 and were signed on its behalf by:

E van As
Executive Chairman

D G Wilson
Executive Director – Finance

Sappi Limited

secretary's certificate

In terms of Section 268G(d) of the Companies Act, 1973, as amended, I certify that the Company has lodged with the Registrar all such returns as are required by the Companies Act.

Sappi Management Services (Pty) Limited
D J O'Connor
Group Secretary
14 December 2001

directors' report

Your Directors have pleasure in submitting their report for the year ended September 2001.

Business of Sappi Limited and its operating companies mentioned below ("the Group")

The Group manufactures and sells a wide range of pulp, paper and wood products for use in almost every sphere of economic activity. Sappi Limited ("Sappi" or "the Company") conducts its business through two business units, namely:

– Sappi Fine Paper and
– Sappi Forest Products

Sappi Papier Holding AG owns the Group's fine paper businesses in Europe and North America. The worldwide activities of the fine paper group (including South Africa) are co-ordinated from London through Sappi Fine Paper plc.

Sappi Forest Products conducts the Group's commodities business in Southern Africa through six wholly-owned management companies.

Sappi Trading operates a trading network for the international sales and distribution of products of the two divisions outside our core operating regions of North America, Europe and Southern Africa.

A review of the business and operations of the operating companies appears on pages 28 to 35.

Reporting period

The Group's financial period now ends on the Sunday closest to the year-end date and results are reported as if at the year-end date. At the beginning of the current financial year the financial period end changed from a Wednesday to a Sunday as this is considered to be a more appropriate day for our business.

Generally Accepted Accounting Practice (GAAP)

As a South African company Sappi's financial reporting is based on South African GAAP. The Board has considered the application of alternative accounting standards, but has elected to retain the standards in use in view of the fact that the majority of the trading in Sappi shares takes place on the JSE Securities Exchange South Africa.

These financial statements have accordingly been prepared in accordance with the statements of Generally Accepted Accounting Practice approved by the South African Accounting Practices Board.

In addition, Sappi reconciles its reporting annually with US GAAP and incorporates this reconciliation in its annual 20-F submission to the Securities and Exchange Commission in the United States. The differences are included in note 37 to the financial statements.

As the majority of the Group's sales are in US Dollars and the US Dollar is the major trading currency of the pulp and paper industry, the Group reports its results in US Dollars in order to facilitate the understanding of the results.

Disposals

Mining Timber

During the year Sappi sold its Mining Timber business in South Africa to a consortium which included the management team of the business.

Mill closures

Mobile mill

In May the decision was announced to close the Sappi Fine Paper North America mill at Mobile, Alabama, USA. The mill operated in a non-core market segment and the decision to close was taken primarily as a result of the mill's poor overall cost structure. The steps which were necessary to close the mill have proceeded according to plan – production ceased in mid-October and it is expected that the site will be closed completely by mid-December 2001.

Transcript mill

In October 2001 the proposal to close the Transcript mill in Scotland in the United Kingdom was announced. Transcript produces carbonless paper, product, which has been overtaken by other technologies. Following consultation with employee representatives, a final decision was taken in November 2001 to close the mill and closure is expected early in calendar 2002. The decision to close the mill is in line with Sappi's aim to dispose of non-core, under-performing assets.

directors' report (continued)

Share capital

There were no changes either to the authorised or the issued share capital of Sappi.

At 30 September 2001 the authorised and issued share capital of the Company was as follows:

Authorised:

325,000,000 ordinary shares of ZAR1 each	ZAR325 million

Issued:

239,071,892 ordinary shares of ZAR1 each	US$104 million
Share premium	US$1,750 million

Purchase of shares by a subsidiary

Through a wholly-owned subsidiary the Sappi Group acquired a total of 12 million Sappi shares on the open market of the JSE Securities Exchange South Africa (during the year) for a total consideration of approximately US$94 million. This accords with Sappi's stated intention, announced on 9 November 2000 and repeated in last year's report, for a wholly-owned Sappi subsidiary to acquire Sappi shares in the light of the then prevailing Sappi share price and the strengthening Group balance sheet. Some of the shares which have been repurchased have been, and will continue to be, utilised to meet the requirements of the Sappi Limited Share Incentive Trust from time to time.

Convertible notes

During July 1995, the Company's wholly-owned subsidiary, Sappi BVI Finance Limited, issued US$250 million of 7.5% convertible guaranteed notes due 2002. The notes are guaranteed by Sappi. Further details of the convertible notes are provided in note 16 to the Group annual financial statements.

11,944,809 authorised unissued shares of Sappi are specifically reserved for the conversion of the notes into new shares and were placed under the control of the Directors for this specific issue at a general meeting of shareholders on 21 August 1995.

Dividends

The Directors have declared a dividend (number 78) of 26 US cents per share (2000: 25 US cents) for the year ended September 2001. The record date for the dividend is 11 January 2002 and payment will be made on 14 January 2002.

The Sappi Limited Share Incentive Trust ("the Trust")

In March 1997, shareholders approved the adoption of a new share incentive scheme for employees, called "The Sappi Limited Share Incentive Trust", to replace The Sappi Limited Share Purchase Scheme which was introduced in 1979. 10,000,000 ordinary shares (being the maximum number of shares which could be allocated in terms of the Trust as at the date of its adoption) were allocated to the Trust and were placed under the control of the Directors for specific issue in future. Subsequently, an amendment was passed at the annual general meeting in March 2000, to provide that the maximum number of shares which may be allocated in terms of the Trust be fixed at 7.5% of the entire issued share capital of the Company from time to time. Based on the existing share capital, the maximum number of shares available for allocation to the Trust at present is 17,930,466 shares. Please refer to note 31 on page 94 for further information about the Trust.

Borrowing facilities

Group net borrowings amount to US$1.1 billion (September 2000: US$1.2 billion). The Company's articles of association allow net borrowings of up to US$4.8 billion. Details of the long-term borrowings are set out in note 16 to the Group annual financial statements.

Insurance

The Group has a policy of externally insuring high-severity, low-frequency risks and self-insuring the balance of its exposure. The Sappi captive insurer is utilised to manage exposure and optimise re-insurance on a worldwide basis. Risk exposure is controlled through the Group utilising appropriate expertise including that made available through brokers, insurers and other consultants.

Due to a substantial hardening of the insurance market and following the events on 11 September, placement of Property Damage insurance cover has become considerably more difficult this year. Self-insured deductibles for any one occurrence have increased to US$12.5 million in the South African and European regions and to US$19.8 million in North America. There are no aggregate limits. Contrary to previous years, Property Damage is no longer covered to Full Value, although Maximum Foreseeable Losses are exceeded comfortably. Furthermore, Property Damage cover now generally excludes losses from acts of terrorism. The Group has covered these separately to a value of US$250 million. Cover for the South African plantations, renewed separately earlier in the year, remains unchanged. The self-insured element is limited to ZAR10 million (US$1 million) for any one occurrence.

General authority to permit the Company or any subsidiary to acquire Sappi shares

The Board is proposing that the general authority granted at the annual general meeting on 1 March 2001 to permit Sappi and/or subsidiary companies of Sappi to acquire Sappi shares, be renewed at the forthcoming annual general meeting. Appropriate resolutions will be submitted to the forthcoming annual general meeting. Further details are set out in the notice to members on page 112.

Amendment to articles of association

The Board is proposing that a special resolution be passed at the forthcoming annual general meeting of the Company to amend the articles of association of the Company so as to permit the Company to despatch shareholder notices and to receive shareholders' proxies electronically. Further details are set out in the notice to members on page 113.

Directors and secretaries

The names of the Directors appear on page 26. The secretaries and their business and postal addresses appear on page 118 of this report. Mr W H Sheffield was appointed to the Board during the year. In terms of the Company's articles of association, it will be necessary to confirm his appointment at the forthcoming annual general meeting.

In terms of the Company's articles of association Messrs D C Brink, W E Hewitt, K R Lechmere-Oertel, D G Wilson and Dr F A Sonn will retire from the Board at the forthcoming annual general meeting. Messrs Hewitt and Lechmere-Oertel have indicated that they will not be offering themselves for re-election, whilst Messrs Brink, Wilson and Dr Sonn, all being eligible, have offered themselves for re-election.

Personal details of Mr Sheffield and Messrs Brink, Wilson and Dr Sonn are set out in the notice to members on page 115.

The beneficial interest of Directors in the shares of the Company (including options and rights and options in terms of The Sappi Limited Share Incentive Trust) were as follows:

Number of shares at	**September 2001**	September 2000
Ordinary shares	**1,633,226**	1,586,712

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

Subsidiary companies

Details of the Company's significant subsidiaries are given in Annexure A on page 110.

Special resolutions

A full list of the special resolutions passed by the Company and its subsidiaries during the year will be made available to shareholders on request.

income statement

for the year ended September 2001

US$ million	note	**2001**	2000
Sales		**4,184**	4,718
Cost of sales		**3,375**	3,650
Gross profit		**809**	1,068
Selling, general and administrative expenses		**363**	396
Operating profit	4	**446**	672
Non-trading loss	5	**207**	2
Net finance costs	6	**92**	97
Profit before tax		**147**	573
Taxation	7	**9**	197
Profit after tax		**138**	376
Income attributable to minority interests		**–**	13
Net profit		**138**	363
Weighted average number of ordinary shares in issue (millions)		**232.8**	236.9
Basic earnings per share (US cents)	8	**59**	153
Diluted earnings per share (US cents)	8	**59**	151
Earnings before exceptional items (headline earnings) per share (US cents)	8	**113**	146
Diluted earnings before exceptional items (diluted headline earnings) per share (US cents)	8	**112**	144
Dividends per share (US cents) – declared after year-end		**26**	25

balance sheet

at September 2001

US$ million	note	2001	2000
Assets			
Non-current assets		**3,346**	3,600
Property, plant and equipment	9	**2,890**	3,095
Plantations		**324**	372
Deferred taxation	10	**4**	37
Other non-current assets	11	**128**	96
Current assets		**1,160**	1,168
Cash and cash equivalents		**445**	294
Trade and other receivables	12	**202**	319
Inventories	13	**513**	555
Total assets		**4,506**	4,768
Equity and liabilities			
Shareholders' equity		**1,503**	1,618
Ordinary share capital and premium	14	**1,854**	1,937
Non-distributable reserves	15	**(1,005)**	(894)
Distributable reserves		**654**	575
Minority interest		**3**	53
Non-current liabilities		**1,640**	1,996
Interest-bearing borrowings	16	**1,014**	1,278
Deferred taxation	10	**385**	500
Other non-current liabilities	17	**241**	218
Current liabilities		**1,360**	1,101
Interest-bearing borrowings	16	**489**	162
Bank overdraft		**70**	76
Trade and other payables		**672**	751
Taxation payable		**48**	57
Provisions	18	**81**	55
Total equity and liabilities		**4,506**	4,768

cash flow statement

for the year ended September 2001

US$ million	note	2001	2000
Cash retained from operating activities		**543**	789
Cash generated by operations	19	**771**	1,048
– Decrease (increase) in working capital	20	**51**	(61)
Cash generated by operating activities		**822**	987
– Finance costs paid		**(156)**	(182)
– Interest income		**31**	38
– Taxation paid	21	**(94)**	(12)
Cash available from operating activities		**603**	831
– Dividends paid	22	**(60)**	(42)
Cash utilised in investing activities		**(305)**	(68)
Investment to maintain operations		**(166)**	24
– Replacement of non-current assets	23	**(182)**	(161)
– Proceeds on disposal of non-current assets	24	**2**	37
– Proceeds on disposal of business	25	**2**	57
– Decrease in investments and loans		**12**	91
Investment to expand operations		**(139)**	(92)
– Additions of non-current assets		**(139)**	(92)
Cash effects of financing activities		**(88)**	(564)
Proceeds from interest-bearing borrowings		**404**	1,023
Repayment of interest-bearing borrowings		**(380)**	(1,510)
Decrease in other non-current liabilities		**(8)**	(38)
Redemption of minority interests		**(1)**	(126)
(Share buybacks) proceeds of issuance of ordinary shares		**(94)**	114
Decrease in bank overdrafts		**(9)**	(27)
Net movement in cash and cash equivalents		**150**	157
Cash and cash equivalents at beginning of year		**294**	164
Translation effects		**1**	(27)
Cash and cash equivalents at end of year		**445**	294

statement of changes in shareholders' equity

for the year ended September 2001

US$ million	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and premium	Non-distributable reserves	Distributable reserves	Total
Balance – September 1999 as reported	224.6	103	1,720	1,823	(662)	302	1,463
Changes in accounting policies	–	–	–	–	8	(35)	(27)
Balance – September 1999 restated	224.6	103	1,720	1,823	(654)	267	1,436
Net profit	–	–	–	–	–	363	363
Transfer from distributable reserves	–	–	–	–	1	(1)	–
Foreign currency translation reserve	–	–	–	–	(248)	–	(248)
Dividends – US$0.19 per share *	–	–	–	–	–	(45)	(45)
Issuance of ordinary shares	14.5	2	112	114	–	–	114
Goodwill written off to equity	–	–	–	–	7	(9)	(2)
Balance – September 2000	239.1	105	1,832	1,937	(894)	575	1,618
Net profit	–	–	–	–	–	138	138
Transfer from distributable reserves	–	–	–	–	7	(7)	–
Foreign currency translation reserves	–	–	–	–	(118)	–	(118)
Revaluation of derivative instruments	–	–	–	–	–	8	8
Dividends – US$0.25 per share *	–	–	–	–	–	(60)	(60)
Share buybacks less transfers to share purchase trust	(9.6)	(1)	(82)	(83)	–	–	(83)
Balance – September 2001	**229.5**	**104**	**1,750**	**1,854**	**(1,005)**	**654**	**1,503**

** This is the dividend that relates to the previous financial year's earnings that was declared subsequent to year-end. In terms of our newly adopted accounting policy (AC 107 revised – Events after balance sheet date), dividends declared after the balance sheet date are accounted for in the year in which they are declared and not in the year in which the profits are earned.*

income statement in rands

convenience translation

for the year ended September 2001

ZAR million	**2001**	2000
Sales	**33,294**	30,889
Cost of sales	**26,856**	23,897
Gross profit	**6,438**	6,992
Selling, general and administrative expenses	**2,889**	2,592
Operating profit	**3,549**	4,400
Non-trading loss	**1,647**	13
Net finance costs	**732**	635
Profit before tax	**1,170**	3,752
Taxation	**72**	1,290
Profit after tax	**1,098**	2,462
Income attributable to minority interests	**–**	85
Net profit	**1,098**	2,377
Weighted average number of ordinary shares in issue (millions)	**232.8**	236.9
Basic earnings per share (SA cents)	**469**	1,003
Diluted earnings per share (SA cents)	**469**	989
Earnings before exceptional items (headline earnings) per share (SA cents)	**899**	953
Diluted earnings before exceptional items (diluted headline earnings) per share (SA cents)	**891**	943
Dividends per share (SA cents) – declared after year-end *	**250**	164

Note:
The income statement has been expressed in Rands for information purposes. The translation to South African Rands from United States Dollars has been calculated at an average rate for the year of US$1 to ZAR7.9574 (September 2000: US$1 to ZAR6.5472).

** Dividends have been translated at the rate of exchange on the date of declaration.*

balance sheet in rands

convenience translation

at September 2001

ZAR million	**2001**	2000
Assets		
Non-current assets	**29,908**	26,006
Property, plant and equipment	**25,832**	22,358
Plantations	**2,896**	2,687
Deferred taxation	**36**	267
Other non-current assets	**1,144**	694
Current assets	**10,369**	8,437
Cash and cash equivalents	**3,978**	2,124
Trade and other receivables	**1,806**	2,304
Inventories	**4,585**	4,009
Total assets	**40,277**	34,443
Equity and liabilities		
Shareholders' equity	**13,435**	11,688
Minority interest	**27**	383
Non-current liabilities	**14,659**	14,419
Interest-bearing borrowings	**9,064**	9,232
Deferred taxation	**3,441**	3,612
Other non-current liabilities	**2,154**	1,575
Current liabilities	**12,156**	7,953
Interest-bearing borrowings	**4,371**	1,170
Bank overdraft	**626**	549
Trade and other payables	**6,006**	5,425
Taxation payable	**429**	412
Provisions	**724**	397
Total equity and liabilities	**40,277**	34,443

Note:
The balance sheet has been expressed in Rands for information purposes. The translation to South African Rands from United States Dollars has been calculated at the closing rate for the year of US$1 to ZAR8.9386 (September 2000: US$1 to ZAR7.2240).

notes to the annual financial statements

for the year ended September 2001

1. Business

Sappi Limited, a corporation organised under the laws of the Republic of South Africa (the "Company" and, together with its consolidated subsidiaries, "Sappi" or the "Group"), was formed in 1936 and is a major, vertically integrated international pulp and paper producer. Sappi is the world's largest producer of coated woodfree paper and dissolving pulp and the largest forest products company in Africa. The Group has manufacturing facilities in eight countries, on three continents, and customers in over 100 countries across the globe.

The Group is composed of its Sappi Fine Paper and Sappi Forest Products business units. Sappi Trading operates a trading network for the international marketing and distribution of our products outside our core operating regions of North America, Europe and Southern Africa. Sappi Papier Holding AG owns the Group's fine paper business in Europe and North America, and the trading business in Hong Kong. The worldwide activities of the fine paper group are co-ordinated from the Sappi Fine Paper offices in London. Sappi Forest Products, based in South Africa, produces commodity paper products, pulp and forest and timber products for Southern Africa and export markets.

2. Accounting policies

Basis of preparation

These financial statements have been prepared in conformity with South African Statements of Generally Accepted Accounting Practice. (Refer note 37 for summary of the principal differences between SA GAAP and US GAAP.) The principal accounting policies of the Group have been applied consistently with the previous year except for the changes set out in note 3.

The following standards have been adopted in the financial statements before their effective dates:

– Events after the balance sheet date – AC 107 (revised)
– Employee benefits – AC 116 (revised)
– Financial instruments: recognition and measurement – AC 133

The Group reports in US Dollars to facilitate a better understanding of its results, since the majority of its sales are in US Dollars and the US Dollar is the major currency of the paper and pulp industry. Sappi Limited, the holding company, reports in South African Rands.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used by management include realisation of certain assets such as trade and other accounts receivable, inventory, goodwill and deferred taxation assets, as well as estimates of exposure and certain liabilities of the Group. Actual results could differ from those estimates.

Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the operations of the Company and its subsidiaries. Subsidiaries are those entities over whose financial and operating policies the Group has the power to exercise control, so as to obtain benefits from their activities.

Intercompany profits, transactions and balances have been eliminated.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight-line basis following an assessment of its foreseeable life. Current estimates of goodwill's useful life do not exceed 20 years.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Goodwill occurring before 1 October 2000 was transferred directly to reserves and is not restated as allowed by the transitional provisions of AC 131 – Business combinations.

Fiscal year

The Group has changed its financial years to end on the Sunday closest to the last day of September. Until last year, the financial year-end was the closest Wednesday. These financial years ended on 30 September 2001 ("year ended September 2001") and 27 September 2000 ("year ended September 2000").

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Cost includes all costs incurred to bring the plant to the location and condition for its intended use and includes financing costs.

Depreciation is calculated on a straight-line basis over the effective useful lives of the assets. No depreciation is provided on land. The effective useful lives of the major categories of property, plant and equipment are:

Production buildings	10 – 45 years
Other buildings	9 – 45 years
Plant – pulp and paper mill equipment,	
major items	10 – 40 years
– other	5 – 15 years
Motor vehicles	4 – 5 years
Office equipment	3 – 10 years

Leased assets and assets acquired under suspensive sale agreements

Property, plant and equipment acquired under finance leases and suspensive sale agreements are capitalised at fair value at the date of acquisition.

Capitalised leased assets are amortised over the lesser of the lease term and the effective useful life of the asset.

Finance costs are accrued and expensed annually, based on the effective rate of interest applied consistently to the remaining balance of the liability and are included in the related liability. This liability is reduced as and when payments are made in terms of the agreements.

Operating leases, mainly for the rental of premises and certain office equipment, are not capitalised and rentals are expensed on a straight-line basis over the lease term.

Plantations

Plantations are stated at the lower of cost less depletions and realisable value. Cost includes all expenditure incurred on acquisition, forestry development, establishment and maintenance of plantations, and finance charges.

Depletions include the cost of timber felled, including finance charges, which is determined on the average method, plus amounts written off standing timber to cover loss or damage caused, for example, by fire, disease and stunted growth.

Intangible assets

Research and development

Research costs are expensed against income in the year in which they are incurred.

Development costs which relate to the design and testing of new improved materials, products or processes are recognised as an asset to the extent that it is expected that such assets will generate future economic benefits. Such

notes to the annual financial statements (continued)

for the year ended September 2001

assets are amortised on a straight-line basis over their estimated useful lives. To date all development costs have been expensed.

Patents

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

Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the weighted average cost of capital and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

For an asset that does not generate cash inflows that are largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the income statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years. For goodwill a recognised impairment loss is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and the increase relates clearly to the reversal of the effect of that specific event.

Borrowing costs

Borrowing costs that are directly attributable to qualifying assets are capitalised. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use or sale. Capitalisation continues up to the date that the assets are substantially ready for their intended use or sale. Capitalisation is suspended during extended periods in which active development is interrupted.

Inventories

Inventories are valued at the lower of cost, determined on the first-in first-out ("FIFO") basis, and net realisable value. All damaged or substandard materials and obsolete, redundant or slow-moving inventories are written down to their estimated net realisable values.

The cost of raw materials, consumable stores and spares is the delivered landed cost, while the cost of work in progress and finished goods includes both direct costs and production overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Share repurchases

Shares repurchased by the Company are cancelled. Shares held by subsidiaries are treated as treasury shares, and are presented as a reduction from equity. Gains or losses on disposals of treasury shares are accounted for directly in equity.

Deferred taxation

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are recorded at the rates of exchange ruling on the transaction date. Monetary items denominated in foreign currencies are translated at rates of exchange ruling at balance sheet date. Gains and losses and costs associated with foreign currency transactions are taken to income in the period to which they relate.

Financial statements of entities reporting in currencies other than the US Dollar

The financial statements are translated to US Dollars as follows:

– Assets and liabilities at rates of exchange ruling at balance sheet date.
– Income, expenditure and cash flow items at average rates.

Differences arising from the translation of the opening net investment at the rates ruling at balance sheet date and income and expenditure at average rates are taken directly to reserves.

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

Selected currencies

Rate at	September 2001	September 2000
ZAR to one US$	8.9386	7.2240
GBP to one US$	0.6796	0.6869
EUR to one US$	1.0909	1.1393

Average annual rate	September 2001	September 2000
ZAR to one US$	7.9574	6.5472
GBP to one US$	0.6945	0.6371
EUR to one US$	1.1293	1.0288

Convenience translations

The consolidated income statement and the consolidated balance sheets have been expressed in South African Rands for information purposes.

For this purpose the consolidated income statement was translated at the average rate for the year and the consolidated balance sheet at the rate of exchange ruling at balance sheet date.

notes to the annual financial statements (continued)

for the year ended September 2001

Environmental expenditures and liabilities

Environmental expenditures that pertain to current operations or relate to future revenues are expensed or capitalised consistent with the Company's capitalisation policy. Expenditures that result from the remediation of an existing condition caused by past operations, and do not contribute to current or future revenues, are expensed. Environmental accruals are recorded based on current interpretation of environmental laws and regulations when it is probable that a liability has been incurred and the amount of such liability can be reasonably estimated. Amounts accrued do not include third-party recoveries. Liabilities are recognised for remedial activities when the clean-up is probable and the cost can be reasonably estimated. All available information is considered including the results of remedial investigation/feasibility studies ("RI/FS"). In evaluating any disposal site environmental exposure, an assessment is made of the Company's potential share of the remediation costs by reference to the known or estimated volume of the Company's waste that was sent to the site and the range of costs to treat similar waste at other sites if a RI/FS is not available.

Revenue recognition

Revenue is the net sales value of all products sold to third parties after the deduction of rebates and excludes value-added tax.

Revenue is recognised when significant risks and rewards of ownership are transferred to the buyer, costs can be measured reliably and receipt of the future economic benefits is probable.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate.

Discontinuing operations

A discontinuing operation results from the sale or abandonment of an operation that represents a separate major line of business and of which the assets, net profit or loss and activities can be distinguished physically, operationally and for financial reporting purposes.

Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments with insignificant interest rate risk and original maturities of three months or less. Similar investments with maturities beyond three months are considered short-term marketable securities.

Financial instruments

Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

Investments

Listed investments are carried at market value, which is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date. Other investments are shown at fair value.

Trade and other receivables

Trade and other receivables originated by the Group are stated at cost less provision for doubtful debts.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at balance sheet date.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisations.

Derivative instruments

Derivative instruments are measured at fair value.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship are included in net profit or loss in the period in which the change arises.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately against income. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised against income.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in shareholders' equity and the ineffective portion is recognised against income. For cash flow hedges affecting future transactions, the gains or losses which are recognised in shareholders' equity are transferred to income in the same period in which the hedged transaction affects income. Where the hedged transaction results in the recognition of an asset or a liability, then at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in shareholders' equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

Employee benefits

Post-employment benefits – pensions

The policy of the Group is to provide retirement benefits for its employees. The Group's contributions to defined contribution plans in respect of service during a particular period are recognised as an expense in that period. The current service cost in respect of defined benefit plans is recognised as an expense in the current period. Past-service costs, experience adjustments, the effects of changes in actuarial assumptions and plan amendments in respect of existing employees in defined benefit plans are recognised as an expense or income over the expected remaining working lives of those employees. The effects of plan amendments in respect of retired employees in defined benefit plans are measured at the present value of the effect of the amendments and recognised as an expense or income in the period in which the plan amendment is made. An asset is only recognised to the extent that the Group is able to get a refund or contribution holiday.

Post-employment benefits – medical

The estimated cost of retiree health care and life insurance benefit plans is accrued during the participants' actual service periods up to the dates they become eligible for full benefits.

Workmen's compensation insurance

Sappi Fine Paper North America has a combination of self-insured and insured workers' compensation programmes. The self-insurance claim liability for workers' compensation is based on claims reported and actuarial estimates of adverse developments and claims incurred but not reported.

Equity compensation benefits

The Group grants share options to certain employees under an employee share plan. Costs incurred in administering the scheme are expensed as incurred. No compensation cost is recognised in these financial statements for options or shares granted to employees from employee share plans.

Comparative figures

Comparative figures have been regrouped or restated where necessary to give a more appropriate comparison.

notes to the annual financial statements (continued)

for the year ended September 2001

US$ million

3. Changes in accounting policies

During the year the Group adopted the following new and revised standards. Where appropriate, comparative figures have been restated.

Employee benefits: AC 116 (revised)

This revised statement deals with the accounting and disclosure for all employee benefits. The effect of adopting this statement was to reduce the pension asset to its recoverable amount and increase the leave pay provision to the full liability.

Events after the balance sheet date: AC 107 (revised)

This revised statement requires an adjustment to the financial statements for events after the balance sheet date that provide further evidence of conditions that existed at the balance sheet date and no adjustments for events or conditions that arose after the balance sheet date. The Group accordingly changed the treatment of dividends proposed, whereby dividends and secondary taxation on companies (STC) thereon are recorded when the dividend is declared.

Consolidation: special purpose entities: AC 412

This statement requires the consolidation of special purpose entities, irrespective of their legal structure, in instances where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This has resulted in the consolidation of certain entities that were previously not consolidated.

Provisions, contingent liabilities and contingent assets: AC 130

This statement requires that provisions should only be recognised where the enterprise has a present obligation (legal or constructive) arising as a result of a past event. The effect of adopting this statement was the reversal of the provision for plant renewals and maintenance. Such costs will now be expensed in the period incurred.

The following new or revised statements had no effect on the historical financial information, but the Group's accounting policies were amended in line with the new standards.

– Leases: AC 105
– Discontinuing operations: AC 117
– Impairment of assets: AC 128
– Intangible assets: AC 129
– Business combinations: AC 131
– Consolidated financial statements and accounting for investments in subsidiaries: AC 132
– Financial instruments: recognition and measurement: AC 133
– Government grants: AC 134
– Share capital – reacquired own equity instruments (treasury shares): AC 416

US$ million

	Gross	Taxation	Net after taxation	2001	2000
3. Changes in accounting policies (continued)					
The effects of the above changes are as follows:					
Restatement of opening distributable reserves in respect of prior year adjustments					
Employee benefits	(104)	31	(73)	**(73)**	(73)
Events after the balance sheet date	60	–	60	**60**	45
Consolidation: special purpose entities	(9)	–	(9)	**(9)**	(9)
Provisions, contingent liabilities and contingent assets	2	–	2	**2**	2
	(51)	31	(20)	**(20)**	(35)
Restatement of opening non-distributable reserves in respect of prior year adjustments					
Employee benefits	14	–	14	**14**	7
Consolidation: special purpose entities	2	–	2	**2**	1
Provisions, contingent liabilities and contingent assets	1	–	1	**1**	–
	17	–	17	**17**	8

The effect on net profit for the current and comparative period is not material.

	2001	2000
4. Operating profit		
Operating profit is arrived at after taking into account the items detailed below:		
Leasing charges for premises	**15**	15
Leasing charges for plant and equipment on operating leases	**41**	42
Remuneration paid other than to bona fide employees of the Company in respect of:	**48**	46
– technical services	**22**	20
– administration services	**26**	26
Auditors' remuneration:	**5**	5
– fees for audit	**3**	3
– fees for other services	**2**	2
Research and development costs	**13**	15
Employee costs	**707**	769

notes to the annual financial statements (continued)

for the year ended September 2001

US$ million		**2001**	2000
5.	**Non-trading loss**		
	Profit on sale of business	**(2)**	(21)
	Loss (profit) on sale of property, plant and equipment	**2**	(4)
	Restructuring costs	**3**	5
	Mill closure costs	**183**	–
	Asset impairment	**6**	8
	Deferred finance costs written off on early settlement of loans	**9**	17
	Other	**6**	(3)
		207	2
	Attributable tax	**(77)**	(2)
		130	–
6.	**Net finance costs**		
	Gross interest and other finance costs *	**156**	182
	Interest received	**(31)**	(38)
	Interest capitalised	**(33)**	(47)
		92	97
	Gross interest capitalised	**45**	51
	Excess interest cost over recoverable amount – charged against net finance costs	**(12)**	(4)
	Amortisation of previously capitalised interest – charged against operating profit	**(15)**	(18)
	Net interest capitalised	**18**	29
	** This includes net foreign exchange gains of*	**1**	9

for the year ended September 2001

US$ million	2001	2000
7. Taxation		
Current tax:		
Current year	**65**	63
Prior year underprovision	**19**	9
Withholding and other taxes	**4**	1
Deferred tax:		
Current year	**(58)**	124
Prior year adjustment	**(18)**	–
Attributable to a reduction in the tax rate	**(3)**	–
	9	197
Due to the utilisation of previously unrecognised tax losses, the deferred tax expense for the year has been reduced by:	**22**	33
Reconciliation of the tax rate:	**%**	%
South African statutory taxation rate	**30.0**	30.0
Foreign taxation rate differential	**(17.1)**	3.5
Weighted average statutory taxation rate	**12.9**	33.5
Non-taxable income	**(18.2)**	(2.9)
Effect of reduction in tax rates	**(2.1)**	–
Deferred tax asset not recognised	**11.4**	0.6
Other taxes	**1.0**	0.1
Prior year underprovision	**1.2**	3.1
Effective rate of taxation	**6.2**	34.4

notes to the annual financial statements (continued)

for the year ended September 2001

US$ million

8. Earnings per share and headline earnings per share

Earnings per share (EPS)

Earnings per share (EPS) is based on the Group's net profit divided by the weighted average number of shares in issue during the year under review.

	2001 Net profit US$ million	Shares millions	Per share US cents	2000 Net profit US$ million	Shares millions	Per share US cents
Basic EPS	**138**	**232.8**	**59**	363	236.9	153
Share options under Sappi share incentive scheme	**–**	**2.4**	**–**	–	2.8	–
Other share options	**–**	**–**	**–**	7	5.8	114
Diluted EPS	**138**	**235.2**	**59**	370	245.5	151

The diluted EPS calculations exclude the effect of the convertible guaranteed notes (see note 16) and certain share options granted under the Sappi share incentive scheme as they would be anti-dilutive.

Headline earnings per share

Headline earnings per share is based on the Group's headline earnings divided by the weighted average number of shares in issue during the year.

Reconciliation between earnings and headline earnings:

	2001 Net profit US$ million	Shares millions	Per share US cents	2000 Net profit US$ million	Shares millions	Per share US cents
Earnings as reported	**138**	**232.8**	**59**	363	236.9	153
Exceptional items, gross						
– Loss (profit) on disposal of business and fixed assets	**6**	–	–	(25)	–	–
– Mill closure costs and asset impairments	**189**	–	–	8	–	–
– Debt restructuring costs	**9**	–	–	17	–	–
– Decrease in provisions	**(5)**	–	–	(18)	–	–
Total tax effect on exceptional items	**(74)**	–	–	2	–	–
EPS before exceptional items (headline)	**263**	**232.8**	**113**	347	236.9	146
Share options under Sappi share incentive scheme	**–**	**2.4**	**–**	–	2.8	–
Other share options	**3**	**3.3**	**94**	7	5.8	114
Diluted EPS before exceptional items (headline)	**266**	**238.5**	**112**	354	245.5	144

for the year ended September 2001

US$ million	2001	2000
9. Property, plant and equipment		
Land and buildings		
At cost	**938**	925
Depreciation	**376**	333
	562	592
Plant and equipment		
At cost	**4,224**	4,261
Depreciation	**2,048**	1,919
	2,176	2,342
Capitalised leased assets		
Plant and equipment at cost	**461**	446
Depreciation	**309**	285
	152	161
Aggregate cost	**5,623**	5,632
Aggregate depreciation	**2,733**	2,537
Aggregate book value	**2,890**	3,095

The movement on property, plant and equipment is reconciled as follows:

	Land and buildings	Plant and equipment	Capitalised leased assets	2001 Total	2000 Total
Net book value at beginning of year	592	2,342	161	**3,095**	3,630
Additions	26	244	23	**293**	221
Interest capitalised	–	1	1	**2**	–
Disposals	(2)	(2)	–	**(4)**	(32)
Depreciation	(30)	(247)	(23)	**(300)**	(320)
Impairment (including Mobile closure)	(6)	(108)	–	**(114)**	(7)
Translation difference	(18)	(54)	(10)	**(82)**	(397)
Net book value at end of year	562	2,176	152	**2,890**	3,095

Details of land and buildings are available at the registered offices of the respective companies (refer note 26 for details of encumbrances).

notes to the annual financial statements (continued)

for the year ended September 2001

US$ million	2001 Assets	2001 Liabilities	2000 Assets	2000 Liabilities
10. Deferred taxation				
Current:				
Other liabilities, accruals and prepayments	**1**	**69**	1	11
Inventory	**–**	**(6)**	–	(11)
Current deferred tax asset	**1**	**63**	1	–
Non-current:				
USA alternative minimum tax credit carry forward	**–**	**67**	–	81
Tax loss carry forward	**64**	**178**	93	105
Accrued and other liabilities	**7**	**64**	10	61
Property, plant and equipment	**25**	**(443)**	19	(435)
Plantations	**(7)**	**(90)**	(10)	(103)
Other – assets	**10**	**41**	1	33
Other – liabilities	**(16)**	**(132)**	–	(155)
Non-current deferred tax asset (liability)	**83**	**(315)**	113	(413)
Subtotal	**84**	**(252)**	114	(413)
Deferred tax assets not recognised	**(80)**	**(133)**	(77)	(87)
Total	**4**	**(385)**	37	(500)
Net deferred tax liability		**(381)**		(463)

Negative asset and liability positions reflect the impact of tax assets and liabilities arising in different tax jurisdictions, which cannot be netted against tax assets and liabilities arising in other tax jurisdictions.

The recognised deferred tax assets relate mostly to unused tax losses. It is expected that there will be sufficient tax profits in the future against which these losses can be recovered.

The unrecognised deferred tax assets relate to the following:

	2001	2000
Deductible temporary differences	**64**	26
Tax losses	**149**	138
	213	164

US$ million	2001	2000
10. Deferred taxation (continued)		
The following table shows the movement in the unrecognised deferred tax assets for the year:		
Opening balance	**(164)**	(190)
Unrecognised deferred tax assets originating during the current year	**(44)**	(3)
Movement in foreign exchange rates	**(5)**	29
Closing balance	**(213)**	(164)
Reconciliation of net deferred tax liability		
Net deferred tax liability at beginning of year	**(463)**	(381)
Deferred tax charge for the year	**58**	(124)
Tax credit originating	**(24)**	(16)
Prior year adjustment	**18**	–
Rate adjustment	**3**	–
Translation differences	**27**	58
Net deferred tax liability at end of year	**(381)**	(463)

A deferred tax liability of US$31 million (September 2000: US$30 million) in regard to investments in subsidiaries has not been recognised as the applicable tax law provides a means by which the reported amounts of the investments can be recovered and the Group expects that it will ultimately use that means.

notes to the annual financial statements (continued)

for the year ended September 2001

US$ million	2001	2000
11. Other non-current assets		
Deferred expenditure	**4**	22
Patents	**9**	11
Loan to executive share purchase trust participants	**5**	12
Unlisted and other investments and loans at cost and Directors' valuation	**60**	34
Post-employment benefits – pension asset	**20**	17
Fair value of derivative instruments	**30**	–
	128	96
Deferred expenditures are recorded net of accumulated amortisation of	**77**	61
Patents are recorded net of accumulated amortisation of	**12**	10
12. Trade and other receivables		
Trade accounts receivable, gross	**87**	174
Allowance for doubtful debts	**14**	11
Trade accounts receivable, net	**73**	163
Prepayments and other receivables	**129**	156
	202	319

Prepayments and other receivables primarily represent amounts due from the sale of energy produced by Sappi Fine Paper North America co-generation facilities, certain outstanding insurance claims, prepaid insurance, prepaid rent and sundry other receivables.

US$ million	2001	2000
13. Inventories		
Raw materials	**87**	110
Work in progress	**54**	66
Finished goods	**224**	239
Consumable stores and spares	**148**	140
	513	555

Included in the above is inventory carried at a net realisable value of US$53 million (September 2000: US$68 million).

US$ million	2001	2000
14. Ordinary share capital and premium		
Authorised share capital:		
325,000,000 (September 2000: 325,000,000) shares of R1 each		
Issued share capital:		
239,071,892 (September 2000: 239,071,892) shares of R1 each	**104**	105
Share premium	**1,750**	1,832
	1,854	1,937

Included in the issued ordinary shares above are 9,586,124 (September 2000: nil) shares held as treasury shares by a subsidiary (Sappi Share Facilitation Company (Pty) Limited) which will be utilised mainly to meet the requirements of the Sappi Limited Share Incentive Trust.

Under the authority granted at the annual general meeting of the Company's shareholders held on 1 March 2001, the Company's Directors were authorised to issue the balance of unissued shares to such person or persons on such terms and conditions as they may determine. The authority expires at the next annual general meeting, unless renewed thereat.

Sappi has a general authority to purchase its shares up to a maximum of 20% of the issued share capital in any one financial year. This is in terms of the annual general meeting of shareholders on 1 March 2001. The general authority is subject to the Listings Requirements of the JSE Securities Exchange South Africa and the Companies Act No 61 of 1973 of South Africa, as amended.

17,930,392 (September 2000: 17,930,392) shares have been allocated for the Executive Share Purchase Trust of which a total of 1,799,371 (September 2000: 2,724,325) shares were in issue at September 2001.

11,944,809 (September 2000: 11,944,809) ordinary shares are reserved for the issue in the event of the conversion of the convertible guaranteed notes issued by Sappi BVI Finance Limited (refer note 16).

15. Non-distributable reserves		
Reduction in capital arising from the transfer of share premium under a special resolution dated 14 April 1975	**2**	2
Capitalisation of distributable reserves	**32**	32
Legal reserves in subsidiaries	**50**	43
Foreign currency translation reserve	**(1,089)**	(971)
	(1,005)	(894)

The negative balance in the Foreign Currency Translation Reserve represents the cumulative translation effect of the strength of the Dollar on the Group's equity in Rands and other currencies. The translation effect of reporting in US Dollars has no impact on the underlying cash flows of the business.

The amounts recorded as "Capitalisation of distributable reserves" and "Legal reserves in subsidiaries" represent equity of the Company that is not available for distribution as a result of appropriations of equity by subsidiaries and legal requirements, respectively.

notes to the annual financial statements (continued)

for the year ended September 2001

US$ million	**2001**	2000
16. Interest-bearing borrowings		
Secured borrowings		
– Mortgage and pledge over certain assets (refer note 26)	**298**	392
– Capitalised lease liabilities (refer note 26)	**142**	101
Total secured borrowings	**440**	493
Unsecured borrowings	**1,063**	947
Total borrowings	**1,503**	1,440
Less: Current portion included in current liabilities	**489**	162
	1,014	1,278
The repayment profile of the interest-bearing borrowings is as follows:		
Payable in the year ended September:		
2001	**–**	162
2002	**489**	426
2003	**378**	107
2004	**122**	127
2005	**82**	210
2006 (September 2000: Thereafter)	**59**	408
Thereafter	**373**	–
	1,503	1,440

Capitalised lease liabilities

Capital (finance) leases are primarily for plant and equipment. Lease terms generally range from five to ten years with options to make early settlements or renew at varying terms. At the time of entering into capital lease agreements, the commitments are recorded at the present value using applicable interest rates. As of September 2001, the aggregate amounts of minimum lease payments and the related imputed interest under capitalised lease contracts payable in each of the next five financial years and thereafter are as follows:

	Minimum lease payments	Interest	Present value of minimum lease payments	Present value of minimum lease payments
Payable in the year ended September:				
2001	–	–	–	46
2002	49	(12)	37	30
2003	45	(5)	40	6
2004	39	(15)	24	10
2005	30	(3)	27	6
2006 (September 2000: Thereafter)	14	(1)	13	3
Thereafter	2	(1)	1	–
Total future minimum lease payments	179	(37)	142	101

16. Interest-bearing borrowings (continued)

Set out below are details of the more significant non-current interest-bearing borrowings in the Group at September 2001.

Type	Currency	Interest p.a.	Value	Conversion	Maturity	Comments
Convertible notes						
Convertible guaranteed notes (refer note 35)	US$	7.50%	US$243 million (principal US$250 million, of which US$1 million was repurchased in January 1999 and US$6 million in November 2000)	At holders' option between 26 October 1995 and 25 July 2002 into Sappi Limited share capital. Price ZAR76 @ ZAR3.6450 = US$1	1 August 2002	The issuer, Sappi BVI Finance Limited, can redeem after 1 August 1998. To date US$7 million repurchased and cancelled

Bank	Currency	Interest rate	Value	Security	Expiry	Covenants
Capitalised leases						
Sapnet Trust Nedbank	ZAR	Variable linked to JIBAR	ZAR185 million	Plant and equipment	March 2005	No covenants
ABSA	ZAR	Variable linked to JIBAR	ZAR84 million	Plant and equipment	March 2003	Net finance cost cover ratio and debt equity ratio
First National Bank	ZAR	Variable linked to JIBAR	ZAR48 million	Plant and equipment	September 2006	No covenants
First National Bank	ZAR	Variable effectively based on market rate	ZAR76 million	Leased assets encumbered	December 2007	Net finance cost cover ratio and debt equity ratio
Secured bank term loans						
ABSA	ZAR	Fixed (swapped into variable)	ZAR167 million	Secured over assets	August 2005	Net finance cost cover
SCMB	ZAR	Fixed (swapped into variable)	ZAR83 million	Secured over assets	January 2007	No covenants

notes to the annual financial statements (continued)

for the year ended September 2001

16. Interest-bearing borrowings (continued)

Bank	Currency	Interest rate	Value	Security	Expiry	Covenants
Redeemable bonds						
Town of Skowhegan/ Michigan Strategic Fund/City of Westbrook	US$	Fixed	US$107 million	Land and buildings	2022	No covenants
Exchange debentures						
United States Trust Company of New York, as trustee	US$	14%	US$135 million	Unsecured	December 2006 (first call date December 2001)	Restrictive covenants

Bank	Currency	Interest rate	Value	Expiry	Covenants
Unsecured bank term loans					
Syndicated loan with agent Citibank	US$	Variable	US$250 million	July 2003	Net finance cost cover ratio, equity ratio and net debt to total capitalisation ratio
Consortium of banks with agent Investec	US$	Variable	US$119 million	May 2006	Net finance cost cover and debt to total capitalisation ratio
Österreichische Kontrollbank	EUR	Variable Fixed	EUR21 million EUR224 million	December 2001 December 2007	Net finance cost cover ratio and equity ratio
Raffeisen Zentralbank	EUR	Variable Fixed	EUR9 million EUR23 million	December 2001 December 2003	Net finance cost cover ratio and equity ratio
European Investment Bank	EUR	Variable Variable Fixed	EUR80 million EUR16 million EUR70 million	December 2004 September 2003 June 2002	Net finance cost cover ratio and equity ratio
MLS Bank	ZAR	Fixed (swapped into variable)	ZAR400 million	December 2005	Gearing ratio/interest cover

16. Interest-bearing borrowings (continued)

Financial instruments and other loans

The Group also has financial instruments and other loans with various banks, expiry dates and security, in various currencies at fixed and variable interest rates for amounts totalling US$129 million.

Unused credit facilities

Set out below is a synopsis of the unused credit facilities by geographic region. These facilities are at various banks in various currencies with various expiry dates.

Geographic region	Interest rate	US$ million
Southern Africa	Variable	188
Europe	Variable	1,092
North America	Variable	79

US$ million	**2001**	2000
17. Other non-current liabilities		
Post-employment benefits – pension obligations (refer note 29)	**86**	89
Post-retirement benefits other than pension obligations (refer note 30)	**85**	79
Workmen's compensation	**8**	11
Unfavourable contracts	**8**	10
Restructuring provisions (refer note 18)	**24**	12
Fair value of derivative instruments	**2**	–
Other	**28**	17
	241	218

notes to the annual financial statements (continued)

for the year ended September 2001

US$ million	**2001**	2000
18. Provisions		
Other provisions	**35**	34
Restructuring provisions	**46**	21
	81	55

Summary of movement in provisions:

	Other provisions	Restructuring provisions				
		Severance and related costs	Retrench-ment costs	Lease cancel and penalty cost	Other restructuring	Total restructuring
Balance at September 1999	37	15	2	–	40	57
Increase in provisions	5	3	1	–	3	7
Utilised	(7)	(5)	(1)	–	(18)	(24)
Translation effect	(1)	(2)	–	–	(5)	(7)
Balance at September 2000	34	11	2	–	20	33
Increase in provisions	8	31	3	28	41	103
Utilised	(7)	(4)	(2)	(5)	(24)	(35)
Released during the year	–	(4)	(1)	(14)	(5)	(24)
Transfer to pension obligations	–	–	–	–	(8)	(8)
Translation effect	–	–	–	–	1	1
Balance at September 2001	35	34	2	9	25	70

	2001	2000
Included in other non-current liabilities (refer note 17)	**24**	12
Included in provisions	**46**	21
Total restructuring provisions	**70**	33

September 2001 restructuring plans

Sappi Fine Paper North America

During the financial year ended September 2001, Sappi Fine Paper North America announced the closure of the Mobile mill. The closure has already affected 268 employees and costs of US$76 million relating to closure of operations, relocation of plant facilities, retrenchment, severance and other related costs were incurred and have been included in the income statement as mill closure cost. The provision at September 2001 was US$50 million.

18. Provisions (continued)

Sappi Fine Paper Europe

During the year a programme was started to reskill certain employees at the Maastricht mill for alternative employment. It is expected to affect 40 people of whom two were affected by year-end. The restructuring provision was increased by US$3 million for this programme. The provision at year end September 2001 was US$3 million for the severance, training and legal costs. During the year Blackburn mill changed the shift system from five shifts to four shifts. This is anticipated to affect 22 people of whom six had been affected by year-end September 2001. The increase in the restructuring provision was US$1 million which remains on the balance sheet at year-end.

September 2000 restructuring plans

Sappi Forest Products

During the financial year ended September 2000, Sappi Forest Products closed certain of its mining timber mills and restructured the divisional head office as a result of the sale of Novobord. Three hundred and eighty-three personnel were affected and costs of US$2 million relating to retrenchment, severance, lease cancellation and other related costs were incurred and have been included in the income statement as restructuring costs under "Non-trading loss" (refer note 5). The provision at September 2000 was US$2 million.

Sappi Fine Paper Europe

During the financial year ended September 2000 the Astralux division of the Blackburn mill was sold. This resulted in an increase in the provision for restructuring of US$2 million. The plan has already affected 45 employees. The provision for severance costs at September 2000 was US$1 million.

US$ million	**2001**	2000
19. Cash generated by operations		
Profit before tax per income statement	**147**	573
Adjustment for:		
– Depreciation	**300**	320
– Fellings	**30**	36
– Net finance costs	**92**	97
– Mill closure costs	**183**	–
– Asset impairment	**6**	8
– Other non-cash items	**13**	14
	771	1,048
20. Decrease (increase) in working capital		
Decrease (increase) in inventories	**17**	(92)
Decrease (increase) in receivables	**108**	(1)
(Decrease) increase in payables	**(74)**	32
	51	(61)

notes to the annual financial statements (continued)

for the year ended September 2001

US$ million	2001	2000
21. Taxation paid		
Amounts unpaid at beginning of year	**(57)**	(2)
Translation effects	**3**	6
Amounts charged to the income statement	**(88)**	(73)
Amounts unpaid at end of year	**48**	57
Cash amounts paid	**(94)**	(12)
22. Dividends paid		
Amounts unpaid at beginning of year	**–**	–
Translation effects	**–**	3
Current year dividend	**(60)**	(45)
Amounts unpaid at end of year	**–**	–
Cash amounts paid	**(60)**	(42)
23. Replacement of non-current assets		
Property, plant and equipment	**(154)**	(129)
Plantations	**(28)**	(32)
	(182)	(161)
24. Proceeds on disposal of non-current assets		
Book value of property, plant and equipment disposed of	**4**	41
Loss on disposal	**(2)**	(4)
	2	37
25. Proceeds on disposal of business		
During the year, the Group disposed of its Mining Timber operations.		
The net book value of the assets and liabilities at the date of disposal were:		
– Non-current assets	**–**	22
– Current assets	**3**	18
– Current liabilities	**(3)**	(4)
Net asset value	**–**	36
Profit on disposal	**2**	21
	2	57

US$ million	2001	2000
26. Encumbered assets		
Suspensive sale agreements are instalment sale agreements which the Group has entered into in respect of certain plant and equipment and the assets purchased are encumbered as security for the outstanding liability until such time as the liability is discharged.		
The book values and details of assets which are mortgaged, hypothecated or subject to a pledge as security for borrowings, capitalised leases or suspensive sale agreements are as follows:		
Land and buildings	**115**	267
Plant and equipment	**322**	1,112
Other non-current assets	**–**	46
Inventories	**–**	210
Cash at bank and on deposit	**–**	40
	437	1,675
The refinancing of the Sappi Fine Paper North America credit facility in September 2001 has removed the encumbrances on most of their assets.		
27. Commitments		
Capital commitments		
Contracted but not provided	**78**	73
Approved but not contracted	**109**	150
	187	223
The capital expenditure will be financed by funds generated by the business, existing cash resources and borrowing facilities available to the Group.		
Revenue commitments		
Future minimum obligations under operating leases:		
Payable in the year ended September:		
2001	**–**	47
2002	**46**	91
2003	**37**	30
2004	**37**	31
2005 (September 2000: Thereafter)	**34**	176
Thereafter	**182**	–
	336	375

notes to the annual financial statements (continued)

for the year ended September 2001

US$ million	**2001**	2000
28. Contingent liabilities		
Guarantees and suretyships	**79**	80
Other contingent liabilities	**27**	46

The Group is involved in various lawsuits and administrative proceedings. The relief sought in such lawsuits and proceedings includes injunctions, damages and penalties. Although the final results in these suits and proceedings cannot be predicted with certainty, it is the present opinion of the Company, after consulting with legal counsel, that they will not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

Certain Group companies are subject to taxation queries which could give rise to additional taxation costs. However, management currently believes, based on legal counsel opinion, that no further material costs will arise.

29. Post-employment benefits – pensions

The Group operates a number of defined benefit pension schemes covering full-time permanent employees. Such plans have been established in accordance with applicable legal requirements, customs and existing circumstances in each country. Benefits are generally based upon compensation and years of service. With the exception of our German and Austrian operations, the assets of these schemes are held in separate trustee administered funds which are subject to varying statutory requirements in the particular countries concerned. In terms of these requirements, periodic actuarial valuations of these funds are performed by independent actuaries. Sappi Papier Holding AG holds bonds to the value of US$11 million to cover the pension obligations of Sappi Austria AG.

Actuarial valuations of all the funds are performed annually.

Group companies have no other significant post-employment benefit liabilities except for the health care benefits provided to persons in the United States and in South Africa (refer note 30).

The following table, based on the latest valuations, summarises the funded status and amounts recognised in the Group's financial statements for defined benefit plans for the Group's operations.

for the year ended September 2001

	2001			2000		
	Assets exceed accumulated benefits	**Accumulated benefits exceed assets**		Assets exceed accumulated benefits	Accumulated benefits exceed assets	
US$ million	**Southern Africa**	**Europe**	**United States**	Southern Africa	Europe	United States
29. Post-employment benefits – pensions (continued)						
Change in benefit obligation						
Benefit obligations at beginning of year	**171**	**375**	**207**	189	454	204
Service cost	**10**	**11**	**7**	9	12	7
Interest cost	**21**	**18**	**16**	23	23	15
Plan participants' contribution	**–**	**–**	**–**	–	1	–
Amendments	**3**	**7**	**13**	–	2	–
Actuarial loss (gain)	**8**	**20**	**4**	(1)	(37)	(11)
Benefits paid	**(17)**	**(16)**	**(8)**	(16)	(14)	(8)
Translation difference	**(36)**	**14**	**–**	(33)	(66)	–
Benefit obligation at end of year	**160**	**429**	**239**	171	375	207
Change in plan assets						
Fair value of assets at beginning of year	**200**	**343**	**205**	220	361	192
Actual return on plan assets	**36**	**(6)**	**(9)**	27	42	10
Acquisition	**–**	**12**	**–**	–	(8)	–
Employer contribution	**2**	**11**	**5**	4	15	11
Plan participants' contribution	**3**	**1**	**–**	4	1	–
Benefits paid	**(17)**	**(13)**	**(8)**	(16)	(12)	(8)
Translation difference	**(41)**	**11**	**–**	(39)	(56)	–
Fair value of assets at end of year	**183**	**359**	**193**	200	343	205
Funded status						
Funded status	**23**	**(70)**	**(46)**	29	(32)	(2)
Unrecognised net actuarial gain (loss)	**40**	**30**	**4**	55	(9)	(39)
Unrecognised prior service cost	**3**	**(2)**	**5**	–	3	9
Contributions	**–**	**–**	**–**	–	–	5
Net prepaid (accrued) post-retirement cost	**66**	**(42)**	**(37)**	84	(38)	(27)
Net prepaid post-retirement cost limited to recoverable amount	**(66)**	**–**	**–**	(84)	–	–
	–	**(42)**	**(37)**	–	(38)	(27)

notes to the annual financial statements (continued)

for the year ended September 2001

US$ million	2001 Southern Africa	2001 Europe	2001 United States	2000 Southern Africa	2000 Europe	2000 United States
29. Post-employment benefits – pensions (continued)						
Net periodic pension cost						
Service cost	**8**	**12**	**7**	10	14	7
Interest cost	**21**	**25**	**15**	23	23	14
Expected return on plan assets	**(25)**	**(26)**	**(19)**	(29)	(24)	(18)
Amortisation of prior period service cost	**–**	**1**	**1**	3	1	1
Recognised net actuarial loss (gain)	**2**	**–**	**11**	–	1	(1)
Net pension cost charged to operating income	**6**	**12**	**15**	7	15	3
Actuarial assumptions						
Discount rate (%)	**13.50**	**5.82**	**7.50**	13.81	5.82	7.75
Compensation increase (%)	**11.00**	**3.25**	**4.00**	12.50	3.18	4.00
Expected long-term return on assets (%)	**14.50**	**5.45**	**9.25**	15.00	6.33	9.25

30. Post-retirement benefits other than pensions

The Group sponsors defined benefit post-retirement plans that provide certain health care and life insurance benefits to eligible retired employees of the United States and South African operations. Full provision is made for the liability. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of service.

Actuarial valuations of all the plans are performed annually.

The following schedule provides the plans' funded status and obligations for the Group:

	2001		2000	
US$ million	**South Africa**	**United States**	South Africa	United States
Change in benefit obligation				
Benefit obligation at beginning of year	**30**	**60**	34	50
Service cost	**1**	**3**	1	3
Interest cost	**4**	**5**	3	4
Amendments	**–**	**4**	(1)	–
Actuarial loss	**–**	**11**	–	5
Benefits paid	**(1)**	**(3)**	(1)	(2)
Translation difference	**(6)**	**–**	(6)	–
Benefit obligation at end of year	**28**	**80**	30	60
Funded status				
Funded status	**(28)**	**(80)**	(30)	(60)
Unrecognised net actuarial gain	**–**	**17**	–	7
Unrecognised prior service cost	**–**	**(1)**	–	(1)
Net accrued post-retirement cost	**(28)**	**(64)**	(30)	(54)
Net periodic post-retirement benefit cost				
Service cost	**1**	**3**	1	2
Interest cost	**4**	**5**	4	4
Expected return on plan assets	**1**	**–**	–	–
Amortisation of prior service cost	**–**	**4**	–	–
Net post-retirement benefit cost charged to operating income	**6**	**12**	5	6

notes to the annual financial statements (continued)

for the year ended September 2001

	2001		2000	
	South Africa	**United States**	South Africa	United States
30. Post-retirement benefits other than pensions (continued)				
Actuarial assumptions				
Discount rate to estimate accumulated benefit (%)	**13.0**	**8.0**	15.0	7.5
Health care cost trend rates to value APBO (%)	**11.0**	**10.0**	13.0	7.0
which gradually reduce to an ultimate rate of (%)	**11.0**	**5.0**	13.0	5.0
over a period of (years)	**0**	**5**	0	9

The health care cost trend rates assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated post-retirement benefit obligation (APBO) as of September 2001 by US$10 million (September 2000: US$9 million) and the aggregate of the service and interest cost components of net periodic post-retirement benefit cost for the year then ended by US$1 million (September 2000: US$1 million).

31. Equity compensation benefits

The Sappi Limited Share Incentive Trust

Prior to the annual general meeting of shareholders held on 2 March 2000 ("the general meeting"), the aggregate number of shares which could be made available for the share incentive trust ("the trust") was not to exceed fifteen million shares, and no single participant could acquire more than 1,500,000 shares, provided that in specified circumstances, both such limits would increase or reduce ratably in accordance with an increase or reduction in the issued share capital of Sappi Limited. The general meeting approved an amendment to the first limit, increasing the aggregate number of shares that may be issued under the trust to a number corresponding to 7.5% of the issued share capital of Sappi Limited from time to time.

The amount payable by a participant for trust shares, share options or allocation shares is the closing price at which shares are traded on the JSE on the trading date immediately preceding the date upon which the Board authorised the grant of the opportunity to acquire relevant trust shares, share options or allocation shares, as the case may be, to a participant. Pursuant to a recent resolution of the Board of Directors of Sappi ("Board") passed in accordance with the rules of the trust, trust shares may be released from the trust to participants, share options may be exercised by participants and allocation shares may be delivered to participants as follows:

(i) 20% of the total number of shares after one year has elapsed from the date of acceptance by the participant of the grant;

(ii) up to 40% of the total number of shares after two years have elapsed from the date of acceptance by the participant of the grant;

(iii) up to 60% of the total number of shares after three years have elapsed from the date of acceptance by the participant of the grant;

31. Equity compensation benefits (continued)

(iv) up to 80% of the total number of shares after four years have elapsed from the date of acceptance by the participant of the grant; and

(v) the balance of the shares after five years have elapsed from the date of acceptance by the participant of the grant;

provided that the Board may, at its discretion, anticipate or postpone such dates. Prior to the general meeting held on 2 March 2000, the trust provided that share options will lapse, among other reasons, if they remain unexercised after the tenth anniversary of the acceptance and that trust shares and allocation shares must be paid for in full by participants by no later than the tenth anniversary of the acceptance. However, the general meeting approved an amendment to decrease the aforesaid ten-year period to eight years, in respect of offers made since 3 December 1999. The Board has resolved that the benefits under the trust of participants will be accelerated in the event of a change of control of the Company as defined in the trust, becoming effective (a) if, in concluding the change of control, the board in office at the time immediately prior to the proposed change of control being communicated to the Board ceases to be able to determine the future employment conditions of the Group's employees or (b) unless the change of control is initiated by the Board. Participants shall be entitled to require such acceleration by written notice to the Company within a period of 90 days after the date upon which such change of control becomes effective.

Share option and allocation share option activity was as follows during the financial years ended September 2000 and 2001:

	Share options	Weighted average exercise price (US$)	Allocation share options	Weighted average exercise price (US$)
Outstanding at September 1999	3,245,256	5.72	2,144,900	4.66
Granted	1,557,250	6.13	908,000	4.84
Exercised	(127,739)	6.25	(58,500)	5.37
Forfeited	(224,808)	–	(2,700)	–
Outstanding at September 2000	4,449,959	6.65	2,991,700	5.85
Granted	791,700	6.27	606,750	6.26
Exercised	(1,441,327)	4.13	(1,059,783)	3.61
Forfeited	(61,153)	7.31	(76,600)	3.82
Outstanding at September 2001	3,739,179	4.39	2,462,067	4.36

notes to the annual financial statements (continued)

for the year ended September 2001

31. Equity compensation benefits (continued)

The following table summarises the status of share options and allocation share options outstanding and exercisable as of September 2001:

	Share options outstanding			Share options exercisable	
Range of exercise price (US$)	Number	Weighted average remaining life	Weighted average exercise price (US$)	Number	Weighted average exercise price (US$)
2.23 to 3.13	1,457,850	74 months	2.42	679,690	2.37
3.90 to 5.48	990,900	81 months	5.15	161,360	3.95
6.01 to 7.55	1,290,429	84 months	6.04	307,349	6.10

	Allocation share options outstanding			Allocation share options exercisable	
Range of exercise price (US$)	Number	Weighted average remaining life	Weighted average exercise price (US$)	Number	Weighted average exercise price (US$)
2.22 to 2.47	915,617	82 months	2.38	445,190	2.35
3.90 to 5.48	823,650	86 months	5.10	143,360	4.04
6.02	722,800	75 months	6.02	144,560	6.02

220,300 scheme shares (September 2000: 488,500) were granted at a weighted average exercise price per share of US$6.27 (September 2000: US$6.13).

The Sappi Limited Share Incentive Trust has forward purchased 6,244,867 Sappi Limited shares from a subsidiary of Sappi Limited. This subsidiary purchased the Sappi Limited shares on the open market. The delivery and payment for these shares purchased by the Trust is deferred until it requires the shares to meet its obligation to the participants of the Trust.

Share options and allocation shares to Executive Directors, which are included in the above figures, are as follows:

	Number of options/shares
At beginning of year	925,000
Share options and allocation shares granted	205,000
Share options and allocation shares exercised	(157,000)
At end of year	973,000

31. Equity compensation benefits (continued)

Share options and allocation shares exercised by Executive Directors during the year had an average exercise price per share of US$2.52 and an average market price per share of US$7.21. The following table sets forth certain information with respect to the 973,000 share options and allocation shares granted by Sappi to Executive Directors:

Issue date	Number of options/shares	Expiration date	Exercise price (ZAR)
24 February 1997	40,000	24 February 2007	34.90
19 January 1998	85,000	19 January 2008	19.90
27 May 1998	100,000	27 May 2008	27.90
11 December 1998	135,000	11 December 2008	22.10
1 April 1999	64,000	1 April 2009	21.30
9 June 1999	64,000	9 June 2009	39.00
21 December 1999	280,000	21 December 2007	53.85
15 January 2001	155,000	15 January 2009	49.00
30 March 2001	50,000	30 March 2009	61.00

32. Financial instruments

The Group's financial instruments consist mainly of cash and cash equivalents, accounts receivable, certain investments, accounts payable, borrowings and derivative instruments.

1. Risk management objectives and policies

The principal market risks (that is the risk of loss arising from adverse changes in market rates and prices) to which Sappi is exposed through financial instruments are:

– interest rates on non-current borrowings;

– foreign exchange rates, generating translation and transaction gains and losses.

Interest rate risk

Sappi has a policy of maintaining a balance between fixed rate and variable rate loans that enables it to minimise, on a cost-effective basis, the impact on reported earnings while maintaining a reasonably competitive, market-related cost of funding. The specific balance is determined separately for the European, North American and Southern African businesses of Sappi to reflect more accurately the different interest rate environments in which these businesses operate. We monitor market conditions and may utilise interest rate derivatives to alter the existing balance between fixed and variable interest loans in response to changes in the interest rate environment.

notes to the annual financial statements (continued)

for the year ended September 2001

US$ million

32. Financial instruments (continued)

Currency risk

Sappi's foreign exchange policy consists of the following principal elements:

– The majority of the borrowings in each country are made in the currency of that country.
– Sappi manages its foreign exchange translation exposure by financing its equity investments in different currencies with similar currency ratios of equity to debt finance. This does not necessarily protect the absolute amounts of equity investment or of profit after finance costs from exchange rate movements.
– All external borrowings raised in currencies other than the domestic operating currency of the borrowing entity are immediately and continuously protected by forward exchange contracts.
– All consummated (i.e. invoiced) sales and non-capital imports in foreign currencies are initially netted on a global basis, with the resulting net exposure being covered by forward exchange contracts against subsequent fluctuations in exchange rates.
– Hedging against trading transactions not yet invoiced is strictly limited. Deviations from these rules require specific Board approval.
  The limitations referred to relate to:
  – material capital expenditures for which forward exchange contracts are always taken out as and when the expenditure is committed; and
  – anticipated exports and imports where the purchase of forward exchange contracts/currency options is restricted to a maximum period of six months.
– No speculative positions are permitted.
– Centralised control is maintained over Group net currency exposures and the use of hedging instruments.

Credit risk

A significant portion of the Group's sales and accounts receivable are from major customers. Credit insurance has been taken out over most of the European trade receivables.

None of the Group's other financial instruments represent a concentration of credit risk because the Group has dealings with a variety of major banks and customers worldwide.

2. Interest rate risk and currency risk

Interest-bearing borrowings

The table below provides information about Sappi's non-current borrowings that are sensitive to changes in interest rates and currency exchange rates. The table presents principal cash flows by expected maturity dates. The average fixed effective interest rates presented below are based on weighted average contract rates applicable to the amount expected to mature in each respective year. Forward-looking average variable effective interest rates for the financial years ended September 2002 and thereafter are based on the yield curves for each respective currency as published by Reuters on 28 September 2001. The information is presented in US Dollar, which is Sappi's reporting currency.

32. Financial instruments (continued)

	Expected maturity date							
	2002	2003	2004	2005	2006	2007+	Total	Fair value
	(US$ equivalent in millions)							
US Dollar								
Fixed rate	243	–	–	–	–	241	484	496
Average interest rate (%)	7.50	–	–	–	–	10.81	9.15	
Variable rate	25	275	25	25	19	5	374	374
Average interest rate (%)	7.49	4.27	7.49	7.49	7.49	–	5.00	
EUR								
Fixed rate	80	35	59	35	35	72	316	322
Average interest rate (%)	5.20	5.32	5.00	5.33	5.33	5.04	5.17	
Variable rate	94	42	27	7	–	–	170	170
Average interest rate (%)	4.36	4.72	4.80	4.80	–	–	4.53	
Rand								
Variable rate	47	26	11	15	5	55	159	159
Average interest rate (%)	11.05	11.52	15.62	12.75	14.13	13.59	12.59	
Total								
Fixed rate	323	35	59	35	35	313	800	818
Average interest rate (%)	6.93	5.32	5.01	5.34	5.33	9.48	7.58	
Variable rate	166	343	63	47	24	60	703	703
Average interest rate (%)	6.71	4.87	7.82	8.78	8.83	12.21	6.61	
Fixed and variable	**489**	**378**	**122**	**82**	**59**	**373**	**1,503**	**1,521**

The fair value of non-current borrowings is estimated by Sappi based on the market rates quoted by Reuters for non-current borrowings with fixed interest rates and on quotations provided by internationally recognised pricing services for notes, exchange debentures and revenue bonds.

The range of interest rates in respect of all non-current borrowings, comprising both fixed and floating rate obligations, is between 4.27% and 15.62%. At September 2001, 53.2% of Sappi's non-current borrowings were at fixed rates of interest, and 46.8% were at floating rates. Floating rates of interest are based on LIBOR (London Interbank Offered Rate), on EURIBOR (European Interbank Offered Rate) and on JIBAR (Johannesburg Interbank Agreed Rate). Fixed rates of interest are based on contract rates.

Sappi's Southern African operations have in the past been particularly vulnerable to adverse changes in short-term domestic interest rates, as a result of the emerging market status of the South African money markets. During 2001 domestic interest rates have been relatively stable within a range from 10.3% to 9.0% for the three-month JIBAR.

notes to the annual financial statements (continued)

for the year ended September 2001

32. Financial instruments (continued)

Interest rate derivatives

Sappi uses interest rate options, caps, swaps and forward rate agreements as a means of managing interest rate risk associated with outstanding borrowings entered into in the normal course of business. Sappi does not use these instruments for speculative purposes. Certain interest rate derivative financial instruments are subject to hedge accounting.

As at September 2001, Sappi had five interest rate swap contracts outstanding. They were for a total amount of US$188 million and had a favourable fair value of US$19 million. Four interest swaps converted fixed interest rates of 17.65% (two contracts), 14.88% and 18.00% respectively into variable interest rates and one interest swap converted a variable interest rate into a fixed interest rate of 10.31%.

In addition, at September 2001, Sappi had four caps, two forward rate agreements and one zero cost collar, with a fair value of negative US$1 million.

Instrument	Interest rate	Maturity date	Nominal value US$ million	Fair value US$ million
Caps:				
1	19.00%	March 2002	17	–
2	19.00%	March 2002	17	–
3	19.30%	November 2005	30	–
4	19.00%	September 2003	18	–
Collars:				
1				
– Cap	19.00%	February 2003	9	–
– Floor	14.10%	February 2003	9	–
Interest rate swaps:				
1	17.65% to variable	February 2003	56	3
2	17.65% to variable	February 2003	56	5
3	14.88% to variable	December 2005	Amortising	9
4	18.00% to variable	March 2003	Amortising	2
5	10.31% fixed	March 2003	11	–
FRA (forward rate agreement):				
1	10.30%	August 2002	56	–
2	9.90%	February 2003	56	–
Total				19

32. Financial instruments (continued)

The fair value of interest rate options, caps, swaps and forward rate agreements is the estimated amount that Sappi would pay or receive to terminate the agreement at the balance sheet date, taking into account current interest rates and the current creditworthiness of the counterparties.

3. Fair values

All financial instruments are carried at fair value, except the non-current interest-bearing borrowings at fixed rates of interest. Where these fixed rates of interest have been hedged into variable rates of interest, and where hedge accounting has been applied, then these non-current interest-bearing borrowings are carried at fair value. At September 2001 the carrying amount of the total non-current interest-bearing borrowings was US$1,014 million (September 2000: US$1,278 million) and their fair value was US$1,025 million (September 2000: US$1,289 million). The fair value of these borrowings was estimated based on quotations from its investment bankers. No financial assets were carried at an amount in excess of fair value.

The carrying amounts for cash, cash equivalents, accounts receivable, certain investments, accounts payable and current portion of interest-bearing borrowings approximate fair value due to the short-term nature of these instruments.

4. Foreign currency forward exchange contracts

The Group's foreign currency forward exchange contracts at September 2001 are detailed below.

	2001		2000	
US$ million	**Contract amount**	**Fair value**	Contract amount	Fair value
US Dollar denominated – net sold	**(109)**	**(7)**	(111)	(6)
EUR denominated – net purchased	**56**	**1**	27	–
	(53)	**(6)**	(84)	(6)

The fair value of foreign currency contracts was estimated by the Group based upon quotations from Reuters. These foreign currency contracts will mature in the year ended September 2002.

All forward currency exchange contracts and options are valued at fair value with the resultant profit or loss included in the finance costs for the period.

notes to the annual financial statements (continued)

for the year ended September 2001

32. Financial instruments (continued)

5. Asset backed securitisation

The Group has various asset backed securitisation facilities. The assets concerned have been derecognised from the balance sheet.

The securitised accounts receivable have been derecognised on the basis that the Group no longer controls these assets. A liability has been recognised for the fair value of the Group's obligation to service securitised accounts receivable.

Details of these securitisation facilities at September 2001 are set out below.

Bank	Currency	Value	Facility	Discount charges
ABN-Amro	US$	US$129 million	US$207 million	linked to 1 month US$ LIBOR
Creditanstalt	EUR	EUR140 million	EUR140 million	linked to 3 months EURIBOR
State Street Bank	EUR	EUR77 million	EUR100 million	linked to 1 month EURIBOR
State Street Bank	US$	US$91 million	US$100 million	linked to 1 month EURIBOR

33. Segment information

The Group has two reportable segments which operate as separate business units: Sappi Fine Paper and Sappi Forest Products. The regional information shows North America, Europe, Southern Africa and the Far East.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (refer note 2). The Group accounts for intragroup sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. All such sales and transfers are eliminated on consolidation.

	Sappi Fine Paper		Sappi Forest Products		Corporate and other		Group	
US$ million	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
External sales	**3,452**	3,828	**732**	890	**–**	–	**4,184**	4,718
Intragroup sales	**321**	295	**466**	549	**–**	–	**787**	844
Total sales	**3,773**	4,123	**1,198**	1,439	**–**	–	**4,971**	5,562
Operating profit	**248**	451	**194**	224	**4**	(3)	**446**	672
Depreciation	**259**	272	**40**	48	**1**	–	**300**	320
Amortisation and fellings	**5**	5	**46**	55	**–**	–	**51**	60
Asset impairment	**6**	8	**–**	–	**–**	–	**6**	8
Other non-cash expenses *	**192**	30	**4**	(16)	**–**	–	**196**	14
Capital expenditures **	**250**	183	**43**	35	**–**	3	**293**	221
Operating assets ***	**3,060**	3,283	**956**	1,115	**41**	39	**4,057**	4,437
Operating liabilities ****	**577**	601	**128**	156	**48**	49	**753**	806
Net operating assets *****	**2,444**	2,653	**825**	941	**(13)**	(20)	**3,256**	3,574

US$ million

33. Segment information (continued)

US$ million	North America 2001	2000	Europe 2001	2000	Southern Africa 2001	2000	Far East 2001	2000	Corporate and other 2001	2000	Group 2001	2000
Sales (by customer domicile)	**1,514**	1,699	**1,707**	1,930	**554**	658	**369**	402	**40**	29	**4,184**	4,718
Sales (by company domicile)	**1,442**	1,607	**1,781**	1,994	**961**	1,117	**–**	–	**–**	–	**4,184**	4,718
Operating profit	**40**	179	**177**	252	**225**	244	**–**	–	**4**	(3)	**446**	672
Capital expenditures **	**99**	96	**116**	78	**78**	44	**–**	–	**–**	3	**293**	221
Net operating assets *****	**1,011**	1,205	**1,333**	1,336	**925**	1,053	**–**	–	**(13)**	(20)	**3,256**	3,574

* *Including Mobile mill closure costs.*

** *Capital expenditures exclude spending on plantations.*

*** *Operating assets consist of property, plant and equipment, non-current assets (excluding deferred taxation) and current assets (excluding cash).*

**** *Operating liabilities consist of trade payables, other payables and provisions.*

***** *Net operating assets consist of operating assets less operating liabilities, adjusted for taxation payable and dividends payable.*

34. Related party transactions

For most of the financial year there were no related party transactions.

The Buhrmann NV Group who were previously a related party to Sappi, sold its stake in Sappi Limited during the first four months of the Company's current financial year. (At September 2000 Buhrmann NV held 5.5% of the issued share capital of the Company. During 2000 the Sappi Group sold 634,946 tons (US$509 million) of products to the Buhrmann Group.)

35. Subsequent events

Transcript mill

In October 2001, Sappi announced its intention to exit the non-core carbonless paper market and that the Transcript carbonless paper mill in Scotland is to close. The closure costs are estimated to amount to US$10 million after tax.

Insurance cover

The unprecedented events on 11 September 2001 in the United States of America have resulted in major losses in the insurance and reinsurance industry. In general, insurers have withdrawn cover for losses from acts of terrorism and the process of negotiating renewed insurance cover with effect from 1 November 2001 has led to unsatisfactory results.

Contrary to previous years, Sappi is no longer able to cover property damage and losses from business interruption and machinery breakdown to full value. Maximum foreseeable losses are covered in all regions and therefore protection is adequate. Management still hopes to improve on this situation as negotiations continue, also with a view to additional insurance capacities that might become available on 1 January 2002.

In parallel, Sappi is working on improved enterprise risk management to lower the risk of incurring losses from uncontrolled incidents.

notes to the annual financial statements (continued)

for the year ended September 2001

35. Subsequent events (continued)

Convertible notes

On 29 November 2001 Sappi BVI Finance Limited resolved to exercise its right to redeem, on 10 January 2002, all of its 7.5% convertible guaranteed notes for the principal amount of the notes together with accrued interest. At September 2001 the principal amount was US$243 million. Sappi will use its existing cash and non-current borrowing facilities to finance this repayment.

36. Environmental matters

Sappi operates in an industry subject to extensive environmental regulations. Typically, Sappi does not separately account for environmental operating expenses but does not anticipate any material expenditures related to such matters. Sappi does separately account for environmental capital expenditures. Sappi spent approximately US$48 million in financial year September 2001 (September 2000: US$35 million) on capital projects that control air or water emissions or otherwise create an environmental benefit. Amounts to be spent in future years will depend on changes to existing environmental requirements and the availability of new technologies to meet such requirements. In South Africa, requirements under the recently enacted National Water Act, National Environmental Management Act, National Forests Act and the Air Pollution Prevention Act may result in significant additional expenditures and/or operational constraints, although the economic and practical effect of the implementation of these requirements on Sappi's operations is currently uncertain. Subject to these uncertainties, Sappi's preliminary estimate is that total environmental capital expenditures for financial year September 2002 will be approximately US$29 million, including costs to comply with EPA "cluster rules" discussed below.

In April 1998, the US Environmental Protection Agency issued final cluster rules that impose new air and water quality standards aimed at further reductions of pollutants from paper and pulp mills in the United States, in particular those emitting dioxin in wastewater resulting from bleaching operations. For Sappi Fine Paper North America's operations, compliance with the cluster rules was required beginning in April 2001. In June 1999, Sappi closed its pulp mill at Westbrook due largely to the expected cost of compliance (approximately US$50 million) with the new cluster rules. Sappi has spent approximately US$71 million in capital improvements for cluster rule compliance for required upgrades at the Somerset and Muskegon mills. These upgrades included the installation of elemental chlorine free (ECF) technology. The Company believes that future capital expenditures for environmental compliance, the bulk of which will be for cluster rules compliance at Muskegon, will aggregate approximately US$5 million to US$15 million through financial year September 2002.

In April 2000, 18 individuals filed a lawsuit against S. D. Warren, Kimberley-Clark Corporation and several other defendants in Somerset County Court, Maine. The plaintiffs allege that they suffered personal injury as a result of hazardous waste from various sources, which was allegedly transported to and stored at a local landfill during the period from 1976 through 1986. Under Sappi's purchase of S. D. Warren from Scott Paper Company in 1994, S. D. Warren is indemnified for monitoring, clean-up and any other costs relating to or arising out of the affected landfill. While S. D. Warren does not believe that the lawsuit will have a material adverse effect on its operating results or financial position, one of the reasons being the possibility that S. D. Warren is indemnified for this matter, there can be no assurance that this will be the case.

37. Summary of differences between South African and United States Generally Accepted Accounting Principles

The Group's accounts are prepared in accordance with South African GAAP, which differ in certain significant respects from United States GAAP. These differences relate principally to the following items, and the effects on net profit and shareholders' equity are shown in the following tables:

	South African GAAP	United States GAAP
a. Pension programmes and post-retirement medical benefits	An asset can be recognised only to the extent that the prepayment will lead to a reduction in future payments or a cash refund.	No such limitation exists on the recognition of an asset.
b. Accounting for business combinations	The new South African statement on business combinations is in line with the existing US standards. The South African statement does not require the restatement of previous business combinations as originally accounted for. The previous reconciling items will continue to be amortised over time.	
c. Pre-commissioning expenses capitalised on capital projects	All expenses incurred on capital projects, including finance costs and other fixed costs, are capitalised until the asset is fully commissioned.	Only direct, incremental costs incurred prior to the commencement of operations and that can be specifically identified and segregated from ordinary, recurring operating expenses, are capitalised as part of the fixed asset cost.
d. Loans to participants of executive share purchase trust	Amounts loaned to participants to purchase Company's shares are included in other non-current assets.	Reported as a reduction to shareholders' equity.
e. Sale and leaseback transactions – operating leases	Profit is recognised on the sale of assets subject to operating leaseback agreements.	Profit on such sale of assets is deferred and recognised in income over the lease term.
f. Asset impairment	An asset impairment is recognised if its carrying amount exceeds the discounted estimated future cash flows.	An asset impairment is recognised if its carrying amount exceeds the undiscounted estimated future cash flows.
g. Post-employment benefits other than pensions	The expected cost of such benefits is only recognised once a decision has been taken to terminate the services of employees.	All measurable potential severance benefits are measured and recognised.

The reconciliation to US GAAP has changed due to the changes in accounting principles for South African GAAP described in note 3. A US GAAP reconciling item was not recognised in previous years for dividends previously accrued under South African GAAP but not declared by the Board before year-end. As the change in South African GAAP for Events after the Balance Sheet Date is now in line with US GAAP, this reconciling item is no longer required.

notes to the annual financial statements (continued)

for the year ended September 2001

US$ million	note	2001	2000
37. Summary of differences between South African and United States Generally Accepted Accounting Principles (continued)			
Reconciliation of net profit to United States GAAP			
Net profit determined under South African GAAP		**138**	363
Adjustments in respect of:			
Pension programmes and post-retirement medical benefits	a	**(1)**	2
Accounting for business combinations	b	**20**	3
Pre-commissioning expenses capitalised on capital projects	c	**3**	3
Sale and leaseback transactions	e	**3**	4
Asset impairment	f	**–**	8
Post-employment benefits other than pensions	g	**1**	(3)
Deferred taxation effect of adjustments		**(11)**	(6)
Total effect of United States GAAP adjustments		**15**	11
Net profit determined under United States GAAP		**153**	374
– Basic earnings per share (US cents)		**66**	158
– Diluted earnings per share (US cents)		**65**	156
Reconciliation of shareholders' equity to United States GAAP			
Shareholders' equity determined under South African GAAP as restated		**1,503**	1,618
Adjustments in respect of:			
Pension programmes and post-retirement medical benefits	a	**69**	82
Accounting for business combinations	b	**68**	42
Pre-commissioning expenses capitalised on capital projects	c	**(20)**	(24)
Loans to executive share purchase trust	d	**(6)**	(12)
Sale and leaseback transactions	e	**(29)**	(37)
Asset impairment	f	**13**	12
Post-employment benefits other than pensions	g	**(7)**	–
Deferred taxation effect of adjustments		**3**	15
Effect of United States GAAP adjustments on minority interests		**(3)**	(3)
Total effect of United States GAAP adjustments		**88**	75
Shareholders' equity determined under United States GAAP (September 2000 as restated)		**1,591**	1,693

company income statement

for the year ended September 2001

ZAR million	note	**2001**	2000
Operating loss	1	**(13)**	(10)
Income from subsidiaries – dividends		**500**	2,653
Interest received		**19**	21
Profit before tax		**506**	2,664
Taxation		**43**	82
Net profit		**463**	2,582

company balance sheet

at September 2001

ZAR million	note	**2001**	2000
Assets			
Non-current assets		**10,185**	10,135
Property, plant and equipment		**5**	7
Investments in subsidiaries (Annexure A)		**10,121**	10,039
Other non-current assets		**59**	89
Loan to Executive Share Purchase Trust		**58**	88
Unlisted and other investments and loans at cost and Directors' valuation		**1**	1
Current assets		**5**	11
Receivables		**5**	11
Total assets		**10,190**	10,146
Equity and liabilities			
Shareholders' equity		**10,051**	10,035
Ordinary share capital		**239**	239
Share premium		**6,427**	6,427
Non-distributable reserves	3	**7**	7
Distributable reserves		**3,378**	3,362
Current liabilities		**139**	111
Trade and other payables		**31**	35
Taxation payable		**108**	76
Total equity and liabilities		**10,190**	10,146

company cash flow statement

for the year ended September 2001

ZAR million	**2001**	2000
Profit before tax	**506**	2,664
Adjustments for non-cash items:		
Dividends received	**–**	(2,470)
Subsidiary transactions	**(78)**	(557)
Other	**(2)**	(32)
Cash generated by (utilised in) operations	**426**	(395)
Decrease (increase) in working capital	**2**	(13)
Taxation paid	**(11)**	(3)
Dividends paid	**(447)**	(275)
Cash utilised in operating activities	**(30)**	(686)
Decrease (increase) in non-current assets	**30**	(16)
Proceeds of issuance of ordinary shares	**–**	701
Net movement in cash and cash equivalents	**–**	(1)
Cash and cash equivalents at beginning of year	**–**	1
Cash and cash equivalents at end of year	**–**	–

company statement of changes in shareholders' equity

for the year ended September 2001

ZAR million	Number of ordinary shares	Ordinary share capital	Share premium	Ordinary share capital and premium	Non-distributable reserves	Distributable reserves	Total
Balance – September 1999 as reported	224.6	225	5,740	5,965	7	780	6,752
Changes in accounting policies	–	–	–	–	–	275	275
Balance – September 1999 restated	224.6	225	5,740	5,965	7	1,055	7,027
Net profit	–	–	–	–	–	2,582	2,582
Dividends *	–	–	–	–	–	(275)	(275)
Issuance of ordinary shares	14.5	14	687	701	–	–	701
Balance – September 2000	239.1	239	6,427	6,666	7	3,362	10,035
Net profit	–	–	–	–	–	463	463
Dividends *	–	–	–	–	–	(447)	(447)
Balance – September 2001	**239.1**	**239**	**6,427**	**6,666**	**7**	**3,378**	**10,051**

* *This is the dividend that relates to the previous financial year's earnings that was declared subsequent to year end. In terms of our newly adopted accounting policy (AC 107 revised – Events after balance sheet date), dividends declared after the balance sheet date are accounted for in the year in which they are declared and not in the year in which the profits are earned.*

notes to the company financial statements

for the year ended September 2001

ZAR million		**2001**	2000
1.	**Operating profit**		
	The operating profit is arrived at after taking into account the items detailed below:		
	Foreign exchange gains	**4**	21
	Depreciation	**2**	1
	Technical and administrative services paid other than to bona fide employees of the Company	**32**	32
	Auditors' remuneration	**3**	4
	– fees for audit	**2**	2
	– fees for other services	**1**	2
2.	**Directors' emoluments**		
	Non-executive Directors		
	Services as Directors	**2**	1
	Executive Directors		
	Services as Directors of operating divisions	**19**	15
	Performance-related payments	**11**	6
	Total Directors' emoluments	**32**	22
	Less: paid by subsidiaries	**30**	21
		2	1

Share options exercised during the financial year

Number of shares	Option price	Average market value at date of exercise	Gains on exercise of share options ZAR million
85,000	R19.90	R63.64	3.7
16,000	R39.00	R75.17	0.6
40,000	R22.10	R60.00	1.5
16,000	R21.30	R69.10	0.8

Details of Directors' service contracts

The Executive Directors have service contracts with notice periods of 24 months or less. These notice periods are in line with international norms for Executive Directors.

The Non-executive Directors do not have service contracts with the Company.

None of the Directors have provisions for pre-determined compensation on termination of their contracts exceeding eighteen months' salary and benefits in kind.

Directors proposed for election or re-election

No Non-executive Director that is proposed for election or re-election at the forthcoming annual general meeting has any unexpired service contract.

Messrs W H Sheffield and D G Wilson, both Executive Directors, are proposed for re-election at the forthcoming annual general meeting. At September 2001 the unexpired terms of Mr Sheffield's and Mr Wilson's service contracts were each eighteen months.

3.	**Non-distributable reserves**	**2001**	2000
	Reduction in capital	**6**	6
	Capital redemption reserve fund	**1**	1
		7	**7**

investments

at September 2001

Annexure A Investments in subsidiaries		Share capital	Effective holding **2001** %	Effective holding 2000 %	Book value of investment **2001 ZAR million**	Book value of investment 2000 ZAR million	Loan to (by) subsidiary **2001 ZAR million**	Loan to (by) subsidiary 2000 ZAR million
Set out below are the more significant subsidiaries or those that have a loan with Sappi Limited:								
Southern Africa								
Sappi Manufacturing (Pty) Ltd	O	ZAR12,026,250	**100**	100	**1,851**	1,481	**2,446**	3,355
Usutu Pulp Company Ltd	O	SZL10,000,000	**100**	97	**–**	–	**–**	–
Pulp Holdings (Pty) Ltd	H	ZAR2,000	**100**	100	**8**	8	**(8)**	(8)
Sappi Management Services (Pty) Ltd	M	ZAR100	**100**	100	**–**	–	**184**	211
Sappi Share Facilitation Co. (Pty) Ltd	H	ZAR1,000	**100**	–	**–**	–	**615**	–
America								
SDW Holdings Corporation	H	US$1,000	**100**	100	**–**	–	**(33)**	(22)
Europe								
European Paper Holdings SA	H	EUR81,432,000	**100**	100	**104**	104	**–**	–
Sappi Alfeld AG	O	EUR31,200,000	**100**	100	**–**	–	**–**	–
Sappi Belgium BV	O	EUR51,377,619	**100**	100	**–**	–	**–**	–
Sappi Ehingen AG	O	EUR20,800,000	**95**	94	**–**	–	**–**	–
Sappi Europe SA	O	EUR15,130,751	**100**	100	**–**	–	**(13)**	–
Sappi Fine Paper plc	M	GBP50,000	**100**	100	**1**	1	**–**	(1)
Sappi Gratkorn GmbH	O	EUR36,336	**100**	100	**–**	–	**–**	–
Sappi Holding AG	H	EUR72,673	**100**	100	**539**	539	**7**	4
Sappi International SA	F	EUR1,196,266,102	**100**	100	**4,674**	4,674	**1**	1
Sappi Maastricht BV	O	EUR31,992	**100**	100	**–**	–	**–**	–
Sappi Nijmegen BV	O	EUR59,037	**100**	100	**–**	–	**–**	–
Sappi Papier Holding AG	O	EUR72,673	**100**	100	**–**	–	**–**	–
Sappi Lanaken Presspaper NV	O	EUR39,162,921	**99**	99	**–**	–	**–**	–
Sappi U.K. Ltd	O	GBP74,020,000	**100**	100	**–**	–	**95**	57

at September 2001

Annexure A

Investments in subsidiaries (continued)

		Share capital	Effective holding 2001 %	Effective holding 2000 %	Book value of investment 2001 ZAR million	Book value of investment 2000 ZAR million	Loan to (by) subsidiary 2001 ZAR million	Loan to (by) subsidiary 2000 ZAR million
Far East								
Speciality Pulp Trading Co. Ltd	H	HKD10,000	**100**	100	**–**	–	6	–
Other								
Brocas Ltd	H	US$3,385,401	**100**	100	**9**	9	(41)	(60)
Lignin Insurance Co. Ltd	F	GBP400,000	**100**	100	**–**	–	–	–
Various other companies					**–**	–	(17)	(7)
					7,186	6,816	3,242	3,530
Writedown of investment in subsidiaries					**(307)**	(307)	–	–
					6,879	6,509	3,242	3,530

Holding companies	H
Operating companies	O
Finance companies	F
Management companies	M

	2001 ZAR million	2000 ZAR million
Market value of listed subsidiaries		
Sappi Ehingen AG	**724**	498

notice to members

The sixty-fifth annual general meeting of Sappi Limited, registration number 1936/008963/06 ("Sappi" or "the Company") will be held in the auditorium, ground floor, 48 Ameshoff Street, Braamfontein, Johannesburg, on Monday, 25 February 2002, at 11:00 for the following purposes:

1. To receive and consider the financial statements for the year ended September 2001.

2. To confirm the appointments of Directors appointed since the last annual general meeting. (Please see footnote "a" below.)

3. To re-elect Directors retiring in terms of the articles of association of the Company. (Please see footnote "b" below.)

4. To consider and, if deemed fit, to pass, with or without modification, the resolutions set out below:

Special resolution number 1: General approval to permit Sappi and Sappi's subsidiaries to acquire shares of the Company

"Resolved that, by way of a general approval, Sappi Limited ("Sappi") and/or any of its subsidiaries from time to time ("Sappi subsidiary") are hereby authorised to acquire Sappi shares in terms of sections 85 and 89 of the Companies Act 61 of 1973, as amended, and of the Listing Requirements of the JSE Securities Exchange South Africa ("JSE") from time to time, which Listing Requirements currently provide, inter alia, that:

– any such acquisition of shares shall be implemented on the open market of the JSE and/or the open market of any other stock exchange on which the shares are listed and on which Sappi or a Sappi subsidiary may wish to implement any purchases of shares, with the approval of the JSE and any other such stock exchange, as necessary;
– this general authority shall only be valid until Sappi's next annual general meeting; provided that it shall not extend beyond 15 months from the date of passing of this special resolution number 1;
– an announcement will be published as soon as Sappi or a Sappi subsidiary has acquired shares constituting, on a cumulative basis, 3% of the number of Sappi shares in issue at the time the authority is granted and for each subsequent 3% purchased thereafter, containing full details of such acquisition;
– acquisitions in the aggregate in any one financial year by Sappi and its subsidiaries may not exceed 20% of Sappi's issued share capital; provided that Sappi and its subsidiaries will not in terms of this authority in any one financial year acquire shares constituting more than 10% of Sappi's issued share capital from time to time; and
– in determining the price at which Sappi shares are acquired by Sappi or a Sappi subsidiary in terms of this general authority, the maximum premium at which such shares may be purchased will be 10% of the weighted average of the market value of the shares for the five business days immediately preceding the date of the relevant transactions."

The effect of and the reason for the special resolution is to grant to Sappi and to Sappi subsidiaries, and to obtain, a general approval in terms of the Companies Act 61 of 1973 (as amended by the Companies Amendment Act 37 of 1999) for the acquisition by Sappi and/or Sappi subsidiaries of Sappi shares, which general approval shall be valid until the earlier of the next annual general meeting of Sappi or its variation or revocation by special resolution by any subsequent general meeting of Sappi, provided that the general authority shall not extend beyond 15 months from the date of passing of the special resolution number 1.

The Sappi Board, having considered the impact which a purchase of 10% of the shares (being the maximum number of shares which may be purchased in any one financial year in terms of special resolution number 1) would have on Sappi, is of the opinion that:

– the Sappi Group will be able in the ordinary course of business to pay its debts;
– the assets of the Sappi Group will be in excess of the liabilities of the Sappi Group;
– the working capital, ordinary capital and reserves of the Sappi Group will be adequate;

for a period of 12 months after the date of this report.

Special resolution number 2: Amendments to articles of association

"Resolved that the articles of association of Sappi be amended as follows:

1. by the insertion of a new article 17.4 after the existing article 17.3:

"17.4 Subject to the provisions of the Act, a proxy instrument need not bear a handwritten signature of the member appointing the proxy and may, provided it is in a form which is approved or accepted by the Directors, be an instrument created by electronic or other means, including, without limitation, electronic mail or telefacsimile";

2. by the replacement of article 33 with the following:

"33. NOTICES

33.1 Subject to the provisions of the articles and the requirements of the JSE, any notice which is required to be given to members, beneficial holders or Directors shall be in writing and may be given to:

33.1.1 any member, beneficial holder or Director who has notified an electronic mail address or telefacsimile number to the Company for this purpose, by sending –

33.1.1.1 such notice; or

33.1.1.2 if the notice is available on a website for at least the period commencing on the day after the date on which such notice was sent and expiring on the later of the twenty-first day succeeding that day or the day of the meeting, if any, to which the notice relates, a message advising that a notice is available on such website and containing the web address of such website;

by electronic mail or telefacsimile, as the case may be, to such address or telefacsimile number, as the case may be;

33.1.2 any member, beneficial holder or Director by delivery in person; or

33.1.3 any member, beneficial holder or Director by delivering it or sending it through the post, properly addressed, to –

33.1.3.1 a member at his address shown in the register of members;

33.1.3.2 a beneficial holder, at the address which has been disclosed to the Company in respect of that beneficial holder and which has been recorded in the Company's register of such disclosures;

33.1.3.3 a Director at his postal address shown in the Directors' register;

and any such notice to members shall simultaneously be given to the secretary or other suitable official of any recognised stock exchange on which the shares of the Company are listed for the time being, in accordance with the requirements of that stock exchange. Any such notice to members shall also be advertised in accordance with the requirements of any such stock exchange.

33.2 Every such notice given in terms of 33.1 shall be deemed to have been received –

33.2.1 if delivered, on the date on which it is so delivered;

notice to members (continued)

33.2.2 if it is sent by post, on the day on which it was posted;

33.2.3 if it, or a message referred to in 33.1.1, is sent by electronic mail, on the day on which it was so sent;

33.2.4 if it, or a message referred to in 33.1.2, is sent by telefacsimile, on the day on which it was successfully transmitted;

notwithstanding that such notice may not actually have been received.

The reason for the passing of special resolution number 2 is to amend the articles of association of Sappi to enable Sappi to –

- permit proxy instruments created by electronic means;
- give notices in electronic format; and
- prescribe the manner in which the aforegoing must be effected.

The effect of the passing of special resolution number 2 is that the articles of association of Sappi will be amended as set out above.

Ordinary resolution number 1: Control of unissued shares
"Resolved that all the authorised but unissued ordinary shares in the capital of Sappi be placed under the control of the Directors of Sappi with authority to issue and allot all or part thereof in their discretion, subject to the provisions of sections 221 and 222 of the Companies Act 61 of 1973 and subject to the rules and requirements of the JSE Securities Exchange South Africa."

Ordinary resolution number 2: General authority to issue shares for cash
"Resolved that, subject to a 75% majority of the votes cast by shareholders, present in person or by proxy and entitled to vote at the annual general meeting held to consider, inter alia, this resolution, and subject to the passing of ordinary resolution number 1 to be proposed at the annual general meeting at which this ordinary resolution is considered, the directors of Sappi be and are hereby authorised, by way of a general authority, to issue all or any of the authorised but unissued ordinary shares in the capital of Sappi for cash as they in their discretion deem fit, subject to the Listings Requirements of the JSE Securities Exchange South Africa ("JSE") from time to time, which Listings Requirements currently provide, inter alia, that:

– this authority will not extend beyond the earlier of the date of the annual general meeting of Sappi in respect of its financial year ending 30 September 2002 or the date of the expiry of 15 months from the date of the annual general meeting at which this ordinary resolution is proposed:
– issues in terms of this authority in any one financial year will not exceed 15% in the aggregate of the number of shares in Sappi's issued share capital;
– a press announcement giving full details, including the impact on net asset value and on earnings per share, will be published at the time of any issue representing, on a cumulative basis within any one financial year, 5% or more of the number of shares in issue prior to such issue;
– in determining the price at which shares will be issued in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price of such shares, as determined over the 30 business day period prior to the date that the price of the issue is determined or agreed by the Directors of Sappi, if such shares have not been traded in the said 30 business day period, a ruling will be obtained from the Committee of the JSE; and
– any such issue will only be made to public shareholders as defined in the Listings Requirements of the JSE."

Ordinary resolution number 3: Signature of documents, etc
"Resolved that any Director of Sappi be and is hereby authorised to sign all such documents and do all such things as may be necessary for or incidental to the implementation of the resolutions to be proposed at the annual general meeting convened to consider this resolution."

A shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend, speak and, on a poll, to vote in his/her stead. A proxy need not be a shareholder.

Sappi Management Services (Pty) Limited
Secretaries: per D J O'Connor
48 Ameshoff Street
Braamfontein, Johannesburg, 2001

14 December 2001

Footnotes

(a) Confirmation of appointments of Directors appointed since the last annual general meeting

1. *William Herbert Sheffield* (53), BSc (Chemistry), MBA, Chief Executive of Sappi Fine Paper. Prior to joining Sappi on 1 May 2001, Mr Sheffield spent 13 years in the newsprint business with Abitibi Consolidated, most recently managing Abitibi's international business. He was a founding Board member of Pan Asia Paper, the Asian newsprint joint venture based in Singapore. Previous positions include Logistics, Marketing, Operating, and a 17 year career in the North American steel sector.

   Mr Sheffield is a Canadian citizen, currently residing in London.

(b) Directors retiring by rotation and who are seeking re-election

1. *David Charles Brink* (62), MSc Eng (Mining), DCom (hc). Mr Brink is currently the Executive Chairman of Murray and Roberts Holdings Limited, Deputy Chairman of ABSA Group Limited and of ABSA Bank Limited, Chairman of Unitrans Limited, a Director of BHP Billiton PLC, of BHP Billiton Limited and of Sanlam Limited. Mr Brink was appointed a Non-executive Director of Sappi Limited on 8 March 1994, and is currently Chairman of the Human Resources Committee and a member of the Nomination Committee of the Board of Directors of Sappi Limited.

2. *Franklin Abraham Sonn* (62). Originally a graduate of the University of the Western Cape and Unisa, Dr Sonn subsequently received nine doctoral qualifications in law, education, humanities and philosophy from various institutions in Europe, North America and South Africa. Dr Sonn was the South African Ambassador to the United States from 1995 to 1998. Prior to this position, he was a Board member of seven major South African banks and businesses and he currently serves on the Board of a number of South African companies. He was appointed to the Board of Sappi Limited on 1 July 1999.

3. *Donald Gert Wilson* (44), BCom CTA, Chartered Accountant (South Africa), Executive Director – Finance of Sappi Limited. He joined Sappi in April 1999 and was appointed to the Board on 27 May 1999. He has held various executive financial positions in the Barloworld Group, a South African based international industrial corporation, mainly within their Caterpillar earthmoving division.

divisional and corporate management

Sappi Limited

Sappi head office

Executive Chairman, Eugene van As (62)

Corporate Affairs and Communication Manager,
André Oberholzer (35)

Finance – Executive Director, Donald Wilson (44)

Group Financial Controller, Laurence Newman (45)

Group Internal Audit Manager, Wayne Reid (33)

Group Management Accountant, Urs Lanz (43)

Group Information Technologies and Services Director,
Deborah Farnaby (36)

Group Corporate Counsel, Mark Thompson (49)

Investor Relations Manager, Paul Leslie-Smith (38)

Strategic Development Director, Robert Hope (49)

Treasury Director, Kaj Burchardi (59)

Sappi Fine Paper

Chief Executive Officer, Bill Sheffield (53)

Chief Financial Officer, Mike Turner (48)

Marketing and Sales Director, Hank Mollenhauer (57)

Technology Director, Doeko Bosscher (56)

CEO Sappi Fine Paper Europe, Wolfgang Pfarl (56)

CEO Sappi Fine Paper North America, Monte Haymon (64)

Managing Director Sappi Fine Paper South Africa,
Albert Lubbe (53)

Sappi Fine Paper Europe

Chief Executive Officer, Wolfgang Pfarl (56)

Chief Financial Officer, Hubert Gebreiter (54)

Human Resources Director, to be appointed

Information Technology Director, Guido Lauwers (45)

Logistics Director, Jeroen Diderich (34)

Manufacturing, Research and Development Director,
Rudolf Thummer (53)

Marketing and Sales Director Graphics Papers,
Michael Spallart (39)

Purchasing Director Raw Materials, Victor Kamm (42)

Purchasing Director Technical Goods/Utilities,
Werner Reiter (47)

Speciality Paper Director, Theo Reijnen (54)

Sappi Fine Paper North America

President and Chief Executive Officer, Monte Haymon (64)

Administration – Executive Vice-president, Jennifer Miller (46)

Finance – Vice-president and Chief Financial Officer and
Treasurer, Mark Becker (42)

Human Resources – Vice-president, Jim Mullen (58)

Information and Technology – Vice-president,
Cliff Hubbard (54)

Coated Products – Vice-president and GM,
Robert Weeden (50)

Sales and Customer Services – Vice-president,
Lester Labov (54)

Speciality Products – Vice-president and GM,
Paula Cholmondeley (54)

Supply Chain Management – Vice-president,
David Mahaney (59)

Technology and Engineering – Vice-president,
Harley Wood (59)

Sappi Fine Paper South Africa

Managing Director, Albert Lubbe (53)

Finance Director, Glen Pearce (38)

Marketing Director, Wayne Rau (39)

Technical Director, Chris Davies (53)

Sappi Forest Products

Chairman of South African businesses, John Job (56)

Finance Director, Jan Labuschagne (41)

Human Resources Director, Brian Dick (51)

Strategic Projects Director, Andrea Rossi (47)

Technical Director, Bertus van der Merwe (48)

Sappi Forests Managing Director, André Wagenaar (56)

Sappi Kraft Managing Director, Andrew Carr (49)

Sappi Saiccor Managing Director, Alan Tubb (51)

Sappi Trading

Managing Director, Hugh Martin (54)

Finance Director, Henri Kirsten (48)

glossary

Industry definitions

bleached pulp – pulp that has been bleached by means of chemical additives to make it suitable for fine paper production

chemical pulp – a generic term for pulp made from wood fibre that has been produced in a chemical process

coated fine paper – coated paper made from chemical pulp. Also referred to as coated free sheet

coated papers – papers that contain a layer of coating material on one or both sides. The coating materials of pigments and binders which act as a filler to improve the printing surface of the paper

corrugating medium – paperboard made from chemical and semi-chemical pulp, or waste paper, that is to be converted to a corrugated board by passing it through corrugating cylinders. Corrugating medium between layers of linerboard form the board from which corrugated boxes are produced

dissolving pulp – highly purified chemical pulp intended primarily for conversion into chemical derivatives of cellulose and used mainly in the manufacture of viscose fabrics

fibre – fibre is generally referred to as pulp in the paper industry. Wood is treated chemically or mechanically to separate the fibres during the pulping process

fine paper – paper usually produced from chemical pulp for printing and writing purposes and consisting of coated and uncoated paper

kraft paper – packaging paper (bleached or unbleached) made from kraft pulp

kraft pulp – chemical wood pulp produced by digesting wood by means of the sulphate pulping process

linerboard – the grade of paperboard used for the exterior facings of corrugated board. Linerboard is combined with corrugating medium by converters to produce corrugated board used in boxes

market pulp – pulp produced for sale on the open market, as opposed to that produced for own consumption in an integrated mill

mechanical pulp – pulp produced by means of the mechanical grinding or refining of wood or wood chips

NBSK – Northern Bleached Softwood Kraft pulp. One of the main varieties of market pulp, mainly produced from spruce trees in Scandinavia, Canada and north eastern USA. The price of NBSK is a benchmark widely used in the pulp and paper industry for comparative purposes

newsprint – paper produced for the printing of newspapers mainly from mechanical pulp and/or recycled waste paper

packaging paper – paper used for packaging purposes

pulpwood – wood suitable for producing pulp – usually not of sufficient standard for saw-milling

release paper – backing paper for self-adhesives and/or paper used to impart designs on or to polymers, e.g. artificial leather

sackkraft – kraft paper used to produce multiwall paper sacks

speciality paper – a generic term for a group of papers intended for commercial and industrial use such as flexible packaging, metallised base paper, coated bag paper, etc.

uncoated woodfree paper – printing and writing paper made from bleached chemical pulp used for general printing, photocopying and stationery, etc. Referred to as uncoated as it does not contain a layer of pigment to give it a coated surface

woodfree paper – paper made from chemical pulp

Financial definitions

debt/total capitalisation – current and non-current interest-bearing borrowings, and bank overdraft (net of cash, cash equivalents and short-term deposits), divided by shareholders' equity plus minority interest, non-current liabilities, current interest-bearing borrowings and overdraft

EBITDA – earnings before interest, tax, depreciation, amortisation and fellings (before non-trading profit/loss)

fellings – the amount charged against the income statement, representing the standing cost of the plantations harvested

net asset value – shareholders' equity plus net deferred tax

net assets – total assets less current liabilities

NOPAT – net operating profit after current tax

ROE – return on average equity. Net profit divided by average shareholders' equity

RONA – operating profit divided by average net assets

RONOA – operating profit divided by average net operating assets, which are total assets (excluding deferred taxation and cash) less current liabilities (excluding interest-bearing borrowings and bank overdraft)

shareholders' diary

Annual general meeting	25 February 2002
First and third quarter reports released	January and July 2002
Second quarter and half-year report released	May 2002
Financial year-end	30 September 2002
Preliminary results for the fourth quarter and year released, dividends announced	November 2002
Annual report posted to shareholders	December 2002

administration

Sappi Limited
Reg No 1936/008963/06
JSE code: SAP
ISIN code: ZAE 000006284

Group Secretary
Denis O'Connor

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forward-looking statement

Certain statements in this annual report that are neither reported financial results nor other historical information, are forward-looking statements, including, but not limited to statements that are predictions of or indicate future events, trends, plans or objectives. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and Company plans and objectives to differ materially from those expressed or implied in the forward-looking statements (or from past results). Such risks, uncertainties and factors include, but are not limited to the highly cyclical nature of the pulp and paper industry (and the factors that contribute to such cyclicality, such as levels of demand, production capacity, production and pricing), adverse changes in the markets for the Group's products, consequences of substantial leverage, changing regulatory requirements, unanticipated production disruptions, economic and political conditions in international markets, the impact of investments, acquisitions and dispositions (including related financing) and currency fluctuations. The Company undertakes 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.

proxy form

for annual general meeting

SAPPI LIMITED (Reg No 1936/008963/06)

If you are unable to attend the sixty-fifth annual general meeting of the members convened for 11:00 on Monday, 25 February 2002, you should complete and return this form of proxy as soon as possible, but in any event to be received by not later than 11:00 South African time on Thursday, 21 February 2002.

I/We ____

of ____

being a shareholder(s) of Sappi Limited ("the Company") holding ___________________ ordinary shares in the Company and entitled to vote at the abovementioned annual general meeting, do hereby appoint

____

of ____

or failing him ____

of ____

or failing him ____

of ____

or failing him, the Chairman of the meeting as my/our proxy to attend and speak and, on a poll, to vote for me/us and on my/our behalf at the annual general meeting of the Company to be held at 11:00 on Monday, 25 February 2002.

	Number of shares †		
	For	Against	Abstain
Confirmation of appointment of Directors appointed since the last annual general meeting * Mr W H Sheffield			
Re-election of retiring Directors ** Mr D C Brink			
Dr F A Sonn			
Mr D G Wilson			
Special resolution number 1 – a general approval for the Company and its subsidiaries to acquire Sappi Limited shares.			
Special resolution number 2 – to amend the articles of association to enable the Company to permit proxy instruments created by electronic means and to give notices in electronic format.			
Ordinary resolution number 1 – placing all the unissued ordinary shares in the authorised share capital of the Company under the control of the Directors of the Company with the authority to allot and issue same in terms of the Companies Act and the Listings Requirements of the JSE Securities Exchange South Africa.			
Ordinary resolution number 2 – a general authority for the directors to issue shares for cash in terms of the Listings Requirements of the JSE Securities Exchange South Africa.			
Ordinary resolution number 3 – authority for Directors to sign all documents and do all such things necessary to implement the above resolutions.			

† Insert X in the appropriate block if you wish to vote all your shares in the same manner. If not, insert the number of votes in the appropriate block. If no indication is given, the proxy will vote as he/she thinks fit.

Signed at ______________________ on ______________________ 2002

Assisted by me (where applicable) ____

Each shareholder is entitled to appoint one or more proxies (who need not be shareholders of the Company) to attend, speak and, on a poll, vote in place of that shareholder at the annual general meeting.

* *Refer footnote (a) on page 115.*

** *Refer footnote (b) on page 115.*

Please see overleaf.

notes to the proxy

Instructions on signing and lodging the annual general meeting proxy form:

1. A deletion of any printed matter and the completion of any blank spaces need not be signed or initialled. Any alteration must be signed, not initialled.

2. The Chairman shall be entitled to decline to accept the authority of the signatory:
   (a) under a power of attorney; or
   (b) on behalf of a company,
   if the power of attorney or authority has not been deposited at the office of the Company's transfer secretaries, Mercantile Registrars Limited, 8th Floor, 11 Diagonal Street, Johannesburg, 2001, Republic of South Africa, or Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom, by not later than 11:00 South African time on Thursday, 21 February 2002.

3. The signatory may insert the name(s) of any person(s) whom the signatory wishes to appoint as his/her proxy in the blank spaces provided for that purpose.

4. When there are joint holders of shares and if more than one of such joint holders be present or represented, the person whose name stands first in the register in respect of such shares or his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof.

5. The completion and lodging of this form of proxy will not preclude the signatory from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.

6. Forms of proxy may be deposited at the office of the Company's transfer secretaries, Mercantile Registrars Limited, 8th Floor, 11 Diagonal Street, Johannesburg, 2001, Republic of South Africa, or Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom, by not later than 11:00 South African time on Thursday, 21 February 2002.

7. If the signatory does not indicate in the appropriate place on the face hereof how he/she wishes to vote in respect of a particular resolution, his/her proxy shall be entitled to vote as he/she deems fit in respect of that resolution.

8. The chairman of the annual general meeting may reject any proxy form which is completed other than in accordance with these instructions, provided that he may accept such proxy forms where he is satisfied as to the manner in which a member wishes to vote.

idea exchange

Sappi paper used in the annual report –

Cover	Strobe Silk – 325 gsm
Pages 1 – 16	Strobe Silk – 148 gsm
Pages 17 – 56	Magno Satin – 150 gsm
Pages 57 – 120	Diamond Premium Art Matt – 135 gsm

GRAPHICOR 24470

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Printing technique – printed cmyk, special blue and special silver both outside and inside cover. Overall matt lamination outside, overall aqueous varnish inside, spot UV varnish outside and inside.

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